

## Directors' Review

On behalf of the Board of Directors, I am pleased to present the condensed interim unconsolidated financial statements for the nine months ended September 30, 2012.

**Financial Performance:** Rs. in million

The financial results of the Bank are summarized below:

Profit after tax	15,927
	=====
Movement of Reserves	
Unappropriated profit brought forward	52,229
Profit attributable to shareholders	15,927
Transferred from surplus on revaluation of fixed assets – net of tax	246
Transfer to statutory reserves	(1,593)
Cash dividend	(8,651)
Issued as bonus shares	(1,102)
	-----
Unappropriated profit carried forward	57,056
	=====
Earnings per share rupees (Basic & Diluted)	13.14
	=====

The economy witnessed modest recovery; the GDP growth for the year 2011 – 12 was recorded at 3.7 percent as compared to 3 percent in the previous fiscal year. The Agriculture and Manufacturing sectors have shown modest growth. Inflationary pressure has eased further as CPI was recorded at 8.8 percent on year to year basis in September 2012 as compared to 10.5 percent in the corresponding period last year. However, despite decline in inflation, the economy continues to face challenges due to energy crises, weak global economy and low foreign financial inflows.

In spite of the challenging economic environment, HBL continued to show impressive performance in terms of growth and profitability. The deposits at Rs. 1,036 billion showed growth of 18% for the nine months ended September 30, 2012, with CASA at 68.61%. The investments at Rs.617 billion recorded growth of 54% while advances at Rs.437 billion were up by 5%.

The pre-tax and after tax profit for the period ended September 30, 2012 at Rs.26 billion and Rs.16 billion respectively was up by 17% and 10% respectively compared to corresponding period last year. The earning per share after tax for nine months ended September 30, 2012 was Rs.13.14 as against Rs.11.91 per share in the corresponding period last year.

## **Credit Rating Upgraded**

JCR VIS Credit Rating Agency of Pakistan has upgraded the entity ratings of the Bank to “AAA / A-1+” (Triple A/ A-One Plus) from “AA+/A-1+” (Double A Plus / A-One Plus) with ‘Stable’ outlook. HBL has therefore become the first private sector bank of Pakistan to achieve this status.

## **Awards**

HBL was also conferred the “Leading Bank in Home Remittances” Award for the year 2011 by the Pakistan Remittance Initiative.

## **Future Outlook**

The State Bank of Pakistan reduced its policy rate from 12% to 10.5% on August 13, 2012 and further to 10% on October 8, 2012. The reduction of policy rate by 200 bps is likely to affect the interest income of banking sector. In spite of reduction in policy rate, the demand for fresh credit from private sector is likely to be limited mainly due to energy shortage and slow growth in exports on account of weak global economy. The banks would, therefore be forced to invest in low yield government securities. As a result the pace of growth in profitability may not be maintained in the fourth quarter of the current year.

HBL is committed to providing convenient and efficient banking services to its customer. The Bank has entered into an agreement with UnionPay (UP) of China to issue UP Cards in Pakistan and in global market where HBL has presence. This alliance will give HBL the ability to advance its financial inclusion plan by delivering innovative and affordable product solutions to its customers. HBL plans to roll out UP Cards and solutions in various overseas markets by mid 2013.

## **Changes in Directorship**

Mr. R. Zakir Mahmood retired as President & CEO of the Bank after serving for over twelve years on September 28, 2012. He will, however, continue as Director on the Board of HBL. Mr. Nauman K. Dar has been appointed as President & CEO of HBL. The Board places on record their appreciation for the contribution of Mr. R. Zakir Mahmood and wishes the new President and CEO Mr. Nauman K. Dar every success.

## **Appreciation and Acknowledgement**

The Board appreciates the efforts of our Regulators and Government of Pakistan and in particular the Ministry of Finance for developing and strengthening the banking and financial service industry through improved regulatory and governance framework.

The Board and Management would like to take this opportunity to also thank the customers and the shareholders for entrusting their confidence in HBL 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.

On behalf of the Board

Nauman K. Dar  
President & Chief Executive Officer  
October 31, 2012

**HABIB BANK LIMITED**  
**CONDENSED INTERIM UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT SEPTEMBER 30, 2012**

	Note	(Unaudited) September 30, 2012	(Audited) December 31, 2011
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with treasury banks		140,703,347	103,080,076
Balances with other banks		20,807,757	34,985,809
Lendings to financial institutions		14,752,263	41,581,029
Investments	6	617,240,030	399,939,469
Advances	7	437,235,573	416,261,389
Fixed assets	8	18,445,270	17,107,263
Deferred tax asset		6,039,465	6,957,290
Other assets		48,379,071	43,941,323
		1,303,602,776	1,063,853,648
<b>LIABILITIES</b>			
Bills payable		14,999,225	13,894,502
Borrowings	9	95,111,939	33,714,904
Deposits and other accounts	10	1,036,505,577	875,308,597
Sub-ordinated loans	11	4,740,525	4,497,285
Liabilities against assets subject to finance lease		-	-
Deferred tax liability		-	-
Other liabilities		39,288,763	34,983,770
		1,190,646,029	962,399,058
<b>NET ASSETS</b>		<b>112,956,747</b>	<b>101,454,590</b>
<b>REPRESENTED BY:</b>			
<b>Shareholders' equity</b>			
Share capital		12,122,748	11,020,680
Reserves		33,387,486	30,203,696
Unappropriated profit		57,055,860	52,228,646
		102,566,094	93,453,022
Surplus on revaluation of assets - net of deferred tax	12	10,390,653	8,001,568
		112,956,747	101,454,590
<b>CONTINGENCIES AND COMMITMENTS</b>	13		

