

## Director's Review

On behalf of the Board of Directors, I am pleased to present the condensed interim consolidated financial statements for the nine months period ended September 30, 2009.

### Financial Performance

The financial results of the Group are summarized below:	(Rs. in '000)
Profit after tax	10,443,689
Share of profit attributable to minority interest	65,561
Profit attributable to shareholders	<u>10,378,128</u>
Earnings per share rupees (Basic & Diluted)	<u>11.39</u>

The global economy is still trying to recover from the crisis of the past year; Pakistan has been deeply impacted by this crisis. In addition the country continues to battle internally with concerns relating to security. A combination of these factors have resulted in a major constraint on economic growth and the GDP growth has been limited to 2% during 2009. The manufacturing and finance & insurance sectors, which grew by 7.6 % and 12.9% in 2008, recorded a negative growth of 3.3% and 1.2% respectively during the current year.

In this challenging environment HBL continues to manage its portfolio prudently, whilst aggressively serving the productive sectors of the economy, which promote sustainable growth. HBL focuses on developing new products and strives to improve service quality so that it is better able to serve its customers. The Bank is committed to maintaining its superior market positioning as it continues to improve its extensive branch network through technology upgrades as well as product innovation; HBL's asset base has increased by 7.2% and its net worth has increased by 16.7%.

HBL has a 6.28% stake in PHB Bank Nigeria; PHB Bank has witnessed deterioration in asset quality as a result of the market conditions in Nigeria. This will lead to the dilution of HBL's investment value in this holding; a review to ascertain level of impairment is underway by PHB Bank and once this is notified this impairment in investment value will be reflected in HBL's results. Details to this effect have been included in Note 6.2 of the Consolidated accounts.

HBL is cognizant of the global standards of compliance and ensures that the highest standards of compliance and corporate governance are met and practiced throughout the bank's operations.

We are pleased to inform our shareholders that HBL has been awarded Best Bank, Best Trade Finance Provider and Best Foreign Exchange Provider in Pakistan by Global Finance for 2009, announced during the recent World Bank Annual Meetings, which is a testament to HBL's commitment to its customers.

### 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 & continued support. HBL's commitment to our customers to ensure greater level of access and better service quality continues.

On behalf of the Board

R. Zakir Mahmood  
President & Chief Executive Officer  
Karachi: October 24, 2009

**Condensed Interim Consolidated  
Balance Sheet  
As At September 30, 2009**

	Note	(Unaudited) September 30, 2009	(Audited) December 31, 2008
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with treasury banks		67,760,860	56,533,134
Balances with other banks		45,113,727	39,307,321
Lendings to financial institutions		6,005,851	6,193,787
Investments	6	158,605,261	134,974,382
Advances	7	470,976,998	459,526,817
Other assets		41,102,341	35,419,252
Operating fixed assets		14,780,703	14,751,252
Deferred tax asset		8,701,173	11,222,444
		813,046,914	757,928,389
<b>LIABILITIES</b>			
Bills payable		9,388,287	9,828,082
Borrowings from financial institutions	9	47,852,834	46,961,165
Deposits and other accounts	10	634,381,636	597,090,545
Sub-ordinated loans	11	4,157,410	3,954,925
Liabilities against assets subject to finance lease		-	-
Other liabilities		29,519,324	24,913,236
Deferred tax liability		-	-
		725,299,491	682,747,953
<b>NET ASSETS</b>		87,747,423	75,180,436
<b>REPRESENTED BY:</b>			
<b>Shareholders' equity</b>			
Share capital		9,108,000	7,590,000
Reserves		27,359,817	24,243,254
Unappropriated profit		43,131,817	39,447,648
Total equity attributable to the equity holders of the Bank		79,599,634	71,280,902
Minority interest		1,119,237	890,099
Surplus on revaluation of assets - net of deferred tax	12	7,028,552	3,009,435
		87,747,423	75,180,436
<b>CONTINGENCIES AND COMMITMENTS</b>	13		

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

President and Chief Executive Officer

Director

Director

Director

**Condensed Interim Consolidated  
Profit And Loss Account - (Unaudited)  
For The Nine Months Ended September 30, 2009**

