

## Director's Review

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

## Financial Performance

The financial results of the Bank are summarized below:	(Rs. in '000)
Profit after tax	<u>11,292,826</u>
Earnings per share rupees (Basic & Diluted)	11.27

The Bank achieved a Pre-Tax Profit of Rs. 18.16 billion for the nine months period ended 30<sup>th</sup> September 2010, reflecting an increase of Rs. 1.59 billion and growth of 9.60 per cent over the corresponding period of last year. Net mark-up income increased by Rs. 2.47 billion mainly due to improvement of deposit mix and consequently cost of funds. Non Fund income of the Bank has contributed significantly with a growth of Rs. 0.55 billion (excluding capital gain) which is 7.73 per cent higher. Capital gains also increased by Rs. 0.15 billion over the past period. Continued prudent approach to risk taking and monitoring of exposure has reduced the NPL provisioning during the period over corresponding period of last year. Correspondingly the post tax profit increased by 6.81% to Rs. 11.29 billion.

The economy remains fragile and the effects of the global financial crisis are expected to continue over 2011. With this slow recovery, overall productivity is low and banks will continue to see the impact of the post crisis credit costs. Hence, at HBL we believe it is important to retain prudent balance sheet management whilst continuing to aggressively serve productive sectors of the economy that promote sustainable growth. HBL is committed to developing new products that improve quality of life, whilst raising the standards of customer service so that we can support our customers through challenging times.

We are pleased to inform the shareholders that JCR VIS Credit Rating Company reaffirmed HBL's long term credit rating of "AA+" and its short term rating of "A-1+". In reaffirming the ratings, JCR cited that in the backdrop of increased credit risk in the environment, performance of the bank has shown resilience with capitalization levels remaining strong.

The Bank has been awarded as the Best Emerging Market Bank 2010 by Global Finance - this award has been conferred on HBL in recognition of its superior performance, enhanced profitability, expanding asset base and innovative products and services.

HBL is committed to contributing to the socio-economic fabric of the country – the floods that have devastated so many Pakistanis have also impacted the bank and its branch network. The Bank responded swiftly by arranging delivery of relief items such as food, shelter and medicine to the people in the affected areas through different organizations working for the cause. The Bank also provided financial assistance for flood affectees by contributing towards the Prime Minister's Relief Fund and other organizations.

## Appreciation and Acknowledgement

In conclusion, I extend my sincere appreciation to our customers for their patronage, our shareholders for their confidence and the staff for their dedication and continued support. HBL is committed to providing a higher level of access to our customers while continuously improving quality of services.

On behalf of the Board

R. Zakir Mahmood  
President & Chief Executive Officer  
October 27, 2010

**HABIB BANK LIMITED**  
**CONDENSED INTERIM UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT SEPTEMBER 30, 2010**

	(Unaudited) September 30, 2010	(Audited) December 31, 2009
Note	(Rupees in '000)	
<b>ASSETS</b>		
Cash and balances with treasury banks	80,413,709	79,527,191
Balances with other banks	38,549,128	29,560,309
Lendings to financial institutions	34,829,566	5,352,873
Investments	6 201,842,034	209,421,147
Advances	7 413,032,515	432,283,588
Operating fixed assets	15,876,829	16,475,939
Deferred tax asset	8,136,219	8,172,590
Other assets	38,651,393	40,333,882
	<u>831,331,393</u>	<u>821,127,519</u>
<b>LIABILITIES</b>		
Bills payable	9,739,760	10,041,203
Borrowings from financial institutions	9 44,086,205	48,121,649
Deposits and other accounts	10 658,806,197	653,452,460
Sub-ordinated loans	11 4,316,045	4,212,080
Liabilities against assets subject to finance lease	-	-
Deferred tax liability	-	-
Other liabilities	28,755,233	26,204,580
	<u>745,703,440</u>	<u>742,031,972</u>
<b>NET ASSETS</b>	<u><u>85,627,953</u></u>	<u><u>79,095,547</u></u>
<b>REPRESENTED BY:</b>		
<b>Shareholders' equity</b>		
Share capital	10,018,800	9,108,000
Reserves	27,587,414	25,801,889
Unappropriated profit	40,202,973	36,325,458
	<u>77,809,187</u>	<u>71,235,347</u>
Surplus on revaluation of assets - net of deferred tax	12 7,818,766	7,860,200
	<u><u>85,627,953</u></u>	<u><u>79,095,547</u></u>
<b>CONTINGENCIES AND COMMITMENTS</b>	13	

