

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

هَذَا مِنْ فَضْلِ رَبِّي



Habib Metropolitan Bank

(Subsidiary of Habib Bank AG Zurich)

Our Vision



Based on a foundation of trust,
to be the most respected financial institution,
delighting customers with excellence,
enjoying the loyalty of a dedicated team,
meeting the expectations of regulators and
participating in social causes while
providing superior returns to shareholders

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CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN

Kassim Parekh

PRESIDENT & CHIEF EXECUTIVE OFFICER

Sirajuddin Aziz

DIRECTORS

Ali S. Habib

Bashir Ali Mohammad

Mohamedali R. Habib*

Muhammad H. Habib

Ronald V. Emerson

Tariq Ikram

Wazir Ali Khoja

* Executive Director

AUDIT COMMITTEE

Ali S. Habib

Kassim Parekh

Mohamedali R. Habib

COMPANY SECRETARY

Muhammad Imran

SHARE REGISTRAR

Noble Computer Services (Private) Limited

First Floor, Siddiqsons Tower,

3-Jinnah C.H. Society, Main Shahrah-e-Faisal,

Karachi 75350.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Twentieth Annual General Meeting of the shareholders of Habib Metropolitan Bank Ltd. will be held at the Moosa D. Dessai ICAP Auditorium, Institute of Chartered Accountants of Pakistan, G-31/8, Chartered Accountants Avenue, Clifton, Karachi on Wednesday, March 28, 2012 at 9.00 a.m. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Accounts, standalone as well as consolidated, of the Bank for the year ended December 31, 2011 together with the Directors' and Auditors' reports thereon.
2. To approve, as recommended by the Board of Directors, dividend @ 15 % (Rs. 1.50 per share) in the form of cash.
3. To appoint Auditors for the financial year ending December 31, 2012 and fix their remuneration. The present Auditors, Messrs. KPMG Taseer Hadi & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS

4. To approve the amendments in the Article Nos. 64 and 71 of the Articles of Association of the Bank to change in quorum requirement and time limit for holding Annual General Meeting.

A statement of material fact under section 160 (1) (b) of the Companies Ordinance, 1984 relating to the aforesaid special business to be transacted at the said Annual General Meeting is appearing on next page.

ANY OTHER BUSINESS

5. To consider any other business with the permission of the Chair.

By Order of the Board

MUHAMMAD IMRAN
Company Secretary

Karachi: February 27, 2012

NOTES:

1. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend the meeting and vote for him/her. Proxy form is enclosed with the Annual report. A proxy must be a member of the Bank. Proxies, in order to be effective, must be received at the Registered Office of the Bank, duly stamped, signed and witnessed, not less than 48 (forty-eight) hours before the meeting.
2. CDC account holders and sub-account holders are required to bring with them their Computerised National Identity Card along with the participants ID numbers and their account numbers in order to facilitate identification.
3. Members are requested to notify the change of addresses, if any.
4. The share transfer book of the bank will remain closed from March 23, 2012 to April 6, 2012 (both days inclusive).

STATEMENT OF MATERIAL FACT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts concerning the special business to be transacted at the Annual General Meeting of the Bank to be held on March 28, 2012.

In accordance with Companies Ordinance, 1984, approval of the shareholders will be sought and resolution to be passed for the following:

1. To approve the following amendments in the Article Nos. 64 and 71 of the Articles of Association:

"Resolved that following amendments are to be substituted with the Article Nos. 64 and 71 of the Articles of Association of the Bank:

Article 64: The First Annual General Meeting of the Company shall be held within eighteen months from the date of its incorporation and thereafter once at least in every calendar year within a period of four months following the close of the financial year (not exceeding fifteen months since the holding of the last preceding General Meeting) in accordance with the provisions of Section 158.

Article 71: Ten members present in person representing not less than twenty five percent of the total voting power either of their own account or as proxies shall be a quorum for a General Meeting."

CHAIRMAN'S REVIEW



Dear Shareholders,

On behalf of the directors of Habib Metropolitan Bank, it gives me immense pleasure to present this report, together with the financial statements of the Bank for the year ended December 31, 2011. The operating financial results and appropriations, as recommended by the Board of Directors, are summarized below:

	Rupees in '000
Profit before provisions and tax	7,385,053
Provision for non-performing loans & investments	(2,754,602)
Profit before tax	4,630,451
Taxation - Current	(2,192,666)
- Prior	134,985
- Deferred	708,603
	(1,349,078)
Profit after tax	3,281,373
Un-appropriated profit brought forward	4,071,055
Profit available for appropriation	7,352,428
Appropriations:	
- Transfer to Statutory Reserve	656,275
- Issue of Bonus shares in the ratio of 20 shares for every 100 shares held - 2010	1,746,386
	2,402,661
Un-appropriated profit carried forward	4,949,767

The Directors are pleased to propose a final cash dividend of Rs. 1.50 per share (15%) for the year under review.

By Allah's grace, your Bank achieved new milestones during the year. The Bank's deposits crossed Rs. 185 billion mark at year-end and total assets exceeded Rs. 288 billion.

Despite present conditions, HMB's profits after taxation increased by 16% to Rs 3.3 billion during 2011, which demonstrates the Bank's resilient earning capacity. This performance translates into an EPS of Rs 3.13 per share.

At year-end, HMB's equity stands at Rs. 24 billion, with a capital adequacy level of 13.93% against the required 10%.

This review forms an integral part of the Directors' Report to the Shareholders.

In January 2012, the Board of Directors appointed Mr. Sirajuddin Aziz as President & Chief Executive Officer of the Bank with effect from February 2, 2012. Mr. Aziz is a senior banker and during his 35-year career with international as well as local banks, held several senior management positions in various countries including Pakistan, UK, UAE, Nigeria, Hong Kong and China. Before joining us, Mr. Aziz was serving as the CEO of a large local commercial bank.

I would also like to take this opportunity to acknowledge Mr. Anjum Iqbal's contribution in leading the Bank to success during the recent difficult times of global recession. I am also pleased to inform that his association with the Bank will continue as he takes up challenges within our Parent Bank.

I would like to take this opportunity to place on record our sincere gratitude to Ministry of Finance, State Bank of Pakistan and Securities and Exchange Commission of Pakistan for their support and continued guidance and to our valued customers for their trust and support. I thank the staff members for their devotion, diligence and admirable performance.

We bow to Allah and pray for His blessings and guidance.

On behalf of the Board

KASSIM PAREKH
Chairman

Karachi: February 27, 2012

DIRECTORS' REPORT TO THE SHAREHOLDERS

Dear Shareholders:

It gives me great pleasure to present you the annual accounts of Habib Metropolitan Bank (HMB), for the financial year ended December 31, 2011.

ECONOMIC AND BANKING REVIEW

Despite the devastating floods in the middle of year 2010, Pakistan's economy managed GDP growth of 2.4% in FY2011 (June) and expected to grow at 4% in FY 2012. GDP growth is primarily due to a recovery in the agriculture sector, the inherent resilience of the agriculture sector allowed it to post a bumper wheat crop and sizable production of minor crops helped the revival. Large Scale Manufacturing growth stayed flat due to reduced production in petroleum products, chemicals, leather products and automobile sectors. However, overall manufacturing segment grew 3% in FY 2011 (June) with textile, food & beverages and pharmaceuticals sectors showing strong results. Inflation declined during the current year largely due to the revision in CPI index whereas inflationary pressures still exist due to an increase in government borrowings, exchange rate depreciation, higher prices of energy and falling foreign financial inflows. The current account deficit increased to US\$ 2.2 billion as compared to a surplus of US\$ 8 million in 2010.

The country's foreign exchange reserves remained stable at US\$ 16.9 billion due to higher exports and strong home remittances. The Pak rupee depreciated approximately by 5% in the year 2011 as compared to the previous year. Increasing stress on Pak rupee is likely due to debt repayment, political instability and regional conflict. Foreign Direct Investment (FDI) also shows a declining trend. The SBP sharply reduced policy rate by 200 basis points to 12 percent during the year to revive lending to the private sector with similar reduction in KIBOR rates. However, despite reduction in policy rate, downward trend is expected to continue due to European sovereign debt crisis, regional conflicts, energy shortages and deteriorating law & order situation.

The KSE 100 index has declined by 5.6% during the current year and is expected to maintain similar levels during the year 2012.

After a decline in deposit growth in 2008 and 2009, deposits started to grow again in the banking system, recording an increase of over 14.5% whereas advances remained flat. Non Performing Loans continued to increase, crossing Rs 600 billion in September 2011. The growth is substantially high as compared to 2010.

BANK'S PERFORMANCE FOR THE YEAR

By Allah's grace, your Bank continues to make steady progress in the present difficult conditions as reflected in the attached financial statements. During the year 2011, the Bank's deposits crossed Rs. 185 billion and total assets exceeded Rs. 288 billion at year-end against Rs. 160 billion and Rs. 252 billion at previous year end respectively. Investments have also increased to Rs 148 billion against Rs. 101 billion whereas advances stood at Rs. 110 billion. This growth remains in line with the banking sector's overall performance during the year.

During the year, the Bank's gross revenues increased by 17% to Rs 32.4 billion. The Bank has maintained concerted efforts to increase margins as well as keeping its establishment costs at acceptable levels. Resultantly, your Bank continues to enjoy a healthy cost to income ratio as compared to the industry. Your Bank's performance also reflects a continuous increase in fee based income.

Despite the recognition of an additional Rs 4.5 billion of non-performing loans during 2011 and carrying a provision of Rs 2.7 billion for the year, HMB's profits after taxation reflect an increase from Rs 2.8 billion last year to Rs 3.3 billion during 2011, a 16% increase, which is a reflection on the Bank's strong and resilient earning engine. This performance translates into an EPS of Rs 3.13 per share.

Due to the Bank's adequate collateral coverage, we expect to make significant recoveries from these loans in the future. The specific provisions made for the non-performing loans are in line with the SBP Prudential Regulations.

At year-end, HMB's net equity stands at Rs. 24 billion with a capital adequacy level of 13.93% against the required 10%.

COMMITMENTS

No material changes in commitments affecting the financial position of the Bank have occurred between the end of financial year of the Bank and the date of the report.

While the operating environment presented great challenges to the banking sector, your Bank followed a cautious strategy to maintain strong liquidity and the Bank's business model remains very effective in steering the Bank through turbulent times. In the prevalent economic scenario, your Bank continues its longer-term strategy to build & maintain strong relationships with customers while remaining proactive in maintaining asset quality.

MILESTONES AND ACHIEVEMENTS

CREDIT RATING

By the grace of Allah, for the eleventh consecutive year, the credit rating of the Bank has been maintained at AA+ (double AA plus) for long term and A1+ (A one plus) for short term by the Pakistan Credit Rating Agency Limited. These ratings denote a very high credit quality, a very low expectation of credit risk and a very strong capacity for timely payment of financial commitments.

INTERNATIONAL RANKING

HMB's stand-alone world rankings, as per the Banker's Almanac, show the entity at 1639th mark with a country rank at the 10th position.

ENHANCED REACH TO OUR CUSTOMERS

With Allah's blessings, HMB network now stands at 163 online branches including sub branches across Pakistan providing a full range of banking services. HMB branches are now operational in 24 cities. Your Bank opened 20 outlets during the year and plans to open more in 2012. In addition, the Bank also operates four offsite collection booths.

With an enhanced network and elaborate product suite that provides both personal and business solutions to our valued customers, HMB's customer base continues to grow steadily.

With HBZ's international presence and the Bank's extensive correspondent relationships across the globe, our trade business continues to demonstrate strong volumes. Your Bank enjoys correspondent relationships with banks of repute in more than 90 countries with a large number of banks having formal credit lines for the Bank. With innovative products, strong technological support and outstanding service standards, it continues to be the choice Bank for the country's commercial and trade business houses.

Your Bank's Islamic Banking business has now established itself and has grown considerably during the year. The Islamic Banking branches are fully capable of catering to the customers seeking Sharia'h compliant products. The Bank has also established Islamic Banking Service Counters with trained staff at 129 branches across Pakistan allowing the Bank to cater to the Islamic Banking needs of its customers in a more effective manner. More such counters are planned to be opened in the future.

Your Bank's subsidiary company - Habib Metropolitan Financial Services (HMFS) provides convenient and trusted equity brokerage services to valued clients. HMFS activities are increasing steadily and expected to gain momentum as investors' confidence returns to Pakistan's equity markets and business volumes are restored.

ALTERNATIVE DELIVERY CHANNEL

Technology remains fundamental to your Bank's core strategy and with a state-of-the-art technology platform, the Bank continues to add automated solutions. During the year, the Bank's network connectivity was substantially upgraded and the Bank acquired additional technology modules for its customer services operations. Various initiatives were also taken to enhance controls and efficiency in internal processes. With upgraded network security, your Bank is ready to offer exciting banking products on alternative distribution channels in the near future.

The Bank also installed 9 new Automated Teller Machines (ATMs) during the year taking the total strength of ATMs to 123 across the country. These ATMs provide services to HMB accountholders as well as customers having accounts with other banks on both MNET and 1LINK switches. The Bank has already deployed utility bill payment solutions on its ATMs and the same can also be made through our 24-hour call centre. Transaction growth has been encouraging throughout the ATM network and we will continue to deploy further ATMs during 2012.

Maintaining exemplary service quality remains fundamental to your Bank's strategy and as a service quality initiative, your Bank maintains its own call centre "HMB Connect". HMB Connect, with a toll free contact number 0800 HABIB (42242), is the Bank's centre point of contact and provides services round the clock. HMB Connect has been built on state-of-the-art systems managed by a well-trained professional team. While a host of services are already being offered, HMB Connect plans to add further innovative services on this platform for the ease and accessibility of customers.

HUMAN RESOURCES

The total strength of the HMB family has grown from 2,937 to 3,073 during the year.

As a key element of strategy, your Bank places strong focus on training. During the year, the Bank conducted more than 164 in-house and external training courses encompassing 14,000+ man-hours. In addition, the Bank is enhancing its existing management trainee program enrolling industry best talent to work for your Bank and build their careers in the field of banking in a highly motivating work environment.

Your Bank remains an equal opportunity employer providing exciting careers and growth to prospective bankers.

CORPORATE SOCIAL RESPONSIBILITIES

Being a conscientious corporate citizen, Bank acknowledges its corporate social responsibilities and continues to make regular contributions to a host of non-profit / social organisations. During the year, the Bank extended assistance in three major areas i.e. education, health care and welfare spending for under-privileged classes. These donations amount to Rs. 34 million.

The Citizens Foundation remains one of the larger recipients and through them, the Bank is running six schools in under privileged rural areas where more than 1000 children are enrolled. Details of your Bank's other social contributions towards education, health etc. can be found in the notes to the accounts.

Your Bank is a leading tax payer with more than Rs 1.9 billion paid during 2011 to the Government of Pakistan as direct taxes. Furthermore, an additional amount of about Rs 5.8 billion was collected through the Bank's network comprising of indirect tax deductions and recoveries for the exchequer.

CORPORATE GOVERNANCE

CHANGES IN THE BOARD OF DIRECTORS

In March 2011, the Board was re-elected and Mr. Anwar H. Japanwala retired from the Board. The Board wishes to place on record their profound appreciation for the valuable contribution made by Mr. Anwar H. Japanwala, during his association as Director since the incorporation of the Bank.

During the year, Mr. Tariq Ikram elected as Director of the Bank. Mr. Tariq Ikram's diverse educational background coupled with his rich experience in both the private sector at the highest levels and the government at ministerial level along with extensive worldwide travel and interaction with international governments and private sectors makes him a valuable resource to the Board of HMB.

During the year, our Director and Chairman Board Audit Committee Mr. Reza S. Habib passed away. The Board expressed profound grief on the untimely demise and wishes to place on record their appreciation for the invaluable contribution made by Mr. Reza S. Habib during his association with the Bank. The Board greatly benefited from his banking experience & technical expertise and his absence will be felt.

In September 2011, the Board co-opted Mr. Ali S. Habib to fill the casual vacancy. Mr. Ali S. Habib is a seasoned industrialist and his vast experience includes directorship at various local and foreign companies. The Bank will greatly benefit from his knowledge and experience in diversified fields.

BOARD MEETINGS

During the year 2011, four Board meetings were held and the attendance of the directors during their tenure on the Board was as follows:

Name of Directors	Mar 1	Apr 25	Aug 19	Oct 27
Mr. Kassim Parekh	✓	✓	✓	✓
Mr. Ali S. Habib*	N/A	N/A	N/A	✓
Mr. Bashir Ali Mohammad	✓	✓	✓	✓
Mr. Mohamedali R. Habib	✓	✓	✓	✓
Mr. Muhammad H. Habib	✓	✓	✓	✓
Mr. Ronald V. Emerson	✓	✓	–	✓
Mr. Tariq Ikram	N/A	N/A	✓	–
Mr. Wazir Ali Khoja	✓	–	–	–
Mr. Reza S. Habib*	✓	✓	N/A	N/A
Mr. Anwar H. Japanwala	–	N/A	N/A	N/A

* Mr. Ali S. Habib co-opted as Director in place of Mr. Reza S. Habib, who passed away on August 11, 2011

PATTERN OF SHAREHOLDING

The pattern of shareholdings as on December 31, 2011 is annexed to the report.