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

**President and Chief Executive Officer**

**Director**

**Director**

**Director**

**HABIB BANK LIMITED**  
**CONDENSED INTERIM UNCONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**

	Note	January 01 to September 30, 2012	January 01 to September 30, 2011	July 01 to September 30, 2012	July 01 to September 30, 2011
------(Rupees in '000)-----					
Mark-up / return / interest earned	15	82,880,848	70,133,837	29,457,012	24,887,364
Mark-up / return / interest expensed	16	40,495,213	30,087,750	15,367,779	11,081,234
Net mark-up / interest income		<u>42,385,635</u>	<u>40,046,087</u>	<u>14,089,233</u>	<u>13,806,130</u>
Provision against non-performing loans and advances - net	7.2 / 7.4	4,142,742	5,670,209	1,399,127	974,424
(Reversal) / charge against off-balance sheet obligations		(34,014)	(15,950)	58,349	(46,497)
(Reversal) / charge against diminution in the value of investments - net	6.3	(438,418)	689,008	(43,238)	629,126
Bad debts written off directly		-	-	-	-
		<u>3,670,310</u>	<u>6,343,267</u>	<u>1,414,238</u>	<u>1,557,053</u>
Net mark-up / interest income after provisions		<u>38,715,325</u>	<u>33,702,820</u>	<u>12,674,995</u>	<u>12,249,077</u>
<b>Non mark-up / interest income</b>					
Fee, commission and brokerage income		4,031,486	3,629,811	1,333,604	1,151,100
Dividend income		394,315	226,591	65,159	26,671
Gain on sale of securities		590,993	286,950	270,366	85,756
Unrealized (loss) / gain on held for trading securities		(5,366)	15,846	(6,178)	16,249
Income from dealing in foreign currencies		1,912,925	3,049,888	452,438	818,847
Other income		2,165,058	2,098,907	693,065	680,075
Total non-mark-up / interest income		<u>9,089,411</u>	<u>9,307,993</u>	<u>2,808,454</u>	<u>2,778,698</u>
		<u>47,804,736</u>	<u>43,010,813</u>	<u>15,483,449</u>	<u>15,027,775</u>
<b>Non mark-up / interest expense</b>					
Administrative expenses		21,068,930	20,184,876	7,083,417	7,001,718
Other provisions / write offs - net		69,386	(51,340)	36,106	32,367
Other charges		13,178	76,052	11,686	968
Workers welfare fund		533,051	456,025	167,107	159,855
Total non mark-up / interest expenses		<u>21,684,545</u>	<u>20,665,613</u>	<u>7,298,316</u>	<u>7,194,908</u>
<b>Profit before taxation</b>		<u>26,120,191</u>	<u>22,345,200</u>	<u>8,185,133</u>	<u>7,832,867</u>
<b>Taxation</b>					
current		9,537,686	8,814,506	3,083,848	3,160,807
prior		1,158,830	176,132	397,797	-
deferred		(503,740)	(1,080,558)	(237,398)	(475,345)
		<u>10,192,776</u>	<u>7,910,080</u>	<u>3,244,247</u>	<u>2,685,462</u>
<b>Profit after taxation</b>		<u>15,927,415</u>	<u>14,435,120</u>	<u>4,940,886</u>	<u>5,147,405</u>
------(Rupees)-----					
Basic and diluted earnings per share		<u>13.14</u>	<u>11.91</u>	<u>4.08</u>	<u>4.25</u>

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

President and Chief Executive Officer

Director

Director

Director

**HABIB BANK LIMITED**  
**CONDENSED INTERIM UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**

	January 01 to September 30, 2012	January 01 to September 30, 2011	July 01 to September 30, 2012	July 01 to September 30, 2011
	------(Rupees in '000)-----			
<b>Profit for the period</b>	15,927,415	14,435,120	4,940,886	5,147,405
<b>Other comprehensive income</b>				
Effect of translation of net investment in foreign branches	1,591,049	(432,447)	319,965	(261,380)
<b>Comprehensive income transferred to equity</b>	<u>17,518,464</u>	<u>14,002,673</u>	<u>5,260,851</u>	<u>4,886,025</u>
<b>Components of comprehensive income not reflected in equity</b>				
Surplus on revaluation of investments	4,055,624	1,134,908	4,542,476	1,161,274
Deferred tax on revaluation of investments	(1,420,697)	(398,120)	(1,591,376)	(407,177)
<b>Total comprehensive income</b>	<u><u>20,153,391</u></u>	<u><u>14,739,461</u></u>	<u><u>8,211,951</u></u>	<u><u>5,640,122</u></u>

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**President and Chief Executive Officer**

