

Directors' Review

On behalf of the Board of Directors, I am pleased to present the condensed interim consolidated financial statements for the six months ended June 30, 2014.

Economy

Moody's investor services have upgraded the outlook on Pakistan's foreign currency government bond rating to "Stable". This decision is primarily based on stabilization in the country's external liquidity position which is supported by the Government's (GoP) strong commitment to reforms under an ongoing program with the International Monetary Fund (IMF). The continued implementation of structural reforms under the program would ensure additional tranche disbursements, further buffering Pakistan's foreign reserves. During the period under review, improvement was witnessed in some key macroeconomic indicators. The foreign exchange reserves improved to US\$ 14.6 billion as on July 04, 2014, resulting in appreciation in Pak Rupee of over 5% against US dollar during the period. The inflation as measured by CPI has come down to 8.2 % in June 2014 as against 9.2% in December 2013.

The State Bank of Pakistan (SBP) kept the discount rate unchanged at 10% during the period. The bullish tendency prevailed in the stock market as depicted by KSE 100 index which increased to 29,652 points as on June 30, 2014 up 17.4% as compared to December 31, 2013.

Performance

The Bank's focus on building its stable core deposit base is yielding good results and the CASA increased to 76.7% as on June 30, 2014 as against 73.3% in December 2013. The CASA deposits increased by Rs. 85 billion whereas high cost deposits reduced by Rs.36 billion. The total deposits are up by 3.5%. Advances increased by Rs. 13 billion.

The Bank has posted phenomenal growth of 38.7% in profit after tax for the period ended June 30, 2014 over corresponding period of June 30, 2013, contributed by both mark-up and non mark-up income. Net mark-up income increased by 21.8% to Rs. 31.9 billion as against Rs. 26.2 billion for corresponding period of last year. The increase in net mark-up income is attributable to change in deposit mix, volumetric growth and investment in long term bonds. The Bank continued its focus on non mark-up income which posted strong growth of 41.0% to Rs. 11.3 billion. The increase is in all areas including fee & commission and foreign exchange income. The pretax and after tax profit were at Rs. 22.1 billion and Rs. 14.6 billion respectively for the six months ended June 30, 2014 as against Rs. 15.9 billion and Rs. 10.5 billion respectively in the corresponding period last year resulting in increase of earnings per share to Rs. 9.88 as against Rs. 7.07 for corresponding period of last year.

Rs. in million

Movement of Reserves

| | |
|--|---------------|
| Unappropriated profit brought forward | 73,749 |
| Profit attributable to equity holders of the Bank | 14,486 |
| Transferred from surplus on revaluation of fixed assets – net of tax | 63 |
| Transfer to statutory reserves | (1,380) |
| Cash dividend | (5,601) |
| Issued as bonus shares | (1,333) |
| Derecognition of equity due to voluntary winding up of modaraba | (30) |
| Unappropriated profit carried forward | <u>79,954</u> |
| Earnings per share rupees (Basic & Diluted) | <u>9.88</u> |

Dividend

The Board has recommended second interim cash dividend of Rs. 2.25 per share for the year ending December 31, 2014. The effect of which is not reflected in the above appropriations.

Rating

JCR VIS Credit Rating Agency of Pakistan has reaffirmed entity rating of the Bank to "AAA/A-1+" (Triple A / A-One Plus) with 'Stable' outlook.

Future Outlook

Despite continuing challenges, GoP's efforts to put the economy on track have started producing results as is apparent from improvement in foreign exchange reserves and decline in inflation. The GoP has managed to raise more than a billion dollars from issuance of next generation telecommunication licenses and raised two billion dollars from issuance of Pakistan Eurobonds. The improvement in overall economic outlook has been well appreciated by international community and is also reflected in Moody's rating.

Based on its balance sheet size, domestic leadership, presence "beyond borders" and product expertise, HBL is well positioned to positively contribute towards economic development of the country and capitalize on the untapped potential.

Appreciation and Acknowledgements

I would like to appreciate the efforts of our Regulators and GoP and in particular the Ministry of Finance and SBP for developing and strengthening the banking and financial service industry through improved regulatory 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 acknowledge the efforts and dedication demonstrated by employees towards the growth of HBL.

On behalf of the Board.

Nauman K. Dar

President & Chief Executive Officer

July 22, 2014

HABIB BANK LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2014

| | Note | (Unaudited) June 30, 2014 (Rupees in '000) | (Audited) December 31, 2013 (Rupees in '000) |
|---|------|---|---|
| ASSETS | | | |
| Cash and balances with treasury banks | | 155,327,295 | 135,476,687 |
| Balances with other banks | | 47,970,175 | 57,341,769 |
| Lendings to financial institutions | | 104,742,672 | 35,271,477 |
| Investments | 6 | 751,839,628 | 826,062,308 |
| Advances | 7 | 576,955,820 | 563,700,737 |
| Operating fixed assets | 8 | 26,814,523 | 25,706,315 |
| Deferred tax asset | | 3,808,645 | 5,103,072 |
| Other assets | | 74,286,429 | 66,609,013 |
| | | <u>1,741,745,187</u> | <u>1,715,271,378</u> |
| LIABILITIES | | | |
| Bills payable | | 22,764,494 | 19,422,316 |
| Borrowings | 9 | 75,636,983 | 107,864,424 |
| Deposits and other accounts | 10 | 1,450,228,115 | 1,401,229,814 |
| Sub-ordinated loan | 11 | 1,235,058 | 2,633,115 |
| Liabilities against assets subject to finance lease | | - | - |
| Deferred tax liability | | - | - |
| Other liabilities | | 43,304,027 | 41,687,455 |
| | | <u>1,593,168,677</u> | <u>1,572,837,124</u> |
| NET ASSETS | | <u>148,576,510</u> | <u>142,434,254</u> |
| REPRESENTED BY: | | | |
| Shareholders' equity | | | |
| Share capital | | 14,668,525 | 13,335,023 |
| Reserves | | 42,477,821 | 43,550,373 |
| Unappropriated profit | | 79,954,099 | 73,748,915 |
| Total equity attributable to the equity holders of the Bank | | 137,100,445 | 130,634,311 |
| Non-controlling interest | | 1,199,833 | 1,886,116 |
| Surplus on revaluation of assets - net of deferred tax | 12 | 10,276,232 | 9,913,827 |
| | | <u>148,576,510</u> | <u>142,434,254</u> |
| CONTINGENCIES AND COMMITMENTS | 13 | | |