AUDITORS

The present auditors KPMG Taseer Hadi & Co., Chartered Accountants, retire and being eligible offers themselves for reappointment.

As required under the Code of Corporate Governance, the Audit Committee has recommended the appointment of KPMG Taseer Hadi & Co., Chartered Accountants as auditors of the Bank for the year ending December 31, 2012.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

1. The financial statements prepared by the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of accounts have been maintained by the Bank.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure there from, if any, has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Bank's ability to continue as a going concern.
7. There has been no departure from the best practices of the corporate governance, as detailed in the listing regulations.
8. The key operating and financial data of last six years of the Bank is placed below:

	2011	2010	2009	2008	2007	2006
Shareholders' equity	24,236	20,954	18,889	16,238	13,462	10,665
Paid-up capital	10,478	8,732	7,528	6,022	5,018	3,005
Total assets	288,219	252,211	237,412	182,357	172,867	148,668
Deposits	185,400	160,458	142,457	128,370	121,066	102,493
Advances	109,657	119,828	102,293	108,261	89,827	83,324
Profit pre-tax	4,630	4,026	4,214	4,740	4,204	3,143
Profit post-tax	3,281	2,818	2,739	3,277	2,797	2,096
Earnings per share (Rs)	3.13	3.23	3.64	5.44	5.57	9.32
Dividends (%)	15(c)	20(b)	16 (b)	25 (b)	i-67(b)	-
			10 (c)		f-20(b), 10(c)	
No. of staff	3,073	2,937	2,695	2,473	2,300	1,963
No. of branches / sub-branches	163	143	120	110	100	82

Value of investments of Provident Fund and Gratuity Scheme are as under:

- Provident Fund Rs. 1,062,000 thousand as at June 30, 2011
- Gratuity Fund Rs. 275,000 thousand as at December 31, 2011

RISK MANAGEMENT

STATEMENT ON RISK MANAGEMENT FRAMEWORK

Risk Management aspects are embedded in HMB's strategy and organization structure. The Bank's entire branch network is on-line and our state-of-the-art processing system is secure and has adequate capacity. Separation of duties is built into the Bank's system and organization. The Internal Audit Division conducts independent, risk-based review & verification of the Bank's branches and major

functions throughout the year for evaluation of control system. Internal reporting/MIS are additional tools for management in controlling risks. An independent Risk Management Department is staffed with seasoned professionals, working on all aspects of risk. The Bank has adopted a cohesive risk management structure for credit, operations, liquidity & market risk.

The Bank's Risk Management Committee oversees the Bank's strategy, efforts and processes related to risk management.

CREDIT RISK

HMB's strategy is to control credit risk through product, geography, industry and customer diversification. The Bank extends trade & working capital financing keeping the major portion of its exposure on a short-term and self-liquidating basis. Major portion of the Bank's credit portfolio is priced on floating rate basis using KIBOR as a reference, which minimizes interest rate risk.

The risk inherent in credit extension is further mitigated by standard credit granting procedures which ensure proper evaluation, adequacy of security and monitoring of exposures on an ongoing basis. This is further augmented by centralized trade processing and credit administration.

MARKET / LIQUIDITY RISK

The Asset & Liability Management Committee reviews, recommends and monitors limits for FX and Money market exposures. The strategy is to balance risk, liquidity & profitability. The Board approved investment policy focuses on, amongst other aspects, asset allocation guidelines - including equity investments.

Further, the monitoring of market and liquidity risk is ensured in line with Board approved Market & Liquidity Risk Management Policy.

STRESS TESTING

Stress testing techniques are used to assess risk exposures across the institution and to estimate the changes in the value of the portfolio, if exposed to various risk factors. Risk factors used in stress testing models are Interest Rate, Credit, Equity Price, Exchange Rate and Liquidity. The Bank's stress testing methodology ensures adherence to SBP guidelines as well. The stress testing results depict a solid and resilient financial position of your Bank.

OPERATIONAL RISK

Operational Risk is prevalent in all major banking activities, and the Policy addresses enterprise wide risk drivers i.e. Organizational, Technology, Policy / Process, Human, and External. The Business Continuity Plan (BCP) includes risk management strategies to mitigate inherent risk and prevent interruption of mission critical services caused by a disaster event. The Internal Control Unit (ICU) working with compliance and risk management teams of the Bank is responsible for implementation of controls environment and regulatory guidelines. The plan is to enhance the scope of the ICU to encompass all aspects of risk and controls self assessment.

BASEL II IMPLEMENTATION

The Basel-II implementation has been a major focus area. Through extensive planning and data base parameterization, the Bank has developed automated (to a large extent) processes/ modules to cater to Basel II capital calculation requirements. The Bank's capital adequacy stands at 13.93% as at the year-end against requirement of 10%.

COMPLIANCE

Your Bank follows a robust Know Your Customer (KYC) and Anti Money Laundering (AML) program. The compliance policy, manual

and detailed procedures are in place with rigorous training in this area imparted across the network. The account opening function remains fundamental to this initiative and the Bank fully adheres to local as well as Swiss Compliance regulations. The customers are assessed for compliance risks at the time of opening the account and enhanced due diligence controls are applied where required. The Bank has installed a state-of-the-art monitoring system. The system performs a review of transactions through different compliance monitors on predefined thresholds. This facilitates transaction monitoring which is a key AML/KYC control and risk mitigator. The Bank further enhanced the customer due diligence process as per local requirement and implemented a KYC module for review of customer profile. This further facilitates the Bank's system based tools to monitor transactions from a compliance perspective. Along with KYC/AML, the Bank's Compliance function is also responsible for Regulatory Compliance and Regulatory Reporting Coordination.

CONTROLS

The Bank's operating system contains control aspects embedded into all processes and functions.

The Bank's organizational structure and lines of authority are well-defined and processes throughout the Bank are governed by policies and procedures approved by the Board. The Bank's accounting policies, practices and methodologies for various estimates have been reviewed by external auditors. An Internal Control Unit provides focused monitoring of exceptions to the management in a proactive manner.

SBP Internal Control Guidelines require the Bank's management to evaluate the effectiveness of internal controls. The Bank has devised a well-defined and comprehensive Internal Control Programme and a staged roadmap for implementation. In this connection, the Bank has adopted an internationally accepted COSO Internal Control - Integrated Framework, as envisaged under the SBP Internal Control Guidelines for Financial Reporting.

The Bank's operational model relies primarily on a state-of-the-art, award winning technology solution which has strong built-in risk mitigating features such as access controls, segregation of duties, necessary maker-checker concept and extensive monitoring/MIS tools keeping the overall operational risks to an acceptable level.

Please refer to "The statement of Internal Controls" annexed to this report.

INTERNAL AUDIT

While broadening risk awareness and assuring regulatory compliance, Internal Audit at HMB is an important, independent pillar of the Bank's controls infrastructure, performing continuous reviews to improve the quality of the Bank's internal control environment, ensuring an effective balance in safety and performance of processes and adding value towards the Bank's risk mitigation endeavors.

Reporting directly to the Board Audit Committee, Internal Audit employs a risk-based, proactive approach to all branches, operational areas and key activities of the Bank with a significant emphasis on corrective actions and elimination of control lapses. These reviews are performed identifying related key risk indicators, system weaknesses and to identify control, cost & revenue efficiencies. Views expressed by External and Regulatory Auditors are also given utmost importance and corrective actions on all audit observations are followed-up rigorously.

The Internal Audit policy framework incorporates extensive risk-based auditing throughout the year. Internal Audit function is also subject to Quality Control Reviews (QCR) by the Global Internal Audit function of Habib Bank AG Zurich - the Bank's parent company.

FUTURE OUTLOOK

Even though macroeconomic fundamentals have improved, poor security conditions and a worsening energy crisis are contributing

to a growing fiscal deficit and acting as the dominant impediments to Pakistan's economic growth. In the current operating environment, maintaining asset quality and margins pose fundamental challenges to the banking industry. Trade performance, directly linked to recovery in international markets & commodity prices, will determine volumes and impact fee based & foreign exchange income.

Your Bank will continue to enhance its market share in the country's trade/commercial activity by retaining its strong customer focus. We will improve asset quality, achieve centralization to create capacity for further growth, provide new and innovative financial solutions to clients, enter new customer segments and develop new business opportunities by following a well-thought business strategy that has been communicated across the organization.

With Allah's blessing and the continued patronage of our loyal stakeholders, HMB will make satisfactory progress despite the competitive operating environment.

ACKNOWLEDGEMENTS

In the end, I would like to take this opportunity to place on record our sincere gratitude to Ministry of Finance, State Bank of Pakistan and Securities and Exchange Commission of Pakistan for their support and continued guidance and to our valued customers for their trust and support. I thank the staff members for their devotion, diligence and commendable performance.

On behalf of the Board

SIRAJUDDIN AZIZ
President & Chief Executive Officer

Karachi: February 27, 2012

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31 DECEMBER 2011

This statement is being presented to comply with the Code of Corporate Governance contained in Prudential Regulation No. G-1 and listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the Code in the following manner:

1. The Bank encourages representation of independent non-executive directors. At present the Board includes seven non-executive directors including two independent directors.
2. All the Directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Bank except for one director who is on the board of 13 listed companies and has been given dispensation to clause III of the Code of Corporate Governance by the Securities and Exchange Commission of Pakistan.
3. All the resident directors of the Bank are registered taxpayers and none of them have defaulted in payment of any loan to a banking company, a DFI / NBFIs.
4. A casual vacancy occurring in the Board on 11 August 2011 was filled up by the director within the period of thirty days thereof.
5. The Bank has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the Directors and employees of the Bank.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer has been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. During the year four board meetings were held and written notices of the board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Directors of the Bank are well conversant with their duties and responsibilities and one of the directors of the Bank is a certified director by Pakistan Institute of Corporate Governance.
10. All related party transactions were placed before the Audit Committee and were approved by the Board of Directors. All transactions were made on terms equivalent to those that prevail in arm's length transactions.
11. The Board has approved remuneration including terms and conditions of Chief Financial Officer, Company Secretary and Head of Internal Audit, as determined by the Chief Executive Officer. No new appointments in the given positions were made during the year.
12. The Directors' Report for the year ended 31 December 2011 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Bank were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.

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14. The Directors, Chief Executive Officer and Executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
 15. The Bank has complied with all the corporate and financial reporting requirements of the Code.
 16. The Board has formed an Audit Committee. It comprises of three members of whom two are non-executive directors including the Chairman of the committee.
 17. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
 18. An effective independent internal audit function is in place.
 19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
 20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
 21. We confirm that all other material principles contained in the code have been complied with.

On behalf of the Board

SIRAJUDDIN AZIZ
President & Chief Executive Officer

Karachi: February 27, 2012

AUDITORS' REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the Best Practices contained in the Code of Corporate Governance prepared by the Board of Directors of Habib Metropolitan Bank Limited to comply with listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control systems to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further sub-regulation (xiii) of Listing Regulations 35 (previously Regulation No. 37) notified by the Karachi Stock Exchange (Guarantee) Limited vide circular no. KSE/N-269 dated January 19, 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended 31 December, 2011.

STATEMENT OF INTERNAL CONTROLS

This statement is being issued in compliance with the Guidelines on Internal Controls, issued by the State Bank of Pakistan vide BSD Circular No. 7 dated May 27, 2004.

MANAGEMENT EVALUATION OF INTERNAL CONTROL SYSTEM

The management of Habib Metropolitan Bank (HMB) remains responsible for implementing strategies and policies approved by the Board of Directors; maintaining an effective organization structure; instituting appropriate control procedures and monitoring the adequacy/effectiveness of internal control systems. The Board of Directors is ultimately responsible for ensuring that an adequate and effective System of Internal Controls is established and maintained.

The Bank's fundamental policy is to embed controls in each of our processes and make controls an important part of all our business activities. Each member of the staff is also responsible for ensuring that the Bank always operates in a controlled manner and inordinate risks are not taken in any activity.

The Bank's organization structure and lines of authority are well-defined and processes throughout the Bank are largely governed by policies and procedures approved by the Board. However, their review and updating to meet regulatory requirements & changing practices remains a continued activity to achieve effective control objectives. The Bank's Best Practices Operational Manuals for key areas are set in place to improve the quality of service, training and product knowledge across the Bank. Further, the Bank did not incur any material losses arising from operational risk exposures. The Bank's accounting policies, practices and methodologies for various estimates have been reviewed by external auditors and there have been no material disputes thereon.

Effectiveness of Internal Controls is reviewed on a regular basis by Internal Audit submitting reports to Audit Committee. The Internal Audit policy framework incorporates extensive risk-based auditing throughout the year. Views expressed by External and Regulatory Auditors are also provided utmost importance and corrective actions on all audit observations are followed-up rigorously. An Internal Control Unit is operational at the Risk Management Function which provides focused monitoring of exceptions to the management in a proactive manner.

SBP Internal Control Guidelines require the Bank's management to evaluate the effectiveness of overall set of internal controls including financial reporting controls which are required to be independently reviewed by the external auditors. The Bank has devised a well-defined and comprehensive Internal Control Programme and a staged roadmap for implementation. In this connection, the Bank has adopted an internationally accepted COSO Internal Control - Integrated Framework, as envisaged under the SBP Internal Control Guidelines for Financial Reporting. In accordance with this Programme, the Bank has completed detailed documentation of the existing processes and controls, together with a comprehensive gap analysis of the control design. Further, the Bank has developed detailed remediation plans to address the gaps identified. In addition, comprehensive management testing plans and framework have been developed for ensuring ongoing operating effectiveness of key controls. Currently the Bank is in the phase of implementing the project initiatives as per remediation plans, performing quality assurance/validation of implemented initiatives and performing testing of key controls as per management testing plans. It is pertinent to note that although effective remediation of the gaps identified will further strengthen the Bank's existing control environment, management is confident that these gaps do not carry a significant bearing on the Bank's existing operations and related controls. Further, the Bank's operational model relies primarily on a state-of-the-art, award winning technology solution which has strong built-in risk mitigating features such as access controls, segregation of duties, necessary maker-checker concept and extensive monitoring/MIS tools keeping the overall operational risks to an acceptable level.

While concerted efforts were made to follow SBP Guidelines on Internal Controls, the identification, evaluation and management of risks within each of the Bank's activities; and evaluation and change of procedures remains an ongoing process.

On an overall basis, Internal Controls at HMB were operating with reasonable adequacy throughout the year ended December 31, 2011 and reflect improvement from last year in organization structure; effective adherence with lines of authority; automation and effectiveness of processes.

Internal Controls always manage rather than eliminate possibility of process failures to achieve their objectives and hence, can only provide reasonable assurance against material misstatements or loss.

BOARD OF DIRECTORS' REMARKS ON THE MANAGEMENT'S EVALUATION OF INTERNAL CONTROLS

Keeping in view the feedback received by Board of Directors from the Audit Committee; reports submitted as to the business policies and major risks related decision taken by the management, the Board of Directors endorses Management's evaluation of Internal Controls.

On behalf of the Board

SIRAJUDDIN AZIZ
President & Chief Executive Officer

Karachi: February 27, 2012

SHARIA'H ADVISOR'S REPORT

By the grace of Almighty Allah, I have examined on test check basis, each class of transaction, the relevant documentation and procedures adopted by Islamic Banking Branches / Division of Habib Metropolitan Bank Limited (IBB - HMB).

Following were the major developments that took place during the year:

To ensure strict Sharia'h Compliance in implementation of Islamic banking products, the Sharia'h Compliance Department actively monitored various activities like client's business cycle and internal control via visits at their premises to develop / revise process flows and other Islamic Banking Operations throughout the year.

During 2011, the HMB Islamic Banking was involved in development / revision of various industry-specific process flows for Murabaha, Diminishing Musharakah, Ijarah & other transactions. Sharia'h Compliance Department attended 30 meetings with the clients including 24 visits conducted at the clients' premises and 21 transactional process flows for SME / Corporate clients were developed, reviewed & revised.

In addition, 30 specific approvals have been issued to the related Department, Branch & IBD with respect to transactions like Murabaha, Diminishing Musharakah, Ijarah and other policies & procedures related to new Products / addendum. During the year, Sharia'h Compliance Department has also been involved in the preparation / revision / Sharia'h review of Procedure Manuals, Agreements, Schedule of Charges, other policy documents as well as reply and implementation of Manual Gap Analysis conducted by FRSH.