**Director**

**Director**

**Director**

**HABIB BANK LIMITED**  
**CONDENSED INTERIM UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**

	Reserves				Total	
	Share capital	Exchange translation reserve	Statutory	General		Unappropriated profit
------(Rupees in '000)-----						
Balance as at December 31, 2010	10,018,800	7,787,885	13,810,116	6,073,812	44,121,103	81,811,716
<b>Total comprehensive income for the period</b>						
Profit for the nine months ended September 30, 2011	-	-	-	-	14,435,120	14,435,120
<b>- Other comprehensive income</b>						
Effect of translation of net investment in foreign branches	-	(432,447)	-	-	-	(432,447)
	-	(432,447)	-	-	14,435,120	14,002,673
<b>Transactions with owners, recorded directly in equity</b>						
Final Cash dividend paid at Rs. 6.5 per share for the year ended December 31, 2010	-	-	-	-	(6,512,220)	(6,512,220)
Issued as bonus shares	1,001,880	-	-	-	(1,001,880)	-
	1,001,880	-	-	-	(7,514,100)	(6,512,220)
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	90,772	90,772
Transferred to statutory reserves	-	-	1,443,512	-	(1,443,512)	-
Balance as at September 30, 2011	11,020,680	7,355,438	15,253,628	6,073,812	49,689,383	89,392,941
<b>Total comprehensive income for the period</b>						
Profit for the six months ended December 31, 2011	-	-	-	-	6,306,696	6,306,696
<b>- Other comprehensive income</b>						
Effect of translation of net investment in foreign branches	-	890,148	-	-	-	890,148
	-	890,148	-	-	6,306,696	7,196,844
<b>Transactions with owners, recorded directly in equity</b>						
Half year interim cash dividend paid at Rs. 3 per share	-	-	-	-	(3,306,204)	(3,306,204)
	-	-	-	-	(3,306,204)	(3,306,204)
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	169,441	169,441
Transferred to statutory reserves	-	-	630,670	-	(630,670)	-
Balance as at December 31, 2011	11,020,680	8,245,586	15,884,298	6,073,812	52,228,646	93,453,022
<b>Total comprehensive income for the period</b>						
Profit for the nine months ended September 30, 2012	-	-	-	-	15,927,415	15,927,415
<b>- Other comprehensive income</b>						
Effect of translation of net investment in foreign branches	-	1,591,049	-	-	-	1,591,049
	-	1,591,049	-	-	15,927,415	17,518,464
<b>Transactions with owners, recorded directly in equity</b>						
Final Cash dividend paid at Rs. 4 per share for the year ended December 31, 2011	-	-	-	-	(4,408,272)	(4,408,272)
Half year interim cash dividend paid at Rs. 3.5 per share	-	-	-	-	(4,242,962)	(4,242,962)
Issued as bonus shares	1,102,068	-	-	-	(1,102,068)	-
	1,102,068	-	-	-	(9,753,302)	(8,651,234)
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	245,842	245,842
Transferred to statutory reserves	-	-	1,592,741	-	(1,592,741)	-
Balance as at September 30, 2012	12,122,748	9,836,635	17,477,039	6,073,812	57,055,860	102,566,094

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President and Chief Executive Officer

Director

Director

Director

**HABIB BANK LIMITED**  
**CONDENSED INTERIM UNCONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**

	September 30, 2012	September 30, 2011
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	26,120,191	22,345,200
Dividend income	(394,315)	(226,591)
Gain on sale of securities	(590,993)	(286,950)
	(985,308)	(513,541)
	25,134,883	21,831,659
<b>Adjustment for:</b>		
Depreciation / amortisation	1,124,190	1,049,947
Provision against diminution in the value of investments	(438,418)	689,008
Provision against non-performing loans and advances	4,142,742	5,670,209
Unrealised loss / (gain) on held for trading securities	5,366	(15,846)
Exchange impact on sub-ordinated loans - net	243,240	92,115
Gain on sale of property and equipment	(8,316)	(30,278)
Miscellaneous provisions	35,372	(67,290)
	5,104,176	7,387,865
	30,239,059	29,219,524
<b>Decrease / (increase) in operating assets</b>		
Lendings to financial institutions	26,828,766	19,173,121
Advances	(25,116,926)	22,140,377
Other assets	(5,376,088)	(10,230,907)
	(3,664,248)	31,082,591
<b>Increase in operating liabilities</b>		
Bills payable	1,104,723	3,305,076
Borrowings from financial institutions	61,397,035	2,764,805
Deposits and other accounts	161,196,980	80,811,316
Other liabilities	4,067,986	8,158,281
	227,766,724	95,039,478
	254,341,535	155,341,593
Income tax paid - net	(9,772,891)	(8,023,495)
<b>Net cash flows from operating activities</b>	244,568,644	147,318,098
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investments	(212,220,892)	(122,641,152)
Dividend income received	340,512	210,958
Fixed capital expenditure	(2,631,206)	(2,208,898)
Proceeds from sale of fixed assets	177,325	40,355
Exchange adjustment on translation of balances in foreign branches	1,591,049	(432,447)
<b>Net cash flows used in investing activities</b>	(212,743,212)	(125,031,184)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(8,380,213)	(6,484,158)
<b>Net cash flows used in financing activities</b>	(8,380,213)	(6,484,158)
Increase in cash and cash equivalents during the period	23,445,219	15,802,756
Cash and cash equivalents at beginning of the period	133,367,065	116,871,049
Effects of exchange rate changes on cash and cash equivalents	4,698,820	636,135
	138,065,885	117,507,184
Cash and cash equivalents at end of the period	161,511,104	133,309,940

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

President and Chief Executive Officer

Director

Director

Director



**HABIB BANK LIMITED**  
**NOTES TO THE CONDENSED INTERIM UNCONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**

**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 STATEMENT OF COMPLIANCE**

These condensed interim unconsolidated financial statements have been prepared in accordance with the framework as referred to in the annual unconsolidated financial statements. The disclosures made in these condensed interim unconsolidated 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 34, "Interim Financial Reporting". They do not include all the disclosures required for annual financial statements, and these condensed interim unconsolidated financial statements should be read in conjunction with the unconsolidated annual financial statements of the Bank for the year ended December 31, 2011.

**3 ACCOUNTING POLICIES**

The accounting policies and the methods of computation followed for the preparation of these condensed interim unconsolidated financial statements are the same as those applied in the preparation of the annual unconsolidated financial statements of the Bank for the year ended December 31, 2011.

