

**Condensed Interim Unconsolidated
Balance Sheet
As At MARCH 31, 2010**

	(Unaudited) March 31, 2010	(Audited) December 31, 2009
Note	(Rupees in '000)	
ASSETS		
Cash and balances with treasury banks	71,331,515	79,527,191
Balances with other banks	37,357,657	29,560,309
Lendings to financial institutions	22,433,637	5,352,873
Investments	6 203,676,729	209,421,147
Advances	7 412,890,415	432,283,588
Other assets	34,163,505	40,187,710
Operating fixed assets	16,258,088	16,475,939
Deferred tax asset	7,881,606	8,172,590
	<u>805,993,152</u>	<u>820,981,347</u>
LIABILITIES		
Bills payable	8,508,176	10,041,203
Borrowings from financial institutions	9 41,807,569	48,121,649
Deposits and other accounts	10 647,166,613	653,452,460
Sub-ordinated loans	11 4,204,390	4,212,080
Liabilities against assets subject to finance lease	-	-
Other liabilities	26,957,339	26,058,408
Deferred tax liability	-	-
	<u>728,644,087</u>	<u>741,885,800</u>
NET ASSETS	<u><u>77,349,065</u></u>	<u><u>79,095,547</u></u>
REPRESENTED BY:		
Shareholders' equity		
Share capital	9,108,000	9,108,000
Reserves	26,710,981	25,801,889
Unappropriated profit	33,222,057	36,325,458
	69,041,038	71,235,347
Surplus on revaluation of assets - net of deferred tax	12 8,308,027	7,860,200
	<u><u>77,349,065</u></u>	<u><u>79,095,547</u></u>
CONTINGENCIES AND COMMITMENTS	13	

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

President and Chief Executive Officer

Director

Director

Director

**Condensed Interim Unconsolidated
Profit and Loss Account - (Unaudited)
For the Three Months Ended March 31, 2010**

	Note	January 01 to March 31, 2010 (Rupees in '000)	January 01 to March 31, 2009 (Rupees in '000)
Mark-up / return / interest earned	14	19,156,955	18,237,229
Mark-up / return / interest expensed	15	8,551,418	7,817,553
Net mark-up / interest income		10,605,537	10,419,676
Provision against non-performing loans and advances - net	7.2 / 7.4	1,413,055	2,382,718
Charge / (reversal) against off-balance sheet obligations		46,446	(278,394)
Provision against diminution in value of investments	6.2	(83,680)	(918,731)
Bad debts written off directly		-	-
		1,375,821	1,185,593
Net mark-up / interest income after provisions		9,229,716	9,234,083
Non mark-up / interest income			
Fee, commission and brokerage income		1,199,221	1,097,987
Income / gain on investments	16	172,795	(180,719)
Income from dealing in foreign currencies		497,513	341,907
Other income		784,345	689,930
Total non-mark-up / interest income		2,653,874	1,949,105
		11,883,590	11,183,188
Non mark-up / interest expense			
Administrative expenses		5,614,011	5,528,492
Other provisions / write offs - net		12,308	85,989
Other charges		171,271	338
Workers welfare fund		121,720	111,367
Total non mark-up / interest expenses		5,919,310	5,726,186
Profit before taxation		5,964,280	5,457,002
Taxation - current		2,327,779	2,333,664
- prior		-	180,000
- deferred		33,899	(538,089)
		2,361,678	1,975,575
Profit after taxation		3,602,602	3,481,427
			(Rupees)
Basic and diluted earnings per share		3.96	3.82

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

**Condensed Interim Unconsolidated
Statement of Comprehensive Income - (Unaudited)
For the Three Months Ended March 31, 2010**

	March 31, 2010	March 31, 2009
	(Rupees in '000)	
Profit for the period	3,602,602	3,481,427
Other comprehensive income		
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	(361,968)	(56,263)
Comprehensive income transferred to equity	<u>3,240,634</u>	<u>3,425,164</u>
Components of comprehensive income not reflected in equity		
Surplus on revaluation of investments	734,501	2,308,038
Deferred tax on revaluation of investments	(256,817)	(792,644)
Total comprehensive income	<u><u>3,718,318</u></u>	<u><u>4,940,558</u></u>

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

President and Chief Executive Officer

Director

Director

Director

Condensed Interim Unconsolidated Cash Flow Statement - (Unaudited) For the Three Months Ended March 31, 2010