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

President and Chief Executive Officer

Director

Director

Director

HABIB BANK LIMITED
CONDENSED INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2014

| | Note | January 01 to June 30, 2014 | January 01 to June 30, 2013 | April 01 to June 30, 2014 | April 01 to June 30, 2013 |
|--|------|-----------------------------------|-----------------------------------|---------------------------------|---------------------------------|
| ------(Rupees in '000)----- | | | | | |
| Mark-up / return / profit / interest earned | 14 | 66,218,359 | 61,560,148 | 34,653,879 | 30,256,432 |
| Mark-up / return / profit / interest expensed | 15 | 34,254,219 | 35,318,334 | 17,177,366 | 17,201,572 |
| Net mark-up / profit / interest income | | 31,964,140 | 26,241,814 | 17,476,513 | 13,054,860 |
| Provision against advances | 7.2 | 396,884 | 1,221,408 | (24,520) | (63,700) |
| (Reversal) /charge against off-balance sheet obligations | | (115,881) | 27,585 | (117,292) | (4,367) |
| Reversal against diminution in the value of investments | 6.3 | (168,725) | (52,138) | (46,732) | (43,836) |
| Bad debts written off directly | | - | - | - | - |
| | | 112,278 | 1,196,855 | (188,544) | (111,903) |
| Net mark-up / profit / interest income after provisions | | 31,851,862 | 25,044,959 | 17,665,057 | 13,166,763 |
| Non mark-up / interest income | | | | | |
| Fee, commission and brokerage income | | 5,422,504 | 4,373,388 | 2,976,885 | 2,318,998 |
| Dividend income | | 546,421 | 235,025 | 286,801 | 33,766 |
| Share of profit of associates and joint venture | | 1,267,800 | 892,215 | 645,386 | 489,848 |
| Income from dealing in foreign currencies | | 1,315,376 | 468,153 | 555,609 | 205,121 |
| Gain on sale of securities | | 1,373,331 | 837,818 | 644,781 | 600,228 |
| Unrealized gain / (loss) on held for trading securities | | 14,544 | 71,144 | 8,045 | (14,366) |
| Other income | | 1,378,675 | 1,147,467 | 765,572 | 529,707 |
| Total non-mark-up / interest income | | 11,318,651 | 8,025,210 | 5,883,079 | 4,163,302 |
| | | 43,170,513 | 33,070,169 | 23,548,136 | 17,330,065 |
| Non mark-up / interest expense | | | | | |
| Administrative expenses | | 20,446,576 | 17,016,245 | 10,554,317 | 9,230,108 |
| Other provisions / write offs - net | | 123,015 | (143,882) | 9,010 | (20,796) |
| Other charges | | 1,244 | 16,509 | 1,137 | 777 |
| Workers' welfare fund | | 454,053 | 312,433 | 266,222 | 156,761 |
| Total non mark-up / interest expenses | | 21,024,888 | 17,201,305 | 10,830,686 | 9,366,850 |
| Profit before taxation | | 22,145,625 | 15,868,864 | 12,717,450 | 7,963,215 |
| Taxation | | | | | |
| current | | 6,502,288 | 4,874,398 | 4,011,570 | 2,323,136 |
| prior | | 66,576 | 1,257 | (83,684) | (117,530) |
| deferred | | 987,549 | 472,710 | 327,258 | 335,125 |
| | | 7,556,413 | 5,348,365 | 4,255,144 | 2,540,731 |
| Profit after taxation | | 14,589,212 | 10,520,499 | 8,462,306 | 5,422,484 |
| Attributable to: | | | | | |
| Equity holders of the Bank | | 14,486,517 | 10,376,763 | 8,437,946 | 5,353,913 |
| Non-controlling interest | | (48,603) | 43,104 | (40,717) | 28,794 |
| Minority investor of HBL funds | | 151,298 | 100,632 | 65,077 | 39,777 |
| | | 14,589,212 | 10,520,499 | 8,462,306 | 5,422,484 |
| ------(Rupees)----- | | | | | |
| Basic and diluted earnings per share | | 9.88 | 7.07 | 5.75 | 3.65 |

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

President and Chief Executive Officer

Director

Director

Director

HABIB BANK LIMITED
 CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
 FOR THE SIX MONTHS ENDED JUNE 30, 2014

| | January 01 to June 30, 2014 | January 01 to June 30, 2013 | April 01 to June 30, 2014 | April 01 to June 30, 2013 |
|--|-----------------------------------|-----------------------------------|---------------------------------|---------------------------------|
| | ------(Rupees in '000)----- | | | |
| Profit for the period | 14,589,212 | 10,520,499 | 8,462,306 | 5,422,484 |
| Other comprehensive income | | | | |
| Minority share of HBL funds transferred to other liabilities | (151,298) | (100,632) | (65,077) | (39,777) |
| Items to be reclassified to profit or loss in subsequent periods: | | | | |
| Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates | (2,462,647) | (821,803) | 443,408 | 317,318 |
| Comprehensive income transferred to equity | <u>11,975,267</u> | <u>9,598,064</u> | <u>8,840,637</u> | <u>5,700,025</u> |
| Components of comprehensive income not reflected in equity | | | | |
| Items to be reclassified to profit or loss in subsequent periods: | | | | |
| Surplus / (deficit) on revaluation of investments - net of tax | 425,782 | (56,671) | (1,123,459) | 1,553,399 |
| Items not to be reclassified to profit or loss in subsequent periods: | | | | |
| Surplus on revaluation of fixed assets - net of tax | - | 73,283 | - | 73,283 |
| | <u>12,401,049</u> | <u>9,614,676</u> | <u>7,717,178</u> | <u>7,326,707</u> |
| Total comprehensive income attributable to: | | | | |
| Equity holders of the Bank | 12,487,445 | 9,559,751 | 7,717,350 | 7,220,286 |
| Non-controlling interest | (65,515) | (1,800) | (10,378) | 49,974 |
| Minority investor of HBL funds | <u>(20,881)</u> | <u>56,725</u> | <u>10,206</u> | <u>56,447</u> |
| | <u>12,401,049</u> | <u>9,614,676</u> | <u>7,717,178</u> | <u>7,326,707</u> |