**4 ACCOUNTING ESTIMATES**

The basis for accounting estimates adopted in the preparation of these condensed interim unconsolidated financial statements are the same as those applied in the preparation of the annual unconsolidated financial statements of the Bank for the year ended December 31, 2011.

**5 FINANCIAL RISK MANAGEMENT**

The Financial risk management objectives and policies adopted by Bank are consistent with that disclosed in the annual unconsolidated financial statements of the Bank for the year ended December 31, 2011.

## 6 INVESTMENTS

Note	September 30, 2012			December 31, 2011		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
------(Rupees in '000)-----						
<b>Held-for-trading (HFT)</b>						
<i>Federal Government Securities</i>						
- Pakistan Investment Bonds	674,983	-	674,983	395,470	-	395,470
- Market Treasury Bills	28,864,444	-	28,864,444	2,870,862	-	2,870,862
<i>Fully paid-up ordinary shares</i>						
- Listed companies	3,679	-	3,679	-	-	-
	29,543,106	-	29,543,106	3,266,332	-	3,266,332
<b>Held-to-maturity securities (HTM)</b>						
<i>Federal Government Securities</i>						
- Pakistan Investment Bonds	44,056,806	-	44,056,806	44,077,760	-	44,077,760
<b>Debentures and Corporate Debt Instruments</b>						
	186,136	-	186,136	183,937	-	183,937
	44,242,942	-	44,242,942	44,261,697	-	44,261,697
<b>Available-for-sale securities (AFS)</b>						
<i>Federal Government Securities</i>						
- Market Treasury Bills	358,132,047	61,290,096	419,422,143	265,930,965	-	265,930,965
- Pakistan Investment Bonds	44,997,540	-	44,997,540	26,335,106	-	26,335,106
- Government of Pakistan Guaranteed Bonds	455,000	-	455,000	425,000	-	425,000
- Government of Pakistan Sukuk and US Dollar / Euro Bonds	24,083,059	-	24,083,059	16,095,202	-	16,095,202
<b>Overseas Government Securities</b>						
	13,123,349	-	13,123,349	9,485,066	-	9,485,066
<i>Fully paid-up ordinary shares</i>						
- Listed companies	3,341,872	-	3,341,872	2,505,080	-	2,505,080
- Unlisted companies	716,920	-	716,920	761,038	-	761,038
<i>Debentures and Corporate Debt Instruments</i>						
- Listed securities	10,497,328	-	10,497,328	6,264,741	-	6,264,741
- Unlisted securities	14,273,772	-	14,273,772	17,046,940	-	17,046,940
<b>NIT Units</b>	11,113	-	11,113	11,113	-	11,113
<b>Preference Shares</b>	100,000	-	100,000	200,000	-	200,000
	469,732,000	61,290,096	531,022,096	345,060,251	-	345,060,251
<b>Investment in Subsidiary Companies</b>	5,690,591	-	5,690,591	5,690,591	-	5,690,591
<b>Investment in Associates and Joint Venture</b>	4,592,905	-	4,592,905	4,132,079	-	4,132,079
<b>Investment at cost</b>	553,801,544	61,290,096	615,091,640	402,410,950	-	402,410,950
Provision for diminution / impairment in the value of investments including associates	(1,433,167)	-	(1,433,167)	(1,996,585)	-	(1,996,585)
<b>Net Investment</b>	552,368,377	61,290,096	613,658,473	400,414,365	-	400,414,365
Deficit on revaluation of held for trading securities	(622)	-	(622)	(1,451)	-	(1,451)
Surplus / (deficit) on revaluation of available for sale securities	3,582,179	-	3,582,179	(473,445)	-	(473,445)
<b>Total investments at market value</b>	555,949,934	61,290,096	617,240,030	399,939,469	-	399,939,469

6.1 The market value of securities classified as "held-to-maturity" as at September 30, 2012 amounted to Rs. 46,024.420 million (2011: Rs. 43,304.571 million).

6.2 The Bank has made further investment in the following associates during the period, consequently, shareholding has increased to:

	September 30, 2012	December 31, 2011
	<b>Shareholding %</b>	
Jubilee General Insurance Company Limited	16.50%	14.27
Diamond Trust Bank Limited, Kenya	11.68%	11.21

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

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

	September 30, 2012	December 31, 2011
	(Rupees in '000)	
Opening balance	1,996,585	3,870,384
(Reversal) / Charge for the period / year - net	(184,113)	139,767
Impairment (reversal) / charge on shares (net) or change in value of associates	(254,305)	736,859
Total (reversal) / charge - net	(438,418)	876,626
Amount written off	(125,000)	(2,755,439)
Exchange adjustment	-	5,014
Closing balance	<u>1,433,167</u>	<u>1,996,585</u>

### 7 ADVANCES

	Note	September 30, 2012	December 31, 2011
		(Rupees in '000)	
Loans, cash credits, running finances, etc.			
In Pakistan		374,316,331	361,151,387
Outside Pakistan		62,458,213	60,225,576
		<u>436,774,544</u>	<u>421,376,963</u>
Net investment in finance lease - in Pakistan		4,445,667	3,715,662
Bills discounted and purchased (excluding Government treasury bills):			
Payable in Pakistan		12,286,807	10,420,082
Payable outside Pakistan		29,585,639	24,451,110
		41,872,446	34,871,192
Provision against non-performing advances	7.2	(45,857,084)	(43,702,428)
		<u>437,235,573</u>	<u>416,261,389</u>
<b>Fully provided non-performing advances classified as loss for more than five years</b>			
In Pakistan		15,853,713	13,640,851
Provision	7.4	(15,853,713)	(13,640,851)
		<u>-</u>	<u>-</u>

7.1 Advances include Rs. 55,278.565 million (2011: Rs. 51,313.510 million) which have been placed under non-performing status, other than those accounts classified as loss and fully provided for more than five years, which have been placed in a separate category.