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

President and Chief Executive Officer

Director

Director

Director

**HABIB BANK LIMITED**  
**CONDENSED INTERIM UNCONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010**

		January 01 to September 30, 2010	January 01 to September 30, 2009	July 01 to September 30, 2010	July 01 to September 30, 2009
Note		(Rupees in '000)			
Mark-up / return / interest earned	14	59,016,461	55,331,131	19,980,612	18,626,486
Mark-up / return / interest expensed	15	25,420,048	24,205,114	8,403,062	8,341,522
Net mark-up / interest income		33,596,413	31,126,017	11,577,550	10,284,964
Provision against non-performing loans and advances - net	7.2 / 7.4	4,894,486	6,444,176	1,683,894	1,254,520
Charge / (reversal) against off-balance sheet obligations		23,627	(123,110)	27,101	-
Charge / (reversal) against diminution in value of investments	6.2	157,486	(1,007,574)	263,002	(143,226)
Bad debts written off directly		-	-	-	-
		5,075,599	5,313,492	1,973,997	1,111,294
Net mark-up / interest income after provisions		28,520,814	25,812,525	9,603,553	9,173,670
<b>Non mark-up / interest income</b>					
Fee, commission and brokerage income		3,487,344	3,434,953	979,732	1,115,306
Income / gain on investments	16	416,410	253,995	114,301	163,105
Income from dealing in foreign currencies		1,954,074	1,242,890	725,504	481,501
Other income		2,046,108	2,264,844	540,885	741,462
Total non-mark-up / interest income		7,903,936	7,196,682	2,360,422	2,501,374
		36,424,750	33,009,207	11,963,975	11,675,044
<b>Non mark-up / interest expense</b>					
Administrative expenses		17,669,612	16,081,685	5,875,582	5,352,239
Other provisions / write offs - net		41,536	14,334	(87,979)	42,842
Other charges		178,305	1,926	820	1,053
Workers welfare fund		370,706	338,225	123,511	125,578
Total non mark-up / interest expense		18,260,159	16,436,170	5,911,934	5,521,712
<b>Profit before taxation</b>		18,164,591	16,573,037	6,052,041	6,153,332
Taxation - current		6,369,340	6,089,405	2,171,163	2,167,780
- prior		490,000	(1,054,853)	-	(1,443,355)
- deferred		12,425	965,780	11,356	1,410,370
		6,871,765	6,000,332	2,182,519	2,134,795
<b>Profit after taxation</b>		11,292,826	10,572,705	3,869,522	4,018,537
(Rupees)					
Basic and diluted earnings per share		11.27	10.55	3.86	4.01

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

President and Chief Executive Officer

Director

Director

Director

HABIB BANK LIMITED  
CONDENSED INTERIM UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

	January 01 to September 30, 2010	January 01 to September 30, 2009	July 01 to September 30, 2010	July 01 to September 30, 2009
	(Rupees in '000)			
<b>Profit for the period</b>	11,292,826	10,572,705	3,869,522	4,018,537
<b>Other comprehensive income</b>				
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	656,242	1,503,553	930,822	902,143
<b>Comprehensive income transferred to equity</b>	<u>11,949,068</u>	<u>12,076,258</u>	<u>4,800,344</u>	<u>4,920,680</u>
<b>Components of comprehensive income not reflected in equity</b>				
Surplus on revaluation of investments	72,086	4,545,504	(296,661)	654,185
Deferred tax on revaluation of investments	(23,948)	(1,500,206)	104,419	(191,599)
<b>Total comprehensive income</b>	<u>11,997,206</u>	<u>15,121,556</u>	<u>4,608,102</u>	<u>5,383,266</u>

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President and Chief Executive Officer

Director

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**HABIB BANK LIMITED**  
**CONDENSED INTERIM UNCONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010**

	September 30, 2010	September 30, 2009
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	18,164,591	16,573,037
Dividend income	(240,032)	(230,431)
Gain on sale of securities - net	(176,378)	(23,564)
	(416,410)	(253,995)
	17,748,181	16,319,042
<b>Adjustment for:</b>		
Depreciation / amortisation	1,228,973	1,135,420
Charge / (Reversal) against diminution in value of investments	157,486	(1,007,574)
Provision against non-performing loans and advances - net	4,894,486	6,444,176
Exchange loss on sub-ordinated loans	103,965	202,485
Gain on sale of property and equipment - net	(21,688)	(15,041)
Miscellaneous provisions	65,163	(108,776)
	6,428,385	6,650,690
	24,176,566	22,969,732
<b>(Increase) / decrease in operating assets</b>		
Lendings to financial institutions	(29,476,693)	187,936
Loans and advances	14,356,587	25,021,807
Other assets - net	780,133	(1,214,832)
	(14,339,973)	23,994,911
<b>Increase / (decrease) in operating liabilities</b>		
Deposits and other accounts	5,353,737	35,645,191
Borrowings from financial institutions	(4,035,444)	2,829,675
Bills payable	(301,443)	(456,999)
Other liabilities - net	2,505,096	4,884,784
	3,521,946	42,902,651
	13,358,539	89,867,294
Income tax paid - net	(5,960,243)	(8,874,899)
<b>Net cash flows from operating activities</b>	7,398,296	80,992,395
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investments in securities, associates and joint venture	7,670,091	(58,827,706)
Dividend income received	201,753	536,701
Fixed capital expenditure	(635,015)	(1,178,848)
Proceeds from sale of fixed assets	26,840	87,533
Exchange adjustment on translation of balances in foreign branches	656,242	1,503,553
<b>Net cash flows from / (used in ) investing activities</b>	7,919,911	(57,878,767)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(5,442,870)	(4,171,840)
<b>Net cash flows used in financing activities</b>	(5,442,870)	(4,171,840)
Increase in cash and cash equivalents during the period	9,875,337	18,941,788
Cash and cash equivalents at beginning of the period	107,492,500	85,097,735
Effects of exchange rate changes on cash and cash equivalents	1,595,000	3,982,023
	109,087,500	89,079,758
Cash and cash equivalents at end of the period	118,962,837	108,021,546

