

## 'Hum Hain Pakistan'



What makes you part of Pakistan? This is the question we asked people to answer through a visual lens, through perspective, through a vision that is uniquely theirs. Whether photography was a profession or a pastime - Pakistan was the passion that brought them together.

HBL - Pakistan's largest banking network - shares this collective vision with you to celebrate the beauty that is Pakistan. Remind yourself, what do you love about your country?

# Hum Hain Pakistan



Canvas Blossoms - Omar Shaikh, Karachi



Ship to Shore - Irtiza Akhtar, Islamabad



Wheat Confetti - Khalil ur Rehman, Gujranwala



Where Choppers Once Rose - Mayra Junejo, Karachi



Rhythm of Light - Faizan Mobeen, Islamabad



Chariots of Fire - Razaq Vance, Faisalabad

# HBL | PHOTOGRAPHY CONTEST



Matka Art - Razaq Vance, Faisalabad



Soul Searcher - Yousaf Fayyaz, Lahore







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# Corporate Information

## Board of Directors

### **Sultan Ali Allana**

Chairman

#### **Director**

Aga Khan Fund for  
Economic Development, S.A.

Jubilee Holdings Limited  
(East Africa)

Jubilee Life Insurance  
Company Limited

Tourism Promotion Services  
(Pakistan) Limited

Industrial Promotion  
Services (Pakistan) Limited

### **R. Zakir Mahmood**

President & CEO

#### **Chairman**

Habib Bank Financial  
Services (Pvt.) Limited

Habib Allied International  
Bank Plc., UK

Habib Finance International Bank  
Limited, Hong Kong

#### **Director**

First Women Bank Limited

Khushhali Bank

Jubilee General Insurance  
Company Limited

#### **Member**

The Institute of Bankers Pakistan

Pakistan Business Council

### **Moez Ahamed Jamal**

Director

#### **Director**

Marcuard Family Office  
Diamond Trust Bank, Kenya

#### **Director and Partner**

JAAM AG in Switzerland

#### **Proprietor**

Global Finanz Agency AG



**Sajid Zahid**

Director

**Director**

Pakistan Petroleum  
Limited

**Joint Senior Partner**

Orr, Dignam & Co.  
Advocates

**Ahmed Jawad**

Director

**Director**

Bizcorp (Pvt.)  
Limited

**Mushtaq Malik**

Director

**Member**

Federal Services  
Tribunal

**Sikandar Mustafa Khan**

Director

**Chairman**

Millat Tractors Limited

Bolan Castings Limited

Millat Equipment Limited

Millat Industrial Product  
Limited

**Board Member**

Pakistan Aeronautical Complex  
Board KAMRA

**Director**

Arabian Sea Country Club  
Limited

Pakistan Business Council

National Productivity  
Organisation

## Board Committees

### Audit Committee

Mr. Moez Ahamed Jamal	Chairman
Mr. Sajid Zahid	Member
Mr. Ahmed Jawad	Member
Mr. Salim Amlani	Secretary

### Risk Management Committee

Mr. Sultan Ali Allana	Chairman
Mr. R. Zakir Mahmood	Member
Mr. Mushtaq Malik	Member
Mr. Sohail Malik	Secretary

### Human Resource Committee

Mr. Sultan Ali Allana	Chairman
Mr. R. Zakir Mahmood	Member
Mr. Sajid Zahid	Member
Dr. Razi Azmat	Secretary

### IT Steering Committee

Mr. Sultan Ali Allana	Chairman
Mr. R. Zakir Mahmood	Member
Mr. Moez Ahamed Jamal	Member
Ms. Sima Kamil	Member / Executive
Mr. Faiq Sadiq	Member / Executive
Mr. Mudassir H. Khan	Secretary

### Chief Financial Officer

Mr. Ayaz Ahmed

### Company Secretary

Ms. Nausheen Ahmad

### Legal Advisor

Mehmood Yousuf Mandviwalla  
Bar-at-Law



## Auditors

Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants

## Registered Office

Habib Bank Limited  
4th Floor, Habib Bank Tower Jinnah Avenue, Blue Area  
Islamabad, Pakistan.  
Phone : 051-2872203, 051-2821183  
Fax : 051-2872205

## Head Office

Habib Bank Limited  
Habib Bank Plaza  
I. I. Chundrigar Road  
Karachi – 75650, Pakistan  
Phone : 021-32418000 [50 lines]

## Registrars

THK Associates (Pvt.) Ltd.  
Ground Floor, State Life Bldg. No. 3  
Dr. Ziauddin Ahmed Road  
Karachi  
Tel. No : +92(21) 111-000-322  
Fax. No : +92(21) 35655595

## Websites

Corporate website:  
[www.hbl.com](http://www.hbl.com)  
ibank (internet banking)  
[www.hbllibank.com](http://www.hbllibank.com)

## Management

### **Mr. R. Zakir Mahmood**

President & CEO

### **Mr. Abid Sattar**

Head - Global Operations & Learning and Development

### **Mr. Nauman K. Dar**

Head - International Banking & Corporate & Investment Banking

### **Mr. Jamil Iqbal**

Chief Compliance Officer

### **Mr. Ayaz Ahmed**

Chief Financial Officer

### **Mr. Salahuddin Manzoor**

Global Treasurer

### **Mirza Saleem Baig**

Head - Islamic Banking

### **Dr. Razi Azmat**

Head - Human Resources

### **Mr. Aly Mustansir**

Head - Marketing and Brand Management

### **Ms. Nausheen Ahmad**

Company Secretary & Head Legal

### **Mr. Aman Aziz Siddiqui**

R.G.M - Gulf (Oman, UAE)

### **Mr. Abdur Rashid Awan**

Business Head - Semi Urban Areas

### **Mr. Sohail Malik**

Chief Risk Officer

### **Ms. Sima Kamil**

Head - Retail and Consumer Banking

### **Mr. Aslam Gadit**

Head - Remedial Assets

### **Mr. Mubashar Maqbool**

Head - Commercial & Retail Lending

### **Mr. Salim Amlani**

Chief Internal Auditor

### **Mr. Mudassir H. Khan**

Chief Information Officer

### **Mr. Faiq Sadiq**

Head - Payment Services

### **Mr. Rizwan Haider**

Deputy Global Risk Manager

### **Mr. Tulu Islam**

Head - Branch and Trade Operations

### **Mr. Shahid Fakhruddin**

G.M. - International & Market Risk Management

### **Mr. Muhammad Ali**

Regional Chief - Rawalpindi - Islamabad & Head Corporate Banking - North



## Financial Highlights - Consolidated

	2011	2010	Variance
	Rupees in Million		Percentage
<b>FINANCIAL POSITION</b>			
Total Deposits	933,632	747,375	24.92
Total Assets	1,139,554	924,699	23.24
Advances - Net	457,368	459,750	-0.52
Liquid Assets	511,913	292,590	74.96
Shareholders Equity & Revaluation Surplus	108,351	95,038	14.01
<b>PROFIT &amp; LOSS</b>			
Total Income (net of interest cost)	71,181	59,757	19.12
Total Expenditure	30,177	24,953	20.93
Provision for non-performing loans & Others	6,683	7,764	-13.92
Pre-Tax Profit	34,321	27,040	26.93
Profit after Taxation	22,333	17,034	31.11
<b>FINANCIAL RATIOS</b>			
	Percentage		
Non-Interest Income to Total Income	20.77	21.36	
Operating Expenses to Gross Income	41.35	40.59	
Total Assets Growth Rate	23.24	7.03	
Non-Performing Loans to Gross Loans	11.23	10.67	
Provision against NPL's to Non-Performing Loans	81.50	79.64	
Capital Adequacy Ratio	15.62	14.61	
Total Risk Weighted Assets on Total Assets	59.43	70.22	
Net Advances to Total Deposits	48.99	61.52	
Liquid Asset to Deposits Ratio	54.83	39.15	
Return on Average Assets	2.16	1.90	
Return on Average Equity	21.70	18.86	
Earnings per share (Rs/Share)	20.13	15.26	
<b>OTHERS</b>			
	Rupees in Million		
Home Remittances	226,536	158,693	42.75
Export / Import Remittances	608,265	549,494	10.70
Number of Branches	1,506	1,501	0.33
Number of Staff	13,661	13,269	2.95

## Progress Since 2001 To 2011 – At A Glance - Consolidated

	Rupees in Millions										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Balance Sheet</b>											
Shareholders Equity & Revaluation Surplus	12,814	19,707	23,485	31,190	40,331	52,530	59,274	65,418	83,227	95,038	108,351
Total Assets	333,751	403,037	434,932	487,765	528,894	594,062	689,001	749,807	863,925	924,699	1,139,554
Total Deposits	283,445	328,182	360,648	404,629	432,545	459,140	531,298	597,091	682,750	747,375	933,632
Advances (net of Provision)	167,225	167,523	183,654	259,089	316,882	349,433	382,173	456,356	454,662	459,750	457,368
Investments (net of Provision)	57,792	142,878	158,871	134,523	107,384	119,587	175,197	129,833	216,468	254,909	418,604
<b>Operating Results</b>											
Total Income (net of interest cost)	16,788	18,564	21,363	23,588	32,870	38,971	39,875	48,133	53,830	59,757	71,181
Total Expenditure	11,736	11,811	9,803	13,789	15,766	17,204	18,382	21,814	23,149	24,953	30,177
Provision for Non-performing Loans & Others	2,710	2,450	5,804	2,552	3,270	2,927	7,823	9,388	9,300	7,764	6,683
Provision for Taxation	1,112	2,054	1,452	1,484	4,187	6,140	3,749	6,068	7,981	10,006	11,988
Profit/(Loss) before Taxation	2,224	4,088	5,469	7,247	13,834	18,840	13,670	16,932	21,382	27,040	34,321
Profit/(Loss) after Taxation	1,112	2,034	4,018	5,763	9,647	12,700	9,921	10,864	13,401	17,034	22,333
<b>Others</b>											
Home Remittances	22,267	38,229	46,326	47,423	54,759	66,656	79,322	94,530	128,970	158,693	226,536
Import Remittances	82,600	118,689	139,515	162,402	153,392	189,125	178,684	298,933	245,006	320,115	327,172
Export Remittances	93,900	95,901	118,642	134,090	118,882	117,593	129,742	172,518	177,101	229,379	281,093
Number of Branches	1,516	1,473	1,470	1,469	1,470	1,477	1,489	1,508	1,494	1,501	1,506
Number of Staff of HBL	19,352	19,005	18,800	18,625	16,314	14,572	14,552	14,123	13,211	13,269	13,661



## Directors' Report

On behalf of the Directors, I am pleased to present the Consolidated Financial Statements and the Auditors' Report for the year ended December 31, 2011.

### Economic and Market Review

2011 was another challenging year in the Global and the local economy; devastating floods for the second year along with an energy shortage and other adverse conditions impacted Pakistan. As a result, the Pakistan economy grew by 2.4% of GDP as against targeted 4.5%; this growth was supported primarily by the agriculture sector (1.2%), which registered an impressive increase on the back of a bumper wheat crop as well as the Services sector with a 4.1% growth. Strong growth in remittances supported by the Pakistani workforce that reached a record US\$ 11.2 billion and a rising trend in exports has helped the external reserve position. The State Bank of Pakistan (SBP) has recently cut the discount rates (DR) by 150bps to 12% (overall 200bps in 2011). The lower discount rate is expected to fuel private sector demand, which is expected to provide support to the domestic economy.

### Our Performance

Despite the economic challenges, the Group attained some significant milestones by becoming the first bank in Pakistan to reach Rs. 1 trillion in balance sheet size (excluding Interbank borrowings) as well as achieving record profitability with a Profit after tax of Rs. 22.3 billion, an increase of 31.1% over 2010. HBL has achieved growth of 23.2% over last year, which is an increase of Rs. 214.8 billion and has managed to control its administrative expenses effectively. The balance sheet growth and cost control measures have resulted in robust growth of profit after tax of 31.1% over last year.

The Group has made a significant effort over the past few years to address factors necessary for faster growth; this includes a focused approach on improving the customer experience, be it in product delivery or customer service. HBL is determined in increasing its outreach to the farthest areas of Pakistan and growing its more than 6 million customer relationships to progressively include the unbanked population of Pakistan through technology initiatives and innovative products. HBL is now positioned to significantly increase its customer outreach.

Risk management continues to be a key focus and in a difficult and challenging environment HBL continues to take a conservative approach focusing on controlling NPLs. This is reflected in overall lower provisions for the year.

### Financial Highlights

	2011	2010
	Rs. In Million	
<b>Profit after tax</b>	<b>22,333</b>	17,034
Un-appropriated profit brought forward	47,468	38,498
Profit attributable to equity holders of the Bank	22,190	16,816
Transferred from surplus on revaluation of fixed assets- net of tax	263	123
	<u>22,453</u>	<u>16,939</u>
Profit available for appropriation	69,921	55,437
<b>Appropriations:</b>		
Transfer to statutory reserves	(2,120)	(1,593)
Cash dividend paid in April 11	(6,512)	(5,465)
Issued as bonus shares	(1,002)	(911)
Half year interim dividend, paid in Nov 2011	(3,306)	-
Total appropriations	<u>(12,940)</u>	<u>(7,969)</u>
<b>Un-appropriated Profit carried forward</b>	<b>56,981</b>	47,468

## Product Innovation

The Group continues to improve efficiencies, enhance market competitiveness and deliver customer service at improved levels. In this regard, major investments have been made in the last 5 years in upgrading technology, refurbishing branches and upgrading the skill set of Human Resources. We continue our strong commitment to provide state of the art banking facilities for all segments of society.

In order to provide financial inclusion to the poorest segment of the society, the Bank has provided payment solution through its network in collaboration with mobile phone operators to over 60,000 beneficiaries under Government's poverty alleviation Scheme (BISP) and flood relief payments to over 400,000 affectees in Sind through the Pakistan Card. HBL has also assisted the Government of Pakistan in its relief efforts for the flood affected people of Sind and Punjab by issuing the Watan Cards; these are pre-loaded cards with Government funds that are being issued in collaboration with the National Database Authority to the people in the flood affected areas, who then go to an ATM to withdraw the funds that have been given by the Government – to date your Bank has issued over 700,000 Watan Cards.

The Bank's product delivery capabilities are now well established in this area and your Bank has been selected as one of the major payment agents by the GOP for providing poverty alleviation payments to over 1.3 million women in 16 districts (under BISP). The Bank successfully launched Pardes Remittance Card (product similar to prepaid card).

EMV Debit cards have also been successfully launched in Bahrain, UAE, Mauritius and Maldives.

## International Banking Group

HBL has completed the acquisition of Habibsons Bank in the UK and the entire operations of Habibsons UK have now been successfully integrated into HBL UK; this acquisition will significantly enhance the Group's franchise value. The Habibsons acquisition has also provided a platform to effectively launch an integrated wealth management initiative across the international network.

## Statement under Section XIX of the Code of Corporate Governance

The Board is committed to ensure that requirements of corporate governance set by Securities and Exchange Commission of Pakistan are fully met and the Directors are pleased to report that:

- a) The financial statements prepared by the management of the Bank present a true and fair view of the state of its affairs, operational results, cash flows and changes in equity.
- b) Proper books of accounts of the Bank have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) The Bank has followed international accounting standards (as applicable to Banks in Pakistan) in the preparation of accounts and there is no departure from the said standards.
- e) As a continuous process, efforts have been made to effectively implement the internal control system. HBL is in the process of adopting an internationally accepted COSO Internal Control – Integrated Framework as part of compliance with SBP Internal Control Guidelines. The Bank has also evaluated its Internal Control over Financial Reporting (ICFR) using the US PCAOB Auditing Standard (AS – 5). A dedicated Management Testing and Reporting Framework for ICFR is being developed as a part of COSO implementation project.
- f) There are no doubts about the Banks' ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance as detailed in the regulations.
- h) Key operating and financial data for the last ten years is presented in the financial statements under the section "Progress since 2001 to 2011 – Consolidated".
- i) The Directors, CEO, CFO and Company Secretary have confirmed that neither they nor their spouses are engaged in the business of stock brokerage.
- j) Risk Management, Human Resource and Audit Committees constituted by the Board are functioning efficiently in accordance with their Terms of Reference. The Board has met regularly and held eight meetings in the year.

The Statement of Internal Control, Statement of Compliance with Review Report and the Auditors' reports are attached to the Financial Statements.



### Value of Investments in employee retirement benefits fund

The following is the value of investments of provident, gratuity, pension and benevolent funds maintained by the Group, based on the latest audited financial statements.

	Rs. in '000
Employee's Provident Fund	6,457,856
Employee's Pension Fund	10,228,811
Employee's Gratuity Fund	551,472
Employee's Benevolent Fund – Executive and Officers	768,549
Employee's Benevolent Fund – Clerical and Non-Clerical	259,710

### Meetings of the Board

Eight Board meetings were held during 2011 and were attended by the Directors as follows:

Name		Attendance
Mr. Sultan Ali Allana	Chairman	8
Mr. R. Zakir Mahmood	President and Chief Executive Officer	8
Mr. Moez Ahamed Jamal	Director	8
Mr. Sajid Zahid	Director	8
Mr. Ahmed Jawad	Director	8
Mr. Mushtaq Malik	Director	8
Mr. Sikandar Mustafa Khan	Director	7

### Credit Ratings

JCR-VIS, a credit rating company re-affirmed the bank's long-term entity rating at AA+. The short term rating remains at A-1+, which is the highest rating denoting the greatest certainty of timely payments by a financial institution. All ratings for HBL have been assigned a 'Stable' outlook.

### Auditors

The present auditors, Messrs Ernst & Young Ford Rhodes Sidat Hyder, retire. As per Code of Corporate Governance they are eligible for reappointment. Accordingly, the Board of Directors endorses the recommendation of the Audit Committee for the appointment of Messrs Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, as the auditors of the bank for the financial year 2012.

### Appreciation and Acknowledgement

At this time, I would like to appreciate the efforts of the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan and Ministry of Finance for strengthening the banking and financial system of the country by improving regulatory, policy and governance framework.

I would like to take this opportunity to also thank on behalf of the Board and Management of the Group, the customers and the shareholders for entrusting their confidence in us and assure them that we remain committed to maintaining high service standards and a strong culture of good corporate governance and compliance in all our endeavors. I would also like to express our sincere gratitude to the employees of the Group for their dedication and hard work, which enabled delivery of these strong results.

For and on behalf of the Board

### R. Zakir Mahmood

President and Chief Executive Officer  
Karachi: February 24, 2012

## Statement of Internal Control

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievements of the Bank's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. Management assumes the responsibility of establishing and maintaining adequate internal controls and procedures under the policies approved by the Board. In this connection the Bank has documented Procedures and Manuals, which incorporates the internal controls applicable while conducting any banking transactions. These procedures are revised and updated as and when required.

The Internal Audit Group (IAG) of the Bank reviews the adequacy and implementation of internal controls on a regular basis and deficiencies if any are followed up until they are rectified. Quarterly updates on unresolved significant issues highlighted by the IAG are reviewed by the Audit Committee of the Board of Directors together with the recommendations for improvements.

The system of internal control is designed to minimize the risk of failure to achieve the organization's policies, aims and objectives; it can therefore, only provide reasonable and not absolute assurance against material misstatements or loss. The system of internal controls being followed by the Bank is considered adequate and sound in design and is being effectively implemented and monitored.

HBL is duly observing compliance with the requirements and timelines of Staged Roadmap for implementation of the State Bank of Pakistan (SBP) Internal Control Guidelines. The Bank has adopted internationally accepted COSO Internal Control – Integrated Framework for overall set of Internal Controls for ensuring compliance with SBP Guidelines. The external auditors have submitted the "Long-Form Review Report" for the completed stages as on December 31, 2010 which was submitted to SBP after the Board approval in June 2011. SBP has recently advised the Bank to complete all stages of ICFR roadmap latest by September 30, 2012.

**Jamil Iqbal**  
Chief Compliance Officer

**Ayaz Ahmed**  
Chief Financial Officer

**Salim Amlani**  
Chief Internal Auditor



## Review Report

### To the Members, Statement of Compliance with the best practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Habib Bank Limited ('the Bank') to comply with Regulation No. 35 of Chapter XI contained in the Listing Regulations issued by the Karachi Stock Exchange, the Lahore Stock Exchange and the Islamabad Stock Exchange where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of the financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Sub-Regulation (xiii a) of Listing Regulation No. 35 as notified by all the three stock exchanges on which the Bank is listed requires the Bank to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of the above requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2011.

**Ernst & Young Ford Rhodes Sidat Hyder**

Chartered Accountants

Date: February 24, 2012

Karachi

# Statement of Compliance

with the best practices of Code of Corporate Governance  
for the year ended December 31, 2011

This Statement is being presented to comply with the Code of Corporate Governance (the Code) contained in the Regulation No. 35 of the Listing Regulations of the Karachi and Lahore Stock Exchanges and Regulation No. 37 of the Listing Regulations of Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Board has adopted the Code of Corporate Governance and applies the principles in the following manner:

- Except for the Chief Executive Officer, all the Directors including the Chairman are Non-Executive independent Directors. The Board has three independent Directors i.e. Mr. Moez Jamal, Mr. Sajid Zahid and Mr. Sikandar Mustafa Khan.
- The Directors have confirmed that none of them is serving as a director in more than ten listed companies.
- All the resident Directors have confirmed that they are registered taxpayers and none of them have defaulted in the payment of any loans to a banking company, a development financial institution or non-banking finance company or stock exchange.
- The Board of Directors of Habib Bank Limited was elected in 2009 for a three year term which will expire on March 26, 2012.
- No casual vacancy occurred on the Board during the year.
- The Board adopted a vision / mission statement, overall corporate strategy and significant policies of the bank. The Bank maintains a complete record/log of all policies along with the dates on which these were approved or amended including the dates when these are required to be updated.
- All the major decisions relating to investment and disinvestment of funds are taken in accordance with the policies laid down by the Board of Directors.
- The Board of Directors has approved the appointment, remuneration and terms and conditions of employment of the Chief Executive Officer.
- The Board met eight times during the year and continued to closely monitor the Bank's performance. The committees of the Board also met regularly during the year. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated. The Chief Financial Officer and the Company Secretary also attended the meetings of the Board.
- The Directors have familiarized themselves with their responsibilities under the Code of Corporate Governance and other relevant laws / regulations have received a Directors Manual explaining the relevant laws and regulations.
- The Board has approved the appointments of the Chief Financial Officer, Head of Internal Audit and Company Secretary including their remuneration and terms and conditions of their employment.
- The Director's Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- The Directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank, except as mentioned in the Pattern of Share Holding.



- The Bank has circulated the Code of Ethics and Business Conduct, which has been approved by the Board of Directors.
- The Chief Executive Officer and Chief Financial Officer have duly endorsed the financial statements of the Bank before its approval by the Board.
- The Bank has complied with the applicable corporate and financial reporting requirements of the Code.
- The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan and the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on Code of ethics as adopted by the Institute of Chartered Accountants of Pakistan. The auditors have also confirmed that they or any of the partners of the firm, their spouses and minor children do not hold any shares in the Bank.
- The statutory auditors or the persons associated with them have not been appointed to provide other services other than approved services and the auditors have confirmed that they have observed IFAC guidelines in this regard.
- The Board Audit Committee comprises of three members, all of whom are Non-Executive Directors including the Chairman of the Committee. The Board Risk Management Committee and Board HR Committee comprise of three members each, a majority of whom are Non-Executive Directors. The Chairman of both the Committees is a Non-Executive Director. The Board has formed a Board IT Steering Committee which comprises of three members of the Board, a majority of which are Non-Executive Directors. The Chairman of this Committee is a Non-Executive Director. The IT Steering Committee was reconstituted by the Board on July 1, 2011 and also includes two senior managers.
- An effective Internal Audit Group is in place. The Head of Internal Audit reports directly to the Board Audit Committee.
- The Audit Committee met five times during the year 2011. On the recommendation of the Audit Committee, the Board approves the Financial Statements of the bank. The Terms of Reference of the Audit Committee have been formulated and approved by the Board.
- The other Board Committees met as follows:
 

i. Board Risk Management Committee	four times in the year
ii. Board Human Resource Committee	eight times in the year
iii. Board IT Steering Committee	two times in the year
- The Board considers and approves the related party transactions after review of the Audit Committee.
- We confirm that all other material principles contained in the Code have been complied with.

This Statement of Compliance with best practices of corporate governance is being published and circulated along with the annual report of the Bank.

**R. Zakir Mahmood**

President & Chief Executive Officer  
Karachi: February 24, 2012





# CONSOLIDATED FINANCIAL STATEMENTS

# Auditors' Report

## To the members - Consolidated

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of Habib Bank Limited ("the Bank") and its subsidiary companies as at 31 December 2011 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. These consolidated financial statements include unaudited certified returns from the branches, except for 84 branches, which have been audited by us and 35 branches audited by auditors abroad. We have also expressed separate opinions on the financial statements of the Bank and the subsidiary companies HBL Asset Management Limited and HBL Currency Exchange Limited. The financial statements of the other subsidiary companies were audited / reviewed by other firms of chartered accountants, whose reports have been furnished to us and our opinion in so far as it relates to the amounts included for such companies, is based solely on the report of such other auditors.

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

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

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

The consolidated financial statements of the Bank for the year ended 31 December 2010 were audited by another firm of chartered accountants whose report dated 18 February 2011 expressed an unqualified opinion thereon on those financial statements.

**Ernst & Young Ford Rhodes Sidat Hyder**

Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: February 24, 2012

Karachi



## Shariah Advisor's Report

"All praises for ALLAH SUBHANAHU WA'TA'ALA, Who is the creator & Lord of All Worlds. May Allah reveal all blessing and prayers on His Messenger Muhammad Sal' lalah-o-Alaihl Wasalam, His companion and all Muslims."

We have carried out a Shariah Audit to check the overall Shariah compliance of the operations of Islamic Banking of HBL for the year ended 31 December 2011. In the process, we have conducted the monitoring to express our opinion as to whether the branches are compatible with the rules and principles of Islamic Shariah and also with fatwas, specific guidelines issued by the Bank's Shariah Advisor and SBP regulations.

It is the responsibility of the Bank's Management to ensure that the branches work in accordance with the rulings and principles of Islamic Shariah. Our responsibility is to express an independent opinion based on our audit.

Our audit included review and examination of the branches' transactions i.e. Murabaha, Ijarah and Diminishing Musharaka documentation and procedures on a test basis. We have planned and carried out audit in order to obtain all information and explanations deemed necessary by us for the purpose of obtaining reasonable assurance that the branches did not violate the rulings and principles of Islamic Shariah. We believe that our audit provides a reasonable basis our opinion.

The allocation of Funds determination of weightages, profit ratio and distribution of profit were in accordance with the Shariah Principles.

In our opinion:

1. The Management is making necessary efforts to put in place proper system for seeking necessary religious guidance duly complied. In our opinion, the operations during the year 2011, on the whole is in compliance with the principles of Shariah, guidelines issued by Shariah Advisor and the State Bank of Pakistan.
2. The distribution of profit and loss on the investment accounts is in compliance with the principles of Shariah guidelines issued by Shariah Advisor.

Charity:

During the year, charity amounting to Rs. 68,504 was credited to the Charity Account.

May Allah guide us and make us successful in this world and hereafter.

**Muhammad Yahya Asim**

Shariah Advisor

HBL Islamic Banking

Karachi: February 24, 2012

# Consolidated Statement of Financial Position

As at December 31, 2011

2011 (US \$ in '000)	2010		Note	2011 (Rupees in '000)	2010
<b>ASSETS</b>					
1,149,577	907,661	Cash and balances with treasury banks	5	103,399,623	81,640,246
526,423	415,953	Balances with other banks	6	47,349,505	37,413,185
462,290	337,307	Lendings to financial institutions	7	41,581,029	30,339,344
4,653,965	2,834,033	Investments	8	418,604,147	254,909,116
5,084,931	5,111,417	Advances	9	457,367,656	459,750,012
213,103	179,612	Operating fixed assets	10	19,167,654	16,155,290
80,892	106,422	Deferred tax asset	11	7,275,888	9,572,203
498,175	388,234	Other assets	12	44,808,703	34,920,007
<u>12,669,356</u>	<u>10,280,639</u>			<u>1,139,554,205</u>	<u>924,699,403</u>
<b>LIABILITIES</b>					
154,477	108,678	Bills payable	13	13,894,502	9,775,093
438,861	449,825	Borrowings	14	39,473,670	40,459,860
10,379,946	8,309,178	Deposits and other accounts	15	933,631,525	747,374,799
55,990	47,605	Sub-ordinated loans	16	5,036,100	4,281,835
-	-	Liabilities against assets subject to finance lease		-	-
-	-	Deferred tax liability		-	-
421,713	295,255	Other liabilities	17	37,931,420	26,557,045
<u>11,450,987</u>	<u>9,210,541</u>			<u>1,029,967,217</u>	<u>828,448,632</u>
<u>1,218,369</u>	<u>1,070,098</u>	<b>NET ASSETS</b>		<u>109,586,988</u>	<u>96,250,771</u>
<b>REPRESENTED BY:</b>					
<b>Shareholders' equity</b>					
122,526	111,387	Share capital	18	11,020,680	10,018,800
357,391	326,370	Reserves		32,145,755	29,355,555
633,501	527,737	Unappropriated profit		56,980,697	47,467,704
1,113,418	965,494	Total equity attributable to the equity holders of the Bank		100,147,132	86,842,059
13,745	13,482	Non-controlling interest		1,236,290	1,212,656
91,206	91,122	Surplus on revaluation of assets - net of deferred tax	19	8,203,566	8,196,056
<u>1,218,369</u>	<u>1,070,098</u>			<u>109,586,988</u>	<u>96,250,771</u>
<b>CONTINGENCIES AND COMMITMENTS</b>					
			20		

The annexed notes 1 to 51 and annexures I to IV form an integral part of these consolidated financial statements.

R. Zakir Mahmood  
President and Chief Executive Officer

Moez Ahamed Jamal  
Director

Ahmed Jawad  
Director

Sajid Zahid  
Director



## Consolidated Profit and Loss Account

### For the year ended December 31, 2011

2011 (US \$ in '000)	2010		Note	2011 (Rupees in '000)	2010
1,095,999	904,157	Mark-up / return / interest earned	22	98,580,423	81,325,028
468,974	381,678	Mark-up / return / interest expensed	23	42,182,220	34,330,255
627,025	522,479	Net mark-up / interest income		56,398,203	46,994,773
74,462	84,523	Provision against non-performing loans and advances	9.4 / 9.6	6,697,555	7,602,440
(102)	343	(Reversal) / charge against off-balance sheet obligations		(9,141)	30,895
2,636	(530)	Charge / (reversal) against diminution in the value of investments	8.8	237,083	(47,671)
-	-	Bad debts written off directly		-	-
76,996	84,336			6,925,497	7,585,664
550,029	438,143	Net mark-up / interest income after provisions		49,472,706	39,409,109
<b>Non mark-up / interest income</b>					
67,663	60,400	Fee, commission and brokerage income		6,085,970	5,432,706
4,832	3,816	Dividend income		434,606	343,252
12,022	7,935	Share of profit of associates and joint venture		1,081,358	713,678
6,027	3,522	Gain on sale of securities	24	542,118	316,823
(409)	71	Unrealised (loss) / gain on held for sale securities		(36,820)	6,409
41,760	35,458	Income from dealing in foreign currencies		3,756,094	3,189,333
32,459	30,688	Other income	25	2,919,535	2,760,230
164,354	141,890	Total non mark-up / interest income		14,782,861	12,762,431
714,383	580,033			64,255,567	52,171,540
<b>Non mark-up / interest expense</b>					
327,241	269,640	Administrative expenses	26	29,433,961	24,252,960
(2,695)	1,981	Other provisions / write offs - net		(242,427)	178,148
863	1,987	Other charges	27	77,588	178,700
7,394	5,800	Workers welfare fund	28	665,047	521,702
332,803	279,408	Total non mark-up / interest expenses		29,934,169	25,131,510
381,580	300,625			34,321,398	27,040,030
<b>Profit before taxation</b>					
<b>Taxation</b>					
116,285	107,829	current	29	10,459,376	9,698,783
314	7,748	prior years		28,264	696,908
16,686	(4,337)	deferred		1,500,736	(390,041)
133,285	111,240			11,988,376	10,005,650
248,295	189,385	<b>Profit after taxation</b>		22,333,022	17,034,380
<b>Attributable to:</b>					
246,702	186,960	Equity holders of the Bank		22,189,763	16,816,179
634	1,295	Non-controlling interest		57,063	116,475
958	1,131	Minority investor of HBL Funds		86,196	101,726
248,294	189,386			22,333,022	17,034,380
0.224	0.170	Basic and diluted earnings per share	30	20.13	15.26

The annexed notes 1 to 51 and annexures I to IV form an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

## For the year ended December 31, 2011

2011 (US \$ in '000)	2010		2011 (Rupees in '000)	2010
248,294	189,385	<b>Profit for the year</b>	22,333,022	17,034,380
		<b>Other comprehensive income</b>		
(958)	(1,131)	Minority share of HBL funds transferred to other liabilities	(86,196)	(101,726)
7,751	2,462	Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	697,203	221,465
<u>255,087</u>	<u>190,716</u>	<b>Comprehensive income transferred to equity</b>	<u>22,944,029</u>	<u>17,154,119</u>
		<b>Components of comprehensive income not reflected in equity</b>		
-	1,700	Surplus on revaluation of fixed assets	-	152,905
-	(137)	Deferred tax on revaluation of fixed assets	-	(12,340)
5,342	143	Surplus on revaluation of investments	480,500	12,828
(2,484)	862	Deferred tax on revaluation of investments	(223,430)	77,573
<u>257,945</u>	<u>193,284</u>		<u>23,201,099</u>	<u>17,385,085</u>
		<b>Attributable to:</b>		
256,208	190,944	Equity holders of the Bank	23,044,811	17,174,632
779	1,209	Non-controlling interest	70,092	108,727
958	1,131	Minority investor	86,196	101,726
<u>257,945</u>	<u>193,284</u>		<u>23,201,099</u>	<u>17,385,085</u>

The annexed notes 1 to 51 and annexures I to IV form an integral part of these consolidated financial statements.

R. Zakir Mahmood  
President and Chief Executive Officer

Moez Ahamed Jamal  
Director

Ahmed Jawad  
Director

Sajid Zahid  
Director



# Consolidated Statement of Changes in Equity

## For the year ended December 31, 2011

	Attributable to shareholders of the Group						Sub Total	Non-controlling interest	Total
	Share capital	Reserves				Unappropriated profit			
		Exchange translation reserve	Statutory requirement	Bank	Other reserves				
		Joint venture and subsidiaries	General						
(Rupees in '000)									
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
<b>Total comprehensive income for the year</b>									
Profit for the year ended December 31, 2010	-	-	-	-	-	16,917,905	16,917,905	116,475	17,034,380
Minority share of HBL funds transferred to other liabilities	-	-	-	-	-	(101,726)	(101,726)	-	(101,726)
<b>- Other comprehensive income</b>									
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	-	234,182	-	-	-	-	234,182	(12,717)	221,465
	-	234,182	-	-	-	16,816,179	17,050,361	103,758	17,154,119
<b>Transactions with owners, recorded directly in equity</b>									
Final cash dividend paid at Rs. 6 per share for the year ended December 31, 2009	-	-	-	-	-	(5,464,800)	(5,464,800)	-	(5,464,800)
Cash dividend paid at Rs. 1.10 per certificate by modaraba	-	-	-	-	-	-	-	(39,312)	(39,312)
Issued as bonus shares	910,800	-	-	-	-	(910,800)	-	-	-
	910,800	-	-	-	-	(6,375,600)	(5,464,800)	(39,312)	(5,504,112)
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	122,783	122,783	-	122,783
Transferred to statutory reserve	-	-	32,688	1,561,305	-	(1,593,993)	-	-	-
Minority share of surplus on revaluation of securities of subsidiaries	-	-	-	-	-	-	-	4,969	4,969
Balance as at December 31, 2010	10,018,800	9,216,986	254,641	13,810,116	6,073,812	47,467,704	86,842,059	1,212,656	88,054,715
<b>Total comprehensive income for the year</b>									
Profit for the year ended December 31, 2011	-	-	-	-	-	22,275,959	22,275,959	57,063	22,333,022
Minority share of HBL funds transferred to other liabilities	-	-	-	-	-	(86,196)	(86,196)	-	(86,196)
<b>- Other comprehensive income</b>									
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	-	670,235	-	-	-	-	670,235	26,968	697,203
	-	670,235	-	-	-	22,189,763	22,859,998	84,031	22,944,029
<b>Transactions with owners, recorded directly in equity</b>									
Final cash dividend paid at Rs. 6.5 per share for the year ended December 31, 2010	-	-	-	-	-	(6,512,220)	(6,512,220)	-	(6,512,220)
Issued as bonus shares	1,001,880	-	-	-	-	(1,001,880)	-	-	-
Half year Interim cash dividend paid at Rs. 3 per share	-	-	-	-	-	(3,306,204)	(3,306,204)	-	(3,306,204)
Cash dividend paid at Rs. 1.3 per certificate by modaraba	-	-	-	-	-	-	-	(46,458)	(46,458)
	1,001,880	-	-	-	-	(10,820,304)	(9,818,424)	(46,458)	(9,864,882)
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	263,499	263,499	-	263,499
Transferred to statutory reserve	-	-	45,783	2,074,182	-	(2,119,965)	-	-	-
Minority share of surplus on revaluation of securities of subsidiaries	-	-	-	-	-	-	-	(13,939)	(13,939)
Balance as at December 31, 2011	11,020,680	9,887,221	300,424	15,884,298	6,073,812	56,980,697	100,147,132	1,236,290	101,383,422

The annexed notes 1 to 51 and annexures I to IV form an integral part of these consolidated financial statements.

**R. Zakir Mahmood**  
President and Chief Executive Officer

**Moez Ahamed Jamal**  
Director

**Ahmed Jawad**  
Director

**Sajid Zahid**  
Director

# Consolidated Cash Flow Statement

## For the year ended December 31, 2011

2011 (US \$ in '000)	2010		Note	2011 (Rupees in '000)	2010
381,580	300,625	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		34,321,398	27,040,030
(16,854)	(11,751)	Profit before taxation		(1,515,964)	(1,056,930)
(6,027)	(3,522)	Dividend income and share of profit of associates and joint venture		(542,117)	(316,823)
(22,881)	(15,273)	(Gain) / loss on sale of securities		(2,058,081)	(1,373,753)
358,699	285,352			32,263,317	25,666,277
16,324	19,128	<b>Adjustment for:</b>		1,468,314	1,720,510
2,636	(530)	Depreciation / amortisation		237,083	(47,671)
74,462	84,523	Charge / (reversal) against diminution in the value of investments		6,697,555	7,602,440
409	(71)	Provision against non-performing loans and advances		36,820	(6,409)
2,395	776	Unrealised loss / (gain) on held for sale securities		215,450	69,755
(87)	(199)	Exchange loss on sub-ordinated loans		(7,798)	(17,865)
(2,797)	2,324	Gain on sale of operating fixed assets		(251,568)	209,043
93,342	105,951	Miscellaneous provisions		8,395,856	9,529,803
452,041	391,303			40,659,173	35,196,080
(124,983)	(277,795)	<b>(Increase) / decrease in operating assets</b>		(11,241,685)	(24,986,471)
(47,976)	(141,085)	Lendings to financial institutions		(4,315,199)	(12,689,953)
(81,521)	63,185	Advances		(7,332,423)	5,683,203
(254,480)	(355,695)	Other assets		(22,889,307)	(31,993,221)
45,799	(2,962)	<b>Increase / (decrease) in operating liabilities</b>		4,119,409	(266,449)
(10,964)	(134,338)	Bills payable		(986,190)	(12,083,118)
2,070,769	718,486	Borrowings		186,256,726	64,624,720
5,990	-	Deposits and other accounts		538,815	-
126,194	(40,701)	Subordinated Loan		11,350,560	(3,660,878)
2,237,788	540,482	Other liabilities		201,279,320	48,614,275
2,435,349	576,090			219,049,186	51,817,134
(136,961)	(108,532)	Income tax paid - net		(12,319,038)	(9,761,948)
2,298,388	467,558	<b>Net cash flows from operating activities</b>		206,730,148	42,055,186
(1,799,585)	(415,186)	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		(161,864,958)	(37,344,175)
4,566	3,921	Net investments in securities, associates and joint ventures		410,732	352,646
(34,386)	(11,081)	Dividend income received		(3,092,889)	(996,693)
(17,192)	-	Fixed capital expenditure		(1,546,303)	-
1,849	649	Goodwill		166,312	58,331
7,452	2,604	Proceeds from sale of fixed assets		670,235	234,182
(1,837,296)	(419,093)	Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates		(165,256,871)	(37,695,709)
		<b>Net cash flows used in investing activities</b>			
299	(140)	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		26,968	(12,717)
(109,005)	(61,145)	Non-controlling interest impact of exchange adjustment on translation of balances in subsidiaries etc.		(9,804,548)	(5,499,852)
(108,706)	(61,285)	Dividend paid		(9,777,580)	(5,512,569)
352,386	(12,820)	<b>Net cash flows used in financing activities</b>		31,695,697	(1,153,092)
1,303,838	1,333,299	(Decrease) / increase in cash and cash equivalents during the year		117,274,665	119,924,569
19,776	3,135	Cash and cash equivalents at beginning of the year		1,778,766	281,954
1,323,614	1,336,434	Effects of exchange rate changes on cash and cash equivalents		119,053,431	120,206,523
1,676,000	1,323,614	<b>Cash and cash equivalents at end of the year</b>	31	150,749,128	119,053,431

The annexed notes 1 to 51 and annexures I to IV form an integral part of these consolidated financial statements.

R. Zakir Mahmood  
President and Chief Executive Officer

Moez Ahamed Jamal  
Director

Ahmed Jawad  
Director

Sajid Zahid  
Director



# Notes to the Consolidated Financial Statements

## For the year ended December 31, 2011

### 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 Bank operates 1,464 (2010: 1,459) branches inside Pakistan including 22 (2010: 11) Islamic Banking Branches and 42 branches (2010: 42) outside the country (including Karachi Export Processing Zone).

#### Holding company

Habib Bank Limited, Pakistan

#### Subsidiaries

- Habib Finance International Limited, Hong Kong – wholly owned
- Habib Bank Financial Services (Private) Limited, Pakistan – wholly owned
- HBL Currency Exchange (Private) Limited, Pakistan – wholly owned
- HBL Asset Management Limited, Pakistan – wholly owned
- Habib Allied International Bank Plc., United Kingdom – shareholding at 90.50%
- Habibsons Bank Limited – shareholding at 90.50%
- First Habib Bank Modaraba, Pakistan
- HBL Stock Fund – shareholding 82.47%
- HBL Multi Asset Fund - shareholding 93.21%
- HBL Income Fund - shareholding 64.33%

The subsidiary company of the Bank, Habib Bank Financial Services (Private) Limited exercises control over Habib Bank Modaraba as its management company and also has a direct economic interest in it. The Bank has consolidated the financial statements of the modaraba as the ultimate holding company.

During the year Habib Allied International Bank Plc., United Kingdom acquired 100% shares in Habibsons Bank Limited. The Group has consolidated the results of Habibsons Bank Limited from the date of acquisition April 20, 2011, the date when control commences as disclosed in note 3.3 to the financial statements.

### 2 BASIS OF PRESENTATION

- In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.
- The US Dollar amounts shown in the financial statements are stated solely for information convenience. The statement of financial position and profit and loss account for the year ended December 31, 2011 and 2010 have been converted using the exchange rate of Rs. 89.9457 per US Dollar.

#### 2.1 Basis of measurement

These financial statements have been prepared under the historical cost convention except that certain classes of fixed assets are stated at revalued amounts less accumulated depreciation, trading and available for sale investments, derivative financial instruments and forward foreign exchange contracts are measured at fair value.

The consolidated financial statements are presented in Pakistan Rupees, which is Bank's functional currency. The amounts are rounded to nearest thousand.

#### 2.2 Use of estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on

historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Group's financial statements or where judgment was exercised in application of accounting policies are as follows:

**i) Classification of investments**

- In classifying investments as "held-for-trading", the Group has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.
- In classifying investments as "held-to-maturity", the Group follows the guidance provided in SBP directives on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Group evaluates its intention and ability to hold such investments till maturity.
- The investments which are not classified as held for trading or held to maturity are classified as available for sale.

**ii) Valuation and impairment of available for sale equity investments**

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

**iii) Provision against non performing loans and advances**

The Group reviews its loan portfolio to assess amount of non-performing loans and advances and provision required there-against. While assessing this requirement, various factors including the delinquency in the account, financial position of the borrower, the forced sale value of the securities and the requirement of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances, the Group follows, the general provision requirement set out in Prudential Regulations.

**iv) Income taxes**

In making the estimates for income taxes currently payable by the Group, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Group's future taxable profits are taken into account.

**v) Fair value of derivatives**

The fair value of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates in effect at the date of statement of financial position and the rates contracted.

**vi) Fixed assets, depreciation and amortisation**

The Group carries its land and buildings at their respective fair values. The fair values are determined by independent valuation experts and such valuations are carried out with sufficient regularity that the valuation at year end is close to their fair values.

In making estimates of the depreciation / amortisation method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Group. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

**vii) Defined benefits plans and other benefits**

Liability is determined on the basis of actuarial advice using the Projected Unit Credit Method. For actuarial assumptions, refer note no. 33.

**viii) Impairment of investments in associates and subsidiaries**

The impairment loss is recognized when the carrying value exceeds the higher of fair value less cost to sell and value in use.



- 2.2.1 Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

### 3 STATEMENT OF COMPLIANCE

- 3.1 These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards issued by the International Accounting Standards Board and Islamic Financial Accounting Standards issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP). In case the requirements of provisions and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP differ, the provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP shall prevail.

The State Bank of Pakistan, vide its BSD Circular No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments Recognition and Measurement and International Accounting Standard 40, Investment Property for banking companies till further instructions. Further, SECP has deferred applicability of IFRS - 7 "Financial Instruments: Disclosures" on banks through S.R.O 411(1)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

### 3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2012:

- Amendments to IAS 12 Income Taxes: Recovery of underlying asset (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using revaluation model in IAS-16 should always be measured on sale basis. The amendment has no impact on financial statements of the Group.
- IAS 27 Consolidated and separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.
- IAS 28 Investments in Associates (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. This amendment is likely to have impact on financial statements of the Group.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. This amendment is likely to have an impact on financial statements of the Bank.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments would result in certain changes in disclosures on financial statements of the Group.

### 3.3 BUSINESS COMBINATION

During the year the Group acquired control of another UK incorporated bank, Habibsons Bank Limited through a 100% equity purchase. The transaction was completed on April 20, 2011 through a Sale Purchase Agreement (SPA) signed between the Group, Valona Finance and the guarantors to the transaction. The carrying amounts and fair values of identifiable assets and liabilities of Habibsons Bank Limited at the date of acquisition are as follows:

	Book value £ in '000	Fair value	Book value Rs in '000	Fair value
<b>ASSETS</b>				
Cash and balances at central banks	787	787	109,094	109,094
Treasury bills and other eligible bills	7,439	7,439	1,031,193	1,031,193
Loans and advances to banks	163,436	163,436	22,655,466	22,655,466
Loans and advances to customers	77,626	77,173	10,760,501	10,697,706
Tangible fixed assets	1,003	1,003	139,036	139,036
Other assets	550	547	76,241	75,840
Prepayments and accrued income	641	736	88,855	101,994
	<b>251,482</b>	<b>251,121</b>	<b>34,860,386</b>	<b>34,810,329</b>
<b>LIABILITIES</b>				
Deposits by banks	13,697	13,697	1,898,675	1,898,675
Customer accounts	211,970	211,970	29,383,239	29,383,239
Other liabilities	1,067	1,067	147,891	147,891
Accruals and deferred income	926	926	128,362	128,362
Subordinated liabilities - loan	3,660	3,660	507,348	507,348
	<b>231,320</b>	<b>231,320</b>	<b>32,065,515</b>	<b>32,065,515</b>
Called up share capital	14,000	14,000	1,940,677	1,940,677
Revaluation reserve	(6)	(6)	(832)	(832)
Profit & loss account	6,168	5,807	855,026	804,966
<b>NET BOOK VALUE</b>	<b>20,162</b>	<b>19,801</b>	<b>2,794,871</b>	<b>2,744,811</b>
<b>Less: Purchase consideration paid in cash</b>		30,956		4,291,114
<b>Goodwill</b>		<b>11,155</b>		<b>1,546,303</b>

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Revenue recognition

#### Advances and investments

Income on loans and advances and debt security investments are recognized on a time proportion basis that takes into account effective yield on the asset. Where debt securities are purchased at a premium or discount, those premiums / discounts are amortized through the profit and loss account over the remaining maturity, using the effective yield method.

Interest or mark-up recoverable on classified loans and advances and investments is recognized on receipt basis. Interest / mark-up on rescheduled / restructured loans and advances and investments is recognized as permitted by the regulations of State Bank of Pakistan or overseas regulatory authorities of countries where the branches / companies operate, except where in the opinion of the management it would not be prudent to do so.

Dividend income from investments (other than those which are accounted for under the equity method) is recognized when the right to receive it is established.

#### Lease financing

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.

Unrealized lease income is suspended on classified leases, in accordance with the requirements of the Prudential Regulations of the State Bank of Pakistan. Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognized as income on receipt basis. Repossessed vehicles on account of loan default are recorded in memorandum account.



### Murabaha

Murabaha transactions are reflected as receivable at the invoiced amount. Actual sale and purchase are not reflected as the goods are purchased by the customer as agent of the Group and all documents relating to purchase are in customer name. However, the profit on that sale revenue not due for payment is deferred by recording a credit to the "Deferred Murabaha Income" account.

### Letters of credit and guarantees

Commission on letters of credit and guarantees etc. is recognized on time proportion basis.

### Customer Loyalty Programmes

The revenue from award credits for loyalty points earned on use of various products of the Group is measured by reference to their fair value and is recognised when award credits are redeemed.

### Fee, Commission and Brokerage Income

Fee, Commission and Brokerage income is recognized on accrual basis

## 4.2 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity.

### Current

Current taxation is the tax payable on taxable income earned from local as well as foreign operations for the year using tax rates enacted at the date of statement of financial position and, any adjustments to tax payable relating to prior years.

### Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences between the amounts attributed to the assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognized on differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

## 4.3 Investments

The Group classifies its investment portfolio into the following categories:

### Held-for-trading

These are securities, which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term trading exists.

### Held-to-maturity

These are securities with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold till maturity.

### Available-for-sale

These are investments that do not fall under the held-for-trading or held-to-maturity categories.

Investments, including those referred to in para above, are accounted for as follows:

- Quoted securities are carried at fair value.
- Unquoted equity securities are valued at lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

- Securities classified as held-to-maturity are carried at amortised cost less impairment loss if any.

Investments other than those categorised as held for trading includes transaction costs associated with the investments. In case of investments classified as held for trading, transaction costs are expensed in the profit and loss account.

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

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulation issued by the State Bank of Pakistan.

Any unrealized surplus / deficit arising on revaluation of investments classified as 'held-for-trading' are taken to the profit and loss account and unrealized surplus / deficit arising on revaluation of investments classified as 'available-for-sale' is taken directly to "surplus / deficit on revaluation of securities" in the balance sheet.