Note	Nine months ended		Quarter ended		
	January 01 to September 30, 2009	January 01 to September 30, 2008	July 01 to September 30, 2009	July 01 to September 30, 2008	
------(Rupees in '000)-----					
Mark-up / return / interest earned	14	56,383,119	45,535,475	18,937,103	16,931,312
Mark-up / return / interest expensed	15	24,479,896	18,717,534	8,407,911	7,182,225
Net mark-up / interest income		31,903,223	26,817,941	10,529,192	9,749,087
Provision against non-performing loans and advances - net	7.2 / 7.4	6,571,415	2,755,444	1,285,632	1,624,464
Reversal against off-balance sheet obligations		(123,110)	-	-	-
Charge / (reversal) against diminution in value of investments	6.3	49,332	(10,170)	56,982	(21,949)
Bad debts written off directly		-	-	-	-
		6,497,637	2,745,274	1,342,614	1,602,515
Net mark-up / interest income after provisions		25,405,586	24,072,667	9,186,578	8,146,572
<b>Non mark-up / interest income</b>					
Fee, commission and brokerage income		3,881,007	3,443,845	1,293,805	1,492,646
Income / gain on investments	16 / 6.2	724,304	2,089,611	162,091	501,516
Income from dealing in foreign currencies		1,403,155	1,716,415	533,719	698,040
Other income		2,348,731	2,020,724	772,692	739,376
Total non-mark-up / interest income		8,357,197	9,270,595	2,762,307	3,431,578
		33,762,783	33,343,262	11,948,885	11,578,150
<b>Non mark-up / interest expense</b>					
Administrative expenses		16,807,074	15,506,816	5,625,621	5,683,034
Other provisions / write offs - net		75,909	200,112	64,962	87,157
Other charges		1,926	1,157	1,053	120
Workers welfare fund		338,225	313,751	125,578	103,419
Total non mark-up / interest expenses		17,223,134	16,021,836	5,817,214	5,873,730
<b>Profit before taxation</b>		16,539,649	17,321,426	6,131,671	5,704,420
Taxation - current		6,412,183	6,786,589	2,266,306	2,514,870
- prior years		(1,062,009)	1,058,593	(1,443,553)	169,861
- deferred		745,786	(1,597,637)	1,427,291	(555,914)
		6,095,960	6,247,545	2,250,044	2,128,817
<b>Profit after taxation</b>		10,443,689	11,073,881	3,881,627	3,575,603
<b>Attributable to:</b>					
Equity holders of the Bank		10,378,128	10,962,585	3,873,883	3,558,782
Minority interest		65,561	111,296	7,744	16,821
		10,443,689	11,073,881	3,881,627	3,575,603
------(Rupees)-----					
Basic and diluted earnings per share		11.39	12.04	4.25	3.91

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

President and Chief Executive Officer

Director

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**Condensed Interim Consolidated  
Statement Of Changes In Equity - (Unaudited)  
For The Nine Months Ended September 30, 2009**

	Attributable to shareholders of the Group							Minority interest	Total
	Share capital	Exchange translation reserve	Reserves		General	Unappropriated profit	Subtotal		
			Joint venture and subsidiaries	Bank					
	------(Rupees in '000)-----								
Balance as at December 31, 2007	6,900,000	3,573,024	155,770	10,018,849	6,073,812	28,341,670	55,063,125	965,642	56,028,767
Total comprehensive income for the period	-	5,603,104	-	-	-	10,962,585	16,565,689	176,813	16,742,502
Transferred from surplus on revaluation of fixed asset:	-	-	-	-	-	40,044	40,044	-	40,044
Transferred to statutory reserves	-	-	28,897	961,585	-	(990,482)	-	-	-
Cash dividend at Rs. 4 per share	-	-	-	-	-	(2,760,000)	(2,760,000)	-	(2,760,000)
Issued as bonus shares	690,000	-	-	-	-	(690,000)	-	-	-
Minority share of (deficit) on revaluation of securities	-	-	-	-	-	-	-	(8,262)	(8,262)
Balance as at September 30, 2008	7,590,000	9,176,128	184,667	10,980,434	6,073,812	34,903,817	68,908,858	1,134,193	70,043,051
Total comprehensive income for the period	-	(2,214,972)	-	-	-	4,572,426	2,357,454	(138,804)	2,218,650
Transferred from surplus on revaluation of fixed asset:	-	-	-	-	-	14,590	14,590	-	14,590
Transferred to statutory reserves	-	-	4,672	38,513	-	(43,185)	-	-	-
Cash dividend at Rs. 0.50 per certificate by modarab:	-	-	-	-	-	-	-	(17,868)	(17,868)
Minority share of (deficit) on revaluation of securities	-	-	-	-	-	-	-	(87,422)	(87,422)
Balance as at December 31, 2008	7,590,000	6,961,156	189,339	11,018,947	6,073,812	39,447,648	71,280,902	890,099	72,171,001
Total comprehensive income for the period	-	2,032,302	-	-	-	10,378,128	12,410,430	142,509	12,552,939
Transferred from surplus on revaluation of fixed asset:	-	-	-	-	-	82,802	82,802	-	82,802
Transferred to statutory reserves	-	-	26,990	1,057,271	-	(1,084,261)	-	-	-
Cash dividend at Rs. 5.50 per share	-	-	-	-	-	(4,174,500)	(4,174,500)	-	(4,174,500)
Cash dividend at Rs. 0.50 per certificate by modarab:	-	-	-	-	-	-	-	(17,867)	(17,867)
Issued as bonus shares	1,518,000	-	-	-	-	(1,518,000)	-	-	-
Minority share of surplus on revaluation of securities	-	-	-	-	-	-	-	104,496	104,496
Balance as at September 30, 2009	9,108,000	8,993,458	216,329	12,076,218	6,073,812	43,131,817	79,599,634	1,119,237	80,718,871

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

President and Chief Executive Officer

Director

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**Condensed Interim Consolidated  
Statement Of Comprehensive Income - (Unaudited)  
For The Nine Months Ended September 30, 2009**