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

President and Chief Executive Officer

Director

Director

Director

HABIB BANK LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2014

| | Attributable to shareholders of the Bank | | | | | | Non-controlling interest | Total | |
|---|--|--------------------------------|--------------------|------------------|-----------------------|-------------|--------------------------|-----------|-------------|
| | Share capital | Exchange translation reserve | Reserves | | Subtotal | | | | |
| | | | Statutory reserves | Revenue reserves | | | | | |
| | | Joint venture and subsidiaries | Bank | General | Unappropriated profit | | | | |
| (Rupees in '000) | | | | | | | | | |
| Balance as at December 31, 2012 | 12,122,748 | 14,911,820 | 353,007 | 18,040,715 | 6,073,812 | 67,215,111 | 118,717,213 | 1,227,207 | 119,944,420 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for the six months ended June 30, 2013 | - | - | - | - | - | 10,477,395 | 10,477,395 | 43,104 | 10,520,499 |
| Minority share of HBL funds transferred to other liabilities | - | - | - | - | - | (100,632) | (100,632) | - | (100,632) |
| - Other comprehensive income | | | | | | | | | |
| Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates | - | (788,110) | - | - | - | - | (788,110) | (33,693) | (821,803) |
| | - | (788,110) | - | - | - | 10,376,763 | 9,588,653 | 9,411 | 9,598,064 |
| Transactions with owners, recorded directly in equity | | | | | | | | | |
| Final cash dividend paid at Rs. 4 per share for the year ended December 31, 2012 | - | - | - | - | - | (4,849,099) | (4,849,099) | - | (4,849,099) |
| Issued as bonus shares | 1,212,275 | - | - | - | - | (1,212,275) | - | - | - |
| | 1,212,275 | - | - | - | - | (6,061,374) | (4,849,099) | - | (4,849,099) |
| Transferred from surplus on revaluation of fixed assets - net of tax | - | - | - | - | - | 29,793 | 29,793 | - | 29,793 |
| Transferred to statutory reserves | - | - | 14,068 | 943,596 | - | (957,664) | - | - | - |
| Non-controlling interest acquired in HAIB during the period | - | - | - | - | - | - | - | 632,572 | 632,572 |
| Minority share of surplus on revaluation of securities of subsidiaries | - | - | - | - | - | - | - | (7,582) | (7,582) |
| Balance as at June 30, 2013 | 13,335,023 | 14,123,710 | 367,075 | 18,984,311 | 6,073,812 | 70,602,629 | 123,486,560 | 1,861,608 | 125,348,168 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for the six months ended December 31, 2013 | - | - | - | - | - | 12,625,352 | 12,625,352 | (118,756) | 12,506,596 |
| Minority share of HBL funds transferred to other liabilities | - | - | - | - | - | (138,992) | (138,992) | - | (138,992) |
| - Other comprehensive income | | | | | | | | | |
| Effect of actuarial gain and losses | - | - | - | - | - | (103,025) | (103,025) | - | (103,025) |
| Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates | - | 2,734,296 | - | - | - | - | 2,734,296 | 191,823 | 2,926,119 |
| | - | 2,734,296 | - | - | - | 12,383,335 | 15,117,631 | 73,067 | 15,190,698 |
| Transactions with owners, recorded directly in equity | | | | | | | | | |
| 1st interim cash dividend paid at Rs. 4 per share | - | - | - | - | - | (5,334,009) | (5,334,009) | - | (5,334,009) |
| 2nd interim cash dividend paid at Rs. 2 per share | - | - | - | - | - | (2,667,005) | (2,667,005) | - | (2,667,005) |
| Cash dividend at Rs. 1.475 per certificate by modaraba | - | - | - | - | - | - | - | (52,713) | (52,713) |
| | - | - | - | - | - | (8,001,014) | (8,001,014) | (52,713) | (8,053,727) |
| Transferred from surplus on revaluation of fixed assets - net of tax | - | - | - | - | - | 31,134 | 31,134 | - | 31,134 |
| Transferred to statutory reserves | - | - | 19,716 | 1,247,453 | - | (1,267,169) | - | - | - |
| Minority share of surplus on revaluation of securities of subsidiaries | - | - | - | - | - | - | - | 4,154 | 4,154 |
| Balance as at December 31, 2013 | 13,335,023 | 16,858,006 | 386,791 | 20,231,764 | 6,073,812 | 73,748,915 | 130,634,311 | 1,886,116 | 132,520,427 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for the six months ended June 30, 2014 | - | - | - | - | - | 14,637,815 | 14,637,815 | (48,603) | 14,589,212 |
| Minority share of HBL funds transferred to other liabilities | - | - | - | - | - | (151,298) | (151,298) | - | (151,298) |
| - Other comprehensive income | | | | | | | | | |
| Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates | - | (2,445,242) | - | - | - | - | (2,445,242) | (17,405) | (2,462,647) |
| | - | (2,445,242) | - | - | - | 14,486,517 | 12,041,275 | (66,008) | 11,975,267 |
| Transactions with owners, recorded directly in equity | | | | | | | | | |
| Final cash dividend paid at Rs. 2 per share for the year ended December 31, 2013 | - | - | - | - | - | (2,667,005) | (2,667,005) | - | (2,667,005) |
| Interim cash dividend paid at Rs. 2 per share | - | - | - | - | - | (2,933,705) | (2,933,705) | - | (2,933,705) |
| Issued as bonus shares | 1,333,502 | - | - | - | - | (1,333,502) | - | - | - |
| | 1,333,502 | - | - | - | - | (6,934,212) | (5,600,710) | - | (5,600,710) |
| Transferred from surplus on revaluation of fixed assets - net of tax | - | - | - | - | - | 63,377 | 63,377 | - | 63,377 |
| Transferred to statutory reserves | - | - | 26,032 | 1,354,219 | - | (1,380,251) | - | - | - |
| Derecognition of equity due to voluntary winding up of modaraba | - | - | (7,561) | - | - | (30,247) | (37,808) | (620,768) | (658,576) |
| Minority share of surplus on revaluation of securities of subsidiaries | - | - | - | - | - | - | - | 493 | 493 |
| Balance as at June 30, 2014 | 14,668,525 | 14,412,764 | 405,262 | 21,585,983 | 6,073,812 | 79,954,099 | 137,100,445 | 1,199,833 | 138,300,278 |

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

President and Chief Executive Officer

Director

Director

Director

HABIB BANK LIMITED
CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2014

| | June 30, 2014 | June 30, 2013 |
|--|------------------|------------------|
| | (Rupees in '000) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before taxation | 22,145,625 | 15,868,864 |
| Dividend income and share of profit of associates and joint venture | (1,814,221) | (1,127,240) |
| Gain on sale of securities | (1,373,331) | (837,818) |
| | (3,187,552) | (1,965,058) |
| | 18,958,073 | 13,903,806 |
| Adjustment for: | | |
| Depreciation | 902,020 | 728,454 |
| Amortisation | 200,460 | 123,824 |
| Reversal against diminution in the value of investments | (168,725) | (52,138) |
| Provision against advances | 396,884 | 1,221,408 |
| Unrealised gain on held for trading securities | (14,544) | (71,144) |
| Exchange (gain) / loss on sub-ordinated loans / Goodwill - net | (90,318) | 186,657 |
| Gain on sale of operating fixed assets - net | (4,475) | (21,887) |
| Loss on sale of non-banking asset - net | - | 1,523 |
| Miscellaneous provisions | 7,134 | (116,297) |
| | 1,228,436 | 2,000,400 |
| | 20,186,509 | 15,904,206 |
| Decrease / (increase) in operating assets | | |
| Lendings to financial institutions | (69,471,195) | 11,858,176 |
| Investments - held for trading | 7,044,595 | 8,321,609 |
| Advances | (13,651,967) | 17,137,928 |
| Other assets | (5,538,525) | 2,649,674 |
| | (81,617,092) | 39,967,387 |
| (Decrease) / increase in operating liabilities | | |
| Bills payable | 3,342,178 | 6,842,036 |
| Borrowings | (32,227,441) | (30,382,703) |
| Deposits and other accounts | 48,998,301 | 43,852,808 |
| Other liabilities | 894,752 | (1,736,056) |
| | 21,007,790 | 18,576,085 |
| | (40,422,793) | 74,447,678 |
| Income tax paid - net | (8,800,510) | (8,970,011) |
| Net cash flows (used in) / from operating activities | (49,223,303) | 65,477,667 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net investments | 70,728,272 | (59,694,414) |
| Dividend income received | 523,034 | 251,525 |
| Fixed capital expenditure | (2,355,487) | (1,444,077) |
| Proceeds from sale of fixed assets | 74,700 | 27,177 |
| Proceeds from sale of non-banking asset | - | 38,500 |
| Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates | (2,445,242) | (788,110) |
| Net cash flows from / (used in) investing activities | 66,525,277 | (61,609,399) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Exchange adjustment on translation of non-controlling interest in subsidiary | (17,405) | (43,088) |
| Repayment of subordinated loan | (1,233,165) | (1,828,913) |
| Dividend paid | (5,572,390) | (4,824,923) |
| Net cash flows used in financing activities | (6,822,960) | (6,696,924) |
| Increase / (decrease) in cash and cash equivalents during the period | 10,479,014 | (2,828,656) |
| Cash and cash equivalents at beginning of the period | 197,833,594 | 200,668,136 |
| Effects of exchange rate changes on cash and cash equivalents | (5,015,138) | 4,541,413 |
| | 192,818,456 | 205,209,549 |
| Cash and cash equivalents at end of the period | 203,297,470 | 202,380,893 |

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

President and Chief Executive Officer

Director

Director

Director

HABIB BANK LIMITED
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2014

1 THE GROUP AND ITS OPERATIONS

Habib Bank Limited (the Bank) is incorporated in Pakistan and is engaged in commercial banking and asset management related services in Pakistan and overseas. The Bank's Registered office is at Habib Bank Tower, 4th Floor, Jinnah Avenue, Islamabad and Principal office is at Habib Bank Plaza, I.I.Chundrigar Road, Karachi. The Bank's shares are listed on all three stock exchanges in Pakistan. The Group consists of the Bank, its subsidiaries and associates, as given in its consolidated financial statements for the year ended December 31, 2013 except for the voluntary winding up of First Habib Bank Modaraba (FHBM) as explained in note 6.2 of these condensed interim consolidated financial statements.