#### **Investment in associates**

Associates as defined under local statutes but not under IAS are accounted for as ordinary investments.

#### **4.4 Basis of consolidation**

- Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, so as to obtain economic benefits from its activities.
- The consolidated financial statements incorporate the financial statements of Habib Bank Limited and the financial statements of subsidiary companies from the date that control commences until the date that control ceases. The financial statements of such subsidiary companies are incorporated on a line-by-line basis and the investment held by the Bank is eliminated against the corresponding share capital of subsidiaries in the consolidated financial statements.
- Material intra-group balances and transactions are eliminated.
- Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control established by contractual agreement. Associates and joint ventures are accounted for using the equity method. The consolidated financial statements include Groups' share of the results of the associates and joint venture.

#### **4.5 Lendings / borrowings**

Where securities are sold subject to a commitment to re-purchase them at a pre-determined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received in "borrowings". Conversely, securities purchased under analogous commitments to resell are not recognized on the balance sheet and the consideration paid is recorded in "lendings to financial institutions".

The difference between the sale and purchase price is recognized as mark-up / return expensed or earned on time proportion basis as the case may be.

#### **4.6 Sub - Ordinated Debt**

Sub-ordinated debt is initially recorded at the amount of proceeds received. Mark-up accrued on sub-ordinated debt is recognised separately as part of other liabilities and is charged to the profit and loss account over the period on an accrual basis.

#### **4.7 Advances**

##### **Loans and advances**

Loans and advances and net investment in finance lease are stated net of provision for loan losses. Provision for loan losses of Pakistan operations including general provision is made in accordance with the requirements of the prudential regulations issued by the State Bank of Pakistan. Provision for loan losses of overseas branches and subsidiary companies are made as per the requirements of the respective central banks. Advances are written off when there are no realistic prospects of recovery.



### Finance lease receivables

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

### Ijarah

Assets given on lease, after taking into account the estimated residual value, are stated at cost less accumulated depreciation 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 Group'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 date of statement of financial position. 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 Group 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 48).

## 4.8 Operating fixed assets and depreciation

### 4.8.1 Tangible

Fixed assets and capital work-in-progress, are stated at cost, except for land and buildings which are carried at revalued amount less accumulated depreciation, where applicable, and accumulated impairment losses (if any).

Cost of fixed assets of foreign branches and subsidiary companies include exchange differences arising on translation at year-end rates. Land and buildings are revalued by independent professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. Surplus arising on revaluation is credited to the 'surplus on revaluation of fixed assets' account (net of deferred tax). Under the provision of the Companies Ordinance, 1984, deficit arising on revaluation of fixed assets is adjusted against the balance in the above surplus account.

Surplus on revaluation of fixed assets to the extent of the incremental depreciation charged on the related assets is transferred by the Group to un-appropriated profits (net of deferred tax).

All operating assets are being depreciated over their expected useful lives using the straight-line method from the date the assets are available for use.

Depreciation is calculated so as to write-off the assets over their expected useful lives at the rates specified in note 10.3 to these financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each date of statement of financial position.

Depreciation on addition and deletion of tangible assets during the year is charged in proportion to the period of use.

Normal repairs and maintenance are charged to the profit and loss account as and when incurred. However, renewals are capitalized.

Gains or losses arising on the disposal of fixed assets are included in income currently. Surplus on revaluation of fixed assets (net of deferred tax) realized during the year is transferred directly to un-appropriated profit.

### 4.8.2 Intangible

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method over their estimated useful lives. Amortization is charged at the rate stated in note 10.2. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful lives and amortization method are reviewed and adjusted, if appropriate at each date of statement of financial position. Intangible assets having an indefinite useful life are stated at acquisition cost less impairment, if any.

### 4.8.3 Goodwill

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at its cost less accumulated impairment losses, if any. Goodwill acquired in a business combination is tested for impairment annually or whenever there

is an indication of impairment as per the requirements of International Accounting Standard (IAS) 36, 'Impairment of Assets'. Impairment charge in respect of goodwill is recognized in the profit and loss account.

Goodwill can be attributed to significant synergies expected to arise from the acquisition and to those intangibles such as branch network, customer base and geographical presence which are not recognized separately.

#### 4.9 Employee benefits

The Bank operates the following post retirement schemes for its employees:

- i) For those who did not opt for the pension scheme of 1977 and for new employees, the Bank operates:
  - Approved funded provident fund (defined contribution scheme)
  - Approved funded gratuity scheme (defined benefit scheme)

Liability under the gratuity scheme is determined on the basis of actuarial advice under the Projected Unit Credit Method.

- ii) For those who opted for the pension scheme introduced in 1977, the Bank operates:
  - Approved funded pension scheme (defined benefit scheme) for services up to March 31, 2005.
  - Contributory gratuity and provident fund schemes in lieu of pension fund for services subsequent to March 31, 2005 (defined contribution scheme).

Liability under the pension scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

#### Post retirement medical benefits

The Bank also provides post retirement medical benefits to its clerical employees and pensioners retiring before December 31, 2005. Provision is made in the financial statements for this benefit based on actuarial advice using the Projected Unit Credit Method. The employees under officers and executives cadre are entitled to receive lump sum payments in lieu of post retirement medical facilities as a full and final settlement, effective January 01, 2006 onwards.

#### Other post retirement benefits

The Bank provides cash benefits on retirement which are estimated as per the actuarial advice.

#### Employees' compensated absences

The Bank also makes provision in the financial statements for its liabilities towards compensated absences. This liability is estimated on the basis of actuarial advice under the Projected Unit Credit Method.

#### Benevolent fund

The Bank operates funded benevolent schemes for its executives / officers and clerical / non-clerical employees. Under this scheme, the employees of the Bank are entitled to receive defined grants / facilities during their service and after retirement. The benevolent fund plan covers all the employees of the Bank.

Provision is made in the financial statements for this benefit based on actuarial advice using the Projected Unit Credit Method.

An option for one time full and final payment of fair value of Pension and Benevolent fund based on actuarial valuation has been offered on retirement / early settlement at the time of availing leave prior to retirement (LPR) and / or death of an employee. Similarly, the existing beneficiaries / or prospective legal heir(s) shall have an option to receive fair value of aforesaid benefits including medical in lump sum offered by the Bank, being one time payment in full and final settlement.

#### Surplus / deficit on retirement funds / schemes

Any surplus / deficit arising on actuarial valuation of these schemes (including actuarial gains / losses) available to / payable by the Bank is recognized in the year in which it arises.

#### Other schemes

Employee benefits offered by subsidiary companies are as follows:

Habib Allied International Bank Plc., United Kingdom  
Habib Finance International Limited, Hong Kong

Defined Contribution Pension scheme  
Provident fund and long service payment scheme



#### 4.10 Foreign currency

##### Foreign currency transactions

Transactions in foreign currencies are translated to Pakistani rupees at the exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of statement of financial position. The fair value of forward cover taken from the State Bank of Pakistan for foreign currency deposits is added / deducted from value of foreign currency deposits. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

##### Foreign operations

The assets and liabilities of foreign operations are translated to Pakistani rupees at exchange rates prevailing at the date of statement of financial position. The income and expenses of foreign operations are translated at average rate of exchange for the year.

##### Translation gains and losses

Translation gains and losses are included in the profit and loss account, except those arising on the translation of net investment in foreign operations i.e., foreign branches, subsidiaries, joint ventures or associates which are taken to equity under "Exchange Translation Reserve" and on disposal are recognized in profit or loss account.

##### Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of statement of financial position.

#### 4.11 Cash and cash equivalents

Cash and cash equivalents include cash and balances with banks in current and deposit accounts.

#### 4.12 Off setting

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

#### 4.13 Impairment

The carrying amount of the Groups' assets (other than deferred tax asset) are reviewed at each date of statement of financial position to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

#### 4.14 Provision for guarantee claim

Provision for guarantee claim is recognized when intimated and reasonable certainty exists that the Group will settle the obligation. Expected recoveries are recognized by debiting customer's account. Charge to profit and loss account is stated net of expected recoveries.

#### 4.15 Other provisions

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

#### 4.16 Financial Assets and Liabilities

Financial instruments carried on the statement of financial position include cash and bank balances, lending to financial institutions, investments, advances, certain receivables, bills payable, borrowings, deposits, sub-ordinated loans and certain other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the relevant policy notes.

#### 4.17 Derivative financial instruments

Derivative financial instruments are initially recorded at fair value and subsequently remeasured at fair value. The gain or loss on remeasurement to fair value is recognized in profit and loss account.

#### 4.18 Dividend distribution

Declarations of dividend to holders of the equity instruments of the Group are recognised as liability in the period in which it is declared.

#### 4.19 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format of reporting is based on business segments.

##### Business segments

###### - *Retail Banking*

Consists of retail lending, deposits and banking services to private individuals and small businesses including credit cards.

###### - *Corporate / Commercial Banking*

Consists of lendings for project finance, trade finance, corporate and commercial customers and investment banking, includes advices and placements to corporate mergers and acquisitions, underwriting, privatizations and securitization.

###### - *Treasury*

Involves the businesses of proprietary trading, fixed income, equity and foreign exchanges.

###### - *International Banking Group*

It represents Group's operations in 25 countries and is considered a separate segment for monitoring purposes.

###### - *Head Office*

This includes balances held at Head Office level for regulatory requirements or other operational reasons and business segments not shown separately. This also includes some non performing loans not managed by other business segments, statutory liquidity and shareholders equity related balances and their associated cost / income.

##### Geographical segments

The group operates in five geographic regions, being:

- Pakistan
- Asia Pacific (including South Asia)
- Europe
- North America
- Middle East
- Others



5. CASH AND BALANCES WITH TREASURY BANKS	Note	2011 (Rupees in '000)	2010
In hand including National Prize Bonds			
Local currency		14,845,215	10,380,118
Foreign currency		2,320,597	2,100,498
		17,165,812	12,480,616
With State Bank of Pakistan in	5.1		
Local currency current account		32,539,366	27,100,923
Foreign currency current account		3,369,553	2,370,523
Foreign currency deposit account		10,138,523	7,119,907
		46,047,442	36,591,353
With other Central Banks in	5.2		
Foreign currency current account		15,163,891	11,611,037
Foreign currency deposit account		10,347,857	12,743,641
		25,511,748	24,354,678
With National Bank of Pakistan in			
Local currency current account		14,674,621	8,213,599
		103,399,623	81,640,246

The above balances include remunerative accounts amounting to Rs. 15,485.433 million (2010: 15,788.255 million).

- 5.1 This includes balances held with State Bank of Pakistan (SBP) to comply with the reserve requirements issued from time to time and also represents US dollar settlement account maintained with SBP. This carries, mark-up at the rate of 0% per annum (2010: 0% per annum) .
- 5.2 Balances held with the Central Banks of respective countries in accordance with the requirements of the local statutory / Central Bank regulations. Since, the Group operates in different countries, these carry varied mark-up rates as given by the Central Banks of respective countries.

6. BALANCES WITH OTHER BANKS	Note	2011 (Rupees in '000)	2010
In Pakistan			
On current account		809,447	367,172
On deposit account		-	-
		809,447	367,172
Outside Pakistan	6.1		
On current account		5,473,648	3,670,357
On deposit account		41,066,410	33,375,656
		46,540,058	37,046,013
		47,349,505	37,413,185

- 6.1 This includes remunerative current account balance amounting to Rs. 191.576 million (2010: Rs. 547.077 million). Since, the Group operates in different countries, these carry varied mark-up rates as given by the external banks of respective countries.

7. LENDINGS TO FINANCIAL INSTITUTIONS	Note	2011 (Rupees in '000)	2010
7.1 In local currency			
Call money lendings	7.2.1	1,450,000	900,000
Repurchase agreement lendings (reverse repo)	7.2	40,131,029	29,439,344
		41,581,029	30,339,344

7.2 Securities held as collateral against lendings to financial institutions		2011			2010		
		Held by Group	Further given as collateral	Total	Held by Group	Further given as collateral	Total
----- (Rupees in '000) -----							
Market treasury bills	7.2.1	38,058,870	-	38,058,870	29,439,344	-	29,439,344
Pakistan investment bonds		2,072,159	-	2,072,159	-	-	-
		<u>40,131,029</u>	<u>-</u>	<u>40,131,029</u>	<u>29,439,344</u>	<u>-</u>	<u>29,439,344</u>

7.2.1 Market value of securities held as collateral against lendings to financial institutions as at December 31, 2011 amounted to Rs. 40,253.648 million (2010: Rs. 29,558.401 million). These carry mark-up rates ranging from 12.15% to 13.10% per annum (2010: 12.50% to 13.40% per annum) and 11.25% to 13.40% per annum (2010: 12.60% to 13.90% per annum) for call money lendings and repurchase agreement lendings respectively.

8. INVESTMENTS	Note	2011			2010		
8.1 Investments by type		Held by Group	Given as collateral	Total	Held by Group	Given as collateral	Total
----- (Rupees in '000) -----							
<b>Held for Trading Securities (HFT)</b>							
- Pakistan Investment Bonds		395,470	-	395,470	-	-	-
- Market Treasury Bills		2,870,862	-	2,870,862	66,836	-	66,836
- Shares		-	-	-	2,443	-	2,443
- Investments of mutual funds		170,235	-	170,235	132,578	-	132,578
		<u>3,436,567</u>	<u>-</u>	<u>3,436,567</u>	<u>201,857</u>	<u>-</u>	<u>201,857</u>
<b>Held-to-Maturity Securities (HTM)</b>							
<b>Federal Government Securities</b>							
- Pakistan Investment Bonds	8.9 / 8.11	44,181,840	-	44,181,840	8,260,726	-	8,260,726
<b>Debentures and Corporate Debt Instruments</b>							
		242,492	-	242,492	244,929	-	244,929
		<u>44,424,332</u>	<u>-</u>	<u>44,424,332</u>	<u>8,505,655</u>	<u>-</u>	<u>8,505,655</u>
<b>Available-for-Sale Securities (AFS)</b>							
<b>Federal Government Securities</b>							
- Market Treasury Bills	8.9 / 8.11	265,930,965	-	265,930,965	115,554,480	-	115,554,480
- Pakistan Investment Bonds		26,335,105	-	26,335,105	12,893,523	714,039	13,607,562
- Government of Pakistan Guaranteed Bonds		425,000	-	425,000	425,000	-	425,000
- Government of Pakistan Bonds / Sukuk / (US Dollar / Euro)		16,461,243	-	16,461,243	8,559,129	-	8,559,129
<b>Overseas Government Securities</b>		16,695,882	-	16,695,882	11,103,120	-	11,103,120
<b>Fully paid-up ordinary shares</b>							
- Listed companies		2,510,571	-	2,510,571	1,697,820	-	1,697,820
- Unlisted companies		761,038	-	761,038	760,936	-	760,936
<b>Debentures and Corporate Debt Instruments / Units</b>							
- Listed securities	8.9	6,264,740	-	6,264,740	4,891,405	-	4,891,405
- Unlisted securities		27,879,121	-	27,879,121	84,668,564	-	84,668,564
<b>NIT Units</b>		11,529	-	11,529	11,529	-	11,529
<b>Preference shares</b>		200,000	-	200,000	200,000	-	200,000
<b>Investments of mutual funds</b>		3,436,949	-	3,436,949	3,068,544	-	3,068,544
		<u>366,912,143</u>	<u>-</u>	<u>366,912,143</u>	<u>243,834,050</u>	<u>714,039</u>	<u>244,548,089</u>
<b>Investment in Associates and Joint Venture</b>	8.4	6,604,823	-	6,604,823	4,636,346	-	4,636,346
<b>Investment at cost</b>		<u>421,377,865</u>	<u>-</u>	<u>421,377,865</u>	<u>257,177,908</u>	<u>714,039</u>	<u>257,891,947</u>
Provision for diminution / impairment in the value of investments including associates	8.8	(2,364,383)	-	(2,364,383)	(2,122,286)	-	(2,122,286)
<b>Net Investment</b>		<u>419,013,482</u>	<u>-</u>	<u>419,013,482</u>	<u>255,055,622</u>	<u>714,039</u>	<u>255,769,661</u>
(Deficit) / surplus on revaluation of held for trading securities		(36,820)	-	(36,820)	6,409	-	6,409
Deficit on revaluation of available for sale securities	19.2	(366,720)	-	(366,720)	(866,954)	-	(866,954)
Deficit on revaluation of investment of associates		(5,795)	-	(5,795)	-	-	-
<b>Total investments at market value</b>		<u>418,604,147</u>	<u>-</u>	<u>418,604,147</u>	<u>254,195,077</u>	<u>714,039</u>	<u>254,909,116</u>



8.2 Investments by segments	Note	2011 (Rupees in '000)	2010
Federal Government Securities			
- Market Treasury Bills		268,801,827	115,621,316
- Pakistan Investment Bonds		70,912,415	21,868,288
- Government of Pakistan Guaranteed Bonds		425,000	425,000
- Government of Pakistan Bonds / Sukuk / (US Dollar / Euro)		16,461,243	8,559,129
Overseas Government Securities		16,695,882	11,103,120
Fully paid-up Ordinary Shares			
- Listed companies		2,510,571	1,700,263
- Unlisted companies		761,038	760,936
Debentures and Corporate Debt Instruments / Units			
- Listed securities		6,264,740	4,891,405
- Unlisted securities		28,121,613	84,913,493
Preference Shares		200,000	200,000
NIT Units		11,529	11,529
Investments of mutual funds		3,607,184	3,201,122
Investment in Associates and Joint Venture	8.4	6,604,823	4,636,346
		<u>421,377,865</u>	<u>257,891,947</u>
Less: Provision for diminution / impairment in the value of investments including associates	8.8	<u>(2,364,383)</u>	<u>(2,122,286)</u>
Net investment		419,013,482	255,769,661
(Deficit) / Surplus on revaluation of HFT securities		(36,820)	6,409
Deficit on revaluation of available for sale securities	19.2	(366,720)	(866,954)
Deficit on revaluation of investment of associates		(5,795)	-
		<u>418,604,147</u>	<u>254,909,116</u>

8.3 The market value of securities classified as HTM as at December 31, 2011 amounted to Rs. 43,459.276 million (2010: Rs. 7,194.986 million).

8.4 Investment in associates and joint venture company	2011 (Rupees in '000)	2010
<b>Kyrgyz Investment and Credit Bank, Kyrgyz Republic - Holding - 18% (2010: 18%) - Unlisted</b>		
Opening balance	335,536	301,322
Investment during the year	116,235	-
Share of profit for the year - net of tax	92,608	28,462
Exchange translation reserve for the year	22,158	5,752
Dividend received during the year	(4,624)	-
	<u>561,913</u>	<u>335,536</u>
<b>Diamond Trust Bank Limited, Kenya - Holding - 11.21% (2010: 10%) - Listed</b>		
Opening balance	1,502,241	1,288,367
Investment during the year	211,546	-
Share of profit for the year - net of tax	293,872	275,100
Exchange translation reserve for the year	20,665	(33,420)
Dividend received during the year	(27,690)	(27,806)
	<u>2,000,634</u>	<u>1,502,241</u>
<b>Himalayan Bank Limited, Nepal - Holding - 20% (2010: 20%) - Listed</b>		
Opening balance	1,005,171	819,046
Share of profit for the year - net of tax	244,555	152,853
Exchange translation reserve for the year	(130,066)	66,545
Dividend received during the year	(45,598)	(33,273)
	<u>1,074,062</u>	<u>1,005,171</u>
<b>Jubilee General Insurance Company Limited, - Holding - 14.27% (2010: 9.64%) - Listed</b>		
Opening balance	561,790	767,886
Investment during the year	297,722	-
Impairment loss	-	(238,000)
Share of profit for the year - net of tax	91,246	50,972
Dividend received during the year	(15,254)	(19,068)
	<u>935,504</u>	<u>561,790</u>

	Note	2011 (Rupees in '000)	2010
<b>Jubilee Life Insurance Company Limited, Holding - 17.95% (2010: 17.95%) - Listed</b>			
Opening balance		482,871	221,124
Investment during the year		-	254,772
Share of profit for the year - net of tax		52,793	12,565
Dividend received during the year		(16,883)	(5,590)
		518,781	482,871
<b>HBL Money Market Fund, Holding - 2.76% (2010: 12.46%) - Unlisted</b>			
Opening balance		175,477	-
Investment during the year		29,000	165,000
Surplus on investment		76	-
Share of profit for the year		26,762	10,477
		231,315	175,477
	8.5.2		
<b>HBL Islamic Stock Fund, Holding - 96.14% - Unlisted</b>			
Opening balance		-	-
Investment during the year		250,000	-
Share of profit for the year		11,260	-
Deficit on investment		(4,911)	-
		256,349	-
<b>HBL Islamic Money Market Fund, Holding - 64.08% - Unlisted</b>			
Opening balance		-	-
Investment during the year		250,000	-
Share of profit for the year		17,158	-
		267,158	-
<b>HBL Pension Equity SubFund - Holding 99.28% - Unlisted</b>			
Opening balance		-	-
Investment during the year		30,000	-
Share of profit for the year		105	-
Surplus / (deficit) on investment		(392)	-
		29,713	-
<b>HBL Pension Debt SubFund - Holding 96.34% - Unlisted</b>			
Opening balance		-	-
Investment during the year		30,000	-
Share of profit for the year		171	-
Surplus / (deficit) on investment		(2)	-
		30,169	-
<b>HBL Pension Money Market SubFund - Holding 97.26% - Unlisted</b>			
Opening balance		-	-
Investment during the year		30,000	-
Share of profit for the year		171	-
Surplus / (deficit) on investment		(2)	-
		30,169	-
<b>HBL Islamic Pension Equity SubFund - Holding 99.93% - Unlisted</b>			
Opening balance		-	-
Investment during the year		30,000	-
Share of profit for the year		162	-
Surplus / (deficit) on investment		(564)	-
		29,598	-
<b>HBL Islamic Pension Debt SubFund - Holding 99.93% - Unlisted</b>			
Opening balance		-	-
Investment during the year		30,000	-
Share of profit for the year		200	-
		30,200	-
<b>HBL Islamic Pension Money Market SubFund - Holding 99.97% - Unlisted</b>			
Opening balance		-	-
Investment during the year		30,000	-
Share of profit for the year		199	-
		30,199	-
		<u>6,025,764</u>	<u>4,063,086</u>



8.4.1 The market value of shares of above investments in listed associates at December 31, 2011 amounted to Rs. 4,857.766 million (2010: Rs. 6,861.508 million).

8.5 The Group has significant influence in Diamond Trust Bank Limited, Kyrgyz Investment and Credit Bank, Jubilee General Insurance Company Limited and Jubilee Life Insurance Company Limited because of Aga Khan Fund for Economic Development's holding (parent of Group).

8.5.1 The investments have been tested for impairment under the policy of the Group as given in note no. 4.13 and provision has been made where required and disclosed in note no. 8.8.

8.5.2 During the year the Group has subscribed for units of these funds. Currently, the holding of the Group is high due to initial investments which are expected to go down with sale of units. Accordingly, these investments have been accounted for as investment in associates under IAS 28.

#### 8.6 Summary of financial information of associates and joint venture company

	Based on the financial statements as on	2011				
		Assets	Liabilities	Equity	Revenue	Profit / (loss)
		----- (Rupees in '000) -----				
Diamond Trust Bank Limited, Kenya	September 30, 2011	113,703,197	100,574,944	13,128,253	6,621,275	2,150,182
Himalayan Bank Limited, Nepal	September 30, 2011	55,744,110	50,972,421	4,771,690	1,323,860	192,760
Kyrgyz Investment and Credit Bank	December 31, 2010	10,701,739	8,523,794	2,177,945	959,402	158,962
Jubilee Life Insurance Company Limited	September 30, 2011	14,455,998	13,182,256	1,273,742	350,947	217,937
Jubilee General Insurance Company Limited	September 30, 2011	9,387,618	6,114,093	3,273,525	2,068,685	527,845
HBL Money Market Fund	December 31, 2011	7,772,880	28,290	7,744,590	753,741	677,416
HBL Islamic Stock Fund	December 31, 2011	280,280	6,635	273,645	21,119	11,588
HBL Islamic Money Market Fund	December 31, 2011	427,923	2,388	425,535	31,038	26,486
HBL Pension Equity Sub Fund	December 31, 2011	30,055	124	29,931	199	106
HBL Pension Debt Sub Fund	December 31, 2011	31,443	126	31,317	272	177
HBL Pension Money Market Sub Fund	December 31, 2011	31,146	126	31,020	271	176
HBL Islamic Pension Equity Sub Fund	December 31, 2011	29,744	125	29,619	255	162
HBL Islamic Pension Debt Sub Fund	December 31, 2011	30,347	126	30,221	294	200
HBL Islamic Pension Money Market Sub Fund	December 31, 2011	30,335	126	30,209	293	199

	Based on the financial statements as on	2010				
		Assets	Liabilities	Equity	Revenue	Profit / (loss)
		----- (Rupees in '000) -----				
Diamond Trust Bank Limited, Kenya	June 30, 2010	80,687,182	70,884,325	9,802,857	3,864,156	1,310,830
Himalayan Bank Limited, Nepal	July 16, 2010	52,858,090	48,474,926	4,383,164	3,673,539	609,916
Kyrgyz Investment and Credit Bank	December 31, 2009	8,991,854	7,075,475	1,916,379	923,933	270,727
Jubilee Life Insurance Co. Ltd.	September 30, 2010	9,986,776	9,432,444	554,332	26,483	70,539
Jubilee General Insurance Co. Ltd.	September 30, 2010	7,959,237	5,316,316	2,642,921	2,174,403	219,659
HBL Money Market Fund	September 30, 2010	350,926	5,353	345,573	13,657	3,044

#### 8.7 Investment in associated undertakings - as per statute

	2011		2010	
	Cost (Rupees in '000)	Holding %	Cost (Rupees in '000)	Holding %
First Women Bank Limited	63,300	19.34%	63,300	26.78%
Khushali Bank	300,000	17.60%	300,000	17.60%
	<u>363,300</u>		<u>363,300</u>	

8.7.1 The Group does not have significant influence over these entities due to influence of the Government / major shareholders. Accordingly these investments are accounted for as normal investments.

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

The balances disclosed in note 8.1 are stated net of specific provision held. The analysis of total provision held is as follows:

	Note	2011 (Rupees in '000)	2010
Opening balance		2,122,286	2,572,470
Charge / (reversal) for the year - net		152,275	(186,489)
Impairment charge / (reversal) on listed securities - net		84,808	(99,182)
Impairment loss on associate		-	238,000
Total charge / (reversal) - net		237,083	(47,671)
Amount written off		-	(3,293)
Transfer to advances		-	(260,665)
Transfer to other liability		-	(138,555)
Exchange adjustment		5,014	-
Closing balance	8.8.1	<u>2,364,383</u>	<u>2,122,286</u>

### 8.8.1 Particulars of provision in respect of type and segment

#### Held to Maturity securities

- Debentures and corporate debt instruments	50,511	19,375
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#### Available-for-sale securities

- Fully paid-up ordinary shares		
- Listed companies	535,517	451,566
- Unlisted companies	51,241	41,149
- Debentures and corporate debt instruments	440,773	337,473
- Preference shares	100,000	100,000
- Units	256,629	276,040
- Investments of mutual funds	356,451	323,422
<b>Associate</b>	<u>573,261</u>	<u>573,261</u>
	<u>2,364,383</u>	<u>2,122,286</u>

- 8.9 Investments held for maintaining the liquidity requirements of the State Bank of Pakistan amounted to Rs. 111,394 million as at December 31, 2011 (2010: Rs. 100,739 million).
- 8.10 Investments include Rs. 519.958 million as at December 31, 2011 (2010: Rs. 544.701 million) pledged with State Bank of Pakistan and National Bank of Pakistan against TT/DD discounting facilities and demand loan facilities.
- 8.11 Investments include Rs. 9.567 million as at December 31, 2011 (2010: Rs. 10.610 million) pledged with the Controller of Military Accounts in lieu of Regimental Fund Accounts being maintained at various branches of the bank.
- 8.12 Investments include strategic investments amounting to Rs. 2,850 million as at December 31, 2011 (2010: Rs. 2,897 million) under BPD circular letter no. 16 of 2006 dated August 1, 2006.
- 8.13 During August 2011, the assets and liabilities of Bank PHB have been transferred by Central Bank of Nigeria to a newly formed Bank, Keystone Bank Limited under new management and the Board. The banking license of Bank PHB has been revoked, therefore, the Bank has written off its investment in Bank PHB.
- 8.14 Information relating to investments including credit ratings in shares of listed and unlisted companies, redeemable capital and bonds, required to be disclosed as part of the financial statements by the State Bank of Pakistan, is given in Annexure "I" and is an integral part of these financial statements.
- 8.15 The comparative figures have been re-arranged and reclassified for comparison purposes.



9. ADVANCES	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
Loans, cash credits, running finances, etc.			
In Pakistan		361,688,597	383,960,649
Outside Pakistan		<u>90,131,791</u>	<u>74,796,103</u>
		<u>451,820,388</u>	<u>458,756,752</u>
Net investment in finance lease - in Pakistan	9.1.3	3,852,860	3,857,452
Bills discounted and purchased (excluding Government treasury bills)			
Payable in Pakistan		<u>10,420,082</u>	9,120,283
Payable outside Pakistan		<u>37,360,374</u>	<u>30,711,150</u>
		47,780,456	39,831,433
Provision against non-performing advances	9.4	<u>(46,086,048)</u>	<u>(42,695,625)</u>
		<u>457,367,656</u>	<u>459,750,012</u>
<b>Fully provided non-performing advances classified as loss for more than five years</b>			
In Pakistan		13,640,851	12,527,683
Provision	9.6	<u>(13,640,851)</u>	<u>(12,527,683)</u>
		<u>-</u>	<u>-</u>
<b>9.1 Particulars of advances</b>			
9.1.1 In local currency		334,292,895	355,981,339
In foreign currency including foreign currency financing by domestic branches amounting to Rs. 20,045.548 million (2010: Rs. 26,424.400 million)		<u>123,074,761</u>	<u>103,768,673</u>
		<u>457,367,656</u>	<u>459,750,012</u>
9.1.2 Short term (for upto one year)		248,901,472	320,313,649
Long term (for over one year)		<u>208,466,184</u>	<u>139,436,363</u>
		<u>457,367,656</u>	<u>459,750,012</u>
<b>9.1.3 Net investment in finance lease</b>			

	2011			2010		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	----- (Rupees in '000) -----					
Lease rentals receivable	1,313,132	3,043,965	4,357,097	1,314,697	3,047,593	4,362,290
Residual value	2,738	35,876	38,614	7,970	104,438	112,408
Gross investment in finance lease	<u>1,315,870</u>	<u>3,079,841</u>	<u>4,395,711</u>	<u>1,322,667</u>	<u>3,152,031</u>	<u>4,474,698</u>
Unearned finance income	<u>(20,411)</u>	<u>(522,440)</u>	<u>(542,851)</u>	<u>(23,209)</u>	<u>(594,037)</u>	<u>(617,246)</u>
Net investment in finance lease	<u>1,295,459</u>	<u>2,557,401</u>	<u>3,852,860</u>	<u>1,299,458</u>	<u>2,557,994</u>	<u>3,857,452</u>

9.2 Advances include Rs. 56,549.062 million (2010: Rs. 53,607.643 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 as referred to in note 9.3, as detailed below:

Category of Classification	Note	2011								
		Non-performing advances			Provision required and held			Net non-performing advances		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
----- (Rupees in '000) -----										
<b>Specific provision</b>										
Other assets especially mentioned		1,112,720	-	1,112,720	-	-	-	1,112,720	-	1,112,720
Substandard		5,380,653	4,061,518	9,442,171	1,268,410	781,960	2,050,370	4,112,243	3,279,558	7,391,801
Doubtful		3,963,781	2,316,268	6,280,049	1,981,891	1,732,995	3,714,886	1,981,890	583,273	2,565,163
Loss		30,682,077	9,032,045	39,714,122	29,951,932	8,589,936	38,541,868	730,145	442,109	1,172,254
		41,139,231	15,409,831	56,549,062	33,202,233	11,104,891	44,307,124	7,936,998	4,304,940	12,241,938
<b>General provision</b>	9.2.2	-	-	-	1,277,089	501,835	1,778,924	-	-	-
		41,139,231	15,409,831	56,549,062	34,479,322	11,606,726	46,086,048	7,936,998	4,304,940	12,241,938

Category of classification	2010									
	Non-performing advances			Provision required and held			Net non-performing advances			
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total	
----- (Rupees in '000) -----										
<b>Specific provision</b>										
Other assets especially mentioned		1,370,212	-	1,370,212	530	-	530	1,369,682	-	1,369,682
Substandard		2,846,786	3,915,683	6,762,469	684,433	636,643	1,321,076	2,162,353	3,279,040	5,441,393
Doubtful		7,277,208	2,194,403	9,471,611	3,638,295	1,448,400	5,086,695	3,638,913	746,003	4,384,916
Loss		25,242,271	10,761,080	36,003,351	24,449,037	10,320,311	34,769,348	793,234	440,769	1,234,003
		36,736,477	16,871,166	53,607,643	28,772,295	12,405,354	41,177,649	7,964,182	4,465,812	12,429,994
<b>General provision</b>		-	-	-	1,153,477	364,499	1,517,976	-	-	-
		36,736,477	16,871,166	53,607,643	29,925,772	12,769,853	42,695,625	7,964,182	4,465,812	12,429,994

9.2.1 Classification of overseas non-performing advances and provision there against has been made in accordance with the accounting policy as referred in note 4.7.

9.2.2 This includes general provision for agri loans amounting to Rs. 775 million which has been maintained by the Group on prudent basis as the Group is in process of analyzing the impact of flood affected portfolio on account by account level.

9.3 The Group monitors non-performing advances classified as loss for more than five years and fully provided as a separate category as shown in note 9.6. This category is not included in note 9.2 and in analytical break-up of other notes.

#### 9.4 Particulars of provision against non-performing advances

	Note	2011						2010		
		Specific			General			Total		
		----- (Rupees in '000) -----								
Opening balance		41,177,649	1,517,976	42,695,625	34,624,137	723,947	35,348,084			
Exchange adjustment / other movements		676,468	14,765	691,233	173,611	3,577	177,188			
Transfer of provision on consolidation of Habibsons Bank limited		110,342	-	110,342	-	-	-			
Charge for the year		7,668,524	260,441	7,928,965	8,689,492	842,094	9,531,586			
Reversals		(401,035)	(14,258)	(415,293)	(910,513)	(51,642)	(962,155)			
		7,267,489	246,183	7,513,672	7,778,979	790,452	8,569,431			
Write offs	9.7	(753,595)	-	(753,595)	(483,511)	-	(483,511)			
Transferred to interest suspense		(2,198,908)	-	(2,198,908)	-	-	-			
Transferred to over 5 years category	9.6	(1,972,321)	-	(1,972,321)	(915,567)	-	(915,567)			
Closing balance		44,307,124	1,778,924	46,086,048	41,177,649	1,517,976	42,695,625			
In local currency		33,202,233	1,277,089	34,479,322	28,772,295	1,153,477	29,925,772			
In foreign currency		11,104,891	501,835	11,606,726	12,405,354	364,499	12,769,853			
		44,307,124	1,778,924	46,086,048	41,177,649	1,517,976	42,695,625			



**9.5 Amendments in Prudential Regulations in respect of provisioning against non-performing advances**

In accordance with BSD Circular No. 2 dated January 27, 2009 and BSD Circular No.10 dated October 20, 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 this benefit of FSV not been taken by the Bank, the specific provision against non-performing advances as at December 31, 2011 would have been higher by Rs. 687.726 million and profit before taxation for the year ended December 31, 2011 would have been lower by approximately Rs. 90.910 million (after taking into account the effect of discounting of FSV taken in previous year). Increase in retained earnings net of tax amounting to Rs. 447.022 million would not be available for the distribution of cash and stock dividend to share holders.

	Note	2011 (Rupees in '000)	2010
<b>9.6 Particulars of provision against fully provided non-performing advances classified as loss for more than five years</b>			
Opening balance		12,527,683	12,914,798
Reversal		(816,117)	(966,991)
Transferred during the year	9.4	1,972,321	915,567
Write offs	9.7	(43,036)	(335,691)
		<u>13,640,851</u>	<u>12,527,683</u>
<b>9.7 Particulars of write-offs</b>			
9.7.1 Against provisions		<u>796,631</u>	<u>819,202</u>
9.7.2 Analysis of write-offs			
Rs 500,000 and above in Pakistan (Note 9.8)		53,038	325,087
Below Rs 500,000 in Pakistan and overseas		743,593	494,115
		<u>796,631</u>	<u>819,202</u>

**9.8 Details of loan write-off of Rs 500,000 and above**

The statement required under sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2011 is given in Annexure II.

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

	2011				2010			
	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding**	Limit sanctioned during the year	Loan repaid during the year	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)	1,231,700	1,265,700	476,312	178,312	933,700	1,277,800	384,860	489,160
- in respect of key management personnel / Companies in which key management personnel or their spouse are interested	593,208	602,308	295,458	191,708	489,458	531,128	235,228	276,354
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	1,060,273	1,088,593	4,134,712	3,838,555	764,116	1,403,508	7,258,714	7,650,098
Debts due by companies in which key management personnel are nominated by the Bank as directors								
- Guaranteed by Government	10,917,405	13,576,635	14,034,908	13,485,458	10,367,955	13,628,965	10,000,217	12,296,727
- Others	32,869	43,976	35,277	46,205	43,797	52,729	28,349	37,281





Description	COST		AMORTISATION		Book value as at December 31, 2010	Rate of amortization %
	As at January 1, 2010	Additions / (deletions) during the year	As at January 1, 2010	Charge for the year (Amortisation on deletions)		
Computer software	1,428,478	2,665 (3,283)	1,193,355	199,653 (3,276)	1,389,732	33.33
					38,128	

-----  
(Rupees in '000)

### 10.3 Tangible fixed assets

Description	COST / REVALUATION		DEPRECIATION					
	As at January 1, 2011	Additions / (deletions) / Adjustments during the year	As at December 31, 2011	Charge for the year / (depreciation on deletions) / Adjustments	Surplus / (deficit) on revaluation reversed during the year	As at December 31, 2011	Book value as at December 31, 2011	Rate of depreciation %
Land	8,468,476	1,059,068 (139,860) 959	9,388,643	-	-	-	9,388,643	-
Building including related machinery	5,646,792	450,643 (9,026) 159,761	6,248,170	370,388 (515) 66,104	-	1,342,637	4,905,533	2.5-10
Furniture, fixture and office equipment	8,768,017	914,674 (389,206) 467,881	9,761,366	995,789 (380,507) 400,255	-	7,504,419	2,256,947	20-33
Vehicles	401,655	35,747 (38,323) (267)	398,812	58,113 (36,879) (351)	-	259,295	139,517	20
	23,284,940	2,460,132 (576,415) 628,334	25,796,991	1,424,290 (417,901) 466,008	-	9,106,351	16,690,640	

-----  
Rupees in '000

2010

Description	COST / REVALUATION			DEPRECIATION			Book value as at December 31, 2010	Rate of depreciation %	
	As at January 1, 2010	Additions / (deletions) / Adjustments during the year	Surplus / (deficit) on revaluation during the year	As at December 31, 2010	As at January 1, 2010	Charge for the year / (depreciation) on deletions / Adjustments			Surplus / (deficit) on revaluation reversed during the year
	----- Rupees in '000 -----								
Land	8,667,541	2,178	15,711	8,468,476	-	-	-	8,468,476	-
Building including related machinery	4,832,143	(216,954)	444,823	5,646,792	557,498	360,711	(11,898)	906,660	2.5-10
		(7,738)	125,296			(1,862)			
		252,268				2,211			
Furniture, fixture and office equipment	8,345,632	805,784	-	8,768,017	5,736,432	1,104,809	-	6,488,882	20-33
		(364,536)				(331,081)			
		(18,863)				(21,278)			
Vehicles	404,842	43,907	-	401,655	230,146	55,337	-	238,412	20
		(33,972)				(32,844)			
		(13,122)				(14,227)			
	22,250,158	1,296,692	141,007	23,284,940	6,524,076	1,520,857	(11,898)	7,633,954	
		(406,246)				(365,787)			
		3,329				(33,294)			

10.4 Adjustments shown above include movement due to consolidation of Habibsons Bank limited and exchange impact on tangible assets of overseas branches and subsidiaries.

10.5 Habib Bank Limited's (HBL) domestic properties were revalued by independent professional valuers as on June 30, 2009. These properties were revalued by Iqbal A Nanjee & Co., professional valuers on the basis of market value. The revaluation has resulted in increasing the surplus on revaluation of fixed assets by Rs. 1,814.219 million. HBL properties of Sri Lanka and Singapore branches were revalued on October 1, 2010 and December 30, 2010 by A. Y. Daniel & Son and CB Richard Ellis (Pte) Ltd. respectively, licensed valuers, on market value basis. These revaluations have resulted in a surplus of Rs. 13.458 million and Rs. 139.447 million respectively in Sri Lanka and Singapore. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

	(Rupees in '000)
Land	7,098,854
Building including related machinery	2,827,488

The movement in surplus on revaluation of properties is given in note 19.1 to these financial statements.



### 10.6 Details of disposal of fixed assets

The information relating to disposal of fixed assets in aggregate having book value exceeding Rs. 250,000 or cost exceeding Rs. 1 million (whichever is lower), is required to be disclosed as part of the financial statements by the State Bank of Pakistan is given in Annexure III and is an integral part of these financial statements.

10.7 At December 31, 2011 carrying value of properties and equipment retired from active service and held for disposal purposes amounted to Rs. 142.998 million (2010: Rs. 154.291 million). The cost / Valuation of fully depreciated properties and equipment that are still in the Group's use, as at the above date, amounted to Rs. 4,450.289 million (2010: Rs. 4,023.830 million).

### 11. DEFERRED TAX ASSET

#### **Deductible temporary differences on**

- recognised tax losses
- provision against investments
- provision against doubtful debts & Off-balance sheet
- liabilities written back under sec. 34(5) of the ITO
- provision against others
- revaluation of investments

Note	2011 (Rupees in '000)	2010
	561,549	720,579
	96,475	1,113,227
	6,144,996	6,957,566
	972,498	1,035,294
	116,810	201,302
19.2	233,699	457,129
	<u>8,126,027</u>	<u>10,485,097</u>

#### **Taxable temporary differences on**

- fixed assets

(850,139) (912,894)

#### **Net deferred tax asset recognised by the Group**

7,275,888 9,572,203

### 11.1 Movement in temporary differences during the year

	Balance As at January 1, 2010	Recognised in profit or loss	Recognised in equity	Balance As at December 31, 2010	Recognised in profit or loss	Recognised in equity	Other Movement*	Balance as at December 31, 2011
	------(Rupees in '000)-----							
<b>Deductible temporary differences on</b>								
- recognised tax losses	851,147	(108,740)	(21,828)	720,579	(176,009)	24,012	(7,033)	561,549
- provision against investments	1,103,633	9,594	-	1,113,227	(1,016,752)	-	-	96,475
- provision against doubtful debts & Off-balance sheet	6,542,642	414,924	-	6,957,566	(812,570)	-	-	6,144,996
- provision against others	201,997	(695)	-	201,302	(84,492)	-	-	116,810
- liabilities written back under sec. 34(5) of the ITO	1,103,187	(67,893)	-	1,035,294	(62,796)	-	-	972,498
- revaluation of investments	379,556	-	77,573	457,129	-	(223,430)	-	233,699
<b>Taxable temporary differences on</b>								
- fixed assets	(976,218)	75,664	(12,340)	(912,894)	62,755	-	-	(850,139)
	<u>9,205,944</u>	<u>322,854</u>	<u>43,405</u>	<u>9,572,203</u>	<u>(2,089,864)</u>	<u>(199,418)</u>	<u>(7,033)</u>	<u>7,275,888</u>

\* This adjustment include movement due to consolidation of Habibsons Bank limited.

## 12. OTHER ASSETS

	Note	2011 (Rupees in '000)	2010
Income / mark-up accrued in local currency		14,721,650	15,697,468
Income / mark-up accrued in foreign currency		1,215,755	838,033
Advances, deposits, advance rent and other prepayments		1,452,380	1,452,229
Advances against murabaha		-	57,686
Advance taxation (payments less provisions)		10,462,407	8,041,881
Receivable from defined benefit plans		63,080	-
Stationery and stamps on hand		41,684	37,986
Accrued income		161,954	155,303
Unrealised gain on forward foreign exchange contract	12.2	1,154,950	869,966
Non-banking assets acquired in satisfaction of claims [market value Rs. 2,008.437 million (2010: Rs. 2,808.221 million)]		1,811,130	2,569,285
Receivable from National Savings Centre / Clearing in transit		11,300,092	4,561,473
Receivable from SBP		1,358,841	-
Other non banking assets *		427,873	427,463
Dividend receivable		31,118	30,407
Others		920,126	636,715
		<u>45,123,040</u>	<u>35,375,895</u>
Provision held against other assets	12.1	<u>(314,337)</u>	<u>(455,888)</u>
		<u>44,808,703</u>	<u>34,920,007</u>

\* Non banking assets on which buy back option period has not yet expired.

### 12.1 Provision against other assets

Opening balance	455,888	528,527
(Reversal) / charge for the year	(111,873)	105,422
Write off	(29,501)	(208,847)
Other movement	(4,500)	29,500
Exchange adjustment	4,323	1,286
Closing balance	<u>314,337</u>	<u>455,888</u>

12.2 Unrealised loss on foreign exchange contracts amounting to Rs. 870.376 (2010: Rs. 385.633 million) has been grossed up from unrealised gain on foreign exchange contracts and shown as part of other liability.

## 13. BILLS PAYABLE

	2011 (Rupees in '000)	2010
In Pakistan	13,087,411	9,326,503
Outside Pakistan	807,091	448,590
	<u>13,894,502</u>	<u>9,775,093</u>



14. BORROWINGS	Note	2011 (Rupees in '000)	2010
In Pakistan		27,761,453	32,416,997
Outside Pakistan		<u>11,712,217</u>	<u>8,042,863</u>
		<u>39,473,670</u>	<u>40,459,860</u>
<b>14.1 Particulars of borrowings</b>			
In local currency		27,761,453	32,416,997
In foreign currency		<u>11,712,217</u>	<u>8,042,863</u>
		<u>39,473,670</u>	<u>40,459,860</u>
<b>14.2 Details of borrowings</b>			
<b>Secured</b>			
Borrowings from State Bank of Pakistan under:			
- Export refinance scheme	}	18,182,197	20,515,415
- Long term financing facility - locally manufactured and imported plant & machinery		4,204,722	4,212,938
- Long term finance - export oriented projects		1,774,534	3,224,605
Repurchase agreement borrowings		-	714,039
		<u>24,161,453</u>	<u>28,666,997</u>
<b>Unsecured</b>			
In Pakistan			
- Interbank call money borrowing	14.4	3,600,000	3,750,000
Outside Pakistan			
- Overdrawn nostro accounts	14.5	455,484	261,601
- Borrowings of overseas branches and subsidiaries		<u>11,256,733</u>	<u>7,781,262</u>
		<u>11,712,217</u>	<u>8,042,863</u>
		<u>15,312,217</u>	<u>11,792,863</u>
		<u>39,473,670</u>	<u>40,459,860</u>
<p>14.3 Borrowings from State Bank of Pakistan (SBP) under the export and export oriented projects refinance schemes of SBP are secured by the bank's cash and security balances held by SBP. These carry mark-up rates ranging from 9.7% to 11% per annum (2010: 8.2% to 9.5% per annum).</p> <p>14.4 These carry mark-up rates ranging from 9.7% to 13.05% per annum (2010: 12.7% to 12.83% per annum).</p> <p>14.5 Since, the Group operates in different countries, these carry varied mark-up rates as given by the external banks of respective countries.</p>			
<b>15. DEPOSITS AND OTHER ACCOUNTS</b>		<b>2011</b>	<b>2010</b>
		<b>(Rupees in '000)</b>	
<b>Customers</b>			
Fixed deposits		281,178,059	203,018,996
Savings chequing account		392,253,551	341,086,487
Current accounts - remunerative		1,694,058	1,725,974
Current accounts - non-remunerative		<u>240,687,417</u>	<u>186,234,235</u>
		915,813,085	732,065,692
<b>Financial institutions</b>			
Remunerative deposits		11,186,564	9,302,286
Non-remunerative deposits		<u>6,631,876</u>	<u>6,006,821</u>
		<u>17,818,440</u>	<u>15,309,107</u>
		<u>933,631,525</u>	<u>747,374,799</u>
<b>15.1 Particulars of deposits</b>			
In local currency		718,288,989	593,694,426
In foreign currency {including foreign currency deposits of domestic branches of Rs. 70,334.543 million (2010: Rs. 50,183.957 million)}		<u>215,342,536</u>	<u>153,680,373</u>
		<u>933,631,525</u>	<u>747,374,799</u>

## 16 SUB-ORDINATED LOAN

- 16.1 The Group has obtained loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million (2010: US \$ 50 million) equivalent to pak rupees 4,497.285 million (2010: 4,281.835 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 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.
- 16.2 During the year 2010, Habibsons Bank Limited has issued a subordinated loan of US \$ 6 million equivalent to pak rupees 538.815 million. This is repayable in the year 2020 and carries interest at LIBOR + 2.00%. The loan is subordinated to the claims of depositors and other creditors.

17. OTHER LIABILITIES	Note	2011 (Rupees in '000)	2010
Mark-up / return / interest payable in local currency		15,140,777	11,004,627
Mark-up / return / interest payable in foreign currency		684,177	381,067
Security deposits		386,452	344,435
Accrued expenses		7,047,146	3,522,495
Unrealised loss on forward foreign exchange contracts	12.2	870,377	385,633
Unclaimed dividends		55,969	26,384
Dividend payable		53,550	22,801
Provision for employees' compensated absences	33.2.8	1,720,577	1,591,125
Provision for post retirement medical benefits	33.2.3	2,399,600	2,162,309
Provision against off-balance sheet obligations	17.1	1,209,983	1,279,381
Branch adjustment account		2,885,557	1,109,561
Provision for staff retirement benefits		615,252	485,524
Payable to defined benefit plan		44,863	170,882
Amounts due to minority investors in funds consolidated by HBL		924,481	1,037,855
Provision for workers welfare fund		1,204,571	740,451
Unearned income		470,310	353,616
Qarza-e-Hasna Fund		346,913	349,106
Duties and taxes payable		836,501	798,929
Insurance payable		55,514	24,986
Reward point payable		40,352	23,067
Liability against trading of securities		266,772	5,000
Others		671,726	737,811
		<u>37,931,420</u>	<u>26,557,045</u>

### 17.1 Provision against off-balance sheet obligations

Opening balance	1,279,381	1,322,254
(Reversal) / charge for the year	(77,393)	19,465
Write off	(8,186)	(66,701)
Exchange adjustment	16,181	4,363
Closing balance	<u>1,209,983</u>	<u>1,279,381</u>

## 18. SHARE CAPITAL

### 18.1 Authorised capital

	2011 Number of shares in '000	2010 Number of shares in '000		2011 Number of shares in '000	2010 Number of shares in '000
	<u>1,380,000</u>	<u>1,380,000</u>	Ordinary shares of Rs. 10 each	<u>13,800,000</u>	<u>13,800,000</u>

### 18.2 Issued, subscribed and paid-up capital

	2011 Number of shares in '000	2010 Number of shares in '000		2011 Number of shares in '000	2010 Number of shares in '000
	690,000	690,000	Ordinary shares of Rs. 10 each	6,900,000	6,900,000
	412,068	311,880	Fully paid in cash	4,120,680	3,118,800
	<u>1,102,068</u>	<u>1,001,880</u>	Issued as bonus shares	<u>11,020,680</u>	<u>10,018,800</u>



### 18.3 Exchange translation reserve

This comprises all foreign currency differences arising from the translation of financial statements of foreign operations.