Category of classification	September 30, 2012								
	Non-performing loans			Provision required and held			Net non-performing loans		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
<b>Specific provision</b>									
Other assets especially mentioned	1,298,635	-	1,298,635	-	-	-	1,298,635	-	1,298,635
Substandard	6,139,466	767,982	6,907,448	1,492,736	139,279	1,632,015	4,646,730	628,703	5,275,433
Doubtful	4,901,948	2,340,970	7,242,918	2,097,261	1,468,854	3,566,115	2,804,687	872,116	3,676,803
Loss	31,353,222	8,476,342	39,829,564	30,495,474	8,420,822	38,916,296	857,748	55,520	913,268
	43,693,271	11,585,294	55,278,565	34,085,471	10,028,955	44,114,426	9,607,800	1,556,339	11,164,139
<b>General provision</b>	-	-	-	1,367,970	374,688	1,742,658	-	-	-
	43,693,271	11,585,294	55,278,565	35,453,441	10,403,643	45,857,084	9,607,800	1,556,339	11,164,139

Category of classification	December 31, 2011								
	Non-performing loans			Provision required and held			Net non-performing loans		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
<b>Specific provision</b>									
Other assets especially mentioned	1,112,720	-	1,112,720	-	-	-	1,112,720	-	1,112,720
Substandard	5,362,602	331,675	5,694,277	1,265,232	58,503	1,323,735	4,097,370	273,172	4,370,542
Doubtful	3,963,781	2,289,098	6,252,879	1,981,890	1,705,549	3,687,439	1,981,891	583,549	2,565,440
Loss	30,557,708	7,695,926	38,253,634	29,834,144	7,273,500	37,107,644	723,564	422,426	1,145,990
	40,996,811	10,316,699	51,313,510	33,081,266	9,037,552	42,118,818	7,915,545	1,279,147	9,194,692
<b>General provision</b>	-	-	-	1,277,090	306,520	1,583,610	-	-	-
	40,996,811	10,316,699	51,313,510	34,358,356	9,344,072	43,702,428	7,915,545	1,279,147	9,194,692

7.2 Particulars of provision against non-performing advances

Note	September 30, 2012			December 31, 2011		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	42,118,818	1,583,610	43,702,428	37,038,350	1,380,868	38,419,218
Exchange adjustment / other movement	713,709	18,283	731,992	746,210	8,679	754,889
Charge for the period / year	4,750,308	148,463	4,898,771	7,461,210	208,320	7,669,530
Reversals	(63,636)	(7,698)	(71,334)	(401,036)	(14,257)	(415,293)
	4,686,672	140,765	4,827,437	7,060,174	194,063	7,254,237
Write offs	(440,162)	-	(440,162)	(753,595)	-	(753,595)
Transferred to over 5 years category	(2,964,611)	-	(2,964,611)	(1,972,321)	-	(1,972,321)
Closing balance	44,114,426	1,742,658	45,857,084	42,118,818	1,583,610	43,702,428

7.3 In accordance with BSD Circular No. 2 dated January 27, 2009 and BSD Circular No.10 dated October 20, 2009 issued by the State Bank of Pakistan, the Bank has availed the benefit of FSV against the non-performing advances (excluding consumer housing finance portfolio). Had this benefit of FSV not been taken by the Bank, the specific provision against non-performing advances as at September 30, 2012 would have been higher by Rs. 789.738 million and profit before taxation for the period ended September 30, 2012 would have been lower by approximately Rs. 102.012 million (after taking into account the effect of discounting of FSV taken in previous year). Increase in retained earnings net of tax amounting to Rs. 513.330 million would not be available for the distribution of cash and stock dividend to share holders.

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

Note	September 30, 2012	December 31, 2011
	(Rupees in '000)	
Opening balance	13,640,851	12,527,683
Reversals	(684,695)	(816,117)
Transferred during the period / year	2,964,611	1,972,321
Write offs	(67,054)	(43,036)
	15,853,713	13,640,851

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

	September 30, 2012			December 31, 2011		
	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the period	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned 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 executives * (Other than KMPs)	1,477,300	1,517,300	353,828	1,231,700	1,265,700	476,312
- in respect of key management personnel / Companies in which key management personnel or their spouse are interested	426,164	436,564	36,257	383,208	392,308	46,450
Debts due by companies or firms in which the directors of the bank are interested as directors, partners, advisors or in the case of private companies as members	3,915,774	4,475,307	855,500	4,257,405	4,811,705	11,210,022
Debts due by subsidiary company	50,905	56,384	-	70,858	102,324	-
Debts due by companies in which key management personnel are nominated by the Bank as directors						
- Guaranteed by Government	14,115,634	14,786,854	4,275,607	10,917,405	13,576,635	-
- Others	27,352	31,714	-	32,869	43,976	-

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 Bank to its executives as per their terms of employment).