In order to enhance the level of understanding of Islamic Banking concepts & products, 4 Islamic banking training sessions were held in 2011 in which 70 people participated. The sessions included FAQ based training covering Concepts, Scope & Application of all products offered by HMB to Islamic Banking staff as well as its Clients.

Based on the Sharia'h review, reports and feedback from several areas I recommend the following:

1. To ensure effective Sharia'h Compliance, Murabaha Compliance Mechanism (MCM) must be implemented, that incorporates and highlights any deviation. This will ensure that transactions susceptible to Sharia'h violation are either held at pre-execution stage or are subject to timely compliance by the branches.
2. In order to have strong controls, the Bank needs to strengthen its system based Module for Murabaha, Ijarah, Diminishing Musharika, Profit Distribution and Pool Management etc. The Bank should accelerate the implementation process of profit distribution system on monthly basis.

I hereby report that in my opinion;

- a) the affairs of IBB-HMB have been carried out in accordance with rules and principles of Sharia'h, SBP regulations and guidelines related to Sharia'h compliance and other rules as well as with specific Fatawa and Rulings issued by me from time to time;
- b) the allocation of funds, weightages, profit sharing ratios, profits and charging of losses (if any) relating to PLS accounts conform to the basis vetted by me in accordance with Sharia'h rules and principles; and
- c) any earnings that have been realized from sources or by means prohibited by Sharia'h rules and principles have been credited to charity account.

May Allah bless us with the best Tawfeeq to accomplish these cherished tasks, make us successful in this world and in the hereafter, and forgive our mistakes.

MUHAMMAD NAJEEB KHAN

Sharia'h Advisor
Habib Metropolitan Bank
Islamic Banking Division

Karachi: February 27, 2012

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed unconsolidated statement of financial position of Habib Metropolitan Bank Limited (the Bank) as at 31 December 2011 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for 15 branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in the case of loans and advances covered more than 60% of the total loans and advances of the Bank, we report that:

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
 - i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement, and unconsolidated statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2011 and its true balance of profit, its cash flows and its changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	2011	2010
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	8	14,233,690	13,923,393
Balances with other banks	9	3,551,591	3,123,094
Lendings to financial institutions	10	2,361,754	3,190,399
Investments	11	147,524,622	100,993,820
Advances	12	109,656,714	119,827,636
Operating fixed assets	13	3,195,886	3,352,702
Deferred tax assets	14	2,019,809	1,868,328
Other assets	15	5,675,292	5,931,280
		288,219,358	252,210,652
LIABILITIES			
Bills payable	16	3,733,794	2,572,954
Borrowings	17	66,641,226	62,529,729
Deposits and other accounts	18	185,399,802	160,457,975
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	19	7,871,028	6,341,861
		263,645,850	231,902,519
NET ASSETS			
		24,573,508	20,308,133
REPRESENTED BY			
Share capital	20	10,478,315	8,731,929
Reserves		8,807,718	8,151,443
Unappropriated profit		4,949,767	4,071,055
		24,235,800	20,954,427
Surplus / (Deficit) on revaluation of assets - net of tax	21	337,708	(646,294)
		24,573,508	20,308,133
CONTINGENCIES AND COMMITMENTS			
	22		

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

KASSIM PAREKH
Chairman

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

BASHIR ALI MOHAMMAD
Director

MOHAMEDALI R. HABIB
Director

UNCONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
Rupees in '000			
Mark-up / return / interest earned	24	27,247,789	23,380,314
Mark-up / return / interest expensed	25	(19,548,532)	(16,433,491)
Net mark-up / interest Income		7,699,257	6,946,823
Provision against non-performing loans and advances	12.5	2,659,962	2,937,763
Provision for diminution in the value of investments	11.3	94,640	103,785
Bad debts written off directly	12.7.1	–	–
		(2,754,602)	(3,041,548)
Net mark-up / interest income after provisions		4,944,655	3,905,275
Non mark-up / interest income			
Fee, commission and brokerage income		1,758,515	1,589,451
Dividend income		1,187,718	568,553
Income from dealing in foreign currencies		1,647,536	1,775,133
Gain on sale/redemption of securities	26	350,543	245,436
Unrealized gain / (loss) on revaluation of investments classified as held-for-trading		–	–
Other income	27	242,911	250,497
Total non mark-up / interest income		5,187,223	4,429,070
		10,131,878	8,334,345
Non mark-up / interest expenses			
Administrative expenses	28	4,923,839	4,172,840
Other provisions / write offs	15.1 & 19.1	275,000	38,922
Other charges	29	302,588	96,248
Total non mark-up / interest expenses		(5,501,427)	(4,308,010)
		4,630,451	4,026,335
Extraordinary / unusual items		–	–
Profit before taxation		4,630,451	4,026,335
Taxation – Current		(2,192,666)	(1,904,158)
– Prior years		134,985	–
– Deferred		708,603	695,861
	30	(1,349,078)	(1,208,297)
Profit after taxation		3,281,373	2,818,038
Unappropriated profit brought forward		4,071,055	3,773,782
Profit available for appropriation		7,352,428	6,591,820
			(Restated)
Basic and diluted earnings per share (Rupees)	31	3.13	2.69

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

KASSIM PAREKH
Chairman**SIRAJUDDIN AZIZ**
President &
Chief Executive Officer**BASHIR ALI MOHAMMAD**
Director**MOHAMEDALI R. HABIB**
Director

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
		Rupees in '000	
Profit after taxation for the year		3,281,373	2,818,038
Other comprehensive income		<u>-</u>	<u>-</u>
Comprehensive income transferred to equity		3,281,373	2,818,038
Components of comprehensive income not reflected in equity			
Surplus /(deficit) on revaluation of investments		1,541,124	(845,421)
Deferred tax on revaluation of investments	14.1	(557,122)	347,756
		984,002	(497,665)
Total comprehensive income		<u>4,265,375</u>	<u>2,320,373</u>

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

KASSIM PAREKH
Chairman

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

BASHIR ALI MOHAMMAD
Director

MOHAMEDALI R. HABIB
Director

UNCONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
		Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		4,630,451	4,026,335
Less: Dividend income		1,187,718	568,553
		<u>3,442,733</u>	<u>3,457,782</u>
Adjustments			
Depreciation	13.2	404,520	324,202
Provision against non-performing loans and advances	12.5	2,659,962	2,937,763
Provision against off-balance sheet obligations	19.1	–	38,922
Provision against other assets	15.1	275,000	–
Provision for diminution in the value of investments-net	11.3	82,790	28,910
Net (gain) on sale of fixed assets	27	(8,183)	(5,404)
		<u>3,414,089</u>	<u>3,324,393</u>
		6,856,822	6,782,175
(Increase) / decrease in operating assets			
Lendings to financial institutions		828,645	(3,040,399)
Advances		7,510,960	(20,472,267)
Other assets		(19,012)	(1,926,532)
		8,320,593	(25,439,198)
Increase / (decrease) in operating liabilities			
Bills payable		1,160,840	(538,513)
Borrowings		3,424,648	(5,229,374)
Deposits and other accounts		24,941,827	18,000,599
Other liabilities (excluding current taxation)		1,414,495	1,286,424
		30,941,810	13,519,136
		46,119,225	(5,137,887)
Income tax paid		(1,941,947)	(1,805,950)
		<u>44,177,278</u>	<u>(6,943,837)</u>
Net cash flows from operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(46,122,468)	10,861,369
Net investments in held-to-maturity securities		1,050,000	(1,050,000)
Dividend received		1,187,718	568,553
Investments in operating fixed assets		(259,415)	(1,250,644)
Proceeds from sale of fixed assets		19,894	10,371
		<u>(44,124,271)</u>	<u>9,139,649</u>
Net cash flows from investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(1,062)	(750,651)
		<u>(1,062)</u>	<u>(750,651)</u>
Net cash flows from financing activities			
Increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		51,945	1,445,161
Effect of exchange rate changes on cash and cash equivalents		15,391,358	14,124,969
		286,504	107,732
Cash and cash equivalents at the end of the year	32	<u>15,729,807</u>	<u>15,677,862</u>

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

KASSIM PAREKH
Chairman**SIRAJUDDIN AZIZ**
President &
Chief Executive Officer**BASHIR ALI MOHAMMAD**
Director**MOHAMEDALI R. HABIB**
Director

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Reserves					Un-appropriated Profit	Total
	Share Capital	Share Premium	Statutory Reserve	Special Reserve	Revenue Reserve		
	Rupees in '000						
Balance as at 1 January 2010	7,527,525	2,550,985	3,296,489	240,361	1,500,000	3,773,782	18,889,142
Changes in equity for the year ended 31 December 2010							
Total comprehensive income for the year ended 31 December 2010 – profit for the year	-	-	-	-	-	2,818,038	2,818,038
Transactions with owners recorded directly in equity							
Issue of bonus shares in the ratio of 16 shares for every 100 shares held for the year ended 31 December 2009	1,204,404	-	-	-	-	(1,204,404)	-
Cash dividend (Re. 1 per share) for the year ended 31 December 2009	-	-	-	-	-	(752,753)	(752,753)
	1,204,404	-	-	-	-	(1,957,157)	(752,753)
Transfer to statutory reserve	-	-	563,608	-	-	(563,608)	-
Balance as at 31 December 2010	8,731,929	2,550,985	3,860,097	240,361	1,500,000	4,071,055	20,954,427
Changes in equity for the year ended 31 December 2011							
Total comprehensive income for the year ended 31 December 2011 – profit for the year	-	-	-	-	-	3,281,373	3,281,373
Transactions with owners recorded directly in equity							
Issue of bonus shares in the ratio of 20 shares for every 100 shares held for the year ended 31 December 2010	1,746,386	-	-	-	-	(1,746,386)	-
Transfer to statutory reserve	-	-	656,275	-	-	(656,275)	-
Balance as at 31 December 2011	10,478,315	2,550,985	4,516,372	240,361	1,500,000	4,949,767	24,235,800

The annexed notes 1 to 44 and annexures I & II form an integral part of these unconsolidated financial statements.

KASSIM PAREKH
Chairman

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

BASHIR ALI MOHAMMAD
Director

MOHAMEDALI R. HABIB
Director

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. STATUS AND NATURE OF BUSINESS

Habib Metropolitan Bank Limited (the Bank) was incorporated in Pakistan on 3 August 1992 as a public limited company, under the Companies Ordinance, 1984 and is engaged in commercial banking and related services. Its shares are listed on all the three stock exchanges in Pakistan. The Bank operates 138 (2010: 135) branches including 4 (2010: 4) Islamic banking branches and 25 (2010: 8) sub branches in Pakistan. The Bank is a subsidiary of Habib Bank AG Zurich - Switzerland (the holding company) which is incorporated in Switzerland.

The registered office of the Bank is situated at Spencer's Building, I. I. Chundrigar Road, Karachi.

2. BASIS OF PRESENTATION

2.1 These unconsolidated financial statements represent separate financial statements of the Bank. The consolidated financial statements of the Bank and its subsidiary company are being separately issued.

2.2 In accordance with the directives of the Federal Government regarding shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by the Bank from their customers and immediate resale to them at appropriate mark-up in price on a deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these unconsolidated financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

2.3 Basis of measurement

These unconsolidated financial statements have been prepared under the historical cost convention except that certain investments are stated at market value and derivative financial instruments are carried at fair values as disclosed in notes 5.3 and 5.6 respectively.

3. STATEMENT OF COMPLIANCE

3.1 These unconsolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standard (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by the State Bank of Pakistan. In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP shall prevail.

3.2 The SBP vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property for banking companies till further instructions. Further, according to a notification of the Securities and Exchange Commission of Pakistan (SECP) dated April 28, 2008, IFRS 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these unconsolidated financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in application of accounting policies are as follows:

i) Classification of investments

- In classifying investments as "held-for-trading", the Bank has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.
- In classifying investments as "held-to-maturity", the Bank follows the guidance provided in SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.
- The investments which are not classified as held for trading or held to maturity are classified as available for sale.

ii) Provision against non performing loans and advances and debt securities classified as investments

The Bank reviews its loan portfolio and debt securities classified as investments to assess amount of non-performing loans and advances and debt securities and provision required there-against. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower and the forced sale value of the securities, etc. as per the requirement of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances, the Bank follows the general provision requirement set out in Prudential Regulations. In addition the Bank also maintains a general provision against its loan portfolio discussed in note 5.4.

iii) Valuation and impairment of available for sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

iv) Impairment of non-financial assets (excluding deferred tax asset)

Non financial assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. If any such indication exists, the Bank estimates the recoverable amount of the asset and the impairment loss, if any. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of future cash flows from the asset discounted at a rate that reflects market interest rates adjusted for risks specific to the asset. If the recoverable amount of an intangible or tangible asset is less than its carrying value, an impairment loss is recognised immediately in the profit and loss account and the carrying value of the asset reduced by the amount of the loss. A reversal of an impairment loss on intangible assets is recognized as it arises provided the increased carrying value does not exceed that which it would have been had no impairment loss been recognized.

v) Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks, at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Bank's future taxable profits are taken into account.

vi) Fixed assets, depreciation and amortisation

In making estimates of the depreciation / amortisation method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

vii) Defined benefits plan

Liability is determined on the basis of actuarial advice using the Projected Unit Credit Method, as more fully disclosed in note 34 to these unconsolidated financial statements.

viii) Compensated Absences

The bank uses actuarial valuation for the determination of its compensated absences liability. This method makes certain assumptions, which may change, there by effecting the profit and loss account of future period.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are the same as those applied in the preparation of the unconsolidated financial statements of the Bank for the year ended 31 December 2011.

5.1 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents include cash and balances with treasury banks and balances with other banks less overdrawn nostro and local bank accounts.

5.2 Lendings to / borrowings from financial institutions

The Bank enters into transactions of borrowing (re-purchase) from and lending (reverse re-purchase) to financial institutions, at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase obligation

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for investments and counter party liability is included in borrowing from financial institutions. The difference between sale and repurchase price is amortised as an expense over the term of the repo agreement.

Purchase under resale obligation

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet and instead amounts paid under these arrangements are included in lendings to financial institutions. The difference between purchase and resale price is accrued as income over the term of the agreement.

Other borrowings including borrowings from SBP are recorded at the proceeds received. Mark up on such borrowing is charged to the profit and loss account on a time proportion basis.

5.3 Investments

5.3.1 Investment in a subsidiary is stated at cost less provision for impairment, if any.

5.3.2 Other investments are classified as follows:

Held-for-trading

These are securities, which are either acquired for generating profit from short-term fluctuation in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term trading exists.

Held-to-maturity

These are securities with fixed or determinable payments and fixed maturities that are held with the positive intention and ability to hold till maturity.

Available-for-sale

These are investments that do not fall under the held-for-trading or held-to-maturity categories.

5.3.3 Investments (other than held-for-trading) include transaction costs associated with the investments. In case of held for trading investments transaction costs are expensed in the profit and loss account.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than those classified as held to maturity and investment in a subsidiary, are carried at market value. Investments classified as held to maturity are carried at amortized cost whereas investment in a subsidiary is carried at cost less impairment losses, if any.

Unrealized surplus / deficit arising on the revaluation of the Bank's held for trading investment portfolio is taken to the profit and loss account. Surplus / deficit arising on revaluation of quoted securities classified as available for sale is kept in a separate account shown in the balance sheet below equity. Surplus / deficit arising on these securities is taken to the profit and loss account when actually realised upon disposal or when the investment is considered to be impaired.

Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent decreases in the carrying value are charged to profit and loss account. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

Provision for diminution in the value of securities (other than bonds and term finance certificates) is made after considering objective evidence of impairment, if any, in their value. Provision for diminution in value of bonds and term finance certificates are made in accordance with the requirements of Prudential Regulations issued by State Bank of Pakistan.

All "regular way" purchases and sales of investments are recognized on the trade date, i.e., the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of investments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

5.4 Advances (including net investment in finance lease and ijarah arrangements)

Loans and advances

Loans and advances and net investments in finance lease are stated net of provision for loan losses against non - performing advances. Provision for loan losses is made in accordance with the Prudential Regulations issued by the SBP and is charged to profit and loss account. The Bank also maintains general provision in addition to the requirements of the Prudential Regulations on the basis of management's assessment of credit risk characteristics and general banking risk such as nature of credit, collateral type, industry sector and other relevant factors. Murabaha receivables are stated at gross amount receivable less deferred income and provisions, if any.

Finance lease receivables

Leases, where the Bank transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance lease. A receivable is recognised at an amount equal to the present value of the minimum lease payments including guaranteed residual value, if any. Finance lease receivables are included in advances to the customers.