	March 31, 2010	March 31, 2009
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	5,964,280	5,457,002
Dividend income	(108,150)	(41,584)
(Gain) / loss on sale of securities - net	(65,386)	222,303
	<u>(173,536)</u>	<u>180,719</u>
	5,790,744	5,637,721
Adjustment for:		
Depreciation / amortisation / adjustments	410,268	377,369
Provision against diminution in value of investments	(83,680)	(918,731)
Provision against non-performing loans and advances - net of reversals	1,413,055	2,382,718
Unrealised appreciation in value of investments at fair value	741	-
Exchange loss on sub-ordinated loans	(7,690)	70,730
Gain on sale of property and equipment - net	(4,090)	(1,389)
Miscellaneous provisions	58,754	(192,405)
	<u>1,787,358</u>	<u>1,718,292</u>
	7,578,102	7,356,013
(Increase) / decrease in operating assets		
Lendings to financial institutions	(17,080,764)	(16,720,166)
Loans and advances	17,980,118	33,119,401
Other assets - net	6,199,733	107,178
	<u>7,099,087</u>	<u>16,506,413</u>
Increase / (decrease) in operating liabilities		
Deposits and other accounts	(6,285,847)	(3,167,795)
Borrowings from financial institutions	(6,314,080)	(6,213,640)
Bills payable	(1,533,027)	(1,462,699)
Other liabilities - net	392,227	1,446,762
	<u>(13,740,727)</u>	<u>(9,397,372)</u>
	936,462	14,465,054
Income tax paid - net	(2,467,460)	(2,195,644)
Net cash flows (used in) / from operating activities	<u>(1,530,998)</u>	<u>12,269,410</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in securities, associates and joint venture company	6,627,244	(14,045,264)
Dividend income received	60,263	24,597
Fixed capital expenditure	(194,630)	(435,326)
Proceeds from sale of fixed assets	6,303	14,954
Exchange adjustment on translation of balances in foreign branches	(361,968)	(56,263)
Net cash flows from / (used in) investing activities	<u>6,137,212</u>	<u>(14,497,302)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(5,004,542)	(734)
Net cash flows used in financing activities	<u>(5,004,542)</u>	<u>(734)</u>
Increase in cash and cash equivalents during the period	<u>(398,328)</u>	<u>(2,228,626)</u>
Cash and cash equivalents at beginning of the period	110,114,947	89,100,212
Effects of exchange rate changes on cash and cash equivalents	(1,027,447)	(20,454)
	109,087,500	89,079,758
Cash and cash equivalents at end of the period	<u>108,689,172</u>	<u>86,851,132</u>

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

President and Chief Executive Officer

Director

Director

Director

Condensed Interim Unconsolidated Statement of Changes In Equity - (Unaudited) For the Three Months Ended March 31, 2010

Share capital	RESERVES					Total	
	Exchange translation reserve	Statutory	Reserve for issue of bonus shares	General	Unappropriated profit		
(Rupees in '000)							
Balance as at December 31, 2008	7,590,000	5,789,559	11,018,947	-	6,073,812	30,818,496	61,290,814
Total comprehensive income for the period							
Profit for the three months ended March 31, 2009	-	-	-	-	-	3,481,427	3,481,427
- Other comprehensive income							
Effect of translation of net investment in foreign branches	-	(56,263)	-	-	-	-	(56,263)
	-	(56,263)	-	-	-	3,481,427	3,425,164
Transactions with owners, recorded directly in equity							
Cash dividend at Rs. 4 per share	-	-	-	-	-	(4,174,500)	(4,174,500)
Transferred to reserve for issue as bonus shares	-	-	-	1,518,000	-	(1,518,000)	-
	-	-	-	1,518,000	-	(5,692,500)	(4,174,500)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	12,109	12,109
Transferred to statutory reserves	-	-	348,143	-	-	(348,143)	-
Balance as at March 31, 2009	7,590,000	5,733,296	11,367,090	1,518,000	6,073,812	28,271,389	60,553,587
Total comprehensive income for the period							
Profit for the period ended from April to December 31, 2009	-	-	-	-	-	8,817,216	8,817,216
- Other comprehensive income							
Effect of translation of net investment in foreign branches	-	1,745,970	-	-	-	-	1,745,970
	-	1,745,970	-	-	-	8,817,216	10,563,186
Transactions with owners, recorded directly in equity							
Issue as bonus shares	1,518,000	-	-	(1,518,000)	-	-	-
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	118,574	118,574
Transferred to statutory reserves	-	-	881,721	-	-	(881,721)	-
Balance as at December 31, 2009	9,108,000	7,479,266	12,248,811	-	6,073,812	36,325,458	71,235,347
Total comprehensive income for the period							
Profit for the three months ended March 31, 2010	-	-	-	-	-	3,602,602	3,602,602
- Other comprehensive income							
Effect of translation of net investment in foreign branches	-	(361,968)	-	-	-	-	(361,968)
	-	(361,968)	-	-	-	3,602,602	3,240,634
Transactions with owners, recorded directly in equity							
Cash dividend at Rs. 6 per share	-	-	-	-	-	(5,464,800)	(5,464,800)
Transferred to reserve for issue as bonus shares	-	-	-	910,800	-	(910,800)	-
	-	-	-	910,800	-	(6,375,600)	(5,464,800)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	29,857	29,857
Transferred to statutory reserves	-	-	360,260	-	-	(360,260)	-
Balance as at March 31, 2010	9,108,000	7,117,298	12,609,071	910,800	6,073,812	33,222,057	69,041,038