	<b>September 30, 2009</b>	<b>September 30, 2008</b>
	<b>(Rupees in '000)</b>	
<b>Profit for the period</b>	10,443,689	11,073,881
<b>Other comprehensive income</b>		
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	2,109,250	5,668,621
<b>Comprehensive income transferred to equity</b>	<u>12,552,939</u>	<u>16,742,502</u>
<b>Components of comprehensive income not reflected in equity</b>		
Surplus / (deficit) on revaluation of investments	6,071,873	(4,556,733)
Deferred tax on revaluation of investments	(1,865,458)	1,589,861
<b>Total comprehensive income</b>	<u><u>16,759,354</u></u>	<u><u>13,775,630</u></u>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Bank	16,512,349	13,607,079
Minority interest	247,005	168,551
	<u><u>16,759,354</u></u>	<u><u>13,775,630</u></u>

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

**President and Chief Executive Officer**

**Director**

**Director**

**Director**

**Condensed Interim Consolidated  
Cash Flow Statement - (Unaudited)  
For The Nine Months Ended September 30, 2009**

	<b>September 30, 2009</b>	<b>September 30, 2008</b>
	<b>(Rupees in '000)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	16,539,649	17,321,426
Dividend income and share of profit of associates and joint venture	(700,068)	(1,928,606)
Gain on sale of securities - net	(24,236)	(161,005)
	<u>(724,304)</u>	<u>(2,089,611)</u>
	15,815,345	15,231,815
<b>Adjustment for:</b>		
Depreciation / amortisation / adjustments	1,183,970	1,196,509
Provision against diminution in value of investments	49,332	(10,170)
Provision against non-performing loans and advances - net of reversal	6,571,415	2,755,444
Exchange loss on sub-ordinated loans	202,485	807,805
Gain on sale of property and equipment - net	(15,054)	(31,578)
Miscellaneous provisions	(47,201)	200,112
	<u>7,944,947</u>	<u>4,918,122</u>
	23,760,292	20,149,937
<b>(Increase) / decrease in operating assets</b>		
Lendings to financial institutions	187,936	(11,315,648)
Loans and advances	(18,021,596)	(55,697,017)
Other assets - net	(1,798,040)	(630,383)
	<u>(19,631,700)</u>	<u>(67,643,048)</u>
<b>Increase / (decrease) in operating liabilities</b>		
Deposits and other accounts	37,291,091	55,998,832
Borrowings from financial institutions	891,669	(15,938,788)
Bills payable	(439,795)	(5,933,587)
Other liabilities - net	4,815,158	5,186,411
	<u>42,558,123</u>	<u>39,312,868</u>
	46,686,715	(8,180,243)
Income tax paid - net	(9,707,375)	(9,180,075)
<b>Net cash flows from / (used in) operating activities</b>	<u>36,979,340</u>	<u>(17,360,318)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investments in securities, associates and joint venture	(17,129,572)	43,732,136
Dividend income received	447,312	126,127
Fixed capital expenditure	(1,286,454)	(2,198,527)
Proceeds from sale of fixed assets	88,087	39,025
Exchange adjustment on translation of balances in foreign branches, subsidiaries, joint venture and associates	2,032,302	5,603,104
<b>Net cash flows (used in) / from investing activities</b>	<u>(15,848,325)</u>	<u>47,301,865</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Minority interest impact of exchange adjustment on translation of balances in subsidiary	76,948	65,517
Dividend paid	(4,173,831)	(2,740,860)
<b>Net cash flows used in financing activities</b>	<u>(4,096,883)</u>	<u>(2,675,343)</u>
Increase in cash and cash equivalents during the period	17,034,132	27,266,204
Cash and cash equivalents at beginning of the period	90,086,200	72,557,076
Effects of exchange rate changes on cash and cash equivalents	5,754,255	9,951,292
	<u>95,840,455</u>	<u>82,508,368</u>
Cash and cash equivalents at end of the period	<u>112,874,587</u>	<u>109,774,572</u>

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

President and Chief Executive Officer

Director

Director

Director

# **Notes to the Condensed Interim Consolidated Financial Statements - (Unaudited) For The Nine Months Ended September 30, 2009**

## **1 THE GROUP AND ITS OPERATIONS**

Habib Bank Limited (the Bank) is incorporated in Pakistan and is engaged in commercial banking, modaraba management and asset management related services in Pakistan and overseas. The Bank's registered office is located at Habib Bank Tower, 4th Floor, Jinnah Avenue, Islamabad. The Bank's shares are listed on the stock exchanges in Pakistan. The Group consists of the Bank, its subsidiaries and associates, as given in its annual consolidated financial statements.

## **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 Group for the year ended December 31, 2008.

## **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and methods of computation followed for the preparation of these financial statements are the same as those applied in the preparation of the annual consolidated financial statements of the Group for the year ended December 31, 2008, except for the policies given below:

### **IJARAH - IFAS - 2**

Pursuant to IBD circular no. 1 dated January 27, 2009 the Group has adopted IFAS 2 - "Ijarah" for all Ijarah contracts entered on or after January 01, 2009. The policy adopted by the Group is as follows:

Assets given on lease, after taking into account the estimated residual value, are depreciated using straight line method over the life of the lease. Impairment evaluation of loss on sale expected from the unilateral commitment given by the customer to purchase the asset at the expiry of the lease term and the Group's policy to accept the offer is carried out by comparing the Written Down Value to the Net Present Value of the expected cash flows at the balance sheet date. Impairment losses evaluated, are booked in the Profit and Loss as and when occurred. The residual value of the lease asset is the estimated amount that Group could obtain from disposal of assets as defined in para 6 of IAS 16 - Property, plant and equipment. This has been estimated on the basis that all assets given on lease have an economic life of ten years and if the assets were depreciated over this life the written down value at end of lease term would represent the residual value.