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

8 FIXED ASSETS

	September 30, 2012	December 31, 2011
	(Rupees in '000)	
Tangible fixed assets	16,767,046	16,177,686
Intangible assets	178,116	126,445
Capital work-in-progress	1,500,108	803,132
	<u>18,445,270</u>	<u>17,107,263</u>

8.1 Additions to fixed assets

	For the nine months ended	
	September 30, 2012	September 30, 2011
	(Rupees in '000)	
The following additions have been made to tangible and intangible fixed assets during the period:		
<i>Tangible fixed assets</i>		
Land	337,815	1,017,992
Building including related machinery	551,049	291,510
Furniture, fixtures and office equipments	919,981	505,491
Vehicles	19,484	29,154
Intangible assets	105,901	52,974
Capital work-in-progress	696,976	311,777
	<u>2,631,206</u>	<u>2,208,898</u>

8.2 Disposal of fixed assets

	For the nine months ended	
	September 30, 2012	September 30, 2011
	(Rupees in '000)	
The following disposals have been made from tangible and intangible fixed assets during the period:		
<i>Tangible fixed assets</i>		
Land	156,863	92
Building including related machinery	4,990	-
Furniture, fixtures and office equipments	213,928	253,677
Vehicles	27,689	36,221
Intangible assets	420	252
	<u>403,890</u>	<u>290,242</u>

9 **BORROWINGS**

	September 30, 2012	December 31, 2011
	(Rupees in '000)	
<b>Secured</b>		
Borrowings from State Bank of Pakistan under:		
Export refinance scheme	13,024,713	18,182,197
Long term financing facility - locally manufactured and imported plant & machinery	4,835,751	4,204,722
Long term finance - export oriented projects	1,116,983	1,774,534
Refinance facility for modernization of SMEs	12,649	-
Repurchase agreement borrowings	61,290,097	-
	80,280,193	24,161,453
<b>Unsecured</b>		
In Pakistan:		
Interbank call money borrowings	5,960,000	3,600,000
Outside Pakistan:		
Overdrawn nostro accounts	1,074,821	708,353
Borrowings of overseas branches	7,796,925	5,245,098
	8,871,746	5,953,451
	14,831,746	9,553,451
	95,111,939	33,714,904

10 **DEPOSITS AND OTHER ACCOUNTS**

<b>Customers</b>		
Current accounts - non-remunerative	256,117,090	222,815,278
Current accounts - remunerative	1,674,894	1,694,058
Savings chequing account	443,229,208	388,468,078
Fixed deposits	319,889,089	245,987,658
	1,020,910,281	858,965,072
<b>Financial institutions</b>		
Current accounts - non-remunerative	6,915,892	5,052,265
Savings chequing account	3,170,457	2,815,116
Fixed deposits	5,508,947	8,476,144
	15,595,296	16,343,525
	1,036,505,577	875,308,597

11 **SUB-ORDINATED LOANS**

The Bank has obtained loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million (2011: US \$ 50 million) equivalent to pak rupees 4,740.525 million (2011: 4,497.285 million). The principal amount is repayable in four equal half yearly installments commencing from June 2013 to December 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**

Note	September 30, 2012	December 31, 2011
	(Rupees in '000)	

Surplus / (deficit) arising on revaluation of:

- fixed assets	12.1	8,063,666	8,309,508
- investments	12.2	2,326,987	(307,940)
Surplus on revaluation of assets - net of deferred tax		<u>10,390,653</u>	<u>8,001,568</u>

12.1 **Surplus on revaluation of fixed assets**

Surplus on revaluation of fixed assets as at January 1		9,093,164	9,420,908
Surplus realised on disposal of revalued properties during the period / year		(155,285)	(139,331)
Transferred to unappropriated profit in respect of incremental depreciation charged during the period / year - net of deferred tax		(90,557)	(120,882)
Related deferred tax liability of incremental depreciation charged during the period / year		(48,761)	(65,090)
Related deferred tax liability on disposal of revalued properties		(873)	(2,441)
Surplus on revaluation of fixed assets as at period / year end		<u>8,797,688</u>	<u>9,093,164</u>

Less: related deferred tax liability on:

- revaluation as at January 1		783,656	851,187
- surplus realised on disposal of revalued properties during the period / year		(873)	(2,441)
- incremental depreciation charged during the period / year transferred to profit and loss account		(48,761)	(65,090)
		<u>734,022</u>	<u>783,656</u>
		<u>8,063,666</u>	<u>8,309,508</u>

12.2 **Deficit on revaluation of investments**

Market Treasury Bills		1,901,319	611,825
Pakistan Investment Bonds		1,470,477	(197,281)
Government of Pakistan Sukuk and US Dollar / Euro Bonds		(33,984)	(834,680)
Listed Securities		130,342	(143,341)
NIT Units		9,067	6,359
Other Investments		104,958	83,673
		3,582,179	(473,445)
Related deferred tax (liability) /asset		(1,255,192)	165,505
		<u>2,326,987</u>	<u>(307,940)</u>

13 **CONTINGENCIES AND COMMITMENTS**

13.1 **Direct credit substitutes - financial guarantees**

Guarantees in favour of:

- Government		308,300	354,078
- Financial institutions		306,829	318,596
- Others		23,651,658	22,307,830
		<u>24,266,787</u>	<u>22,980,504</u>

13.2 <b>Transaction-related contingent liabilities</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
	<b>(Rupees in '000)</b>	
Guarantees in favour of:		
- Government	547,072	1,604,813
- Financial institutions	2,099,568	636,292
- Others	36,426,443	31,814,519
	<u>39,073,083</u>	<u>34,055,624</u>

### 13.3 **Trade-related commitments**

Credit cash	65,133,317	70,202,498
Credit documentary acceptances	22,473,209	21,899,930
Credit acceptances	35,192,687	23,115,049
	<u>122,799,213</u>	<u>115,217,477</u>

### 13.4 **Other contingencies**

Claims against the Bank not acknowledged as debts	<u>73,244,986</u>	<u>84,516,467</u>
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### 13.5 **Commitments in respect of forward lending**

The Bank makes commitments to extend credit in the normal course of its business but none of these commitments are irrevocable and do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

13.6 <b>Commitments in respect of forward foreign and local exchange contracts</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
	<b>(Rupees in '000)</b>	
Purchase	125,779,680	130,739,964
Sale	126,101,287	130,737,821

The above commitments have maturities falling within one year.