Ijarah

In accordance with the requirements of Islamic Financial Accounting Standard (IFAS) No. 2 for the accounting and financial reporting of "Ijarah", ijarah arrangements by the Islamic Banking branches are accounted for as 'Assets held under Ijarah' and are stated at cost less accumulated depreciation, residual value and impairment losses, if any. Accordingly assets subject to ijarahs have been reflected in note 12 to these unconsolidated financial statements under "Advances". Rental income on these ijarahs is recognised in the Bank's profit and loss account on a time proportion basis, while depreciation is calculated on ijarah assets on a straight line basis over the period of Ijarah from the date of delivery of respective assets to mustajir (lessee) up to the date of maturity / termination of ijarah agreement and is charged to the profit and loss account. The classification and provisioning of ijarah assets is done in line with the requirements laid down in the prudential regulations and are recognised in the profit and loss account.

Advances are written off when there are no realistic prospects of recovery.

5.5 Fixed assets

Tangible - owned (operating)

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for freehold land which are stated at cost less accumulated impairment losses, if any.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset at the rates specified in note 13.2. Depreciation on additions during the year is calculated from the date of addition. In case of disposals during the year, the depreciation is charged up till the date of disposal. Depreciation on ijarah assets referred to in note 12.10 is calculated on a straight line basis over the period of ijarah from the date of delivery of respective assets to the mustajir (lessee) up to the date of maturity / termination of ijarah agreed.

Subsequent cost are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in the profit and loss account in the year the asset is derecognized.

The residual values, useful lives and depreciation methods are reviewed and changes, if any, are treated as change in accounting estimates, at each balance sheet date.

Gain and loss on disposal of assets is included in income currently.

Intangible

These are stated at cost less accumulated amortization and impairment, if any. The cost of intangible assets are amortized from the month when the assets are available for intended use, using the straight line method, whereby the cost of the intangible asset is amortised over its estimated useful life over which economic benefits are expected to flow to the Bank. The useful life and amortisation method is reviewed and adjusted, if appropriate, at each balance sheet date.

Capital work-in-progress

These are stated at cost less impairment losses, if any.

5.6 Derivative financial instruments

Derivative financial instruments are initially recognised at their fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivative financial instruments are carried as asset when fair value is positive and liabilities when fair value is negative. Any change in the value of derivative financial instruments is taken to the profit and loss account.

5.7 Provisions

Provision against identified non-funded losses is recognized when intimated and reasonable certainty exists for the Bank to settle the obligation. The loss is charged to the profit and loss account net of expected recovery and is classified under other liabilities.

Other provisions are recognised when the Bank has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

5.8 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to the items recognized directly in equity, in which case it is recognized in equity.

Current

Provision for current taxation is based on taxable income for the year at the current rates of taxation after taking into consideration available tax credits and rebates. The charge for the current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalized during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amount used for taxation purposes. Deferred tax is measured at the tax rate that are expected to be applied on the temporary differences when they reverse, based on the tax rates that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that the future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of assets which is adjusted against the related deficit / surplus in accordance with the requirements of IAS 12 "Income Taxes".

5.9 Employees' benefits

5.9.1 Retirement benefits

Defined benefit plan

The Bank operates an approved funded gratuity scheme for all its permanent employees. Retirement benefits are payable to the members of the scheme on the completion of prescribed qualifying period of service under the scheme. Contribution is made in accordance with the actuarial recommendation. The actuarial valuation is carried out annually as at the balance sheet date using "Projected Unit Credit Method". Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation at the end of the last reporting year are recognised in income over the employees' expected average remaining working lives.

Past service cost resulting from changes to defined benefit plan to the extent the benefits are already vested is recognized immediately in the profit and loss account and remaining unrecognized past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested.

Defined contribution plan

The Bank operates a recognised provident fund scheme for all its regular employees, which is administered by the Board of Trustees. Contributions are made by the Bank and its employees, to the fund at the rate of 10% of basic salary.

5.9.2 Compensated absences

A provision is made for essential liability for annual leaves as a result of services rendered by the employees against unavailed leaves, as per term of service contract, up to balance sheet date.

In the current year, an actuarial valuation under the "Projected Unit Credit Method" has been carried out by the Bank for the determination of the liability for compensated absences. The effect of the change in the method of the estimation of liability did not have a material effect.

5.10 Revenue recognition

Revenue is recognized to the extent that the economic benefits will flow to the Bank and the revenue can be reliably measured. These are recognized as follows:

a) Advances and investments

Mark-up / return on regular loans / advances and debt securities investments is recognized on a time proportion basis that take into account the effective yield on the asset. Where debt securities are purchased at premium or discount, the same is amortized through the profit and loss account using the effective interest rate method.

Interest or mark-up recoverable on classified loans and advances and investments is recognized on receipt basis. Interest / return / mark-up on classified rescheduled / restructured loans and advances and investments is recognized as permitted by the regulations of the State Bank of Pakistan.

Dividend income is recognised when the Bank's right to receive the dividend is established.

Gains and losses on sale of investments are recognized in the profit and loss account.

Income on bills discounted are recognised over the period of the bill.

b) Lease financing / Ijarah contracts

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Unrealised income on classified leases is recognized on receipt basis.

Rental income on ijarahs executed by the Islamic Banking branches and accounted for under IFAS 2 (refer note 5.4) is recognised in the profit and loss account on a time proportion basis.

Gains / losses on termination of lease contracts and other lease income are recognized when realized.

c) Fees, brokerage and commission

Fees, commission and brokerage except income from letters of guarantee is accounted for on receipt basis. Income from letter of guarantee is recognised on an accrual basis over the period of the guarantee.

5.11 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Bank intends to either settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

5.12 Foreign currencies

Foreign currency transactions are translated into local currency at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. Forward exchange contracts including foreign exchange bills purchased, are revalued using forward exchange rates applicable to their respective remaining maturities. Exchange gains or losses are included in income currently.

Commitments for outstanding forward foreign exchange contracts disclosed in these financial statements are translated at contracted rates. Contingent liabilities/commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date.

5.13 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format of reporting is based on the following business segments.

Business segments

a) Trading and sales

This segment undertakes the Bank's treasury, money market and capital market activities.

b) Retail banking

Retail banking provides services to small borrowers i.e. consumers, small and medium enterprises (SMEs) and borrowers' agriculture sector. It includes loans, deposits and other transactions with retail customers.

c) Commercial banking

This includes loans, deposits and other transactions with corporate customers.

Geographical segments

The Bank conducts all its operations in Pakistan.

5.14 Dividend distribution and appropriations

Bonus and cash dividend and other appropriations (except for the appropriations required by law), declared / approved subsequent to balance sheet date are considered as non-adjusting event and are not recorded in unconsolidated financial statements of the current year. These are recognized in the period in which these are declared / approved.

5.15 Earnings per share

The Bank present basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

5.16 Impairment of assets (other than loans and advances and investments)

At each balance sheet date, the Bank reviews the carrying amount of its assets (other than deferred tax asset) to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of relevant asset is estimated. Recoverable amount is the greater of the net selling price and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. The resulting impairment loss is recognized as an expense immediately. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

Details of the basis of determination of impairment against loans and advances and investments have been discussed in their respective notes.

5.17 Financial instruments

All financial assets and liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the Bank loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income directly. Financial assets carried on the balance sheet include cash and bank balances, lendings to financial institutions, investments, advances and certain receivables. Financial liabilities include borrowings, deposits, bills payable and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

5.18 Murabaha

Murabaha transactions are reflected as receivable at the invoiced amount. Actual sale and purchase are not reflected as the goods are purchased by the customer as agent of the Bank and all documents relating to purchase belongs to the customer. However, the profit on that sale revenue not due for payment is deferred by recording a credit to the "Deferred Murabaha Income" account. Funds disbursed under Murabaha arrangements for purchase of goods are recorded as 'Advance against Murabaha'.

5.19 Diminishing Musharika

In Diminishing Musharika based financing, the Bank enters into a Musharika based on shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilization of the Bank's Musharika share by the customer.

6. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting

periods beginning on or after 01 January 2012:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. However, this change will not impact the Bank as SBP vide BSD Circular No. 10 dated 26 August 2002 has deferred the applicability of IAS 40 for Banking Companies.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Bank.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Bank.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments may impact the Financial Statements of the Bank which has not yet been quantified.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Bank.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. According to a notification of SECP dated 28 April 2008, IFRS 7 "Financial Instruments Disclosures" has not been made applicable for Banks.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on

or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. According to a notification of SECP dated 28 April 2008, IFRS 7 "Financial Instruments Disclosures" has not been made applicable for Banks.

7. FUNCTIONAL AND PRESENTATION CURRENCY

These unconsolidated financial statements are presented in Pakistani Rupees, which is Bank's functional currency. Except as indicated, financial information presented in Pakistani Rupees has been rounded to nearest thousand.

8. CASH AND BALANCES WITH TREASURY BANKS

	Note	2011	2010
		Rupees in '000	
In hand			
Local currency		1,954,207	1,929,455
Foreign currencies		494,953	937,771
		2,449,160	2,867,226
With State Bank of Pakistan in			
Local currency current accounts	8.1	7,948,424	7,796,785
Foreign currency current account	8.2	100,427	74,706
Foreign currency deposit accounts			
– cash reserve accounts	8.3	931,388	779,722
– special cash reserve accounts	8.4	2,716,810	2,307,567
		11,697,049	10,958,780
With National Bank of Pakistan in			
Local currency current accounts		77,549	91,705
National Prize Bonds			
		9,932	5,682
		14,233,690	13,923,393

8.1 These accounts are maintained to comply with the statutory cash reserve requirements and include cash reserve account of Rs. 783,119 thousand (2010: Rs. 647,054 thousand) in respect of the Islamic Banking branches of the Bank.

8.2 Represents US Dollar collection / settlement account with the SBP.

8.3 Represents cash reserve maintained with SBP against foreign currency deposits and include amount of Rs. 22,936 thousand (2010: Rs. 17,556 thousand) in respect of the Islamic Banking branches of the Bank.

8.4 Represents special cash reserve maintained with SBP against foreign currency deposits and include amount of Rs. 27,433 thousand (2010: Rs. 21,067 thousand) in respect of the Islamic Banking branches of the Bank.

	Note	2011	2010
		Rupees in '000	
9. BALANCES WITH OTHER BANKS			
In Pakistan			
On current accounts		309,526	414,336
On deposit accounts	9.1	16,491	17,205
		326,017	431,541
Outside Pakistan			
On current accounts	9.2	976,932	978,819
On deposit accounts	9.3	2,248,642	1,712,734
		3,225,574	2,691,553
		3,551,591	3,123,094

9.1 This carry mark-up rate of 5.00% (2010: 5.00%) per annum.

9.2 Include balances in current accounts of Rs. 197,044 thousand (2010: Rs. 163,577 thousand) with branches of the holding company.

9.3 This carry mark-up rate of 0.08% (2010: 0.15%) per annum.

10. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	10.2	1,000,000	2,100,000
Repurchase agreement lendings (Reverse repo)	10.3	1,361,754	640,399
Letter of placements	10.4	–	450,000
		2,361,754	3,190,399

10.1 Particulars of lendings

In local currency		2,361,754	3,190,399
		2,361,754	3,190,399

10.2 This carry mark-up rate 12.00% (2010: ranging between 13.35% to 14.00%) per annum and matured on 20 January 2012.

10.3 Securities held as collateral against lending to financial institutions (Reverse repo).

	Note	2011			2010		
		Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
(Rupees in'000)							
Market treasury bills	10.3.2	1,361,754	–	1,361,754	640,399	–	640,399

10.3.1 This lending carry mark-up rate of 11.95% (2010: 13.90%) per annum and will mature on 03 January 2012.

10.3.2 Market value of securities held as collateral against lendings to financial institutions as at 31 December 2011 amounted to Rs. 1,362.573 million (2010: Rs. 640.767 million).

10.4 This represents clean placement with a Non-Banking Financial Institution, carrying mark-up rates Nil (2010: ranging between 13.90% to 14.00%) per annum.

11. INVESTMENTS

11.1 Investments by types

	Note	2011			2010		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
(Rupees in '000)							
Available-for-sale securities							
Market treasury bills	11.7	56,882,058	35,529,021	92,411,079	20,254,957	24,133,119	44,388,076
Pakistan investment bonds	11.5	17,859,019	4,056,656	21,915,675	12,475,620	8,955,800	21,431,420
Ordinary shares of listed companies		581,500	–	581,500	241,530	–	241,530
Ordinary shares of unlisted companies		123,101	–	123,101	123,101	–	123,101
Preference shares of listed company		40,000	–	40,000	40,000	–	40,000
Listed term finance certificates		2,049,093	–	2,049,093	2,282,470	–	2,282,470
Unlisted term finance certificates		248,097	–	248,097	4,060,056	–	4,060,056
Sukuk certificates and bonds		16,920,026	–	16,920,026	18,192,348	–	18,192,348
Open end mutual funds		12,740,730	–	12,740,730	10,147,832	–	10,147,832
Close end mutual funds		67,000	–	67,000	67,000	–	67,000
		<u>107,510,624</u>	<u>39,585,677</u>	<u>147,096,301</u>	<u>67,884,914</u>	<u>33,088,919</u>	<u>100,973,833</u>
Held-to-maturity securities							
Certificate of Investments	11.6	–	–	–	1,050,000	–	1,050,000
Subsidiary							
Habib Metropolitan Financial Services Limited 29,999,997 (2010: 29,999,997) Ordinary shares of Rs. 10/- each		<u>300,000</u>	<u>–</u>	<u>300,000</u>	<u>300,000</u>	<u>–</u>	<u>300,000</u>
Investments at cost		<u>107,810,624</u>	<u>39,585,677</u>	<u>147,396,301</u>	<u>69,234,914</u>	<u>33,088,919</u>	<u>102,323,833</u>
Provision for diminution in the value of investments		<u>(338,722)</u>	<u>–</u>	<u>(338,722)</u>	<u>(255,932)</u>	<u>–</u>	<u>(255,932)</u>
Investments net of provision	11.3	<u>107,471,902</u>	<u>39,585,677</u>	<u>147,057,579</u>	<u>68,978,982</u>	<u>33,088,919</u>	<u>102,067,901</u>
Surplus / (deficit) on revaluation of available-for-sale securities - net	21	729,113	(262,070)	467,043	(726,452)	(347,629)	(1,074,081)
Investments after revaluation of available-for-sale securities		<u><u>108,201,015</u></u>	<u><u>39,323,607</u></u>	<u><u>147,524,622</u></u>	<u><u>68,252,530</u></u>	<u><u>32,741,290</u></u>	<u><u>100,993,820</u></u>

	Note	2011	2010
		Rupees in '000	
11.2 Investments by segments			
Federal government securities			
- Market treasury bills		92,411,079	44,388,076
- Pakistan investment bonds		21,915,675	21,431,420
- GOP ijarah sukuk		15,022,723	16,024,896
		129,349,477	81,844,392
Fully paid up ordinary shares			
- Listed companies		581,500	241,530
- Unlisted companies		123,101	123,101
		704,601	364,631
Fully paid up preference shares			
- Listed company		40,000	40,000
Term finance certificates, sukuk certificates and bonds			
- Listed term finance certificates		2,049,093	2,282,470
- Unlisted term finance certificates		248,097	4,060,056
- Sukuk certificates / bonds		1,897,303	2,167,452
		4,194,493	8,509,978
Mutual funds			
- Open end		12,740,730	10,147,832
- Close end		67,000	67,000
		12,807,730	10,214,832
Certificates of investments		-	1,050,000
Subsidiary			
- Habib Metropolitan Financial Services Limited 29,999,997 (2009: 29,999,997) ordinary shares of Rs.10/- each		300,000	300,000
Investments at cost		147,396,301	102,323,833
Provision for diminution in the value of investments	11.3	(338,722)	(255,932)
Investments - net of provisions		147,057,579	102,067,901
Surplus/deficit on revaluation of available-for-sale securities – net	21	467,043	(1,074,081)
Investments after revaluation of available-for-sale securities		147,524,622	100,993,820

	2011	2010
	Rupees in '000	
11.3 Particulars of provision for diminution in the value of investments		
- Opening balance	255,932	227,022
- Charge for the year	94,640	103,785
- Reversal of provision upon disposal of investments	(11,850)	(74,875)
- Closing balance	<u>338,722</u>	<u>255,932</u>
11.3.1 Particulars of provision in respect of type and segment		
Available-for-sale securities		
Fully paid-up ordinary shares		
Listed companies	41,702	15,423
Unlisted companies	66,366	38,356
Fully paid-up preference shares		
Listed company	33,200	32,800
Term finance certificates, sukuk certificates and bonds		
Listed term finance certificates	98,923	69,896
Unlisted term finance certificates	23,688	23,611
Sukuk certificates / bonds	35,705	28,803
Mutual funds		
Open end	-	7,905
Close end	39,138	39,138
	<u>338,722</u>	<u>255,932</u>

11.4 Information relating to investments in federal government securities, ordinary and preference shares of listed and unlisted companies, open and close end mutual funds, listed and unlisted term finance certificates and sukuk certificates / bonds required to be disclosed as part of the financial statements under the SBP's BSD Circular No. 4, dated 17 February 2006, is given in Annexure "I" and is an integral part of these unconsolidated financial statements.