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

President and Chief Executive Officer

Director

Director

Director

Notes to the Condensed Interim Unconsolidated Financial Statements - (Unaudited) For the Three Months Ended March 31, 2010

1 STATUS AND NATURE OF BUSINESS

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

2 BASIS OF PREPARATION

These financial statements are presented in condensed form in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting. These condensed Interim Financial Statements do not include all of the information required for full financial statements and should be read in conjunction with the financial statements of the Bank for the year ended December 31, 2009.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are being presented in a condensed format in accordance with the requirements of IAS 34 "Interim Financial Reporting" and the requirements of BSD circular letter No. 2 dated May 12, 2004.

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

4 ACCOUNTING ESTIMATES

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

5 FINANCIAL RISK MANAGEMENT

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

Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

6 INVESTMENTS

Note	March 31, 2010			December 31, 2009		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	(Rupees in '000)					
Held-for-trading securities (HFT)						
- Pakistan Investment Bonds	11,578	-	11,578	9,652	-	9,652
- Market Treasury Bills	59,362	-	59,362	387,191	-	387,191
- Shares - listed	25,429	-	25,429	-	-	-
	96,369	-	96,369	396,843	-	396,843
Held-to-maturity securities (HTM)						
<i>Federal Government Securities</i>						
- Pakistan Investment Bonds	8,320,322	-	8,320,322	8,373,174	-	8,373,174
<i>Overseas Government Securities</i>						
	79,784	-	79,784	78,963	-	78,963
<i>Debentures and Corporate Debt Instruments</i>						
	48,181	-	48,181	48,182	-	48,182
	8,448,287	-	8,448,287	8,500,319	-	8,500,319
Available-for-sale securities (AFS)						
<i>Federal Government Securities</i>						
- Market Treasury Bills	83,095,884	1,742,701	84,838,585	84,407,507	3,559,326	87,966,833
- Pakistan Investment Bonds	9,500,082	-	9,500,082	8,840,806	-	8,840,806
- Government of Pakistan Guaranteed Bonds	4,698,099	-	4,698,099	5,522,370	-	5,522,370
- Government of Pakistan Bonds / Sukuk / (US Dollar / Euro)	2,740,002	-	2,740,002	5,888,232	-	5,888,232
<i>Overseas Government Securities</i>						
	15,109,401	-	15,109,401	14,601,416	-	14,601,416
<i>Fully paid-up ordinary shares</i>						
- Listed companies	1,360,436	-	1,360,436	1,082,503	-	1,082,503
- Unlisted companies	731,665	-	731,665	730,244	-	730,244
<i>Debentures and Corporate Debt Instruments</i>						
- Listed securities	4,722,024	-	4,722,024	4,482,005	-	4,482,005
- Unlisted securities	61,475,636	-	61,475,636	61,447,423	-	61,447,423
<i>NIT Units</i>						
	21,095	-	21,095	20,509	-	20,509
<i>Preference Shares</i>						
	131,800	-	131,800	170,000	-	170,000
<i>Other Investments</i>						
	1,520,813	-	1,520,813	1,523,642	-	1,523,642
	185,106,937	1,742,701	186,849,638	188,716,657	3,559,326	192,275,983
<i>Investment in Subsidiary Companies</i>						
	5,220,880	-	5,220,880	5,186,448	-	5,186,448
<i>Investment in associates and Joint Venture</i>						
	3,061,555	-	3,061,555	3,061,554	-	3,061,554
	201,934,028	1,742,701	203,676,729	205,861,821	3,559,326	209,421,147

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

	March 31, 2010		December 31, 2009	
	Cost	Market value	Cost	Market value
	(Rupees in '000)			
- Investment classified as held-to-maturity	8,448,287	7,055,829	8,500,319	7,011,173
- Investment in listed associates and joint venture	5,087,252	6,242,763	5,087,252	6,737,033