#### **Commitments in respect of foreign currency options**

Purchase	88,460	336,655
Sale	88,460	336,655

#### **Commitments in respect of cross currency swaps**

Purchase	3,613,421	2,868,771
Sale	3,613,421	2,868,771

#### **Commitments in respect of foreign and local currency interest rate swaps**

Purchase	468,785	482,551
Sale	316,035	329,801

13.7 <b>Commitments for acquisition of fixed assets / intangibles</b>	436,372	512,471
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### 13.8 **Taxation**

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

While amending the assessment under section 122(5A) of the Income Tax Ordinance, 2001 for the tax year 2006, the tax authorities have disallowed double income tax relief relating to Azad Jammu & Kashmir (AJK) branches. The exposure of the Bank on this issue at the period end is Rs. 2,923 million.

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

Appeal against this issue is pending at appellate stage; however, the management is confident that the eventual outcome of this issue will be in the favour of the Bank.



With reference to allowability of provision as per rule 8(A) of the seventh schedule, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognized deferred tax asset on such provision amounting to Rs. 2.434 billion.

#### 14 BENAZIR EMPLOYEES STOCK OPTION SCHEME

On August 14, 2009, the Government of Pakistan (GoP) launched Benazir Employees' Stock Option Scheme [“the Scheme”] for employees of certain State Owned Enterprises (SOEs) and non-State Owned Enterprises as fully explained in annual unconsolidated financial statements.

The Scheme, needs to be accounted for by the covered entities, including the Bank under the provision of amended International Financial Reporting Standard 2 - Share Based Payments (IFRS 2). However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the SECP has granted exemption to such entities from the application of IFRS 2 to the Scheme.

Had the exemption not been granted the staff costs of the Bank for the period would have been higher by Rs. 1,285 million, profit before taxation would have been lower by Rs. 1,285 million (earnings per share would have been lower by Rs. 1.06 per share) and, as the Scheme is fully funded by GoP, there would have been no impact on retained earnings / equity of the Bank

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

	<b>For the nine months ended</b>	
	<b>September 30,</b>	<b>September 30,</b>
	<b>2012</b>	<b>2011</b>
	<b>(Rupees in '000)</b>	
<i>On loans and advances to:</i>		
- Customers	38,451,609	40,487,270
- Financial institutions	241,845	260,944
<i>On investments:</i>		
- Available-for-sale	37,107,796	26,115,030
- Held-for-trading	869,001	382,898
- Held-to-maturity	3,760,180	345,749
On deposits with financial institutions	866,893	511,132
On lendings to financial institutions	1,583,524	2,030,814
	<u>82,880,848</u>	<u>70,133,837</u>

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

Deposits	36,604,694	26,988,621
Securities sold under repurchase agreement borrowings	1,756,231	630,161
Other short term borrowings	1,830,236	2,062,831
Long term borrowings	304,052	406,137
	<u>40,495,213</u>	<u>30,087,750</u>

17 **RELATED PARTY TRANSACTIONS**

Aga Khan Fund for Economic Development (AKFED) S.A Switzerland holds 51% shares of the Bank. The Bank has related party relationship with its subsidiaries, associated undertakings, joint venture company, associates of AKFED Group entities, 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.

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 loans and advances to related parties are given in note 7.5 to these condensed interim unconsolidated financial statements.

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

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

	<b>September 30, 2012</b>				
	<b>Individual and companies related through</b>				
	<b>Directors</b>	<b>Key Management Personnel</b>	<b>Parent Group Entities</b>	<b>Subsidiary companies</b>	<b>Joint venture and associates</b>
-----Rs. in 000-----					
<b>Statement of financial position</b>					
Deposits	3,466,749	155,850	3,780,251	378,898	5,216,962
Borrowings	175,321	-	672,917	285,605	-
Investments	358,462	13,373	-	9,768,834	4,656,205
Markup / Other Receivable	60,586	540,154	177	79,766	92,581
Mark-up / Other Payable	80,586	1,849	57,019	696	821,722
Placements / Lendings	-	-	378,465	5,984,666	-
Overdrawn Nostro	-	-	591,842	(19,012)	618,261
Impairment provision	-	-	-	-	573,261
<b>Profit and Loss</b>					
Interest / Other Income	231,018	632,226	22,117	66,464	773,719
Interest / Other Expense	117,537	8,820	223,033	18,049	838,074
Dividend income	6,627	4,927	-	-	230,376
<b>Others</b>	613,635	148,052	287,250	-	127,318
<b>Securities Held as custodian</b>	3,900	100,420	4,622,900	1,407,600	35,820,370
	<b>December 31, 2011</b>				
	<b>Individual and companies related through</b>				
	<b>Directors</b>	<b>Key Management Personnel</b>	<b>Parent Group Entities</b>	<b>Subsidiary companies</b>	<b>Joint venture and associates</b>
-----Rs. in 000-----					
<b>Statement of financial position</b>					
Deposits	669,912	106,452	2,958,027	554,076	4,768,646
Borrowings	-	-	-	323,289	-
Investments	519,003	34,113	-	9,558,656	4,132,079
Markup / Other Receivable	66,691	471,406	-	9,515	178,229
Mark-up / Other Payable	14,328	2,124	163,994	1,810	109,943
Placements / Lendings	300,010	-	362,928	12,668,849	-
Overdrawn Nostro	17,920	-	622,334	52,858	479,556
Impairment provision	-	-	-	-	573,261
<b>Profit and Loss</b>					
Interest / Other Income	228,925	586,364	20,366	308,713	836,571
Interest / Other Expense	392,065	7,550	157,109	23,042	281,548
Dividend income	3,050	24,793	-	-	106,406
<b>Others</b>	164,238	62,422	103,044	24,215	-
<b>Securities Held as custodian</b>	53,700	92,730	3,715,550	945,000	29,132,800