These leases are shown as financing against lease under advances and further analysis is provided in the note of Islamic Banking activities (note 19).

### **CUSTOMER LOYALTY PROGRAMMES - IFRIC - 13**

During the period IFRIC 13 Customer Loyalty Programmes issued by the International Financial Reporting Interpretations Committee became effective. The revenue from award credits for loyalty points earned on use of various products of the Group is measured by reference to their fair value and is recognised when award credits are redeemed. Due to current size of the program the effect of change is not estimated to be material and therefore previous year figures have not been restated.

Furthermore, International Accounting Standard 1 (Revised) Presentation of financial statements and IFRS 8 Operating Segments became effective for financial periods beginning on or after January 01, 2009. The application of these standards has resulted in certain increased disclosures.

## **4 ACCOUNTING ESTIMATES**

The basis for accounting estimates adopted in the preparation of these condensed interim consolidated financial statements are the same as those applied in the preparation of the annual consolidated financial statements of the Group for the year ended December 31, 2008.

## **5 FINANCIAL RISK MANAGEMENT**

The Financial risk management objectives and policies adopted by Group are consistent with that disclosed in the financial statements of the Group for the year ended December 31, 2008.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

6	INVESTMENTS	Note	September 30, 2009			December 31, 2008		
			Held by group	Given as collateral	Total	Held by group	Given as collateral	Total
------(Rupees in '000)-----								
	<b>Held-for-trading (HFT)</b>							
	- Pakistan Investment Bonds		48,679	-	48,679	-	-	-
	<b>Held-to-maturity securities (HTM)</b>							
	<i>Federal Government Securities</i>							
	- Pakistan Investment Bonds	6.1	8,479,626	-	8,479,626	9,865,095	-	9,865,095
	<b>Overseas Government Securities</b>		78,342	-	78,342	74,604	-	74,604
	<b>Debentures and Corporate Debt Instruments</b>		48,182	-	48,182	57,557	-	57,557
			8,654,829	-	8,654,829	9,997,256	-	9,997,256
	<b>Available-for-sale securities (AFS)</b>							
	<i>Federal Government Securities</i>							
	- Market Treasury Bills		67,953,548	6,025,693	73,979,241	49,465,602	8,754,798	58,220,400
	- Pakistan Investment Bonds		8,893,032	-	8,893,032	9,021,042	-	9,021,042
	- Government of Pakistan Guaranteed Bonds		6,150,965	-	6,150,965	6,598,710	-	6,598,710
	- Government of Pakistan Bonds / Sukuk / (US Dollar / Euro)		6,824,924	-	6,824,924	4,718,958	-	4,718,958
	<b>Overseas Government Securities</b>		11,190,275	-	11,190,275	8,153,876	-	8,153,876
	<i>Fully paid-up ordinary shares</i>							
	- Listed companies		1,392,241	-	1,392,241	766,194	-	766,194
	- Unlisted companies		730,214	-	730,214	437,657	-	437,657
	<i>Debentures and Corporate Debt Instruments</i>							
	- Listed securities		2,420,924	-	2,420,924	2,227,518	-	2,227,518
	- Unlisted securities	6.3	23,147,392	-	23,147,392	20,507,266	-	20,507,266
	<b>NIT Units</b>		22,006	-	22,006	23,948	-	23,948
	<b>Preference Shares</b>		147,000	-	147,000	181,700	-	181,700
	<b>Other Investments</b>		1,490,786	-	1,490,786	782,003	-	782,003
			130,363,307	6,025,693	136,389,000	102,884,474	8,754,798	111,639,272
	<b>Investment in associates and Joint Venture</b>							
		6.2	13,561,432	-	13,561,432	13,337,854	-	13,337,854
			152,579,568	6,025,693	158,605,261	126,219,584	8,754,798	134,974,382

6.1 The market value of securities classified as "held-to-maturity" as at September 30, 2009 amounted to Rs. 7,010.153 million (2008: Rs 7,370.797 million).

6.2 The Group accounts for its proportionate interest in net assets of its associates under equity accounting based on available declared results in accordance with International Accounting Standard 28 (IAS 28). The latest available results are for the period ended June 30, 2009. The Central Bank of Nigeria (CBN) has subsequently carried out investigation of the books and affairs of various banks in Nigeria including our associate Bank PHB. The CBN in their report dated October 02, 2009 has identified additional provisioning requirement against non performing loans of which Group's proportionate share amounts to Rs. 4 billion. This additional provision will be reflected in Groups results as per policy, when incorporated in the published results of Bank PHB.