6.2 Particulars of provision held against diminution in value of investments

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

	March 31, 2010	December 31, 2009
	(Rupees in '000)	
Opening balance	3,747,037	2,409,942
Charge for the period / year - net	1,354	426,052
Impairment (reversal) loss due to disposal of impaired shares or charge in value of associates / subsidiary	(85,034)	961,302
Total charge - net	(83,680)	1,387,354
Other movement	(200,000)	27,529
Amount written off	(957)	(79,622)
Exchange adjustment	2,493	1,834
Closing balance	3,464,893	3,747,037

Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

7	ADVANCES	Note	March 31, 2010 (Rupees in '000)	December 31, 2009
	Loans, cash credits, running finances, etc:			
	In Pakistan		370,514,806	384,534,660
	Outside Pakistan		44,518,847	47,295,017
			<u>415,033,653</u>	<u>431,829,677</u>
	Net investment in finance lease - in Pakistan		2,994,821	3,003,049
	Bills discounted and purchased (excluding Government treasury bills):			
	Payable in Pakistan		9,194,915	8,319,107
	Payable outside Pakistan		18,363,762	20,233,629
			27,558,677	28,552,736
	Provision against non-performing advances	7.2	<u>(32,696,736)</u>	<u>(31,101,874)</u>
			<u>412,890,415</u>	<u>432,283,588</u>
	Fully provided non-performing advances classified as loss for more than five years			
	In Pakistan		12,787,414	12,914,799
	Provision	7.4	<u>(12,787,414)</u>	<u>(12,914,799)</u>
			-	-

7.1 Advances include Rs. 44,783.640 million (2009: Rs. 42,309.377 million) which have been placed under non-performing status, other than those accounts classified as loss and fully provided for more than five years which have been placed in separate category as referred to in note 9.3 as detailed below:

Category of classification	March 31, 2010								
	Non-performing loans			Provision required and held			Net non-performing loans		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Specific provision									
Other assets especially mentioned	1,994,087	-	1,994,087	-	-	-	1,994,087	-	1,994,087
Substandard	5,483,853	1,310,097	6,793,950	1,297,908	324,992	1,622,900	4,185,945	985,105	5,171,050
Doubtful	7,339,883	2,154,043	9,493,926	3,885,051	1,212,816	5,097,867	3,454,832	941,227	4,396,059
Loss	20,228,035	6,273,642	26,501,677	19,259,775	6,145,321	25,405,096	968,260	128,321	1,096,581
	<u>35,045,858</u>	<u>9,737,782</u>	<u>44,783,640</u>	<u>24,442,734</u>	<u>7,683,129</u>	<u>32,125,863</u>	<u>10,603,124</u>	<u>2,054,653</u>	<u>12,657,777</u>
General provision									
	-	-	-	332,069	238,804	570,873	-	-	-
	<u>35,045,858</u>	<u>9,737,782</u>	<u>44,783,640</u>	<u>24,774,803</u>	<u>7,921,933</u>	<u>32,696,736</u>	<u>10,603,124</u>	<u>2,054,653</u>	<u>12,657,777</u>

Category of classification	December 31, 2009								
	Non-performing loans			Provision required and held			Net non-performing loans		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Specific provision									
Other assets especially mentioned	1,760,738	-	1,760,738	-	-	-	1,760,738	-	1,760,738
Substandard	4,289,633	1,086,936	5,376,569	1,032,615	264,205	1,296,820	3,257,018	822,731	4,079,749
Doubtful	7,613,079	2,588,414	10,201,493	3,859,790	1,245,809	5,105,599	3,753,289	1,342,605	5,095,894
Loss	18,790,913	6,179,664	24,970,577	17,940,223	6,178,976	24,119,199	850,690	688	851,378
	<u>32,454,363</u>	<u>9,855,014</u>	<u>42,309,377</u>	<u>22,832,628</u>	<u>7,688,990</u>	<u>30,521,618</u>	<u>9,621,735</u>	<u>2,166,024</u>	<u>11,787,759</u>
General provision									
	-	-	-	345,341	234,915	580,256	-	-	-
	<u>32,454,363</u>	<u>9,855,014</u>	<u>42,309,377</u>	<u>23,177,969</u>	<u>7,923,905</u>	<u>31,101,874</u>	<u>9,621,735</u>	<u>2,166,024</u>	<u>11,787,759</u>