11.5 These carry markup rates ranging from 8.00% to 12.00% per annum and will mature upto 18 August 2021. These includes Rs. 158.500 million as at 31 December 2011 (2010: Rs. 158.500 million) pledged with State Bank of Pakistan and National Bank of Pakistan against TT/DD discounting facilities and demand loan facilities.

11.6 These carry markup rates Nil (2010: ranging from 13.90% to 13.95% per annum).

11.7 These carry markup rates ranging from 11.70% to 13.91% per annum and will mature upto 01 November 2012.

	Note	2011	2010
		Rupees in '000	
12. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		98,115,904	100,914,709
Net investment in finance lease / ijarah financing			
In Pakistan	12.2	561,970	906,984
Net assets in ijarah under IFAS 2	12.10	825,452	901,886
Bills discounted and purchased (excluding market treasury bills)			
Payable in Pakistan		5,489,601	6,344,275
Payable outside Pakistan		14,686,721	18,282,153
		20,176,322	24,626,428
Advances – gross		119,679,648	127,350,007
Provision against non-performing advances			
- specific		(9,928,671)	(7,463,452)
- general		(94,263)	(58,919)
	12.5	(10,022,934)	(7,522,371)
Advances – net of provisions		109,656,714	119,827,636
12.1 Particulars of advances – gross			
12.1.1 In local currency		100,554,335	107,434,187
In foreign currencies		19,125,313	19,915,820
		119,679,648	127,350,007
12.1.2 Short term (for upto one year)		107,712,438	109,318,646
Long term (for over one year)		11,967,210	18,031,361
		119,679,648	127,350,007

12.2 Net investment in finance lease / ijarah financing

	2011				2010			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	Rupees in '000							
Lease rentals receivable	186,952	342,566	1,389	530,907	263,870	637,168	2,901	903,939
Residual value	38,030	83,192	562	121,784	12,068	114,768	579	127,415
Minimum lease payments	224,982	425,758	1,951	652,691	275,938	751,936	3,480	1,031,354
Financial charges for future periods	(44,245)	(46,167)	(309)	(90,721)	(22,790)	(101,020)	(560)	(124,370)
Present value of minimum lease payments	180,737	379,591	1,642	561,970	253,148	650,916	2,920	906,984

12.3 Advances include Rs. 15,427,848 thousand (2010 : Rs. 10,961,145 thousand) which have been placed under non-performing status as detailed below:

Category of classification	2011			2010		
	Classified advances	Provision required	Provision held	Classified advances	Provision required	Provision held
	Rupees in '000					
Substandard	435,122	84,115	84,115	348,017	73,725	73,725
Doubtful	2,081,269	583,816	583,816	2,417,408	836,356	836,356
Loss	12,911,457	9,260,740	9,260,740	8,195,720	6,553,371	6,553,371
	<u>15,427,848</u>	<u>9,928,671</u>	<u>9,928,671</u>	<u>10,961,145</u>	<u>7,463,452</u>	<u>7,463,452</u>

12.4 Consideration of forced sales value (FSV) for the purposes of provisioning against non-performing loans

In accordance with BSD Circular No. 1 dated 21 October 2011 issued by the State Bank of Pakistan, during the year 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. 2,047.969 million (2010: Rs. 676.72 million) and profit after taxation for the year ended 31 December 2011 would have been lower by approximately Rs. 1,331.180 million (2010: Rs. 439.868 million). As of 31 December 2011, had the benefit of FSVs not taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 4,028.188 million (2010: Rs. 1,980.219 million) and accumulated profit would have been lower by Rs. 2,618.322 million (2010: Rs. 1,287.142 million). This amount of Rs. 2,618.322 million is not available for the distribution of cash and stock dividend to the shareholders.

12.5 Particulars of provision against non-performing advances:

	Note	2011			2010		
		Specific	General	Total	Specific	General	Total
		Rupees in '000					
Opening balance		7,463,452	58,919	7,522,371	4,204,731	424,745	4,629,476
Charge for the year		3,840,767	35,344	3,876,111	3,826,217	–	3,826,217
Reversals		(1,216,149)	–	(1,216,149)	(522,628)	(365,826)	(888,454)
Net charge for the year		2,624,618	35,344	2,659,962	3,303,589	(365,826)	2,937,763
Amount written off	12.7	(159,399)	–	(159,399)	(44,868)	–	(44,868)
Closing balance	12.6	<u>9,928,671</u>	<u>94,263</u>	<u>10,022,934</u>	<u>7,463,452</u>	<u>58,919</u>	<u>7,522,371</u>

12.5.1 General provision includes provision of Rs. 19.610 million (2010: Rs. 22.117 million) made against consumer portfolio in accordance with the Prudential Regulations issued by SBP at 1.5% of fully secured and at 5% of the unsecured consumer portfolio. For the remaining balance of general provision refer note 5.4.

12.6 Particulars of provision against non-performing advances:

	2011			2010		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local currency	9,507,672	94,263	9,601,935	7,161,149	58,919	7,220,068
In foreign currencies	420,999	–	420,999	302,303	–	302,303
	<u>9,928,671</u>	<u>94,263</u>	<u>10,022,934</u>	<u>7,463,452</u>	<u>–</u>	<u>58,919,371</u>

12.7 Particulars of write-offs:

	2011	2010
	Rupees in '000	
12.7.1 Against provisions	159,399	44,868
Directly charged to profit and loss account	–	–
	<u>159,399</u>	<u>44,868</u>
12.7.2 Write-offs of Rs. 500,000/- and above	158,139	44,023
Write-offs of below Rs. 500,000/-	1,260	845
	<u>159,399</u>	<u>44,868</u>

12.8 Details of loan write-offs of Rs. 500,000/- and above

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of Rs. 500,000 or above allowed to the persons during the year ended 31 December 2011 is enclosed as Annexure II.

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

Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons		
Balance at beginning of year	690,534	620,908
Loans granted during the year	407,313	323,171
Repayments	(287,958)	(253,545)
Balance at end of year	<u>809,889</u>	<u>690,534</u>
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		
Balance at beginning of year	2,198,466	1,740,927
Loans granted during the year	63,913,349	30,558,362
Repayments	(64,334,863)	(30,100,823)
Balance at end of year	<u>1,776,952</u>	<u>2,198,466</u>

12.10 Net book value of investments in ijarah under IFAS - 2 is net of depreciation of Rs. 489.496 million (2010:Rs. 219.988 million).

	Note	2011	2010
Rupees in '000			
13. OPERATING FIXED ASSETS			
Capital work-in-progress	13.1	107,949	550,779
Property and equipment	13.2	3,087,937	2,801,923
Intangible assets	13.3	–	–
		<u>3,195,886</u>	<u>3,352,702</u>
13.1 Capital work-in-progress			
Civil works	13.1.1	105,169	85,797
Equipments		2,780	13,732
Advances against purchase of properties		–	451,250
		<u>107,949</u>	<u>550,779</u>

13.1.1 This represents renovations carried out at the branches.

13.2 Property and equipment

	Cost			Depreciation			Book Value	Rate of depreciation %
	As at 01 January 2011	Additions/(deletions)	As at 31 December 2011	As at 01 January 2011	Charge for the year/(deletions)	As at 31 December 2011	As at 31 December 2011	
Rupees in '000								
Freehold land	22,690	–	22,690	–	–	–	22,690	–
Leasehold land	50,688	–	50,688	–	2,430	2,430	48,258	1.49 & 1.51
Buildings / office premises	2,355,143	271,952	2,627,095	435,770	88,754	524,524	2,102,571	4
Furniture, fixtures, office and computer equipment	710,997	189,534 (27,521)	873,010	361,883	161,860 (26,592)	497,151	375,859	15 & 25
Vehicles	13,060	13,955 (12,791)	14,224	6,736	4,009 (2,009)	8,736	5,488	20
Leasehold improvements	765,349	226,804 –	992,153	311,615	147,467	459,082	533,071	20
2011	<u>3,917,927</u>	<u>702,245 (40,312)</u>	<u>4,579,860</u>	<u>1,116,004</u>	<u>404,520 (28,601)</u>	<u>1,491,923</u>	<u>3,087,937</u>	
	Cost			Depreciation			Book Value	Rate of depreciation %
	As at 01 January 2010	Additions/(deletions)	As at 31 December 2010	As at 01 January 2010	Charge for the year/(deletions)	As at 31 December 2010	As at 31 December 2010	
Rupees in '000								
Freehold land	22,690	–	22,690	–	–	–	22,690	–
Leasehold land	50,688	–	50,688	–	–	–	50,688	–
Buildings / office premises	1,952,173	402,970	2,355,143	364,186	71,584	435,770	1,919,373	4
Furniture, fixtures, office and computer equipment	555,736	171,107 (15,846)	710,997	244,109	131,982 (14,208)	361,883	349,114	15 & 25
Vehicles	9,997	7,215 (4,152)	13,060	5,686	1,874 (824)	6,736	6,324	20
Leasehold improvements	558,596	207,246 (493)	765,349	193,345	118,762 (492)	311,615	453,734	20
2010	<u>3,149,880</u>	<u>788,538 (20,491)</u>	<u>3,917,927</u>	<u>807,326</u>	<u>324,202 (15,524)</u>	<u>1,116,004</u>	<u>2,801,923</u>	

13.2.1 The cost of fully depreciated assets still in use is Rs. 241.939 million (2010: Rs.138.241 million).

13.2.2 Details of fixed assets deleted with original cost or book value in excess of Rs. 1,000 thousand or Rs. 250 thousand respectively, whichever is lower are as follows:

Particulars	Cost	Book Value	Sale Proceed	Mode of disposal	Particulars of purchaser
	Rupees in '000				
Office Equipment	375	357	375	Best available quotation	Mr. Babar Ishaq
Vehicles	1,228	1,222	1,332	As per Bank policy	Mr. Ali Nuzhat Abedi (Bank's employee)
Vehicles	1,141	1,134	1,273	As per Bank policy	Ms. Arzoo Mahmood (Bank's employee)
Vehicles	1,026	1,019	1,170	As per Bank policy	Mr. Momin Zia (Bank's employee)
Vehicles	1,026	1,019	1,170	As per Bank policy	Mr. Farjad Jafri (Bank's employee)
Vehicles	992	991	1,170	As per Bank policy	Mr. M. Hanif (Bank's employee)
Vehicles	825	824	825	As per Bank policy	Mr. Haroon Ahmed (Bank's ex - employee)
Vehicles	796	793	1,001	As per Bank policy	Mr. S. Shakeel Ahmed (Bank's employee)
Vehicles	791	790	898	As per Bank policy	Mr. Abdullah A. Sattar (Bank's employee)
Vehicles	791	788	898	As per Bank policy	Mr. Abbas Raza (Bank's employee)
Vehicles	777	772	1,000	As per Bank policy	Mr. Ashfaq Ahmed (Bank's employee)
Vehicles	588	585	711	As per Bank policy	Mr. Rizwan Cochinwala (Bank's employee)
Vehicles	462	456	594	As per Bank policy	Mr. Ashraf Mandvia (Bank's employee)
Vehicles	284	281	487	As per Bank policy	Mr. Azhar Shamim (Bank's employee)
	<u>11,102</u>	<u>11,031</u>	<u>12,904</u>		

13.3 Intangible assets

The cost of fully amortised intangible assets (computer software) still in use is Rs. 27.875 million (2010: Rs. 27.875 million).

	Note	2011	2010
		Rupees in '000	
14. DEFERRED TAX ASSETS			
Deferred tax debits arising in respect of:			
– Deficit on revaluation of investment securities		–	427,787
– Provision against diminution in the value of investments		90,043	65,760
– Provisions against non-performing advances (including off-balance sheet obligations)	30.3	2,549,617	1,818,804
		<u>2,639,660</u>	<u>2,312,351</u>
Deferred tax credits arising due to:			
– Surplus on revaluation of investment securities		(129,335)	–
– Accelerated tax depreciation		(490,516)	(444,023)
		<u>(619,851)</u>	<u>(444,023)</u>
Net deferred tax asset recognised by the Bank		<u>2,019,809</u>	<u>1,868,328</u>

14.1 Reconciliation of deferred tax

	Balance as at 01 January 2010	Recognised in profit & loss account	Recognised in equity	Balance as at 31 December 2010	Recognised in profit & loss account	Recognised in equity	Balance as at 31 December 2011
Rupees in '000							
Deferred debits arising in respect of							
Deficit on revaluation of investments	80,031	–	347,756	427,787	–	(427,787)	–
Provision against diminution in value of investments	43,827	21,933	–	65,760	24,283	–	90,043
Provision against non-performing advances (including off-balance sheet obligation) - note 30.3	1,060,149	758,655	–	1,818,804	730,813	–	2,549,617
	<u>1,184,007</u>	<u>780,588</u>	<u>347,756</u>	<u>2,312,351</u>	<u>755,096</u>	<u>(427,787)</u>	<u>2,639,660</u>
Deferred credits arising due to							
Surplus on revaluation of investments	–	–	–	–	–	(129,335)	(129,335)
Accelerated tax depreciation	(359,301)	(84,727)	–	(444,023)	(46,493)	–	(490,516)
	<u>(359,301)</u>	<u>(84,727)</u>	<u>–</u>	<u>(444,023)</u>	<u>(46,493)</u>	<u>(129,335)</u>	<u>(619,851)</u>
	<u>824,706</u>	<u>695,861</u>	<u>347,756</u>	<u>1,868,328</u>	<u>708,603</u>	<u>(557,122)</u>	<u>2,019,809</u>

	Note	2011	2010
		Rupees in '000	
15. OTHER ASSETS			
Income / mark-up accrued in local currency		3,220,615	3,689,121
Income / mark-up accrued in foreign currencies		57,556	22,122
Advances, deposits, advance rent and other prepayments		320,861	285,236
Branch adjustment account		66	-
Unrealized gain on forward foreign exchange contracts		1,017,920	1,360,030
Receivable from the SBP against encashment of government securities		109,229	30,617
Stationery and stamps on hand		33,428	31,287
Advance payments against ijarah		9,702	196,073
Advance payments against diminishing musharika		5,093	82,135
Advance payments against murabaha		719,882	207,991
Dividend receivable / encashment of sukuk certificates		142,841	8,485
Others		313,099	18,183
		<u>5,950,292</u>	<u>5,931,280</u>
Less: Provision against other assets	15.1	<u>(275,000)</u>	<u>-</u>
		<u>5,675,292</u>	<u>5,931,280</u>
15.1 Provision held against other assets			
Opening balance		-	-
Charge for the year		275,000	-
Closing balance		<u>275,000</u>	<u>-</u>
16. BILLS PAYABLE			
In Pakistan		<u>3,733,794</u>	<u>2,572,954</u>
		<u>3,733,794</u>	<u>2,572,954</u>
17. BORROWINGS			
In Pakistan		64,608,324	61,172,031
Outside Pakistan		2,032,902	1,357,698
		<u>66,641,226</u>	<u>62,529,729</u>
17.1 Particulars of borrowings in respect of currencies			
In local currency		64,518,378	61,172,031
In foreign currencies		2,122,848	1,357,698
		<u>66,641,226</u>	<u>62,529,729</u>

	Note	2011	2010
		Rupees in '000	
17.2 Details of borrowings			
Secured			
Borrowings from the State Bank of Pakistan			
– under export refinance scheme		20,573,018	25,710,819
– under long term financing - export oriented projects		701,047	1,300,872
– under long term financing facility - locally manufactured plant and machinery		1,908,929	1,418,938
	17.2.1	<u>23,182,994</u>	<u>28,430,629</u>
Repurchase agreement borrowings	17.2.2	39,270,858	32,630,475
		<u>62,453,852</u>	<u>61,061,104</u>
Unsecured			
Call borrowings	17.2.3	2,041,954	100,000
Overdrawn nostro accounts		2,032,902	1,357,698
Overdrawn local bank accounts		22,572	10,927
Other short term borrowing	17.2.4	89,946	–
		<u>4,187,374</u>	<u>1,468,625</u>
		<u>66,641,226</u>	<u>62,529,729</u>

17.2.1 These carrying mark-up rates ranging between 4.00% to 11.00% (2010: 4.00% to 9.50%) per annum which is payable quarterly or upon maturity of loans, whichever is earlier.