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, 2009	December 31, 2008
(Rupees in '000)		
Opening balance	2,143,709	421,729
Charge for the period / year	356,371	483,327
Impairment loss / (reversal) due to disposal of impaired shares	(307,039)	1,426,560
Other movement	(100,000)	-
Write offs	(78,116)	(187,907)
Closing balance	2,014,925	2,143,709

6.4 Given the nature of some of Term Finance Certificates (TFCs) issued by companies, the Group has changed its policy and now classifies TFCs which are unlisted and not eligible for statutory liquidity requirements of the State Bank of Pakistan as loans and advances and not investments. The TFCs reclassified as at December 31, 2008 amounts to Rs. 3,171.310 million.



Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

6.5 Summary of financial information of associates and joint venture company is as follows:

	Based on the financial statements as on	Currencies	Profit / Loss	
			Local currency (Amount in '000)	(Rupees in '000)
PlatinumHabib Bank Plc., Nigeria (Note 6.2)	June 30, 2009	Naira	10,933,318	5,978,120
Diamond Trust Bank Limited, Kenya	June 30, 2009	Shs	586,260	595,875
Himalayan Bank Limited, Nepal	December 31, 2008	NRs	761,983	771,584
Kyrgyz Investment and Credit Bank	December 31, 2008	US \$	3,241	228,035
New Jubilee Life Insurance Co. Ltd.	June 30, 2009	PKR	44,260	44,260
New Jubilee Insurance Co. Ltd.	June 30, 2009	PKR	255,637	255,637
HBL Income Fund	June 30, 2009	PKR	248,286	248,286
HBL Multi Asset Fund	June 30, 2009	PKR	(142,949)	(142,949)

7	ADVANCES	Note	September 30, 2009	December 31, 2008
			(Rupees in '000)	
	Loans, cash credits, running finances, etc.			
	In Pakistan		355,671,089	367,769,370
	Outside Pakistan		71,618,099	73,166,782
			<u>427,289,188</u>	<u>440,936,152</u>
	Net investment in finance lease - in Pakistan		3,844,637	4,537,980
	Unlisted Term Finance Certificates		46,232,779	3,171,310
	Bills discounted and purchased (excluding Government treasury bills):			
	Payable in Pakistan		9,704,471	12,227,536
	Payable outside Pakistan		17,490,122	26,750,236
			27,194,593	38,977,772
	Provision against non-performing advances	7.2	(33,584,199)	(28,096,397)
			<u>470,976,998</u>	<u>459,526,817</u>
	<b>Fully provided non-performing advances classified as loss for more than five years</b>			
	In Pakistan		13,106,824	11,976,479
	Provision	7.4	(13,106,824)	(11,976,479)
			-	-

7.1 Advances include Rs. 45,197.957 million (2008: Rs. 40,053.222 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, 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	752,303	-	752,303	-	-	-	752,303	-	752,303
Substandard	6,613,805	3,145,914	9,759,719	1,670,228	753,861	2,424,089	4,943,577	2,392,053	7,335,630
Doubtful	5,573,159	1,345,050	6,918,209	2,786,579	753,753	3,540,332	2,786,580	591,297	3,377,877
Loss	17,815,542	9,952,184	27,767,726	16,921,255	9,914,256	26,835,511	894,287	37,928	932,215
	<u>30,754,809</u>	<u>14,443,148</u>	<u>45,197,957</u>	<u>21,378,062</u>	<u>11,421,870</u>	<u>32,799,932</u>	<u>9,376,747</u>	<u>3,021,278</u>	<u>12,398,025</u>
<b>General provision</b>									
	-	-	-	373,388	410,879	784,267	-	-	-
	<u>30,754,809</u>	<u>14,443,148</u>	<u>45,197,957</u>	<u>21,751,450</u>	<u>11,832,749</u>	<u>33,584,199</u>	<u>9,376,747</u>	<u>3,021,278</u>	<u>12,398,025</u>
	December 31, 2008								
	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	1,200,357	-	1,200,357	-	-	-	1,200,357	-	1,200,357
Substandard	6,271,877	1,003,359	7,275,236	1,507,622	213,364	1,720,986	4,764,255	789,995	5,554,250
Doubtful	9,825,144	564,337	10,389,481	5,063,114	398,206	5,461,320	4,762,030	166,131	4,928,161
Loss	11,539,436	9,648,712	21,188,148	10,465,720	9,578,922	20,044,642	1,073,716	69,790	1,143,506
	<u>28,836,814</u>	<u>11,216,408</u>	<u>40,053,222</u>	<u>17,036,456</u>	<u>10,190,492</u>	<u>27,226,948</u>	<u>11,800,358</u>	<u>1,025,916</u>	<u>12,826,274</u>
<b>General provision</b>									
	-	-	-	452,211	417,238	869,449	-	-	-
	<u>28,836,814</u>	<u>11,216,408</u>	<u>40,053,222</u>	<u>17,488,667</u>	<u>10,607,730</u>	<u>28,096,397</u>	<u>11,800,358</u>	<u>1,025,916</u>	<u>12,826,274</u>