7.2 Particulars of provision for non-performing financing

Note	March 31, 2010			December 31, 2009		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	30,521,618	580,256	31,101,874	23,791,096	744,916	24,536,012
Exchange adjustment / other movement	174,206	316	174,522	753,735	23,130	776,865
Charge for the period / year	1,578,964	6,736	1,585,700	9,513,138	26,750	9,539,888
Reversals	(18,066)	(16,435)	(34,501)	(577,625)	(214,540)	(792,165)
	1,560,898	(9,699)	1,551,199	8,935,513	(187,790)	8,747,723
Write offs	(111,367)	-	(111,367)	(1,312,944)	-	(1,312,944)
Transferred to over 5 years category	(19,492)	-	(19,492)	(1,645,782)	-	(1,645,782)
Closing balance	<u>32,125,863</u>	<u>570,873</u>	<u>32,696,736</u>	<u>30,521,618</u>	<u>580,256</u>	<u>31,101,874</u>

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

In accordance with BSD Circular No. 2 dated January 27, 2009 issued by the State Bank of Pakistan, the Bank has availed the benefit of FSV against the non-performing advance (excluding consumer housing finance portfolio). Had the benefit of FSV not been availed by the Bank the specific provision against non-performing advances would have been higher and consequently profit before taxation and advances (net of provisions) as at March 31, 2010 would have been lower by approximately Rs 1,098.180 million. Increase in profit would not be available for the distribution of cash and stock dividend to share holders.

Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

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

	Note	March 31, 2010 (Rupees in '000)	December 31, 2009 (Rupees in '000)
Opening balance		12,914,798	11,976,479
Reversal		(138,144)	(471,543)
Transferred during the period / year	7.2	19,492	1,645,782
Write offs		(8,732)	(235,920)
		<u>12,787,414</u>	<u>12,914,798</u>

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

	March 31, 2010				December 31, 2009			
	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the period	Loan repaid during the period	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the year	Loan repaid during the year
(Rupees in '000)								

Debts due by directors or executives of the Bank or any of them either severally or jointly with any other persons

- in respect of directors	-	-	-	-	-	-	-	-
- in respect of executives * (other than KMPs)	1,054,500	1,082,900	99,935	83,435	1,038,000	1,054,700	155,890	123,466
- in respect of key management personnel / Companies in which key management personnel or their spouse are interested	380,684	389,184	80,984	80,884	380,584	392,484	97,511	299,296

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

	1,157,647	1,157,647	77,468	75,321	1,155,500	1,155,500	1,657,401	1,393,532
--	-----------	-----------	--------	--------	-----------	-----------	-----------	-----------

Debts due by Subsidiary company

	3,295	32,746	38,185	45,097	10,207	155,129	128,592	246,057
--	-------	--------	--------	--------	--------	---------	---------	---------

Debts due by companies in which key management personnel are nominated by the Bank as directors

- Guaranteed by Government	10,836,448	12,212,857	996,171	2,824,188	12,664,465	14,055,572	20,143,120	9,577,800
- Others	51,572	51,979	1,735	2,892	52,729	418,491	341,064	462,098

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

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

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

8 OPERATING FIXED ASSETS

8.1 Addition to fixed assets

For the three months ended	
March 31, 2010	March 31, 2009
(Rupees in '000)	

The following additions have been made to tangible and intangible fixed assets during the period ended March 31, 2010:

Land	2,268	-
Building including related machinery	115,621	117,840
Furniture, fixtures and office equipments	71,792	222,900
Vehicles	2,341	141
Intangible assets	-	10,264
Capital work-in-progress	2,608	84,181
	<u>194,630</u>	<u>435,326</u>

8.2 Disposal of fixed assets

The following disposals have been made from tangible and intangible fixed assets during the period ended March 31, 2010:

Building including related machinery	-	3,154
Furniture, fixtures and office equipments	35,324	43,546
Vehicles	4,975	1,438
Intangible asset	90	-
	<u>40,389</u>	<u>48,138</u>

Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

9 BORROWINGS FROM FINANCIAL INSTITUTIONS

Secured

Borrowings from State Bank of Pakistan under:

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

Repurchase agreement borrowings

Unsecured

In Pakistan

- Interbank call money borrowing

Outside Pakistan

- Overdrawn nostro accounts
- Borrowings of overseas branches

	March 31, 2010	December 31, 2009
	(Rupees in '000)	
	20,842,161	22,267,455
	3,195,322	1,575,542
	4,617,488	5,196,466
	1,726,105	4,497,374
	<u>30,381,076</u>	<u>33,536,837</u>
	5,000,000	6,400,000
	637,049	501,341
	5,789,444	7,683,471
	6,426,493	8,184,812
	11,426,493	14,584,812
	<u>41,807,569</u>	<u>48,121,649</u>