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

President and Chief Executive Officer

Director

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HABIB BANK LIMITED  
CONDENSED INTERIM UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

	RESERVES					Total
	Share capital	Exchange translation reserve	Statutory	General	Unappropriated profit	
	(Rupees in '000)					
Balance as at December 31, 2008	7,590,000	5,789,559	11,018,947	6,073,812	30,818,496	61,290,814
<b>Total comprehensive income for the period</b>						
Profit for the nine months ended September 30, 2009	-	-	-	-	10,572,705	10,572,705
<b>- Other comprehensive income</b>						
Effect of translation of net investment in foreign branches	-	1,503,553	-	-	-	1,503,553
	-	1,503,553	-	-	10,572,705	12,076,258
<b>Transactions with owners, recorded directly in equity</b>						
Cash dividend at Rs. 5.50 per share	-	-	-	-	(4,174,500)	(4,174,500)
Issued as bonus shares	1,518,000	-	-	-	(1,518,000)	-
	1,518,000	-	-	-	(5,692,500)	(4,174,500)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	82,802	82,802
Transferred to statutory reserve	-	-	1,057,271	-	(1,057,271)	-
Balance as at September 30, 2009	9,108,000	7,293,112	12,076,218	6,073,812	34,724,232	69,275,374
<b>Total comprehensive income for the period</b>						
Profit for the three months ended December 31, 2009	-	-	-	-	1,725,938	1,725,938
<b>- Other comprehensive income</b>						
Effect of translation of net investment in foreign branches	-	186,154	-	-	-	186,154
	-	186,154	-	-	1,725,938	1,912,092
Transferred from surplus on revaluation of fixed assets	-	-	-	-	47,881	47,881
Transferred to statutory reserve	-	-	172,593	-	(172,593)	-
Balance as at December 31, 2009	9,108,000	7,479,266	12,248,811	6,073,812	36,325,458	71,235,347
<b>Total comprehensive income for the period</b>						
Profit for the nine months ended September 30, 2010	-	-	-	-	11,292,826	11,292,826
<b>- Other comprehensive income</b>						
Effect of translation of net investment in foreign branches	-	656,242	-	-	-	656,242
	-	656,242	-	-	11,292,826	11,949,068
<b>Transactions with owners, recorded directly in equity</b>						
Cash dividend at Rs. 6 per share	-	-	-	-	(5,464,800)	(5,464,800)
Issued as bonus shares	910,800	-	-	-	(910,800)	-
	910,800	-	-	-	(6,375,600)	(5,464,800)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	89,572	89,572
Transferred to statutory reserve	-	-	1,129,283	-	(1,129,283)	-
Balance as at September 30, 2010	10,018,800	8,135,508	13,378,094	6,073,812	40,202,973	77,809,187

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

President and Chief Executive Officer

Director

Director

Director

**HABIB BANK LIMITED**  
**NOTES TO THE CONDENSED INTERIM UNCONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010**