### 18.4 Statutory reserves

Every banking company incorporated in Pakistan is required to transfer 20% of their profits to a statutory reserve until the reserve equals share capital, thereafter 10% of the profits of the holding company are to be transferred to this reserve.

	Note	2011 (Rupees in '000)	2010
<b>18.5 Dividends</b>			
The following cash dividends and bonus shares were declared and paid / issued by the Bank:			
Cash dividend: Rs. 6.5 per share (2010: Rs. 6 per share)		<u>6,512,220</u>	<u>5,464,800</u>
Bonus share: 1 shares for every 10 shares held (2010: 1 share for every 10 shares held)		<u>1,001,880</u>	<u>910,800</u>
Interim cash dividend paid at Rs. 3 per share		<u>3,306,204</u>	
After December 31, 2011 the following dividends were proposed by the Directors for 2011. The dividends have not been provided for and there are no income tax consequences.			
Cash dividend: Rs. 4 per share		<u>4,408,272</u>	
Bonus share: 1 share for every 10 shares held		<u>1,102,068</u>	
<b>19. SURPLUS ON REVALUATION OF ASSETS - net of deferred tax</b>			
Surplus arising on revaluation of:			
- fixed assets	19.1	<u>8,342,382</u>	8,605,881
- investments	19.2	<u>(138,816)</u>	(409,825)
Surplus on revaluation of assets - net of deferred tax		<u>8,203,566</u>	<u>8,196,056</u>
<b>19.1 Surplus on revaluation of fixed assets</b>			
Surplus on revaluation of fixed assets as at January 1		9,476,539	9,512,531
Surplus on revaluation of bank's properties recognised during the year		-	152,905
Surplus realised on disposal of revalued properties during the year		(139,331)	-
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax		(124,168)	(122,783)
Related deferred tax liability of incremental depreciation charged during the year		(66,860)	(66,114)
Related deferred tax liability on disposal of revalued properties		(2,441)	-
Surplus on revaluation of fixed assets as at December 31		<u>9,143,739</u>	<u>9,476,539</u>
Less: related deferred tax liability on			
- revaluation as at January 1		870,658	924,432
- revaluation of bank's properties recognised during the year		-	12,340
- surplus realised on disposal of revalued properties during the year		(2,441)	-
- incremental depreciation charged during the year transferred to profit and loss account		(66,860)	(66,114)
		<u>801,357</u>	<u>870,658</u>
		<u>8,342,382</u>	<u>8,605,881</u>
<b>19.2 Surplus / (deficit) on revaluation of investments</b>			
Market Treasury Bills		611,824	(156,017)
Pakistan Investment Bonds		(197,281)	(1,160,607)
Sukuk and Euro Bonds		(834,680)	(241,318)
Listed Securities		157,497	583,555
NIT Units		7,089	10,963
Other Investments		(111,169)	96,470
		(366,720)	(866,954)
Deficit on revaluation of investment of associates		(5,795)	-
Related deferred tax asset		233,699	457,129
		<u>(138,816)</u>	<u>(409,825)</u>

20. CONTINGENCIES AND COMMITMENTS	2011 (Rupees in '000)	2010 (Rupees in '000)
<b>20.1 Direct credit substitutes - financial guarantees</b>		
Guarantees in favour of:		
- Government	354,078	359,428
- Financial institutions	318,596	23,776
- Others	<u>22,236,973</u>	<u>37,786,477</u>
	<u>22,909,647</u>	<u>38,169,681</u>
<b>20.2 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
- Government	1,604,813	1,644,786
- Financial institutions	636,292	94,145
- Others	<u>33,562,792</u>	<u>28,455,811</u>
	<u>35,803,897</u>	<u>30,194,742</u>
<b>20.3 Trade-related commitments</b>		
Credit cash	70,799,073	80,891,494
Credit documentary acceptances	23,706,700	8,048,267
Credit acceptances	<u>24,016,127</u>	<u>16,042,474</u>
	<u>118,521,900</u>	<u>104,982,235</u>
<b>20.4 Other contingencies</b>		
Claims against the Group not acknowledged as debts	<u>84,671,933</u>	<u>82,648,725</u>
<b>20.5 Commitments in respect of forward lending</b>		
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.		
<b>20.6 Commitments in respect of forward foreign and local exchange contracts</b>		
	2011	2010
	(Rupees in '000)	
Purchase	151,577,433	90,133,552
Sale	151,582,034	89,948,906
The above commitments have maturities falling within one year.		
<b>Commitments in respect of foreign currency options</b>		
Purchase	336,655	-
Sale	336,655	-
<b>Commitments in respect of cross currency swaps</b>		
Purchase	2,868,771	-
Sale	2,868,771	-
<b>Commitments in respect of foreign and local currency interest rate swaps</b>		
Purchase	482,551	371,092
Sale	329,801	371,092
<b>20.7 Commitments for acquisition of operating fixed assets / intangibles</b>		
	617,961	422,502



## 21 DERIVATIVE INSTRUMENTS

## 21.1 Product Analysis Counterparties

	2011					
	Interest Rate Swaps		FX Options		Cross Currency Swaps	
	No. of Contracts	Notional Principal* (Rupees in '000)	No. of Contracts	Notional Principal* (Rupees in '000)	No. of Contracts	Notional Principal* (Rupees in '000)
<b>With Banks for</b>						
Hedging	-	-	-	-	-	-
Market Making	1	329,801	8	336,655	3	2,868,771
<b>With other entities for</b>						
Hedging	-	-	-	-	-	-
Market Making	2	482,551	8	336,655	3	2,868,771
<b>Total</b>						
Hedging	-	-	-	-	-	-
Market Making	3	812,352	16	673,310	6	5,737,542

	2010					
	Interest Rate Swaps		FX Options		Cross Currency Swaps	
	No. of Contracts	Notional Principal* (Rupees in '000)	No. of Contracts	Notional Principal* (Rupees in '000)	No. of Contracts	Notional Principal* (Rupees in '000)
<b>Counterparties</b>						
<b>With Banks for</b>						
Hedging	-	-	-	-	-	-
Market Making	1	371,092	-	-	-	-
<b>With other entities for</b>						
Hedging	-	-	-	-	-	-
Market Making	1	371,092	-	-	-	-
<b>Total</b>						
Hedging	-	-	-	-	-	-
Market Making	2	742,184	-	-	-	-

\* At the exchange rate prevailing at the end of the reporting year.

## 21.2 Maturity Analysis

Remaining Maturity	2011				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			----- (Rupees in '000) -----		
Upto 1 month	2	63,238	(679)	679	-
1 to 2 Year	15	6,387,027	(31,490)	39,341	7,851
2 to 3 Years	4	62,916	(683)	683	-
3 to 5 Years	2	50,422	(202)	202	-
5 to 10 years	2	659,602	(15,309)	15,999	689
	<u>25</u>	<u>7,223,205</u>	<u>(48,363)</u>	<u>56,904</u>	<u>8,540</u>
Remaining Maturity	2010				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			----- (Rupees in '000) -----		
5 to 10 years	2	742,184	(9,496)	10,396	900
	<u>2</u>	<u>742,184</u>	<u>(9,496)</u>	<u>10,396</u>	<u>900</u>

21.3 During the year HBL has been granted the ADD status by SBP. Hence, it is now permissible for the Group to undertake market-making activities, which may include taking proprietary positions. The Group has strengthened its Derivative platform through acquisition of a leading international derivatives solution and skilled human resources. The derivative products include Foreign Currency Options (FXCO), Forward Rate Agreements (FRA), Interest Rate Swaps (IRS) and Cross Currency Interest Rate Swaps (CCIRS), as permitted by SBP. The Group fully understands the complexities involved and market depth for derivatives products. Therefore, these products are offered in line with the strict criteria set in the derivatives policy document.

22. MARK-UP / RETURN / INTEREST EARNED	2011	2010
	(Rupees in '000)	
<b><i>On loans and advances to</i></b>		
- Customers	55,322,841	54,385,837
- Financial institutions	335,189	371,165
<b><i>On investments</i></b>		
- Available-for-sale	37,401,697	22,779,461
- Held-for-trading	522,999	60,192
- Held-to-maturity	1,188,472	473,810
On deposits with financial institutions	787,159	690,287
On lendings to financial institutions	3,022,066	2,564,276
	<u>98,580,423</u>	<u>81,325,028</u>
<b>23. MARK-UP / RETURN / INTEREST EXPENSED</b>		
Deposits	37,971,786	30,793,996
Securities sold under repurchase agreement borrowings	789,508	324,847
Other short term borrowings	2,885,067	2,672,691
Long term borrowings	535,859	538,721
	<u>42,182,220</u>	<u>34,330,255</u>
<b>24. GAIN / (LOSS) ON SALE OF SECURITIES -NET</b>		
<i>Federal Government Securities</i>		
- Market treasury bills	300,689	107,094
- Pakistan investment bonds	(91,109)	25,826
- Other securities	566	1,150
Listed shares	<u>331,971</u>	<u>182,753</u>
	<u>542,117</u>	<u>316,823</u>
<b>25. OTHER INCOME</b>		
Incidental charges	2,074,577	2,105,707
Rent on lockers	373,805	270,247
Gain on sale of operating fixed assets	7,798	17,865
Rent on property	98,540	72,093
Bad debts recovered	34,472	151,892
Miscellaneous earnings	330,343	142,426
	<u>2,919,535</u>	<u>2,760,230</u>



26. ADMINISTRATIVE EXPENSES	Note	2011 (Rupees in '000)	2010
Salaries, allowances, etc.	26.3	15,291,879	12,979,505
Charge for defined benefit / contribution plan and other benefits		1,630,205	781,886
Non-executive directors' fees		13,700	14,500
Brokerage and commission		20,872	14,617
Rent, taxes, insurance, electricity, etc		2,877,099	2,301,375
Legal and professional charges		1,660,105	788,950
Communications		620,784	457,601
Repairs and maintenance		1,173,755	1,083,379
Stationery and printing		533,152	455,745
Auditors' remuneration	26.1	114,678	109,698
Advertisement and publicity		1,030,922	833,590
Amortisation	10.2	44,024	199,653
Depreciation	10.3	1,424,290	1,520,857
Entertainment		127,168	99,389
Travelling		369,407	291,899
Conveyance and motor car		111,030	103,893
Training		139,346	168,247
Security charges		764,834	694,099
Remittance charges		164,623	82,139
Donations	26.4	253,028	395,153
Documentation and processing charges		409,788	404,861
Others		659,272	471,924
		<u>29,433,961</u>	<u>24,252,960</u>

#### 26.1 Auditors' remuneration

Audit fee	3,682	3,682
Fee for interim review	3,350	3,350
Fee for audit of local branches of Habib Bank Limited	8,159	8,159
Special certifications / examinations and sundry advisory services	1,652	5,564
Out of pocket expenses	<u>3,202</u>	<u>3,022</u>
	20,045	23,777
Overseas subsidiaries / branches and domestic subsidiaries	<u>94,633</u>	<u>85,921</u>
	<u>114,678</u>	<u>109,698</u>

26.2 The Bank operates a short term employee benefit scheme which includes cash award / special bonus for all employees. Under this scheme, the bonus for all Executives, including the Chief Executive Officer is determined on the basis of employees' evaluation and the Bank's performance during the year. The aggregate amount determined for the eligible employees in respect of the above scheme relating to all Executives and for the Key Management Personnel of the Bank amounted to Rs. 607.803 million (2010: Rs. 524.883 million) and Rs. 424.793 million (2010: Rs. 376.988 million) respectively.

26.3 The bank has paid in addition to payments under the staff retirement funds, an amount of Rs. 170.181 million (2010: Rs. 210.782 million) to the staff retrenched during the year and in previous years.

26.4 Details of the donations in excess of Rs. 100,000 and above are given in Annexure IV.

#### 26.5 Benazir Employees' Stock Option Scheme

There is no liability of the bank to grant shares under this scheme and no impact on current or future cash flows of the Bank. The details of schemes are as under:

On August 14, 2009, the Government of Pakistan (GOP) launched Benazir Employees' Stock Option Scheme [the Scheme] for employees of certain State Owned Enterprises (SOEs) and non-State Owned Enterprises where GOP holds significant investments (non-SOEs). The scheme is applicable to permanent and contractual employees who were in employment of these entities on the date of launch of the Scheme, subject to completion of five years vesting period by all contractual employees and by permanent employees in certain instances.

The Scheme provides for a cash payment to employees on retirement or termination based on the price of shares of respective entities. To administer this scheme, GOP shall transfer 12% of its investment in such SOEs and non-SOEs to a Trust Fund created for the purpose by each of such entities. The eligible employees would be allotted units by each Trust Fund in proportion to their respective length of service and on retirement or termination, such employees would be

entitled to receive such amounts from Trust Funds in exchange for the surrendered units as would be determined based on market price for listed entities or break-up value for non-listed entities. The shares relating to the surrendered units would be transferred back to GOP.

The Scheme also provides that 50% of dividend related to shares transferred to the respective Trust Fund would be distributed amongst the unit-holder employees. The balance 50% dividend would be transferred by the respective Trust Fund to the Central Revolving Fund managed by the Privatization Commission of Pakistan for payment to employees against surrendered units. The deficit, if any, in Trust Funds to meet the re-purchase commitment would be met by GOP.

An employees trust to administer the scheme for Bank's employees was formed on October 26, 2010. However, the shares have not yet been transferred to the Trust.

The Scheme, developed in compliance with the stated GOP policy of empowerment of employees of State Owned Enterprises, need to be accounted for by the covered entities, including the Bank, under the provisions of amended International Financial Reporting Standard 2 Share Based Payments (IFRS 2). However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the SECP has granted exemption to such entities from the application of IFRS 2 to the Scheme. Had the exemption not been granted the staff costs of the Bank for the period would have been higher by Rs. 1,384 million, profit before taxation would have been lower by Rs. 1,384 million (earnings per share would have been lower by Rs. 1.26 per share) and, as the Scheme is fully funded by GOP, there would have been no impact on retained earnings / equity of the Group.

	2011 (Rupees in '000)	2010
<b>27. OTHER CHARGES</b>		
Penalties imposed by State Bank of Pakistan	<u>77,588</u>	<u>178,700</u>

#### 28 WORKERS WELFARE FUND

The Worker's Welfare Ordinance, 1971 has been amended vide Finance Act, 2008 by virtue of which the bank is now liable to pay WWF @ 2% of profit before tax as per accounts or declared income as per income tax return, whichever is higher.

	2011 (Rupees in '000)	2010
<b>29. TAXATION</b>		
For Pakistan - for the year - current	9,256,455	8,461,106
- deferred	1,500,736	(441,060)
For Pakistan - prior year - current	(412,996)	694,898
- deferred	589,128	8,693
For Overseas - for the year - current	1,202,921	1,237,677
- deferred	-	51,019
For Overseas - prior year - current	(147,868)	(65,177)
- deferred	-	58,494
	<u>11,988,376</u>	<u>10,005,650</u>

For the purpose of taxation overseas include Habib Bank Limited's branches in Azad Jammu & Kashmir region.

#### 29.1 Relationship between tax expense and accounting profit

Accounting profit for the current year	<u>34,321,398</u>	<u>27,040,030</u>
Tax on income @ 35% (2010: 35%)	12,012,489	9,464,011
- Reduced rate income	(244,271)	(224,497)
- Penalty imposed by SBP	27,155	62,545
- Prior year charge	193,003	703,591
Tax charge for the current year	<u>11,988,376</u>	<u>10,005,650</u>



- 29.2 The income tax returns of Habib Bank Limited have been submitted upto and including the bank's financial year 2010. The tax authorities have concluded the audit of years 2002 through 2010.

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 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 Act, 2010 certain amendments were 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 and 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.

As per Rule 8(A) of the Seventh Schedule, amounts provided for in tax year 2008 (December 2007) 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. 2.127 billion.

### 30. BASIC AND DILUTED EARNINGS PER SHARE

	2011 (Rupees in '000)	2010 (Rupees in '000)
Profit for the year attributable to equityholders of the Bank	<u>22,189,763</u>	<u>16,816,179</u>
	(Number)	
Weighted average number of ordinary shares	<u>1,102,068,000</u>	<u>1,102,068,000</u>
	(Rupees)	
Basic and diluted earnings per share	<u>20.13</u>	<u>15.26</u>

### 31. CASH AND CASH EQUIVALENTS

	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
Cash and balance with treasury banks	5	103,399,623	81,640,246
Balance with other banks	6	<u>47,349,505</u>	<u>37,413,185</u>
		<u>150,749,128</u>	<u>119,053,431</u>

### 32. STAFF STRENGTH

	(Number)	
Permanent	13,641	13,251
Others	20	18
Total staff strength	<u>13,661</u>	<u>13,269</u>

### 33. DEFINED BENEFIT PLANS AND OTHER BENEFITS

#### 33.1 Principal actuarial assumptions

The latest actuarial valuation for pension and gratuity schemes was carried out as at December 31, 2011 using the Projected Unit Credit Actuarial Cost Method and assuming that no indexation of pension will take place. The following significant assumptions were used for the valuation of these schemes:

	2011	2010
	-----Per annum-----	
Valuation discount rate	13%	13%
Expected rate of increase in salary level	11%	11%
Expected rate of return on funds invested	13%	13%

### 33.2 Pension, gratuity and benevolent fund schemes

33.2.1 Fair value of plan assets and present value of defined benefits obligations of these schemes as at December 31, 2011 are as follows:

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2011	2010	2011	2010	2011	2010	2011	2010
	----- (Rupees in '000) -----							
Fair value of plan assets	4,014,786	3,629,930	329,342	314,910	1,478,094	1,281,248	-	-
Present value of defined benefit obligation	(3,951,706)	(3,752,486)	(374,205)	(363,236)	(1,469,644)	(1,405,002)	-	-
Surplus / (deficit)	63,080	(122,556)	(44,863)	(48,326)	8,450	(123,754)	-	-
Present value of unfunded obligation	-	-	-	-	-	-	(2,455,614)	(2,244,246)
Unrecognised past service cost	-	-	-	-	87,294	138,027	56,014	81,937
Asset / (provision) recognised in the balance sheet	63,080	(122,556)	(44,863)	(48,326)	95,744	14,273	(2,399,600)	(2,162,309)

33.2.1.1 The surplus on benevolent fund has not been accounted for as this is a contributory scheme with contribution both from the employees and the Bank.

33.2.2 The following amounts have been charged / (credited) to the profit and loss account in respect of the above-referred schemes:

	Note	Pension		Gratuity		Benevolent		Post-employment medical benefits	
		2011	2010	2011	2010	2011	2010	2011	2010
		----- (Rupees in '000) -----							
Current service cost		40,660	40,648	10,984	620	18,915	18,389	21,460	20,475
Mark-up cost		472,479	497,077	44,436	43,628	176,042	186,281	281,158	283,442
Expected return on plan assets		(456,547)	(497,077)	(38,153)	(41,812)	(166,562)	(152,131)	-	-
Other movements	33.2.2.1	(242,228)	81,908	(20,730)	31,922	(61,318)	(92,898)	97,658	(54,334)
Contributions - employees		-	-	-	-	(24,274)	(23,924)	-	-
Charge / (reversal) for the year		(185,636)	122,556	(3,463)	34,358	(57,197)	(64,283)	400,276	249,583

Charge for the year is included in administrative expenses (note 26 to the financial statements) under 'Charge for defined benefit plans and other benefits' account head. A sensitivity analysis to estimate the impact of increase in medical costs has not been carried out and is not likely to have a material impact on Group's financial statements.

33.2.2.1 It represents net impact of actuarial (gain) / loss, past service cost recognized in current period.

### 33.2.3 Movement in amounts (receivable from)/payable to defined benefit plans

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2011	2010	2011	2010	2011	2010	2011	2010
	----- (Rupees in '000) -----							
Opening balance	122,556	(7,485,319)	48,326	(434,550)	(14,273)	73,934	2,162,309	2,072,460
Charge / (credit) for the year	(185,636)	122,556	(3,463)	34,358	(57,197)	(64,283)	400,276	249,583
Refund / (contributions) during the year	-	7,485,319	-	448,518	(24,274)	(23,924)	-	-
Benefits paid	-	-	-	-	-	-	(162,985)	(159,734)
Closing balance	(63,080)	122,556	44,863	48,326	(95,744)	(14,273)	2,399,600	2,162,309

33.2.4 The significant portion of the assets comprises of debt securities.



## 33.2.5 Movement of present value of defined benefit obligation

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2011	2010	2011	2010	2011	2010	2011	2010
	----- (Rupees in '000) -----							
Opening balance	(3,752,486)	(3,823,669)	(363,236)	(335,598)	(1,405,002)	(1,432,930)	(2,244,246)	(2,180,320)
Current service cost	(40,660)	(40,648)	(10,984)	(620)	(18,915)	(18,389)	(21,460)	(20,475)
Mark-up cost	(472,479)	(497,077)	(44,436)	(43,628)	(176,042)	(186,281)	(281,158)	(283,442)
Benefits paid	236,064	257,657	42,843	26,931	101,666	95,635	162,985	159,734
Other movements	77,855	351,251	1,608	(10,321)	28,649	136,963	(71,735)	80,257
Closing balance	<u>(3,951,706)</u>	<u>(3,752,486)</u>	<u>(374,205)</u>	<u>(363,236)</u>	<u>(1,469,644)</u>	<u>(1,405,002)</u>	<u>(2,455,614)</u>	<u>(2,244,246)</u>

## 33.2.6 Movement of fair value of plan assets

	Pension		Gratuity		Benevolent	
	2011	2010	2011	2010	2011	2010
	----- (Rupees in '000) -----					
Opening balance	3,629,930	11,308,988	314,910	770,148	1,281,248	1,170,236
Expected return on plan assets	456,547	497,077	38,153	41,812	166,562	152,131
Employer (excess contributions refund) / contribution	-	(7,485,319)	-	(448,518)	24,274	23,924
Employee contributions	-	-	-	-	24,274	23,924
Benefits paid	(236,064)	(257,657)	(42,843)	(26,931)	(101,666)	(95,635)
Actuarial gain / (loss) on plan assets	164,373	(433,159)	19,122	(21,601)	83,402	6,668
Closing balance	<u>4,014,786</u>	<u>3,629,930</u>	<u>329,342</u>	<u>314,910</u>	<u>1,478,094</u>	<u>1,281,248</u>

## 33.2.7 Actual return on plan assets

	Pension		Gratuity		Benevolent	
	2011	2010	2011	2010	2011	2010
	----- (Rupees in '000) -----					
Expected return on plan assets	456,547	497,077	38,153	41,812	166,562	152,131
Actuarial gain / (loss) on plan assets	164,373	(433,159)	19,122	(21,601)	83,402	6,668
Actual return on plan assets	<u>620,920</u>	<u>63,918</u>	<u>57,275</u>	<u>20,211</u>	<u>249,964</u>	<u>158,799</u>

## 33.2.8 Other benefits - Employee compensated absences

The liability of the Bank in respect of employee compensated absences as at December 31, 2011, amounted to Rs. 1,720.577 million (2010: Rs. 1,591.125 million). Provision for this balance is held by Bank.

The charge for the year amounting to Rs. 191.602 million (2010: Rs. 137.943 million) is included in administrative expenses (note 26 to these financial statements) under 'Charge for defined benefit plans and other benefits' account head.

## 34. DEFINED CONTRIBUTION PLAN

## Habib Bank Limited

## 34.1 Provident Fund

For employees hired on or after 1st January, 2002 and for those who did not opt for the Bank's Pension scheme introduced in 1977, the bank operates an approved Provident Fund under which both the Bank and employees contribute at following rates:

6% of the Basic Salary	For Executives & Officers
12% of the Basic Salary	For Clerical Staff
For Contractual Employees as per their Service Contracts.	

The staff who are covered by the Bank's Pension plan now also eligible for Provident fund benefits effective from April 04, 2005 by contributing 6% of the basic pay. Bank also makes equal contributions for these employees.

Payments are made to the employees on retirement, death, resignation and discharge as specified in the rules of the Fund.

The total assets of the Fund were Rs. 8,410.249 million as at December 31, 2009 (2008: Rs. 7,682.228 million) as per latest available audited financial statements.

#### 34.2 Subsidiary companies

#### 34.3 Habib Finance International Limited, Hongkong

Habib Finance International Limited, Hong Kong is maintaining the following two schemes for its employees.

##### Provident Fund

The company is required to contribute at 5% of salary of all of its employees, subject to a maximum contribution of HK \$ 1,000. Employees who earn HK \$ 5,000 or more per month are also required to contribute the same amount. Those who earn less than HK \$ 5,000 per month have an option to contribute to the fund.

##### Long Service Payment

The company is required to pay long service payment at 2/3rd of employee's last month's full wages or 2/3rd of HK \$ 22,500 whichever is lower, for every year of service. The maximum payment is the total amount of wages earned during the last 12 months or HK \$ 390,000 whichever is lower.

#### 34.4 Habib Allied International Bank Plc., United Kingdom

Habib Allied International Bank Plc (HAIB) is maintaining a defined contribution pension scheme for its employees. Employer's contribution is 6% of basic salary, whereas contribution from the employee is voluntary. HAIB also makes defined contribution towards personal pension plans of some of the staff members as per their terms of employment.

#### 34.5 Habibsons Bank Limited

Habibsons Bank Limited is maintaining a defined contribution pension scheme for its employees. Employer's contribution for employees of Habibsons Bank Limited is 5% of basic salary with a matching contribution from the scheme members.

#### 35. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Group President / Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	----- (Rupees in '000) -----					
Remuneration / fee of non executives directors	-	-	20,973	23,211	-	-
Managerial remuneration (including allowances)	21,720	19,888	-	-	3,915,353	3,053,294
Contribution to provident and benevolent fund	1,224	1,755	-	-	99,197	75,574
Medical	204	140	-	-	182,376	134,221
House-rent, maintenance, furnishing, others	1,940	613	-	-	-	-
Utilities	353	347	-	-	-	-
Conveyance	325	251	-	-	-	-
	<u>25,766</u>	<u>22,994</u>	<u>20,973</u>	<u>23,211</u>	<u>4,196,926</u>	<u>3,263,089</u>
Number of persons	<u>1</u>	<u>1</u>	<u>6</u>	<u>6</u>	<u>2,187</u>	<u>1,576</u>

The Chief Executive Officer and certain Executives are provided with free club memberships and the Chairman / Chief Executive Officer are also provided with free use of the Group's maintained cars in accordance with their entitlement.

In addition to the above, all executives, including Chief Executive Officer of the Bank are also entitled to certain short term employee benefits which are disclosed in note 26.2 to these financial statements.

#### 36. 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 company (refer note 8.4), associates of AKFED Group entities, employee benefit schemes (refer note 4.9) of the Group / related party, and members of the Key Management Personnel of the Group / related party, including both Executive and Non-Executive Directors.

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 9.9 to these financial statements.

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 year-end were as follows:

	2011				
	Directors	Key Management Personnel	Parent Group Entities	Subsidiary companies	Joint venture and associates
	-----Rs. in 000-----				
<b>Balance Sheet</b>					
Deposits	674,209	106,452	2,958,027	-	4,880,187
Borrowings	-	-	636,404	-	-
Investments	519,003	34,113	-	-	6,025,764
Markup / Other Receivable	66,691	471,406	-	-	178,229
Mark-up / Other Payable	14,328	2,124	163,994	-	109,943
Placements / Lendings	300,010	-	362,928	-	-
Overdrawn Nostro	17,920	-	622,334	-	479,556
Impairment provision	-	-	-	-	573,261
<b>Profit and Loss</b>					
Interest / Other Income	228,925	586,364	20,366	-	1,667,831
Interest / Other Expense	392,065	7,550	157,109	-	281,548
Dividend income	3,050	24,793	-	-	-
<b>Others</b>					
Other contingencies	164,238	62,422	103,044	-	-
Securities Held as custodian	53,700	92,730	3,715,550	945,000	29,132,800

	2010				
	Directors	Key Management Personnel	Parent Group Entities	Subsidiary companies	Joint venture and associates
	-----Rs. in 000-----				
<b>Balance Sheet</b>					
Deposits	2,997,481	125,447	1,851,336	-	3,885,232
Borrowings	-	-	570,200	-	-
Investments	618,072	28,613	-	-	4,063,086
Markup / Other Receivable	26,083	9,535	-	-	-
Mark-up / Other Payable	32,041	703	74,803	-	208,119
Placements / Lendings	881,885	-	171,273	-	238,513
Overdrawn Nostro	-	-	285,904	-	900,595
Impairment provision	-	-	-	-	573,261
<b>Profit and Loss</b>					
Interest / Other Income	158,568	1,105,359	23	-	1,079,755
Interest / Other Expense	283,512	3,651	135,437	-	519,676
Dividend income	5,500	29,229	-	-	-
<b>Others</b>					
Other contingencies	684,396	-	58,210	-	-
Securities Held as custodian	53,700	64,650	3,295,400	745,000	14,068,410

36.1 The donations given in note 26 of these financial statements include donations to HBL Foundation. The Foundation was formed to promote development and advance the welfare and well being of the people with the object of improving their quality of life.

### 36.2 Key Management Personnel

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

	2011 (Rupees in '000)	2010
Managerial remuneration (including allowances)	1,225,839	1,034,657
Contribution to provident and benevolent fund	20,261	18,689
Medical	30,309	26,384
	<u>1,276,409</u>	<u>1,079,730</u>
Number of persons	<u>166</u>	<u>153</u>

In addition Key Management Personnel are paid short-term employee benefits which are disclosed in note 26.2.

36.3 The comparative figures have been re-arranged and reclassified for comparison purposes.

### 37. RISK MANAGEMENT FRAMEWORK

Risk taking is central to banking activity. Success in any venture in general and the banking business in particular is dependent on how well an institution manages its risk. The main goal is to minimize risk and be proactive in efficiently identifying, assessing, measuring (as far as possible), monitoring and controlling risks to an organisation's strategic advantage.

As Group plans to continue diversifying its business and ensuring sustained growth and profitability amidst increasing competitiveness and challenges in the banking industry and works to implement the comprehensive risk management, capital adequacy and internal control standards enforced by the State Bank of Pakistan (SBP). To this end, the Bank has a well defined Risk Management Framework comprising of an effective risk management strategy, risk management structure and a policy framework.

#### Risk Management Structure

The Bank's risk management approach is underpinned by an appropriate risk management structure. This structure is represented by various lines of defence in order to ensure that the risks are managed effectively on an entity level:

Supervisory Level	Board of Directors	Board Risk Management Committee and Board Audit Committee
	Management	ALCO, Management Risk Committee, Credit Policy Committee, Operational Risk Management Committee etc.
Risk Initiation - Operating Units/ Risk Owners		All Business and Support Groups i.e. Corporate, Investment Banking, Commercial, Retail, Treasury, IT, HR, etc.
Risk Control		Risk Management Group, Compliance
Risk Assurance		Internal Audit and Business Risk Review

#### Board of Directors (BoD)

The Board provides strategic direction for effective risk management and has the ultimate responsibility for managing all material risks that the Bank is/ may be exposed to, and for ensuring that the required human resources, culture, practices and systems are in place to address such risks. In discharging these responsibilities for overall risk management, the Board has established the Board Risk Management Committee.

#### Board Risk Management Committee (BRMC)

BRMC is a Board level oversight committee and is the highest risk related policy making and oversight body for all types of risks faced by the Bank, notably credit, market, liquidity and operational risks. It comprises of four directors of the Board (majority being non-executive) including the Chairman of the Board. The Committee is supported by the Chief Risk Officer (CRO) and other executives as required. BRMC assists the Board in determining the strategic direction of the Bank by providing them the risk perspective.

#### Asset & Liability Committee (ALCO)

ALCO is the focal point for defining and leading the entire asset liability management process within the Bank. In this regard, ALCO also has responsibility for oversight of all market and liquidity risks. It is chaired by the President/CEO and has representation from all business groups, CRO, Chief Financial Officer (CFO), and Head of Market Risk.

#### Management Risk Committee (MRC)

Management Risk Committee is a senior management body headed by the CRO that mainly covers risks on integrated basis from an overall perspective of strategy, policy/ framework development, assessment/ measurement tools, MIS framework and Basel II implementation, whereas routine aspects in relation to such risks are managed by designated risk departments. In addition, the Bank has other senior management committees i.e., CPC, ALCO and ORMC to manage more specifically the credit, market and liquidity and operational risks respectively.

#### Credit Policy Committee (CPC)

Credit Policy Committee, at the functional level, has the responsibility to translate the decisions about strategy into framework, policies and standards for the origination, approval, disbursement, monitoring and reporting of credits and also to participate with the business line management in setting up the Bank's target portfolio profile and limits and in monitoring alignment with the risk strategies, appetite and limits etc. approved by the competent authorities. The CPC is chaired by the CRO with the members comprising of at least one Senior Credit Officer from Corporate Banking, Investment Banking, Commercial and Retail Lending and at least one representative each from the Credit Policy and Credit Administration Divisions within RMG. - The risk management function is independent of business group / divisions.

#### Operational Risk Management Committee (ORMC)

Operational Risk Management Committee is a senior management body responsible for operational risk management within the Bank both from the strategic as well as tactical perspectives. The Committee has representation from Risk Management Group, Operations, Global Compliance Group and Finance, being headed by the CRO as its Chairman.



### Risk Management Group (RMG)

For effective implementation of the risk management framework, a dedicated function i.e. Risk Management Group operates within the Bank, independent from the other business units, support functions as well as the Internal Audit function. RMG is responsible to perform the functions pertaining to development and oversight of risk strategy, policy, framework, methodology and MIS. The Group is headed by a designated Group Executive i.e. CRO reporting to the President but with an independent reporting line to BRMC so as to enable reporting of all material risk issues and matters, particularly in relation to exceptional circumstances where there may be a conflict/ disagreement with the President.

RMG has designated separate personnel/departments to cater to the following significant areas with each of them reporting to the CRO:

- Credit Policy
- Credit Approvals
- Credit Administration
- Portfolio Management
- Consumer Risk Management
- Market & Liquidity Risk Management

The Operational Risk Management Division (ORMD) operates within Global Compliance Group (GCG) independent from the other business units, support functions as well as the Internal Audit function. The Head ORMD is one of the members of the Operational Risk Committee which is chaired by the CRO. In this manner, issues and matters concerning operational risk are independently communicated to CRO so as to enable knowledge of the Bank-wide risks. The key issues are reported to BRMC through the forum of the Operational Risk Committee and/ or MRC, where applicable. In addition, the Head ORMD has a dotted reporting relationship with the CRO.

#### *Internal Audit & Business Risk Review (BRR)*

BRR and Internal Audit provide independent assessment to the Board and the senior management of the Bank's risk management framework that includes policies, procedures, methodologies, reporting, and systems.

### Credit Risk Management

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with the agreed contract terms. Credit risk makes up the largest part of the Bank's risk exposures. The Bank's credit process is guided by centrally established credit policies, rules and guidelines continuing a close-to-the market approach with an aim to maintain a well-diversified portfolio of credit risk, which produces a reliable and consistent return.

Credit risk policies are established by the Credit Policy Committee/ CRO and approved by the Board through the Board Risk Management Committee. The Bank has a system of checks and balances in place around the extension of credit that are:

- An independent risk management function.
- Approval rules based on three-initial system and co-guarantor approach.
- An independent audit and risk review function.

The Credit Risk Strategy reflects Bank's tolerance for risk i.e. credit risk appetite and the level of expected profitability. This, as a minimum, reflects Bank's strategy to grant credit based on various products, economic sectors, client segments etc., target markets giving due consideration to risks specific to each target market.

Salient features of our credit approval process are delineated below:

- Every extension of credit to any counterparty requires approval by the personnel having credit approval authorities.
- All Business groups must apply consistent standards in arriving at their credit decisions.
- Every material change to a credit facility requires approval at the appropriate/ pre-defined level.
- Credit approval authority is assigned to individuals according to their qualifications and experience.

Certain groups of exposures/ facilities are managed under product programs, which are approved by various levels of approving authorities as defined in the Credit Policy Manual. Each product program contains detailed credit criteria, regulatory, compliance and documentation requirements.

The Bank uses internal risk rating system to supplement the credit risk measurement procedure for all Corporate and Commercial, and most of the Retail exposures. All in all, over 90% of all exposures are rated. All obligor risk ratings are validated and approved by authorized personnel belonging to both the business units and risk management function. The Bank is currently involved with external consultants to introduce more effective internal risk rating framework that will be aligned with the Foundation Internal Ratings Based (FIRB) approach of the Basel II accord.

Stress testing on the credit portfolio is performed according to the guidelines issued by SBP at defined frequency

The disbursement, administration and monitoring of credit facilities are managed by Credit Administration Departments (CAD) linked to various business units and operates under the CRO as part of the Risk Management Group. CAD is also responsible for collateral/ documents management.

The Bank monitors its credit portfolio on continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of the Bank's credit culture and is intended to ensure that greater attention is paid to such exposure. The Bank has an established Remedial Assets function to focus on expediting recoveries from problem credits. The function

negotiates with problem borrowers and recommends restructuring and/ or rescheduling of stuck up loans to the senior management. Cases where the possibilities of economically viable means of recovery are exhausted, legal proceedings are initiated. The Bank follows the guidelines of SBP or the Regulators under which it is operating in other countries for classification/ provisioning/ write-off of problem loans.

### Country Risk

The Bank has in place a comprehensive Country Risk Policy. Limits are established for Cross Border Transfer Risk (CBTR) based on the ratings assigned by the internationally recognized rating agencies. The limit utilization is controlled at Head office level and country risk exposures are reported to Board Risk Management Committee at defined frequency. CBTR arises from exposure to counterparties in Countries other than the country where exposure is located. The Bank defines transfer risk as arising where an otherwise solvent and willing debtor is unable to meet its obligation due to the imposition of governmental or regulatory controls restricting its ability to perform under its obligation towards its foreign liabilities.

### Market Risk Management

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and equity prices. It emanates from the trading activities mainly carried out by Treasury and investments/ structural positions housed in banking book.

Market risk at the Bank level is managed by the Risk Management Group under the supervision of ALCO supported by the Treasury Middle Office (TMO). The Bank carries a limited amount of market risk the bulk of which is located in the banking book stemming from the mismatches in structural assets and liabilities positions.

#### Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship. Substantial part of the Bank's assets and liabilities are subject to floating rates hence are re-priced simultaneously. However, the Bank is exposed to interest rate risk as a result of mismatches on a relatively small part of its assets and liabilities. The major portion related to this risk is reflected in the banking book owing to the retail activities and investments qualifying for statutory reserve requirements. The overall potential impact of the mismatches on the earnings in short term and economic value of the portfolio in the long term is not material and is being managed within the tolerance limits approved by the Board. The Bank uses simulation and duration gap models to measure and monitor the interest rate sensitivity on the potential earnings and the Bank's economic value of equity.

#### Foreign Exchange Risk

The Bank's assets are typically funded in the same currency as that of the business transacted to eliminate foreign exchange exposure. However, the Bank is obliged to maintain a reasonable open position in various currencies resulting from the sizeable trade related transactions handled across the Bank. Foreign exchange risks are controlled and monitored through the limits approved by ALCO within the overall limit advised by SBP. The regulatory limit for foreign exchange is relatively small compared to the size of the Bank; hence, the risk generated through foreign exchange activities is insignificant.

End-of-the-day positions are marked to market daily according to the guidelines of SBP and sensitivity is conducted in line with the internal market risk policy of the Bank. The intra- day positions are managed by treasury through stop loss/ dealers limits.

### Liquidity Risk Management

Liquidity risk is the risk that the Bank will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets, or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management. The Bank follows a comprehensive liquidity risk management policy duly approved by ALCO and the Board. The policy stipulates maintenance of various ratios, funding preferences, and evaluation of Bank's liquidity under normal and crisis situation (stress testing). To comply with the policy, the Bank has also conducted a behavioral study on its demand deposits to evaluate their stickiness, which may not reflect in their maturity profile. Such evaluation forms part of the liquidity management process to realistically project the reliance on such funding sources. As a result of close monitoring and strict policy towards reliance on core deposit, the Bank has been able to avoid concentration/ reliance on volatile deposit in its books. A comprehensive contingency plan to deal with crisis situation is also in place.

### Operational Risk Management (ORM)

In line with the approved Operational Risk Management Policy, Bank has instituted an Operational Risk Management Division (ORMD). Operational Risk Management Policy and a detailed ORM Framework has been prepared and implemented. Operational Risk Coordinators (ORCs) have been assigned from more than 20 departments of the Bank being responsible for implementation of the ORM Framework in coordination with ORMD. The Bank has been granted permission/certification by SBP to move to the more advanced approach i.e. Alternative Standardised Approach (ASA) under Basel II with a capital floor i.e., operational risk charge under ASA should not fall below a certain percentage of operational risk capital charge calculated under BIA for initial 3 years . Capital floors are 2011-2012 90%, 2013 80%, and 2014 70%. HBL is the first Pakistani bank to achieve this milestone.



The Bank's ORM framework and practices address all the significant areas of ORM within the Bank including Risk Control Self Assessment (RCSA), Key Risk Indicators, Operational Loss Data Management, Operational Risk Reporting, Capital Calculation etc. Detailed RCSA exercises are conducted at regular intervals across the Bank, the results of which are continually evaluated against the losses. Operational loss data collection and evaluation has been underway since 2009. The Bank has also established Key Risk Indicators (KRI) and is monitoring them at regular intervals. Operational risk reports are regularly submitted to the senior management.

#### Risk Management alignment with Basel II project

The Bank is one of the few financial institutions in Pakistan planning to adopt the Foundation Internal Ratings Based (FIRB) Approach for credit risk and Internal Models Approach (IMA) for Market Risk (Alternate Standardized Approach for operational risk has already been adopted) under the Basel II Framework and consequently enhancing the quality of risk management processes, methodologies, systems and reporting. In order to undertake the Basel II initiatives in a systematic manner and in full compliance with the related requirements, the Bank has sought the services of an international firm. Bank's Basel II Program includes a number of aspects involving organizational alignments, enhancements in the existing policies, procedures, processes and controls, development of new risk frameworks, existing system upgrades, selection and deployment of various risk applications, development of advanced risk management tools and methodologies and introduction of improved risk reporting MIS. A lot of effort has already gone into aligning Bank's risk management structure, policies, procedures and systems with the requirements of Basel II while the remaining initiatives are currently being undertaken in an integrated manner with plans for completion in due course. The Bank also realizes the criticality of quality human resource and is already in the process of augmenting the skill set by necessary induction and training measures to enable undertaking of planned initiatives and consistently implementing the new risk management framework in line with Basel II. Once completed, the Bank expects to achieve a number of significant business benefits from its Basel II program with more robust risk management and internal control environment in line with international best practices.

During the year, the Bank has embarked upon deployment of a comprehensive suite of advanced systems for Loan Origination, Credit Administration/ Collateral Management, and Internal Risk Ratings as part of FIRB related initiatives for credit risk.

### 38. CAPITAL ADEQUACY

The risk weighted assets to capital ratio is calculated in accordance with the State Bank's guidelines on capital adequacy.

#### 38.1 Regulatory Capital Base

##### Tier 1 Capital

- 1.1 Fully Paid-up capital
- 1.2 General Reserves as disclosed on the Balance Sheet
- 1.3 Un-appropriated / un-remitted profits (net of accumulated losses, if any)
- 1.4 Non-controlling interest

2011  
2010  
(Rupees in '000)

11,020,680	10,018,800
22,258,534	20,138,569
56,980,697	47,467,704
1,236,290	1,212,656
91,496,201	78,837,729

##### Deductions:

- 1.5 Book value of intangibles
- 1.6 Other deductions (50% of the amount)  
Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet

1,824,905	46,266
537,031	534,236
2,361,936	580,502

##### Total eligible Tier 1 capital

89,134,265 78,257,227

##### Supplementary Capital

##### Tier 2 Capital

- 2.1 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets
- 2.2 Revaluation Reserves up to 45%
- 2.3 Foreign Exchange Translation Reserves
- 2.4 Subordinated debt -upto maximum of 50% of Total eligible Tier 1 capital

1,003,924	1,517,976
3,947,050	3,874,313
9,887,221	9,216,986
2,337,729	2,569,101
17,175,924	17,178,376

##### Total tier 2 Capital

##### Deductions:

- 2.5 Other deductions (50% of the amount as calculated on CAP 2)  
Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet

537,031	534,236
537,031	534,236

##### Total eligible Tier 2 Capital

16,638,893 16,644,140

##### Total Eligible Capital (1+2)

105,773,158 94,901,367

### 38.2 Risk-Weighted Exposures

#### Credit Risk

Claims on:

Other sovereigns, GOP, PG, SBP other than PKR  
PSE's  
Banks  
Corporates  
Retail Portfolio  
Secured by residential property  
Past due loans  
Listed Equity investments  
Unlisted equity investments  
Investments in fixed assets  
Other assets

	Capital Requirements		Risk Weighted Assets	
	2011	2010	2011	2010
------(Rupees in '000)-----				
	3,275,269	2,988,274	32,752,685	29,882,739
	1,188,253	1,456,274	11,882,531	14,562,738
	2,589,932	2,425,629	25,899,315	24,256,286
	32,682,451	32,322,951	326,824,510	323,229,514
	4,585,850	4,702,956	45,858,502	47,029,559
	231,560	213,245	2,315,598	2,132,447
	1,221,217	1,249,783	12,212,171	12,497,834
	730,297	616,212	7,302,971	6,162,115
	348,779	212,500	3,487,793	2,125,000
	1,734,275	1,610,902	17,342,749	16,109,024
	1,301,246	1,537,685	13,012,460	15,376,852
	49,889,129	49,336,411	498,891,285	493,364,108
	2,090,860	853,798	26,135,744	10,672,480
	318,920	288,554	3,986,504	3,606,923
	3,565,395	3,267,978	44,567,439	40,849,727
	5,975,175	4,410,330	74,689,687	55,129,130
	8,288,439	8,069,813	103,605,490	100,872,660
	64,152,743	61,816,554	677,186,462	649,365,898

#### Market Risk

Interest Rate Risk  
Equity Position Risk  
Foreign Exchange Risk

#### Operational Risk - Restricted to 90% of Basis Indicator Approach

#### Capital Adequacy Ratio

Note

Rupees in '000

Total eligible regulatory capital held	38.1	105,773,158	94,901,367
Total risk weighted assets	38.2	677,186,462	649,365,898
Capital adequacy ratio		15.62%	14.61%

### 38.3 Types of Exposures and ECAI's used

Exposures	JCR-VIS	PACRA	MOODYs	STANDARD & POOR	ECA SCORES
PSE's	✓	✓			
Banks	✓	✓	✓		
Corporates	✓	✓			
Sovereigns and GOP other than PKR			✓	✓	✓

### 38.4 Credit Exposures subject to Standardised approach

Exposures	Rating Category	2011			2010		
		Amount Outstanding	Deduction CRM	Net exposure	Amount Outstanding	Deduction CRM	Net exposure
------(Rupees in '000)-----							
Cash and cash equivalent		17,165,871	-	17,165,871	12,480,615	-	12,480,615
Claims on GOP in PKR		132,309,047	26,204,154	106,104,893	83,883,374	31,709,220	52,174,154
Claims on SBP arising out of statutory obligations		13,466,775	-	13,466,775	9,479,805	-	9,479,805
Claims on other sovereigns and GOP other than PKR	1	10,439,242	-	10,439,242	3,104,908	-	3,104,908
Claims on other sovereigns and GOP other than PKR	2	1,610,563	-	1,610,563	6,294,105	-	6,294,105
Claims on other sovereigns and GOP other than PKR	3	13,664,896	-	13,664,896	11,009,351	-	11,009,351
Claims on other sovereigns and GOP other than PKR	4,5	16,322,210	-	16,322,210	13,274,603	-	13,274,603
Claims on other sovereigns and GOP other than PKR	6	5,791,303	-	5,791,303	5,767,872	-	5,767,872
Claims on other sovereigns and GOP other than PKR	Unrated	594,553	-	594,553	1,204,601	-	1,204,601
PSE	1	11,089,525	-	11,089,525	1,794,695	104,852	1,689,843
PSE	Unrated	102,420,433	41,799,397	60,621,036	174,127,227	100,697,329	73,429,898
Banks	1	43,397,907	1,107,538	42,290,369	47,660,274	2,779,361	44,880,913
Banks	2,3	8,493,447	745,778	7,747,669	6,675,189	956,065	5,719,124
Banks	Unrated	11,552,219	-	11,552,219	11,073,358	-	11,073,358
Bank - three months or less	1,2,3	75,133,725	45,024,313	30,109,412	59,475,350	28,853,279	30,622,071
Bank - three months or less	Unrated	13,405,588	-	13,405,588	11,988,084	-	11,988,084
Corporate	1	56,138,205	307	56,137,898	21,974,907	-	21,974,907
Corporate	2	25,004,441	-	25,004,441	19,673,107	1,500	19,671,607
Corporate	3,4	638,924	-	638,924	2,062,568	-	2,062,568
Corporate	5,6	21,907	-	21,907	-	-	-
Corporate	Unrated	346,592,640	7,388,999	339,203,641	346,949,238	6,706,338	340,242,900
Retail		65,744,862	3,936,498	61,808,364	66,090,330	2,395,287	63,695,043
Residential mortgage		6,615,995	-	6,615,995	6,092,707	-	6,092,707
Past due loans		12,241,939	-	12,241,939	12,429,994	-	12,429,994
Listed equity and regulatory capital instruments		7,302,971	-	7,302,971	6,162,115	-	6,162,115
Unlisted equity		2,325,195	-	2,325,195	1,416,667	-	1,416,667
Fixed assets		17,342,749	-	17,342,749	16,109,024	-	16,109,024
Other assets		13,012,460	-	13,012,460	15,376,852	-	15,376,852
		1,029,839,592	126,206,984	903,632,608	973,630,920	174,203,231	799,427,689



### 38.5 Capital management

The Group's lead regulator State Bank of Pakistan (SBP) sets and monitors capital requirements for the Bank and the Group as a whole. In addition the Group's branches and subsidiaries outside Pakistan are also required to follow capital requirements applicable in respective countries.

In implementing current capital requirements, SBP requires the Group to maintain a prescribed ratio of 10% total capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the methodology provided by SBP which takes account of specific and general market risk, capital charge for interest rate risk and equity price risk using the maturity method.

The Group's regulatory capital is analysed into three tiers:

- Tier I capital, which includes ordinary share capital, capital and other reserves except exchange translation reserve, non-controlling interest, and retained profit.
- Tier II capital includes revaluation surplus, exchange translation reserve, subordinated debt and impairment allowances not kept against identified debts. The revaluation surplus is allowable as tier II capital upto 45% of the reserve. Subordinated debt is limited to 50% of Tier I capital.
- Tier III supplementary capital consists of short term subordinated debt solely for the purpose of meeting a proportion of the Capital requirements for market risks. The bank currently does not have any Tier III capital.