10 DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits

Savings chequing account

Current accounts - remunerative

Current accounts - non-remunerative

Financial institutions

Remunerative deposits

Non-remunerative deposits

	164,670,261	190,593,620
	327,530,635	310,366,281
	1,837,776	1,811,833
	148,147,628	144,520,691
	<u>642,186,300</u>	<u>647,292,425</u>
	1,310,017	1,623,028
	3,670,296	4,537,007
	4,980,313	6,160,035
	<u>647,166,613</u>	<u>653,452,460</u>

11 SUB-ORDINATED LOANS

The Bank has obtained loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million (2008: 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.

12 SURPLUS ON REVALUATION OF ASSETS - net of deferred tax

Surplus arising on revaluation of:

- fixed assets
- investments

Surplus on revaluation of assets - net of deferred tax

Note	March 31, 2010	December 31, 2009
	(Rupees in '000)	
	8,518,795	8,548,652
	(210,768)	(688,452)
	<u>8,308,027</u>	<u>7,860,200</u>

12.1 Surplus on revaluation of fixed assets

Surplus on revaluation of fixed assets as at January 1

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

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

Transferred to accumulated profit in respect of incremental

depreciation charged during the period / year - net of deferred tax

Related deferred tax liability of incremental

depreciation charged during the period / year

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

Less: related deferred tax liability on:

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

	9,451,843	7,809,013
	-	1,818,705
	-	(46,754)
	(29,857)	(83,929)
	(16,078)	(45,192)
	<u>9,405,908</u>	<u>9,451,843</u>
	903,191	593,067
	-	355,586
	-	(270)
	(16,078)	(45,192)
	<u>887,113</u>	<u>903,191</u>
	<u>8,518,795</u>	<u>8,548,652</u>

Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

		March 31, 2010	December 31, 2009
		(Rupees in '000)	
12.2	Surplus / (deficit) on revaluation of investments		
	Market Treasury Bills	14,865	94,837
	Pakistan Investment Bonds	(682,122)	(701,073)
	Sukuk and Euro Bonds	66,557	(532,377)
	Listed Securities	224,005	16,482
	NIT Units	9,983	9,397
	Other Investments	42,510	54,031
		(324,202)	(1,058,703)
	Add: related deferred tax asset	113,434	370,251
		<u>(210,768)</u>	<u>(688,452)</u>
13	CONTINGENCIES AND COMMITMENTS		
13.1	Direct credit substitutes - financial guarantees		
	Guarantees in favour of:		
	- Government	6,742,365	7,220,955
	- Financial institutions	26,432	641,533
	- Others	31,170,589	50,716,165
		<u>37,939,385</u>	<u>58,578,653</u>
13.2	Transaction-related contingent liabilities		
	Guarantees in favour of:		
	- Government	855,563	2,153,320
	- Financial institutions	147,318	112,588
	- Others	17,901,777	20,949,375
		<u>18,904,658</u>	<u>23,215,283</u>
13.3	Trade-related commitments		
	Credit cash	87,843,122	97,492,487
	Credit documentary acceptances	16,811,114	10,068,783
	Credit acceptances	16,304,043	23,523,827
		<u>120,958,279</u>	<u>131,085,097</u>
13.4	Other contingencies		
	Claims against the Bank not acknowledged as debts	<u>80,868,400</u>	<u>80,965,869</u>
13.5	Commitments in respect of forward lending		
	The bank makes commitments to extend credit in the normal course of its business but none of these commitments are irrevocable and do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
13.6	Commitments in respect of forward foreign and local exchange contracts		
	Purchase	51,447,239	28,826,751
	Sale	51,357,505	28,837,326
	The above commitments have maturities falling within one year.		
	Commitments in respect of foreign currency options		
	Purchase	2,137,318	2,556,777
	Sale	2,137,318	2,556,777
	Commitments in respect of local currency interest rate swaps		
	Purchase	455,439	456,208
	Sale	455,439	456,208
13.7	Commitments for acquisition of operating fixed assets / intangibles	484,993	548,975
13.8	Taxation		

The income tax returns of Habib Bank Limited have been submitted upto and including the bank's financial year 2008. The tax authorities have concluded the audit of years 2002 through 2008.

While amending the assessments under section 122(5A) of the Income Tax Ordinance, 2001 the tax authorities have disallowed certain items including disallowance of double income tax relief relating to Azad Jammu & Kashmir (AJK) branches amounting to Rs. 2,923 million and addition on account of allocation of expenses related to exempt capital gains and dividend income resulting in additional tax liability amounting to Rs. 337 million.

Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

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

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

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

The Finance Act, 2009 has made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. Through these amendments the deduction for provisions for advances and off balance sheet items will be allowed upto 1% of total advances. The amendments introduced in the Seventh Schedule do not provide for any transitional mechanism i.e. how and when the provision for bad debts disallowed upto December 31, 2007 would be allowed as a deduction. The matter was taken up by the Pakistan Banks Association (PBA) and the Institute of Chartered Accountants of Pakistan (ICAP) with the Federal Board of Revenue (FBR). FBR vide its letter reference F.No. 4(1)ITP/2008-49 dated December 23, 2009 has informed ICAP that it has decided to insert a new Rule 8(a) in Seventh Schedule to allow for amounts provided for in tax year 2008 and prior to said tax year for doubtful debts, which were neither claimed nor allowed as tax deductible in any year shall be allowed as deduction in tax year in which such doubtful debts are written off.

However, to date no SRO has been issued to incorporate the agreed amendments to the Seventh Schedule. The Bank based on advise of its tax consultant has treated the FBR commitment as effective. Accordingly, the deferred tax asset recognized through December 31, 2007 relating to provision for advances and off balance sheet items amounting to Rs. 4.053 billion has been carried forward.

With reference to allowability of provision upto 1% of total advances, 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 recognised deferred tax asset on such provision amounting to Rs. 2.413 billion.

14 MARK-UP / RETURN / INTEREST EARNED

	For the three months ended	
	March 31, 2010	March 31, 2009
	(Rupees in '000)	
<i>On loans and advances to:</i>		
- Customers	12,963,776	14,212,872
- Financial institutions	75,865	91,351
<i>On investments:</i>		
- Available-for-sale	5,381,754	3,037,571
- Held-for-trading	10,592	-
- Held-to-maturity	119,716	137,252
On deposits with financial institutions	249,933	295,386
On lendings to financial institutions	355,319	462,797
	<u>19,156,955</u>	<u>18,237,229</u>

15 MARK-UP / RETURN / INTEREST EXPENSED

Deposits	7,803,634	7,259,791
Securities sold under repurchase agreement borrowings	65,669	90,359
Other short term borrowings	568,524	357,070
Long term borrowings	113,591	110,333
	<u>8,551,418</u>	<u>7,817,553</u>

16 INCOME / GAIN ON INVESTMENTS

Dividend income	108,150	41,584
Gain on sale of securities - net	65,386	(222,303)
Unrealised appreciation in value of investments at fair value	(741)	-
	<u>172,795</u>	<u>(180,719)</u>

17 RELATED PARTY TRANSACTIONS

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

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

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

Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

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

	March 31, 2010	December 31, 2009
	(Rupees in '000)	
Balances outstanding as at the period / year end		
- Borrowings / Deposits from		
- Joint venture and associates	1,180,868	1,059,454
- Subsidiary companies	300,249	697,748
- Retirement benefit funds	935,380	7,841,600
- Companies in which Directors are interested	32,677	34,573
- Companies in which key management personnel are nominated by the Bank as directors	70,924	104,424
- AKFED Group Companies	393,807	1,572,335
- Investments in Companies in which directors are interested	29,263	216,460
- Investment in companies in which key management personnel are nominated by the Bank as directors	34,113	34,113
- Receivable from defined benefit schemes	448,518	7,919,870
- Receivable from associates, subsidiary companies & companies in which key management personnel are nominated by the Bank as directors	75,844	80,195
- Payable to subsidiary companies	828	4,600
- Placements with subsidiary companies and associates	10,680,255	9,775,886
- Overdrawn nostro balances with subsidiaries, associates, joint venture company and in which directors are interested	304,097	383,809
- Acceptances	-	175,802
For the three months ended		
	March 31, 2010	March 31, 2009
	(Rupees in '000)	
Profit / Expense for the period		
- Interest paid		
- Joint venture and associates	24,381	36,307
- Subsidiary companies	9,473	7,661
- Retirement benefit funds	416,176	179,624
- Companies in which Directors are interested	76	25,582
- Companies in which key management personnel are nominated by the Bank as directors	1,091	2,373
- AKFED Group Companies	644	289
- Premium paid to companies in which Directors are interested	18,076	55,160
- Interest income		
- Joint venture and associates	6	3,016
- Subsidiary companies	9,359	12,133
- Companies in which Directors are interested	7,048	388
- Companies in which key management personnel are nominated by the Bank as directors	163,683	-
- In respect of debts due by key management personnel	24,600	32,354
- AKFED Group Companies	4	-
- Other income - Subsidiaries, associates and joint ventures	157,599	54,644
- Other expense - Subsidiaries	480	-
- Dividend income		
- Subsidiary company	-	3,250
- Joint venture	33,274	-
- Companies in which Directors are interested	6,311	38,334
- Companies in which key management personnel are nominated by the Bank as directors	4,927	-