**1 STATUS AND NATURE OF BUSINESS**

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

**2 BASIS OF PREPARATION**

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

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**4 ACCOUNTING ESTIMATES**

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

**5 FINANCIAL RISK MANAGEMENT**

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

6 INVESTMENTS

Note	September 30, 2010			December 31, 2009		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
(Rupees in '000)						
<b>Held-for-trading securities (HFT)</b>						
- Pakistan Investment Bonds	-	-	-	9,652	-	9,652
- Market Treasury Bills	2,590	-	2,590	387,191	-	387,191
	2,590	-	2,590	396,843	-	396,843
<b>Held-to-maturity securities (HTM)</b>						
<b>Federal Government Securities</b>						
- Pakistan Investment Bonds	8,212,657	-	8,212,657	8,373,174	-	8,373,174
<b>Overseas Government Securities</b>						
-	-	-	-	78,963	-	78,963
<b>Debentures and Corporate Debt Instruments</b>						
	379,948	-	379,948	48,182	-	48,182
	8,592,605	-	8,592,605	8,500,319	-	8,500,319
<b>Available-for-sale securities (AFS)</b>						
<b>Federal Government Securities</b>						
- Market Treasury Bills	81,702,550	2,086,118	83,788,668	84,407,507	3,559,326	87,966,833
- Pakistan Investment Bonds	9,599,510	-	9,599,510	8,840,806	-	8,840,806
- Government of Pakistan Guaranteed Bonds	425,000	-	425,000	5,522,370	-	5,522,370
- Government of Pakistan Bonds / Sukuk / (US Dollar / Euro)	2,749,321	-	2,749,321	5,888,232	-	5,888,232
<b>Overseas Government Securities</b>						
	11,697,203	-	11,697,203	14,601,416	-	14,601,416
<b>Fully paid-up ordinary shares</b>						
- Listed companies	1,004,970	-	1,004,970	1,082,503	-	1,082,503
- Unlisted companies	731,732	-	731,732	730,244	-	730,244
<b>Debentures and Corporate Debt Instruments</b>						
- Listed securities	4,613,344	-	4,613,344	4,482,005	-	4,482,005
- Unlisted securities	68,552,517	-	68,552,517	61,447,423	-	61,447,423
<b>NIT Units</b>						
	17,687	-	17,687	20,509	-	20,509
<b>Preference Shares</b>						
	126,000	-	126,000	170,000	-	170,000
<b>Other Investments</b>						
	1,556,109	-	1,556,109	1,523,642	-	1,523,642
	182,775,943	2,086,118	184,862,061	188,716,657	3,559,326	192,275,983
<b>Investment in Subsidiary Companies</b>						
	5,220,880	-	5,220,880	5,186,448	-	5,186,448
<b>Investment in associates and Joint Venture</b>						
	3,163,898	-	3,163,898	3,061,554	-	3,061,554
	<u>199,755,916</u>	<u>2,086,118</u>	<u>201,842,034</u>	<u>205,861,821</u>	<u>3,559,326</u>	<u>209,421,147</u>

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

	September 30, 2010		December 31, 2009	
	Cost	Market value	Cost	Market value
(Rupees in '000)				
- Investment classified as held-to-maturity	8,592,605	7,236,425	8,500,319	7,011,173
- Investment in listed associates and joint venture	2,923,902	6,041,156	5,087,252	6,737,033

6.2 Particulars of provision held against diminution in value of investments

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

	September 30, 2010	December 31, 2009
(Rupees in '000)		
Opening balance	3,747,037	2,409,942
(Reversal) / charge for the period / year - net	(2,876)	426,052
Impairment loss due to disposal of impaired shares or change in value of associates / subsidiary - net	160,362	961,302
Total charge - net	157,486	1,387,354
Transfer to advances	(200,000)	27,529
Amount written off	(957)	(79,622)
Exchange adjustment	8,030	1,834
Closing balance	<u>3,711,596</u>	<u>3,747,037</u>



7	ADVANCES	Note	September 30,	December 31,
			2010	2009
			(Rupees in '000)	
Loans, cash credits, running finances, etc:				
In Pakistan			366,897,814	384,534,660
Outside Pakistan			47,717,333	47,295,017
			414,615,147	431,829,677
Net investment in finance lease - in Pakistan			3,141,582	3,003,049
Bills discounted and purchased (excluding Government treasury bills):				
Payable in Pakistan			8,568,758	8,319,107
Payable outside Pakistan			22,841,551	20,233,629
			31,410,309	28,552,736
Provision against non-performing advances			7.2	
			(36,134,523)	(31,101,874)
			413,032,515	432,283,588
<b>Fully provided non-performing advances classified as loss for more than five years</b>				
In Pakistan			12,785,095	12,914,799
Provision			7.4	
			(12,785,095)	(12,914,799)
			-	-

7.1 Advances include Rs. 44,839.087 million (2009: Rs. 42,309.377 million) which have been placed under non-performing status, other than those accounts classified as loss and fully provided for more than five years which have been placed in separate category.

Category of classification	September 30, 2010								
	Non-performing loans			Provision required and held			Net non-performing loans		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)									
<b>Specific provision</b>									
Other assets especially mentioned									
	1,109,462	-	1,109,462	-	-	-	1,109,462	-	1,109,462
Substandard	3,101,342	1,185,399	4,286,741	742,121	362,933	1,105,054	2,359,221	822,466	3,181,687
Doubtful	7,000,797	2,198,068	9,198,865	3,566,222	1,458,394	5,024,616	3,434,575	739,674	4,174,249
Loss	24,014,626	6,229,393	30,244,019	23,230,912	6,188,935	29,419,847	783,714	40,458	824,172
	35,226,227	9,612,860	44,839,087	27,539,255	8,010,262	35,549,517	7,686,972	1,602,598	9,289,570
<b>General provision</b>									
	-	-	-	344,410	240,596	585,006	-	-	-
	35,226,227	9,612,860	44,839,087	27,883,665	8,250,858	36,134,523	7,686,972	1,602,598	9,289,570