Total of Tier II and III capital is limited to Tier I capital.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

On and off-balance sheet assets in the banking book are broken down to various asset classes for calculation of credit risk. Ratings for assets are applied using various ECAI's and aligned with appropriate risk buckets. Collaterals if any, are used as an outflow adjustment. Risk weights notified, are applied at net adjusted exposure. Collaterals used include: Government of Pakistan guarantees for advances and investments in PSE / GOP, deposits / margins, lien on deposits, saving certificates and lending of securities (repo & reverse repo).

### 39. CURRENCY RISK

	2011			
	Assets	Liabilities	Off-balance sheet items	Net currency exposure
	----- (Rupees in '000) -----			
Pakistan Rupee	803,360,024	725,883,779	(12,456,695)	65,019,550
United States Dollar	133,141,900	132,810,199	5,338,924	5,670,625
Great Britain Pound	66,458,560	63,614,875	3,991,646	6,835,331
UAE Dirham	31,124,285	26,630,807	3,901,969	8,395,447
Japanese Yen	339,398	3,652	(323,920)	11,826
Euro	24,437,616	21,218,238	(283,865)	2,935,513
Other Currencies	80,692,422	59,805,667	(168,059)	20,718,696
	<u>1,139,554,205</u>	<u>1,029,967,217</u>	<u>-</u>	<u>109,586,988</u>
	2010			
	Assets	Liabilities	Off-balance sheet items	Net currency exposure
	----- (Rupees in '000) -----			
Pakistan Rupee	660,566,652	613,553,506	8,413,225	55,426,371
United States Dollar	104,091,381	93,523,733	(10,516,843)	50,805
Great Britain Pound	35,590,006	31,585,922	2,036,965	6,041,049
UAE Dirham	29,050,651	23,841,881	2,825,936	8,034,706
Japanese Yen	682,350	81,960	(625,717)	(25,327)
Euro	18,501,381	15,415,037	(660,754)	2,425,590
Other Currencies	76,216,982	50,446,593	(1,472,812)	24,297,577
	<u>924,699,403</u>	<u>828,448,632</u>	<u>-</u>	<u>96,250,771</u>





41. YIELD / INTEREST RATE RISK

41.1 Interest rate risk management

A high proportion of loans and advances portfolio of the Group comprises of working capital finances which are re-priced on a three monthly basis. The Group's interest / mark-up rate risk is limited since the majority of customers deposits are retrospectively re-priced on a six monthly basis on the profit and loss sharing principles.

2011

	Effective yield / interest rate	Total	Exposed to yield / interest risk (Rupees in '000)										Not exposed to yield / interest risk
			Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years		
<b>On-balance sheet assets</b>													
<b>Financial assets</b>													
Cash and balances with banks		103,399,623	20,526,204	1,714,244	1,398,767	-	216,718	-	-	-	-	-	79,543,690
Balances with other banks	1.61%	47,349,505	27,851,043	5,719,592	3,903,276	1,472,681	-	-	-	-	-	-	8,402,913
Lendings to financial institutions	11.90%	41,581,029	3,586,218	1,310,351	2,630,016	34,054,444	-	-	-	-	-	-	-
Investments	11.18%	418,604,147	28,764,677	37,473,593	114,407,418	137,924,700	16,504,763	49,116,082	7,400,487	14,962,577	1,934,581	5,685,134	
Advances	12.36%	457,367,656	56,679,413	193,840,828	129,610,326	30,923,792	13,073,278	8,395,399	57,333,365	1,934,581	-	8,184,445	
Other assets		32,893,915	-	-	-	-	-	-	-	-	-	-	32,893,915
		1,101,195,875	137,407,555	240,058,608	251,949,803	204,375,618	29,794,759	14,760,115	58,108,311	13,133,852	16,897,158	134,710,097	
<b>Financial liabilities</b>													
Bills payable		13,894,502	-	-	-	-	-	-	-	-	-	-	13,894,502
Borrowings from financial institutions	8.61%	39,473,670	12,850,798	10,007,230	10,071,903	566,973	607,992	940,697	1,252,037	3,176,040	-	-	
Deposits and other accounts	4.40%	933,631,525	64,347,183	120,344,765	425,118,743	71,751,944	12,280,876	14,389,506	16,228,613	49,794,045	44,893,683	114,482,167	
Sub-ordinated loans	2.03%	5,036,100	-	-	4,497,285	-	-	-	-	-	-	538,815	
Other liabilities		36,726,849	-	-	-	-	-	-	-	-	-	36,726,849	
		1,028,762,646	77,197,981	130,351,995	439,687,931	72,318,917	12,888,869	15,330,203	17,480,650	52,970,085	44,893,683	165,642,333	
<b>On-balance sheet gap</b>		72,433,229	60,209,574	109,706,613	(187,738,128)	132,056,701	16,905,890	(570,088)	40,627,661	(39,836,233)	(27,996,525)	(30,932,236)	
<b>Non - financial net assets</b>		37,153,759	-	-	-	-	-	-	-	-	-	-	
<b>Total net assets</b>		109,586,988	-	-	-	-	-	-	-	-	-	-	
<b>Off-balance sheet financial instruments</b>													
Foreign and local currency forward purchases		151,577,433	48,061,498	46,908,970	48,863,185	7,743,781	-	-	-	-	-	-	
Foreign and local currency forward sales		(151,582,034)	(48,004,893)	(46,916,439)	(48,984,506)	(7,676,197)	-	-	-	-	-	-	
Foreign Currency Options Purchases		336,655	103,493	207,951	25,211	-	-	-	-	-	-	-	
Foreign Currency Options Sales		(336,655)	(103,493)	(207,951)	(25,211)	-	-	-	-	-	-	-	
Cross Currency Swaps- Long Position		2,868,771	-	-	-	-	2,868,771	-	-	-	-	-	
Cross Currency Swaps- Short Position		(2,868,771)	-	-	-	-	(2,868,771)	-	-	-	-	-	
Interest rate swaps - long position		482,551	-	-	-	-	152,750	-	-	329,801	-	-	
Interest rate swaps - short position		(329,801)	-	-	-	-	-	-	-	(329,801)	-	-	
<b>Off-balance sheet gap</b>		148,149	56,605	(7,469)	(121,321)	67,584	152,750	-	-	-	-	-	
<b>Total yield / interest risk sensitivity gap</b>		60,266,179	109,699,144	(187,859,449)	132,124,285	17,058,640	(570,088)	40,627,661	(39,836,233)	(27,996,525)	(30,932,236)		
<b>Cumulative yield / interest risk sensitivity gap</b>		60,266,179	169,965,323	(17,894,125)	114,230,160	131,288,800	130,718,712	171,346,373	131,510,140	103,513,615	72,581,379		



## 2010

	Effective yield / interest rate	Total	Exposed to yield / interest risk							Not exposed to yield / interest risk		
			Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years		Over five to ten years	
<b>On-balance sheet assets</b>												
<b>Financial assets</b>												
Cash and balances with banks	1.38%	81,640,246	16,109,585	4,308,126	1,517,783	91,989	-	206,588	-	-	-	59,406,175
Balances with other banks		37,413,185	19,939,956	8,556,812	4,424,624	283,170	-	-	-	-	-	4,208,623
Lending to financial institutions	12.97%	30,339,344	4,220,830	12,335,638	11,327,389	2,455,487	-	-	-	-	-	-
Investments	11.48%	254,909,116	7,833,600	106,880,065	58,763,778	32,950,807	10,170,238	11,967,576	5,934,256	4,769,209	9,629,470	6,010,117
Advances	13.15%	459,750,012	51,363,961	201,973,218	144,387,491	21,312,829	7,553,265	5,611,185	10,406,881	6,018,432	2,480,231	8,642,519
Other assets		25,425,897	-	-	-	-	-	-	-	-	-	25,425,897
		889,477,800	99,467,932	334,053,859	220,421,065	57,094,282	17,723,503	17,785,349	16,341,137	10,787,641	12,109,701	103,693,331
<b>Financial liabilities</b>												
Bills payable		9,775,093	-	-	-	-	-	-	-	-	-	9,775,093
Borrowings from financial institutions	8.04%	40,459,860	11,972,291	9,666,336	11,342,878	367,946	807,266	823,468	2,718,827	2,759,970	878	-
Deposits and other accounts	4.56%	747,374,799	71,380,921	85,109,034	354,275,636	48,836,265	8,104,215	8,213,207	43,146,940	23,047,191	18,794,076	86,467,314
Sub-ordinated loans	2.03%	4,281,835	-	-	4,281,835	-	-	-	-	-	-	-
Other liabilities		25,816,594	-	-	-	-	-	-	-	-	-	25,816,594
		827,708,181	83,353,212	94,775,370	369,900,349	49,204,211	8,911,481	9,036,675	45,865,767	25,807,161	18,794,954	122,059,001
<b>On-balance sheet gap</b>		61,769,619	16,114,720	239,278,489	(149,479,284)	7,890,071	8,812,022	8,748,674	(29,524,630)	(15,019,520)	(6,685,253)	(18,365,670)
<b>Non - financial net assets</b>		34,481,152	-	-	-	-	-	-	-	-	-	-
<b>Total net assets</b>		96,250,771	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet financial instruments</b>												
Foreign and local currency forward purchases		90,133,552	41,800,918	34,323,173	10,907,751	3,073,220	28,490	-	-	-	-	-
Foreign and local currency forward sales		(89,948,906)	(41,856,951)	(34,177,209)	(10,857,527)	(3,057,219)	-	-	-	-	-	-
Interest rate swaps - long position		371,092	-	-	-	-	-	-	-	371,092	-	-
Interest rate swaps - short position		(371,092)	-	-	-	-	-	-	-	(371,092)	-	-
<b>Off-balance sheet gap</b>		184,646	(56,033)	145,964	50,224	16,001	28,490	-	-	-	-	-
<b>Total yield / interest risk sensitivity gap</b>		16,058,687	239,424,453	(149,429,060)	7,906,072	8,840,512	8,748,674	(29,524,630)	(15,019,520)	(6,685,253)	(18,365,670)	
<b>Cumulative yield / interest risk sensitivity gap</b>		16,058,687	255,483,140	106,054,080	113,960,152	122,800,664	131,549,338	102,024,708	87,005,188	80,319,935	61,954,265	

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

#### 42. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments are based on quoted market prices and unquoted investments are estimated using the break-up value / cost. Fair value of these investments has been disclosed in note 8.

Fair value of fixed term loans, other assets and other liabilities cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Group's accounting policy as stated in note 4.6.

The maturity and repricing profile and effective rates are stated in notes 40 and 41 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently repriced.

#### 43. CONCENTRATION OF CREDIT AND DEPOSITS

##### 43.1 Concentration of credit risk

Out of the total financial assets of Rs. 1,089,281.087 million, financial assets which were subject to credit risk amounted to Rs. 1,072,115.275 million. The Group's major credit risk is concentrated in the textile sector.

The following financial assets are guaranteed by the Federal / overseas Governments or State Bank of Pakistan / other Central Banks and enterprises owned / controlled by the Government:

	2011 (Rupees in '000)
<b>Guaranteed by the Government of Pakistan</b>	
Investments	359,599,929
Loans and advances	31,128,060
Mark-up receivable	<u>3,504,047</u>
	394,232,036
<b>Financial assets receivable from enterprises owned / controlled by government</b>	
Loans and advances	43,268,181
Financial assets receivable from State Bank of Pakistan	47,406,283
Financial assets receivable from National Bank of Pakistan	14,674,621
Mark-up receivable	<u>100,551</u>
	105,449,636
Guaranteed by Overseas Governments	19,229,229
Financial assets receivable from other central banks	<u>25,511,748</u>
	<u>544,422,649</u>

##### 43.2 Segment by class of business

	2011					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	21,064,671	4.18	3,319,870	0.36	9,593,622	5.41
Agribusiness	30,348,721	6.03	7,350,958	0.79	1,292,469	0.73
Textile	71,676,065	14.24	5,022,534	0.54	13,537,454	7.64
Cement	10,130,466	2.01	451,916	0.05	2,283,061	1.29
Sugar	4,530,544	0.90	701,248	0.08	313,444	0.18
Shoes and leather garments	1,934,341	0.38	910,631	0.10	389,755	0.22
Automobile and transportation equipment	11,983,574	2.38	5,149,247	0.55	3,002,694	1.69
Financial	27,329,151	5.43	2,804,824	0.30	25,304,214	14.28
Insurance	340,194	0.07	3,862,571	0.41	3,374	-
Electronics and electrical appliances	15,885,664	3.16	491,998	0.05	2,696,180	1.52
Production and transmission of energy	52,868,446	10.50	21,365,170	2.29	10,148,442	5.73
Education & medical	1,854,452	0.37	3,776,187	0.40	434,529	0.25
Telecommunication	12,983,403	2.58	2,863,047	0.31	1,221,297	0.69
Printing & publishing	2,866,891	0.57	179,403	0.02	674,086	0.38
Construction	2,634,577	0.52	2,430,194	0.26	1,351,985	0.76
Mining & quarrying	322,946	0.06	37,565	-	6,353	-
Food, tobacco and beverages	10,176,347	2.02	1,396,850	0.15	2,841,426	1.60
Public / Government - note 43.2.1	74,396,242	14.78	143,409,240	15.36	56,247,566	31.74
Whole sale & retail trade	50,034,577	9.94	20,184,798	2.16	8,068,666	4.55
Metal and allied	7,116,190	1.41	863,523	0.09	2,242,329	1.27
Individual	33,269,371	6.61	543,704,503	58.24	1,309,596	0.74
Farming, cattle and dairy	1,569,502	0.31	475,372	0.05	1,010,665	0.57
Trust funds and non profit organization	1,663,051	0.33	20,725,288	2.22	15,200	0.01
Others	56,474,317	11.22	142,154,588	15.22	33,247,037	18.75
	<u>503,453,703</u>	<u>100.00</u>	<u>933,631,525</u>	<u>100.00</u>	<u>177,235,444</u>	<u>100.00</u>



	2010					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	24,639,500	4.90	5,754,618	0.77	7,704,472	4.44
Agribusiness	32,335,926	6.44	7,093,765	0.95	1,715,940	0.99
Textile	84,017,429	16.72	4,688,963	0.63	16,272,470	9.39
Cement	14,560,022	2.90	384,852	0.05	1,888,252	1.09
Sugar	3,013,868	0.60	579,819	0.08	1,183,454	0.68
Shoes and leather garments	2,276,177	0.45	887,277	0.12	325,469	0.19
Automobile and transportation equipment	8,852,286	1.76	3,142,829	0.42	2,891,860	1.67
Financial	24,008,590	4.78	5,657,334	0.76	39,926,907	23.03
Insurance	815,942	0.16	2,857,477	0.38	332	-
Electronics and electrical appliances	13,673,347	2.72	5,640,262	0.75	2,386,675	1.38
Production and transmission of energy	49,580,234	9.87	11,857,839	1.59	12,363,888	7.13
Education & medical	1,757,766	0.35	3,794,705	0.51	672,985	0.39
Telecommunication	17,618,474	3.51	5,123,549	0.69	1,655,118	0.95
Printing & publishing	3,301,499	0.66	154,755	0.02	774,862	0.45
Construction	2,829,497	0.56	1,877,621	0.25	508,088	0.29
Mining & quarrying	267,196	0.05	84,804	0.01	1,813	-
Food, tobacco and beverages	8,836,289	1.76	1,040,540	0.14	2,680,052	1.55
Public / Government - note 43.2.1	89,057,391	17.72	108,520,694	14.52	52,979,203	30.56
Whole sale & retail trade	44,709,791	8.90	39,940,188	5.34	7,214,024	4.16
Metal and allied	8,275,029	1.65	839,836	0.11	1,412,569	0.81
Individual	34,522,827	6.87	452,445,783	60.54	300,226	0.17
Farming, cattle and dairy	1,309,874	0.26	486,731	0.07	173,200	0.10
Trust funds and non profit organization	1,325,141	0.26	16,967,757	2.27	7,633	-
Others	30,861,542	6.15	67,552,801	9.03	18,307,166	10.58
	502,445,637	100.00	747,374,799	100.00	173,346,658	100.00

## 43.2.1 Public / Government sector

	2011					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	-	-	243,888	0.17	-	-
Agribusiness	51,392,146	69.08	1,675,356	1.17	-	-
Cement	-	-	97	-	-	-
Sugar	-	-	-	-	-	-
Automobile and transportation equipment	7,968,675	10.71	2,896,057	2.02	940,244	1.67
Financial	1,818,238	2.44	2,536,633	1.77	-	-
Insurance	-	-	7,436,816	5.19	39,204	0.07
Production and transmission of energy	7,281,271	9.79	39,612,019	27.62	1,859,536	3.31
Education & medical	143,559	0.19	29,114,716	20.30	232,962	0.41
Telecommunication	251,578	0.34	1,075,933	0.75	546,110	0.97
Printing & publishing	-	-	18,454	0.01	-	-
Construction	-	-	36,112	0.03	-	-
Foods, tobacco & beverages	149,651	0.20	182	-	-	-
Metal and allied	1,136,591	1.53	1,521,734	1.06	-	-
Farming, cattle and dairy	-	-	302	-	-	-
Defence	3,148,732	4.23	5,833,653	4.07	37,156,412	66.06
Ports and shipping	-	-	6,223,668	4.34	149,880	0.27
Others	1,105,801	1.49	45,183,620	31.50	15,323,218	27.24
	74,396,242	100.00	143,409,240	100.00	56,247,566	100.00

	2010					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	-	-	408,599	0.38	-	-
Agribusiness	55,101,195	61.87	1,643,113	1.51	1,989,455	3.76
Cement	-	-	97	-	-	-
Sugar	141,585	0.16	-	-	-	-
Automobile and transportation equipment	9,543,557	10.72	2,824,538	2.60	889,548	1.68
Financial	4,510,918	5.07	2,269,361	2.09	-	-
Insurance	-	-	7,968,832	7.34	3,193	0.01
Production and transmission of energy	9,869,277	11.08	21,714,052	20.01	5,814,293	10.97
Education & medical	119,341	0.13	24,426,271	22.51	25,720	0.05
Telecommunication	55,651	0.06	2,710,124	2.50	3,479	0.01
Printing & publishing	-	-	21,850	0.02	-	-
Construction	30,000	0.03	58,967	0.05	-	-
Foods, tobacco & beverages	-	-	342	-	-	-
Metal and allied	1,119,746	1.26	794,993	0.73	-	-
Farming, cattle and dairy	-	-	92	-	-	-
Defence	1,500,000	1.68	3,113,730	2.87	41,772,563	78.85
Ports and shipping	-	-	3,573,872	3.29	641,356	1.21
Others	7,066,121	7.94	36,991,861	34.10	1,839,596	3.46
	<b>89,057,391</b>	<b>100.00</b>	<b>108,520,694</b>	<b>100.00</b>	<b>52,979,203</b>	<b>100.00</b>

43.2.2 Segment by sector	2011					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	74,396,242	14.78	143,409,240	15.36	56,247,566	31.74
Private	429,057,461	85.22	790,222,285	84.64	120,987,878	68.26
	<b>503,453,703</b>	<b>100.00</b>	<b>933,631,525</b>	<b>100.00</b>	<b>177,235,444</b>	<b>100.00</b>

	2010					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	89,057,391	17.72	108,520,694	14.52	52,979,203	30.56
Private	413,388,246	82.28	638,854,105	85.48	120,367,455	69.44
	<b>502,445,637</b>	<b>100.00</b>	<b>747,374,799</b>	<b>100.00</b>	<b>173,346,658</b>	<b>100.00</b>

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

	2011		2010	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	------(Rupees in '000)-----			
Chemical and pharmaceuticals	588,937	565,147	645,996	511,949
Agribusiness	3,504,294	1,742,441	3,156,736	1,894,460
Textile	20,338,473	17,458,763	18,509,138	14,433,726
Cement	2,264,266	1,091,291	700,057	700,057
Sugar	359,686	323,847	432,604	388,385
Shoes and leather garments	173,363	149,052	312,110	256,190
Automobile and transportation equipment	1,904,943	1,547,418	1,318,736	1,298,751
Financial	1,824,098	1,510,518	4,516,249	4,516,249
Electronics and electrical appliances	2,800,712	2,646,244	2,801,640	2,449,721
Production and transmission of energy	2,051,445	2,048,973	1,808,972	1,790,617
Education & medical	-	-	759	759
Telecommunication	261,359	261,359	261,457	261,457
Printing & publishing	204,199	199,266	199,507	155,164
Construction	1,386,804	997,980	1,418,109	662,835
Mining & quarrying	527,214	435,858	425,002	423,823
Food, tobacco and beverages	528,331	481,121	443,495	342,310
Whole sale & retail trade	5,789,742	5,327,429	4,876,944	4,212,370
Metal and allied	912,416	894,518	678,406	604,201
Individual	1,443,106	1,001,621	2,841,863	1,387,976
Farming, cattle and dairy	308,288	101,700	245,820	101,624
Trust funds and non profit organization	2,500	2,500	5,174	5,174
Others	9,374,886	5,520,078	8,008,869	4,779,851
	<b>56,549,062</b>	<b>44,307,124</b>	<b>53,607,643</b>	<b>41,177,649</b>



## 43.3.1 Segment by sector

	2011		2010	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	----- (Rupees in '000) -----			
Private	54,274,011	42,406,083	48,614,107	36,184,113
Public / Government	2,275,051	1,901,041	4,993,536	4,993,536
	<u>56,549,062</u>	<u>44,307,124</u>	<u>53,607,643</u>	<u>41,177,649</u>

## 44. SEGMENT DETAIL WITH RESPECT TO BUSINESS ACTIVITIES

	2011					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	Total
	----- (Rupees in million) -----					
Net interest income - External	(21,560)	43,749	28,791	5,181	237	56,398
Inter segment revenue - net	60,122	(35,697)	(28,096)	-	3,671	-
Non-funded income	4,689	2,533	1,735	4,288	1,538	14,783
Net interest and non-mark-up income	43,251	10,585	2,430	9,469	5,446	71,181
Total expenses including provision (excluding impairment)	12,874	6,496	132	7,235	10,037	36,774
Impairment against investments	-	-	69	-	17	86
Inter segment administrative cost	7,409	1,482	213	816	(9,920)	-
Total expenses including provision	20,283	7,978	414	8,051	134	36,860
Profit before tax	22,968	2,607	2,016	1,418	5,312	34,321
Segment assets (gross)	122,896	343,647	420,349	237,327	64,100	1,188,319
Segment non-performing loans	3,804	27,287	-	15,410	10,048	56,549
Segment provision required including general provision	6,802	27,080	410	11,696	2,777	48,765
Segment liabilities including equity	698,638	105,430	6,549	162,048	166,889	1,139,554
Segment return on net liability / asset	12.45%	13.01%	10.76%	4.90%	6.29%	-
Segment cost of funds	5.40%	10.40%	9.94%	1.09%	0.87%	-

  

	2010					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	Total
	----- (Rupees in million) -----					
Net interest income - External	(15,802)	44,367	13,575	4,247	608	46,995
Inter segment revenue - net	47,105	(36,369)	(12,555)	-	1,819	-
Non-funded income	4,101	2,678	2,162	3,430	391	12,762
Net interest and non-mark-up income	35,404	10,676	3,182	7,677	2,818	59,757
Total expenses including provision (excluding impairment)	12,457	6,531	145	5,508	7,937	32,578
Impairment against investments	-	-	(136)	-	275	139
Inter segment administrative cost	6,557	1,311	189	722	(8,779)	-
Total expenses including provision	19,014	7,842	198	6,230	(567)	32,717
Profit / (loss) before tax	16,390	2,834	2,984	1,447	3,385	27,040
Segment assets (gross)	105,022	430,553	204,722	183,656	46,020	969,973
Segment non-performing loans	8,587	27,928	-	16,871	222	53,608
Segment provision required including general provision	6,636	22,726	498	12,867	2,547	45,274
Segment liabilities including equity	560,160	105,357	9,776	113,979	135,427	924,699
Segment return on net liability / asset	11.89%	12.76%	9.84%	4.95%	4.55%	-
Segment cost of funds	5.03%	10.21%	8.01%	1.08%	0.57%	-

#### 45. TRUST ACTIVITIES

The Group is not engaged in any significant trust activities. However, Habib Bank Limited acts as security agent for arrangement and distribution of the term finance certificates and also engages in investment portfolio services as custodian on behalf of its customers.

#### 46. GEOGRAPHICAL SEGMENT ANALYSIS

	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- (Rupees in '000)-----			
Pakistan	31,902,447	913,812,330	64,866,384	146,227,059
Asia Pacific (including South Asia)	922,376	52,899,052	14,303,278	6,627,562
Europe	239,128	95,132,480	11,592,600	7,501,315
North America	34,449	4,387,510	1,782,304	869,506
Middle East	498,454	59,319,383	12,812,120	13,194,779
Others	724,544	14,003,450	4,230,302	2,815,223
	<u>34,321,398</u>	<u>1,139,554,205</u>	<u>109,586,988</u>	<u>177,235,444</u>

  

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- (Rupees in '000)-----			
Pakistan	24,087,140	750,589,721	56,021,703	150,208,735
Asia Pacific (including South Asia)	782,452	46,374,081	13,080,131	5,808,845
Europe	712,051	60,020,902	10,908,195	6,748,219
North America	100,599	1,843,541	1,633,210	1,579,758
Middle East	708,129	53,643,465	10,945,894	7,853,778
Others	649,659	12,227,693	3,661,638	1,147,323
	<u>27,040,030</u>	<u>924,699,403</u>	<u>96,250,771</u>	<u>173,346,658</u>

#### 47. BALANCE SHEET OF ISLAMIC BANKING BRANCH AND FIRST HABIB BANK MODARABA

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

	Note	2011 (Rupees in '000)	2010
<b>ASSETS</b>			
Cash and balances with treasury banks		607,326	327,375
Balances with other banks		16,606	16,400
Lending to Financial Institution		1,000,000	100,000
Investments - net		12,648,185	6,670,855
Murabaha	47.1	116,096	51,727
Ijarah	47.2	782,434	829,663
Musharaka		34,851	79,167
Other assets		532,851	403,367
Operating fixed assets		577	1,024
		<u>15,738,926</u>	<u>8,479,578</u>
<b>LIABILITIES</b>			
Bills payable		43	60
Borrowings from financial institutions		2,000,000	1,500,000
Deposit and other accounts		11,944,594	5,726,476
Other liabilities		625,437	342,072
		<u>14,570,074</u>	<u>7,568,608</u>
		<u>1,168,852</u>	<u>910,970</u>
<b>NET ASSETS</b>			
<b>REPRESENTED BY</b>			
Islamic Banking Fund / Certificate Capital		647,072	647,072
Reserves		222,963	208,568
Unappropriated profit		352,687	172,840
		<u>1,222,722</u>	<u>1,028,480</u>
Deficit on revaluation of assets		(53,870)	(117,510)
		<u>1,168,852</u>	<u>910,970</u>

The commitment in respect of letters of credit of Islamic Banking branch of Habib Bank Limited amounted to Rs. 69.376 million (2010: Rs. 50.966 million).



- 47.1 This represents assets sold under Murabaha agreement.  
47.2 This represents fixed assets given to customers under Ijarah agreement.

	2011	2010
	(Rupees in '000)	
<b>48. PROFIT AND LOSS ACCOUNT OF ISLAMIC BANKING BRANCH AND FIRST HABIB BANK MODARABA</b>		
Mark-up / return / profit earned	2,086,280	724,257
Mark-up / return / profit expended	1,214,450	136,575
Net mark-up / interest income	871,830	587,682
Provision against doubtful lease rentals	76	16,203
Depreciation on assets given on Ijarah	111,658	224,273
Loss on impairment of assets given on Ijarah	223,118	126,737
Provision against diminution in value of investments	30,511	-
Net mark-up / interest income after depreciation and provisions	506,467	220,469
<b>Non mark-up / interest income</b>		
Fee, commission and brokerage income	12,468	3,119
Dividend income	1,003	1,337
Other income	29,128	14,133
Total non-mark-up / interest income	42,599	18,589
<b>Non mark-up / interest expense</b>		
Administrative expenses	240,084	100,214
<b>Net profit for the year</b>	<b>308,982</b>	<b>138,844</b>

**49. CHARITY FUND**

Opening balance	23	-
Additions during the year	69	23
Payments / Utilization	(23)	-
<b>Closing balance</b>	<b>69</b>	<b>23</b>

49.1 **Remuneration to Shariah Advisor / Board** 1,440 1,254

**50. DATE OF AUTHORISATION FOR ISSUE**

These consolidated financial statements were authorised for issue in the Board of Directors meeting held on February 24, 2012.

**51. GENERAL**

51.1 These financial statements have been prepared in accordance with the revised format for financial statements of Banks issued by the State Bank of Pakistan through BSD Circular No. 4 dated February 17, 2006.

# Details of Domestic Investments - Consolidated

## For the year ended December 31, 2011

# Annexure I

### 1 Particulars of investments held in listed companies

1.1 Ordinary shares	Number of shares held	Paid-up value per share (Rupees)	Total paid-up value	Cost (Rupees in '000)	Market value	Credit Ratings Short Term
United Bank Limited	2,160,240	10	21,602	133,074	113,175	A-1+
MCB Bank Limited	457,763	10	4,578	78,077	61,615	A1+
NIB Bank Limited	13,000,000	10	130,000	108,493	22,490	A1+
Nishat Chunian Limited	4,092,847	10	40,928	95,001	73,098	N/A
DG Khan Cement Limited	1,205,000	10	12,050	25,117	22,931	N/A
Lucky Cement Limited	1,225,000	10	12,250	99,196	91,924	N/A
Hub Power Company Limited	1,050,000	10	10,500	31,948	35,911	A1+
Kot Addu Power Company Limited	9,265,480	10	92,655	405,811	382,850	A-1+
Pakistan Petroleum Limited	850,482	10	8,505	155,703	143,153	N/A
Attock Petroleum Limited	378,972	10	3,790	157,430	156,326	N/A
TRG Pakistan Limited	16,017,000	10	160,170	160,170	19,541	N/A
Engro Chemical Limited	2,058,747	10	20,587	261,494	190,846	A1+
Fauji Fertilizer Limited	1,100,313	10	11,003	172,228	164,541	N/A
National Refinery Limited	741,233	10	7,412	231,626	179,890	A1+
Pakistan State Oil Company Limited	753,077	10	7,531	264,586	171,107	A1+
Arif Habib Investments Limited	452,304	10	4,523	47,115	6,495	A1
Central Insurance Corporation Limited	1,313	10	13	-	64	N/A
TPL Direct Insurance Limited	522,686	10	5,227	5,227	5,269	N/A
Mehran Sugar Mills Limited	464	10	5	-	23	N/A
Clariant Pakistan Limited	15	10	0	-	2	N/A
Glaxo Smithkline Pakistan Limited	583	10	6	-	39	N/A
Dawood Hercules Limited	6,300	10	63	-	267	N/A
Engro Foods Limited	105,495	10	1,055	2,638	2,384	N/A
Fatima Fertilizer Company Limited	1,000,000	10	10,000	23,156	22,920	A1
Dawood Lawrencepur Limited	3,121	10	31	-	98	N/A
Asset Investment Bank Limited	524,810	10	5,248	52,481	-	
			<b>2,510,571</b>	<b>1,866,958</b>		

### 1.2 Ordinary shares held by HBL mutual funds

Oil & Gas Development Company Limited	537,805	10	5,378	73,918	81,542	A-1+
Habib Bank Limited	1,077,366	10	10,774	156,440	113,915	A-1+
Fauji Fertilizer Company Limited	1,205,725	10	12,057	92,410	180,304	N/A
Pakistan Oilfields Limited	612,003	10	6,120	144,337	212,028	N/A
Pakistan Petroleum Limited	1,138,971	10	11,390	163,854	191,712	N/A
Engro Corporation Limited	619,802	10	6,198	82,610	57,456	A-1+
Hub Power Company Limited	4,296,093	10	42,961	137,496	146,926	A-1+
United Bank Limited	1,504,120	10	15,041	87,164	78,801	A-1+
Fauji Fertilizer Bin Qasim Limited	1,447,642	10	14,476	46,258	61,423	N/A
Nishat Chunian Power Limited	3,509,058	10	35,091	38,480	44,739	A-1+
National Bank of Pakistan	509,750	10	5,098	27,079	20,925	A-1+
MCB Bank Limited	758,052	10	7,581	136,069	102,034	A-1+
D.G.Khan Cement Limited	2,850,928	10	28,509	63,570	54,253	N/A
Kot Addu Power Company Limited	965,734	10	9,657	40,574	41,267	A-1+
Nishat Mills Limited	1,605,250	10	16,053	85,532	63,025	A-1+
Allied Bank Limited	199,523	10	1,995	10,761	10,748	A-1+
Attock Petroleum Limited	237,958	10	2,380	75,850	98,158	N/A
Lucky Cement Limited	977,221	10	9,772	75,828	73,331	N/A
Nishat Power Limited	1,106,487	10	11,065	16,780	14,667	A-1+
Pakistan State Oil Company Limited	334,200	10	3,342	89,307	75,934	A-1+
National Refinery Limited	66,645	10	666	14,720	15,836	A-1+
Engro Foods Limited	120,000	10	1,200	3,001	2,712	N/A
Lotte Pakistan Limited	320,126	10	3,201	4,733	2,968	N/A
Orix Leasing Limited	117,810	10	1,178	551	748	A-1+
Pakistan Telecommunication Company Limited	657,831	10	6,578	11,560	6,835	N/A
Packages Limited	40,000	10	400	12,686	8,385	A-1+
GlaxoSmithKline Limited	162,611	10	1,626	18,302	10,908	N/A
Pak Suzuki Motors Limited	95,654	10	957	10,534	5,646	N/A
Dawood Hercules Limited	42,000	10	420	1,680	1,780	N/A
Bank Al Habib Limited	357,316	10	3,573	8,956	10,936	A-1+
Linde Pakistan Limited	17,283	10	173	3,040	2,391	N/A
Abbot Laboratories Pakistan Limited	42,117	10	421	6,726	4,203	N/A
Indus Motor Company Limited	17,000	10	170	2,812	3,486	N/A
Habib Metropolitan Bank Limited	265,483	10	2,655	5,883	4,484	A-1+
Jubilee Life Insurance Company Limited	122,500	10	1,225	5,497	5,575	N/A
Attock Refinery Limited	156,700	10	1,567	17,795	16,869	A-1
Attock Cement Limited	45,384	10	454	3,247	2,315	N/A
Adamjee Insurance Company Limited	35,979	10	360	2,698	1,673	N/A
Samba Bank Limited	801,990	10	8,020	1,890	1,163	A-1
			<b>1,780,627</b>	<b>1,832,101</b>		



1.3	Units	Number of units held	Paid-up value per unit (Rupees)	Total paid-up value	Cost (Rupees in '000)	Market value	Credit Ratings Short Term (Refer Note)
<b>Mutual Funds</b>							
	PICIC Investment Fund	11,104,508	10	111,045	133,994	60,520	N/A
	JS - Growth Fund.	13,381,363	10	133,814	106,078	62,892	N/A
	PICIC Growth Fund	214,453	10	2,145	6,412	2,672	N/A
	Askari Asset Allocation Fund	254,955	100	25,496	25,000	9,719	***
	Pakistan Strategic Allocation Fund	7,500,000	10	75,000	75,000	55,875	****
				<b>346,484</b>		<b>191,678</b>	
1.4	Preference Shares	Number of shares held	Paid-up value per share (Rupees)	Total paid-up value	Cost (Rupees in '000)	Market value	Credit Ratings Short Term
	Masood Textile Mills Limited	10,000,000	10	100,000	100,000	100,000	N/A
	Chenab Textile Limited	10,000,000	10	100,000	100,000	-	
				<b>200,000</b>		<b>100,000</b>	
1.5	Term finance certificates (TFC's)	Number of certificates held	Paid-up value per certificate (Rupees)	Total paid-up value	Cost (Rupees in '000)	Market value	Credit Ratings Medium to Long term
	Askari Commercial Bank Limited	16,990	5,000	84,950	84,746	84,380	AA
	Bank Al falah Limited	10,000	5,000	50,000	33,245	33,236	AA
	Bank Al Habib Limited	60,000	5,000	300,000	299,400	321,071	AA+
	Bank Al Habib Limited	15,000	5,000	75,000	49,870	45,272	AA+
	Allied Bank Limited	14,277	5,000	71,385	71,242	71,402	AA
	Faysal Bank Limited	15,000	5,000	75,000	74,880	74,377	AA
	NIB Bank Limited	34,950	5,000	174,750	174,456	170,980	AA-
	Bank Al Habib Limited	18,000	5,000	90,000	89,838	92,349	AA+
	United Bank Limited	41,525	5,000	207,625	207,334	206,715	AA+
	Pak Arab Fertilizer Limited	400,000	5,000	2,000,000	610,796	613,540	AA-
	Pak Arab Fertilizer Limited	165,080	5,000	825,400	1,500,000	1,534,650	AA-
	Worldcall Telecom Limited	96,000	5,000	480,000	274,121	238,480	BBB-
	Bank Al falah Limited	40,000	5,000	200,000	199,840	200,640	AA
	Faysal Bank Limited	50,000	5,000	250,000	249,900	258,446	AA
	Bank Al Habib Limited	10,000	5,000	50,000	50,000	53,000	AA+
	Telecard Limited	50,000	5,000	250,000	91,875	-	
				<b>4,061,544</b>		<b>3,998,537</b>	
1.6	TFC's held by HBL mutual funds	Number of certificates held	Paid-up value per certificate (Rupees)	Total paid-up value	Cost (Rupees in '000)	Market value	Credit Ratings Medium to Long Term
	Orix Leasing Pakistan Limited	28,300	100,000	2,830,000	23,643	22,813	A-1+
	Jahangir Siddiqui Company Limited	2,000	5,000	10,000	5,020	5,022	A-1+
	Sui Southern Gas Company Limited	3,000	5,000	15,000	6,000	6,019	A-1+
	United Bank Limited	22,200	5,000	111,000	110,845	110,513	A-1+
	Bank Al Falah Limited	4,000	5,000	20,000	13,298	13,294	A-1+
	Faysal Bank Limited	12,758	5,000	63,790	63,622	63,260	A-1+
	AL Abbas Sugar Mills Limited	7,000	5,000	35,000	13,986	13,849	A-1
	NIB Bank Limited	30,600	5,000	153,000	152,930	149,741	A-1+
	Worldcall Telecom Limited	23,750	5,000	118,750	67,816	58,999	A3
	Maple leaf Cement	7,000	5,000	35,000	34,933	21,907	D
	NIB Bank Limited	2,400	5,000	12,000	11,528	11,744	A-1+
	Saudi Pak Leasing Company Limited	8,000	5,000	40,000	26,150	-	
				<b>529,771</b>		<b>477,161</b>	

## 2 Particulars of investment held in unlisted companies

### 2.1 Ordinary shares

	Percentage of holding	Number of shares / units Held	Paid-up value per share (Rupees)	Break up value (Rupees in '000)	Based on amounts as at	Name of Chief Executive	Credit Ratings Short Term
Saif Power Limited	8.73%	32,268,354	10	366,714	December 31, 2010	Mr. Omar Saifullah Khan	A 1
Sweet Water Diaries Pakistan Limited	3.37%	2,074,000	10	19,550	June 30, 2011	Rashid Shuja Butt	N/A
Central Depository Company of Pakistan Limited	6.35%	4,124,901	10	102,049	June 30, 2011	Mr. Muhammad Hanif Jhakura	N/A
N I F T	9.07%	985,485	10	59,255	June 30, 2011	Mr. M. M. Khan	N/A
SME Bank Limited	0.83%	1,987,501	10	19,872	December 31, 2010	Mr. R.A. Chughtai	N/A
Khushhali Bank Limited	17.60%	30,000,000	10	385,606	December 31, 2010	Mr. M. Ghalib Nishtar	N/A
N.I.T. Shares	8.33%	79,200	100	142,587	June 30, 2011	Wazir Ali Khoja	N/A
First Woman Bank Limited	19.34%	20,889,000	10	282,027	December 31, 2010	Mrs. Shafqat Sultana	N/A
AKD Venture Fund		2,500,000	10	-			
Pakistan Agriculture Storage Limited		5,500	1,000	-			
				<u>1,010,946</u>			

### 2.2 Mutual Funds

	Number of units held	Paid-up value per share (Rupees)	Total paid-up value	Cost	Market value	Credit Ratings Short Term (Refer Note)
				----- (Rupees in '000) -----		
NIT Govt. Bond Fund	5,000,000	10	50,000	50,000	53,400	AA(f)
South Asia Regional Funds	5,000	563	2,814	279	17	N/A
				<u>50,279</u>	<u>53,417</u>	

### 2.3 Term finance certificates (TFC's)

	No. of certificates	Paid-up value per certificate (Rupees)	Total Paid-up value	Cost	Name of Chief Executive	Credit Ratings Short Term
				---- (Rupees in '000) ----		
Pakistan International Airline	594,500	5,000	2,972,500	2,972,500	Mr. Fazeel Asif	N/A
				<u>2,972,500</u>		

### 2.4 TFC's held by HBL mutual funds

	Number of certificates held	Paid-up value per certificate (Rupees)	Total paid-up value	Cost	Market value	Credit Ratings Short Term
				----- (Rupees in '000) -----		
Bank Al Habib Limited	6,000	5,000	30,000	29,994	31,794	N/A
Engro Chem Pakistan Limited	41,000	5,000	205,000	205,000	196,274	N/A
Engro Chem Pakistan Limited	7,000	5,000	35,000	35,000	34,283	N/A
Bank Al Habib Limited	3,000	5,000	15,000	14,997	15,900	A-1+
Orix Leasing Limited	4,400	5,000	22,000	11,000	11,063	A-1+
New Allied Electronics Limited	18,000	5,000	90,000	63,480	-	
Eden Housing Limited	3,000	5,000	15,000	14,924	-	
Agri Tech Limited	2,000	5,000	10,000	9,992	-	
				<u>384,387</u>	<u>289,313</u>	



### 3 Particulars of investments held in bonds

	Terms of Redemption			Principal (Rupees in '000)
	Principal	Interest / Profit	Rate of Interest / Profit	
<b>3.1 Bonds (Guaranteed by Government) - denominated in Pak Rupees</b>				
Pakistan International Airline	Repayable in full on maturity	Semi - Annual	6 Months Kibor +79 BPS	425,000
				<b>425,000</b>
<b>3.2 Bonds (Private Sector) - denominated in Pak Rupees</b>				
Century Paper	Repayable in full on maturity	Semi - Annual	6 Months Kibor+135 BPS	240,000
Quetta Textile	Repayable in full on maturity	Semi - Annual	6 Months Kibor+150 BPS	90,000
Engro Fertilizers Limited	Repayable in full on maturity	Semi - Annual	6 Months Kibor +150 BPS	58,554
Arzoo Textile	Repayable in full on maturity	Semi - Annual	6 Months Kibor+200 BPS	20,000
GOP Ijarah Sukuk VI	Repayable in full on maturity	Semi - Annual	6 months T Bills	50,000
				<b>458,554</b>
<b>3.3 Foreign Currency Notes and Bonds</b>				
Royal Bank of Scotland	Repayable in full on maturity	Annual	4.875%	593,190
Lloyds TSB Bank PLC	Repayable in full on maturity	Annual	3.750%	572,214
Bank of America	Repayable in full on maturity	Quarterly	3 Months Libor+10 BPS	691,308
				<b>1,856,712</b>
<b>3.4 Investment by Islamic Banking Branch</b>				
Engro Fertilizers Limited	Repayable in full on maturity	Semi - Annual	6 Months Kibor + 150 BPS	142,801
Sitara Energy	Repayable in full on maturity	Semi - Annual	6 Months Kibor + 115 BPS	21,137
GOP Ijarah Sukuk IV	Repayable in full on maturity	Semi - Annual	6 months T Bills + 45BPS	251,507
GOP Ijarah Sukuk V	Repayable in full on maturity	Semi - Annual	6 months T Bills	1,200,000
GOP Ijarah Sukuk VI	Repayable in full on maturity	Semi - Annual	6 months T Bills	3,851,454
GOP Ijarah Sukuk VII	Repayable in full on maturity	Semi - Annual	6 months T Bills	2,220,280
GOP Ijarah Sukuk VIII	Repayable in full on maturity	Semi - Annual	6 months T Bills	4,860,000
				<b>12,547,179</b>
<b>3.5 Certificate of Investment</b>				
UBL Ameen	Repayable in full on maturity	On Maturity	10.40%	78,000
MCB Islamic Banking	Repayable in full on maturity	On Maturity		10,000
				<b>88,000</b>

## Annexure II - Details of Loans Written Off

For the year ended December 31, 2011 (referred on Page 147) which also form part of the audited Consolidated Financial Statements

# Details of Disposal of Operating Fixed Assets - Consolidated

As at December 31, 2011

## Annexure III

Description	Original cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of buyer
<b>Furniture &amp; Fixtures</b>						
	3,371	3,371	-	41	SALE	Ali Nawaz Traders
	1,124	1,124	-	14	SALE	
	3,921	3,921	-	41	SALE	
	1,539	1,539	-	14	SALE	
	1,592	1,592	-	14	SALE	
	1,592	1,592	-	14	SALE	
	1,592	1,592	-	14	SALE	
	1,592	1,592	-	14	SALE	
	1,952	1,952	-	14	SALE	
	1,952	1,952	-	14	SALE	
	1,952	1,952	-	14	SALE	
	1,952	1,952	-	14	SALE	
	1,952	1,952	-	14	SALE	
	1,539	1,539	-	14	SALE	
	1,583	1,583	-	14	SALE	
	1,937	1,937	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,901	1,901	-	14	SALE	
	2,421	2,421	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,901	1,901	-	14	SALE	
	2,515	2,515	-	14	SALE	
	1,937	1,937	-	14	SALE	
	1,539	1,539	-	14	SALE	
	1,954	1,954	-	14	SALE	
	1,938	1,938	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,353	1,353	-	14	SALE	
	1,937	1,937	-	14	SALE	
	2,457	2,457	-	14	SALE	
	1,937	1,937	-	14	SALE	
	1,922	1,922	-	14	SALE	
	1,744	1,744	-	14	SALE	
	1,937	1,937	-	14	SALE	
	1,937	1,937	-	14	SALE	
	1,317	1,317	-	14	SALE	
	1,937	1,937	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,317	1,317	-	14	SALE	
	1,317	1,317	-	14	SALE	
	1,317	1,317	-	14	SALE	
	1,050	1,050	-	30	SALE	
	1,512	1,512	-	2	SALE	
	1,277	1,277	-	3	SALE	
	<b>90,684</b>	<b>90,684</b>	<b>-</b>	<b>711</b>		
<b>Land &amp; Building</b>						
	84,770	304	84,466	62,500	SALE	Mount Fuji Textile
	60,128	-	60,128	50,000	SALE	Faz International
	3,506	212	3,294	3,300	SALE	Mohammad Akbar
	390	-	390	400	SALE	Aurangzeb Khan
	<b>148,794</b>	<b>516</b>	<b>148,278</b>	<b>116,200</b>		
<b>Motor Vehicles</b>						
	1,908	1,908	-	815	Auction	Shahbaz A Malik
	4,119	4,119	-	1,378	Tender	Bhaageerutty
	3,081	3,081	-	217	Negotiation	Lazar Younes
	7,673	7,673	-	2,584	Negotiation	Omni Cars Agent
	1,317	1,317	-	413	Tender	Makeen Ashraf Makki
	1,080	700	380	787	Insurance claim	Jubilee General Insurance Co. Ltd
	1,289	256	1,033	1,102	Insurance claim	
	609	91	518	546	Insurance claim	
	<b>21,076</b>	<b>19,145</b>	<b>1,931</b>	<b>7,840</b>		
Assets having cost of less than Rs. 1 million and book value of less than Rs.250,000	318,148	309,843	8,305	41,561		
	<b>578,702</b>	<b>420,188</b>	<b>158,514</b>	<b>166,312</b>		



## Annexure IV - Details of Donations

For the year ended December 31, 2011 (referred on Page 154) which also form part of the audited Consolidated Financial Statements

### Domestic Network

#### Branches

Name of Region	Number of Branches
Karachi South	64
Karachi North	76
Hyderabad	53
Sukkur	48
Quetta	36
Multan	95
Bahawalpur	52
Sahiwal	76
Faisalabad	94
Lahore	91
Sialkot	69
Gujranwala	63
Gujrat	65
Sargodha	74
Jhelum	74
Rawalpindi/Islamabad	111
Mardan	87
D.I.Khan/Peshawar	99
Muzaffarabad	34
Mirpur	50
Islamic Banking	23
Commercial	19
Corporate (Including K.E.P.Z.)	12
	1,465

#### Subsidiaries

Habib Bank Financial Services (Private) Limited  
 HBL Currency Exchange (Private) Limited  
 HBL Asset Management Limited  
 First Habib Bank Modaraba  
 HBL Stock Fund  
 HBL Multi Asset Fund  
 HBL Income Fund

#### Affiliates

Jubilee General Insurance Company Limited  
 Jubilee Life Insurance Company Limited  
 HBL Money Market Fund  
 HBL Islamic Stock Fund  
 HBL Islamic Money Market Fund  
 HBL Pension Equity Sub Fund  
 HBL Pension Debt Sub Fund  
 HBL Pension Money Market Sub Fund  
 HBL Islamic Pension Equity Sub Fund  
 HBL Islamic Pension Debt Sub Fund  
 HBL Islamic Pension Money Market Sub Fund

# International Franchise

## Branches

Country	City	
<b>Afghanistan</b>	Kabul	Main Branch Serena Hotel
<b>Bahrain</b>	Manama Muharraq	Main FCB Branch / OBU
<b>Bangladesh</b>	Dhaka	Gulshan Branch Motijheel Branch Uttara Branch
	Chittagong Sylhet	
<b>Belgium</b>	Brussels	
<b>France</b>	Paris	
<b>Kenya</b>	Nairobi Mombasa Malindi	
<b>Lebanon</b>	Beirut	
<b>Maldives</b>	Male	
<b>Mauritius</b>	Port Louis Curepipe Rose Hill	
<b>Netherlands</b>	Rotterdam	
<b>Oman</b>	Ruwi Muttrah Al-Khuwair Nizwa Seeb Sohar Salalah Walja	
<b>Seychelles</b>	Mahe	
<b>Singapore</b>	Singapore	
<b>Srilanka</b>	Colombo	Main Branch / F.C.B.U. Lake View
	Kalmunai	
<b>Turkey</b>	Istanbul	
<b>U.A.E.</b>	Abu Dhabi Al Ain Dubai	Deira Bur Dubai Naif Road
	Sharjah	
<b>U.S.A.</b>	New York City	

## Subsidiaries

Country	City	
<b>United Kingdom</b>		
	London	Habib Allied International Bank Commercial Road Branch Green Street Branch Edgware Road
	Manchester Birmingham Glasgow	
	London	Habibsons Bank Limited Portman Street Whitechapel Southall
	Leicester Zurich	
<b>Hong Kong</b>		Habib Finance International Limited

## Affiliates

<b>Nepal</b>	Himalayan Bank Ltd.
<b>Kenya</b>	Diamond Trust Bank Kenya Limited
<b>Kyrgyz Republic</b>	Kyrgyz Investment & Credit Bank

## Representative Offices

<b>Iran</b>	Tehran
<b>China</b>	Beijing



# UNCONSOLIDATED FINANCIAL STATEMENTS





## Directors' Report

On behalf of the Directors, I am pleased to present the Unconsolidated Financial Statements and the Auditors' Report for the year ended December 31, 2011.