17.1 Key management personnel

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

	For the three months ended	
	March 31, 2010	March 31, 2009
	(Rupees in '000)	
Managerial remuneration (including allowances)	189,425	176,490
Contribution to provident and benevolent fund	3,883	3,929
Medical	5,777	6,638
	<u>199,085</u>	<u>187,057</u>
Number of persons	<u>135</u>	<u>134</u>

Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

18. SEGMENT DETAIL WITH RESPECT TO BUSINESS ACTIVITIES

	For the three months ended March 31, 2010					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head office / support services	Total
	(Rupees in million)					
Net interest income - External	(3,964)	10,534	3,095	810	130	10,605
Inter segment revenue - net	11,186	(8,632)	(2,917)	-	363	-
Non-funded income	1,079	660	380	547	(12)	2,654
Net interest and non-markup income	8,301	2,562	558	1,357	481	13,259
Total expenses including provision (excluding impairment)	2,783	1,431	31	951	2,152	7,348
Impairment against investments	-	-	(51)	-	(2)	(53)
Inter segment administrative cost	1,604	321	46	177	(2,148)	-
Total expenses including provision	4,387	1,752	26	1,128	2	7,295
Net income before tax	3,914	810	532	229	479	5,964
Segment assets (gross)	94,527	346,430	157,496	129,537	114,842	842,832
Segment non-performing loans	9,063	25,541	-	9,738	442	44,784
Segment provision required including general provision	5,487	20,811	-	7,989	2,552	36,839
Segment liabilities including equity	504,013	103,349	13,135	83,862	101,634	805,993
Segment return on net liability / asset	11.44%	12.54%	9.34%	4.87%	1.63%	-
Segment cost of funds	4.89%	10.06%	7.95%	1.12%	0.35%	-

	For the three months ended March 31, 2009					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	Total
	(Rupees in million)					
Net interest income - External	(3,422)	10,188	2,654	1,026	48	10,494
Inter segment revenue - net	10,201	(7,663)	(2,438)	-	(100)	-
Non-funded income	880	671	4	805	(485)	1,875
Net interest and non-markup income	7,659	3,196	220	1,831	(537)	12,369
Total expenses including provision (excluding impairment)	2,808	1,725	24	870	1,983	7,410
Impairment against investments	-	-	(498)	-	-	(498)
Inter segment administrative cost	1,120	224	33	123	(1,500)	-
Total expenses including provision	3,928	1,949	(441)	993	483	6,912
Net income / (loss) before tax	3,731	1,247	661	838	(1,020)	5,457
Segment assets (gross)	88,246	339,906	120,519	140,208	50,987	739,866
Segment non-performing loans	7,549	20,536	-	7,792	1,100	36,977
Segment provision required including general provision	4,262	12,071	-	7,445	3,452	27,230
Segment liabilities including equity	435,442	94,539	7,090	83,800	91,765	712,636
Segment return on net liability / asset	12.58%	14.61%	8.35%	7.05%	1.35%	-
Segment cost of funds	5.45%	10.84%	7.69%	2.77%	0.68%	-

Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

19. ISLAMIC BANKING BRANCH

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

	Note	March 31, 2010 (Rupees in '000)	December 31, 2009 (Rupees in '000)
ASSETS			
Cash and balances with treasury banks		12,514	8,743
Investment - net		48,182	48,182
Murabaha		59,740	434,455
Ijara		335,762	358,036
Musharaka	19.1	100,000	100,000
Other assets		23,706	27,941
		<u>579,904</u>	<u>977,357</u>
LIABILITIES			
Deposit and other accounts		90,276	60,320
Other liabilities		219,836	713,412
		<u>310,112</u>	<u>773,732</u>
NET ASSETS			
		<u>269,792</u>	<u>203,625</u>
REPRESENTED BY:			
Islamic banking fund		250,000	100,000
Unappropriated profit		19,792	103,625
		<u>269,792</u>	<u>203,625</u>

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

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

20. DATE OF AUTHORISATION FOR ISSUE

These unconsolidated condensed interim financial statements were authorised for issue in the Board of Directors meeting held on April 22, 2010