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

7.2 Particulars of provision against non-performing advances

Note	September 30, 2010			December 31, 2009		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	30,521,618	580,256	31,101,874	23,791,096	744,916	24,536,012
Exchange adjustment / other movement	351,648	8,608	360,256	753,735	23,130	776,865
Charge for the period / year	5,614,340	13,287	5,627,627	9,513,138	26,750	9,539,888
Reversals	(120,956)	(17,145)	(138,101)	(577,625)	(214,540)	(792,165)
	5,493,384	(3,858)	5,489,526	8,935,513	(187,790)	8,747,723
Write offs	(40,115)	-	(40,115)	(1,312,944)	-	(1,312,944)
Transferred to over 5 years category	(777,018)	-	(777,018)	(1,645,782)	-	(1,645,782)
Closing balance	35,549,517	585,006	36,134,523	30,521,618	580,256	31,101,874

7.3 In accordance with BSD Circular No. 2 dated January 27, 2009 issued by the State Bank of Pakistan, during the period the Bank has further 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 would have been higher by Rs. 809.581 million and profit before taxation for the period under review for the quarter ended September 30, 2010 would have been lower by approximately Rs 77.856 million.

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

	Note	September 30, 2010 (Rupees in '000)	December 31, 2009
Opening balance		12,914,798	11,976,479
Reversal		(595,040)	(471,543)
Transferred during the period / year	7.2	777,018	1,645,782
Write offs		(311,681)	(235,920)
		<u>12,785,095</u>	<u>12,914,798</u>

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

September 30, 2010				December 31, 2009			
Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the period	Loan repaid during the period	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the year	Loan repaid during the year
----- (Rupees in '000) -----							

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

- in respect of directors	-	-	-	-	-	-	-
- in respect of executives * (other than KMPs)	954,900	1,277,800	421,510	504,610	1,038,000	1,054,700	155,890
- in respect of key management personnel / Companies in which key management personnel or their spouse are interested	384,537	455,255	101,877	97,924	380,584	392,484	97,511

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

	1,080,665	1,157,647	225,993	300,828	1,155,500	1,155,500	1,657,401	1,393,532
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Debts due by Subsidiary company

	16,427	56,092	108,421	102,201	10,207	155,129	128,592	246,057
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Debts due by companies in which key management personnel are nominated by the Bank as directors

- Guaranteed by Government	12,435,841	13,628,965	9,359,171	9,587,795	12,664,465	14,055,572	20,143,120	9,577,800
- Others	46,357	51,979	28,349	34,721	52,729	418,491	341,064	462,098

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

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

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

8 OPERATING FIXED ASSETS

8.1 Addition to fixed assets

For the nine months ended	
September 30, 2010	September 30, 2009
(Rupees in '000)	

The following additions have been made to tangible and intangible fixed assets during the period ended September 30, 2010:

Land	2,268	115,848
Building including related machinery	245,726	247,425
Furniture, fixtures and office equipments	372,522	640,460
Vehicles	10,217	54,717
Intangible assets	1,674	24,978
Capital work-in-progress	2,608	95,420
	<u>635,015</u>	<u>1,178,848</u>

8.2 Disposal of fixed assets

The following disposals have been made from tangible and intangible fixed assets during the period ended September 30, 2010:

Land	-	58,951
Building including related machinery	-	4,096
Furniture, fixtures and office equipments	195,479	122,999
Vehicles	23,754	28,949
Intangible asset	3,200	91
	<u>222,433</u>	<u>215,086</u>

9 **BORROWINGS FROM FINANCIAL INSTITUTIONS**

**Secured**

Borrowings from State Bank of Pakistan under:  
 - Export refinance scheme  
 - Long term financing facility - locally manufactured and imported plant & machinery  
 - Long term finance - export oriented projects  
 Repurchase agreement borrowings

	September 30, 2010	December 31, 2009
	(Rupees in '000)	
	17,611,369	22,267,455
	4,218,991	1,575,542
	3,677,524	5,196,466
	2,081,858	4,497,374
	<u>27,589,742</u>	<u>33,536,837</u>

**Unsecured**

In Pakistan

- Interbank call money borrowing

**Outside Pakistan**

- Overdrawn nostro accounts  
 - Borrowings of overseas branches

	September 30, 2010	December 31, 2009
	11,400,000	6,400,000
	273,177	501,341
	4,823,286	7,683,471
	5,096,463	8,184,812
	16,496,463	14,584,812
	<u>44,086,205</u>	<u>48,121,649</u>

10 **DEPOSITS AND OTHER ACCOUNTS**

**Customers**

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

	156,572,604	190,593,620
	324,144,526	310,366,281
	1,743,654	1,811,833
	169,952,350	144,520,691
	<u>652,413,134</u>	<u>647,292,425</u>