### Economic and Market Review

2011 was another challenging year in the Global and the local economy; devastating floods for the second year along with an energy shortage and other adverse conditions impacted Pakistan. As a result, the Pakistan economy grew by 2.4% of GDP as against targeted 4.5%; this growth was supported primarily by the agriculture sector (1.2%), which registered an impressive increase on the back of a bumper wheat crop as well as the Services sector with a 4.1% growth. Strong growth in remittances supported by the Pakistani workforce that reached a record US\$ 11.2 billion and a rising trend in exports has helped the external reserve position. The State Bank of Pakistan (SBP) has recently cut the discount rates (DR) by 150bps to 12% (overall 200bps in 2011). The lower discount rate is expected to fuel private sector demand, which is expected to provide support to the domestic economy.

### Our Performance

Despite the economic challenges, the Bank attained some significant milestones by becoming the first bank in Pakistan to reach Rs. 1 trillion in balance sheet size (excluding Interbank borrowings) as well as achieving record profitability with a Profit after tax of Rs. 20.7 billion, an increase of 32.8% over 2010. HBL has achieved growth of 19.9% over last year, which is an increase of Rs. 176.8 billion and has managed to control its administrative expenses effectively. The balance sheet growth and cost control measures have resulted in robust growth of profit after tax of 32.8% over last year.

The Bank has made a significant effort over the past few years to address factors necessary for faster growth; this includes a focused approach on improving the customer experience, be it in product delivery or customer service. HBL is determined in increasing its outreach to the farthest areas of Pakistan and growing its more than 6 million customer relationships to progressively include the unbanked population of Pakistan through technology initiatives and innovative products. HBL is now positioned to significantly increase its customer outreach.

Risk management continues to be a key focus and in a difficult and challenging environment HBL continues to take a conservative approach focusing on controlling NPLs. This is reflected in overall lower provisions for the year.

### Financial Highlights

	2011	2010
	Rs. In Million	
<b>Profit after tax</b>	<u>20,742</u>	<u>15,613</u>
Un-appropriated profit brought forward	44,121	36,325
Profit attributable to equity holders of the Bank	20,742	15,613
Transferred from surplus on revaluation of fixed assets- net of tax	260	119
	<u>21,002</u>	<u>15,732</u>
Profit available for appropriation	65,123	52,058
<b>Appropriations:</b>		
Transfer to statutory reserves	(2,074)	(1,561)
Cash dividend paid in April 11	(6,512)	(5,465)
Issued as bonus shares	(1,002)	(911)
Half year interim dividend, paid in Nov 2011	(3,306)	-
Total appropriations	<u>(12,894)</u>	<u>(7,937)</u>
<b>Un-appropriated Profit carried forward</b>	<u>52,229</u>	<u>44,121</u>

## Product Innovation

The Bank continues to improve efficiencies, enhance market competitiveness and deliver customer service at improved levels. In this regard, major investments have been made in the last 5 years in upgrading technology, refurbishing branches and upgrading the skill set of Human Resources. We continue our strong commitment to provide state of the art banking facilities for all segments of society.

In order to provide financial inclusion to the poorest segment of the society, the Bank has provided payment solution through its network in collaboration with mobile phone operators to over 60,000 beneficiaries under Government's poverty alleviation Scheme (BISP) and flood relief payments to over 400,000 affectees in Sind through the Pakistan Card. HBL has also assisted the Government of Pakistan in its relief efforts for the flood affected people of Sind and Punjab by issuing the Watan Cards; these are pre-loaded cards with Government funds that are being issued in collaboration with the National Database Authority to the people in the flood affected areas, who then go to an ATM to withdraw the funds that have been given by the Government – to date your Bank has issued over 700,000 Watan Cards.

The Bank's product delivery capabilities are now well established in this area and your Bank has been selected as one of the major payment agents by the GOP for providing poverty alleviation payments to over 1.3 million women in 16 districts (under BISP). The Bank successfully launched Pardes Remittance Card (product similar to prepaid card).

EMV Debit cards have also been successfully launched in Bahrain, UAE, Mauritius and Maldives.

## International Banking Group

HBL has completed the acquisition of Habibsons Bank in the UK and the entire operations of Habibsons UK have now been successfully integrated into HBL UK; this acquisition will significantly enhance the Group's franchise value. The Habibsons acquisition has also provided a platform to effectively launch an integrated wealth management initiative across the international network.

## Statement under Section XIX of the Code of Corporate Governance

The Board is committed to ensure that requirements of corporate governance set by Securities and Exchange Commission of Pakistan are fully met and the Directors are pleased to report that:

- a) The financial statements prepared by the management of the Bank present a true and fair view of the state of its affairs, operational results, cash flows and changes in equity.
- b) Proper books of accounts of the Bank have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) The Bank has followed international accounting standards (as applicable to Banks in Pakistan) in the preparation of accounts and there is no departure from the said standards.
- e) As a continuous process, efforts have been made to effectively implement the internal control system. HBL is in the process of adopting an internationally accepted COSO Internal Control – Integrated Framework as part of compliance with SBP Internal Control Guidelines. The Bank has also evaluated its Internal Control over Financial Reporting (ICFR) using the US PCAOB Auditing Standard (AS – 5). A dedicated Management Testing and Reporting Framework for ICFR is being developed as a part of COSO implementation project.
- f) There are no doubts about the Banks' ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance as detailed in the regulations.
- h) Key operating and financial data for the last ten years is presented in the financial statements under the section "Progress since 2001 to 2011 – Consolidated".
- i) The Directors, CEO, CFO and Company Secretary have confirmed that neither they nor their spouses are engaged in the business of stock brokerage.
- j) Risk Management, Human Resource and Audit Committees constituted by the Board are functioning efficiently in accordance with their Terms of Reference. The Board has met regularly and held eight meetings in the year.

The Statement of Internal Control, Statement of Compliance with Review Report and the Auditors' reports are attached to the Financial Statements.



### Value of Investments in employee retirement benefits fund

The following is the value of investments of provident, gratuity, pension and benevolent funds maintained by the Bank, based on the latest audited financial statements.

	Rs. in '000
Employee's Provident Fund	6,457,856
Employee's Pension Fund	10,228,811
Employee's Gratuity Fund	551,472
Employee's Benevolent Fund – Executive and Officers	768,549
Employee's Benevolent Fund – Clerical and Non-Clerical	259,710

### Meetings of the Board

Eight Board meetings were held during 2011 and were attended by the Directors as follows:

Name		Attendance
Mr. Sultan Ali Allana	Chairman	8
Mr. R. Zakir Mahmood	President and Chief Executive Officer	8
Mr. Moez Ahamed Jamal	Director	8
Mr. Sajid Zahid	Director	8
Mr. Ahmed Jawad	Director	8
Mr. Mushtaq Malik	Director	8
Mr. Sikandar Mustafa Khan	Director	7

### Credit Ratings

JCR-VIS, a credit rating company re-affirmed the bank's long-term entity rating at AA+. The short term rating remains at A-1+, which is the highest rating denoting the greatest certainty of timely payments by a financial institution. All ratings for HBL have been assigned a 'Stable' outlook.

### Auditors

The present auditors, Messrs Ernst & Young Ford Rhodes Sidat Hyder, retire. As per Code of Corporate Governance they are eligible for reappointment. Accordingly, the Board of Directors endorses the recommendation of the Audit Committee for the appointment of Messrs Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, as the auditors of the bank for the financial year 2012.

### Appreciation and Acknowledgement

At this time, I would like to appreciate the efforts of the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan and Ministry of Finance for strengthening the banking and financial system of the country by improving regulatory, policy and governance framework.

I would like to take this opportunity to also thank on behalf of the Board and Management of the Bank, the customers and the shareholders for entrusting their confidence in us and assure them that we remain committed to maintaining high service standards and a strong culture of good corporate governance and compliance in all our endeavors. I would also like to express our sincere gratitude to the employees of the Bank for their dedication and hard work, which enabled delivery of these strong results.

For and on behalf of the Board

### R. Zakir Mahmood

President and Chief Executive Officer  
Karachi: February 24, 2012

# Auditors' Report

## To the members - Unconsolidated

We have audited the annexed unconsolidated statement of financial position of Habib Bank Limited (the Bank) as at 31 December 2011 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement, and unconsolidated statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for 84 branches which have been audited by us and 35 branches audited by auditors abroad and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than sixty percent of the total domestic loans and advances of the Bank, we report that:

- (a) in our opinion proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
  - (i) the unconsolidated statement of financial position and unconsolidated profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- (c) in our opinion and to the best of our information and according to the explanations given to us the unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity, together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2011 and its true balance of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

The financial statements of the Bank for the year ended 31 December 2010 were audited by another firm of Chartered Accountants whose report dated 18 February 2011 expressed an unqualified opinion thereon.

**Ernst & Young Ford Rhodes Sidat Hyder**

Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: February 24, 2012

Karachi



## Unconsolidated Statement of Financial Position

### As at December 31, 2011

2011 (US \$ in '000)	2010		Note	2011 (Rupees in '000)	2010
<b>ASSETS</b>					
1,146,024	906,290	Cash and balances with treasury banks	5	103,080,076	81,516,883
388,966	400,134	Balances with other banks	6	34,985,809	35,990,301
462,290	337,307	Lendings to financial institutions	7	41,581,029	30,339,344
4,446,455	2,724,054	Investments	8	399,939,469	245,016,986
4,627,919	4,836,235	Advances	9	416,261,389	434,998,560
190,195	176,513	Operating fixed assets	10	17,107,263	15,876,545
77,350	98,230	Deferred tax asset	11	6,957,290	8,835,326
488,534	383,325	Other assets	12	43,941,323	34,478,466
<u>11,827,733</u>	<u>9,862,088</u>			<u>1,063,853,648</u>	<u>887,052,411</u>
<b>LIABILITIES</b>					
154,477	108,674	Bills payable	13	13,894,502	9,774,749
374,836	416,144	Borrowings	14	33,714,904	37,430,333
9,731,522	8,016,716	Deposits and other accounts	15	875,308,597	721,069,137
50,000	50,000	Sub-ordinated loans	16	4,497,285	4,281,835
-	-	Liabilities against assets subject to finance lease		-	-
-	-	Deferred tax liability		-	-
388,945	275,236	Other liabilities	17	34,983,770	24,971,618
<u>10,699,780</u>	<u>8,866,770</u>			<u>962,399,058</u>	<u>797,527,672</u>
<u>1,127,953</u>	<u>995,318</u>	<b>NET ASSETS</b>		<u>101,454,590</u>	<u>89,524,739</u>
<b>REPRESENTED BY:</b>					
<b>Shareholders' equity</b>					
122,527	111,387	Share capital	18	11,020,680	10,018,800
335,800	307,649	Reserves		30,203,696	27,671,813
580,665	490,530	Unappropriated profit		52,228,646	44,121,103
1,038,992	909,566			93,453,022	81,811,716
88,961	85,752	Surplus on revaluation of assets - net of deferred tax	19	8,001,568	7,713,023
<u>1,127,953</u>	<u>995,318</u>			<u>101,454,590</u>	<u>89,524,739</u>
<b>CONTINGENCIES AND COMMITMENTS</b>					
			20		

The annexed notes 1 to 51 and annexures I to IV form an integral part of these unconsolidated financial statements.

# Unconsolidated Profit and Loss Account

## For the year ended December 31, 2011

2011 (US \$ in '000)	2010 (US \$ in '000)		Note	2011 (Rupees in '000)	2010 (Rupees in '000)
1,072,284	889,424	Mark-up / return / interest earned	22	96,447,370	79,999,852
462,093	379,011	Mark-up / return / interest expensed	23	41,563,287	34,090,368
<u>610,191</u>	<u>510,413</u>	Net mark-up / interest income		<u>54,884,083</u>	<u>45,909,484</u>
71,578	84,045	Provision against non-performing loans and advances	9.4 / 9.6	6,438,120	7,559,458
(102)	343	(Reversal) / charge against off-balance sheet obligations		(9,141)	30,895
9,746	4,328	Provision against diminution in the value of investments	8.7	876,626	389,273
-	-	Bad debts written off directly		-	-
<u>81,222</u>	<u>88,716</u>			<u>7,305,605</u>	<u>7,979,626</u>
<u>528,969</u>	<u>421,697</u>	Net mark-up / interest income after provisions		<u>47,578,478</u>	<u>37,929,858</u>
<b>Non mark-up / interest income</b>					
56,539	54,796	Fee, commission and brokerage income		5,085,472	4,928,705
38,577	32,169	Income from dealing in foreign currencies		3,469,827	2,893,454
4,185	3,541	Dividend income		376,450	318,539
4,733	3,211	Gain on sale of securities	24	425,674	288,836
(16)	1	Unrealised (loss) / gain on held for sale securities		(1,451)	65
30,376	29,128	Other income	25	2,732,153	2,619,905
<u>134,394</u>	<u>122,846</u>	Total non mark-up / interest income		<u>12,088,125</u>	<u>11,049,504</u>
<u>663,363</u>	<u>544,543</u>			<u>59,666,603</u>	<u>48,979,362</u>
<b>Non mark-up / interest expense</b>					
301,708	256,309	Administrative expenses	26	27,137,304	23,053,860
(2,597)	1,981	Other provisions / write offs - net		(233,556)	178,148
863	1,987	Other charges	27	77,588	178,700
7,268	5,685	Workers welfare fund	28	653,706	511,373
<u>307,242</u>	<u>265,962</u>	Total non mark-up / interest expenses		<u>27,635,042</u>	<u>23,922,081</u>
<u>356,121</u>	<u>278,581</u>	<b>Profit before taxation</b>		<u>32,031,561</u>	<u>25,057,281</u>
<b>Taxation</b>					
112,535	103,750	current	29	10,122,028	9,331,828
1,958	7,822	prior		176,132	703,591
11,024	(6,573)	deferred		991,585	(591,192)
<u>125,517</u>	<u>104,999</u>			<u>11,289,745</u>	<u>9,444,227</u>
<u>230,604</u>	<u>173,582</u>	<b>Profit after taxation</b>		<u>20,741,816</u>	<u>15,613,054</u>
<u>0.209</u>	<u>0.158</u>	Basic and diluted earnings per share	30	<u>18.82</u>	<u>14.17</u>

The annexed notes 1 to 51 and annexures I to IV form an integral part of these unconsolidated financial statements.

R. Zakir Mahmood  
President and Chief Executive Officer

Moez Ahamed Jamal  
Director

Ahmed Jawad  
Director

Sajid Zahid  
Director



## Unconsolidated Statement of Comprehensive Income

### For the year ended December 31, 2011

2011 (US \$ in '000)	2010		2011 (Rupees in '000)	2010
230,604	173,583	<b>Profit for the year</b>	20,741,816	15,613,054
		<b>Other comprehensive income</b>		
5,089	3,431	Effect of translation of net investment in foreign branches	457,701	308,619
<u>235,693</u>	<u>177,014</u>	<b>Comprehensive income transferred to equity</b>	<u>21,199,517</u>	<u>15,921,673</u>
		<b>Components of comprehensive income not reflected in equity</b>		
-	1,700	Surplus on revaluation of fixed assets	-	152,905
-	(137)	Deferred tax on revaluation of fixed assets	-	(12,340)
9,407	(2,900)	Surplus / (deficit) on revaluation of investments	846,081	(260,823)
(3,307)	1,029	Deferred tax on revaluation of investments	(297,323)	92,577
<u>241,793</u>	<u>176,706</u>		<u>21,748,275</u>	<u>15,893,992</u>

The annexed notes 1 to 51 and annexures I to IV form an integral part of these unconsolidated financial statements.

# Unconsolidated Statement of Changes in Equity

## For the year ended December 31, 2011

	Share Capital	RESERVES			Total	
		Exchange translation reserve	Statutory	General		Unappropriated profit
----- (Rupees in '000) -----						
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 year</b>						
Profit for the year ended December 31, 2010	-	-	-	-	15,613,054	15,613,054
<b>- Other comprehensive income</b>						
Effect of translation of net investment in foreign branches	-	308,619	-	-	-	308,619
	-	308,619	-	-	15,613,054	15,921,673
<b>Transactions with owners, recorded directly in equity</b>						
Final cash dividend paid at Rs. 6 per share for the year ended December 31, 2009	-	-	-	-	(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 - net of tax	-	-	-	-	119,496	119,496
Transferred to statutory reserves	-	-	1,561,305	-	(1,561,305)	-
Balance as at December 31, 2010	10,018,800	7,787,885	13,810,116	6,073,812	44,121,103	81,811,716
<b>Total comprehensive income for the year</b>						
Profit for the year ended December 31, 2011	-	-	-	-	20,741,816	20,741,816
<b>- Other comprehensive income</b>						
Effect of translation of net investment in foreign branches	-	457,701	-	-	-	457,701
	-	457,701	-	-	20,741,816	21,199,517
<b>Transactions with owners, recorded directly in equity</b>						
Final cash dividend paid at Rs. 6.5 per share for the year ended December 31, 2010	-	-	-	-	(6,512,220)	(6,512,220)
Issued as bonus shares	1,001,880	-	-	-	(1,001,880)	-
Half year Interim cash dividend paid at Rs. 3 per share	-	-	-	-	(3,306,204)	(3,306,204)
	1,001,880	-	-	-	(10,820,304)	(9,818,424)
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	260,213	260,213
Transferred to statutory reserve	-	-	2,074,182	-	(2,074,182)	-
Balance as at December 31, 2011	11,020,680	8,245,586	15,884,298	6,073,812	52,228,646	93,453,022

The annexed notes 1 to 51 and annexures I to IV form an integral part of these unconsolidated financial statements.

R. Zakir Mahmood  
President and Chief Executive Officer

Moez Ahamed Jamal  
Director

Ahmed Jawad  
Director

Sajid Zahid  
Director



## Unconsolidated Cash Flow Statement

### For the year ended December 31, 2011

2011 (US \$ in '000)	2010		Note	2011 (Rupees in '000)	2010
		<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
356,121	278,581	Profit before taxation		32,031,561	25,057,281
(4,185)	(3,541)	Dividend income		(376,450)	(318,539)
(4,733)	(3,211)	Gain on sale of securities		(425,674)	(288,836)
(8,918)	(6,752)			(802,124)	(607,375)
347,203	271,829			31,229,437	24,449,906
		<b>Adjustment for:</b>			
15,579	18,524	Depreciation / amortisation		1,401,231	1,666,058
9,746	4,328	Provision against diminution in the value of investments		876,626	389,273
71,578	84,045	Provision against non-performing loans and advances		6,438,120	7,559,458
16	(1)	Unrealised loss / (gain) on held for sale securities		1,451	(65)
2,395	776	Exchange loss on sub-ordinated loans		215,450	69,755
(86)	(189)	Gain on sale of operating fixed assets		(7,746)	(16,993)
(2,698)	2,324	Miscellaneous provisions		(242,697)	209,043
96,530	109,807			8,682,435	9,876,529
443,733	381,636			39,911,872	34,326,435
		<b>(Increase) / decrease in operating assets</b>			
(124,983)	(277,795)	Lendings to financial institutions		(11,241,685)	(24,986,471)
136,739	(114,229)	Advances		12,299,051	(10,274,430)
(77,303)	65,149	Other assets		(6,953,029)	5,859,907
(65,547)	(326,875)			(5,895,663)	(29,400,994)
		<b>Increase / (decrease) in operating liabilities</b>			
45,803	(2,964)	Bills payable		4,119,753	(266,454)
(41,307)	(118,864)	Borrowings		(3,715,429)	(10,691,316)
1,714,806	751,750	Deposits and other accounts		154,239,460	67,616,677
112,234	(15,020)	Other liabilities		10,095,010	(1,350,946)
1,831,536	614,902			164,738,794	55,307,961
2,209,722	669,663			198,755,003	60,233,402
(134,596)	(112,708)	Income tax paid - net		(12,106,276)	(10,137,565)
2,075,126	556,955	<b>Net cash flows from operating activities</b>		186,648,727	50,095,837
		<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
(1,718,023)	(399,764)	Net investments in securities, associates and joint venture		(154,528,805)	(35,957,034)
4,177	3,552	Dividend income received		375,739	319,465
(31,016)	(10,550)	Fixed capital expenditure		(2,789,755)	(948,433)
1,842	576	Proceeds from sale of fixed assets		165,552	51,667
5,088	3,434	Effect of translation of net investment in foreign branches		457,701	308,619
(1,737,932)	(402,752)	<b>Net cash flows used in investing activities</b>		(156,319,568)	(36,225,716)
		<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
(108,628)	(60,596)	Dividend paid		(9,770,459)	(5,450,436)
(108,628)	(60,596)	<b>Net cash flows used in financing activities</b>		(9,770,459)	(5,450,436)
228,566	93,607	Increase in cash and cash equivalents during the year		20,558,700	8,419,685
1,290,090	1,208,392	Cash and cash equivalents at beginning of the year		116,038,081	108,689,519
16,334	4,425	Effects of exchange rate changes on cash and cash equivalents		1,469,104	397,981
1,306,424	1,212,817			117,507,185	109,087,500
1,534,990	1,306,424	<b>Cash and cash equivalents at end of the year</b>	31	138,065,885	117,507,185

The annexed notes 1 to 51 and annexures I to IV form an integral part of these unconsolidated financial statements.

# Notes to the Unconsolidated Financial Statements

## For the year ended December 31, 2011

### 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. The Bank operates 1,464 (2010: 1,459) branches inside Pakistan including 22 (2010: 11) Islamic Banking Branches and 42 branches (2010: 42) outside the country (including Karachi Export Processing Zone).

### 2 BASIS OF PRESENTATION

- These financial statements represents separate financial statements of Habib Bank Limited. The consolidated financial statements of the Group are being issued separately.
- In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.
- The US Dollar amounts shown in the financial statements are stated solely for information convenience. The statement of financial position and profit and loss account for the year ended December 31, 2011 and 2010 have been converted using the exchange rate of Rs. 89.9457 per US Dollar.

#### 2.1 Basis of measurement

These financial statements have been prepared under the historical cost convention except that certain classes of fixed assets are stated at revalued amounts less accumulated depreciation, trading and available for sale investments, derivative financial instruments and forward foreign exchange contracts are measured at fair value.

The unconsolidated financial statements are presented in Pakistan Rupees, which is Bank's functional currency. The amounts are rounded to nearest thousand.

#### 2.2 Use of estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in application of accounting policies are as follows:

##### i) Classification of investments

- In classifying investments as "held-for-trading", the Bank has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.
- In classifying investments as "held-to-maturity", the Bank follows the guidance provided in SBP directives on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments till maturity.
- The investments which are not classified as held for trading or held to maturity are classified as available for sale.



#### ii) Valuation and impairment of available for sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

#### iii) Provision against non performing loans and advances

The Bank reviews its loan portfolio to assess amount of non-performing loans and advances and provision required there-against. While assessing this requirement, various factors including the delinquency in the account, financial position of the borrower, the forced sale value of the securities and the requirement of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances, the Bank follows, the general provision requirement set out in Prudential Regulations.

#### iv) Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks, at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Bank's future taxable profits are taken into account.

#### v) Fair value of derivatives

The fair value of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates in effect at the date of statement of financial position and the rates contracted.

#### vi) Fixed assets, depreciation and amortisation

The bank carries its land and buildings at their respective fair values. The fair values are determined by independent valuation experts and such valuations are carried out with sufficient regularity that the valuation at year end is close to their fair values.

In making estimates of the depreciation / amortisation method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

#### vii) Defined benefits plans and other benefits

Liability is determined on the basis of actuarial advice using the Projected Unit Credit Method. For actuarial assumptions, refer note no. 33.

#### viii) Impairment of investments in associates and subsidiaries

The impairment loss is recognized when the carrying value exceeds the higher of fair value less cost to sell and value in use.

2.2.1 Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

### 3 STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards issued by the International Accounting Standards Board and Islamic Financial Accounting Standards issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP). In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP shall prevail.

The State Bank of Pakistan, vide its BSD Circular No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments Recognition and Measurement and International Accounting Standard 40, Investment Property for banking companies till further instructions. Further, SECP has deferred applicability of IFRS - 7 "Financial Instruments: Disclosures" on banks through S.R.O 411(1)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

### 3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2012:

- Amendments to IAS 12 Income Taxes: Recovery of underlying asset (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using revaluation model in IAS-16 should always be measured on sale basis. The amendment has no impact on financial statements of the Bank.
- IAS 27 Consolidated and separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.
- IAS 28 Investments in Associates (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. This amendment is likely to have an impact on financial statements of the Bank.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. This amendment is likely to have an impact on financial statements of the Bank.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments would result in certain changes in disclosures on financial statements of the Bank.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Revenue recognition

#### Advances and investments

Income on loans and advances and debt security investments are recognized on a time proportion basis that takes into account effective yield on the asset. Where debt securities are purchased at a premium or discount, those premiums / discounts are amortized through the profit and loss account over the remaining maturity, using the effective yield method.

Interest or mark-up recoverable on classified loans and advances and investments is recognized on receipt basis. Interest / mark-up on rescheduled / restructured loans and advances and investments is recognized as permitted by the regulations of State Bank of Pakistan or overseas regulatory authorities of countries where the branches operate, except where in the opinion of the management it would not be prudent to do so.

Dividend income from investments is recognized when the right to receive is established.



### Lease financing

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Repossessed vehicles on account of loan default are recorded in memorandum account.

Unrealized lease income is suspended on classified leases, in accordance with the requirements of the Prudential Regulations of the State Bank of Pakistan. Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognized as income on receipt basis.

### Murabaha

Murabaha transactions are reflected as receivable at the invoiced amount. Actual sale and purchase are not reflected as the goods are purchased by the customer as agent of the Bank and all documents relating to purchase are in customer name. However, the profit on that sale revenue not due for payment is deferred by recording a credit to the "Deferred Murabaha Income" account.

### Letters of credit and guarantees

Commission on letters of credit and guarantees etc. is recognized on time proportion basis.

### Customer Loyalty Programmes

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.

### Fee, Commission and Brokerage Income

Fee, Commission and Brokerage income is recognized on accrual basis

## 4.2 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity.

### Current

Current taxation is the tax payable on taxable income earned from local as well as foreign operations for the year using tax rates enacted at the date of statement of financial position and, any adjustments to tax payable relating to prior years.

### Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences between the amounts attributed to the assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognized on differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

## 4.3 Investments

The Bank classifies its investment portfolio into the following categories:

### Held-for-trading

These are securities, which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term trading exists.

### Held-to-maturity

These are securities with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold till maturity.

### Available-for-sale

These are investments that do not fall under the held-for-trading or held-to-maturity categories.

Investments, including those referred to in para above, are accounted for as follows:

- Quoted securities are carried at fair value.
- Unquoted equity securities are valued at lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.
- Securities classified as held-to-maturity are carried at amortised cost less impairment loss if any.

Investments other than those categorised as held for trading include transaction costs associated with the investments. In case of investments classified as held for trading, transaction costs are expensed in the profit and loss account.

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

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulation issued by the State Bank of Pakistan.

Any unrealized surplus / deficit arising on revaluation of investments classified as 'Held-for-Trading' is taken to the profit and loss account and unrealized surplus / deficit arising on revaluation of investments classified as 'Available-for-sale' is taken directly to "surplus / deficit on revaluation of securities" in the statement of financial position.

### Investment in associates

Investments in subsidiaries, associates and joint ventures are recorded at cost less impairment if any.

#### 4.4 Lendings / borrowings

Where securities are sold subject to a commitment to re-purchase them at a pre-determined price, they remain on the statement of financial position and a liability is recorded in respect of the consideration received in "borrowings". Conversely, securities purchased under analogous commitments to resell are not recognized on the statement of financial position and the consideration paid is recorded in "lendings to financial institutions".

The difference between the sale and purchase price is recognized as mark-up / return expensed or earned on time proportion basis as the case may be.

#### 4.5 Sub - Ordinated Debt

Sub-ordinated debt is initially recorded at the amount of proceeds received. Mark-up accrued on sub-ordinated debt is recognised separately as part of other liabilities and is charged to the profit and loss account over the period on an accrual basis.

#### 4.6 Advances

##### Loans and advances

Loans and advances and net investment in finance lease are stated net of provision for loan losses. Provision for loan losses of Pakistan operations including general provision is made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Provision for loan losses of overseas branches is made as per the requirements of the respective central banks. Advances are written off when there are no realistic prospects of recovery.

##### Finance lease receivables

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



## Ijarah

Assets given on lease, after taking into account the estimated residual value, are stated at cost less accumulated depreciation 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 date of statement of financial position. 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 47).

## 4.7 Operating fixed assets and depreciation

### 4.7.1 Tangible

Fixed assets and capital work-in-progress, are stated at cost, except for land and buildings which are carried at revalued amount less accumulated depreciation, where applicable, and accumulated impairment losses (if any).

Cost of fixed assets of foreign branches include exchange differences arising on translation at year-end rates. Land and buildings are revalued by independent professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. Surplus arising on revaluation is credited to the 'surplus on revaluation of fixed assets' account (net of deferred tax). Under the provision of the Companies Ordinance, 1984, deficit arising on revaluation of fixed assets is adjusted against the balance in the above surplus account.

Surplus on revaluation of fixed assets to the extent of the incremental depreciation charged on the related assets is transferred by the Bank to un-appropriated profits (net of deferred tax).

All operating assets are being depreciated over their expected useful lives using the straight-line method from the date the assets are available for use.

Depreciation is calculated so as to write-off the assets over their expected useful lives at the rates specified in note 10.3 to these financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each date of statement of financial position.

Depreciation on addition and deletion of tangible assets during the year is charged in proportion to the period of use.

Normal repairs and maintenance are charged to the profit and loss account as and when incurred. However, renewals are capitalized.

Gains or losses arising on the disposal of fixed assets are included in income currently. Surplus on revaluation of fixed assets (net of deferred tax) realized during the year is transferred directly to un-appropriated profit.

### 4.7.2 Intangible

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method over their estimated useful lives. Amortization is charged at the rate stated in note 10.2. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful life and amortization method are reviewed and adjusted, if appropriate at each date of statement of financial position. Intangible assets having an indefinite useful life are stated at acquisition cost less impairment, if any.

## 4.8 Employee benefits

The Bank operates the following post retirement schemes for its employees:

- i) For those who did not opt for the pension scheme of 1977 and for new employees, the Bank operates:
  - Approved funded provident fund (defined contribution scheme)
  - Approved funded gratuity scheme (defined benefit scheme)

Liability under the gratuity scheme is determined on the basis of actuarial advice under the Projected Unit Credit Method.

ii) For those who opted for the pension scheme introduced in 1977, the Bank operates:

- Approved funded pension scheme (defined benefit scheme) for services up to March 31, 2005
- Contributory gratuity and provident fund schemes in lieu of pension fund for services subsequent to March 31, 2005 (defined contribution scheme).

Liability under the pension scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

#### **Post retirement medical benefits**

The Bank also provides post retirement medical benefits to its clerical employees and pensioners retiring before December 31, 2005. Provision is made in the financial statements for this benefit based on actuarial advice using the Projected Unit Credit Method. The employees under officers and executives cadre are entitled to receive lump sum payments in lieu of post retirement medical facilities as a full and final settlement, effective January 01, 2006 onwards.

#### **Other post retirement benefits**

The Bank provides cash benefits on retirement which are estimated as per the actuarial advice.

#### **Employees' compensated absences**

The Bank also makes provision in the financial statements for its liabilities towards compensated absences. This liability is estimated on the basis of actuarial advice under the Projected Unit Credit Method.

#### **Benevolent fund**

The Bank operates funded benevolent schemes for its executives / officers and clerical / non-clerical employees. Under this scheme, the employees of the Bank are entitled to receive defined grants / facilities during their service and after retirement. The benevolent fund plan covers all the employees of the Bank.

Provision is made in the financial statements for this benefit based on actuarial advice using the Projected Unit Credit Method.

An option for one time full and final payment of fair value of Pension and Benevolent fund based on actuarial valuation has been offered on retirement / early settlement at the time of availing leave prior to retirement (LPR) and / or death of an employee. Similarly, the existing beneficiaries / or prospective legal heir(s) shall have an option to receive fair value of aforesaid benefits including medical in lump sum offered by the Bank, being one time payment in full and final settlement.

#### **Surplus / deficit on retirement funds / schemes**

Any surplus / deficit arising on actuarial valuation of these schemes (including actuarial gains / losses) available to / payable by the Bank is recognized in the year in which it arises.

### **4.9 Foreign currency**

#### **Foreign currency transactions**

Transactions in foreign currencies are translated to Pakistani rupees at the exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of statement of financial position. The fair value of forward cover taken from the State Bank of Pakistan for foreign currency deposits is added / deducted from value of foreign currency deposits. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

#### **Foreign operations**

The assets and liabilities of foreign operations are translated to Pakistani rupees at exchange rates prevailing at the date of statement of financial position. The income and expense of foreign operations are translated at average rate of exchange for the year.

#### **Translation gains and losses**

Translation gains and losses are included in the profit and loss account, except those arising on the translation of net investment in foreign operations i.e., foreign branches which are taken to equity under "Exchange Translation Reserve" and on disposal are recognized in profit or loss account.



## Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of statement of financial position.

### 4.10 Cash and cash equivalents

Cash and cash equivalents include cash and balances with banks in current and deposit accounts.

### 4.11 Off setting

Financial assets and financial liabilities are set-off and the net amount is reported in the financial statements when there is a legally enforceable right to set-off and the Bank intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

### 4.12 Impairment

The carrying amount of the Bank's assets (other than deferred tax asset) are reviewed at each date of statement of financial position to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

### 4.13 Provision for guarantee claim

Provision for guarantee claim is recognized when intimated and reasonable certainty exists that the Bank will settle the obligation. Expected recoveries are recognized by debiting customer's account. Charge to profit and loss account is stated net of expected recoveries.

### 4.14 Other provisions

Other provisions are recognized when the Bank has a legal or constructive obligation as a result of past events and it is probable that outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each date of statement of financial position and are adjusted to reflect the current best estimate.

### 4.15 Financial Assets and Liabilities

Financial instruments carried on the statement of financial position include cash and bank balances, lending to financial institutions, investments, advances, certain receivables, bills payable, borrowings, deposits, sub-ordinated loans and certain other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the relevant policy notes.

### 4.16 Derivative financial instruments

Derivative financial instruments are initially recorded at fair value and subsequently remeasured at fair value. The gain or loss on remeasurement to fair value is recognized in profit and loss account.

### 4.17 Dividend distribution

Declarations of dividend to holders of the equity instruments of the Bank are recognised as liability in the period in which it is declared.

### 4.18 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format of reporting is based on business segments.

## Business segments

### - Retail Banking

Consists of retail lending, deposits and banking services to private individuals and small businesses including credit cards.

### - Corporate / Commercial Banking

Consists of lendings for project finance, trade finance, corporate and commercial customers and investment banking, includes advices and placements to corporate mergers and acquisitions, underwriting, privatizations and securitization.

### - Treasury

Involves the businesses of proprietary trading, fixed income, equity and foreign exchanges.

### - International Banking Group

It represents Bank's operations in 25 countries and is considered a separate segment for monitoring purposes.

### - Head Office

This includes balances held at Head Office level for regulatory requirements or other operational reasons and business segments not shown separately. This also includes some non performing loans not managed by other business segments, statutory liquidity and shareholders equity related balances and their associated cost / income.

## Geographical segments

The Bank operates in five geographic regions, being:

- Pakistan
- Asia Pacific (including South Asia)
- Europe
- North America
- Middle East
- Others

	Note	2011 (Rupees in '000)	2010
<b>5. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand including National Prize Bonds			
Local currency		14,734,633	10,311,999
Foreign currency		<u>2,112,234</u>	<u>2,048,467</u>
		<u>16,846,867</u>	<u>12,360,466</u>
With State Bank of Pakistan in	5.1		
Local currency current account		32,539,366	27,097,709
Foreign currency current account		3,369,553	2,370,523
Foreign currency deposit account		<u>10,138,523</u>	<u>7,119,907</u>
		46,047,442	36,588,139
With other Central Banks in	5.2		
Foreign currency current account		15,163,289	11,611,037
Foreign currency deposit account		<u>10,347,857</u>	<u>12,743,642</u>
		25,511,146	24,354,679
With National Bank of Pakistan in			
Local currency current account		<u>14,674,621</u>	<u>8,213,599</u>
		<u>103,080,076</u>	<u>81,516,883</u>

The above balances include remunerative accounts amounting to Rs. 15,485.433 million (2010: 15,788.255 million).



- 5.1 This includes balances held with State Bank of Pakistan (SBP) to comply with the reserve requirements issued from time to time and also represents US dollar settlement account maintained with SBP. This carries, mark-up at the rate of 0% per annum (2010: 0% per annum).
- 5.2 Balances held with the Central Banks of respective countries in accordance with the requirements of the local statutory / Central Bank regulations. Since, the Bank operates in different countries, these carry varied mark-up rates as given by the Central Banks of respective countries.

6. BALANCES WITH OTHER BANKS	Note	2011 (Rupees in '000)	2010
In Pakistan			
On current account		730,091	367,172
Outside Pakistan	6.1		
On current account		2,394,040	2,729,992
On deposit account		31,861,678	32,893,137
		<u>34,255,718</u>	<u>35,623,129</u>
		<u>34,985,809</u>	<u>35,990,301</u>

- 6.1 This includes remunerative current account balance amounting to Rs. 32.866 million (2010: Rs. 523.786 million). Since, the Bank operates in different countries, these carry varied mark-up rates as given by the external banks of respective countries.

7. LENDINGS TO FINANCIAL INSTITUTIONS	Note	2011 (Rupees in '000)	2010
7.1 In local currency			
Call money lendings	7.2.1	1,450,000	900,000
Repurchase agreement lendings (reverse repo)	7.2	40,131,029	29,439,344
		<u>41,581,029</u>	<u>30,339,344</u>

7.2 Securities held as collateral against lendings to financial institutions	Note	2011			2010		
		Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
----- (Rupees in '000) -----							
Market treasury bills	7.2.1	38,058,870	-	38,058,870	29,439,344	-	29,439,344
Pakistan investment bonds		2,072,159	-	2,072,159	-	-	-
		<u>40,131,029</u>	-	<u>40,131,029</u>	<u>29,439,344</u>	-	<u>29,439,344</u>

- 7.2.1 Market value of securities held as collateral against lendings to financial institutions as at December 31, 2011 amounted to Rs. 40,253.648 million (2010: Rs. 29,558.401 million). These carry mark-up rates ranging from 12.15% to 13.10% per annum (2010: 12.50% to 13.40% per annum) and 11.25% to 13.40% per annum (2010: 12.60% to 13.90% per annum) for call money lendings and repurchase agreement lendings respectively.

8.	INVESTMENTS	Note	2011			2010		
			Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
----- (Rupees in '000) -----								
8.1	<b>Investments by type</b>							
	<b>Held-for-Trading securities (HFT)</b>							
	- Pakistan Investment Bonds		395,470	-	395,470	-	-	-
	- Market Treasury Bills		2,870,862	-	2,870,862	66,836	-	66,836
	- Shares		-	-	-	2,443	-	2,443
			3,266,332	-	3,266,332	69,279	-	69,279
	<b>Held-to-maturity securities (HTM)</b>	8.4						
	<b>Federal Government Securities</b>							
	- Pakistan Investment Bonds	8.8-8.10	44,077,760	-	44,077,760	8,155,763	-	8,155,763
	<b>Debentures and Corporate Debt Instruments</b>		183,937	-	183,937	186,544	-	186,544
			44,261,697	-	44,261,697	8,342,307	-	8,342,307
	<b>Available-for-sale Securities (AFS)</b>							
	<b>Federal Government Securities</b>							
	- Market Treasury Bills	8.8-8.10	265,930,965	-	265,930,965	115,554,480	-	115,554,480
	- Pakistan Investment Bonds		26,335,106	-	26,335,106	12,893,521	714,039	13,607,560
	- Government of Pakistan Guaranteed Bonds		425,000	-	425,000	425,000	-	425,000
	- Government of Pakistan Bonds / Sukuk / (US Dollar / Euro)		16,095,202	-	16,095,202	8,509,111	-	8,509,111
	<b>Overseas Government Securities</b>		9,485,066	-	9,485,066	10,435,099	-	10,435,099
	<b>Fully paid-up Ordinary Shares:</b>							
	- Listed companies		2,505,080	-	2,505,080	1,692,329	-	1,692,329
	- Unlisted companies		761,038	-	761,038	760,936	-	760,936
	<b>Debentures and Corporate Debt Instruments / Units</b>							
	- Listed securities		6,264,741	-	6,264,741	5,305,519	-	5,305,519
	- Unlisted securities	8.3	17,046,940	-	17,046,940	74,351,833	-	74,351,833
	<b>NIT units</b>		11,113	-	11,113	11,113	-	11,113
	<b>Preference shares</b>		200,000	-	200,000	200,000	-	200,000
			345,060,251	-	345,060,251	230,138,941	714,039	230,852,980
	<b>Investment in Subsidiary Companies</b>	8.5	5,690,591	-	5,690,591	5,360,245	-	5,360,245
	<b>Investment in Associates and Joint Venture</b>	8.6	4,132,079	-	4,132,079	5,582,020	-	5,582,020
	<b>Investment at cost</b>		402,410,950	-	402,410,950	249,492,792	714,039	250,206,831
	Provision for diminution / impairment in the value of investments including associates	8.7	(1,996,585)	-	(1,996,585)	(3,870,384)	-	(3,870,384)
	<b>Net Investment</b>		400,414,365	-	400,414,365	245,622,408	714,039	246,336,447
	(Deficit) / surplus on revaluation of held for trading securities		(1,451)	-	(1,451)	65	-	65
	Deficit on revaluation of available for sale securities	19.2	(473,445)	-	(473,445)	(1,319,526)	-	(1,319,526)
	<b>Total investments at market value</b>		<b>399,939,469</b>	<b>-</b>	<b>399,939,469</b>	<b>244,302,947</b>	<b>714,039</b>	<b>245,016,986</b>



8.2 Investments by segments	Note	2011 (Rupees in '000)	2010
Federal Government Securities			
- Market treasury bills		268,801,827	115,621,316
- Pakistan investment bonds		70,808,336	21,763,323
- Government of Pakistan guaranteed bonds		425,000	425,000
- Government of Pakistan bonds / Sukuk / (US Dollar / Euro)		16,095,202	8,509,111
Overseas Government Securities		9,485,066	10,435,099
Fully paid-up Ordinary Shares			
- Listed companies		2,505,080	1,694,772
- Unlisted companies		761,038	760,936
Debentures and Corporate Debt Instruments / Units			
- Listed securities		6,264,741	5,305,519
- Unlisted securities	8.3	17,230,877	74,538,377
NIT units		11,113	11,113
Preference shares		200,000	200,000
Investment in subsidiary companies	8.5	5,690,591	5,360,245
Investment in associates and joint venture company	8.6	4,132,079	5,582,020
		<u>402,410,950</u>	<u>250,206,831</u>
Provision for diminution / impairment in the value of investments including associates	8.7	(1,996,585)	(3,870,384)
Net investment		400,414,365	246,336,447
(Deficit) / surplus on revaluation of held for trading securities		(1,451)	65
Deficit on revaluation of available for sale securities	19.2	(473,445)	(1,319,526)
		<u>399,939,469</u>	<u>245,016,986</u>

8.3 This includes investment in the Variable Rate Subordinated Loan Notes issued by Habib Allied International Bank Plc, UK (Subsidiary) amounting to Rs. 3,868.065 million (US \$ 43 million) (2010: Rs. 2,828.104) (US \$ 33 million). These notes are perpetual and are repayable either at the option of the Bank or five years after receipt of repayment notice from the note holder. The Financial Services Authority (FSA) approval is required prior to repayment. Interest is payable on a six monthly basis at 6 month LIBOR + 5.5% to LIBOR + 5.75%.

8.4 The market value of investment classified as HTM and investment in listed associates and joint venture is as follows:

	December 31, 2011		December 31, 2010	
	Book value	Market value	Book value	Market value
	----- (Rupees in '000) -----			
- Investment classified as held-to-maturity	44,261,697	43,304,571	8,332,307	6,990,663
- Investment in listed associates and joint venture	3,095,848	4,857,766	2,685,902	6,861,508

8.5 Investment in subsidiaries	2011 (Rupees in '000)	2010
Habib Allied International Bank Plc - Holding 90.5% (2010: 90.5%)	2,139,834	2,139,834
Habib Finance International Limited, Hong Kong - wholly owned	686,488	356,144
Habib Bank Financial Services (Private) Limited - wholly owned	32,500	32,500
HBL Currency Exchange (Private) Limited - wholly owned	400,000	399,998
HBL Asset Management Limited - wholly owned	100,000	100,000
HBL Income Fund 58.71% (2010: 54.67%) - listed	739,586	739,586
HBL Multi Asset Fund 93.21% (2010: 76.32%) - listed	248,181	248,181
HBL Stock Fund 82.47% (2010: 82.14%) - listed	1,344,002	1,344,002
	<u>5,690,591</u>	<u>5,360,245</u>





8.6.5 Investment in associated undertakings - as per statute	2011		2010	
	Cost (Rupees in '000)	Holding %	Cost (Rupees in '000)	Holding %
First Women Bank Limited	63,300	19.34%	63,300	26.78%
Khushali Bank	300,000	17.60%	300,000	17.60%
	<u>363,300</u>		<u>363,300</u>	

8.6.5.1 The Bank does not have significant influence over these entities due to influence of the Government / major shareholders. Accordingly these investments are accounted for as normal investments.

8.7 Particulars of provision held against diminution in value of investments	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
The balances disclosed in note 8.1 are stated net of specific provision held. The analysis of total provision held is as follows:			
Opening balance		3,870,384	3,747,037
Charge for the year - net		139,767	4,651
Impairment loss on shares (net) or change in value of associates		736,859	384,622
Total charge - net		876,626	389,273
Transfer to advances		-	(262,633)
Amount written off	8.6.1	(2,755,439)	(3,293)
Exchange adjustment		5,014	-
Closing balance	8.7.1	<u>1,996,585</u>	<u>3,870,384</u>

#### 8.7.1 Particulars of provision in respect of type and segment

##### Held-to-Maturity securities

- Debentures and Corporate Debt Instruments 41,136 10,000

##### Available-for-sale Securities

- Fully paid-up ordinary shares

- Listed companies 533,549 449,597
- Unlisted companies 51,240 41,149
- Debentures and Corporate Debt Instruments 440,772 337,478
- Preference shares 100,000 100,000
- Units 256,627 276,040

##### Associates

573,261 2,656,120  
1,996,585 3,870,384

8.8 Investments held for maintaining the liquidity requirements of the State Bank of Pakistan amounted to Rs. 111,394 million as at December 31, 2011 (2010: Rs. 100,739 million).

8.9 Investments include Rs. 519.958 million as at December 31, 2011 (2010: Rs. 544.701 million) pledged with State Bank of Pakistan and National Bank of Pakistan against TT/DD discounting facilities and demand loan facilities.

8.10 Investments include Rs. 9.567 million as at December 31, 2011 (2010: Rs. 10.610 million) pledged with the Controller of Military Accounts in lieu of Regimental Fund Accounts being maintained at various branches of the bank.

8.11 Investments include strategic investments amounting to Rs. 6,208.819 million as at December 31, 2011 (2010: Rs. 5,926 million) under BPD circular letter No. 16 of 2006 dated August 1, 2006.

8.12 Information relating to investments including credit ratings in shares of listed and unlisted companies, redeemable capital and bonds, required to be disclosed as part of the financial statements by the State Bank of Pakistan, is given in Annexure "I" and is an integral part of these financial statements.

8.13 The comparative figures have been re-arranged and reclassified for comparison purposes.

9. ADVANCES	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
Loans, cash credits, running finances, etc.			
In Pakistan		361,151,387	383,910,719
Outside Pakistan		<u>60,225,576</u>	<u>54,519,434</u>
		<u>421,376,963</u>	<u>438,430,153</u>
Net investment in finance lease - in Pakistan	9.1.3	3,715,662	3,199,755
Bills discounted and purchased (excluding Government treasury bills):			
Payable in Pakistan		<u>10,420,082</u>	<u>9,120,283</u>
Payable outside Pakistan		<u>24,451,110</u>	<u>22,667,587</u>
		34,871,192	31,787,870
Provision against non-performing advances	9.4	<u>(43,702,428)</u>	<u>(38,419,218)</u>
		<u>416,261,389</u>	<u>434,998,560</u>
<b>Fully provided non-performing advances classified as loss for more than five years</b>			
In Pakistan		13,640,851	12,527,683
Provision	9.6	<u>(13,640,851)</u>	<u>(12,527,683)</u>
		<u>-</u>	<u>-</u>

#### 9.1 Particulars of advances

9.1.1 In local currency	333,739,450	347,320,983
In foreign currency including foreign currency financing by domestic branches amounting to Rs. 20,045.548 million (2010: Rs. 26,424.400 million)	<u>82,521,939</u>	<u>87,677,577</u>
	<u>416,261,389</u>	<u>434,998,560</u>
9.1.2 Short term (for upto one year)	218,566,908	302,753,738
Long term (for over one year)	<u>197,694,481</u>	<u>132,244,822</u>
	<u>416,261,389</u>	<u>434,998,560</u>

#### 9.1.3 Net investment in finance lease

	2011			2010		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	----- (Rupees in '000) -----					
Lease rentals receivable	1,266,372	2,935,571	4,201,943	1,090,541	2,527,977	3,618,518
Residual value	<u>2,738</u>	<u>35,876</u>	<u>38,614</u>	1,245	16,311	17,556
Gross investment in finance lease	1,269,110	2,971,447	4,240,557	1,091,786	2,544,288	3,636,074
Unearned finance income	<u>(19,736)</u>	<u>(505,159)</u>	<u>(524,895)</u>	(16,406)	(419,913)	(436,319)
Net investment in finance lease	<u>1,249,374</u>	<u>2,466,288</u>	<u>3,715,662</u>	<u>1,075,380</u>	<u>2,124,375</u>	<u>3,199,755</u>

9.2 Advances include Rs. 51,313.510 million (2010: Rs. 46,677.077 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 as referred to in note 9.3 as detailed below:

Category of classification	Note	2011								
		Non-performing advances			Provision required and held			Net non-performing advances		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
		----- (Rupees in '000) -----								
<b>Specific provision</b>										
Other assets especially mentioned		1,112,720	-	1,112,720	-	-	-	1,112,720	-	1,112,720
Substandard		5,362,602	331,675	5,694,277	1,265,232	58,503	1,323,735	4,097,370	273,172	4,370,542
Doubtful		3,963,781	2,289,098	6,252,879	1,981,890	1,705,549	3,687,439	1,981,891	583,549	2,565,440
Loss		<u>30,557,708</u>	<u>7,695,926</u>	<u>38,253,634</u>	<u>29,834,144</u>	<u>7,273,500</u>	<u>37,107,644</u>	<u>723,564</u>	<u>422,426</u>	<u>1,145,990</u>
		<u>40,996,811</u>	<u>10,316,699</u>	<u>51,313,510</u>	<u>33,081,266</u>	<u>9,037,552</u>	<u>42,118,818</u>	<u>7,915,545</u>	<u>1,279,147</u>	<u>9,194,692</u>
<b>General provision 9.2.2</b>		-	-	-	1,277,090	306,520	1,583,610	-	-	-
		<u>40,996,811</u>	<u>10,316,699</u>	<u>51,313,510</u>	<u>34,358,356</u>	<u>9,344,072</u>	<u>43,702,428</u>	<u>7,915,545</u>	<u>1,279,147</u>	<u>9,194,692</u>



Category of classification	2010								
	Non-performing advances			Provision required and held			Net non-performing advances		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
<b>Specific provision</b>									
Other assets especially mentioned	1,367,486	-	1,367,486	-	-	-	1,367,486	-	1,367,486
Substandard	2,843,825	660,790	3,504,615	683,583	132,410	815,993	2,160,242	528,380	2,688,622
Doubtful	7,246,611	2,168,388	9,414,999	3,623,305	1,422,120	5,045,425	3,623,306	746,268	4,369,574
Loss	25,136,770	7,253,207	32,389,977	24,344,585	6,832,347	31,176,932	792,185	420,860	1,213,045
	36,594,692	10,082,385	46,677,077	28,651,473	8,386,877	37,038,350	7,943,219	1,695,508	9,638,727
<b>General provision</b>	-	-	-	1,153,477	227,391	1,380,868	-	-	-
	36,594,692	10,082,385	46,677,077	29,804,950	8,614,268	38,419,218	7,943,219	1,695,508	9,638,727

9.2.1 Classification of overseas non-performing advances and provision there against has been made in accordance with the accounting policy as referred in note 4.5.