2 STATEMENT OF COMPLIANCE

These condensed interim consolidated financial statements have been prepared in accordance with the framework as referred to in the annual consolidated financial statements. The disclosures made in these condensed interim consolidated financial statements have been limited based on the format prescribed by SBP vide BSD Circular Letter No. 2 dated May 12, 2004 and International Accounting Standard (IAS) 34, "Interim Financial Reporting". They do not include all the disclosures required for annual financial statements, and these condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2013.

3 ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these condensed interim consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year ended December 31, 2013.

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 consolidated financial statements for the year ended December 31, 2013.

5 FINANCIAL RISK MANAGEMENT

The financial risk management objectives and policies adopted by Group are consistent with that disclosed in the consolidated financial statements for the year ended December 31, 2013.

6. INVESTMENTS

| Investments by type | Note | June 30, 2014 | | | December 31, 2013 | | |
|--|------|---------------|---------------------|-------------|-------------------|---------------------|-------------|
| | | Held by Group | Given as collateral | Total | Held by Group | Given as collateral | Total |
| ----- (Rupees in '000) ----- | | | | | | | |
| Held-for-trading (HFT) | | | | | | | |
| Federal Government Securities | | | | | | | |
| - Pakistan Investment Bonds | | 13,081,844 | - | 13,081,844 | 11,942,763 | - | 11,942,763 |
| - Market Treasury Bills | | 14,643,652 | - | 14,643,652 | 23,209,005 | - | 23,209,005 |
| Fully paid-up ordinary shares | | | | | | | |
| - Listed companies | | 34,631 | - | 34,631 | 5,878 | - | 5,878 |
| Overseas Government Securities | | | | | | | |
| | | 781,300 | - | 781,300 | 300,135 | - | 300,135 |
| Investments of Mutual Funds | | | | | | | |
| | | - | - | - | 128,241 | - | 128,241 |
| | | 28,541,427 | - | 28,541,427 | 35,586,022 | - | 35,586,022 |
| Held-to-Maturity Securities (HTM) | | | | | | | |
| Federal Government Securities | | | | | | | |
| - Pakistan Investment Bonds | | 71,527,716 | - | 71,527,716 | 36,957,274 | - | 36,957,274 |
| - Government of Pakistan Bonds / Sukuk / (US Dollar / Euro) | | 692,688 | - | 692,688 | 738,666 | - | 738,666 |
| Debentures and Corporate Debt Instruments / Units | | | | | | | |
| - Listed securities | | 12,850,341 | - | 12,850,341 | 15,981,315 | - | 15,981,315 |
| - Unlisted securities | | 7,201,952 | - | 7,201,952 | 6,440,729 | - | 6,440,729 |
| Overseas Government securities | | | | | | | |
| | | 21,506,823 | - | 21,506,823 | 20,237,949 | - | 20,237,949 |
| | | 113,779,520 | - | 113,779,520 | 80,355,933 | - | 80,355,933 |
| Available-for-Sale Securities (AFS) | | | | | | | |
| Federal Government Securities | | | | | | | |
| - Market Treasury Bills | | 386,886,267 | 297,879 | 387,184,146 | 533,321,012 | 48,151,773 | 581,472,785 |
| - Pakistan Investment Bonds | | 139,768,714 | - | 139,768,714 | 50,570,687 | - | 50,570,687 |
| - Government of Pakistan Guaranteed Bonds | | 425,000 | - | 425,000 | 425,000 | - | 425,000 |
| - Government of Pakistan Bonds / Sukuk / (US Dollar / Euro) | | 27,744,251 | - | 27,744,251 | 22,676,455 | - | 22,676,455 |
| Overseas Government Securities | | | | | | | |
| | | 4,163,544 | - | 4,163,544 | 6,080,334 | - | 6,080,334 |
| Fully paid-up ordinary shares | | | | | | | |
| - Listed companies | | 7,888,700 | - | 7,888,700 | 5,545,079 | - | 5,545,079 |
| - Unlisted companies | | 719,904 | - | 719,904 | 772,840 | - | 772,840 |
| Debentures and Corporate Debt Instruments / Units | | | | | | | |
| - Listed securities | | 13,981,408 | 7,302,667 | 21,284,075 | 22,942,991 | 2,163,371 | 25,106,362 |
| - Unlisted securities | | 5,011,833 | - | 5,011,833 | 4,926,991 | - | 4,926,991 |
| NIT Units | | | | | | | |
| | | 11,113 | - | 11,113 | 11,113 | - | 11,113 |
| Preference shares | | | | | | | |
| | | 250,000 | - | 250,000 | 250,000 | - | 250,000 |
| Investments of mutual funds | | | | | | | |
| | | 5,070,560 | - | 5,070,560 | 4,056,718 | - | 4,056,718 |
| | | 591,921,294 | 7,600,546 | 599,521,840 | 651,579,220 | 50,315,144 | 701,894,364 |
| Investment in Associates and Joint Venture | | | | | | | |
| | | 10,282,104 | - | 10,282,104 | 9,652,402 | - | 9,652,402 |
| | | 744,524,345 | 7,600,546 | 752,124,891 | 777,173,577 | 50,315,144 | 827,488,721 |
| Provision for diminution / impairment in the value of investments including associates | | | | | | | |
| | | (1,144,335) | - | (1,144,335) | (1,532,339) | - | (1,532,339) |
| Net investment | | | | | | | |
| | | 743,380,010 | 7,600,546 | 750,980,556 | 775,641,238 | 50,315,144 | 825,956,382 |
| Surplus / (deficit) on revaluation of held for trading securities | | | | | | | |
| | | 14,544 | - | 14,544 | (12,815) | - | (12,815) |
| Surplus / (deficit) on revaluation of available for sale securities | | | | | | | |
| | | 636,979 | 55,031 | 692,010 | 98,900 | (122,077) | (23,177) |
| Surplus on revaluation of investment of associates | | | | | | | |
| | | 152,518 | - | 152,518 | 141,918 | - | 141,918 |
| Total investments at market value | | | | | | | |
| | | 744,184,051 | 7,655,577 | 751,839,628 | 775,869,241 | 50,193,067 | 826,062,308 |

6.1 The market value of securities classified as "held-to-maturity" as at June 30, 2014 amounted to Rs. 120,593.854 million (2013: Rs. 81,284.503 million).

6.2 The certificate holders of FHBM, in an Extraordinary General Meeting held on March 27, 2014 passed a resolution for the voluntary winding up of FHBM and appointed a liquidator. Consequently, the Bank has derecognised the assets and liabilities of the former subsidiary in the consolidated financial statements. The impact on net assets as at June 30, 2014 is Rs. 658.576 million. The investment of Habib Bank Financial Services Limited in FHBM units, amounting to Rs. 30 million, has been shown as available for sale investment.