7.2 Particulars of provision against non-performing advances

	Note	September 30, 2009			December 31, 2008		
		Specific	General	Total	Specific	General	Total
		(Rupees in '000)					
Opening balance		27,226,948	869,449	28,096,397	20,255,532	1,050,634	21,306,166
Exchange adjustment / other movement		950,204	54,924	1,005,128	1,978,245	39,297	2,017,542
Charge for the period / year		7,571,607	21,438	7,593,045	7,753,566	85,455	7,839,021
Reversals		(517,794)	(161,544)	(679,338)	(144,702)	(305,937)	(450,639)
		7,053,813	(140,106)	6,913,707	7,608,864	(220,482)	7,388,382
Write offs		(829,272)	-	(829,272)	(1,053,510)	-	(1,053,510)
Transferred to over 5 years category	7.4	(1,601,761)	-	(1,601,761)	(1,562,183)	-	(1,562,183)
Closing balance		<u>32,799,932</u>	<u>784,267</u>	<u>33,584,199</u>	<u>27,226,948</u>	<u>869,449</u>	<u>28,096,397</u>

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

In accordance with BSD Circular No. 2 dated January 27, 2009 issued by the State Bank of Pakistan, the Bank has availed the benefit of FSV against the non-performing advances (excluding consumer housing finance portfolio). Had the benefit of FSV not been availed by the Bank the specific provision against non-performing advances would have been higher and consequently profit before taxation and advances (net of provisions) as at September 30, 2009 would have been lower by approximately Rs 850.685 million. Increase in profit 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, 2009 (Rupees in '000)	December 31, 2008 (Rupees in '000)
Opening balance		11,976,479	11,909,930
Reversal		(342,292)	(483,463)
Transferred during the period / year	7.2	1,601,761	1,562,183
Write offs		(129,124)	(1,012,171)
		<u>13,106,824</u>	<u>11,976,479</u>

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

September 30, 2009				December 31, 2008			
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 Group or any of them either severally or jointly with any other persons

- in respect of directors	-	-	-	-	-	-	-
- in respect of executives *	1,066,577	1,103,747	98,171	37,170	1,005,576	1,039,416	341,604
- in respect of key management personnel	593,901	605,175	176,505	164,973	582,369	594,534	278,284

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

	892,483	894,709	1,292,036	1,291,184	891,631	894,419	15,295,761	15,737,463
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Debts due by

- Associate companies								
- Guaranteed by Government	13,604,289	14,052,267	19,156,118	7,650,973	2,099,145	2,883,582	6,533,245	6,034,148
- Others	54,960	854,655	1,045,096	1,163,899	173,763	562,180	659,264	488,106
- Companies in which key management personnel or their spouse are interested	8,883	9,997	37,625	34,714	5,972	5,972	55,743	52,780
- Retirement benefit funds	-	-	-	-	-	1,033,720	-	1,033,720

The disclosure of the period-end balance, limit/ amount sanctioned and the highest amount outstanding during the period / 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 OPERATING FIXED ASSETS

8.1 Addition to fixed assets

For the nine months ended	
September 30, 2009	September 30, 2008
(Rupees in '000)	

The following additions have been made to tangible and intangible fixed assets during the period ended September 30, 2009:

Land	190,294	527,217
Building including related machinery	261,429	105,745
Furniture, fixtures and office equipments	659,551	839,226
Vehicles	54,780	109,738
Intangible assets	24,978	143,465
Capital work-in-progress	95,422	473,136
	<u>1,286,454</u>	<u>2,198,527</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, 2009:

Land	58,951	3,960
Building including related machinery	4,096	-
Furniture, fixtures and office equipments	124,072	124,653
Vehicles	29,003	40,272
Intangible assets	91	281
	<u>216,213</u>	<u>169,166</u>

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

9 BORROWINGS FROM FINANCIAL INSTITUTIONS

	September 30, 2009	December 31, 2008
	(Rupees in '000)	
<b>Secured</b>		
Borrowings from State Bank of Pakistan under:		
Export refinance scheme	18,745,439	15,736,471
Long term financing facility - locally manufactured and imported plant & machinery	1,329,235	392,475
Long term finance - export oriented projects	5,291,877	5,364,315
Repurchase agreement borrowings	6,014,417	8,684,350
	<u>31,380,968</u>	<u>30,177,611</u>
<b>Unsecured</b>		
In Pakistan:		
Interbank call money borrowings including borrowings by domestic subsidiaries	5,558,363	229,248
Outside Pakistan:		
Overdrawn nostro accounts	227,598	982,783
Borrowings of overseas branches and subsidiaries	10,685,905	15,571,523
	<u>10,913,503</u>	<u>16,554,306</u>
	<u>16,471,866</u>	<u>16,783,554</u>
	<u>47,852,834</u>	<u>46,961,165</u>

10 DEPOSITS AND OTHER ACCOUNTS

<b>Customers</b>		
Fixed deposits	185,050,998	186,206,978
Savings chequing account	300,674,271	271,240,066
Current accounts - remunerative	2,176,598	2,739,417
Current accounts - non-remunerative	140,030,879	130,326,871
	<u>627,932,746</u>	<u>590,513,332</u>
<b>Financial institutions</b>		
Remunerative deposits	1,262,516	2,368,970
Non-remunerative deposits	5,186,374	4,208,243
	<u>6,448,890</u>	<u>6,577,213</u>
	<u>634,381,636</u>	<u>597,090,545</u>