9.2.2 This includes general provision for agri loans amounting to Rs. 775 million which has been maintained by the Bank on prudent basis as the Bank is in process of analyzing the impact of flood affected portfolio on account by account level.

9.3 The Bank monitors non-performing advances classified as loss for more than five years and fully provided as a separate category as shown in note 9.6. This category is not included in note 9.2 and in analytical break-up of other notes.

#### 9.4 Particulars of provision against non-performing advances

Note	2011			2010		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	37,038,350	1,380,868	38,419,218	30,521,618	580,256	31,101,874
Exchange adjustment / other movement	746,210	8,679	754,889	183,112	6,861	189,973
Charge for the year	7,461,210	208,320	7,669,530	8,643,211	842,094	9,485,305
Reversals	(401,036)	(14,257)	(415,293)	(910,513)	(48,343)	(958,856)
	7,060,174	194,063	7,254,237	7,732,698	793,751	8,526,449
Write offs	(753,595)	-	(753,595)	(483,511)	-	(483,511)
Transferred to over 5 years category	(1,972,321)	-	(1,972,321)	(915,567)	-	(915,567)
Closing balance	42,118,818	1,583,610	43,702,428	37,038,350	1,380,868	38,419,218
In local currency	33,081,266	1,277,090	34,358,356	28,651,473	1,153,477	29,804,950
In foreign currency	9,037,552	306,520	9,344,072	8,386,877	227,391	8,614,268
	42,118,818	1,583,610	43,702,428	37,038,350	1,380,868	38,419,218

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

In accordance with BSD Circular No. 2 dated January 27, 2009 and BSD Circular No.10 dated October 20, 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 this benefit of FSV not been taken by the Bank, the specific provision against non-performing advances as at December 31, 2011 would have been higher by Rs. 687.726 million and profit before taxation for the year ended December 31, 2011 would have been lower by approximately Rs. 90.910 million (after taking into account the effect of discounting of FSV taken in previous year). Increase in retained earnings net of tax amounting to Rs. 447.022 million would not be available for the distribution of cash and stock dividend to share holders.

Note	2011	2010
	(Rupees in '000)	
9.6 Particulars of provision against fully provided non-performing advances classified as loss for more than five years		
Opening balance	12,527,683	12,914,798
Reversal	(816,117)	(966,991)
Transferred during the year	9.4 1,972,321	915,567
Write offs	9.7 (43,036)	(335,691)
	13,640,851	12,527,683

9.7 Particulars of write-offs	2011 (Rupees in '000)	2010 (Rupees in '000)
9.7.1 Against provisions	<u>796,631</u>	<u>819,202</u>
<b>9.7.2 Analysis of write-offs</b>		
Rs 500,000 and above in Pakistan (Note 9.8)	53,038	325,087
Below Rs 500, 000 in Pakistan and overseas	<u>743,593</u>	<u>494,115</u>
	<u>796,631</u>	<u>819,202</u>

#### 9.8 Details of loan write-off of Rs 500,000 and above

The statement required under sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2011 is given in Annexure "II".

9.9 Particulars of loans and advances to directors, associated companies, etc	2011				2010			
	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the year	Loan repaid during the year	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)	1,231,700	1,265,700	476,312	178,312	933,700	1,277,800	384,860	489,160
- in respect of key management personnel / Companies in which key management personnel are interested	383,208	392,308	85,458	41,708	339,458	381,128	85,228	126,354
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	1,060,273	1,214,469	4,134,712	3,838,555	764,116	1,403,508	7,258,714	7,650,098
Debts due by Subsidiary company	70,858	102,324	507,373	442,300	5,785	56,092	108,421	112,843
Debts due by associated companies in which key management personnel are interested								
- Guaranteed by Government	10,917,405	13,576,635	14,034,908	13,485,458	10,367,955	13,628,965	10,000,217	12,296,727
- Others	32,869	43,976	35,277	46,205	43,797	52,729	28,349	37,281

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

9.9.1 The comparative figures have been re-arranged and reclassified for comparison purposes.

10. OPERATING FIXED ASSETS	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
Tangible fixed assets	10.3	16,177,686	15,374,155
Intangible assets	10.2	126,445	36,207
Capital work-in-progress	10.1	<u>803,132</u>	<u>466,183</u>
		<u>17,107,263</u>	<u>15,876,545</u>
<b>10.1 Capital work-in-progress</b>			
Civil works		586,317	439,629
Others		<u>216,815</u>	<u>26,554</u>
		<u>803,132</u>	<u>466,183</u>



2010

Description	COST / REVALUATION			DEPRECIATION			Book value as at December 31, 2010	Rate of depreciation %	
	As at January 1, 2010	Additions/ (deletions) / Adjustments during the year	Surplus/ (deficit) on revaluation during the year	As at December 31, 2010	As at January 1, 2010	Charge for the year/ (depreciation on deletions) / adjustments during the year			Surplus/ (deficit) on revaluation during the year
Land	8,667,541	2,178	15,711	8,468,476	-	-	-	8,468,476	-
Building including related machinery	4,471,255	408,289 (811)	125,296	5,264,185	424,348	335,465 (503) 5,464	(11,898)	4,511,309	2.5-10
Furniture, fixture and office equipment	8,181,429	793,249 (362,998) (16,436)	-	8,595,244	5,634,449	1,076,752 (329,767) (20,007)	-	2,233,817	20-33
Vehicles	400,174	40,903 (33,033) (13,170)	-	394,874	225,679	54,899 (31,905) (14,352)	-	160,553	20
	21,720,399	1,244,619 (396,842) 13,596	141,007	22,722,779	6,284,476	1,467,116 (362,175) (28,895)	(11,898)	15,374,155	

10.4 Habib Bank Limited's (HBL) domestic properties were revalued by independent professional valuers as on June 30, 2009. These properties were revalued by Iqbal A. Narijee & Co., professional valuers on the basis of market value. The revaluation has resulted in increasing the surplus on revaluation of fixed assets by Rs. 1,814.219 million. HBL properties of Srilanka and Singapore branches were revalued on October 1, 2010 and December 30, 2010 by A. Y. Daniel & Son and CB Richard Ellis (Pte) Ltd. respectively, licensed valuers, on market value basis. These revaluations have resulted in a surplus of Rs. 13.458 million and Rs. 139.447 million respectively in Srilanka and Singapore. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

- Land	7,098,854
- Building including related machinery	2,682,492
	(Rupees in '000)

The movement in surplus on revaluation of properties is given in note 19.1 to these financial statements.



### 10.5 Details of disposal of fixed assets

The information relating to disposal of fixed assets in aggregate having book value exceeding Rs. 250,000 or cost exceeding Rs. 1 million (whichever is lower), are required to be disclosed as part of the financial statements by the State Bank of Pakistan is given in Annexure "III" and is an integral part of these financial statements.

10.6 At December 31, 2011 carrying value of properties and equipment retired from active service and held for disposal purposes amounted to Rs. 142.998 million (2010: Rs. 154.291 million). The cost / valuation of fully depreciated properties and equipment that are still in the Bank's use, as at the above date, amounted to Rs. 4,450.289 million (2010: Rs. 4,023.830 million).

11. DEFERRED TAX ASSET	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
<b>Deductible temporary differences on</b>			
- provision against investments		384,490	1,068,345
- provision against doubtful debts & off-balance sheet		6,144,996	6,957,566
- liabilities written back under sec. 34(5) of the ITO		117,316	200,970
- revaluation of investments	19.2	165,505	462,828
- provision against others		972,499	1,035,295
		<u>7,784,806</u>	<u>9,725,004</u>
<b>Taxable temporary differences on</b>			
- fixed assets		(827,516)	(889,678)
<b>Net deferred tax asset recognised by the Bank</b>		<u><u>6,957,290</u></u>	<u><u>8,835,326</u></u>

### 11.1 Movement in temporary differences during the year

	Balance as at January 1, 2010	Recognised in profit or loss	Recognised in equity	Balance as at December 31, 2010	Recognised in profit or loss	Recognised in equity	Balance as at December 31, 2011
	------(Rupees in '000)-----						
<b>Deductible temporary differences on</b>							
- provision against investments	908,508	159,837	-	1,068,345	(683,855)	-	384,490
- provision against doubtful debts & off-balance sheet	6,542,642	414,924	-	6,957,566	(812,570)	-	6,144,996
- liabilities written back under sec. 34(5) of the ITO	201,162	(192)	-	200,970	(83,654)	-	117,316
- provision against others	1,103,187	(67,892)	-	1,035,295	(62,796)	-	972,499
- on revaluation of investments	370,251	-	92,577	462,828	-	(297,323)	165,505
<b>Taxable temporary differences on</b>							
- fixed assets	(953,160)	75,822	(12,340)	(889,678)	62,162	-	(827,516)
	<u>8,172,590</u>	<u>582,499</u>	<u>80,237</u>	<u>8,835,326</u>	<u>(1,580,713)</u>	<u>(297,323)</u>	<u>6,957,290</u>

## 12. OTHER ASSETS

	Note	2011 (Rupees in '000)	2010
Income / mark-up accrued in local currency		14,721,391	15,695,932
Income / mark-up accrued in foreign currency		808,174	644,885
Advances, deposits, advance rent and other prepayments		1,424,188	1,272,066
Advances against murabaha		-	57,686
Advance taxation (payments less provisions)		10,418,187	8,020,943
Receivable from defined benefit plans	33.2.3	63,080	-
Stationery and stamps on hand		41,637	37,983
Accrued income		161,954	155,303
Unrealised gain on forward foreign exchange contract	12.2	1,154,950	869,966
Non-banking assets acquired in satisfaction of claims (market value Rs. 2,008.437 million (2010: Rs. 2,808.221 million))		1,811,130	2,569,285
Receivable from National Saving Centre / Clearing in transit		11,300,092	4,561,473
Receivable from SBP		1,358,841	-
Dividend receivable		31,118	30,407
Other non banking assets *		427,873	427,463
Others		503,194	556,816
		<u>44,225,809</u>	<u>34,900,208</u>
Provision held against other assets	12.1	(284,486)	(421,742)
		<u>43,941,323</u>	<u>34,478,466</u>

\* Non banking assets on which buy back option period has not yet expired.

### 12.1 Provision against other assets

Opening balance	421,742	523,773
(Reversal) / Charge for the year	(111,873)	105,422
Write off	(29,501)	(208,847)
Exchange adjustment	4,118	1,394
Closing balance	<u>284,486</u>	<u>421,742</u>

12.2 Unrealised loss on foreign exchange contracts amounting to Rs. 870.376 million (2010: Rs. 385.633 million) has been grossed up from unrealised gain on foreign exchange contracts and shown as part of other liability.

	2011 (Rupees in '000)	2010
<b>13. BILLS PAYABLE</b>		
In Pakistan	13,087,411	9,326,503
Outside Pakistan	807,091	448,246
	<u>13,894,502</u>	<u>9,774,749</u>

## 14. BORROWINGS

In Pakistan	27,761,453	32,416,997
Outside Pakistan	5,953,451	5,013,336
	<u>33,714,904</u>	<u>37,430,333</u>

### 14.1 Particulars of borrowings

In local currency	27,761,453	32,416,997
In foreign currency	5,953,451	5,013,336
	<u>33,714,904</u>	<u>37,430,333</u>



## 14.2 Details of borrowings

**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

Note	2011 (Rupees in '000)	2010 (Rupees in '000)
14.3	18,182,197	20,515,415
	4,204,722	4,212,938
	1,774,534	3,224,605
	-	714,039
	<u>24,161,453</u>	<u>28,666,997</u>

**Unsecured**

In Pakistan

- Interbank call money borrowing

Outside Pakistan

- Overdrawn nostro accounts
- Borrowings of overseas branches

14.4	3,600,000	3,750,000
14.5	708,353	493,736
	5,245,098	4,519,600
	5,953,451	5,013,336
	<u>9,553,451</u>	<u>8,763,336</u>
	<u>33,714,904</u>	<u>37,430,333</u>

14.3 Borrowings from State Bank of Pakistan (SBP) under the export and export oriented projects refinance schemes of SBP are secured by the bank's cash and security balances held by SBP. These carry mark-up rates ranging from 9.7% to 11% per annum (2010: 8.2% to 9.5% per annum).

14.4 These carry mark-up rates ranging from 9.7% to 13.05% per annum (2010: 12.7% to 12.83% per annum).

14.5 Since, the Bank operates in different countries, these carry varied mark-up rates as given by the external banks of respective countries.

## 15. DEPOSITS AND OTHER ACCOUNTS

2011  
(Rupees in '000)

**Customers**

- Fixed deposits
- Savings chequing account
- Current accounts - remunerative
- Current accounts - non-remunerative

245,987,658	186,966,167
388,468,078	338,821,413
1,694,058	1,725,974
222,815,278	179,463,384
<u>858,965,072</u>	<u>706,976,938</u>

**Financial institutions**

- Remunerative deposits
- Non-remunerative deposits

11,291,265	9,318,596
5,052,260	4,773,603
<u>16,343,525</u>	<u>14,092,199</u>
<u>875,308,597</u>	<u>721,069,137</u>

## 15.1 Particulars of deposits

- In local currency
- In foreign currencies {including foreign currency deposits of domestic branches of Rs. 70,334.543 million (2010: Rs. 50,183.957 million)}

720,626,687	594,254,697
<u>154,681,910</u>	<u>126,814,440</u>
<u>875,308,597</u>	<u>721,069,137</u>

## 16 SUB-ORDINATED LOAN

The Bank has obtained loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million (2010: 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 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.

17. OTHER LIABILITIES	Note	2011 (Rupees in '000)	2010
Mark-up / return / interest payable in local currency		15,140,777	11,004,627
Mark-up / return / interest payable in foreign currency		577,420	344,916
Security deposits		277,710	249,583
Accrued expenses		6,976,912	3,492,603
Unrealised loss on forward foreign exchange contracts		870,377	385,633
Unclaimed dividends		45,545	26,384
Dividend payable		51,605	22,801
Provision for employees' compensated absences	33.2.8	1,720,577	1,591,125
Provision for post retirement medical benefits	33.2.3	2,399,600	2,162,309
Provision against off-balance sheet obligations	17.1	1,152,456	1,215,804
Branch adjustment account		1,663,072	980,931
Provision for staff retirement benefits		611,156	484,234
Payable to defined benefit plan	33.2.3	44,863	170,882
Provision for workers welfare fund		1,165,078	728,621
Unearned income		126,342	208,826
Qarza-e-Hasna Fund		346,913	349,106
Duties and taxes payable		836,501	798,929
Insurance payable		55,514	24,986
Reward points payable		40,352	23,067
Liability against trading of securities		266,772	5,000
Others		614,228	701,251
		<u>34,983,770</u>	<u>24,971,618</u>

#### 17.1 Provision against off-balance sheet obligations

Opening balance	1,215,804	1,231,801
(Reversal) / Charge for the year	(68,525)	44,141
Write off	(8,186)	(66,701)
Exchange adjustment	13,363	6,563
Closing balance	<u>1,152,456</u>	<u>1,215,804</u>

## 18. SHARE CAPITAL

### 18.1 Authorised Capital

#### 2011                  2010 Number of shares in '000

<u>1,380,000</u>	<u>1,380,000</u>	Ordinary shares of Rs. 10 each	<u>13,800,000</u>	<u>13,800,000</u>
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### 18.2 Issued, subscribed and paid-up capital

#### 2011                  2010 Number of shares in '000

690,000	690,000	Ordinary shares of Rs. 10 each	6,900,000	6,900,000
412,068	311,880	Fully paid in cash	4,120,680	3,118,800
<u>1,102,068</u>	<u>1,001,880</u>	Issued as bonus shares	<u>11,020,680</u>	<u>10,018,800</u>

### 18.3 Exchange translation reserve

This comprises all foreign currency differences arising from the translation of financial statements of foreign operations.

### 18.4 Statutory reserves

Every banking company incorporated in Pakistan is required to transfer 20% of their profits to a statutory reserve until the reserve equals share capital, thereafter 10% of the profits of the holding company are to be transferred to this reserve.



## 18.5 Dividends

	2011	2010
	(Rupees in '000)	
The following cash dividends and bonus shares were declared and paid / issued by the Bank:		
Cash dividend: Rs. 6.5 per share (2010: Rs. 6 per share)	<u>6,512,220</u>	<u>5,464,800</u>
Bonus share: 1 shares for every 10 shares held (2010: 1 share for every 10 shares held)	<u>1,001,880</u>	<u>910,800</u>
Interim cash dividend: Rs. 3 per share	<u>3,306,204</u>	
After December 31, 2011 the following dividends were proposed by the Directors for 2011. The dividends have not been provided for and there are no income tax consequences.		
Cash dividend: Rs. 4 per share	<u>4,408,272</u>	
Bonus share: 1 share for every 10 shares held	<u>1,102,068</u>	

## 19. SURPLUS ON REVALUATION OF ASSETS - net of deferred tax

	Note	2011	2010
		(Rupees in '000)	
Surplus arising on revaluation of:			
- fixed assets	19.1	8,309,508	8,569,721
- investments	19.2	<u>(307,940)</u>	<u>(856,698)</u>
Surplus on revaluation of assets - net of deferred tax		<u>8,001,568</u>	<u>7,713,023</u>

## 19.1 Surplus on revaluation of fixed assets

Surplus on revaluation of fixed assets as at January 1	9,420,908	9,451,843
Surplus on revaluation of bank's properties recognized during the year	-	152,905
Surplus realised on disposal of revalued properties during the year - net of deferred tax	(139,331)	-
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax	(120,882)	(119,496)
Related deferred tax liability of incremental depreciation charged during the year	(65,090)	(64,344)
Related deferred tax liability on disposal of revalued properties	(2,441)	-
Surplus on revaluation of fixed assets as at December 31	<u>9,093,164</u>	<u>9,420,908</u>
Less: related deferred tax liability on:		
- revaluation as at January 1	851,187	903,191
- revaluation of bank's properties recognised during the year	-	12,340
- surplus realised on disposal of revalued properties during the year	(2,441)	-
- incremental depreciation charged during the year transferred to profit and loss account	(65,090)	(64,344)
	<u>783,656</u>	<u>851,187</u>
	<u>8,309,508</u>	<u>8,569,721</u>

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

Market Treasury Bills	611,825	(156,017)
Pakistan Investment Bonds	(197,281)	(1,160,607)
Sukuk and Euro Bonds	(834,680)	(241,318)
Listed Securities	(143,341)	100,956
NIT Units	6,359	10,030
Other Investments	83,673	127,430
	<u>(473,445)</u>	<u>(1,319,526)</u>
Related deferred tax asset	165,505	462,828
	<u>(307,940)</u>	<u>(856,698)</u>

	2011 (Rupees in '000)	2010 (Rupees in '000)
<b>20. CONTINGENCIES AND COMMITMENTS</b>		
<b>20.1 Direct credit substitutes - financial guarantees</b>		
Guarantees in favour of:		
- Government	354,078	359,428
- Financial institutions	318,596	23,776
- Others	<u>22,307,830</u>	<u>37,786,477</u>
	<u>22,980,504</u>	<u>38,169,681</u>
<b>20.2 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
- Government	1,604,813	1,644,786
- Financial institutions	636,292	94,145
- Others	<u>31,814,519</u>	<u>28,173,233</u>
	<u>34,055,624</u>	<u>29,912,164</u>
<b>20.3 Trade-related commitments</b>		
Credit cash	70,202,498	80,129,369
Credit documentary acceptances	21,899,930	8,025,197
Credit acceptances	<u>23,115,049</u>	<u>14,520,307</u>
	<u>115,217,477</u>	<u>102,674,873</u>
<b>20.4 Other contingencies</b>		
Claims against the Bank not acknowledged as debts	<u>84,516,467</u>	<u>82,647,073</u>
<b>20.5 Commitments in respect of forward lending</b>		
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>20.6 Commitments in respect of forward foreign and local exchange contracts</b>	<b>2011</b>	<b>2010</b>
	<b>(Rupees in '000)</b>	
Purchase	130,739,964	78,470,185
Sale	130,737,821	78,261,634
The above commitments have maturities falling within one year.		
<b>Commitments in respect of foreign currency options</b>		
Purchase	336,655	-
Sale	336,655	-
<b>Commitments in respect of cross currency swaps</b>		
Purchase	2,868,771	-
Sale	2,868,771	-
<b>Commitments in respect of foreign and local currency interest rate swaps</b>		
Purchase	482,551	371,092
Sale	329,801	371,092
<b>20.7 Commitments for acquisition of operating fixed assets / intangibles</b>	512,471	422,502



## 21. DERIVATIVE INSTRUMENTS

## 21.1. Product Analysis

Counterparties	2011					
	Interest Rate Swaps		FX Options		Cross Currency Swaps	
	No. of Contracts	Notional Principal* (Rupees in '000)	No. of Contracts	Notional Principal* (Rupees in '000)	No. of Contracts	Notional Principal* (Rupees in '000)
<b>With Banks for</b>						
Hedging	-	-	-	-	-	-
Market Making	1	329,801	8	336,655	3	2,868,771
<b>With other entities for</b>						
Hedging	-	-	-	-	-	-
Market Making	2	482,551	8	336,655	3	2,868,771
<b>Total</b>						
Hedging	-	-	-	-	-	-
Market Making	3	812,352	16	673,310	6	5,737,542

Counterparties	2010					
	Interest Rate Swaps		FX Options		Cross Currency Swaps	
	No. of Contracts	Notional Principal* (Rupees in '000)	No. of Contracts	Notional Principal* (Rupees in '000)	No. of Contracts	Notional Principal* (Rupees in '000)
<b>With Banks for</b>						
Hedging	-	-	-	-	-	-
Market Making	1	371,092	-	-	-	-
<b>With other entities for</b>						
Hedging	-	-	-	-	-	-
Market Making	1	371,092	-	-	-	-
<b>Total</b>						
Hedging	-	-	-	-	-	-
Market Making	2	742,184	-	-	-	-

\* At the exchange rate prevailing at the end of the reporting year.

## 21.2. Maturity Analysis

Remaining Maturity	2011				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			----- (Rupees in '000) -----		
Upto 1 month	2	63,238	(679)	679	-
1 to 2 Year	15	6,387,027	(31,490)	39,341	7,851
2 to 3 Years	4	62,916	(683)	683	-
3 to 5 Years	2	50,422	(202)	202	-
5 to 10 years	2	659,602	(15,309)	15,999	689
	<u>25</u>	<u>7,223,205</u>	<u>(48,363)</u>	<u>56,904</u>	<u>8,540</u>
Remaining Maturity	2010				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			----- (Rupees in '000) -----		
5 to 10 years	2	742,184	(9,496)	10,396	900
	<u>2</u>	<u>742,184</u>	<u>(9,496)</u>	<u>10,396</u>	<u>900</u>

21.3 During the year HBL has been granted the ADD status by SBP. Hence, it is now permissible for the Bank to undertake market-making activities, which may include taking proprietary positions. The Bank has strengthened its Derivative platform through acquisition of a leading international derivatives solution and skilled human resources. The derivative products include Foreign Currency Options (FXCO), Forward Rate Agreements (FRA), Interest Rate Swaps (IRS) and Cross Currency Interest Rate Swaps (CCIRS), as permitted by SBP. The Bank fully understands the complexities involved and market depth for derivatives products. Therefore, these products are offered in line with the strict criteria set in the derivatives policy document.

22. MARK-UP / RETURN / INTEREST EARNED	2011	2010
	(Rupees in '000)	
<i>On loans and advances to</i>		
- Customers	53,948,102	53,584,158
- Financial institutions	335,189	325,303
<i>On investments</i>		
- Available-for-sale	36,817,789	22,301,681
- Held-for-Trading	522,999	60,192
- Held-to-maturity	1,188,472	473,810
On deposits with financial institutions	706,163	690,432
On lendings to financial institutions	2,928,656	2,564,276
	<u>96,447,370</u>	<u>79,999,852</u>
<b>23. MARK-UP / RETURN / INTEREST EXPENSED</b>		
Deposits	37,528,486	30,606,815
Securities sold under repurchase agreement borrowings	789,508	324,847
Other short term borrowings	2,709,435	2,619,985
Long term borrowings	535,858	538,721
	<u>41,563,287</u>	<u>34,090,368</u>
<b>24. GAIN ON SALE OF SECURITIES - NET</b>		
<i>Federal Government Securities</i>		
- Market treasury bills	300,689	107,094
- Pakistan investment bonds	(91,109)	25,826
- Other securities	2,015	1,150
Listed shares	214,079	154,766
	<u>425,674</u>	<u>288,836</u>
<b>25. OTHER INCOME</b>		
Incidental charges	2,078,525	2,070,739
Rent on lockers	334,714	270,247
Gain on sale of operating fixed assets	7,746	16,993
Rent on property	100,052	72,093
Bad debts recovered	34,472	65,196
Miscellaneous earnings	176,644	124,637
	<u>2,732,153</u>	<u>2,619,905</u>



26. ADMINISTRATIVE EXPENSES	Note	2011 (Rupees in '000)	2010
Salaries, allowances, etc.	26.3	14,062,091	12,377,645
Charge for defined benefit / contribution plan and other benefits		1,586,161	758,710
Non-executive directors' fees		13,700	14,500
Brokerage and commission		20,872	14,617
Rent, taxes, insurance, electricity, etc.		2,601,691	2,172,831
Legal and professional charges		1,570,330	758,853
Communications		552,710	423,219
Repairs and maintenance		1,142,460	1,057,365
Stationery and printing		516,629	444,346
Auditors' remuneration	26.1	69,940	86,964
Advertisement and publicity		995,642	811,073
Amortization	10.2	43,237	198,942
Depreciation	10.3	1,357,994	1,467,116
Entertainment		116,014	92,929
Travelling		333,095	262,397
Conveyance and motor car		107,837	103,035
Training		126,449	160,138
Security charges		761,933	691,070
Remittance charges		164,623	82,139
Donations	26.4	253,028	395,153
Documentation and processing charges		409,788	404,861
Others		331,080	275,957
		<u>27,137,304</u>	<u>23,053,860</u>

#### 26.1 Auditors' remuneration

Audit fee	3,682	3,682
Fee for interim review	3,350	3,350
Fee for audit of local branches of the Bank	8,159	8,159
Special certifications / examinations and sundry advisory services	1,652	5,564
Out of pocket expenses	3,202	3,022
	<u>20,045</u>	<u>23,777</u>
Overseas branches	49,895	63,187
	<u>69,940</u>	<u>86,964</u>

26.2 The Bank operates a short term employee benefit scheme which includes cash award / special bonus for all employees. Under this scheme, the bonus for all Executives, including the Chief Executive Officer is determined on the basis of employees' evaluation and the Bank's performance during the year. The aggregate amount determined for the eligible employees in respect of the above scheme relating to all Executives and for the Key Management Personnel of the Bank amounted to Rs. 601.053 million (2010: Rs. 518.883 million) and Rs. 418.043 million (2010: Rs. 370.988 million) respectively.

26.3 The bank has paid in addition to payments under the staff retirement funds, an amount of Rs. 170.181 million (2010: Rs. 210.782 million) to the staff retrenched during the year and in previous years.

26.4 Details of the donations in excess of Rs. 100,000 and above are given in Annexure IV.

#### 26.5 Benazir Employees' Stock Option Scheme

There is no liability of the bank to grant shares under this scheme and no impact on current or future cash flows of the Bank. The details of schemes are as under:

On August 14, 2009, the Government of Pakistan (GOP) launched Benazir Employees' Stock Option Scheme ['the Scheme'] for employees of certain State Owned Enterprises (SOEs) and non-State Owned Enterprises where GOP holds significant investments (non-SOEs). The scheme is applicable to permanent and contractual employees who were in employment of these entities on the date of launch of the Scheme, subject to completion of five years vesting period by all contractual employees and by permanent employees in certain instances.

The Scheme provides for a cash payment to employees on retirement or termination based on the price of shares of

respective entities. To administer this scheme, GOP shall transfer 12% of its investment in such SOEs and non-SOEs to a Trust Fund created for the purpose by each of such entities. The eligible employees would be allotted units by each Trust Fund in proportion to their respective length of service and on retirement or termination, such employees would be entitled to receive such amounts from Trust Funds in exchange for the surrendered units as would be determined based on market price for listed entities or break-up value for non-listed entities. The shares relating to the surrendered units would be transferred back to GOP.

The Scheme also provides that 50% of dividend related to shares transferred to the respective Trust Fund would be distributed amongst the unit-holder employees. The balance 50% dividend would be transferred by the respective Trust Fund to the Central Revolving Fund managed by the Privatization Commission of Pakistan for payment to employees against surrendered units. The deficit, if any, in Trust Funds to meet the re-purchase commitment would be met by GOP.

An employees trust to administer the scheme for Bank's employees was formed on October 26, 2010. However, the shares have not yet been transferred to the Trust.

The Scheme, developed in compliance with the stated GOP policy of empowerment of employees of State Owned Enterprises, need to be accounted for by the covered entities, including the Bank, under the provisions of amended International Financial Reporting Standard 2 Share Based Payments (IFRS 2). However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the SECP has granted exemption to such entities from the application of IFRS 2 to the Scheme. Had the exemption not been granted the staff costs of the Bank for the period would have been higher by Rs. 1,384 million, profit before taxation would have been lower by Rs. 1,384 million (earnings per share would have been lower by Rs. 1.26 per share) and, as the Scheme is fully funded by GOP, there would have been no impact on retained earnings / equity of the Bank.

27. OTHER CHARGES	2011 (Rupees in '000)	2010
Penalties imposed by State Bank of Pakistan	<u>77,588</u>	<u>178,700</u>

#### 28. WORKERS WELFARE FUND

The Worker's Welfare Ordinance, 1971 has been amended vide Finance Act, 2008 by virtue of which the bank is now liable to pay WWF @ 2% of profit before tax as per accounts or declared income as per income tax return, whichever is higher.

29. TAXATION	2011 (Rupees in '000)	2010
For Pakistan - for the year - current	9,256,457	8,461,106
- deferred	991,585	(591,192)
For Pakistan - prior year - current	(412,996)	694,898
- deferred	589,128	8,693
For Overseas - for the year - current	865,571	870,722
- deferred	-	-
	<u>11,289,745</u>	<u>9,444,227</u>

For the purpose of taxation overseas include the Bank's branches in Azad Jammu & Kashmir region.

29.1 Relationship between tax expense and accounting profit	2011 (Rupees in '000)	2010
Accounting profit for the current year	<u>32,031,561</u>	<u>25,057,281</u>
Tax on income @ 35% (2009: 35%)	11,211,046	8,770,048
- Reduced rate income	(141,463)	(113,764)
- Penalty imposed by SBP	27,155	62,545
- Prior year charge	193,007	725,398
Tax charge for the current year	<u>11,289,745</u>	<u>9,444,227</u>



- 29.2 The income tax returns of Habib Bank Limited have been submitted upto and including the bank's financial year 2010. The tax authorities have concluded the audit of years 2002 through 2010.

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 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 Act, 2010 certain amendments were 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 and 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.

As per Rule 8(A) of the Seventh Schedule, amounts provided for in tax year 2008 (December 2007) 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. 2.127 billion.

	2011 (Rupees in '000)	2010
<b>30. BASIC AND DILUTED EARNINGS PER SHARE</b>		
Profit for the year attributable to equity holders of the Bank	<u>20,741,816</u>	<u>15,613,054</u>
	<b>(Number)</b>	
Weighted average number of ordinary shares	<u>1,102,068,000</u>	<u>1,102,068,000</u>
	<b>(Rupees)</b>	
Basic and diluted earnings per share	<u>18.82</u>	<u>14.17</u>
<b>31. CASH AND CASH EQUIVALENTS</b>	<b>Note</b>	<b>(Rupees in '000)</b>
Cash and balance with treasury banks	5	103,080,076      81,516,883
Balance with other banks	6	<u>34,985,809</u> <u>35,990,301</u>
		<u>138,065,885</u> <u>117,507,184</u>
<b>32. STAFF STRENGTH</b>		<b>(Number)</b>
Permanent		13,476      13,154
Others		<u>19</u> <u>18</u>
Total staff strength		<u>13,495</u> <u>13,172</u>
<b>33. DEFINED BENEFIT PLANS AND OTHER BENEFITS</b>		
<b>33.1 Principal actuarial assumptions</b>		
The latest actuarial valuation for pension and gratuity schemes was carried out as at December 31, 2011 using the Projected Unit Credit Actuarial Cost Method and assuming that no indexation of pension will take place. The following significant assumptions were used for the valuation of these schemes:		
	2011	2010
	-----Per annum-----	
Valuation discount rate	13%	13%
Expected rate of increase in salary level	11%	11%
Expected rate of return on funds invested	13%	13%

33.2.1 Fair value of plan assets and present value of defined benefits obligations of these schemes as at December 31, 2011 are as follows:

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2011	2010	2011	2010	2011	2010	2011	2010
	----- (Rupees in '000) -----							
Fair value of plan assets	4,014,786	3,629,930	329,342	314,910	1,478,094	1,281,248	-	-
Present value of defined benefit obligation	(3,951,706)	(3,752,486)	(374,205)	(363,236)	(1,469,644)	(1,405,002)	-	-
Surplus / (deficit)	63,080	(122,556)	(44,863)	(48,326)	8,450	(123,754)	-	-
Present value of unfunded obligation	-	-	-	-	-	-	(2,455,614)	(2,244,246)
Unrecognised past service cost	-	-	-	-	87,294	138,027	56,014	81,937
Asset / (provision) recognized in the balance sheet	63,080	(122,556)	(44,863)	(48,326)	95,744	14,273	(2,399,600)	(2,162,309)

33.2.1.1 The surplus on benevolent fund has not been accounted for as this is a contributory scheme with contribution both from the employees and the Bank.

33.2.2 The following amounts have been charged / (credited) to the profit and loss account in respect of the above-referred schemes:

Note	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2011	2010	2011	2010	2011	2010	2011	2010
	----- (Rupees in '000) -----							
Current service cost	40,660	40,648	10,984	620	18,915	18,389	21,460	20,475
Mark-up cost	472,479	497,077	44,436	43,628	176,042	186,281	281,158	283,442
Expected return on plan assets	(456,547)	(497,077)	(38,153)	(41,812)	(166,562)	(152,131)	-	-
Other movements	(242,228)	81,908	(20,730)	31,922	(61,318)	(92,898)	97,658	(54,334)
Contributions - employees	-	-	-	-	(24,274)	(23,924)	-	-
Charge / (reversal) for the year	(185,636)	122,556	(3,463)	34,358	(57,197)	(64,283)	400,276	249,583

Charge for the year is included in administrative expenses (note 26 to the financial statements) under 'Charge for defined benefit plans and other benefits' account head. A sensitivity analysis to estimate the impact of increase in medical costs has not been carried out and is not likely to have a material impact on Bank's financial statements.

33.2.2.1 It represents net impact of actuarial (gain) / loss, past service cost recognized in current period.

33.2.3 **Movement in amounts (receivable from) / payable to defined benefit plans**

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2011	2010	2011	2010	2011	2010	2011	2010
	----- (Rupees in '000) -----							
Opening balance	122,556	(7,485,319)	48,326	(434,550)	(14,273)	73,934	2,162,309	2,072,460
Charge / (credit) for the year	(185,636)	122,556	(3,463)	34,358	(57,197)	(64,283)	400,276	249,583
Refund / (contributions) during the year	-	7,485,319	-	448,518	(24,274)	(23,924)	-	-
Benefits paid	-	-	-	-	-	-	(162,985)	(159,734)
Closing balance	(63,080)	122,556	44,863	48,326	(95,744)	(14,273)	2,399,600	2,162,309

33.2.4 The significant portion of the assets comprises of debt securities.

33.2.5 **Movement of present value of defined benefit obligation**

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2011	2010	2011	2010	2011	2010	2011	2010
	----- (Rupees in '000) -----							
Opening balance	(3,752,486)	(3,823,669)	(363,236)	(335,598)	(1,405,002)	(1,432,930)	(2,244,246)	(2,180,320)
Current service cost	(40,660)	(40,648)	(10,984)	(620)	(18,915)	(18,389)	(21,460)	(20,475)
Mark-up cost	(472,479)	(497,077)	(44,436)	(43,628)	(176,042)	(186,281)	(281,158)	(283,442)
Benefits paid	236,064	257,657	42,843	26,931	101,666	95,635	162,985	159,734
Other movements	77,855	351,251	1,608	(10,321)	28,649	136,963	(71,735)	80,257
Closing balance	(3,951,706)	(3,752,486)	(374,205)	(363,236)	(1,469,644)	(1,405,002)	(2,455,614)	(2,244,246)



## 33.2.6 Movement of fair value of plan assets

	Pension		Gratuity		Benevolent	
	2011	2010	2011	2010	2011	2010
	(Rupees in '000)					
Opening balance	3,629,930	11,308,988	314,910	770,148	1,281,248	1,170,236
Expected return on plan assets	456,547	497,077	38,153	41,812	166,562	152,131
Employer (excess contributions refund) / contribution	-	(7,485,319)	-	(448,518)	24,274	23,924
Employee contributions	-	-	-	-	24,274	23,924
Benefits paid	(236,064)	(257,657)	(42,843)	(26,931)	(101,666)	(95,635)
Actuarial gain / (loss) on plan assets	164,373	(433,159)	19,122	(21,601)	83,402	6,668
Closing balance	4,014,786	3,629,930	329,342	314,910	1,478,094	1,281,248

## 33.2.7 Actual return on plan assets

	Pension		Gratuity		Benevolent	
	2011	2010	2011	2010	2011	2010
	(Rupees in '000)					
Expected return on plan assets	456,547	497,077	38,153	41,812	166,562	152,131
Actuarial gain / (loss) on plan assets	164,373	(433,159)	19,122	(21,601)	83,402	6,668
Actual return on plan assets	620,920	63,918	57,275	20,211	249,964	158,799

## 33.2.8 Other benefits - Employee compensated absences

The liability of the Bank in respect of employee compensated absences as at December 31, 2011, amounted to Rs. 1,720.577 million (2010: Rs. 1,591.125 million). Provision for this balance is held by Bank.

The charge for the year amounting to Rs. 191.602 million (2010: Rs. 137.943 million) is included in administrative expenses (note 26 to these financial statements) under 'Charge for defined benefit plans and other benefits' account head.

## 34. DEFINED CONTRIBUTION PLAN

## 34.1 Provident Fund

For employees hired on or after January 1, 2002 and for those who did not opt for the Bank's Pension scheme introduced in 1977, the bank operates an approved Provident Fund under which both the Bank and employees contribute at following rates:

6% of the Basic Salary	For Executives & Officers
12% of the Basic Salary	For Clerical Staff
For Contractual Employees as per their Service Contracts.	

The staff who are covered by the Bank's Pension plan now also eligible for Provident fund benefits effective from April 04, 2005 by contributing 6% of the basic pay. Bank also makes equal contributions for these employees.

Payments are made to the employees on retirement, death, resignation and discharge as specified in the rules of the Fund.

The total assets of the Fund were Rs. 8,410.249 million as at December 31, 2009 (2008: Rs. 7,682.228 million) as per latest available audited financial statements.

## 35. REMUNERATION OF DIRECTORS AND EXECUTIVES

	President		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	(Rupees in '000)					
Remuneration / fee of non executives directors	-	-	20,973	23,211	-	-
Managerial remuneration (including allowances)	21,720	19,888	-	-	3,593,406	2,855,696
Contribution to provident and benevolent fund	1,224	1,755	-	-	98,269	74,574
Medical	204	140	-	-	181,292	133,629
House-rent, maintenance, furnishing, others	1,940	613	-	-	-	-
Utilities	353	347	-	-	-	-
Conveyance	325	251	-	-	-	-
	25,766	22,994	20,973	23,211	3,872,967	3,063,899
Number of persons	1	1	6	6	2,168	1,562

The Chief Executive Officer and certain Executives are provided with free club memberships and the Chairman / Chief Executive Officer are also provided with free use of the Bank's maintained cars in accordance with their entitlement.

In addition to the above, all executives, including Chief Executive Officer of the Bank are also entitled to certain short term employee benefits which are disclosed in note 26.2 to these financial statements.

### 36. 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 (refer note 8.5 and 8.6), associates of AKFED Group entities, employee benefit schemes (refer note 4.8) of the Bank / related party, and members of the Key Management Personnel of the Bank / related party, including both Executive and Non-Executive Directors.

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 9.9 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.

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

	2011				
	Individual and companies related through				
	Directors	Key Management Personnel	Parent Group Entities	Subsidiary companies	Joint venture and associates
-----Rs. in 000-----					
<b>Balance Sheet</b>					
Deposits	669,912	106,452	2,958,027	554,076	4,768,646
Borrowings	-	-	-	323,289	-
Investments	519,003	34,113	-	9,558,656	4,132,079
Markup / Other Receivable	66,691	471,406	-	9,515	178,229
Mark-up / Other Payable	14,328	2,124	163,994	1,810	109,943
Placements / Lendings	300,010	-	362,928	12,668,849	-
Overdrawn Nostro	17,920	-	622,334	52,858	479,556
Impairment provision	-	-	-	-	573,261
<b>Profit and Loss</b>					
Interest / Other Income	228,925	586,364	20,366	308,713	836,571
Interest / Other Expense	392,065	7,550	157,109	23,042	281,548
Dividend income	3,050	24,793	-	-	106,406
<b>Others</b>					
Other contingencies	164,238	62,422	103,044	-	-
Securities Held as custodian	53,700	92,730	3,715,550	945,000	29,132,800
Acceptance	-	-	-	24,215	-
<b>2010</b>					
Individual and companies related through					
Directors	Key Management Personnel	Parent Group Entities	Subsidiary companies	Joint venture and associates	
-----Rs. in 000-----					
<b>Balance Sheet</b>					
Deposits	2,997,481	125,447	1,851,336	780,166	3,398,922
Borrowings	-	-	-	-	-
Investments	618,072	28,613	-	8,410,465	2,925,898
Markup / Other Receivable	26,083	9,535	-	14,106	-
Mark-up / Other Payable	32,041	703	74,803	3,218	207,879
Placements / Lendings	881,885	-	171,273	11,096,829	-
Overdrawn Nostro	-	-	285,904	(178,204)	906,701
Impairment provision	-	-	-	-	2,656,120
<b>Profit and Loss</b>					
Interest / Other Income	155,468	1,105,359	23	1,527,254	549,326
Interest / Other Expense	276,843	3,651	135,437	472,372	62,081
Dividend income	5,500	29,229	-	-	85,737
<b>Others</b>					
Other contingencies	684,396	-	58,210	-	-
Securities Held as custodian	53,700	64,650	3,295,400	745,000	14,068,410
Acceptance	-	-	-	-	-



36.1 The donations given in note 26 of these financial statements include donations to HBL Foundation. The Foundation was formed to promote development and advance the welfare and well being of the people with the object of improving their quality of life.

### 36.2 Key Management Personnel

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

	2011 (Rupees in '000)	2010
Managerial remuneration (including allowances)	903,892	837,058
Contribution to provident and benevolent fund	19,333	17,689
Medical	29,225	25,792
	<u>952,450</u>	<u>880,539</u>
Number of persons	<u>147</u>	<u>139</u>

In addition, Key Management Personnel are paid short-term employee benefits which are disclosed in note 26.2.

36.3 The comparative figures have been re-arranged and reclassified for comparison purposes.

### 37. RISK MANAGEMENT FRAMEWORK

Risk taking is central to banking activity. Success in any venture in general and the banking business in particular is dependent on how well an institution manages its risk. The main goal is to minimize risk and be proactive in efficiently identifying, assessing, measuring (as far as possible), monitoring and controlling risks to an organisation's strategic advantage.

As HBL plans to continue diversifying its business and ensuring sustained growth and profitability amidst increasing competitiveness and challenges in the banking industry and works to implement the comprehensive risk management, capital adequacy and internal control standards enforced by the State Bank of Pakistan (SBP). To this end, the Bank has a well defined Risk Management Framework comprising of an effective risk management strategy, risk management structure and a policy framework.

#### Risk Management Structure

The Bank's risk management approach is underpinned by an appropriate risk management structure. This structure is represented by various lines of defence in order to ensure that the risks are managed effectively on an entity level:

Supervisory Level	Board of Directors	Board Risk Management Committee and Board Audit Committee
	Management	ALCO, Management Risk Committee, Credit Policy Committee, Operational Risk Management Committee etc.
Risk Initiation - Operating Units/ Risk Owners		All Business and Support Groups i.e. Corporate, Investment Banking, Commercial, Retail, Treasury, IT, HR, etc.
Risk Control		Risk Management Group, Compliance
Risk Assurance		Internal Audit and Business Risk Review

#### Board of Directors (BoD)

The Board provides strategic direction for effective risk management and has the ultimate responsibility for managing all material risks that the Bank is/ may be exposed to, and for ensuring that the required human resources, culture, practices and systems are in place to address such risks. In discharging these responsibilities for overall risk management, the Board has established the Board Risk Management Committee.

#### Board Risk Management Committee (BRMC)

BRMC is a Board level oversight committee and is the highest risk related policy making and oversight body for all types of risks faced by the Bank, notably credit, market, liquidity and operational risks. It comprises of four directors of the Board (majority being non-executive) including the Chairman of the Board. The Committee is supported by the Chief Risk Officer (CRO) and other executives as required. BRMC assists the Board in determining the strategic direction of the Bank by providing them the risk perspective.

#### Asset & Liability Committee (ALCO)

ALCO is the focal point for defining and leading the entire asset liability management process within the Bank. In this regard, ALCO also has responsibility for oversight of all market and liquidity risks. It is chaired by the President/CEO and has representation from all business groups, CRO, Chief Financial Officer (CFO), and Head of Market Risk.

#### Management Risk Committee (MRC)

Management Risk Committee is a senior management body headed by the CRO that mainly covers risks on integrated basis from an overall perspective of strategy, policy/ framework development, assessment/ measurement tools, MIS framework and Basel II implementation, whereas routine aspects in relation to such risks are managed by designated risk departments. In addition, the Bank has other senior management committees i.e., CPC, ALCO and ORMC to manage more specifically the credit, market and liquidity and operational risks respectively.

### Credit Policy Committee (CPC)

Credit Policy Committee, at the functional level, has the responsibility to translate the decisions about strategy into framework, policies and standards for the origination, approval, disbursement, monitoring and reporting of credits and also to participate with the business line management in setting up the Bank's target portfolio profile and limits and in monitoring alignment with the risk strategies, appetite and limits etc. approved by the competent authorities. The CPC is chaired by the CRO with the members comprising of at least one Senior Credit Officer from Corporate Banking, Investment Banking, Commercial and Retail Lending and at least one representative each from the Credit Policy and Credit Administration Divisions within RMG. - The risk management function is independent of business group / divisions.

### Operational Risk Management Committee (ORMC)

Operational Risk Management Committee is a senior management body responsible for operational risk management within the Bank both from the strategic as well as tactical perspectives. The Committee has representation from Risk Management Group, Operations, Global Compliance Group and Finance, being headed by the CRO as its Chairman.

### Risk Management Group (RMG)

For effective implementation of the risk management framework, a dedicated function i.e. Risk Management Group operates within the Bank, independent from the other business units, support functions as well as the Internal Audit function. RMG is responsible to perform the functions pertaining to development and oversight of risk strategy, policy, framework, methodology and MIS. The Group is headed by a designated Group Executive i.e. CRO reporting to the President but with an independent reporting line to BRMC so as to enable reporting of all material risk issues and matters, particularly in relation to exceptional circumstances where there may be a conflict/ disagreement with the President.

RMG has designated separate personnel/departments to cater to the following significant areas with each of them reporting to the CRO:

- Credit Policy
- Credit Approvals
- Credit Administration
- Portfolio Management
- Consumer Risk Management
- Market & Liquidity Risk Management

The Operational Risk Management Division (ORMD) operates within Global Compliance Group (GCG) independent from the other business units, support functions as well as the Internal Audit function. The Head ORMD is one of the members of the Operational Risk Committee which is chaired by the CRO. In this manner, issues and matters concerning operational risk are independently communicated to CRO so as to enable knowledge of the Bank-wide risks. The key issues are reported to BRMC through the forum of the Operational Risk Committee and/ or MRC, where applicable. In addition, the Head ORMD has a dotted reporting relationship with the CRO.

#### *Internal Audit & Business Risk Review (BRR)*

BRR and Internal Audit provide independent assessment to the Board and the senior management of the Bank's risk management framework that includes policies, procedures, methodologies, reporting, and systems.

### Credit Risk Management

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with the agreed contract terms. Credit risk makes up the largest part of the Bank's risk exposures. The Bank's credit process is guided by centrally established credit policies, rules and guidelines continuing a close-to-the market approach with an aim to maintain a well-diversified portfolio of credit risk, which produces a reliable and consistent return.

Credit risk policies are established by the Credit Policy Committee/ CRO and approved by the Board through the Board Risk Management Committee. The Bank has a system of checks and balances in place around the extension of credit that are:

- An independent risk management function.
- Approval rules based on three-initial system and co-guarantor approach.
- An independent audit and risk review function.

The Credit Risk Strategy reflects Bank's tolerance for risk i.e. credit risk appetite and the level of expected profitability. This, as a minimum, reflects Bank's strategy to grant credit based on various products, economic sectors, client segments etc., target markets giving due consideration to risks specific to each target market.

Salient features of our credit approval process are delineated below:

- Every extension of credit to any counterparty requires approval by the personnel having credit approval authorities.
- All Business groups must apply consistent standards in arriving at their credit decisions.
- Every material change to a credit facility requires approval at the appropriate/ pre-defined level.
- Credit approval authority is assigned to individuals according to their qualifications and experience.

Certain groups of exposures/ facilities are managed under product programs, which are approved by various levels of approving authorities as defined in the Credit Policy Manual. Each product program contains detailed credit criteria, regulatory, compliance and documentation requirements.