## 17.1 Key management personnel

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

	<b>For the nine months ended</b>	
	<b>September 30,</b>	<b>September 30,</b>
	<b>2012</b>	<b>2011</b>
Managerial remuneration (including allowances)	833,132	696,137
Contribution to provident and benevolent fund	16,972	14,575
Medical	27,261	21,384
	<u>877,365</u>	<u>732,096</u>
Number of persons	<u>147</u>	<u>137</u>

## 18 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	<b>For the nine months ended September 30, 2012</b>					
	<b>Retail banking</b>	<b>Corporate / commercial banking</b>	<b>Treasury</b>	<b>International banking group</b>	<b>Head Office / support services</b>	<b>Total</b>
	------(Rupees in million)-----					
Net interest income - External	(23,365)	24,201	38,022	3,689	(161)	42,386
Inter segment revenue - net	50,510	(19,352)	(36,854)	-	5,696	-
Non-funded income	3,654	1,882	2,108	1,584	(139)	9,089
Net interest and non-markup income	30,799	6,731	3,276	5,273	5,396	51,475
Total expenses including provision (excluding impairment)	11,258	4,024	160	3,774	6,393	25,609
Impairment against investments	-	-	(140)	-	(114)	(254)
Inter segment administrative cost	4,444	889	128	490	(5,951)	-
Total expenses including provision	15,702	4,913	148	4,264	328	25,355
Net income before tax	15,097	1,818	3,128	1,009	5,068	26,120
Segment assets gross	126,869	364,401	601,562	172,482	85,906	1,351,220
Segment non-performing loans	10,240	33,377	-	11,585	77	55,279
Segment provision required including general provision	7,398	27,503	370	10,467	1,879	47,617
Segment liabilities including equity	832,208	117,655	76,728	91,161	185,851	1,303,603
Segment gross earnings on liability / asset %	11.14%	11.81%	10.72%	4.47%	4.77%	-
Segment cost of funds %	5.70%	9.32%	9.90%	1.56%	0.91%	-
	<b>For the nine months ended September 30, 2011</b>					
	<b>Retail banking</b>	<b>Corporate / commercial banking</b>	<b>Treasury</b>	<b>International banking group</b>	<b>Head Office / support services</b>	<b>Total</b>
	------(Rupees in million)-----					
Net interest income - External	(15,385)	33,836	18,837	2,924	(166)	40,046
Inter segment revenue - net	44,632	(28,736)	(18,286)	-	2,390	-
Non-funded income	3,275	1,876	1,298	1,907	952	9,308
Net interest and non-markup income	32,522	6,976	1,849	4,831	3,176	49,354
Total expenses including provision (excluding impairment)	9,403	5,746	91	3,691	7,389	26,320
Impairment against investments	-	103	(69)	673	(18)	689
Inter segment administrative cost	5,340	1,068	154	588	(7,150)	-
Total expenses including provision	14,743	6,917	176	4,952	221	27,009
Net income before tax	17,779	59	1,673	(121)	2,955	22,345
Segment assets gross	111,585	410,820	293,796	137,333	84,460	1,037,994
Segment non-performing loans	9,463	31,789	-	10,165	76	51,493
Segment provision required including general provision	6,593	26,009	433	9,415	5,120	47,570
Segment liabilities including equity	645,114	99,617	14,062	73,641	157,989	990,423
Segment gross earnings on liability / asset %	12.54%	12.69%	10.71%	4.69%	5.70%	-
Segment cost of funds %	5.31%	10.49%	9.78%	1.22%	0.83%	-

19 **ISLAMIC BANKING BRANCH**

Financial figures of the Islamic Banking Branch are as follows:

	Note	September 30, 2012	December 31, 2011
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with treasury banks		1,190,171	607,317
Lendings to financial institutions		4,200,000	1,000,000
Investments - net		17,390,763	12,434,310
Murabaha	19.1	290,232	100,826
Ijarah	19.2	355,673	276,179
Musharaka		12,627	19,167
Other assets		2,812,379	464,931
Deferred tax asset		-	32,107
		26,251,845	14,934,837
<b>LIABILITIES</b>			
Bills payable		233	43
Borrowings from financial institutions		-	2,000,000
Deposit and other accounts		24,920,480	11,944,594
Deferred tax liability		73,232	-
Other liabilities		428,111	489,389
		25,422,056	14,434,026
<b>NET ASSETS</b>			
		829,789	500,811
<b>REPRESENTED BY:</b>			
Islamic banking fund		250,000	250,000
Unappropriated profit		443,786	310,438
		693,786	560,438
Surplus / (deficit) on revaluation of assets - net of deferred tax		136,003	(59,627)
		829,789	500,811

The commitment in respect of letters of credit of Islamic Banking Branch of Habib Bank Limited amounted to Rs. 191.316 million (2011 Rs. 69.376 million).

19.1 This represents assets sold under Murabaha agreement.

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

20. **DATE OF AUTHORISATION FOR ISSUE**

These condensed interim unconsolidated financial statements were authorised for issue in the Board of Directors meeting held on October, 31, 2012.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**