**Financial institutions**

Remunerative deposits  
 Non-remunerative deposits

	1,771,253	1,623,028
	4,621,810	4,537,007
	6,393,063	6,160,035
	<u>658,806,197</u>	<u>653,452,460</u>

11 **SUB-ORDINATED LOANS**

The Bank has obtained loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million (2009: US \$ 50 million). The principal amount is repayable in four equal half yearly installments commencing from the year 2013. Interest is payable on bi - annual basis at LIBOR + 1.75%. The loan is unsecured and subordinated as to payment of principal and interest to all other indebtedness of the bank (including deposits). The loan may not be prepaid or repaid before maturity without the prior written approval of the State Bank of Pakistan. The Bank is not exposed to significant exchange risk as the loan forms part of the Bank's foreign currency net open position.

12 **SURPLUS ON REVALUATION OF ASSETS - net of deferred tax**

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

Surplus arising on revaluation of:

- fixed assets  
 - investments

12.1	8,459,080	8,548,652
12.2	(640,314)	(688,452)

Surplus on revaluation of assets - net of deferred tax

	<u>7,818,766</u>	<u>7,860,200</u>
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12.1 **Surplus on revaluation of fixed assets**

Surplus on revaluation of fixed assets as at January 1  
 Surplus on revaluation of bank's properties recognised during the period / year  
 Surplus realised on disposal of revalued properties during the period / year  
 Transferred to accumulated profit in respect of incremental depreciation charged during the period / year - net of deferred tax  
 Related deferred tax liability of incremental depreciation charged during the period / year  
 Surplus on revaluation of fixed assets as at period / year end

	9,451,843	7,809,013
	-	1,818,705
	-	(46,754)
	(89,572)	(83,929)
	(48,233)	(45,192)
	<u>9,314,038</u>	<u>9,451,843</u>

Less: related deferred tax liability on:

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

	903,191	593,067
	-	355,586
	-	(270)
	(48,233)	(45,192)
	<u>854,958</u>	<u>903,191</u>
	<u>8,459,080</u>	<u>8,548,652</u>

	September 30, 2010 (Rupees in '000)	December 31, 2009 (Rupees in '000)
<b>12.2 Surplus / (deficit) on revaluation of investments</b>		
Market Treasury Bills	(158,218)	94,837
Pakistan Investment Bonds	(980,323)	(701,073)
Sukuk and Euro Bonds	(7,845)	(532,377)
Listed Securities	76,671	16,482
NIT Units	6,575	9,397
Other Investments	76,523	54,031
	(986,617)	(1,058,703)
Add: related deferred tax asset	346,303	370,251
	<u>(640,314)</u>	<u>(688,452)</u>

### 13 CONTINGENCIES AND COMMITMENTS

#### 13.1 Direct credit substitutes - financial guarantees

Guarantees in favour of:		
- Government	357,075	7,220,955
- Financial institutions	23,776	641,533
- Others	32,213,372	50,716,165
	<u>32,594,223</u>	<u>58,578,653</u>

#### 13.2 Transaction-related contingent liabilities

Guarantees in favour of:		
- Government	801,382	2,153,320
- Financial institutions	92,546	112,588
- Others	28,898,104	20,949,375
	<u>29,792,032</u>	<u>23,215,283</u>

#### 13.3 Trade-related commitments

Credit cash	99,510,139	97,492,487
Credit documentary acceptances	7,345,878	10,068,783
Credit acceptances	15,598,812	23,523,827
	<u>122,454,829</u>	<u>131,085,097</u>

#### 13.4 Other contingencies

Claims against the Bank not acknowledged as debts	<u>80,794,375</u>	<u>80,965,869</u>
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#### 13.5 Commitments in respect of forward lending

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

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

	September 30, 2010 (Rupees in '000)	December 31, 2009 (Rupees in '000)
Purchase	62,035,104	28,826,751
Sale	61,901,302	28,837,326

The above commitments have maturities falling within one year.

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

Purchase	207,192	2,556,777
Sale	207,192	2,556,777

##### Commitments in respect of local currency interest rate swaps

Purchase	402,831	456,208
Sale	402,831	456,208

#### 13.7 Commitments for acquisition of operating fixed assets / intangibles

	423,830	548,975
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#### 13.8 Taxation

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

While amending the assessment under section 122(5A) of the Income Tax Ordinance, 2001 for the tax year 2006 the tax authorities have disallowed double income tax relief relating to Azad Jammu & Kashmir (AJK) branches amounting to Rs. 2,923 million.

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

Appeal against this issue is pending at appellate stage. Although the bank has made partial payment of tax assessed, under protest, no provision has been made in the financial statements for the above liability, as the management is confident that the eventual outcome of this issue will be in the favor of the bank.