The Bank uses internal risk rating system to supplement the credit risk measurement procedure for all Corporate and Commercial, and most of the Retail exposures. All in all, over 90% of all exposures are rated. All obligor risk ratings are validated and approved by authorized personnel belonging to both the business units and risk management function. The Bank is currently involved with external consultants to introduce more effective internal risk rating framework that will be aligned with the Foundation Internal Ratings Based (FIRB) approach of the Basel II accord.

Stress testing on the credit portfolio is performed according to the guidelines issued by SBP at defined frequency

The disbursement, administration and monitoring of credit facilities are managed by Credit Administration Departments (CAD) linked to various business units and operates under the CRO as part of the Risk Management Group. CAD is also responsible for collateral/ documents management.

The Bank monitors its credit portfolio on continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of the Bank's credit culture and is intended to ensure that greater attention is paid to such exposure. The Bank has an established Remedial Assets function to focus on expediting recoveries from problem credits. The function negotiates with problem borrowers and recommends restructuring and/ or rescheduling of stuck up loans to the senior management. Cases where the possibilities of economically viable means of recovery are exhausted, legal proceedings are initiated. The Bank follows the guidelines of SBP or the Regulators under which it is operating in other countries for classification/ provisioning/ write-off of problem loans.

### Country Risk

The Bank has in place a comprehensive Country Risk Policy. Limits are established for Cross Border Transfer Risk (CBTR) based on the ratings assigned by the internationally recognized rating agencies. The limit utilization is controlled at Head office level and country risk exposures are reported to Board Risk Management Committee at defined frequency. CBTR arises from exposure to counterparties in Countries other than the country where exposure is located. The Bank defines transfer risk as arising where an otherwise solvent and willing debtor is unable to meet its obligation due to the imposition of governmental or regulatory controls restricting its ability to perform under its obligation towards its foreign liabilities.

### Market Risk Management

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and equity prices. It emanates from the trading activities mainly carried out by Treasury and investments/ structural positions housed in banking book.

Market risk at the Bank level is managed by the Risk Management Group under the supervision of ALCO supported by the Treasury Middle Office (TMO). The Bank carries a limited amount of market risk the bulk of which is located in the banking book stemming from the mismatches in structural assets and liabilities positions.

### Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship. Substantial part of the Bank's assets and liabilities are subject to floating rates hence are re-priced simultaneously. However, the Bank is exposed to interest rate risk as a result of mismatches on a relatively small part of its assets and liabilities. The major portion related to this risk is reflected in the banking book owing to the retail activities and investments qualifying for statutory reserve requirements. The overall potential impact of the mismatches on the earnings in short term and economic value of the portfolio in the long term is not material and is being managed with in the tolerance limits approved by the Board. The Bank uses simulation and duration gap models to measure and monitor the interest rate sensitivity on the potential earnings and the Bank's economic value of equity.

### Foreign Exchange Risk

The Bank's assets are typically funded in the same currency as that of the business transacted to eliminate foreign exchange exposure. However, the Bank is obliged to maintain a reasonable open position in various currencies resulting from the sizeable trade related transactions handled across the Bank. Foreign exchange risks are controlled and monitored through the limits approved by ALCO within the overall limit advised by SBP. The regulatory limit for foreign exchange is relatively small compared to the size of the Bank; hence, the risk generated through foreign exchange activities is insignificant.

End-of-the-day positions are marked to market daily according to the guidelines of SBP and sensitivity is conducted in line with the internal market risk policy of the Bank. The intra- day positions are managed by treasury through stop loss/ dealers limits.

### Liquidity Risk Management

Liquidity risk is the risk that the Bank will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets, or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management. The Bank follows a comprehensive liquidity risk management policy duly approved by ALCO and the Board. The policy stipulates maintenance of various ratios, funding preferences, and evaluation of Bank's liquidity under normal and crisis situation (stress testing). To comply with the policy, the Bank has also conducted a behavioral study on its demand deposits to evaluate their stickiness, which may not reflect in their maturity profile. Such evaluation forms part of the liquidity management process to realistically project the reliance on such funding sources. As a result of close monitoring and strict policy towards reliance on core deposit, the Bank has been able to avoid concentration/ reliance on volatile deposit in its books. A comprehensive contingency plan to deal with crisis situation is also in place.

## Operational Risk Management (ORM)

In line with the approved Operational Risk Management Policy, Bank has instituted an Operational Risk Management Division (ORMD). Operational Risk Management Policy and a detailed ORM Framework has been prepared and implemented. Operational Risk Coordinators (ORCs) have been assigned from more than 20 departments of the Bank being responsible for implementation of the ORM Framework in coordination with ORMD. The Bank has been granted permission/certification by SBP to move to the more advanced approach i.e. Alternative Standardised Approach (ASA) under Basel II with a capital floor i.e., operational risk charge under ASA should not fall below a certain percentage of operational risk capital charge calculated under BIA for initial 3 years. Capital floors are 2011-2012 90%, 2013 80%, and 2014 70%. HBL is the first Pakistani bank to achieve this milestone.

The Bank's ORM framework and practices address all the significant areas of ORM within the Bank including Risk Control Self Assessment (RCSA), Key Risk Indicators, Operational Loss Data Management, Operational Risk Reporting, Capital Calculation etc. Detailed RCSA exercises are conducted at regular intervals across the Bank, the results of which are continually evaluated against the losses. Operational loss data collection and evaluation has been underway since 2009. The Bank has also established Key Risk Indicators (KRI) and is monitoring them at regular intervals. Operational risk reports are regularly submitted to the senior management.

### Risk Management alignment with Basel II project

The Bank is one of the few financial institutions in Pakistan planning to adopt the Foundation Internal Ratings Based (FIRB) Approach for credit risk and Internal Models Approach (IMA) for Market Risk (Alternate Standardized Approach for operational risk has already been adopted) under the Basel II Framework and consequently enhancing the quality of risk management processes, methodologies, systems and reporting. In order to undertake the Basel II initiatives in a systematic manner and in full compliance with the related requirements, the Bank has sought the services of an international firm. Bank's Basel II Program includes a number of aspects involving organizational alignments, enhancements in the existing policies, procedures, processes and controls, development of new risk frameworks, existing system upgrades, selection and deployment of various risk applications, development of advanced risk management tools and methodologies and introduction of improved risk reporting MIS. A lot of effort has already gone into aligning Bank's risk management structure, policies, procedures and systems with the requirements of Basel II while the remaining initiatives are currently being undertaken in an integrated manner with plans for completion in due course.

The Bank also realizes the criticality of quality human resource and is already in the process of augmenting the skill set by necessary induction and training measures to enable undertaking of planned initiatives and consistently implementing the new risk management framework in line with Basel II. Once completed, the Bank expects to achieve a number of significant business benefits from its Basel II program with more robust risk management and internal control environment in line with international best practices.

During the year, the Bank has embarked upon deployment of a comprehensive suite of advanced systems for Loan Origination, Credit Administration/ Collateral Management, and Internal Risk Ratings as part of FIRB related initiatives for credit risk.

## 38. CAPITAL ADEQUACY

The risk weighted assets to capital ratio, calculated in accordance with the State Bank's guidelines on capital adequacy was as follows:-

### 38.1 Regulatory Capital Base

	2011 (Rupees in '000)	2010 (Rupees in '000)
<b>Tier 1 Capital</b>		
1.1 Fully Paid-up capital	11,020,680	10,018,800
1.2 General Reserves as disclosed on the Balance Sheet	21,958,110	19,883,928
1.3 Un-appropriated / un-remitted profits (net of accumulated losses, if any)	52,228,646	44,121,103
	85,207,436	74,023,831
<b>Deductions:</b>		
1.4 Book value of intangibles	277,468	44,345
1.5 Other deductions (50% of the amount) Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	3,613,443	2,928,291
	3,890,911	2,972,636
<b>Total eligible Tier 1 capital</b>	81,316,525	71,051,195
<b>Supplementary Capital</b>		
<b>Tier 2 Capital</b>		
2.1 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets	808,610	1,380,868
2.2 Revaluation Reserves up to 45%	3,878,874	3,645,622
2.3 Foreign Exchange Translation Reserves	8,245,586	7,787,885
2.4 Subordinated debt -upto maximum of 50% of Total eligible Tier 1 capital	1,798,914	2,569,101
<b>Total tier 2 Capital</b>	14,731,984	15,383,476
<b>Deductions:</b>		
2.5 Other deductions (50% of the amount as calculated on CAP 2) Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	-	-
	3,613,443	2,928,291
<b>Total eligible Tier 2 Capital</b>	11,118,541	12,455,185
<b>Total Eligible Capital (1+2)</b>	92,435,066	83,506,380



38.2 Risk-Weighted Exposures

	Note	Capital Requirements		Risk Weighted Assets	
		2011	2010	2011	2010
------(Rupees in '000)-----					
<b>Credit Risk</b>					
Claims on					
Other sovereigns, GOP, PG, SBP other than PKR		3,202,617	2,988,272	32,026,172	29,882,720
PSE's		1,188,133	1,456,038	11,881,327	14,560,377
Banks		1,921,089	2,176,402	19,210,892	21,764,015
Corporates		28,419,098	29,728,067	284,190,982	297,280,668
Retail Portfolio		4,585,850	4,702,956	45,858,502	47,029,559
Secured by residential property		231,560	213,245	2,315,598	2,132,447
Past due loans		917,806	971,595	9,178,057	9,715,948
Listed Equity investments		437,955	429,393	4,379,553	4,293,927
Unlisted equity investments		629,290	530,906	6,292,902	5,309,060
Investments in fixed assets		1,682,980	1,583,220	16,829,795	15,832,200
Other assets		1,227,854	1,441,406	12,278,541	14,414,057
		44,444,232	46,221,500	444,442,321	462,214,978
<b>Market Risk</b>					
Interest Rate Risk		2,090,860	852,826	26,135,744	10,660,320
Equity Position Risk		297,342	266,327	3,716,772	3,329,090
Foreign Exchange Risk		2,998,376	2,885,798	37,479,697	36,072,475
		5,386,578	4,004,951	67,332,213	50,061,885
<b>Operational Risk - (Restricted to 90% of Basic Indicator Approach)</b>					
		7,864,214	7,695,787	98,302,680	96,197,337
		57,695,024	57,922,238	610,077,214	608,474,200
<b>Capital adequacy ratio</b>					
<b>Total eligible regulatory capital held</b>	38.1	92,435,066	83,506,380		
<b>Total risk weighted assets</b>	38.2	610,077,214	608,474,200		
<b>Capital adequacy ratio</b>		<b>15.15%</b>	<b>13.72%</b>		

38.3 Types of Exposures and ECAI's used

Exposures	JCR-VIS	PACRA	MOODYs	STANDARD & POOR	ECA SCORES
PSE's	✓	✓			
Banks	✓	✓	✓		
Corporates	✓	✓			
Sovereigns and GOP other than PKR			✓	✓	✓

38.4 Credit Exposures subject to Standardised approach

Exposures	Rating Category	2011			2010		
		Amount Outstanding	Deduction CRM	Net exposure	Amount Outstanding	Deduction CRM	Net exposure
------(Rupees in '000)-----							
Cash and cash equivalent		16,846,867	-	16,846,867	12,360,485	-	12,360,485
Claims on GOP in PKR		131,197,556	26,204,154	104,993,402	83,015,287	31,709,220	51,306,067
Claims on SBP arising out of statutory obligations		13,466,775	-	13,466,775	9,479,805	-	9,479,805
Claims on other sovereigns and GOP other than PKR	1	3,621,086	-	3,621,086	1,601,301	-	1,601,301
Claims on other sovereigns and GOP other than PKR	2	1,610,563	-	1,610,563	6,294,105	-	6,294,105
Claims on other sovereigns and GOP other than PKR	3	13,437,524	-	13,437,524	11,009,351	-	11,009,351
Claims on other sovereigns and GOP other than PKR	4,5	15,709,295	-	15,709,295	13,274,603	-	13,274,603
Claims on other sovereigns and GOP other than PKR	6	5,791,362	-	5,791,362	5,767,872	-	5,767,872
Claims on other sovereigns and GOP other than PKR	Unrated	594,553	-	594,553	1,204,582	-	1,204,582
PSE	1	11,083,506	-	11,083,506	1,782,888	104,852	1,678,036
PSE	Unrated	102,420,433	41,799,397	60,621,036	174,127,228	100,697,329	73,429,899
Banks	1	27,628,967	1,107,538	26,521,429	38,406,201	2,779,361	35,626,840
Banks	2,3	3,656,586	745,778	2,910,808	6,099,179	956,065	5,143,114
Banks	Unrated	12,325,836	-	12,325,836	11,278,156	-	11,278,156
Bank - three months or less	1,2,3	68,158,020	45,024,313	23,133,707	50,431,463	28,853,280	21,578,183
Bank - three months or less	Unrated	12,864,885	-	12,864,885	18,752,721	-	18,752,721
Corporate	1	56,050,128	307	56,049,821	21,609,970	-	21,609,970
Corporate	2	24,990,592	-	24,990,592	19,554,532	1,500	19,553,032
Corporate	3,4	579,925	-	579,925	2,040,637	-	2,040,637
Corporate	Unrated	303,112,702	7,360,774	295,751,928	320,617,918	6,679,269	313,938,649
Retail		65,744,862	3,936,498	61,808,364	66,090,330	2,395,287	63,695,043
Residential mortgage		6,615,995	-	6,615,995	6,092,707	-	6,092,707
Past due loans		9,194,692	-	9,194,692	9,638,727	-	9,638,727
Listed equity and regulatory capital instruments		4,379,553	-	4,379,553	4,293,927	-	4,293,927
Unlisted equity		4,195,268	-	4,195,268	3,539,373	-	3,539,373
Fixed assets		16,829,795	-	16,829,795	15,832,200	-	15,832,200
Other assets		12,278,541	-	12,278,541	14,414,057	-	14,414,057
		<b>944,385,867</b>	<b>126,178,759</b>	<b>818,207,108</b>	<b>928,609,605</b>	<b>174,176,163</b>	<b>754,433,442</b>

### 38.5 Capital management

The Bank's lead regulator State Bank of Pakistan (SBP) sets and monitors capital requirements for the Bank as a whole. In addition the Bank's branches outside Pakistan are also required to follow capital requirements applicable in respective countries.

In implementing current capital requirements, SBP requires the Bank to maintain a prescribed ratio of 10% total capital to total risk-weighted assets. The Bank calculates requirements for market risk in its trading portfolios based upon the methodology provided by SBP which takes account of specific and general market risk, capital charge for interest rate risk and equity price risk using the maturity method.

The Bank's regulatory capital is analysed into three tiers:

- Tier I capital, which includes ordinary share capital, capital and other reserves except exchange translation reserve, minority interest, and retained profit.
- Tier II capital includes revaluation surplus, exchange translation reserve, subordinated debt and impairment allowances not kept against identified debts. The revaluation surplus is allowable as tier II capital upto 45% of the reserve. Subordinated debt is limited to 50% of Tier I capital.
- Tier III supplementary capital consists of short term subordinated debt solely for the purpose of meeting a proportion of the Capital requirements for market risks. The bank currently does not have any Tier III capital.

Total of Tier II and III capital is limited to Tier I capital.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

On and off-balance sheet assets in the banking book are broken down to various asset classes for calculation of credit risk. Ratings for assets are applied using various ECAI's and aligned with appropriate risk buckets. Collaterals if any, are used as an outflow adjustment. Risk weights notified, are applied at net adjusted exposure. Collaterals used include: Government of Pakistan guarantees for advances and investments in PSE / GoP, deposits / margins, lien on deposits, saving certificates and lending of securities (repo & reverse repo).

### 39. CURRENCY RISK

	2011			
	Assets	Liabilities	Off-balance sheet items	Net currency exposure
	----- (Rupees in '000) -----			
Pakistan Rupee	835,712,127	759,279,311	(12,457,927)	63,974,889
United States Dollar	94,068,108	94,413,216	5,358,116	5,013,008
Great Britain Pound	8,461,781	10,015,894	3,718,889	2,164,776
UAE Dirham	31,118,683	26,630,772	3,901,969	8,389,880
Japanese Yen	132,229	1,055	(121,716)	9,458
Euro	15,898,121	12,984,618	(230,545)	2,682,958
Other Currencies	78,462,599	59,074,192	(168,786)	19,219,621
	<u>1,063,853,648</u>	<u>962,399,058</u>	<u>-</u>	<u>101,454,590</u>
	2010			
	Assets	Liabilities	Off-balance sheet items	Net currency exposure
	----- (Rupees in '000) -----			
Pakistan Rupee	673,477,026	628,034,585	8,382,698	53,825,139
United States Dollar	84,379,586	73,181,175	(11,541,770)	(343,359)
Great Britain Pound	9,584,361	9,084,477	1,516,272	2,016,156
UAE Dirham	28,920,246	23,711,948	2,825,936	8,034,234
Japanese Yen	309,574	80,102	(258,989)	(29,517)
Euro	15,728,848	13,840,190	548,665	2,437,323
Other Currencies	74,652,770	49,595,195	(1,472,812)	23,584,763
	<u>887,052,411</u>	<u>797,527,672</u>	<u>-</u>	<u>89,524,739</u>



40. MATURITIES OF ASSETS AND LIABILITIES

2011

Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years	
										Rupees in '000
<b>Assets</b>										
Cash and balances with treasury banks	103,080,076	28,482,198	15,102,723	19,320,791	3,650,924	935,434	807,311	1,141,456	16,911,469	16,727,770
Balances with other banks	34,985,809	23,422,698	6,296,560	3,793,870	1,472,681	-	-	-	-	-
Lendings to financial institutions	41,581,029	3,586,218	1,310,351	2,630,016	34,054,444	-	-	-	-	-
Investments	399,939,469	167,942,371	13,506,013	13,800,949	22,970,490	23,317,400	15,876,529	52,922,969	38,429,570	51,173,178
Loans and advances	416,261,389	30,446,587	36,500,284	44,604,700	18,113,120	25,753,524	23,627,906	180,697,290	52,653,736	3,864,242
Operating fixed assets	17,107,263	-	-	-	-	-	-	-	-	17,107,263
Deferred tax asset	6,957,290	-	-	-	-	1,391,928	1,391,928	2,783,856	1,389,578	-
Other assets	43,941,323	15,566,612	9,531,733	7,242,301	9,613,509	-	-	63,081	-	1,924,087
	1,063,853,648	269,446,684	82,247,664	91,392,627	89,875,168	51,398,286	41,703,674	237,608,652	109,384,353	90,796,540
<b>Liabilities</b>										
Bills payable	13,894,502	4,597,253	3,718,899	5,578,350	-	-	-	-	-	-
Borrowings from financial institutions	33,714,904	10,097,432	7,607,680	9,700,467	565,952	584,249	903,963	1,203,145	3,052,016	-
Deposits and other accounts - note 40.1	875,308,597	80,847,137	98,766,329	71,577,204	104,278,864	19,820,683	21,537,109	30,523,819	226,428,907	221,528,545
Sub-ordinated loans	4,497,285	-	-	-	-	-	4,497,285	-	-	-
Other liabilities	34,983,770	17,668,995	9,628,009	3,352,295	702,662	519,865	519,865	2,592,079	-	-
	962,399,058	113,210,817	119,720,917	90,208,316	105,547,478	20,924,797	27,458,222	34,319,043	229,480,923	221,528,545
<b>Net gap</b>	<b>101,454,590</b>	<b>156,235,867</b>	<b>(37,473,253)</b>	<b>1,184,311</b>	<b>(15,672,310)</b>	<b>30,473,489</b>	<b>14,245,452</b>	<b>203,289,609</b>	<b>(120,096,570)</b>	<b>(130,732,005)</b>
Share capital	11,020,680									
Reserves	30,203,696									
Unappropriated profit	52,228,646									
Surplus on revaluation of assets - net of tax	8,001,568									
	<b>101,454,590</b>									

2010

Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
----- Rupees in '000 -----									
<b>Assets</b>									
Cash and balances with treasury banks	81,516,883	23,433,032	13,138,640	12,741,169	4,047,339	1,160,854	1,510,353	6,589,131	9,360,811
Balances with other banks	35,990,301	20,520,737	8,415,470	6,770,924	283,170	-	-	-	-
Lendings to financial institutions	30,339,344	4,220,830	12,335,638	11,327,389	2,455,487	-	-	-	-
Investments	245,016,986	13,607,225	52,727,660	41,124,188	30,558,116	10,013,643	23,503,624	58,676,469	9,629,470
Loans and advances	434,998,560	28,135,887	41,680,055	49,814,751	23,956,256	16,968,846	23,240,639	191,069,287	13,968,189
Deferred tax asset	8,835,326	-	-	-	-	1,767,065	1,767,065	3,534,130	-
Operating fixed assets	15,876,545	-	-	-	-	-	-	-	15,876,545
Other assets	34,478,466	15,341,819	6,169,265	4,128,304	5,921,509	-	-	-	2,917,569
	<b>887,052,411</b>	<b>105,259,530</b>	<b>134,466,727</b>	<b>125,906,725</b>	<b>67,221,877</b>	<b>29,910,408</b>	<b>50,021,681</b>	<b>259,869,017</b>	<b>62,643,862</b>
<b>Liabilities</b>									
Bills payable	9,774,749	1,982,365	3,116,954	4,675,430	-	-	-	-	-
Borrowings from financial institutions	37,430,333	10,362,823	8,795,904	10,793,251	367,946	807,266	823,468	2,718,827	2,759,970
Deposits and other accounts - note 40.1	721,069,137	87,153,655	81,130,994	66,609,600	103,428,532	29,914,113	33,368,816	160,384,550	81,665,996
Sub-ordinated loans	4,281,835	-	-	-	-	-	-	4,281,835	-
Other liabilities	24,971,618	10,184,800	7,755,674	2,389,045	537,283	661,958	661,958	2,780,900	-
	<b>797,527,672</b>	<b>109,683,643</b>	<b>100,799,526</b>	<b>84,467,326</b>	<b>104,333,761</b>	<b>31,383,337</b>	<b>34,854,242</b>	<b>170,166,112</b>	<b>84,425,966</b>
<b>Net gap</b>	<b>89,524,739</b>	<b>(4,424,113)</b>	<b>33,667,201</b>	<b>41,439,399</b>	<b>(37,111,883)</b>	<b>(1,472,928)</b>	<b>15,167,439</b>	<b>89,702,904</b>	<b>(21,782,104)</b>
Share capital	10,018,800								
Reserves	27,671,813								
Unappropriated profit	44,121,103								
Surplus on revaluation of assets - net of tax	<u>7,713,023</u>								
	<u>89,524,739</u>								

40.1 Expected maturity dates do not differ significantly from the contract dates except for the maturity of Rs. 577:132 billion (2010: Rs. 478.704) of deposits representing retail deposit accounts considered by the Bank as stable core source of funding of its operations.

40.2 During the year the Bank has changed its assumptions vide BSD Circular Letter No.03 of 2011, issued by SBP, which states that assets and liabilities with stated maturities should be reported as per their remaining maturities, whereas, assets and liabilities which do not have any contractual maturities should be reported as per their "expected maturities" calculated on the basis of an objective and systematic behavioural study approved by ALCO committee.



41. YIELD / INTEREST RATE RISK  
41.1 Interest rate risk management

A high proportion of loans and advances portfolio of the Bank comprises of working capital finances which are re-priced on a three monthly basis. The Bank's interest / mark-up rate risk is limited since the majority of customers deposits are retrospectively re-priced on a six monthly basis on the profit and loss sharing principles.

2011

Effective yield / interest rate	Total	Exposed to yield / interest risk						Not exposed to yield / interest risk
		Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over three to five years	
<b>On-balance sheet assets</b>								
<b>Financial Assets</b>								
Cash and balances with treasury banks	103,080,076	20,526,204	1,714,244	1,398,767	-	216,718	-	79,224,143
Balances with other banks	34,985,809	21,886,967	4,577,021	3,925,009	1,472,681	-	-	3,124,131
Lending to financial institutions	41,581,029	3,586,218	1,310,351	2,630,016	34,054,444	-	-	-
Investments	399,939,469	17,676,179	28,828,811	116,072,569	138,883,344	14,600,939	3,628,942	15,325,589
Advances	416,261,389	29,816,615	189,443,847	127,852,746	26,826,531	12,659,309	8,037,780	1,875,809
Other assets	32,098,948	-	-	-	-	-	-	32,098,948
	1,027,946,720	93,492,182	225,874,274	251,879,107	201,237,000	27,476,966	11,666,722	129,485,012
<b>Financial Liabilities</b>								
Bills payable	13,894,502	-	-	-	-	-	-	13,894,502
Borrowings from financial institutions	33,714,904	10,097,432	7,607,680	9,700,467	565,952	584,249	903,963	-
Deposits and other accounts	875,308,597	51,190,497	91,524,294	422,848,434	70,362,558	12,118,829	14,389,506	101,958,138
Sub-ordinated loans	4,497,285	-	-	4,497,285	-	-	-	-
Other liabilities	33,818,692	-	-	-	-	-	-	33,818,692
	961,233,980	61,287,929	99,131,974	437,046,186	70,928,510	12,703,078	15,293,469	149,671,332
<b>On-balance sheet gap</b>	66,712,740	32,204,253	126,742,300	185,167,079	130,308,490	14,773,888	(3,626,747)	(20,186,320)
<b>Non - financial net assets</b>	34,741,850	-	-	-	-	-	-	-
<b>Total Net assets</b>	101,454,590	-	-	-	-	-	-	-
<b>Off-balance sheet financial instruments</b>								
Foreign and local currency forward purchases	130,739,964	48,061,498	46,908,970	29,197,279	6,572,217	-	-	-
Foreign and local currency forward sales	(130,737,820)	(48,056,815)	(46,885,070)	(29,290,836)	(6,505,099)	-	-	-
Foreign Currency Options Purchases	336,655	103,493	207,951	25,211	-	-	-	-
Foreign Currency Options Sales	(336,655)	(103,493)	(207,951)	(25,211)	-	-	-	-
Cross Currency Swaps- Long Position	2,868,771	-	-	-	2,868,771	-	-	-
Cross Currency Swaps- Short Position	(2,868,771)	-	-	-	(2,868,771)	-	-	-
Interest rate swaps - long position	482,551	-	-	-	152,750	-	-	329,801
Interest rate swaps - short position	(329,801)	-	-	-	-	-	-	(329,801)
<b>Off-balance sheet gap</b>	154,894	4,683	23,900	(93,557)	67,118	152,750	-	-
<b>Total yield / interest risk sensitivity Gap</b>	32,208,936	126,766,200	(185,260,636)	130,375,608	14,926,638	14,926,638	(3,626,747)	38,975,294
<b>Cumulative Yield / Interest Risk Sensitivity Gap</b>	32,208,936	158,975,136	(26,285,500)	104,090,108	119,016,746	115,389,999	154,365,293	87,053,953

**2010**

Effective yield / interest rate	Total	Exposed to yield / interest risk										Not exposed to yield / interest risk	
		Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years			
<b>On-balance sheet assets</b>													
<b>Financial Assets</b>													
Cash and balances with treasury banks	81,516,883	16,109,585	4,308,126	1,517,783	91,989	-	-	-	-	-	-	-	59,282,812
Balances with other banks	35,990,301	21,574,188	6,656,011	4,424,624	283,170	-	-	-	-	206,588	-	-	3,052,308
Lendings to financial institutions	30,339,344	4,220,830	12,335,638	11,327,389	2,455,487	-	-	-	-	-	-	-	-
Investments	245,016,986	9,618,897	104,205,459	58,763,778	30,558,116	6,927,290	10,446,378	4,429,781	4,427,699	9,629,470	9,629,470	6,010,118	6,010,118
Advances	434,998,560	29,330,563	201,946,708	144,329,142	21,312,829	7,553,265	5,611,185	10,406,881	6,018,432	2,480,231	-	-	6,009,324
Other assets	25,185,457	-	-	-	-	-	-	-	-	-	-	-	25,185,457
	853,047,531	80,854,062	329,451,942	220,362,717	54,701,591	14,480,555	16,264,151	14,836,662	10,446,131	12,109,701	-	-	99,540,019
<b>Financial Liabilities</b>													
Bills payable	9,774,749	-	-	-	-	-	-	-	-	-	-	-	9,774,749
Borrowings from financial institutions	37,430,333	10,362,823	8,795,904	10,793,251	367,946	807,266	823,468	2,718,827	2,759,970	878	-	-	-
Deposits and other accounts	721,069,137	62,487,239	78,351,888	353,201,334	47,532,608	8,104,215	8,213,207	43,146,940	23,047,191	18,794,076	-	-	78,190,439
Sub-ordinated loans	4,281,835	-	-	4,281,835	-	-	-	-	-	-	-	-	-
Other liabilities	24,242,997	-	-	-	-	-	-	-	-	-	-	-	24,242,997
	796,799,051	72,850,062	87,147,792	368,276,420	47,900,554	8,911,481	9,036,675	45,865,767	25,807,161	18,794,954	-	-	112,208,185
<b>On-balance sheet gap</b>	56,248,480	8,004,000	242,304,151	147,913,704	6,801,036	5,569,074	7,227,476	(31,029,105)	(15,361,030)	(6,685,253)	-	-	(12,668,166)
<b>Non - financial net assets</b>	33,276,259	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Net assets</b>	89,524,739	-	-	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet financial instruments</b>													
Foreign and local currency forward purchases	78,470,185	35,109,283	30,374,377	9,884,815	3,073,220	28,490	-	-	-	-	-	-	-
Foreign and local currency forward sales	(78,261,634)	(35,148,978)	(30,219,652)	(9,835,785)	(3,057,219)	-	-	-	-	-	-	-	-
Interest rate swaps - long position	371,092	-	-	-	-	-	-	-	371,092	-	-	-	-
Interest rate swaps - short position	(371,092)	-	-	-	-	-	-	-	(371,092)	-	-	-	-
<b>Off-balance sheet gap</b>	208,551	(39,695)	154,725	49,030	16,001	28,490	-	-	-	-	-	-	-
<b>Total yield / interest risk sensitivity Gap</b>	7,964,305	242,458,876	(147,864,674)	6,817,037	5,597,564	7,227,476	(31,029,105)	(15,361,030)	(6,685,253)	(12,668,166)	-	-	-
<b>Cumulative Yield / Interest Risk Sensitivity Gap</b>	7,964,305	250,423,181	102,558,507	109,375,544	114,973,108	122,200,584	91,171,479	75,810,449	69,125,196	56,457,030	-	-	-

42. **FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of traded investments are based on quoted market prices and unquoted investments including investments in subsidiaries, joint venture and associates are estimated using the best available market based information. Fair value of these investments has been disclosed in note 8.

Fair value of fixed term loans, other assets and other liabilities can not be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 4.5.



The maturity and repricing profile and effective rates are stated in notes 40 and 41 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently repriced.

#### 43. CONCENTRATION OF CREDIT AND DEPOSITS

##### 43.1 Concentration of credit risk

Out of the total financial assets of Rs. 1,016,104.345 million, financial assets which were subject to credit risk amounted to Rs. 999,257.478 million. The Bank's major credit risk is concentrated in the textile sector.

The following financial assets are guaranteed by the Federal / overseas Governments or State Bank of Pakistan / other Central Banks and enterprises owned / controlled by the Government:

	2011 (Rupees in '000)
<b>Guaranteed by the Government of Pakistan</b>	
Investments	355,287,263
Loans and advances	31,128,060
Mark-up receivable	3,504,047
	389,919,370
<b>Financial assets receivable from enterprises owned / controlled by Government</b>	
Loans and advances	42,241,979
Financial assets receivable from State Bank of Pakistan	47,406,283
Financial assets receivable from National Bank of Pakistan	14,674,621
Mark-up receivable	100,551
	104,423,434
Guaranteed by Overseas Governments	12,472,970
Financial assets receivable from other central banks	27,248,146
	534,063,920

##### 43.2 Segment by class of business

	2011					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	20,924,482	4.55	3,315,296	0.38	10,299,235	5.98
Agribusiness	30,348,721	6.60	7,350,958	0.84	1,485,436	0.86
Textile	71,248,680	15.49	4,537,365	0.52	15,123,734	8.78
Cement	10,130,466	2.20	451,916	0.05	2,282,931	1.33
Sugar	4,490,155	0.98	701,248	0.08	313,444	0.18
Shoes and leather garments	1,916,323	0.42	911,012	0.10	500,904	0.29
Automobile and transportation equipment	9,762,079	2.12	4,426,899	0.51	3,053,735	1.77
Financial	15,068,154	3.28	1,355,632	0.15	24,364,371	14.14
Insurance	340,194	0.07	3,080,894	0.35	3,374	-
Electronics and electrical appliances	15,885,664	3.45	491,028	0.06	2,883,191	1.67
Production and transmission of energy	52,854,699	11.49	20,699,795	2.36	17,499,278	10.16
Education & Medical	1,854,452	0.40	3,776,187	0.43	434,529	0.25
Telecommunication	12,983,403	2.82	2,863,047	0.33	1,221,297	0.71
Printing & publishing	2,866,891	0.62	179,403	0.02	674,086	0.39
Construction	2,634,577	0.57	2,430,194	0.28	1,109,401	0.64
Mining & quarrying	322,946	0.07	37,565	-	6,353	-
Food, tobacco and beverages	8,245,482	1.79	1,367,879	0.16	4,001,805	2.32
Public / Government - note 43.2.1	73,370,040	15.95	142,319,233	16.26	56,200,806	32.63
Whole sale & retail trade	47,979,688	10.43	48,840,891	5.58	10,637,284	6.18
Metal and allied	7,069,126	1.54	863,523	0.10	2,349,372	1.36
Individual	25,305,598	5.50	529,841,196	60.53	966,682	0.56
Farming, cattle and dairy	1,569,502	0.34	475,372	0.05	1,010,665	0.59
Trust funds and non profit organization	1,663,051	0.36	20,725,288	2.37	15,200	0.01
Others	41,129,444	8.96	74,266,776	8.49	15,816,492	9.20
	459,963,817	100.00	875,308,597	100.00	172,253,605	100.00

	2010					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	24,517,638	5.18	5,744,531	0.80	7,704,472	4.51
Agribusiness	32,330,970	6.83	7,093,765	0.98	1,715,940	1.00
Textile	83,561,176	17.65	4,172,517	0.58	16,272,470	9.53
Cement	14,560,022	3.08	384,852	0.05	1,888,252	1.11
Sugar	2,992,531	0.63	579,819	0.08	1,183,454	0.69
Shoes and leather garments	2,276,177	0.48	887,277	0.12	325,469	0.19
Automobile and transportation equipment	7,393,736	1.56	2,352,831	0.33	2,891,860	1.69
Financial	16,196,870	3.42	4,424,116	0.61	39,926,907	23.38
Insurance	815,942	0.17	1,912,718	0.27	332	-
Electronics and electrical appliances	13,673,347	2.89	5,638,670	0.78	2,386,675	1.40
Production and transmission of energy	49,557,161	10.47	10,893,967	1.51	12,363,888	7.24
Education & Medical	1,757,766	0.37	3,794,705	0.53	672,985	0.39
Telecommunication	17,618,474	3.72	5,123,549	0.71	1,655,118	0.97
Printing & publishing	3,301,499	0.70	154,755	0.02	774,862	0.45
Construction	2,829,497	0.60	1,877,621	0.26	508,088	0.30
Mining & quarrying	267,196	0.06	84,804	0.01	1,813	-
Food, tobacco and beverages	7,206,802	1.52	1,029,789	0.14	2,680,052	1.57
Public / Government - note 43.2.1	85,840,591	18.13	107,912,401	14.97	52,979,203	31.03
Whole sale & retail trade	42,971,138	9.08	38,778,670	5.38	7,214,024	4.22
Metal and allied	8,244,456	1.74	839,836	0.12	1,412,569	0.83
Individual	31,418,811	6.64	439,071,027	60.89	300,226	0.18
Farming, cattle and dairy	1,309,874	0.28	486,731	0.07	173,200	0.10
Trust funds and non profit organization	1,325,141	0.28	16,967,757	2.35	7,633	-
Others	21,450,963	4.52	60,862,429	8.44	15,717,226	9.22
	473,417,778	100.00	721,069,137	100.00	170,756,718	100.00

#### 43.2.1 Public / Government sector

	2011					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	-	-	243,888	0.17	-	-
Agribusiness	51,392,146	70.05	1,675,356	1.18	-	-
Cement	-	-	97	-	-	-
Sugar	-	-	-	-	-	-
Automobile and transportation equipment	7,968,675	10.86	2,925,364	2.06	893,484	1.59
Financial	792,036	1.08	2,536,633	1.78	-	-
Insurance	-	-	7,676,472	5.39	39,204	0.07
Production and transmission of energy	7,281,271	9.92	39,612,019	27.83	14,415,891	25.65
Education & medical	143,559	0.20	29,114,716	20.46	232,962	0.41
Telecommunication	251,578	0.34	1,075,933	0.76	546,110	0.97
Printing & publishing	-	-	18,454	0.01	-	-
Construction	-	-	36,112	0.03	-	-
Foods, tobacco & beverages	149,651	0.20	182	-	-	-
Metal and allied	1,136,591	1.55	1,521,734	1.07	-	-
Farming, cattle and dairy	-	-	302	-	-	-
Defence	3,148,732	4.29	5,833,653	4.10	37,156,412	66.11
Ports and shipping	-	-	6,223,668	4.37	149,880	0.27
Others	1,105,801	1.51	43,824,650	30.79	2,766,863	4.93
	73,370,040	100.00	142,319,233	100.00	56,200,806	100.00



	2010					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	-	-	408,599	0.38	-	-
Agribusiness	55,101,195	64.19	1,643,113	1.52	1,989,455	3.76
Cement	-	-	97	-	-	-
Sugar	141,585	0.16	-	-	-	-
Automobile and transportation equipment	9,543,557	11.12	2,824,538	2.62	889,548	1.68
Financial	1,294,117	1.51	2,269,361	2.10	-	-
Insurance	-	-	7,968,832	7.38	3,193	0.01
Production and transmission of energy	9,869,277	11.50	21,714,052	20.12	5,814,293	10.97
Education & medical	119,341	0.14	24,426,271	22.64	25,720	0.05
Telecommunication	55,651	0.06	2,710,124	2.51	3,479	0.01
Printing & publishing	-	-	21,850	0.02	-	-
Construction	30,000	0.03	58,967	0.05	-	-
Foods, tobacco & beverages	-	-	342	-	-	-
Metal and allied	1,119,746	1.30	794,993	0.74	31,910	0.06
Farming, cattle and dairy	-	-	92	-	-	-
Defence	1,500,000	1.75	3,113,730	2.89	41,772,563	78.85
Ports and shipping	-	-	3,573,872	3.31	641,356	1.21
Others	7,066,122	8.24	36,383,568	33.72	1,807,686	3.40
	85,840,591	100.00	107,912,401	100.00	52,979,203	100.00

43.2.2 Segment by sector

	2011					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	73,370,040	15.95	142,319,233	16.26	56,200,806	32.63
Private	386,593,777	84.05	732,989,364	83.74	116,052,799	67.37
	459,963,817	100.00	875,308,597	100.00	172,253,605	100.00

	2010					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	85,840,591	18.13	107,912,401	14.97	52,979,203	31.03
Private	387,577,187	81.87	613,156,736	85.03	117,777,515	68.97
	473,417,778	100.00	721,069,137	100.00	170,756,718	100.00

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

	2011		2010	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	----- (Rupees in '000) -----			
Chemical and Pharmaceuticals	588,937	565,147	645,996	511,949
Agribusiness	3,504,294	1,742,441	3,156,736	1,894,460
Textile	20,233,500	17,355,176	18,395,429	14,338,004
Cement	2,264,266	1,091,291	700,228	700,057
Sugar	359,686	323,847	432,604	388,385
Shoes and leather garments	173,363	149,052	312,110	256,190
Automobile and transportation equipment	1,904,943	1,547,418	1,318,736	1,298,751
Financial	797,896	484,315	1,299,448	1,299,448
Electronics and electrical appliances	2,800,712	2,646,244	2,801,640	2,449,721
Production and transmission of energy	2,051,445	2,048,973	1,808,972	1,790,617
Education & Medical	-	-	759	759
Telecommunication	261,359	261,359	261,457	261,457
Printing & publishing	204,199	199,266	199,507	155,164
Construction	1,386,804	997,980	1,418,109	662,835
Mining & quarrying	527,214	435,858	425,002	423,823
Food, tobacco and beverages	527,828	480,587	443,495	342,310
Whole sale & retail trade	5,640,597	5,178,179	4,736,915	4,072,342
Metal and allied	912,416	894,518	671,012	600,504
Individual	946,563	893,919	2,425,627	1,308,339
Farming, cattle and dairy	308,288	101,700	245,820	101,624
Trust funds and non profit organization	2,500	2,500	5,174	5,174
Others	5,916,700	4,719,048	4,972,301	4,176,437
	51,313,510	42,118,818	46,677,077	37,038,350

#### 43.3.1 Segment by sector

	2011		2010	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	----- (Rupees in '000) -----			
Private	50,064,661	41,243,979	44,900,342	35,261,615
Public / Government	1,248,849	874,839	1,776,735	1,776,735
	<u>51,313,510</u>	<u>42,118,818</u>	<u>46,677,077</u>	<u>37,038,350</u>

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

	2011					Total
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head office / support services	
	----- (Rupees in million) -----					
Net interest income - External	(21,560)	43,749	28,791	4,054	(150)	54,884
Inter segment revenue - net	60,121	(35,697)	(28,095)	-	3,671	-
Non-funded income	4,689	2,533	1,735	2,104	1,027	12,088
Net interest and non-mark-up income	43,250	10,585	2,431	6,158	4,548	66,972
Total expenses including provision (excluding impairment)	12,874	6,534	132	4,719	9,805	34,064
Impairment against investments	-	(38)	69	822	24	877
Inter segment administrative cost	7,409	1,482	213	816	(9,920)	-
Total expenses including provision	20,283	7,978	414	6,357	(91)	34,941
Profit / (loss) before tax	22,967	2,607	2,017	(199)	4,639	32,032
Segment assets (gross)	122,897	343,647	420,349	140,831	82,113	1,109,837
Segment non-performing loans	3,803	27,288	-	10,317	9,906	51,314
Segment provision required including general provision	6,802	27,080	410	9,881	1,810	45,983
Segment liabilities including equity	698,638	105,430	6,549	81,057	172,180	1,063,854
Segment return on net liability / asset	12.45%	13.01%	10.76%	4.09%	5.69%	-
Segment cost of funds	5.40%	10.40%	9.94%	0.81%	0.89%	-

	2010					Total
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head office / support services	
	----- (Rupees in million) -----					
Net interest income - External	(15,802)	44,367	13,575	3,534	236	45,910
Inter segment revenue - net	47,105	(36,369)	(12,555)	-	1,819	-
Non-funded income	4,101	2,678	2,162	2,031	77	11,049
Net interest and non-mark-up income	35,404	10,676	3,182	5,565	2,132	56,959
Total expenses including provision (excluding impairment)	12,457	6,531	145	4,716	7,668	31,517
Impairment against investments	-	-	(136)	-	521	385
Inter segment administrative cost	6,557	1,311	189	722	(8,779)	-
Total expenses including provision	19,014	7,842	198	5,438	(590)	31,902
Net income before tax	16,390	2,834	2,984	127	2,722	25,057
Segment assets (gross)	105,022	430,553	204,722	165,003	24,464	929,764
Segment non-performing loans	8,587	27,928	-	10,082	80	46,677
Segment provision required including general provision	6,636	22,726	498	8,707	4,144	42,711
Segment liabilities including equity	560,160	105,357	9,776	93,072	118,688	887,053
Segment return on net liability / asset	11.89%	12.76%	9.84%	3.69%	3.94%	-
Segment cost of funds	5.03%	10.21%	8.01%	0.92%	0.57%	-



## 45. TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities. However, Habib Bank Limited acts as security agent for arrangement and distribution of the term finance certificates and also engages in investment portfolio services as custodian on behalf of its customers.

## 46. GEOGRAPHICAL SEGMENT ANALYSIS

	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- (Rupees in '000)-----			
Pakistan	31,310,298	921,095,008	63,701,906	146,297,924
Asia Pacific (including South Asia)	487,128	51,791,966	12,793,722	5,624,505
Europe	55,122	10,125,051	6,914,593	5,224,485
North America	34,449	4,387,510	1,782,304	869,506
Middle East	498,454	63,479,119	12,812,120	12,745,782
Others	318,690	12,974,994	3,449,945	1,491,403
Impairment loss on Bank PHB	(672,580)	-	-	-
	<u>32,031,561</u>	<u>1,063,853,648</u>	<u>101,454,590</u>	<u>172,253,605</u>
	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- (Rupees in '000)-----			
Pakistan	23,632,647	756,507,355	53,663,738	138,898,171
Asia Pacific (including South Asia)	552,749	47,738,719	11,836,300	9,350,586
Europe	58,733	10,362,322	6,918,155	4,212,844
North America	100,599	3,984,490	1,633,210	1,579,758
Middle East	708,129	55,269,349	10,945,894	15,548,612
Others	256,851	12,517,596	3,854,862	1,166,747
Impairment loss on Bank PHB	(252,427)	672,580	672,580	-
	<u>25,057,281</u>	<u>887,052,411</u>	<u>89,524,739</u>	<u>170,756,718</u>

## 47. ISLAMIC BANKING BRANCH - BALANCE SHEET

Financial figures of the Islamic Banking Branch, which are included in these financial statements, are as follows:

	Note	2011 (Rupees in '000)	2010
<b>ASSETS</b>			
Cash and balances with treasury banks		607,317	327,364
Lending to Financial Institution		1,000,000	100,000
Investment - net		12,434,310	6,511,126
Murabaha	47.1	100,826	-
Ijarah	47.2	276,179	316,940
Musharaka		19,167	79,167
Other assets		497,038	376,091
		<u>14,934,837</u>	<u>7,710,688</u>
<b>LIABILITIES</b>			
Bills payable		43	60
Borrowings from financial institutions		2,000,000	1,500,000
Deposit and other accounts		11,944,594	5,726,476
Other liabilities		489,389	221,872
		<u>14,434,026</u>	<u>7,448,408</u>
<b>NET ASSETS</b>			
		<u>500,811</u>	<u>262,280</u>
<b>REPRESENTED BY:</b>			
Islamic Banking Fund		250,000	250,000
Unappropriated profit		310,438	136,552
		<u>560,438</u>	<u>386,552</u>
Deficit on revaluation of assets		(59,627)	(124,272)
		<u>500,811</u>	<u>262,280</u>

The commitment in respect of letters of credit of Islamic Banking branch of Habib Bank Limited amounted to Rs. 69.376 million (2010: Rs. 50.966 million).

- 47.1 This represents assets sold under Murabaha agreement.  
 47.2 This represents fixed assets given to customers under Ijarah agreement.

48. ISLAMIC BANKING BRANCH - PROFIT AND LOSS ACCOUNT	2011 (Rupees in '000)	2010 (Rupees in '000)
Mark-up / return / profit earned	1,802,411	374,043
Mark-up / return / profit expensed	1,214,450	135,626
Net mark-up / interest income	587,961	238,417
Depreciation on assets given on Ijarah	42,467	47,292
Loss on impairment of assets given on Ijarah	91,043	40,193
Provision against diminution in value of investments	21,136	-
	154,646	87,485
Net mark-up / interest income after depreciation and provisions	433,315	150,932
<b>Non mark-up / interest income</b>		
Fee, commission and brokerage income	12,468	3,119
Other income	18,716	3,671
Total non-mark-up / interest income	31,184	6,790
	464,499	157,722
<b>Non mark-up / interest expense</b>		
Administrative expenses	196,982	83,036
<b>Net profit for the year</b>	267,517	74,686

49. CHARITY FUND	2011 (Rupees in '000)	2010 (Rupees in '000)
Opening balance	23	-
Additions during the period	69	23
Payments / Utilization during the period	(23)	-
	69	23
49.1 Remuneration to Shariah Advisor / Board	1,440	1,255

50. **DATE OF AUTHORISATION FOR ISSUE**

These unconsolidated financial statements were authorised for issue in the Board of Directors meeting held on February 24, 2012.

51. **GENERAL**

- 51.1 These financial statements have been prepared in accordance with the revised format for financial statements of banks issued by the State Bank of Pakistan through BSD Circular No. 4 dated February 17, 2006.