6.3 Particulars of provision held against diminution in value of investments

The analysis of total provision held is as follows:

| | June 30, 2014 | December 31, 2013 |
|--|------------------|----------------------|
| | (Rupees in '000) | |
| Opening balance | 1,532,339 | 1,755,518 |
| Charge for the period / year | 1,518 | 14,645 |
| Reversals | (87,139) | (76,214) |
| Impairment charge on listed securities | 38,610 | 55,171 |
| Impairment reversal on listed securities | (121,714) | (218,908) |
| Total reversals - net | (168,725) | (225,306) |
| Derecognition of provision due to voluntary winding up of modaraba | (11,325) | - |
| Write offs | (207,954) | - |
| Other movement | - | 2,127 |
| Closing balance | <u>1,144,335</u> | <u>1,532,339</u> |

6.4 These financial statements include results of following period of our associates and joint venture:

| | Based on the financial information as on |
|---|---|
| Diamond Trust Bank Limited, Kenya | March 31, 2014 |
| Himalayan Bank Limited, Nepal | March 31, 2014 |
| Kyrgyz Investment and Credit Bank | June 30, 2014 |
| Jubilee Life Insurance Co. Ltd. | March 31, 2014 |
| Jubilee General Insurance Co. Ltd. | March 31, 2014 |
| HBL Money Market Fund | June 30, 2014 |
| HBL Islamic Stock Fund | June 30, 2014 |
| HBL Islamic Money Market Fund | June 30, 2014 |
| HBL Pension Equity Sub Fund | June 30, 2014 |
| HBL Pension Debt Sub Fund | June 30, 2014 |
| HBL Pension Money Market Sub Fund | June 30, 2014 |
| HBL Islamic Pension Equity Sub Fund | June 30, 2014 |
| HBL Islamic Pension Debt Sub Fund | June 30, 2014 |
| HBL Islamic Pension Money Market Sub Fund | June 30, 2014 |

6.5 The Group has made further investment in Jubilee General Insurance Company Limited during the period, consequently, shareholding has increased to 17.84% as at June 30, 2014 (December 31, 2013: 17.20%).

7 ADVANCES

| | Note | June 30, 2014 | December 31, 2013 |
|---|------|---------------------|----------------------|
| | | (Rupees in '000) | |
| Loans, cash credits, running finances, etc. | | | |
| In Pakistan | | 400,327,940 | 406,203,223 |
| Outside Pakistan | | 124,590,812 | 128,264,928 |
| | | <u>524,918,752</u> | <u>534,468,151</u> |
| Net investment in finance lease - in Pakistan | | 5,713,295 | 5,496,069 |
| Bills discounted and purchased (excluding Government treasury bills) | | | |
| Payable in Pakistan | | 9,815,283 | 11,191,546 |
| Payable outside Pakistan | | 73,602,473 | 54,915,098 |
| | | 83,417,756 | 66,106,644 |
| Provision against advances | 7.2 | <u>(37,093,983)</u> | <u>(42,370,127)</u> |
| | | <u>576,955,820</u> | <u>563,700,737</u> |

7.1 Classification of non-performing loans is as follows:

| Category of classification | June 30, 2014 | | | | | | | | |
|-----------------------------------|-------------------------|------------|------------|-----------------------------|------------|------------|-----------------------------|-----------|------------|
| | Non-performing advances | | | Provision required and held | | | Net non-performing advances | | |
| | Domestic | Overseas | Total | Domestic | Overseas | Total | Domestic | Overseas | Total |
| | (Rupees in '000) | | | | | | | | |
| Specific provision | | | | | | | | | |
| Other assets especially mentioned | 695,057 | - | 695,057 | - | - | - | 695,057 | - | 695,057 |
| Substandard | 6,655,141 | 1,045,212 | 7,700,353 | 1,641,535 | 279,717 | 1,921,252 | 5,013,606 | 765,495 | 5,779,101 |
| Doubtful | 1,896,757 | 812,103 | 2,708,860 | 926,870 | 344,486 | 1,271,356 | 969,887 | 467,617 | 1,437,504 |
| Loss* | 20,917,001 | 19,307,214 | 40,224,215 | 18,796,438 | 12,613,006 | 31,409,444 | 2,120,563 | 6,694,208 | 8,814,771 |
| | 30,163,956 | 21,164,529 | 51,328,485 | 21,364,843 | 13,237,209 | 34,602,052 | 8,799,113 | 7,927,320 | 16,726,433 |
| General provision | - | - | - | 1,012,250 | 1,479,681 | 2,491,931 | - | - | - |
| | 30,163,956 | 21,164,529 | 51,328,485 | 22,377,093 | 14,716,890 | 37,093,983 | 8,799,113 | 7,927,320 | 16,726,433 |

* This includes Government guaranteed non-performing loan amounting to Rs. 1,065.738 million.

| Category of classification | December 31, 2013 | | | | | | | | |
|-----------------------------------|-------------------------|------------|------------|-----------------------------|------------|------------|-----------------------------|-----------|------------|
| | Non-performing advances | | | Provision required and held | | | Net non-performing advances | | |
| | Domestic | Overseas | Total | Domestic | Overseas | Total | Domestic | Overseas | Total |
| | (Rupees in '000) | | | | | | | | |
| Specific provision | | | | | | | | | |
| Other assets especially mentioned | 764,334 | - | 764,334 | - | - | - | 764,334 | - | 764,334 |
| Substandard | 6,429,774 | 1,080,436 | 7,510,210 | 1,323,148 | 260,394 | 1,583,542 | 5,106,626 | 820,042 | 5,926,668 |
| Doubtful | 1,844,431 | 974,400 | 2,818,831 | 900,550 | 431,161 | 1,331,711 | 943,881 | 543,239 | 1,487,120 |
| Loss | 25,535,645 | 18,887,145 | 44,422,790 | 24,274,924 | 13,029,567 | 37,304,491 | 1,260,721 | 5,857,578 | 7,118,299 |
| | 34,574,184 | 20,941,981 | 55,516,165 | 26,498,622 | 13,721,122 | 40,219,744 | 8,075,562 | 7,220,859 | 15,296,421 |
| General provision | - | - | - | 952,973 | 1,197,410 | 2,150,383 | - | - | - |
| | 34,574,184 | 20,941,981 | 55,516,165 | 27,451,595 | 14,918,532 | 42,370,127 | 8,075,562 | 7,220,859 | 15,296,421 |

7.2 Particulars of provision against advances

| | June 30, 2014 | | | December 31, 2013 | | |
|--|---------------|------------------|-------------|-------------------|-----------|-------------|
| | Specific | General | Total | Specific | General | Total |
| | | (Rupees in '000) | | | | |
| Opening balance | 40,219,744 | 2,150,383 | 42,370,127 | 43,734,511 | 2,235,695 | 45,970,206 |
| Exchange adjustment / other movement | (589,481) | (61,400) | (650,881) | 1,119,288 | 47,615 | 1,166,903 |
| Charge for the period / year | 2,370,322 | 428,408 | 2,798,730 | 5,714,234 | 750,866 | 6,465,100 |
| Reversals | (1,825,343) | (25,460) | (1,850,803) | (3,064,490) | (883,793) | (3,948,283) |
| Net charge against advances | 544,979 | 402,948 | 947,927 | 2,649,744 | (132,927) | 2,516,817 |
| Write off | (927,837) | - | (927,837) | (412,584) | - | (412,584) |
| Derecognition of provision due to voluntary winding up of modaraba | (120,982) | - | (120,982) | - | - | - |
| Transfer to / from special category | (3,807,693) | - | (3,807,693) | (5,729,343) | - | (5,729,343) |
| Write off in special category | (165,635) | - | (165,635) | (227,793) | - | (227,793) |
| Reversal in special category | (551,043) | - | (551,043) | (914,079) | - | (914,079) |
| Net movement in separate category | (4,524,371) | - | (4,524,371) | (6,871,215) | - | (6,871,215) |
| Closing balance | 34,602,052 | 2,491,931 | 37,093,983 | 40,219,744 | 2,150,383 | 42,370,127 |