17.2.2 These have been borrowed from financial institutions and are secured against federal government securities and carry mark-up rates ranging between 11.65% to 11.75% (2010: 12.70% to 13.00%) per annum, with maturities upto 23 January 2012.

17.2.3 This is an unsecured borrowing from a financial institution, carrying mark-up rates ranging between 11.30% to 13.15% (2010: 12.60%) per annum with maturities upto 29 March 2012.

17.2.4 This is an unsecured borrowing from financial institution in foreign currency, carrying mark-up at the rate of 2.00% (2010: Nil) per annum and will mature on 10 December 2012.

	Note	2011	2010
		Rupees in '000	
18. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		82,159,532	69,954,427
Savings deposits		44,166,722	38,873,120
Current accounts (non-remunerative)		45,008,091	37,316,518
Others		2,200,862	1,818,566
		173,535,207	147,962,631
Financial institutions			
Remunerative deposits		11,588,193	12,111,834
Non-remunerative deposits		276,402	383,510
		11,864,595	12,495,344
		185,399,802	160,457,975
18.1 Particulars of deposits			
In local currency		166,902,452	144,776,586
In foreign currencies		18,497,350	15,681,389
		185,399,802	160,457,975
19. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		4,260,173	3,722,026
Mark-up / return / interest payable in foreign currencies		39,507	23,081
Unearned commission and income on bills discounted		85,355	119,288
Accrued expenses	19.2	433,238	259,044
Current taxation (provisions less payments)		542,548	426,814
Provision against off-balance sheet obligations	19.1	38,922	38,922
Unclaimed dividend		2,088	3,150
Unrealized loss on forward foreign exchange contracts		1,009,558	628,822
Branch adjustment account		-	181
Workers' welfare fund	29.2	269,669	122,759
Excise duty payable		9,486	26,128
Locker deposits		373,854	313,297
Advance against diminishing musharika		46,948	37,067
Advance rental for ijarah		4,824	17,743
Security deposits against leases/ ijarah		346,367	437,229
Sundry creditors		144,220	67,395
Withholding tax/duties		121,281	13,217
Others		142,990	85,698
		7,871,028	6,341,861
19.1 Provision against off-balance sheet obligations			
Opening balance		38,922	-
Charge for the year		-	38,922
Closing balance		38,922	38,922
19.2 This includes liability in respect of employees compensated absences amounting to Rs. 90.525 million (2010: Rs. 88.849 million).			

20. SHARE CAPITAL

20.1 Authorised capital

2011	2010		2011	2010
Number of shares			Rupees in '000	
1,200,000,000	1,200,000,000	Ordinary shares of Rs. 10/- each	12,000,000	12,000,000

20.2 Issued, subscribed and paid-up capital

		Ordinary shares of Rs. 10/- each		
30,000,000	30,000,000	- issued for cash	300,000	300,000
92,500,000	92,500,000	- issued upon amalgamation	925,000	925,000
925,331,480	750,692,900	- issued as bonus shares	9,253,315	7,506,929
1,047,831,480	873,192,900		10,478,315	8,731,929

20.3 As of the balance sheet date, Habib Bank AG Zurich – Switzerland (the holding company) held 534,394 thousand (2010: 445,328 thousand) ordinary shares of Rs.10/- each (51% holding).

21. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX

Available-for-sale securities

Federal government securities

Market Treasury Bills	324,026	(132,006)
Pakistan Investment Bonds	(32,953)	(1,140,910)
GOP Ijarah Sukuk	66,457	73,714

Fully paid-up ordinary shares

Listed shares	27,926	(762)
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Term finance certificates, sukuk certificates and bonds

Listed	(17,787)	(46,592)
Unlisted	-	(4,915)
Sukuk Certificates / Bonds	(9,219)	(30,806)

Mutual funds

Open end	83,801	189,756
Close end	24,792	18,440

	467,043	(1,074,081)
Related deferred tax (liability) / asset - net	(129,335)	427,787
	337,708	(646,294)

22. CONTINGENCIES AND COMMITMENTS	2011	2010
	Rupees in '000	
22.1 Direct credit substitutes		
Bank guarantees of indebtedness in favour of:		
– Banking companies and other financial institutions	71,012	238,522
22.2 Transaction-related contingent liabilities		
Includes performance bonds, bid bonds, advance payment guarantees and shipping guarantees favouring:		
i) Government	10,115,047	9,351,603
ii) Banking companies and other financial institutions	51,928	286,415
iii) Others	3,193,794	3,711,022
	<u>13,360,769</u>	<u>13,349,040</u>
22.3 Trade-related contingent liabilities		
Letters of credit	50,815,273	49,231,412
Acceptances	12,360,730	10,313,588
22.4 Commitments in respect of forward exchange contracts		
Purchase	54,377,083	55,991,653
Sale	62,519,824	68,631,860
22.5 Commitments in respect of operating leases		
Not later than one year	36,841	57,991
Later than one year and not later than five years	23,831	30,154
	<u>60,672</u>	<u>88,145</u>
The Bank has entered into non-cancellable lease agreements with a Modaraba which has been duly approved by the Religious Board as ijarah transactions. The monthly rental instalments are spread over a period of 72 months. When a lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.		
22.6 Commitments for the acquisition of operating fixed assets	9,105	62,154
22.7 Claims against bank not acknowledged as debt	2,424,410	2,229,910
22.8 Commitments in respect of forward lendings		
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 penalty if the facility is unilaterally withdrawn.		

	2011	2010
	Rupees in '000	
22.9 Commitments in respect of syndicate financing	-	253,691
22.10 Commitments in respect of investment in sukuk certificates and term finance certificates	-	48,572

23. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank deals in derivative financial instruments namely forward foreign exchange contracts and foreign currency swaps with the principal view of hedging the risks arising from its trade business.

As per the Bank's policy, these contracts are reported on their fair value at the balance sheet date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Unrealized gains and losses on these contracts are recorded on the balance sheet under "other assets / other liabilities".

These products are offered to the Bank's customers to protect from unfavourable movements in foreign currencies. The Bank hedges such exposures in the inter-bank foreign exchange market.

These positions are reviewed on a regular basis by the Bank's Asset and Liability Committee (ALCO).

24. MARK-UP / RETURN / INTEREST EARNED

On loans and advances to:		
Customers	12,908,642	11,811,187
Financial institutions	21,534	36,534
	<u>12,930,176</u>	<u>11,847,721</u>
On investments in:		
Available-for-sale securities	13,519,602	10,724,362
Held-to-maturity securities	106,937	97,011
	<u>13,626,539</u>	<u>10,821,373</u>
On deposits with financial institutions	193,663	551,173
On securities purchased under resale agreements	497,411	160,047
	<u>27,247,789</u>	<u>23,380,314</u>

25. MARK-UP / RETURN / INTEREST EXPENSED

Deposits and other accounts	12,603,838	10,838,649
Securities sold under repurchase agreements	4,084,273	3,292,775
Short term borrowings	2,633,204	2,115,233
Long term borrowings	227,217	186,834
	<u>19,548,532</u>	<u>16,433,491</u>

	Note	2011	2010
		Rupees in '000	
26. GAIN ON SALE / REDEMPTION OF SECURITIES – NET			
Federal Government Securities			
Market treasury bills		106,374	(2,450)
Pakistan investment bonds		(33,490)	–
Fully paid-up ordinary shares			
Listed companies		19,700	63,954
Sukuk Certificates		8,331	1,188
Mutual Funds			
Open-end and close-end		249,628	182,744
		<u>350,543</u>	<u>245,436</u>
27. OTHER INCOME			
Rent on properties		26,811	19,554
Net gain on sale of fixed assets		8,183	5,404
Recovery of expenses from customers	27.1	124,284	120,893
Others	27.2	83,633	104,646
		<u>242,911</u>	<u>250,497</u>

27.1 Includes courier, telex, postage and other charges recovered from customers.

27.2 Includes income from various general banking services such as limit processing charges, limit renewal charges, same day clearing, cheque return charges and rent of lockers etc.

	Note	2011	2010
Rupees in '000			
28. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		2,240,400	1,882,257
Contract staff		109,383	97,229
Charge for defined benefit plan	34.4	68,068	58,708
Contribution to defined contribution plan		88,195	72,883
Non-executive directors' fees, allowances and other expenses		5,080	6,120
Brokerage and commission		82,262	71,233
Rent, taxes, insurance, electricity etc.		640,428	550,209
Legal and professional charges		100,842	53,844
Communication		144,386	134,471
Repairs and maintenance		171,627	125,412
Rentals of operating leases		65,061	87,205
Stationery and printing		86,420	67,363
Management fee		161,950	141,175
Advertisement and publicity		33,998	47,168
Donations	28.1	34,096	35,855
Auditors' remuneration	28.2	5,496	2,949
Depreciation	13.2	404,520	324,202
Security charges		91,394	70,360
Travelling and conveyance		43,289	40,496
Computer software maintenance		55,906	53,528
Motor car running		47,196	42,043
Cartage, handling and freight charges		42,270	35,630
Others		201,572	172,500
		4,923,839	4,172,840

28.1 None of the directors, executives and their spouses had any interest in the donations disbursed during the year except for donations paid to Habib University Foundation, Habib Medical Trust, Habib Poor Fund, Mohamedali Habib Welfare Trust and Shaukat Khanum Memorial Trust. Donations paid in excess of Rs. 100,000 to a single party during the year are as follows:

	2011	2010
Rupees in '000		
DONEE		
The Citizens Foundation	7,932	8,200
Habib University Foundation	2,500	1,000
Mohamedali Habib Welfare Trust	2,500	1,000
Al-Asad Welfare Trust	1,500	600
Habib Medical Trust	1,460	960
Bait-ul-Sukoon	1,200	–
Memon Health and Education Foundation	1,200	–
Sindh Institute of Urology and Transplantation (SIUT)	1,000	750
Al-Sayyeda Benevolent Trust	960	960
Habib Poor Fund	960	960
RahmatBai Habib Food & Clothing Trust	960	960
RahmatBai Habib Widows & Orphan Trust	960	960

DONEY	2011	2010
	Rupees in '000	
Abbas-e-Alamdar Hostel	685	860
Pakistan Memon Educational & Welfare Society	600	600
Thardeep Rural Development Programme	500	–
Abdul Sattar Edhi Foundation	500	500
Caravan of Life (Pak) Trust	500	–
M.B.J. Health Association	500	–
Memon Educational Board	500	500
Pakistan Memon Women Educational Society	500	500
Zehra Homes	500	480
Dhoraji Association	375	375
Marie Adelaide Leprosy Centre	280	250
Al-Umeed Rehabilitation Association	250	250
Anjuman Behbood-e-Samat-e-Atfal	250	250
Bantva Memon Jamat	250	250
Bantva Memon Rahat Committee	250	250
Dar-ul- Sukun	250	100
Fatimiyah Education Network (KPSIAJ)	250	250
Pak Medical and Welfare Trust	250	250
Patients' Aid Foundation	250	75
Patients' Welfare Association	250	100
Poor Patients Aid Society Civil Hospital Karachi	250	100
Rotary Club of Karachi Continental	250	250
Shaukat Khanum Memorial Trust	250	250
SOS Childrens Village of Pakistan	250	250
The Kidney Centre	250	250
The Layton Rahmatulla Benevolent Trust	250	250
Ahmed Abdullah Foundation (MA Ayesha Memorial Centre)	200	200
IDA Rieu Poor Welfare Association	200	100
Kashmir Education Foundation	200	200
Bantva Anjuman Himayat-e-Islam	150	150
Responsible Business Initiative	123	–
Academy of Quranic Studies	120	120
Raast Welfare Society	–	6,000
Aziz Tabba Foundation	–	1,200
Bait-ul-Sukoon Cancer Hospital	–	1,000
Young President Organisation	–	500
Hussaini Foundation	–	500
The Institute of Business Administration (I.B.A.)	–	500
Developments in Literacy	–	250
The Medical Aid Foundation	–	200
Marie Adelaide Leprosy Centre	–	200
Combined Military Hospital (CMH)	–	200
Special Olympics Pakistan	–	200
Sada Welfare Foundation	–	175
	<u>33,315</u>	<u>35,235</u>

	Note	2011	2010
		Rupees in '000	
28.2 Auditors' remuneration			
Audit fee		1,500	1,350
Review of half-yearly financial statements		500	450
Special audit certifications and sundry advisory services		2,818	708
Out-of-pocket expenses		678	441
		<u>5,496</u>	<u>2,949</u>

29. OTHER CHARGES

Penalties imposed by the SBP	29.1	155,678	216
Workers' welfare fund	29.2	146,910	96,032
		<u>302,588</u>	<u>96,248</u>

29.1 Included in the above, a sum of Rs. 154,500 thousand imposed by State Bank of Pakistan (SBP) based on instances observed during their inspection for the period ended June 30, 2009. The Bank has contested the same and has filed a refund request for Rs. 149,619 thousand, which is currently under review by SBP.

29.2 Under the Workers' Welfare Ordinance (WWF) 1971, the Bank is liable to pay workers' welfare fund @ 2% of accounting profit before tax or taxable income, whichever is higher.

30. TAXATION

For the year			
Current		2,192,666	1,904,158
Prior years		(134,985)	-
Deferred		(708,603)	(695,861)
	30.2	<u>1,349,078</u>	<u>1,208,297</u>

30.1 Income tax assessments of the Bank have been finalised upto the tax year 2008 (corresponding to the accounting year ended 31 December 2007). Income tax returns for the tax years 2009, 2010 and 2011 (corresponding to the accounting years ended 31 December 2008, 2009 and 2010) filed under section 120 of Income Tax Ordinance. Tax year 2009 and 2010 have been selected for audit by the Income Tax authorities who vide respective years' assessment orders disallowed certain expenses and provisions against which the Bank's appeals are pending with Appellate Tribunal Inland Revenue (ATIR) and Commissioner Inland Revenue (Appeals). However, adequate provisions are being held by the Bank.

30.2 Relationship between tax expense and accounting profit

Profit before tax		4,630,451	4,026,335
Tax at the applicable rate of 35% (2010: 35%)		1,620,658	1,409,217
Tax effect of income taxed at reduced rate		(322,152)	(212,331)
Others		50,572	11,411
Tax charge for the year		<u>1,349,078</u>	<u>1,208,297</u>

30.3 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 and 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. 2,549.617 million (2010: Rs. 1,818.804 million).

	Note	2011	2010
		Rupees in '000	
31. BASIC AND DILUTED EARNINGS PER SHARE			
Profit after taxation		<u>3,281,373</u>	<u>2,818,038</u>
		Number in '000	
		(Restated)	
Weighted average number of ordinary shares	31.1	<u>1,047,831</u>	<u>1,047,831</u>
		Rupees	
		(Restated)	
Basic and diluted earnings per share		<u>3.13</u>	<u>2.69</u>

31.1 The weighted average number of shares for 2010 have been adjusted for the effect of bonus issue during the year.

		2011	2010
		Rupees in '000	
32. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	8	14,233,690	13,923,393
Balances with other banks	9	3,551,591	3,123,094
Overdrawn nostro accounts	17.2	(2,032,902)	(1,357,698)
Overdrawn local banks accounts	17.2	(22,572)	(10,927)
		<u>15,729,807</u>	<u>15,677,862</u>

		2011	2010
		Number	
33. STAFF STRENGTH			
Permanent		<u>2,186</u>	<u>1,965</u>
Temporary / on contractual basis		<u>313</u>	<u>393</u>
Bank's own staff strength at the end of the year		<u>2,499</u>	<u>2,358</u>
Outsourced		<u>574</u>	<u>579</u>
Total staff strength		<u>3,073</u>	<u>2,937</u>

34. DEFINED BENEFIT PLAN

34.1 General description

The benefits under the funded gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service. The benefit is equal to one month's last basic salary drawn for each year of eligible service subject to a maximum of 24 months last drawn basic salary. The minimum qualifying period for eligibility under the plan is five years of continuous service.