Through Finance Act, 2010 certain amendments have been introduced in Seventh Schedule to the Income Tax Ordinance, 2001. The provision for advances & off balance sheet items will now be allowed at 5% of total gross advances for consumer & SMEs (as defined in SBP prudential Regulation). The provision for advances and off balance sheet items other than those falling in definition of consumer & SMEs will be allowed upto 1% of such total gross advances.

Further a new Rule 8(A) has been introduced in Seventh Schedule to allow for amounts provided for in tax year 2008 and prior to said tax year for doubtful debts, which were neither claimed nor allowed as tax deductible in any year shall be allowed as deduction in tax year in which such doubtful debts are written off.

With reference to allowability of provision, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognized deferred tax asset on such provision amounting to Rs. 2.507 billion.

#### 13.9 Benazir Employees Stock Option Scheme

The Federal Cabinet approved "Benazir Employees Stock Option Scheme (BESOS)" on August 5, 2009 for empowerment of employees of State Owned Entities through transfer of 12% of Government of Pakistan share holding. According to scheme, 12% shares owned by GoP are to be transferred to an employees trust to be registered. As the Bank was privatized in 2004 and its shares are held by State Bank of Pakistan as per Federal Government instructions under Section 17(6A) of SBP Act 1947, it is unclear how transfer of such shares to the employees trust will take place. Pending resolution of such uncertainties, the cost of such scheme has not been accounted for in these financial statements.

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

	For the nine months ended	
	September 30, 2010	September 30, 2009
	(Rupees in '000)	
<i>On loans and advances to:</i>		
- Customers	39,342,918	41,379,138
- Financial institutions	215,585	203,414
<i>On investments:</i>		
- Available-for-sale	16,655,188	11,148,956
- Held-for-trading	40,256	24,982
- Held-to-maturity	354,732	393,330
On deposits with financial institutions	750,883	609,927
On lendings to financial institutions	1,656,899	1,571,384
	<u>59,016,461</u>	<u>55,331,131</u>

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

Deposits	22,877,911	22,413,336
Securities sold under repurchase agreement borrowings	253,843	237,027
Other short term borrowings	1,897,511	1,217,386
Long term borrowings	390,783	337,365
	<u>25,420,048</u>	<u>24,205,114</u>

#### 16 INCOME / GAIN ON INVESTMENTS

Dividend income	240,032	230,431
Gain on sale of securities - net	176,378	23,564
	<u>416,410</u>	<u>253,995</u>

#### 17 RELATED PARTY TRANSACTIONS

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

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

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

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

	September 30, 2010	December 31, 2009
	(Rupees in '000)	
<b>Balances outstanding as at the period / year end</b>		
<b>- Borrowings / Deposits from</b>		
- Joint venture and associates	834,886	1,059,454
- Subsidiary companies	258,762	697,748
- Retirement benefit funds	224,671	7,841,600
- Companies in which Directors are interested	131,351	34,573
- Companies in which key management personnel are nominated by the Bank as directors	61,926	104,424
- AKFED Group Companies	356,797	1,572,335
- Investments in Companies in which directors are interested	10,334	216,460
- Investment in companies in which key management personnel are nominated by the Bank as directors	34,113	34,113
- Investment in associates and joint venture	3,163,898	3,061,554
- Investment in Subsidiary Companies	5,220,880	5,186,448
- Payable / Receivable from defined benefit schemes	779,710	7,086,636
- Receivable from associates, subsidiary companies & companies in which key management personnel are nominated by the Bank as directors	124,247	957,535
<b>- Payables to:</b>		
- Subsidiary companies	254	4,256
- AKFED Group Companies	164	2
- Companies in which key management personnel are nominated by the Bank as directors	194	429
- Companies in which directors are interested	2,069	1,290
- Associates	3,363	529
- Retirement benefit funds	-	347,068
- Placements with subsidiary companies and associates	10,920,158	9,775,886
- Overdrawn nostro balances with subsidiaries, associates, joint venture company and in which directors are interested / AKFED Group Companies	705,690	383,809
- Acceptances	-	175,802

	For the nine months ended	
	September 30, 2010	September 30, 2009
	(Rupees in '000)	

**Profit / Expense for the period**

<b>- Interest expense</b>		
- Joint venture and associates	47,173	143,797
- Subsidiary companies	8,796	40,285
- Retirement benefit funds	425,147	359,259
- Companies in which Directors are interested	3,250	26,136
- Companies in which key management personnel are nominated by the Bank as directors	2,211	3,987
- AKFED Group Companies	8,306	1,905
- Premium paid to companies in which Directors are interested	184,073	158,537
<b>- Interest income</b>		
- Joint venture and associates	71	11,238
- Subsidiary companies	1,517,430	30,291
- Companies in which Directors are interested	53,473	67,141
- Companies in which key management personnel are nominated by the Bank as directors	1,089,172	688,813
- In respect of debts due by key management personnel	24,860	27,550
- Other income - Subsidiaries, associates and joint ventures	361,874	257,209
- Donations paid on behalf of HBL Foundation	52,500	-
- Payable to HBL Foundation	238,000	-
<b>- Dividend income</b>		
- Subsidiary company	6,353	5,235
- Joint venture and associates	84,276	85,742
- Companies in which Directors are interested	5,500	-
- Companies in which key management personnel are nominated by the Bank as directors	4,927	-