7.3 In accordance with BSD Circular No. 1 dated October 21, 2011 issued by the State Bank of Pakistan (SBP), 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 June 30, 2014 would have been higher and profit before tax would have been lower by Rs. 950.30 million. Increase in retained earnings net of tax amounting to Rs. 617.70 million would not be available for the distribution of cash and stock dividend to shareholders.

7.4 Exposure amounting to Rs. 8.576 billion relating to Pakistan International Airlines, which is guaranteed by the Government of Pakistan, has not been classified as non-performing, in accordance with a relaxation given by SBP. However, markup income has been suspended on this amount and is not reflected in these condensed interim consolidated financial statements.

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

| | June 30, 2014 | | | December 31, 2013 | | |
|---|---------------------|--|------------------------------------|---------------------|--|----------------------------------|
| | Balance outstanding | Maximum total amount of advances including temporary advances outstanding ** | Limit sanctioned during the period | Balance outstanding | Maximum total amount of advances including temporary advances outstanding ** | Limit sanctioned 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 key management personnel) | 1,950,500 | 2,002,700 | 221,160 | 1,800,700 | 1,843,700 | 491,638 |
| - in respect of key management personnel / Companies in which key management personnel or their close members are interested | 664,280 | 671,380 | 36,850 | 686,173 | 724,785 | 36,440 |
| Debts due by companies or firms in which the directors of the Group / Parent are interested as directors, partners, advisors or in the case of private companies as members | 1,440,491 | 1,840,441 | 1,333,008 | 1,033,786 | 2,553,045 | 673,786 |

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

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

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

| 8 | FIXED ASSETS | Note | June 30, 2014 (Rupees in '000) | December 31, 2013 (Rupees in '000) |
|---|--------------------------|------|-----------------------------------|---------------------------------------|
| | Capital work-in-progress | | 1,177,245 | 885,436 |
| | Intangible assets | | | |
| | - Goodwill | 8.3 | 2,075,315 | 2,149,889 |
| | - Computer software | | 866,366 | 746,703 |
| | Tangible fixed assets | | 22,695,597 | 21,924,287 |
| | | | <u>26,814,523</u> | <u>25,706,315</u> |

| 8.1 | Additions to fixed assets | For the six months ended | |
|-----|---|--------------------------|------------------|
| | | June 30, 2014 | June 30, 2013 |
| | | (Rupees in '000) | |
| | The following additions have been made to tangible and intangible fixed assets during the period: | | |
| | Capital work-in-progress | 1,494,487 | 833,397 |
| | Intangible assets | 320,121 | 474,097 |
| | Tangible fixed assets | | |
| | Land | - | 191,153 |
| | Building | 149,304 | 513,109 |
| | Machinery | 63,291 | - |
| | Furniture, fixtures and office equipments | 1,313,397 | 715,657 |
| | Leasedhold Improvements | 237,536 | 221,708 |
| | Vehicles | 36,062 | 57,425 |
| | | <u>3,614,198</u> | <u>3,006,546</u> |

| 8.2 | Disposal of fixed assets | | |
|-----|--|----------------|----------------|
| | The following disposals have been made from tangible fixed assets during the period: | | |
| | Tangible fixed assets | | |
| | Land | 8,000 | - |
| | Building | 55,221 | - |
| | Furniture, fixtures and office equipments | 599,663 | 157,160 |
| | Leasedhold Improvements | 257 | 3,374 |
| | Vehicles | 14,272 | 21,689 |
| | | <u>677,413</u> | <u>182,223</u> |

8.3 It represents the difference between fair values of identifiable assets and liabilities and purchase consideration paid in cash by the Group for acquisition of Habibsons Bank Limited in 2011.

9 **BORROWINGS**

| | June 30, 2014 | December 31, 2013 |
|--|--------------------------|---------------------------|
| | (Rupees in '000) | |
| Secured | | |
| Borrowings from SBP under: | | |
| Export refinance scheme | 12,040,692 | 17,584,707 |
| Long term financing facility - locally manufactured and imported plant & machinery | 6,593,827 | 5,464,963 |
| Long term finance - export oriented projects | 280,283 | 480,741 |
| Refinance facility for modernization of SMEs | 1,839 | 4,608 |
| Financing facility for Storage of Agricultural Produce | 6,115 | 9,169 |
| Scheme for revival of SMEs and Agricultural activities in flood affected areas | 3,900 | 9,170 |
| Repurchase agreement borrowings | 7,249,452 | 50,072,621 |
| | <u>26,176,108</u> | <u>73,625,979</u> |
| Unsecured | | |
| In Pakistan: | | |
| Interbank call money borrowings | 26,881,193 | 13,726,623 |
| Outside Pakistan: | | |
| Overdrawn nostro accounts | 573,088 | 1,203,173 |
| Borrowings of overseas branches and subsidiaries | 22,006,594 | 19,308,649 |
| | <u>22,579,682</u> | <u>20,511,822</u> |
| | <u>49,460,875</u> | <u>34,238,445</u> |
| | <u><u>75,636,983</u></u> | <u><u>107,864,424</u></u> |

10 **DEPOSITS AND OTHER ACCOUNTS**

Customers

| | | |
|-------------------------------------|----------------------|----------------------|
| Current accounts - non-remunerative | 488,946,051 | 402,564,215 |
| Savings chequing account | 603,825,565 | 611,241,490 |
| Fixed deposits | <u>334,254,409</u> | <u>365,989,421</u> |
| | <u>1,427,026,025</u> | <u>1,379,795,126</u> |

Financial institutions

| | | |
|-------------------------------------|-----------------------------|-----------------------------|
| Current accounts - non-remunerative | 15,006,570 | 8,926,506 |
| Savings chequing account | 4,537,417 | 4,551,714 |
| Fixed deposits | 3,658,103 | 7,956,468 |
| | <u>23,202,090</u> | <u>21,434,688</u> |
| | <u><u>1,450,228,115</u></u> | <u><u>1,401,229,814</u></u> |

11 **SUB-ORDINATED LOAN**

This represents the balance of the loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million originated in 2007. The last instalment of US \$ 12.5 million is due in December 2014. 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 SBP. 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

| Note | June 30, 2014 | December 31, 2013 |
|------|------------------|----------------------|
|------|------------------|----------------------|

(Rupees in '000)

Surplus arising on revaluation of:

| | | | |
|--|------|-------------------|------------------|
| - fixed assets | 12.1 | 9,464,623 | 9,528,000 |
| - investments | 12.2 | 811,609 | 385,827 |
| Surplus on revaluation of assets - net of deferred tax | | <u>10,276,232</u> | <u>9,913,827</u> |