11 SUB-ORDINATED LOANS

The Group has obtained loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million (2008: US \$ 50 million). The principal amount is repayable in four equal half yearly installments commencing from the year 2013 to 2014. Interest is payable on bi - annual basis commencing from December 2007 at market rates. The loan is unsecured and subordinated as to payment of principal and interest to all other indebtedness of the group (including deposits). The loan may not be prepaid or repaid before maturity without the prior written approval of the State Bank of Pakistan. The Bank is not exposed to significant exchange risk as the loan forms part of the Bank's foreign currency net open position.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

12 SURPLUS ON REVALUATION OF ASSETS - net of deferred tax

Note	September 30, 2009 (Rupees in '000)	December 31, 2008
Surplus arising on revaluation of:		
- fixed assets	7,133,144	7,215,946
- investments	(104,592)	(4,206,511)
Surplus on revaluation of assets - net of deferred tax	<u>7,028,552</u>	<u>3,009,435</u>
<b>12.1 Surplus on revaluation of fixed assets</b>		
Surplus on revaluation of fixed assets as at January 1	7,809,013	7,889,744
Surplus realised on disposal of revalued properties during the period / year	(46,754)	(6,168)
Transferred to accumulated profit in respect of incremental depreciation charged during the period / year - net of deferred tax	(36,318)	(48,466)
Related deferred tax liability of incremental depreciation charged during the period / year	(19,556)	(26,097)
Surplus on revaluation of fixed assets as at period / year end	<u>7,706,385</u>	<u>7,809,013</u>
Less: related deferred tax liability on:		
- revaluation as at January 1	593,067	619,930
- surplus realised on disposal of revalued properties during the period / year	(270)	(766)
- incremental depreciation charged during the period / year transferred to profit and loss account	(19,556)	(26,097)
	<u>573,241</u>	<u>593,067</u>
	<u>7,133,144</u>	<u>7,215,946</u>
<b>12.2 Surplus / (deficit) on revaluation of investments</b>		
Market Treasury Bills	(22,294)	(60,586)
Pakistan Investment Bonds	(672,820)	(2,272,277)
Sukuk and Euro Bonds	(396,336)	(2,393,398)
Listed Securities	199,234	(49,072)
NIT Units	10,477	12,419
Other Investments	469,578	(1,616,624)
	(412,161)	(6,379,538)
Add: related deferred tax asset	307,569	2,173,027
	<u>(104,592)</u>	<u>(4,206,511)</u>

13 CONTINGENCIES AND COMMITMENTS

13.1 Direct credit substitutes - financial guarantees

Guarantees in favour of:		
- Government	6,711,743	5,960,958
- Financial institutions	743,222	137,947
- Others	47,176,314	38,699,414
	<u>54,631,279</u>	<u>44,798,319</u>

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

	September 30, 2009	December 31, 2008
	(Rupees in '000)	
<b>13.2 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
- Government	2,273,352	3,537,882
- Financial institutions	90,515	167,196
- Others	18,375,258	14,854,247
	<u>20,739,125</u>	<u>18,559,325</u>
<b>13.3 Trade-related commitments</b>		
Credit cash	95,897,134	100,355,497
Credit documentary acceptances	14,178,159	11,319,117
Credit acceptances	23,907,573	20,281,662
	<u>133,982,866</u>	<u>131,956,276</u>
<b>13.4 Other contingencies</b>		
Claims against the Group not acknowledged as debts	<u>60,939,905</u>	<u>46,865,521</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.

	September 30, 2009	December 31, 2008
	(Rupees in '000)	
<b>13.6 Commitments in respect of forward foreign and local exchange contracts</b>		
Purchase	31,851,480	26,840,479
Sale	33,719,757	26,722,359
The above commitments have maturities falling within one year.		
<b>Commitments in respect of foreign currency options</b>		
Purchase	1,050,865	123,241
Sale	1,050,865	123,241
<b>Commitments in respect of local currency interest rate swaps</b>		
Purchase	450,741	35,000
Sale	450,741	35,000
<b>13.7 Commitments for acquisition of operating fixed assets / intangibles</b>	629,650	761,514

**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 2007.

While amending the assessments under section 122(5A) of the Income Tax Ordinance, 2001 the tax authorities have disallowed certain items including disallowance of double income tax relief relating to Azad Jammu & Kashmir (AJK) branches amounting to Rs. 2,923 million and addition on account of allocation of expenses related to exempt capital gains and dividend income resulting in additional tax liability amounting to Rs. 637 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.

## Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

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

The Finance Act, 2009 has made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. Through these amendments the deduction for provisions for advances and off balance sheet items will be allowed upto 1% of total advances. Provisioning in excess of 1% would be allowed to be carried over to succeeding years. The FBR vide circular No. 8 of 2009 dated September 25, 2009 has made this amendment applicable from the financial year ended 31 December 2008.

The management has carried out an exercise at period end and concluded that they would be able to get full deduction of provision in succeeding years and have recognized deferred tax asset on such provision amounting to Rs. 2.542 billion.