34.2 Principal actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2011 using "Projected Unit Credit Actuarial Cost Method". The main assumptions used for the actuarial valuation were as follows:

	Note	2011	2010
Discount rate – percent (per annum)		12.50	14.00
Expected rate of return on plan assets – percent (per annum)		14.00	15.00
Long term rate of salary increase – percent (per annum)		12.50	14.00

34.3 Reconciliation of defined benefit plan

		2011	2010
Rupees in '000			
Fair value of plan assets	34.6	436,189	337,025
Present value of defined benefit obligation	34.7	(506,845)	(420,087)
Unrecognised actuarial loss		70,656	83,062
		-	-

34.4 Movement in defined benefit plan

Opening balance		-	-
Charge for the year	34.5	68,068	58,708
Contribution to the fund		(68,068)	(58,708)
Closing balance		-	-

34.5 Charge for defined benefit plan

Current service cost		55,592	36,542
Interest cost		57,165	46,162
Expected return on plan assets		(50,554)	(32,599)
Actuarial loss recognised		5,865	8,603
		68,068	58,708

34.6 Movement in fair value of plan assets

Opening balance		337,025	250,760
Expected return on plan assets		50,554	32,599
Actuarial gain recognized	34.8	4,071	14,060
Benefits paid		(23,529)	(19,102)
Contribution to the fund	34.4	68,068	58,708
Closing balance		436,189	337,025

	Note	2011	2010
		Rupees in '000	
34.7 Movement in present value of defined benefit obligation			
Opening balance		420,087	355,096
Current service cost		55,592	36,541
Interest cost		57,165	46,162
Actuarial (gain)/ loss recognized	34.8	(2,470)	1,390
Benefits paid		(23,529)	(19,102)
Closing balance		<u>506,845</u>	<u>420,087</u>
34.8 Annual actuarial (gain) / loss recognised			
Experience (gain) / loss on obligation		(2,470)	1,390
Experience (gain) on plan assets		(4,071)	(14,060)
Total (gain) recognised during the year		<u>(6,541)</u>	<u>(12,670)</u>
34.9 Actual return on plan assets		<u>54,625</u>	<u>46,659</u>
34.10 Plan assets comprise the following:			

	2011		2010	
	Rupees in '000	%	Rupees in '000	%
Government securities	–	–	1,500	0.45%
Bank deposits	436,189	100%	335,525	99.55%
	<u>436,189</u>	<u>100%</u>	<u>337,025</u>	<u>100%</u>

34.10.1 The amount represents balance which is deposited with the branches of the Bank.

34.11 Historical information

	2011	2010	2009	2008	2007
	Rupees in '000				
Present value of defined benefit obligation	506,845	420,087	355,096	263,311	240,826
Fair value of plan assets	(436,189)	(337,025)	(250,760)	(205,633)	(189,481)
Deficit/(surplus)	<u>70,656</u>	<u>83,062</u>	<u>104,336</u>	<u>57,678</u>	<u>51,345</u>
Actuarial (gain) / loss on obligation	<u>(2,470)</u>	<u>1,390</u>	<u>45,067</u>	<u>(9,754)</u>	<u>41,318</u>
Actuarial (gain) / loss on assets	<u>(4,071)</u>	<u>(14,060)</u>	<u>4,529</u>	<u>13,329</u>	<u>(7,650)</u>

35. DEFINED CONTRIBUTION PLAN

The general description of the plan is included in note 5.9

36. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President & Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	Rupees in '000					
Fees	–	–	5,080	6,120	–	–
Managerial remuneration	45,000	45,000	–	–	1,144,715	898,538
Charge for defined benefit plan	250	250	–	–	2,779	2,794
Contribution to defined contribution plan	3,600	3,600	–	–	49,223	37,077
Utilities	–	–	1,447	1,129	–	–
Bonus	–	–	–	–	139,954	110,583
Others	3,600	3,600	3,640	5,263	–	–
	<u>52,450</u>	<u>52,450</u>	<u>10,167</u>	<u>12,512</u>	<u>1,336,671</u>	<u>1,048,992</u>
Number of persons	<u>1</u>	<u>1</u>	<u>8</u>	<u>8</u>	<u>685</u>	<u>561</u>

36.1 The Chief Executive, Executive Director and certain executives are provided with free use of cars and household equipment in accordance with their terms of employment. The Chief Executive is also provided with unfurnished accommodation, club subscription and leave fare assistance.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, and have been disclosed in Annexure "I".

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to the absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.4.

The maturity and repricing profile and effective rates are stated in notes 41.6 and 41.5 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits, are frequently repriced.

38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activities is as follows:

	2011			
	Trade & Sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Total income *	15,438,827	8,716,737	15,246,863	39,402,427
Total expenses *	13,720,618	8,122,442	12,928,916	34,771,976
Net income	<u>1,718,209</u>	<u>594,295</u>	<u>2,317,947</u>	<u>4,630,451</u>
Segment assets (gross)	159,209,644	1,244,403	127,765,311	288,219,358
Segment non performing loans	119,252	16,756	15,291,840	15,427,848
Segment provision required	76,395	15,798	9,836,478	9,928,671
Segment liabilities	43,563,528	102,110,067	117,972,255	263,645,850
Segment return on net assets (%)	9.70%	8.54%	11.93%	13.67%
Segment cost of funds (%)	8.62%	7.95%	10.12%	12.06%

	2010			
	Trade & Sales	Retail banking	Commercial banking	Total
	Rupees in '000			
Total income *	12,721,450	8,170,578	12,789,636	33,681,664
Total expenses *	9,445,982	8,051,899	12,157,448	29,655,329
Net income	<u>3,275,468</u>	<u>118,679</u>	<u>632,188</u>	<u>4,026,335</u>
Segment assets (gross)	114,220,222	1,181,566	136,808,864	252,210,652
Segment non performing loans	79,096	16,884	10,865,165	10,961,145
Segment provision required	63,423	13,947	7,386,082	7,463,452
Segment liabilities	34,531,139	100,597,830	96,773,550	231,902,519
Segment return on net assets (%)	11.14%	8.12%	9.35%	13.35%
Segment cost of funds (%)	8.27%	8.00%	8.89%	11.76%

* Includes inter-segment income and expenses

39. TRANSACTIONS WITH RELATED PARTIES

The Bank has related party relationships with its holding company, subsidiary, companies with common directorship, key management personnel, directors and employee benefit plans.

Contributions in respect of employees' retirement benefits are made in accordance with actuarial valuation and terms of contribution plan. Salaries & allowances of the key management personnel are in accordance with the terms of their employment. Other transactions are at agreed terms.

31 December 2011

	Holding company	Subsidiary	Associates	Key management personnel	Directors	Retirement benefit plans	Total
Rupees in '000							
Deposits							
At beginning of the year	93,074	143,544	3,220,383	60,493	64,546	1,233,885	4,815,925
Received during the year	14,870,118	63,730,517	593,595,088	279,750	946,006	3,443,040	676,864,519
Repaid during the year	(14,784,928)	(63,755,475)	(591,935,459)	(280,218)	(936,981)	(3,128,263)	(674,821,324)
At end of the year	<u>178,264</u>	<u>118,586</u>	<u>4,880,012</u>	<u>60,025</u>	<u>73,571</u>	<u>1,548,662</u>	<u>6,859,120</u>
Advances							
At beginning of the year	-	-	2,198,466	22,276	-	-	2,220,742
Disbursed during the year	-	-	63,913,349	14,468	-	-	63,927,817
Recovered during the year	-	-	(64,334,863)	(5,848)	-	-	(64,340,711)
At end of the year	<u>-</u>	<u>-</u>	<u>1,776,952</u>	<u>30,896</u>	<u>-</u>	<u>-</u>	<u>1,807,848</u>
Bank balances held by the Bank	<u>197,044</u>	<u>-</u>	<u>31,097</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>228,141</u>
Over drawn bank balances held by the Bank	<u>-</u>	<u>-</u>	<u>(1,049,728)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,049,728)</u>
Mark-up / return / interest receivable	<u>-</u>	<u>-</u>	<u>10,937</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,937</u>
Mark-up / return / interest payable	<u>-</u>	<u>983</u>	<u>60,039</u>	<u>922</u>	<u>694</u>	<u>109,396</u>	<u>172,034</u>
Management fee payable for technical and consultancy services *	<u>143,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,500</u>
Prepayments / advance deposits	<u>-</u>	<u>-</u>	<u>18,190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,190</u>
Transaction-related contingent liabilities	<u>-</u>	<u>25,000</u>	<u>1,402,878</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,427,878</u>
Trade-related contingent liabilities	<u>-</u>	<u>-</u>	<u>1,706,015</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,706,015</u>
Advance received against prepaid card	<u>-</u>	<u>-</u>	<u>1,957</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,957</u>
Advance received against insurance premium	<u>-</u>	<u>-</u>	<u>363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>363</u>

* Management fee is as per the agreement with the holding company.

31 December 2010

	Holding company	Subsidiary	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Deposits							
At beginning of the year	19,450	271,886	3,531,415	46,038	57,143	850,526	4,776,458
Received during the year	10,155,609	132,920,884	401,599,525	192,382	212,650	4,451,142	549,532,192
Repaid during the year	(10,081,985)	(133,049,226)	(401,910,557)	(177,927)	(205,247)	(4,067,783)	(549,492,725)
At end of the year	<u>93,074</u>	<u>143,544</u>	<u>3,220,383</u>	<u>60,493</u>	<u>64,546</u>	<u>1,233,885</u>	<u>4,815,925</u>
Advances							
At beginning of the year	-	-	1,740,927	15,540	-	-	1,756,467
Disbursed during the year	-	-	30,558,362	12,331	-	-	30,570,693
Recovered during the year	-	-	(30,100,823)	(5,595)	-	-	(30,106,418)
At end of the year	<u>-</u>	<u>-</u>	<u>2,198,466</u>	<u>22,276</u>	<u>-</u>	<u>-</u>	<u>2,220,742</u>
Bank balances held by the Bank	<u>164,431</u>	<u>-</u>	<u>57,588</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>222,019</u>
Over drawn bank balances held by the Bank	<u>(48,942)</u>	<u>-</u>	<u>(763,041)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(811,983)</u>
Mark-up / return / interest receivable	<u>-</u>	<u>-</u>	<u>9,929</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,929</u>
Mark-up / return / interest payable	<u>-</u>	<u>1,515</u>	<u>31,548</u>	<u>543</u>	<u>700</u>	<u>77,065</u>	<u>111,371</u>
Management fee payable for technical and consultancy services *	<u>137,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>137,100</u>
Prepayments / advance deposits	<u>-</u>	<u>-</u>	<u>17,168</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,168</u>
Transaction-related contingent liabilities	<u>-</u>	<u>25,000</u>	<u>1,023,991</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,048,991</u>
Trade-related contingent liabilities	<u>-</u>	<u>-</u>	<u>2,002,067</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,002,067</u>
Advance received against prepaid card	<u>-</u>	<u>-</u>	<u>1,609</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,609</u>
Advance received against insurance premium	<u>-</u>	<u>-</u>	<u>54</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54</u>

* Management fee is as per the agreement with the holding company.

Transactions during the year

For the year ended 31 December 2011

	Holding company	Subsidiary	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	Rupees in '000						
Mark-up/return/interest earned	-	-	122,969	2,630	-	-	125,599
Mark-up/return/interest expensed	-	12,378	578,336	7,634	6,230	129,024	733,602
Commission / brokerage / bank charges recovered	-	459	20,172	-	-	-	20,631
Rent income	-	1,200	1,033	-	-	-	2,233
Net gain on sale of fixed assets	-	-	-	471	-	-	471
Salaries and allowances	-	-	-	120,388	-	-	120,388
Directors' fees	-	-	-	-	5,080	-	5,080
Contribution to defined benefit plan	-	-	-	-	-	68,068	68,068
Contribution to defined contribution plan	-	-	-	-	-	88,195	88,195
Bank charges paid	1,976	226	8,931	-	-	-	11,133
Rent expenses	-	-	16,964	-	-	-	16,964
Insurance premium expenses	-	-	32,742	-	-	-	32,742
Maintenance, electricity, stationery & entertainment	-	-	31,983	-	-	-	31,983
Management fee expense for technical and consultancy services*	161,950	-	-	-	-	-	161,950
Donation	-	-	7,670	-	-	-	7,670
Professional / other charges	-	-	12,284	-	-	-	1,284

* Management fee is as per the agreement with the holding company.

Transactions during the year	For the year ended 31 December 2010						Total
	Holding company	Subsidiary	Associates	Key management personnel	Directors	Retirement benefit plans	
	Rupees in '000						
Mark-up/return/interest earned	–	–	95,960	1,386	–	–	97,346
Mark-up/return/interest expensed	–	25,887	542,461	7,530	5,361	115,648	696,887
Commission / brokerage / bank charges recovered	–	519	11,610	–	–	–	12,129
Rent income	–	1,200	938	–	–	–	2,138
Salaries and allowances	–	–	–	112,705	–	–	112,705
Directors' fees	–	–	–	–	6,120	–	6,120
Contribution to defined benefit plan	–	–	–	–	–	58,708	58,708
Contribution to defined contribution plan	–	–	–	–	–	72,883	72,883
Bank charges paid	2,329	228	8,067	–	–	–	10,624
Rent expenses	–	16,127	–	–	–	–	16,127
Insurance premium expenses	–	–	30,778	–	–	–	30,778
Maintenance, electricity, stationery & entertainment	–	–	22,655	–	–	–	22,655
Management fee expense for technical and consultancy services*	141,175	–	–	–	–	–	141,175
Donation	–	–	2,920	–	–	–	2,920
Professional / other charges	–	–	10,715	–	–	–	10,715

* Management fee is as per the agreement with the holding company.

40. CAPITAL ASSESSMENT AND ADEQUACY

40.1 Scope of applications

The Basel II Framework is applicable to the Bank both at the consolidated level (comprising of wholly owned subsidiary – Habib Metropolitan Financial Services Limited) and also on a stand alone basis.

40.2 Capital structure

Bank's regulatory capital has two tiers:

Tier 1 capital, which includes fully issued, subscribed and paid up capital, balance in share premium account, general reserves as per the financial statements and net un-appropriated profits, etc after deductions for investments in the equity of subsidiary company engaged in banking and financial activities and deficit on revaluation of available-for-sale investments.

Tier 2 capital of the Bank includes general provisions for loan losses (up to a maximum of 1.25% of risk weighted assets) and revaluation reserves (subject to 45% of balances in revaluation reserves).

Detail of the Bank's eligible capital (on an unconsolidated basis) is as follows:

40.3 Regulatory capital base	2011	2010
	Rupees in '000	
Tier I capital		
Shareholders' capital	10,478,315	8,731,929
Balance in share premium account	2,550,985	2,550,985
Reserves	6,256,733	5,600,458
Un-appropriated profit (net of losses)	4,949,767	4,071,055
Less: (Deficit) on account of revaluation of available-for-sale securities	-	(1,074,081)
50% deduction for investment in a subsidiary	(150,000)	(150,000)
Shortfall in provisions required against classified assets irrespective of any relaxation allowed	(203,616)	-
Total tier I capital	23,882,184	19,730,346
Tier II capital		
General provision subject to 1.25% of total risk weighted assets	94,263	22,117
Add: Surplus on account of revaluation of available-for-sale investments	210,170	-
Less: 50% deduction for investment in a subsidiary	(150,000)	(150,000)
Total tier II capital	154,433	(127,883)
Eligible tier III capital	-	-
Total regulatory capital base	24,036,617	19,602,463

40.4 Objectives of managing capital

The objectives of the Bank's capital management are to ensure that the Bank complies with the regulatory capital requirement and maintain healthy capital ratios in order to support its business and maximise shareholders' value. Further, capital management aims to ensure that there is sufficient capital to meet the capital requirements of the Bank as determined by the underlying business strategy and the minimum requirements of the SBP.

Externally imposed capital requirements

In order to strengthen the solvency of Banks / Development Financial Institutions (DFI), SBP through its BSD Circular No. 07 dated 15 April 2009 has directed the banks to raise their minimum paid up capital to Rs. 8 billion (free of losses) by the end of financial year 2011.

Furthermore the banks are required to increase their minimum paid up capital to Rs 10 billion (free of losses) in a phased manner by the end of financial year 2013.

The paid up capital of the Bank for the year ended 31 December 2011 was Rs. 10.478 billion and is in compliance with the SBP requirements for the said year. In addition, the banks are also required to maintain the minimum Capital Adequacy Ratio (CAR) of 10% of the risk weighted assets of the Bank.

The Bank's CAR as at 31 December 2011 was 13.93%.

The Bank has complied with all externally imposed capital requirements as at year end.