R. Zakir Mahmood  
President and Chief Executive Officer

Moez Ahamed Jamal  
Director

Ahmed Jawad  
Director

Sajid Zahid  
Director



## Details of Domestic Investments - Unconsolidated

### For the year ended December 31, 2011

## Annexure I

#### 1 Particulars of investments held in listed companies

1.1 Ordinary shares	Number of shares held	Paid-up value per share (Rupees)	Total paid-up value	Cost	Market value	Credit Ratings Short Term
United Bank Ltd	2,160,240	10	21,602	133,074	113,175	A-1+
MCB Bank Limited	457,763	10	4,578	78,077	61,615	A1+
NIB Bank Limited	13,000,000	10	130,000	108,493	22,490	A1+
Nishat Chunian Limited	4,092,847	10	40,928	95,001	73,098	N/A
DG Khan Cement Limited	1,205,000	10	12,050	25,117	22,931	N/A
Lucky Cement Limited	1,225,000	10	12,250	99,196	91,924	N/A
Hub Power Company Limited	800,000	10	8,000	26,457	27,360	A1+
Kot Addu Power Company Limited	9,265,480	10	92,655	405,811	382,850	A-1+
Pakistan Petroleum Limited	850,482	10	8,505	155,703	143,153	N/A
Attock Petroleum Limited	378,972	10	3,790	157,430	156,326	N/A
TRG Pakistan Limited	16,017,000	10	160,170	160,170	19,541	N/A
Engro Chemical Limited	2,058,747	10	20,587	261,494	190,846	A1+
Fauji Fertilizer Limited	1,100,313	10	11,003	172,228	164,541	N/A
National Refinery Limited	741,233	10	7,412	231,626	179,890	A1+
Pakistan State Oil Company Limited	753,077	10	7,531	264,586	171,107	A1+
Arif Habib Investments Ltd	452,304	10	4,523	47,115	6,495	A1
Central Insurance Corporation Limited	1,313	10	13	-	64	N/A
TPL Direct Insurance Limited	522,686	10	5,227	5,227	5,269	N/A
Mehran Sugar Mills Limited	464	10	5	-	23	N/A
Clariant Pakistan Limited	15	10	-	-	2	N/A
Glaxo Smithkline Pakistan Limited	583	10	6	-	39	N/A
Dawood Hercules Limited	6,300	10	63	-	267	N/A
Engro Foods Limited	105,495	10	1,055	2,638	2,384	N/A
Fatima Fertilizer Company Limited	1,000,000	10	10,000	23,156	22,920	A1
Dawood Lawrencepur Limited	3,121	10	31	-	98	N/A
Asset Investment Bank Limited	524,810	10	5,248	52,481	-	
			<b>2,505,080</b>	<b>1,858,407</b>		
<b>1.2 Units</b>	<b>Number of units held</b>	<b>Paid-up value per share (Rupees)</b>	<b>Total paid-up value</b>	<b>Cost</b>	<b>Market value</b>	<b>Credit Ratings Short Term</b>
			(Rupees in '000)			
<b>Mutual Funds</b>						
PICIC Investment Fund	11,104,508	10	111,045	133,994	60,520	N/A
JS - Growth Fund	13,381,363	10	133,814	106,078	62,892	N/A
PICIC Growth Fund	214,453	10	2,145	6,412	2,672	N/A
Askari Asset Allocation Fund	254,955	100	25,496	25,000	9,719	***
Pakistan Strategic Allocation Fund	7,500,000	10	75,000	75,000	55,875	****
			<b>346,484</b>	<b>191,678</b>		
<b>1.3 Preference Shares</b>	<b>Number of shares held</b>	<b>Paid-up value per share (Rupees)</b>	<b>Total paid-up value</b>	<b>Cost</b>	<b>Market value</b>	<b>Credit Ratings Short Term</b>
			(Rupees in '000)			
Masood Textile Mills Limited	10,000,000	10	100,000	100,000	100,000	N/A
Chenab Textile Limited	10,000,000	10	100,000	100,000	-	
			<b>200,000</b>	<b>100,000</b>		
<b>1.4 Term finance certificates (TFC's)</b>	<b>Number of certificates held</b>	<b>Paid-up value per certificate (Rupees)</b>	<b>Total paid-up value</b>	<b>Cost</b>	<b>Market value</b>	<b>Credit Ratings Medium to Long Term</b>
			(Rupees in '000)			
Askari Commercial Bank Limited	16,990	5,000	84,950	84,746	84,380	AA
Bank Al falah Limited	10,000	5,000	50,000	33,245	33,236	AA
Bank Al Habib Limited	60,000	5,000	300,000	299,400	321,071	AA+
Bank Al Habib Limited	15,000	5,000	75,000	49,870	45,272	AA+
Allied Bank Limited	14,277	5,000	71,385	71,242	71,402	AA
Faysal Bank Limited	15,000	5,000	75,000	74,880	74,377	AA
NIB Bank Limited	34,950	5,000	174,750	174,456	170,980	AA-
Bank Al Habib Limited	18,000	5,000	90,000	89,838	92,349	AA+
United Bank Limited	41,525	5,000	207,625	207,334	206,715	AA+
Pak Arab Fertilizer Limited	400,000	5,000	2,000,000	610,796	613,540	AA-
Pak Arab Fertilizer Limited	165,080	5,000	825,400	1,500,000	1,534,650	AA-
Worldcall Telecom Limited	96,000	5,000	480,000	274,121	238,480	BBB-
Bank Al falah Limited	40,000	5,000	200,000	199,840	200,640	AA
Faysal Bank Limited	50,000	5,000	250,000	249,900	258,446	AA
Bank Al Habib Limited	10,000	5,000	50,000	50,000	53,000	AA+
Telecard Limited	50,000	5,000	250,000	91,875	-	
			<b>4,061,544</b>	<b>3,998,537</b>		

## 2 Particulars of investment held in unlisted companies

### 2.1 Ordinary shares

	Percentage of holding	Number of shares / units held	Paid-up value per share (Rupees)	Break up value (Rupees in '000)	Based on accounts as at	Name of Chief Executive	Credit Ratings Short Term
Saif Power Limited	8.73%	32,268,354	10	366,714	December 31, 2010	Mr. Omar Saifullah Khan	A-1
Sweet Water Diaries Pakistan Limited	3.37%	2,074,000	10	19,550	June 30, 2011	Rashid Shuja Butt	N/A
Central Depository Company of Pakistan Limited	6.35%	4,124,901	10	102,049	June 30, 2011	Mr. Muhammad Hanif Jhakura	N/A
N I F T	9.07%	985,485	10	59,255	June 30, 2011	Mr. M. M. Khan	N/A
SME Bank Limited	0.83%	1,987,501	10	19,872	December 31, 2010	Mr. R.A. Chughtai	N/A
Khushhali Bank Limited	17.60%	30,000,000	10	385,606	December 31, 2010	Mr. M. Ghalib Nishtar	N/A
N.I.T. Shares	8.33%	79,200	100	142,587	June 30, 2011	Wazir Ali Khoja	N/A
First Woman Bank Limited	19.34%	20,889,000	10	282,027	December 31, 2010	Mrs. Shafqat Sultana	N/A
AKD Venture Fund		2,500,000	10	-			
Pakistan Agriculture Storage Limited		5,500	1,000	-			
				<u>1,010,946</u>			

### 2.2 Mutual Funds

	Number of units held	Paid-up value per share (Rupees)	Total paid-up value (Rupees in '000)	Cost (Rupees in '000)	Market value (Rupees in '000)	Credit Ratings Short Term (Refer Note)
N IT Govt. Bond Fund	5,000,000	10	50,000	50,000	53,400	AA(f)
South Asia Regional Funds	5,000	563	2,814	279	17	N/A
			<u>50,279</u>	<u>53,417</u>		

### 2.3 Term finance certificates (TFC's)

	No. of certificates	Paid-up value per certificate (Rupees)	Total Paid-up value (Rupees in '000)	Cost (Rupees in '000)	Name of Chief Executive	Credit Ratings Short Term
Pakistan International Airline	594,500	5,000	2,972,500	2,972,500	Mr. Fazeel Asif	N/A
			<u>2,972,500</u>	<u>2,972,500</u>		

## 3 Particulars of investments held in bonds

### Terms of Redemption

	Principal	Interest / Profit	Rate of Interest / Profit	Principal (Rupees in '000)
<b>3.1 Bonds (Guaranteed by Government) - denominated in Pak Rupees</b>				
Pakistan International Airline	Repayable in full on maturity	Semi - Annual	6 Months Kibor +79 BPS	425,000
				<u>425,000</u>
<b>3.2 Bonds (Private Sector) - denominated in Pak Rupees</b>				
Century Paper	Repayable in full on maturity	Semi - Annual	6 Months Kibor+135 BPS	240,000
Quetta Textile	Repayable in full on maturity	Semi - Annual	6 Months Kibor+150 BPS	90,000
Arzoo Textile	Repayable in full on maturity	Semi - Annual	6 Months Kibor+200 BPS	20,000
				<u>350,000</u>
<b>3.3 Foreign Currency Notes and Bonds</b>				
Royal Bank of Scotland	Repayable in full on maturity	Annual	4.875%	593,190
Lloyds TSB Bank PLC	Repayable in full on maturity	Annual	3.750%	572,214
Bank of America	Repayable in full on maturity	Quarterly	3 Months Libor+10 BPS	691,308
				<u>1,856,712</u>
<b>3.4 Investment by Islamic Banking Branch</b>				
Engro Fertilizers Limited	Repayable in full on maturity	Semi - Annual	6 Months Kibor + 150 BPS	142,801
Sitara Energy	Repayable in full on maturity	Semi - Annual	6 Months Kibor + 115 BPS	21,136
GOP Ijarah Sukuk IV	Repayable in full on maturity	Semi - Annual	6 months T Bills + 45BPS	251,507
GOP Ijarah Sukuk V	Repayable in full on maturity	Semi - Annual	6 months T Bills	1,200,000
GOP Ijarah Sukuk VI	Repayable in full on maturity	Semi - Annual	6 months T Bills	3,851,454
GOP Ijarah Sukuk VII	Repayable in full on maturity	Semi - Annual	6 months T Bills	2,220,280
GOP Ijarah Sukuk VIII	Repayable in full on maturity	Semi - Annual	6 months T Bills	4,860,000
				<u>12,547,178</u>

# Amount Written - Off During The Year 2011 Statement Showing Written-Off Loans / Advances Or Any Other Financial Relief Of Five Hundred Thousand Rupees Or Above Provided During The Year December 31, 2011

## Annexure II

S. No.	Name & Address of the Borrower	Name of Individuals / Proprietors / Partners / Directors (with NIC No.)	Father's / Husband Name	Outstanding Liabilities at beginning of the year			Principal Write-off	Mark-up & Other Charges Write-off	Other Financial Relief Provided		Total	
				Principal	Mark-up	Other charges			Un-Debited	Reversal		
1	MUHAMMAD SAFDAR CHANDALA,PO,KHAS,TEH,KAMOKE, DISTT.GUJRANWALA.	286-86-329796	RUKUN DIN	0.216	0.132	-	0.348	0.216	-	0.444	0.132	0.792
2	BASHIR AHMED BHATTI CHAK,HARAR,PO,KOTLI LOHARAN WEST,TEH&DISTT.SIALKOT.	301-47-305014	CH.REHMAT	0.341	0.044	-	0.385	0.341	-	0.662	0.044	1.047
3	MUHAMMAD RIAZ HOUSE NO.8,ST.50,CAPTAIN JAMAL ROAD,TANVEER PARK,SANDA KALAN, LAHORE.	271-54-095507	MUHAMMAD SHARIF	0.448	0.082	-	0.530	0.448	-	0.372	0.082	0.902
4	MUHAMMAD SHAKEEL F-332,MOHALLAH KAKE ZIAN, I/S DEHLI GATE,LAHORE.	276-54-174397	MUHAMMAD ASHIQ	0.500	0.053	-	0.553	0.423	-	0.736	-	1.159
5	AMJAD NAEEM VILL.TALWANDI KAHLWAN,PO. JASSAR,TEH&DISTT.NAROWAL.	300-92-494112	LIAQUAT ALI	0.194	-	-	0.194	0.194	-	0.317	-	0.511
6	M.A.COMPUTER 171-G,RAJA CENTRE,GUBERG, LAHORE.	KAMRAN REHMAN 272-89-016319	FAZAL-UR-REHMAN	0.224	-	-	0.224	0.224	-	0.381	-	0.605
7	LATIF FIBRE (PVT) LTD 37-F-A-BLOCK-6,P.E.C.H.S. KARACHI.	JAWAD JUNAID 42201-7989341-9 UBAID AMANULLAH 42301-8209569-7	MUHAMMAD JUNAID AMANULLAH	156.048	-	-	156.048	15.604	-	10.115	-	25.719
8	MUHAMMAD IRFAN SHAKEEL 124-A,TAMPLE ROAD,LAHORE.	274-91-405154	GHULAM MUHAMMAD SHAKEEL	0.243	0.154	-	0.397	0.243	-	0.107	0.154	0.504
9	IRFAN AKRAM RATHORE HOUSE,9,ST.42,HAYAT GUNJ,AFZAL ROAD,SANDA KALAN,LAHORE.	276-77-186784	MUHAMMAD AKRAM RATHORE	0.142	0.089	-	0.231	0.142	-	0.330	0.089	0.561
10	SHAHID MEHMOOD ZAHID STREET,SADDAR BAZAR, NARANG MANDI,DISTT.SHEIKHUPURA	295-86-161660	GULZAR AHMED	0.310	-	-	0.310	0.310	-	0.355	-	0.665

A Vision Transformed into Art



S. No.	Name & Address of the Borrower	Name of Individuals / Proprietors / Partners / Directors (with NIC No.)	Father's /Husband Name	Outstanding Liabilities at beginning of the year			Mark-up & Other Charges / Write-off	Other Financial Relief Provided		Total	
				Principal	Mark-up	Other charges		Ur-Debit	Reversal		
(Rupees in million)											
11	SYED IMTIAZ HUSSAIN D/3923,KOOCHA MADNI,INSIDE LAHORI GATE,LAHORE.	276-46-019099	SYED AHMED HUSSAIN	0.393	-	-	0.393	-	0.565	-	0.958
12	SARDAR MUHAMMAD NAQI H-56,ST.50,MOHALLAH,KAKAY ZAI, SHAHDARA TOWN, LAHORE.	265-78-433326	MALIK MUHAMMAD RAFI	0.196	0.023	-	0.196	-	0.330	0.023	0.549
13	IMRAN AMANULLAH HOUSE,NO.74,CHAMAN COLONY, RIZWAN STREET,SHAHDARA,LAHORE.	265-75-408291	AMANULLAH	0.264	0.011	-	0.264	-	0.358	0.011	0.633
14	MUHAMMAD AFZAL PLOT.329,SECTOR-32-D,NASIR COLONY,KORANGI,KARACHI.	221-57-126978	MURID SULTAN	0.542	0.065	-	0.542	-	0.882	0.065	1.489
15	TALIMAND KHAN VILLAGE,TOPI KALA,PO,AHMEDABAD, DISTT. KARAK.	143-55-158931	MUHAMMAD ASHOOR KHAN	0.634	-	-	0.634	-	0.133	-	0.767
16	SYED AHMED SAEED SHAH SHAHI ROAD,MOON MARKET,BAGHBANPURA, LAHORE.	271-87-242893	SYED SHAFQAT SAEED SHAH	0.202	-	-	0.202	-	0.321	-	0.523
17	SHAHJEE MARBLES 178-A, FERZEPUK ROAD, LAHORE.	WAJID ALI SHAH 35202-7953407-5	ATTAULLAH SHAH	8.000	1.378	-	-	-	1.263	-	1.263
18	M.N.H.EXPORTS 12-COMMERCIAL CENTRE,SECOND FL OOR,TECH SOCIETY,CANAL BANK,LAHORE.	MUNEER AHMAD 35202-3076958-9	CHARAGH DIN	10.133	0.272	-	-	-	2.414	-	2.414
19	KHAN BROTHERS COTTON GINNI PRESSING & OIL MILLS (PVT) LTD. G.T.ROAD KALLER WALI,SHEHAR SULTAN TEH. ALIPUR, MUZAFFARGARH	ISRAR AHMED KHAN BABAR 32304-1001072-9 IFTIKHAR AHMED KHAN BABAR 32304-1644753-1 MANSOOR AHMED KHAN BABAR 35202-6830317-9 NISAR AHMED KHAN BABAR 32304-1530650-3 KHURSEED ALI KHAN 32304-8269609-3	NAWABZADA NASARULLAH KHAN NAWABZADA NASARULLAH KHAN NAWABZADA NASARULLAH KHAN NAWABZADA NASARULLAH KHAN HAYAT MUHAMMAD KHAN	6.700	-	-	-	-	0.843	-	0.843
20	AMBER SEED CORPORATION 118/1,BLOCK-A,DHA PHASE-1, LAHORE CANTT.	LT.COL.(R) MUHAMMAD KHAN 35200-1514461-3 ABDUL GHANI 35201-1430455-5 AHMED MANSOOR 35201-1459540-7 FARHANA KAUSAR 35201-1349524-6	CH.GHULAM RASOOL CH.GHULAM RASOOL CH.MUHAMMAD KHAN CH.ABDUL GHANI	2.999	0.086	-	-	-	0.891	-	0.891



S. No.	Name & Address of the Borrower	Name of Individuals / Proprietors / Partners / Directors (with NIC No.)	Father's /Husband Name	Outstanding Liabilities at beginning of the year			Principal Write-off	Mark-up & Other Charges Write-off	Other Financial Relief Provided		Total
				Principal	Mark-up	Other charges			Ur-Debited	Reversal	
21	MOGHAL SANITARY 16-SHALIMAR LINK ROAD, LAHORE.	MUHAMMAD MIUNEER 35201-2976112-9	MUHAMMAD SADIQ	3.500	0.118	-	3.618	-	0.970	-	0.970
22	SYED TANVEER HASSAN H.NO.L-76/9,DASTAGIR,F.B.AREA, KARACHI	501-72-784314	SYED RAZI HASSAN	0.597	0.033	-	0.630	0.597	0.708	0.033	1.338
23	ARSHAD MEHMOOD CHEEMA MOH.NOORPURA,NEAR SIR SYED SCHOOL, SAMBRIAL	302-54-225660	CHALI MUHAMMAD	0.445	0.320	-	0.765	0.445	0.029	0.320	0.794
24	ATIQUA-KHAN (EX-STAFF) FLAT.NO.C-1,SAIMA AVENUE,BLOCK 4,NEW DHORAJI,GULSHAN-E-IQBAL, KARACHI	516-88-172468	MANZOOR AHMED	0.656	-	-	0.656	-	-	-	0.656
25	MUHAMMAD ASIF PLOT.NO.5,QASIM MANZIL,SOLDIER BAZAR.NO.1, KARACHI	511-90-016782	ABDUL SHAKOOR	0.523	-	-	0.523	0.523	0.018	-	0.541
26	SINDH COMMODITY CENTRE FLAT.116,HINA PALACE,HOSHANG ROAD,NEAR KARACHI CLUB, KARACHI	ABDUL RASHEED MANGHI 409-56-102075 INAYAT ULLAH MANGHI 45504-4991619-9 QAMAR UDDIN MANGHI (LATE) ALI HASSAN MANGHI (LATE)	MUHAMMAD AZEEM MANGHI ABDUL MAJEED MANGHI MUHAMMAD SULEMAN MANGHI	2.000	1.064	-	3.064	0.750	6.395	1.064	8.209
27	SADAT COTTON FACTORY JAMPUR ROAD, D.G. KHAN	SYED ZAFAR ABBAS NAQVI 309-56-027706 SYEDA QAMAR-JUN-NISA 309-86-027674 MST.RAJ BIBI 309-39-027672 MST.AZRA BATTOOL 32102-5795186-4	SYED KHADIM HUSSAIN SHAH SYED KISHWAR ABBAS SHAH SYED KHADIM HUSSAIN SHAH SYED FARHAT ABBAS SHAH	-	-	-	-	-	3.083	-	3.083
28	AHMED MEDICOS NALUCHI, MUZAFFARABAD	BABAR HAMEED (LATE) 82203-8131091-9	ABDUL HAMEED SHAHEEN	0.495	0.049	-	0.544	0.495	0.402	0.049	0.946
29	DANISH PUBLIC SCHOOL BATKHELA MALAKAND AGENCY	DOST MUHAMMAD 15402-3468283-5	MUAMBAR KHAN	0.723	0.038	-	0.761	0.441	0.066	0.038	0.545
30	ALI MINING CORPORATION G.T. ROAD, MINGORA DISTT, SWAT	SABZ ALI KHAN 16101-1272274-1	ABDUL GHAFFAR KHAN	0.957	0.100	-	1.057	0.450	0.240	0.100	0.790
31	SAMI SERSOU OIL MACHINE OPP BANR HIGH SCHOOL NO 1 AIR PORT ROAD, MINGORA, SWAT	NOOR RAHMAN 15602-6639306-3	BAKHT RAHMAN	0.472	0.045	-	0.517	0.472	0.150	0.045	0.667
32	QAMBAR SILK MILLS PVT LTD VILLAGE QAMBAR, DISTRICT SWAT	ADALAT KHAN 114-90-078452 HIDAYATULLAH KHAN 114-86-078451	MUSTAJAB KHAN MUSTAJAB KHAN	2.578	1.126	-	3.704	2.578	3.565	1.126	7.269

S. No.	Name & Address of the Borrower	Name of Individuals / Proprietors / Partners / Directors (with NIC No.)	Father's / Husband Name	Outstanding Liabilities at beginning of the year			Mark-up & Other Charges Write-off	Other Financial Relief Provided		Total
				Principal	Mark-up	Other charges		Un-Debited	Reversal	
----- (Rupees in million) -----										
33	UNI TECH CHEMICALS INDUSTRIES G.T.ROAD,RAHIMABAD,MINGORA, DISTRICT. SWAT	AKBAR HUSSAIN 15602-1773738-3	MUHAMMAD ZADA	3.552	-	-	3.552	0.671	-	4.223
34	FAR EAST PHARMA MARKETING SERVICES NAVEED MEDICINE MARKET,CHEENA ROAD, MINGORA, DISTRICT. SWAT	NASIR KHALIL 15602-3169511-5	YAKMEN KHAN	1.896	0.142	-	2.038	0.581	0.142	2.619
35	JAWED CHEMICAL INDUSTRIES MARGHUZAR TOWN,RAHIM ABAD, MINGORA, DISTRICT. SWAT	MIFTAH UDDIN 15602-1127836-9 FAZAL MABOOD 15602-5374409-9	HAZRAT HASSAN MUHAMMAD UMAR CUL	3.882	-	-	3.882	1.975	-	5.857
36	KHAWAJA DYEING 190-S INDUSTRIAL ESTATE,KOT LAKHPAT, LAHORE	KHAWAJA MUHAMMAD AZAM 35202-8786681-9	KHAWAJA SHAMSUDDIN	43.314	1.632	-	44.946	12.787	1.632	17.733
37	KARACHI TEXTILE DYEING & PRINTING WORKS PLOT NO.C/19, S.I.T.E. MANGHOPIR ROAD, KARACHI	MUHAMMAD SAMI 42201-5971992-3 MUHAMMAD FARID 42201-7075428-5 MUHAMMAD YAKOOB 42201-4946081-9 MUHAMMAD YASEEN 42201-9693054-1 MUHAMMAD UMER 42201-6670663-1	HAJJI BADRUDDIN	2.656	1.850	-	4.506	1.604	-	1.604
38	EJAZ AHMED SHAH KHAWAR TOWN,NEAR BABAR SHAHEED MASJID, DEFENCE ROAD, LAHORE.	296-75-128767	MUKHTAR AHMED	0.451	0.116	-	0.567	0.728	0.116	1.295
39	MEHMOOD AHMED NEAR RAILWAY PHATAK, NEW CANAL PARK, HARBANS PURA, LAHORE	267-93-324734	MUFTI QUTBUDDIN	0.484	0.103	-	0.587	0.625	0.103	1.212
40	MUHAMMAD JUNAID H.NO.R-1727/953,TURK COLONY, BALDIA TOWN,KARACHI	505-89-016718	MUHAMMAD IBRAHIM	0.527	-	-	0.527	-	-	0.527
41	SALEEM HAIDER H.NO.R-303,BLOCK-15-A-3, BUFFER ZONE, KARACHI	510-61-150992	AMJAD ALI	0.520	-	-	0.520	-	-	0.520
42	FAIZ KHASKHELI HBL,RHQ, NORTH BRANCH, KARACHI	486-56-010473	-	0.561	0.248	-	0.809	-	0.248	0.809
43	MEHRAN GARMENTS C-137, BLOCK-16, NORTH KARACHI	MS HASSEENA SAFARAZ 508-46-230006	SARFARAZ KHAN	0.105	0.097	-	0.202	0.311	0.097	0.513



S. No.	Name & Address of the Borrower	Name of Individuals / Proprietors / Partners / Directors (with NIC No.)	Father's /Husband Name	Outstanding Liabilities at beginning of the year			Mark-up & Other Charges	Other Financial Relief Provided		Total
				Principal	Mark-up	Other charges		Un-Debited	Reversal	
(Rupees in million)										
44	NOOR MUHAMMAD JALIWALA H.NO.471/C, ADAMIJEE NAGAR, K.C.H.S. KARACHI	517-51-140512	MUHAMMAD SIDDIQUE	0.533	-	-	0.533	0.069	-	0.602
45	AL-MUGHAL TRADERS MAIN BAZAR, KHUI RATTI, TEH. KOTLI, A.K. MAIN BAZAR, KHUI RATTI, TEH. KOTLI, A.K.	MUHAMMAD LATIF 81202-8617512-7	NADIR KHAN	0.495	-	-	0.495	0.120	-	0.615
46	NEK MUHAMMAD RAJPER VILLAGE.HAJI MUHAMMAD ISMAIL SADDAR, P.O. KALHORA. T & D. N. FEROZE	433-65-122416	ALLAH WASAYO RAJPER	0.290	-	-	0.290	0.242	-	0.532
47	INAYATULLAH RAJPER VILL.HAJI MUHAMMAD ISMAIL SADDAR PO KALHORA, DISTT. NAUSHERO FEROZE	433-92-127691	NAWAB KHAN	0.290	-	-	0.290	0.242	-	0.532
48	KHAMISO KHAN PANHWAR VILL.ALLAH WASAYO PANHWAR, TAL & DISTT. NAUSHERO FEROZE	433-87-112558	ARIB RAJPER	0.450	-	-	0.450	0.351	-	0.801
49	ABID HUSSAIN SHAH 187, JINNAH BLOCK, A WAN TOWN, LAHORE	296-64-497413	SARDAR SHAH	0.466	0.024	-	0.490	0.102	0.024	0.592
50	TARIQ MIR ROOM,NO.272-B/B,KACBN SOCIETY, KARACHI. 116-A/RAFAYH-E-AAM SOCIETY, MALIR, KARACHI.	-	MIR HAZAR KHAN	0.139	-	-	0.139	0.500	-	0.511
51	ASIM ALI HBL,KAMOKE BRANCH,DISTT. GUJRANWALA.	-	MUHAMMAD ASLAM	0.174	0.167	-	0.341	0.404	0.167	0.745
52	GHULAM MURTAZA VILLAGE CHANDALI,TEHSIL,KAMOKE	-	ASGHAR	0.150	0.061	-	0.211	0.381	0.061	0.592
53	RIAZ AHMED VILL.MEWO KHAN MASHORI, TAL MERO, DISTT. NAUSHERO FEROZE	434-62-886836	MEWO MASHORI	0.300	-	-	0.300	0.414	-	0.714
54	LAL KHAN VILLAGE GHANHWAR KHAN, PO & TAL MERO, DISTT. NAUSHERO FEROZE	435-90-080260	HAJI KHAN MASHORI	0.300	-	-	0.300	0.414	-	0.714
55	GHULAM RASOOL VILL.&PO.SADHOJA, TAL. MERO, DISTT. NAUSHERO FEROZE	434-90-039849	YASEEN KHAN BURIRO	0.300	-	-	0.300	0.414	-	0.714
56	S.K.B.ELECTRONICS SHOP #15,BALUCH MARKET,SOHRAB KATRAK ROAD,SADDAR,KARACHI.	MUHAMMAD AFSAR BUTT	GHULAM ALI	0.270	0.049	-	0.319	0.578	0.049	0.641
57	BABA & BIAS (PVT) LTD 510-SHADMAN-1,LAHORE.	PERVEZ.A.KHAN	-	0.454	-	-	0.454	0.497	-	0.951

S. No.	Name & Address of the Borrower	Name of individuals / Proprietors / Partners / Directors (with NIC No.)	Father's /Husband Name	Outstanding Liabilities at beginning of the year			Mark-up & Other Charges	Principal Write-off	Other Financial Relief		Total
				Principal	Mark-up	Other charges			Un-Debited	Reversal	
58	RAHWALI SUGAR MILLS RAHWALI, DISTT. GUJRANWALA.	KHALID SHAFI ATA-UR-REHMAN ALVI	MUHAMMAD SHAFI MUHAMMAD SULEMAN ALVI	6.047	-	-	6.047	-	3.103	-	3.103
59	DASCON PVT LIMITED 128-SHAMI ROAD, LAHORE	AYAZ DURRANI RIAZUDDIN ASIFA AYAZ KHALIFA SYED SAIFULLAH SHAHEEN SAIFULLAH	- - - -	0.475	0.025	-	0.500	-	1.768	-	1.768
60	RAHWALI SUGAR MILLS LTD RAHWALI SUGAR MILLS, GUJRANWALA	KHALID SHAFI ATA-UR-REHMAN ALVI	MUHAMMAD SHAFI MUHAMMAD SULEMAN ALVI	5.368	-	-	5.368	5.368	26.715	-	32.083
61	EJAZ & BROTHERS GHULAM SHAH STREET, P.O. BOX.5771, KARACHI	EJAZ AHMED	GULZAR AHMED	0.368	-	-	0.368	0.368	1.170	-	1.538
62	AKRAM MEDICAL COMPLEX (PVT) LTD 2-B, MAIN GULBERG-III, LAHORE.	DR. SHEHILA JAVED SHAHNAZ FAROOQ 35202-8597430-8 SARDAR FAROOQ AHMED ALI 35202-1337133-3 YASMEEN REHMAN UZMA IBTISAR AYESHA SIDDIQUA	SARDAR FAROOQ AHMED ALI SARDAR AHMED ALI	29.598	7.182	-	36.780	-	8.555	6.780	15.335
				<b>306.090</b>	<b>16.978</b>	<b>-</b>	<b>323.068</b>	<b>53.038</b>	<b>102.766</b>	<b>12.794</b>	<b>168.598</b>

(Rupees in million)



## Details of Disposal of Operating Fixed Assets - Unconsolidated

As at December 31, 2011

## Annexure III

Description	Original cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of buyer
	-----Rupees in '000-----					
<b>Furniture &amp; Fixtures</b>						
	3,371	3,371	-	41	SALE	Ali Nawaz Traders
	1,124	1,124	-	14	SALE	
	3,921	3,921	-	41	SALE	
	1,539	1,539	-	14	SALE	
	1,592	1,592	-	14	SALE	
	1,592	1,592	-	14	SALE	
	1,592	1,592	-	14	SALE	
	1,592	1,592	-	14	SALE	
	1,952	1,952	-	14	SALE	
	1,952	1,952	-	14	SALE	
	1,952	1,952	-	14	SALE	
	1,952	1,952	-	14	SALE	
	1,952	1,952	-	14	SALE	
	1,952	1,952	-	14	SALE	
	1,952	1,952	-	14	SALE	
	1,539	1,539	-	14	SALE	
	1,583	1,583	-	14	SALE	
	1,937	1,937	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,901	1,901	-	14	SALE	
	2,421	2,421	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,901	1,901	-	14	SALE	
	2,515	2,515	-	14	SALE	
	1,937	1,937	-	14	SALE	
	1,539	1,539	-	14	SALE	
	1,954	1,954	-	14	SALE	
	1,938	1,938	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,353	1,353	-	14	SALE	
	1,937	1,937	-	14	SALE	
	2,457	2,457	-	14	SALE	
	1,937	1,937	-	14	SALE	
	1,922	1,922	-	14	SALE	
	1,744	1,744	-	14	SALE	
	1,937	1,937	-	14	SALE	
	1,937	1,937	-	14	SALE	
	1,317	1,317	-	14	SALE	
	1,937	1,937	-	14	SALE	
	1,901	1,901	-	14	SALE	
	1,317	1,317	-	14	SALE	
	1,317	1,317	-	14	SALE	
	1,317	1,317	-	14	SALE	
	1,050	1,050	-	30	SALE	
	1,512	1,512	-	2	SALE	
	1,277	1,277	-	3	SALE	
	<b>90,684</b>	<b>90,684</b>	-	<b>711</b>		
<b>Land &amp; Building</b>						
	84,770	304	84,466	62,500	SALE	Mount Fuji Textile Faz International Mohammad Akbar Aurangzeb Khan
	60,128	-	60,128	50,000	SALE	
	3,506	212	3,294	3,300	SALE	
	390	-	390	400	SALE	
	<b>148,794</b>	<b>516</b>	<b>148,278</b>	<b>116,200</b>		
<b>Motor Vehicles</b>						
	1,908	1,908	-	815	Auction	Shahbaz A Malik Bhaageerutty Lazar Younes Omni Cars Agent Makeen Ashraf Makki Jubilee General Insurance
	4,119	4,119	-	1,378	Tender	
	3,081	3,081	-	217	Negotiation	
	7,673	7,673	-	2,584	Negotiation	
	1,317	1,317	-	413	Tender	
	1,080	700	380	787	Insurance claim	
	1,289	256	1,033	1,102	Insurance claim	
	<b>20,467</b>	<b>19,054</b>	<b>1,413</b>	<b>7,294</b>		
Assets having cost of less than Rs. 1 million and book value of less than Rs.250,000	316,079	307,964	8,115	41,347		
	<b>576,024</b>	<b>418,218</b>	<b>157,806</b>	<b>165,552</b>		

## Details of Donations of Rs. 100,000 and above For the year Ended December 31, 2011

## Annexure IV

	2011	2010
HBL Foundation	225,251	349,512
Indus Valley School of Arts and Architecture	10,721	-
National Database and Registration Authority (NADRA)	1,200	-
District Municipal Corporation, Karachi-Central	1,000	-
Subh - e - Nau Magazine	1,000	1,500
Aga Khan Cultural Service Pakistan	870	-
Salamat School System (Pvt) Ltd.	750	-
Institute of Chartered Accountants of Pakistan	700	-
Aga Khan Youth & Sports Board for Pakistan	672	-
Pakistan Advertisers Society (PAS)	564	-
Memon Professional Forum	500	300
Pakistan Hockey Federation	500	-
FireBolt 63	484	-
Omni Racing (Pvt.) Ltd.	400	-
Petroleum Institute of Pakistan	400	-
Publicans Alumni Trust	300	-
Century Publications (Pvt.) Ltd	250	-
Institutes Fund AHQ Islamabad	250	-
School of Leadership	250	-
Layton Rahmatulla Benovelent trust ( LRBT)	240	-
MindShare	222	-
All Pakistan Music Conference	200	-
BLINCK - Youth Forum	200	-
Karachi Polo Team	200	-
Karwan-e-Hayat	200	-
Millenium Media	200	-
Network of Organization working for People with Disabilities	200	-
Pakistan Air Force	200	150
Rite Printers	200	-
Sketch Printers	200	400
Special Olympics Pakistan	200	-
Thalassaemia Society of Pakistan	200	-
The Weldon BBS	200	-
Aga Khan Hospital & Medical College Foundation	200	-
Electroline	175	-
Pakistan welfare Association	150	-
Sada Welfare Foundation	150	-
Blue Chip Magazine	143	-
Atlas	134	-
Ziauddin University	125	100
The Citizens Foundation	120	-
Entertainment 360	106	-
AISEEC - Business Forum	100	-
Civil Services Academy Alumni Sindh	100	-
Forman Christian College	100	-
Lahore Hospital Welfare Society	100	-
Pakistan Foreign Office Women's Association (PFOWA)	100	-
The Medical Aid Foundation Cancer Division	100	-
University of Punjab, Gujranwala Campus	100	-
Abdullah Shah Ghazi Wing	100	-
Sialkot Zone Volleyball Association	-	500
Karachi Port Trust	-	400
Pakistan Squash Federation	-	300
Pakistan Herald Publications (pvt.) Ltd.	-	234
ZAWN Printers	-	206
Pakistan National Committee for the ICC	-	172
Karachi Golf Club	-	120
Akbar Alam Charity	-	100
E-commerce Gateway	-	100
Karachi Centre for Dispute Resolution	-	100
Nut Shell Forum	-	100
Prime Minister Relief Fund	-	20,000
Flood Effectees	-	13,852
Army Relief Fund	-	10,000
Pukaar Foundation	-	3,000
Quaid-e-Azam Medical College and Hospital, Bhawalpur	-	1,725
	<b>251,027</b>	<b>353,994</b>

Donations were not made to any donee in which Habib Bank Limited, Directors or their spouses had any personal interest at the time of donation.



## Pattern of Shareholding

### As at December 31, 2011

No. of Shareholders	Shareholding		Shares Held	Percentage
	From	To		
16,301	1	100	335,826	0.0305
87,953	101	500	15,175,675	1.3770
2,853	501	1,000	2,073,974	0.1882
1,700	1,001	5,000	3,196,253	0.2900
164	5,001	10,000	1,147,239	0.1041
59	10,001	15,000	714,968	0.0649
30	15,001	20,000	527,986	0.0479
23	20,001	25,000	521,876	0.0474
11	25,001	30,000	305,213	0.0277
6	30,001	35,000	192,664	0.0175
7	35,001	40,000	262,204	0.0238
8	40,001	45,000	332,507	0.0302
5	45,001	50,000	243,153	0.0221
2	50,001	55,000	106,934	0.0097
4	55,001	60,000	226,786	0.0206
10	60,001	65,000	630,123	0.0572
2	65,001	70,000	134,655	0.0122
2	70,001	75,000	147,900	0.0134
4	75,001	80,000	307,490	0.0279
3	80,001	85,000	248,506	0.0225
1	85,001	90,000	85,200	0.0077
1	90,001	95,000	92,551	0.0084
1	95,001	100,000	100,000	0.0091
2	100,001	105,000	204,901	0.0186
2	110,001	115,000	220,521	0.0200
3	120,001	125,000	372,076	0.0338
3	125,001	130,000	381,225	0.0346
1	135,001	140,000	137,940	0.0125
1	145,001	150,000	146,894	0.0133
1	160,001	165,000	162,250	0.0147
2	170,001	175,000	349,117	0.0317
1	190,001	195,000	190,070	0.0172
1	195,001	200,000	199,650	0.0181
1	200,001	205,000	203,931	0.0185
1	255,001	260,000	259,208	0.0235
1	260,001	265,000	264,580	0.0240
1	265,001	270,000	268,620	0.0244
1	270,001	275,000	272,454	0.0247
1	280,001	285,000	280,759	0.0255
1	290,001	295,000	293,299	0.0266
1	315,001	320,000	319,279	0.0290
1	330,001	335,000	333,145	0.0302
1	350,001	355,000	351,458	0.0319
1	420,001	425,000	420,750	0.0382
1	445,001	450,000	450,000	0.0408
1	475,001	480,000	477,459	0.0433
2	530,001	535,000	1,063,017	0.0965
1	560,001	565,000	564,630	0.0512
1	590,001	595,000	592,458	0.0536
1	720,001	725,000	724,702	0.0658
1	755,001	760,000	757,038	0.0687
1	890,001	895,000	892,863	0.0810
1	950,001	955,000	952,689	0.0864
1	995,001	1,000,000	1,000,000	0.0907
1	1,045,001	1,050,000	1,048,924	0.0952
1	1,435,001	1,440,000	1,435,258	0.1302
1	1,495,001	1,500,000	1,496,625	0.1358
1	1,620,001	1,625,000	1,623,951	0.1474
1	2,315,001	2,320,000	2,319,067	0.2104
1	2,895,001	2,900,000	2,897,198	0.2629
1	5,770,001	5,775,000	5,770,198	0.5236
1	10,330,001	10,335,000	10,330,986	0.9374
1	25,415,001	25,420,000	25,416,446	2.3063
1	447,455,000	447,460,000	447,458,001	40.6017
1	562,050,001	562,055,000	562,054,680	51.0000
<b>109,200</b>			<b>1,102,068,000</b>	<b>100.0000</b>

# Category of Shareholding

As at December 31, 2011

Particulars	Share Holders	Shareholding	Percentage	
Associated Companies, Undertakings & Related Parties				
Jubilee Life Insurance Company Limited	1	592,458	0.0538	
Jubilee General Insurance Company Limited	1	1,048,924	0.0952	
HBL Stock Fund	1	952,689	0.0864	
HBL Multi Asset Fund	1	124,677	0.0113	
National Investment Trust	1	7,309	0.0007	
Directors, Chief Executive Officer and their Spouse and minor Children				
R.Zakir Mahmood	C.E.O	1	259,367*	0.0235
Executives	50	591,507	0.0537	
Public Sector Companies & Corporations	1	159	0.0000	
Banks, DFI & NBFIs	13	11,111,918	1.0083	
Insurance Companies	13	1,695,793	0.1539	
Modarabas & Mutual Funds	14	6,901,311	0.6262	
General Public				
Local	108,173	23,728,898	2.1531	
Foreign	738	1,086,100	0.0986	
Others	157	3,673,686	0.3333	
Government of Pakistan	4	35,750,442	3.2439	
Foreign Companies	29	5,030,081	0.4564	
Holding 10% and Above				
State Bank of Pakistan	1	447,458,001	40.6017	
Aga Khan Fund for Economic Development	1	562,054,680	51.0000	
	<b>109,200</b>	<b>1,102,068,000</b>	<b>100.0000</b>	

\* 259,208 shares issued under Staff Retention Incentive Scheme



## Notice of Annual General Meeting

Notice is hereby given that 70<sup>th</sup> Annual General Meeting of Habib Bank Limited will be held on Saturday, March 24, 2012 at 9.00 a.m. at the HBL Auditorium, Ground Floor, Habib Bank Tower, Jinnah Avenue, Islamabad to transact the following business:

### Ordinary Business:

1. To receive, consider and adopt the Audited Accounts (consolidated and unconsolidated) of the Bank for the year ended December 31, 2011, together with the Reports of the Directors' and Auditor thereon.
2. To appoint Auditors for the term ending at the conclusion of the next Annual General Meeting and to fix their remuneration. The retiring Auditors Ernst & Young, Ford Rhodes Sidat Hyder, Chartered Accountants, being eligible, have offered themselves for re-appointment.
3. To approve payment of a Final Cash Dividend of Rs. 4/- per share, i.e., 40%, to those who are Shareholders as at close of business on March 16, 2012, in addition to the 30% Interim Cash Dividend (i.e., Rs. 3 per share) already paid, as recommended by Directors.
4. To elect 7 Directors of the Bank, as fixed by the Board of Directors of the Bank under the provisions of Section 178 of the Companies Ordinance 1984, for a period of 3 years, commencing from March 27, 2012. The retiring Directors are:
  - i. Mr. Sultan Ali Allana
  - ii. Mr. R. Zakir Mahmood
  - iii. Mr. Moez Ahamed Jamal
  - iv. Mr. Sajid Zahid
  - v. Mr. Ahmed Jawad
  - vi. Mr. Mushtaq Malik
  - vii. Mr. Sikandar Mustafa Khan

### Special Business:

5. To authorise the issuance of Bonus Shares in proportion of 10 shares for every 100 shares held, that is at the rate of 10%, to those Shareholders whose names appear in the register of members at close of business on March 16, 2012 and to approve the disposal of fractional shares created out of the issuance of bonus shares.
6. To consider and, if thought fit, to approve an increase in the authorised capital of the Company from Rs. 13.8 billion to Rs. 30 billion by the creation of 1,620 million ordinary shares of Rs. 10 each and to accordingly amend Article V of the Memorandum of Association.

The aforesaid amendment shall be implemented once all regulatory approvals are in place.

7. To re-confirm the remuneration/fee payable to the newly elected Non-Executive Directors and Chairman of the Bank on the same terms and conditions as earlier approved in the 68<sup>th</sup> Annual General Meeting held on March 27, 2010.

A Statement of Material Fact under Section 160(1)(b) of the Companies Ordinance 1984 relating to the aforesaid Special Business to be transacted at the said Annual General Meeting is attached.

### Any Other Business:

8. To consider any other business with the permission of the Chair.

By the Order of the Board

March 2, 2012  
Karachi

Nausheen Ahmad  
Company Secretary

## NOTES

- 1) The Share Transfer Books of the Bank will be closed and no transfer will be accepted for registration from March 17, 2012 to March 24, 2012 (both days inclusive).
- 2) A Member, entitled to attend, speak and vote at the General Meeting is entitled to appoint another person as his/her proxy to attend, speak and vote instead of him/her and a proxy so appointed shall have such rights, as respects attending, speaking and voting at the General Meeting as are available to the Member. Proxy Forms, in order to be effective, must be received at the Registered Office of the Bank not less than 48 hours before the Meeting. The proxy for an individual shareholder needs to be a Member of the Bank.
- 3) Members are requested to notify us immediately of any change in their Registered Address currently available with us.
- 4) The Office of the Registrar of the Bank is located at Messrs THK Associates (Pvt.) Ltd., Ground Floor, State Life Building No.3, Dr. Ziauddin Ahmed Road, Karachi.
- 5) Members who have not yet submitted photocopy of their computerized national identity cards (CNIC) to the Company are requested to send the same at the earliest.

**CDC Account Holders will further have to follow the under mentioned guidelines as laid down in Circular 1 dated 26 January 2000 issued by the Securities and Exchange Commission of Pakistan:**

### **A. For Attending the Meeting:**

- i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original National Identity Card (NIC), or original passport at the time of attending the meeting. CDC Account Holders are also requested to bring their CDC participant ID numbers and account number.
- ii) In case of a corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

### **B. For Appointing Proxies:**

- i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement (note 2 above).
- ii) The proxy form shall be witnessed by two persons whose names, addresses and NIC numbers shall be mentioned on the form.
- iii) Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- iv) The proxy shall produce his original NIC or original passport at the time of the meeting.
- v) In the case a corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the proxy holder shall be submitted (unless it has been provided earlier) along with proxy form to the Company.



## Statement of Material Facts Under Section 160 (1) (b) of the Companies Ordinance, 1984

### Agenda Item – 5 – Issue of Bonus Shares

In the opinion of the Board of Directors, the Financial result of the Bank justifies the issuance of Bonus Shares in the ratio of 10 ordinary shares for every 100 ordinary shares held, that is, at the rate of 10%, to those Shareholders whose names appear in the register of Members at the close of business on March 16, 2012. A certificate of free reserves has been issued by the Auditors.

The Directors of the Company are not directly or indirectly, personally interested in this business except to the extent of their shareholding in the Company.

Accordingly, it is proposed to consider and pass the following resolution as an ordinary resolution:

#### RESOLVED THAT:

1. Ordinary Shares of Rs. 10 each be issued as Bonus Shares and that the said shares be allotted as fully paid Ordinary Shares to the Members of the Bank whose names appear on the Register of Members as at the close of business on 16 March 2012 in the proportion of 10 Bonus Shares for every 100 Shares held that is, at the rate of 10%, and that such Bonus Shares shall rank *pari passu* as regards dividends and in all other respects with the existing Ordinary Shares of the Bank.
2. In the event of any Member becoming entitled to a fraction of a share, the Directors be and are hereby authorized to consolidate all such fractions and sell the shares so constituted on the Stock Market and to pay the proceeds thereof to the Members entitled to the fraction in proportion to their respective entitlements and to add the value of such fractional entitlements to the dividend amount payable to each such Member.
3. For the purpose of giving effect to the foregoing, the Directors be and they are hereby authorized to do and cause to be done all acts, deeds and things that may be necessary and to settle any question or difficulties that may arise in regard to the allotment and the distribution of the said Bonus Shares and in regard to fractional entitlements and the sale of the consolidated shares and the distribution of the sale proceeds of the consolidated shares to those entitled to fractional entitlements, as they think fit.

### Agenda Item – 6- Increase in Authorised Capital and in this regard Amendment in Memorandum of Association of the Bank

The present authorised capital of the Bank is Rs. 13,800,000,000 (Rupees thirteen billion, eight hundred million) divided into 1,380,000,000 (one billion, three hundred eighty million) Ordinary Shares of Rs. 10 each. The Directors of the Bank have recommended in their Board Meeting held on February 24, 2012 that the authorised capital of the Bank be increased to Rs. 30,000,000,000 (Rupees thirty billion) divided into 3,000,000,000 (three billion) ordinary shares of Rs. 10 (Rupees ten) each so as to facilitate issuance of further shares in the future. For this purpose the Board of Directors have recommended that the Members consider and pass the following Resolution at the forthcoming Annual General Meeting as an Ordinary Resolution with or without modification, addition or deletion:

RESOLVED that the authorised capital of the Bank be and is hereby increased to Rs. 30,000,000,000 (Rupees thirty billion) by the creation of 1,620 million ordinary shares of Rs. 10 each, such new shares to rank *pari passu* in all respects with the existing ordinary shares in the capital of the Bank and that Article V of the Memorandum of Association of the Company be and is hereby amended to read as follows:

“The Capital of the Company is Rs. 30,000,000,000 (Rupees thirty billion) divided into 3,000,000,000 (three billion) ordinary shares of Rs. 10 each.”

The aforesaid amendment shall be implemented once all regulatory approvals are in place.

## Agenda Item – 7 – Directors Remuneration

As per SBP Prudential Regulation G-1 paragraph C2 Non-Executive Directors and the Chairman may receive a reasonable and appropriate remuneration / fee from the Bank, the scale of which is to be approved by the Shareholders on a pre or post facto basis. The Shareholders are required to re-confirm the remuneration / fee for the newly elected Non-Executive Directors and Chairman, in the same terms as earlier approved by the Shareholders at the 68<sup>th</sup> Annual General Meeting held on March 27, 2010 (Particulars as Annexure-A hereto) and to pass the following Resolution as an Ordinary Resolution with or without modification, addition or deletion:

RESOLVED that the Shareholders approve the payment of remuneration/fee to the Chairman and Non-Executive Directors of Habib Bank Limited elected at the 70<sup>th</sup> Annual General Meeting held on March 24, 2012 and any persons or persons appointed in place of any such Directors, the particulars of which are attached as Annexure 'A' hereto.

**The Directors of the Bank have no interest in the above special business and/or resolutions that would need a further disclosure.**

**Annexure A**

### In respect of Agenda Item 7

#### Particulars of Remuneration/Fee for Non-Executive Directors / Chairman

- (1) Board fee of Rs 200,000 per Board meeting attended and Rs. 100,000 per Committee meeting attended. In addition, travel costs and per diem will be applicable for the Non-Executive Directors including the Chairman as per Bank policy.
- (2) The Non-Executive Directors will be entitled to travel and per diem for travel within and outside the country for Bank related work/purposes will be as per Bank's travel policy approved by the Board.
- (3) The Chairman of the Bank will also be entitled to receive/avail fully maintained Bank cars, appropriate security for self and family; health insurance for self and family, life insurance/endowment coverage, medical coverage for self and family in Pakistan and/or abroad; utilities and house maintenance; house rent allowance as per prevailing market rates.
- (4) Travel and all related expenses, entertainment expenses including club subscriptions for the Chairman of the Board of HBL will be as per the Bank's approved policy.
- (5) The Chairman will also be provided with appropriate office premises by the Bank and support staff for carrying out his duties in his capacity as the Chairman of the Bank.
- (6) For Board meetings and/or Board Committee meetings held outside Pakistan the Non-Executive Directors including the Chairman will be entitled to travel expenses for self and spouse plus hotel expenses, meals, incidentals either on actuals or alternatively will receive per diem of USD 1,500 per day.
- (7) Directors liability insurance for all Directors as determined by the Board.

The Shareholders may note that the aforesaid was approved by the Shareholders at the Annual General Meeting of March 27, 2010.

The Shareholders are further informed that the aforesaid particulars will be attached to the Shareholder's resolution proposed to be passed at the Annual General Meeting of Habib Bank Limited to be held on Saturday, March 24, 2012 at 9:00 am in Islamabad.

By the Order of the Board

March 2, 2012  
Karachi

**Nausheen Ahmad**  
Company Secretary



## Admission Slip

The Annual General Meeting of Habib Bank Limited will be held on Saturday, 24 March 2012 at 9:00 a.m. at the Auditorium, Ground Floor, Habib Bank Tower, Jinnah Avenue, Islamabad.

Kindly bring this slip duly signed by you for attending the Meeting.

Company Secretary

Name \_\_\_\_\_

Shareholder No. \_\_\_\_\_

\_\_\_\_\_  
Signature

### Note:

- i) The signature of the shareholder must tally with the specimen signature on the Company's record.
- ii) Shareholders are requested to hand over duly completed admission slips at the counter before entering the meeting premises.

### CDC Account Holders / Proxies / Corporate Entities:

- a) The CDC Account Holder / Proxy shall authenticate his identity by showing his / her original Computerized National Identity Card (CNIC) or original passport at the time of attending the Meeting.
- b) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of the Meeting (unless it has been provided earlier).

**This Admission Slip is Not Transferable.**





## Form of Proxy

I/We \_\_\_\_\_  
of \_\_\_\_\_  
being member(s) of Habib Bank Limited holding \_\_\_\_\_  
ordinary shares hereby appoint \_\_\_\_\_  
of \_\_\_\_\_ or failing him/her \_\_\_\_\_  
of \_\_\_\_\_ who is / are also member(s) of Habib Bank Limited as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held on March 24, 2012 and at any adjournment thereof.

As witness my / our hand / seal this \_\_\_\_\_ day of \_\_\_\_\_ 2012

Signed by the said \_\_\_\_\_

In the presence of 1. \_\_\_\_\_  
2. \_\_\_\_\_

Folio / CDC Account No.

Signature on Revenue Stamp of Appropriate Value
---

This signature should agree with the specimen registered with the Company.

### Important:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company, 4<sup>th</sup> Floor, Habib Bank Tower, Jinnah Avenue, Islamabad, not less than 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he himself is a member of the Company, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

### For CDC Account Holders / Corporate Entities:

In addition to the above the following requirements have to be met:

- i) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
- ii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- iii) The proxy shall produce his original CNIC or original passport at the time of the meeting.
- iv) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.