12.1 Surplus on revaluation of fixed assets

| | | | |
|--|--|-----------------|----------------|
| Surplus on revaluation of fixed assets as at January 1 | | 10,419,565 | 10,514,994 |
| Surplus realised on disposal of revalued properties during the period / year - net of deferred tax | | (33,741) | (1,269) |
| Transferred to unappropriated profit in respect of incremental depreciation charged during the period / year - net of deferred tax | | (29,636) | (59,658) |
| Related deferred tax liability of incremental depreciation charged during the period / year | | (15,972) | (32,154) |
| Related deferred tax liability on disposal of revalued properties | | <u>(16,962)</u> | <u>(2,348)</u> |
| Surplus on revaluation of fixed assets as at period / year end | | 10,323,254 | 10,419,565 |

Less: related deferred tax liability on:

| | | | |
|--|--|------------------|------------------|
| - revaluation as at January 1 | | 891,565 | 926,067 |
| - surplus realised on disposal of revalued properties during the period / year | | (16,962) | (2,348) |
| - incremental depreciation charged during the period / year transferred to profit and loss account | | <u>(15,972)</u> | <u>(32,154)</u> |
| | | 858,631 | 891,565 |
| | | <u>9,464,623</u> | <u>9,528,000</u> |

12.2 Surplus on revaluation of investments

| | | | |
|---|--|-----------------|----------------|
| Market Treasury Bills | | (220,325) | (1,197,179) |
| Pakistan Investment Bonds | | (1,091,208) | (492,676) |
| Government of Pakistan Sukuk and US Dollar / Euro Bonds | | 732,865 | 287,648 |
| Listed Securities | | 1,065,687 | 1,258,245 |
| NIT Units | | 29,576 | 22,288 |
| Other Investments | | 175,415 | 98,497 |
| | | 692,010 | (23,177) |
| Surplus on revaluation of investment of associates | | 152,518 | 141,918 |
| Related deferred tax (liability) / asset | | <u>(32,919)</u> | <u>267,086</u> |
| | | <u>811,609</u> | <u>385,827</u> |

13 CONTINGENCIES AND COMMITMENTS

13.1 Direct credit substitutes - financial guarantees

Guarantees in favour of:

| | | | |
|--------------------------|--|-------------------|-------------------|
| - Government | | 263,946 | 262,993 |
| - Financial institutions | | 295,000 | 295,000 |
| - Others | | <u>25,691,475</u> | <u>40,017,999</u> |
| | | <u>26,250,421</u> | <u>40,575,992</u> |

| | June 30, 2014 | December 31, 2013 |
|--|--------------------------|------------------------------|
| | (Rupees in '000) | |
| 13.2 Transaction-related contingent liabilities | | |
| Guarantees in favour of: | | |
| - Government | 415,900 | 550,968 |
| - Financial institutions | 2,464,340 | 1,894,819 |
| - Others | 49,253,848 | 39,344,089 |
| | <u>52,134,088</u> | <u>41,789,876</u> |
| 13.3 Trade-related commitments | | |
| Credit cash | 54,470,933 | 60,418,378 |
| Credit documentary acceptances | 17,008,021 | 17,855,293 |
| Credit acceptances | 38,260,449 | 48,660,293 |
| | <u>109,739,403</u> | <u>126,933,964</u> |
| 13.4 Other contingencies | | |
| Claims against the Group not acknowledged as debts | <u>35,467,479</u> | <u>33,826,739</u> |
| 13.5 Commitments in respect of forward lending | | |
| The Group makes commitments to extend credit in the normal course of its business but none of these commitments are irrevocable and do not attract any significant penalty or expense if the facility is unilaterally withdrawn. | | |
| | June 30, 2014 | December 31, 2013 |
| | (Rupees in '000) | |
| 13.6 Commitments in respect of forward foreign and local exchange contracts | | |
| Purchase | 126,644,172 | 261,889,315 |
| Sale | 126,991,930 | 262,090,382 |
| The above commitments have maturities falling within one year. | | |
| Commitments in respect of foreign currency options | | |
| Purchase | 333,735 | 649,846 |
| Sale | 333,735 | 649,846 |
| Commitments in respect of cross currency swaps | | |
| Purchase | 1,142,886 | 1,121,412 |
| Sale | 1,094,023 | 1,105,785 |
| Commitments in respect of foreign and local currency interest rate swaps | | |
| Purchase | 197,609 | 245,757 |
| Sale | 401,776 | 490,757 |
| 13.7 Commitments for acquisition of fixed assets / intangibles | 1,535,091 | 943,750 |

13.8 Taxation

The income tax returns of the Bank have been submitted upto and including the Bank's financial year ended December 31, 2012. The tax authorities have also concluded the audit upto 2012 i.e. tax year 2013.

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. 276.04 million.

14 MARK-UP / RETURN / PROFIT / INTEREST EARNED

| | For the six months ended | |
|---|--------------------------|-------------------|
| | June 30, 2014 | June 30, 2013 |
| | (Rupees in '000) | |
| <i>On loans and advances to:</i> | | |
| - Customers | 26,300,193 | 22,923,626 |
| - Financial institutions | 116,423 | 128,372 |
| <i>On investments:</i> | | |
| - Available-for-sale | 32,842,195 | 33,654,447 |
| - Held-for-trading | 1,095,183 | 957,504 |
| - Held-to-maturity | 3,489,636 | 2,547,161 |
| On deposits with financial institutions | 775,336 | 558,620 |
| On lendings to financial institutions | 1,599,393 | 790,418 |
| | <u>66,218,359</u> | <u>61,560,148</u> |

15 MARK-UP / RETURN / PROFIT / INTEREST EXPENSED

| | | |
|---|-------------------|-------------------|
| Deposits | 29,256,839 | 29,227,933 |
| Securities sold under repurchase agreement borrowings | 2,694,559 | 4,852,604 |
| Other short term borrowings | 2,037,795 | 1,001,264 |
| Long term borrowings | 265,026 | 236,533 |
| | <u>34,254,219</u> | <u>35,318,334</u> |

16 **RELATED PARTY TRANSACTIONS**

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

Banking transactions with the related parties are executed on arm's length basis i.e. 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 advances to related parties are included in note 7.5 to these condensed interim consolidated 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 period / year-end were as follows:

| | June 30, 2014 | | | | |
|---|---|---------------------------------|-------------------|----------------------|----------------------------------|
| | Individual and companies related through | | | | |
| | Parent Group Entities | Subsidiary companies | Associates | Joint venture | Other related parties |
| | ----- Rs. in 000 ----- | | | | |
| Statement of financial position | | | | | |
| Deposits | 3,996,836 | - | 4,077,656 | - | 443,360 |
| Maximum Deposits During the period | 3,996,836 | - | 4,077,656 | - | 729,432 |
| Borrowings | 3,517,400 | - | 169,230 | 4,199,337 | - |
| Investments | - | - | 8,490,872 | 1,366,371 | - |
| Markup / Other Receivable | - | - | 250,546 | - | - |
| Mark-up / Other Payable | - | - | - | - | 779,202 |
| Placements | 981,523 | - | - | 197,721 | - |
| Overdrawn Nostro | 567,073 | - | 758,605 | - | - |
| Impairment provision | - | - | 577,378 | - | - |
| Profit and Loss Account | | | | | |
| Interest / Other Income | 20,491 | - | 2,037,393 | 185,946 | - |
| Interest / Other Expense | 27,239 | - | 225,297 | 5,586 | 257,100 |
| Others | | | | | |
| Other contingencies | 651,485 | - | - | - | - |
| Securities Held as custodian | 7,462,285 | 200,000 | 28,770,850 | - | 7,472,135 |
| December 31, 2013 | | | | | |
| Individual and companies related through | | | | | |
| | Parent Group Entities | Subsidiary companies | Associates | Joint venture | Other related parties |
| | ----- Rs. in 000 ----- | | | | |
| Statement of financial position | | | | | |
| Deposits | 3,450,508 | - | 7,467,809 | 159,678 | 1,105,198 |
| Maximum Deposits During the period | 4,208,820 | - | 7,942,206 | 159,678 | 3,833,229 |
| Borrowings | 3,094,280 | - | 737,272 | - | - |
| Investments | - | - | 7,860,459 | 1,356,483 | - |
| Markup / Other Receivable | - | - | 272,262 | - | - |
| Mark-up / Other Payable | - | - | - | - | 338,135 |
| Placements | 1,412,680 | - | 736,717 | - | - |
| Overdrawn Nostro | 548,068 | - | 640,686 | - | - |
| Impairment provision | - | - | 577,378 | - | - |
| Profit and Loss Account | | | | | |
| Interest / Other Income | 100,350 | - | 3,184,368 | 250,857 | - |
| Interest / Other Expense | 337,613 | - | 732,687 | - | 485,180 |
| Others | | | | | |
| Other contingencies | 436,646 | - | - | - | - |
| Securities Held as custodian | 8,761,370 | 485,000 | 25,888,500 | - | 14,454,615 |

16.1 **Transaction with Government- related entities**

The Federal Government (GOP) through State Bank of Pakistan (SBP) holds 40.6% shareholding in the Bank and therefore entities which are owned and / or controlled by the GOP, or where the GOP may exercise significant influence, are related parties of the Group.

The Group in the ordinary course of business enters into transactions with Government-related entities, which are all conducted at arm's length basis. Such transactions include Investments [Treasury Bills / Sukuks, Pakistan Investment Bonds (PIBs)], Borrowing / Deposits, Lendings and Balance with treasury bank. The outstanding amount as at June 30, 2014 amounting to Rs.654,504 million for investments (December 31, 2013: Rs. 726,558 million), borrowings / deposits amounting to Rs. 189,897 million (December 31, 2013: Rs. 246,509 million), advances amounting to Rs. 121,330 million (December 31, 2013: Rs. 115,558 million) and Balance with treasury bank amounting to Rs. 85,342 million (December 31, 2013: Rs. 70,314 million).

16.2 Key management personnel

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

| | For the six months ended | |
|--|--------------------------|----------------|
| | June 30, 2014 | June 30, 2013 |
| | (Rupees in '000) | |
| Managerial remuneration (including allowances) | 929,784 | 776,889 |
| Contribution to provident and benevolent fund | 14,318 | 12,177 |
| Medical | 29,184 | 23,865 |
| | <u>973,286</u> | <u>812,931</u> |
| Number of persons | <u>183</u> | <u>169</u> |

17 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

| | For the six months ended June 30, 2014 | | | | | Total |
|---|--|--------------------------------|----------|-----------------------------|--------------------------------|-----------|
| | Retail banking | Corporate / commercial banking | Treasury | International banking group | Head Office / support services | |
| | (Rupees in million) | | | | | |
| Net interest income - External | (17,314) | 12,300 | 32,083 | 4,017 | 878 | 31,964 |
| Inter segment revenue - net | 35,711 | (9,415) | (31,422) | - | 5,126 | - |
| Non-funded income | 4,212 | 1,450 | 2,945 | 3,075 | (363) | 11,319 |
| Net interest and non-markup income | 22,609 | 4,335 | 3,606 | 7,092 | 5,641 | 43,283 |
| Total expenses including provision (excluding impairment) | 8,504 | 441 | 130 | 4,758 | 7,473 | 21,306 |
| Impairment against investments | - | - | (80) | - | (89) | (169) |
| Inter segment administrative cost | 4,440 | 888 | 128 | 489 | (5,945) | - |
| Total expenses including provision | 12,944 | 1,329 | 178 | 5,247 | 1,439 | 21,137 |
| Profit before tax | 9,665 | 3,006 | 3,428 | 1,845 | 4,202 | 22,146 |
| Segment assets gross | 150,798 | 356,081 | 812,220 | 351,724 | 109,571 | 1,780,394 |
| Segment non-performing loans | 4,368 | 21,348 | - | 21,165 | 4,447 | 51,328 |
| Segment provision required including general provision | 2,728 | 15,676 | 49 | 14,742 | 5,454 | 38,649 |
| Segment liabilities including equity | 1,008,412 | 174,407 | 34,209 | 255,759 | 268,958 | 1,741,745 |
| Segment gross earnings on liability / asset % | 9.97% | 10.10% | 9.73% | 4.87% | 6.00% | - |
| Segment cost of funds % | 5.20% | 7.73% | 8.83% | 1.09% | 1.26% | - |
| | (Rupees in million) | | | | | |
| Net interest income - External | (18,887) | 11,816 | 30,505 | 2,975 | (167) | 26,242 |
| Inter segment revenue - net | 32,840 | (9,395) | (28,319) | - | 4,874 | - |
| Non-funded income | 3,425 | 1,233 | 1,508 | 2,401 | (542) | 8,025 |
| Net interest and non-markup income | 17,378 | 3,654 | 3,694 | 5,376 | 4,165 | 34,267 |
| Total expenses including provision (excluding impairment) | 7,883 | 1,378 | 100 | 4,090 | 4,998 | 18,449 |
| Impairment against investments | - | - | (30) | - | (21) | (51) |
| Inter segment administrative cost | 3,157 | 631 | 91 | 348 | (4,227) | - |
| Total expenses including provision | 11,040 | 2,009 | 161 | 4,438 | 750 | 18,398 |
| Profit before tax | 6,338 | 1,645 | 3,533 | 938 | 3,415 | 15,869 |
| Segment assets gross | 125,394 | 329,363 | 830,780 | 291,639 | 103,699 | 1,680,875 |
| Segment non-performing loans | 8,469 | 30,908 | - | 19,505 | 208 | 59,090 |
| Segment provision required including general provision | 8,021 | 25,635 | 279 | 13,290 | 1,394 | 48,619 |
| Segment liabilities including equity | 914,612 | 143,488 | 138,224 | 206,971 | 228,961 | 1,632,256 |
| Segment gross earnings on liability / asset % | 9.34% | 9.64% | 9.06% | 4.54% | 3.74% | - |
| Segment cost of funds % | 5.58% | 7.59% | 8.16% | 1.18% | 0.96% | - |

18 ISLAMIC BANKING BUSINESS

The Statement of the financial position of the Islamic Banking Business is disclosed in note no. 18 to the condensed interim unconsolidated financial statements for the period ended June 30, 2014.

19 GENERAL

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

19.2 The amount corresponding to the policy given in note 4.5 to the consolidated financial statements for the year ended December 31, 2013, is Rs. 28.159 billion as at June 30, 2014 (December 31, 2013: Rs. 24.352 billion).

20 DATE OF AUTHORISATION FOR ISSUE

These condensed interim consolidated financial statements were authorised for issue in the Board of Directors meeting held on July 22, 2014.

President and Chief Executive Officer

Director

Director

Director