The amendments introduced in the Seventh Schedule do not provide for any transitional mechanism i.e. how and when the provision for bad debts disallowed upto 31 December 2007 would be allowed as a deduction. The Institute of Chartered Accountants of Pakistan (ICAP) and Pakistan Banks Association (PBA) have taken up this matter with Federal Board of Revenue (FBR). However, pending the final resolution of the matter, ICAP considers that reversal of deferred tax assets in relation thereto need not be made until the end of the financial year by which time the matter is expected to be resolved. Accordingly, the deferred tax asset recognized relating to provisions for advances and off balance sheet items upto December 31, 2007 of amounting to Rs. 4.151 billion has been carried forward.

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

	For the nine months ended	
	September 30, 2009	September 30, 2008
	(Rupees in '000)	
<i>On loans and advances to:</i>		
- Customers	44,111,493	33,433,637
- Financial institutions	203,414	312,161
<i>On investments:</i>		
- Available-for-sale	9,411,703	9,765,213
- Held-for-trading	24,982	-
- Held-to-maturity	397,133	480,191
On deposits with financial institutions	663,010	1,148,230
On lendings to financial institutions	1,571,384	396,043
	<u>56,383,119</u>	<u>45,535,475</u>

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

Deposits	22,638,810	15,652,273
Securities sold under repurchase agreement borrowings	237,027	1,699,902
Other short term borrowings	1,266,694	989,305
Long term borrowings	337,365	376,054
	<u>24,479,896</u>	<u>18,717,534</u>

### 16 INCOME / GAIN ON INVESTMENTS

Dividend income	141,042	164,275
Share of profit of associates and joint venture	559,026	1,764,331
Gain on sale of securities - net	24,236	161,005
	<u>724,304</u>	<u>2,089,611</u>

### 17 RELATED PARTY TRANSACTIONS

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



18 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	For the nine months ended September 30, 2009					Total
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	
(Rupees in million)						
Net interest and non-markup income	24,077	8,825	1,505	6,304	(451)	40,260
Total expenses including provision	11,428	6,101	(452)	4,290	2,354	23,721
Net income / (loss)	12,649	2,724	1,957	2,014	(2,805)	16,540
Segment assets (gross)	71,109	398,519	123,764	167,009	88,897	849,298
Segment non-performing loans	7,346	21,387	-	14,443	2,022	45,198
Segment provision required including general provision	4,823	15,094	440	12,349	3,545	36,251
Segment liabilities including equity	478,035	91,636	16,439	116,043	110,894	813,047
Segment return on net liability / asset (%)	11.57%	14.41%	11.02%	3.67%	10.50%	-
Segment cost of funds (%)	5.37%	11.61%	10.22%	1.34%	0.71%	-

  

	For the nine months ended September 30, 2008					Total
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	
(Rupees in million)						
Net interest and non-markup income	19,965	6,288	1,691	6,885	1,259	36,088
Total expenses including provision	10,569	3,664	317	3,525	692	18,767
Net income	9,396	2,624	1,374	3,360	567	17,321
Segment assets (gross)	97,472	329,543	110,468	160,400	70,457	768,340
Segment non-performing loans	5,584	16,002	-	11,036	1,208	33,830
Segment provision required including general provision	3,369	9,165	-	6,689	6,415	25,638
Segment liabilities including equity	431,531	90,133	11,223	113,148	96,667	742,702
Segment return on net liability / asset (%)	9.44%	11.73%	9.67%	6.14%	8.53%	-
Segment cost of funds (%)	3.56%	9.44%	9.21%	2.43%	0.72%	-

19 ISLAMIC BANKING BRANCH AND FIRST HABIB BANK MODARABA

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

	Note	September 30, 2009	December 31, 2008
		(Rupees in '000)	
<b>ASSETS</b>			
Cash and balances with treasury banks		56,934	28,754
Investments - net		57,358	62,565
Murabaha		491,632	-
Ijarah	19.1	1,120,245	1,354,985
Musharaka		100,000	150,000
Other assets		26,209	21,667
Operating fixed assets		736	957
		<u>1,853,114</u>	<u>1,618,928</u>
<b>LIABILITIES</b>			
Borrowings from financial institutions		58,363	256,917
Deposit and other accounts		14,948	18,655
Other liabilities		987,981	579,649
		<u>1,061,292</u>	<u>855,221</u>
<b>NET ASSETS</b>			
		<u>791,822</u>	<u>763,707</u>
<b>REPRESENTED BY:</b>			
Islamic banking fund / certificate capital		497,072	497,072
Reserves		194,786	186,968
Unappropriated profit		94,727	80,567
		<u>786,585</u>	<u>764,607</u>
Surplus / (deficit) on revaluation of assets		5,237	(900)
		<u>791,822</u>	<u>763,707</u>

The commitment in respect of letters of credit of Islamic banking branch of Habib Bank Limited amounting to Rs 351.658 million (2008: Rs. 17.402 million).

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



**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)**

**20. DATE OF AUTHORISATION FOR ISSUE**

These consolidated financial statements were authorised for issue in the Board of Directors meeting held on October 24, 2009.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**