**17.1 Key management personnel**

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

	For the nine months ended	
	September 30, 2010	September 30, 2009
	(Rupees in '000)	
Managerial remuneration (including allowances)	628,681	561,958
Contribution to provident and benevolent fund	13,110	11,814
Medical	18,610	18,891
	<u>660,401</u>	<u>592,663</u>
Number of persons	<u>141</u>	<u>135</u>

18. SEGMENT DETAIL WITH RESPECT TO BUSINESS ACTIVITIES

	For the nine months ended September 30, 2010					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head office / support services	Total
	(Rupees in million)					
Net interest income - External	(11,775)	32,867	9,743	2,563	198	33,596
Inter segment revenue - net	34,543	(26,830)	(9,084)	-	1,371	-
Non-funded income	2,954	2,044	1,407	2,076	(577)	7,904
Net interest and non-markup income	25,722	8,081	2,066	4,639	992	41,500
Total expenses excluding provision against doubtful advances	7,947	2,478	(7)	3,105	4,919	18,442
Provision against doubtful advances	703	2,801	-	213	1,177	4,894
Inter segment administrative cost	4,799	960	138	529	(6,426)	-
Total expenses including provision	13,449	6,239	131	3,847	(330)	23,336
Net income before tax	12,273	1,842	1,935	792	1,322	18,164
Segment assets (gross)	97,525	419,207	157,439	132,942	64,379	871,492
Segment non-performing loans	8,272	19,174	-	10,467	7,780	45,693
Segment provision required including general provision	5,913	23,954	-	8,397	1,897	40,161
Segment liabilities including equity	521,156	87,543	17,980	105,170	99,482	831,331
Segment return on net liability / asset	11.74%	12.72%	9.61%	4.08%	1.29%	-
Segment cost of funds	5.01%	10.15%	7.98%	0.93%	0.08%	-

	For the nine months ended September 30, 2009					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	Total
	(Rupees in million)					
Net interest income - External	(10,903)	30,600	8,219	2,886	324	31,126
Inter segment revenue - net	32,085	(23,826)	(7,582)	-	(677)	-
Non-funded income	2,895	1,880	849	1,966	(393)	7,197
Net interest and non-markup income	24,077	8,654	1,486	4,852	(746)	38,323
Total expenses excluding provision against doubtful advances	7,110	745	73	2,740	4,638	15,306
Provision against doubtful advances	1,215	4,436	(612)	383	1,022	6,444
Inter segment administrative cost	3,268	654	94	360	(4,376)	-
Total expenses including provision	11,593	5,835	(445)	3,483	1,284	21,750
Net income / (loss) before tax	12,484	2,819	1,931	1,369	(2,030)	16,573
Segment assets (gross)	68,062	389,038	123,764	130,469	91,535	802,868
Segment non-performing loans	7,346	21,387	-	10,051	1,798	40,582
Segment provision required including general provision	4,823	15,094	440	8,118	3,159	31,634
Segment liabilities including equity	474,988	82,575	16,439	79,211	118,021	771,234
Segment return on net liability / asset	12.52%	14.04%	9.03%	4.84%	1.64%	-
Segment cost of funds	5.41%	10.79%	7.63%	1.44%	0.00%	-

19. **ISLAMIC BANKING BRANCH**

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

	Note	September 30, 2010	December 31, 2009
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with treasury banks		193,822	8,743
Lendings to financial institutions		1,700,000	-
Investment - net		1,369,949	48,182
Murabaha		71,515	434,455
Ijara	19.1	296,474	358,036
Musharaka		50,000	100,000
Other assets		101,687	27,941
		<u>3,783,447</u>	<u>977,357</u>
<b>LIABILITIES</b>			
Bills payable		487	-
Borrowings from financial institutions		400,000	-
Deposit and other accounts		2,885,080	60,320
Other liabilities		209,057	713,412
		<u>3,494,624</u>	<u>773,732</u>
<b>NET ASSETS</b>		<u><u>288,823</u></u>	<u><u>203,625</u></u>
<b>REPRESENTED BY:</b>			
Islamic banking fund		250,000	100,000
Unappropriated profit		38,823	103,625
		<u><u>288,823</u></u>	<u><u>203,625</u></u>

The commitment in respect of letters of credit of Islamic Banking branch of Habib Bank Limited is Rs. 325.916 million (2009: Rs. 136.303 million).

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

20. **DATE OF AUTHORISATION FOR ISSUE**

These unconsolidated condensed interim financial statements were authorised for issue in the Board of Directors meeting held on October 27, 2010.