Capital requirements and risk weighted assets

The risk weighted assets to capital ratio, calculated in accordance with the SBP's guidelines on capital adequacy is as follows:

	Capital Requirements		Risk Weighted Assets	
	2011	2010	2011	2010
	Rupees in '000			
Credit risk				
Portfolios subject to standardised approach (Simple)				
Cash and cash equivalents	-	-	-	-
Government of Pakistan and SBP	-	-	-	-
Public sector entities	37,607	42,539	376,070	425,392
Banks	295,914	373,806	2,959,143	3,738,060
Corporate	8,835,739	9,954,906	88,357,393	99,549,060
Retail	300,201	480,391	3,002,011	4,803,913
Residential mortgage finance	21,070	18,291	210,700	182,912
Past due loans	588,228	374,141	5,882,275	3,741,405
Listed, unlisted equity investments and regulatory capital instruments issued by other banks	207,793	184,380	2,077,930	1,843,797
Claims on fixed assets	319,587	335,270	3,195,886	3,352,702
All other assets	1,587,125	1,330,431	15,871,251	13,304,309
Off balance sheet - non market related	2,747,101	2,860,510	27,471,012	28,605,097
Off balance sheet - market related	124,275	108,962	1,242,746	1,089,620
Market risk				
Capital requirement for portfolios subject to <u>Standardised Approach</u>				
Interest rate risk	46,723	84,355	584,038	1,054,438
Foreign exchange risk	12,203	289,062	152,537	3,613,275
Equity position risk	-	-	-	-
Operational risk				
Capital requirement for operational risks subject to <u>Basic Indicator Approach</u>				
	1,693,657	1,520,685	21,170,713	19,008,563
	<u>16,817,223</u>	<u>17,957,729</u>	<u>172,553,705</u>	<u>184,312,543</u>
Capital adequacy ratio				
Total eligible regulatory capital held (note 40.3)	(a)	24,036,417	19,602,463	
Total risk weighted assets (note 40.4)	(b)	172,553,705	184,312,543	
Capital adequacy ratio	(a)/(b)	<u>13.93%</u>	<u>10.64%</u>	

41. RISK MANAGEMENT

Risk management aspects are embedded in the Bank's strategy, organization structure and processes. The Bank has adopted a cohesive risk management structure for credit, operations, liquidity and market risk to strengthen the process and system from the foundation as controls are more effective and valuable when built into the process. Effective risk management is considered essential in the preservation of the assets and long-term profitability of the Bank. Clear guidelines and limits, which are under regular review, are backed by a system of internal controls and independent audit inspections. Internal reporting / MIS are additional tools for measuring and controlling risks. Separation of duties is also embedded in the Bank's system and organization.

41.1 Credit risk

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises principally in relation to the lending and trade finance business carried out by the Bank.

As per Basel II methodology the gross credit risk weighted exposure incorporating relevant credit conversion factor is Rs. 150.65 billion (2010: Rs. 160.64 billion) as depicted in note 40.4.

The Bank's strategy is to minimize credit risk through a strong pre-disbursement credit analysis, approval and risk measurement process added with product, geography and customer diversification. The Bank, as its strategic preference, extends trade and working capital financing, so as to keep the major portion of exposure (funded and non-funded) on a short-term, self-liquidating basis. Major portion of the Bank's credit portfolio is priced on flexible basis with pricing reviewed on periodic basis.

The Bank's credit policy / instructions defines the credit extension criteria, the credit approval and monitoring process, the loan classification system and provisioning policy

The Bank continually assesses and monitors credit exposures. The Bank follows both objective and subjective criteria of SBP regarding loans classification. The subjective assessment process is based on management's judgement with respect to the borrower's character, activity, cash flow, capital structure, security, quality of management and delinquency.

41.1.1 Segmental information

Segment by class of business	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rs. in '000)	%	(Rs. in '000)	%	(Rs. in '000)	%
Agriculture, forestry, hunting and fishing	9,113	0.01	331,732	0.18	45,952	0.02
Automobile and transportation equipment	2,253,370	1.88	4,406,590	2.38	3,096,898	1.58
Cement	1,205,854	1.01	146,374	0.08	1,321,227	0.67
Chemical and pharmaceuticals	5,346,058	4.47	2,372,853	1.28	5,549,714	2.83
Construction	1,370,071	1.14	2,444,029	1.32	360,804	0.18
Electronics and electrical appliances	3,383,252	2.83	2,217,092	1.20	3,528,417	1.80
Exports / Imports	8,519,060	7.12	10,138,711	5.47	9,943,797	5.07
Financial	1,554,707	1.30	7,275,549	3.92	117,002,723	59.70
Footwear and leather garments	1,762,552	1.47	1,814,515	0.98	239,927	0.12
Individuals	1,349,657	1.13	56,696,528	30.58	-	-
Insurance	-	-	2,423,595	1.31	-	-
Mining and quarrying	520,177	0.43	127,055	0.07	334,762	0.17
Power (electricity), gas, water, sanitary	5,534,400	4.62	2,716,315	1.47	3,113,952	1.59
Services	1,681,512	1.41	294,173	0.16	1,666,453	0.85
Sugar	531,891	0.44	383,644	0.21	564,926	0.29
Textile	61,043,967	51.01	10,773,285	5.79	14,231,676	7.28
Transport, storage and communication	3,302,320	2.76	2,286,406	1.23	666,309	0.34
Wholesale and retail trade	2,404,590	2.01	8,472,419	4.57	2,669,294	1.36
Others	17,907,097	14.96	70,078,937	37.80	31,662,047	16.15
	<u>119,679,648</u>	<u>100.00</u>	<u>185,399,802</u>	<u>100.00</u>	<u>195,998,878</u>	<u>100.00</u>

Segment by sector	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rs. in '000)	%	(Rs. in '000)	%	(Rs. in '000)	%
Public / Government	2,326,706	1.94	23,889,200	12.89	10,510,931	5.36
Private	117,352,942	98.06	161,510,602	87.11	185,487,947	94.64
	<u>119,679,648</u>	<u>100.00</u>	<u>185,399,802</u>	<u>100.00</u>	<u>195,998,878</u>	<u>100.00</u>

Details of non-performing advances and specific provisions by class of business segment

	2011		2010	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	Rupees in '000			
Automobile and transportation equipment	104,486	42,025	124,986	59,847
Cement	25,000	18,160	–	–
Chemical and pharmaceuticals	44,592	–	23,869	4,750
Construction	377,298	136,638	12,478	7,317
Electronics and electrical appliances	659,935	603,878	736,082	710,787
Exports / imports	941,744	504,967	473,189	267,807
Financial	26,664	26,664	–	–
Footwear and leather garments	596,531	449,088	584,795	448,315
Individuals	44,659	40,711	74,636	53,184
Power (electricity), gas, water, sanitary	44,701	28,645	–	–
Services	267,953	92,014	142,434	65,122
Textile	10,958,524	7,157,535	7,496,087	4,888,071
Transport, storage and communication	121,414	109,566	21,029	2,695
Wholesale and retail trade	618,862	399,645	747,097	574,964
Others	595,485	319,135	524,463	380,593
	<u>15,427,848</u>	<u>9,928,671</u>	<u>10,961,145</u>	<u>7,463,452</u>

Details of non-performing advances and specific provisions by sector

	2011		2010	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	Rupees in '000			
Private	<u>15,427,848</u>	<u>9,928,671</u>	<u>10,961,145</u>	<u>7,463,452</u>

Geographical segment analysis

	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000			
Pakistan	<u>4,630,451</u>	<u>288,219,358</u>	<u>24,573,508</u>	<u>195,998,878</u>

Total assets employed include intra group items of Rs. 197,044 thousand.

41.1.2 Credit risk: General disclosures – Basel II specific

The Bank uses the 'Standardised Approach' in calculation of credit risk and capital requirements.

Credit Risk: Disclosures for portfolio subject to the standardised approach & supervisory risk weights in the IRB approach – Basel II specific

The Bank uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures. These are applied consistently across the Bank credit portfolio for both on - balance sheet and off - balance sheet exposures. The methodology applied for using External Credit Assessment Institutions (ECAI's) inclusive of the alignment of alpha numerical scale of each agency used with risk bucket's as per SBP Basel II guidelines is given below:

Types of exposures and ECAI's used

Exposures	2011				
	JCR-VIS	PACRA	S & P	Fitch	Moody's
Corporate	✓	✓	–	–	–
Banks	✓	✓	✓	✓	–
Sovereigns	–	–	–	–	–
SME's	✓	✓	–	–	–
Securitisation	–	–	–	–	–
Others	–	–	–	–	–

41.2 Credit Exposures subject to Standardised Approach

Exposures	Rating category	31 December 2011			31 December 2010		
		Amount outstanding	Deduction CRM	Net amount	Amount outstanding	Deduction CRM	Net amount
Rupees in '000							
Corporate	1	6,296,358	–	6,296,358	5,195,236	9,416	5,185,820
	2	2,731,330	–	2,731,330	439,200	–	439,200
	3, 4	–	–	–	–	–	–
	5, 6	–	–	–	77,224	–	77,224
Claims on banks with original maturity of 3 months or less		6,406,013	–	6,406,013	3,451,025	640,399	2,810,626
Retail		4,606,799	604,118	4,002,681	8,683,790	248,421	8,435,369
Public sector entities	1	306,396	–	306,396	1,296,689	–	1,296,689
Others		176,883,865	–	176,883,865	129,865,286	–	129,865,286
Unrated		89,764,938	1,104,374	88,660,564	132,458,792	5,180,114	127,278,678

Credit risk: Disclosures with respect to credit risk mitigation for standardised and IRB approaches-Basel II specific

The forms of collateral that are deemed to eligible collateral under the 'Simple Approach' to Credit Risk Mitigation as per SBP guidelines are used by the Bank and primarily includes cash, government and rated debt securities.

The Bank applies SBP specified haircut to collateral for Basel II Credit Risk Mitigation. Collateral management is embedded in the Bank's risk taking and risk management policy and procedures. A standard credit granting procedure exists which has been well-disseminated down the line, ensuring proper pre-sanction evaluation, adequacy of security, pre-examination of charge / control documents and monitoring of each exposure on an ongoing basis.

Collateral information is recorded diligently in the Bank's main processing systems by type of collateral, amount of collateral

against relevant credit exposures. A cohesive accounting / risk management system facilitates effective collateral management for Basel II reporting.

Banking Book

All investments excluding trading book are considered as part of banking book.

Equity position risk in the banking book – Basel II specific

Investment in equities is governed by the Board of Directors' approved investment policies which restricts the equity portfolio as well as individual investments to avoid risk of concentration and excessive specific scrip holding. The Bank's investment in equity is conservative and is driven by yield optimization and portfolio diversification objectives. As such the Bank does not conduct 'trading' activities in equities.

The Bank books the equity at cost and has adopted 'mark to market' approach for equity valuation as per SBP guidelines which for Basel – II purposes prescribe 100% risk weight for listed equity and 150% risk weight for unlisted equity instruments (refer note 11 and annexure I for investment in listed and unlisted shares).

Composition of equity investments

	Held for Trading	Available for sale	Investment in subsidiary
		Rupees in '000	
Equity investments - publicly traded	-	648,500	-
Equity investments - others	-	123,101	300,000
Total value	-	771,601	300,000

The cumulative gain of Rs. 277,659 thousand has been realized from sale of equity securities/certificates of mutual funds and units of open end mutual funds; however unrealized gain of Rs. 337,708 thousand was recognized in the balance sheet in respect of "AFS" securities.

41.3 Market risk

Market Risk is the risk of loss in earnings and capital due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions. The Board of Directors oversees the Bank's strategy for market risk exposures. Asset and Liability Committee (ALCO) which comprises of senior management oversees the balance sheet of the Bank and performs oversight function to ensure sound asset quality, liquidity and pricing. The investment policy amongst other aspects covers the Bank asset allocation guidelines inclusive of equity investments. While market risk limits are in place and are monitored effectively, the Bank has also formalized liquidity and market risk management policies which contain action plans to strengthen the market risk management system and a middle office function has been implemented which oversees limit adherence. Market risk can be further categorised into Interest Rate Risk, Foreign Exchange Risk and Equity Position Risk.

41.4 Foreign exchange risk

Foreign exchange risk is the probability of loss resulting from adverse movement in exchange rates.

The Bank's business model for foreign exchange risk is to serve trading activities of its clients in an efficient and cost effective manner. The Bank is not in the business of actively trading and market making activities. A conservative risk approach and the Bank's business strategy to work with export oriented clients gives the ability to meet its foreign exchange needs generally and frequently provide foreign exchange to the inter-bank market.

	2011			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan Rupee	261,383,136	242,952,506	5,990,345	24,420,975
United States Dollar	23,603,574	18,079,818	(5,868,198)	(344,442)
Euro	1,763,457	991,017	(728,435)	44,005
Great Britain Pound	568,163	1,453,563	916,629	31,229
Asian Currency Unit	518,919	162,866	-	356,053
Japanese Yen	12,546	1,195	(10,198)	1,153
Arab Emirates Dirham	55,274	107	(24,497)	30,670
Canadian Dollar	297,122	-	(280,482)	16,640
Australian Dollar	-	2,720	6,394	3,674
Saudi Riyal	1,498	-	-	1,498
Other currencies	15,669	2,058	(1,558)	12,053
	26,836,222	20,693,344	(5,990,345)	152,533
	288,219,358	263,645,850	-	24,573,508

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan Rupee	225,531,526	214,829,684	12,640,207	23,342,049
United States Dollar	23,323,761	14,120,387	(12,814,830)	(3,611,456)
Euro	1,826,123	1,219,658	(485,055)	121,410
Great Britain Pound	403,782	1,529,336	1,154,996	29,442
Asian Currency Unit	565,990	193,278	-	372,712
Japanese Yen	39,054	7,511	(28,678)	2,865
Arab Emirates Dirham	153,364	102	(144,741)	8,521
Canadian Dollar	335,411	-	(319,051)	16,360
Australian Dollar	-	735	-	(735)
Saudi Riyal	982	-	-	982
Other currencies	30,659	1,828	(2,848)	25,983
	26,679,126	17,072,835	(12,640,207)	(3,033,916)
	252,210,652	231,902,519	-	20,308,133

41.5 Interest rate risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. The Bank's interest rate exposure is low due to the short-term nature of the majority of business transactions. Interest rate risk is also controlled through flexible credit pricing mechanism and variable deposit rates. Optimization of yield is achieved through the Bank's investment strategy which aims on attaining a balance between yield and liquidity under the strategic guidance of ALCO. The advances and deposits of the Bank are reprised on a periodic basis based on interest rates scenario. Details of the interest rate profile of the Bank based on the earlier of contractual repricing or maturity date is as follows:

	Effective yield/interest rate %	Exposed to yield/interest risk										Non-interest bearing financial instruments	
		Rupees in '000											
		Total	Upto 1 month	Over 1 month to 3 months	over 3 months to 6 months	over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years		
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	-	14,233,690	-	-	-	-	-	-	-	-	-	-	14,233,690
Balances with other banks	0.08% to 5.00%	3,551,591	2,265,133	-	-	-	-	-	-	-	-	-	1,286,458
Lendings to financial institutions	11.95% to 14.00%	2,361,754	2,361,754	-	-	-	-	-	-	-	-	-	-
Investments	8.00% to 16.20%	147,524,622	100,119	18,489,036	37,383,304	44,254,387	7,742,511	1,063,000	11,181,765	13,660,372	-	-	13,650,128
Advances	0.25% to 25.00%	109,656,714	12,470,223	80,920,372	4,313,012	2,175,708	620,872	409,308	2,056,307	1,121,158	-	-	5,499,177
Other assets	-	5,166,156	-	-	-	-	-	-	-	-	-	-	5,166,156
		282,494,527	17,197,229	99,409,408	41,696,316	46,430,095	8,363,383	1,472,308	13,238,072	14,781,530	70,577	-	39,835,609
Liabilities													
Bills payable	-	3,733,794	-	-	-	-	-	-	-	-	-	-	3,733,794
Borrowings	4.00% to 13.15%	66,641,226	43,064,970	11,345,454	7,724,678	509,046	384,086	203,726	643,802	664,577	45,413	-	2,055,474
Deposits and other accounts	0.25% to 16.67%	185,399,802	55,152,324	25,216,881	39,215,568	8,585,237	1,869,326	2,609,670	3,332,944	1,932,497	-	-	47,485,355
Other liabilities	-	7,250,312	-	-	-	-	-	-	-	-	-	-	7,250,312
		263,025,134	98,217,294	36,562,335	46,940,246	9,094,283	2,253,412	2,813,396	3,976,746	2,597,074	45,413	-	60,524,935
On-balance sheet gap		19,469,393	(81,020,065)	62,847,073	(5,243,930)	37,335,812	6,109,971	(1,341,088)	9,261,326	12,184,456	25,164	-	(20,689,326)
Off-balance sheet financial instruments													
Forward purchase		54,377,083	-	-	-	-	-	-	-	-	-	-	54,377,083
Forward sale		(62,519,824)	-	-	-	-	-	-	-	-	-	-	(62,519,824)
Off-balance sheet gap		(8,142,741)	-	-	-	-	-	-	-	-	-	-	(8,142,741)
Total yield / interest risk sensitivity gap		11,326,652	(81,020,065)	62,847,073	(5,243,930)	37,335,812	6,109,971	(1,341,088)	9,261,326	12,184,456	25,164	-	(28,832,067)
Cumulative yield / interest risk sensitivity gap		11,326,652	(81,020,065)	(18,172,992)	(23,416,922)	13,918,890	20,028,861	18,687,773	27,949,099	40,133,555	40,158,719	-	11,326,652

	Effective yield/interest rate %	Exposed to yield/interest risk										Non-interest bearing financial instruments	
		Total	Upto 1 month	Over 1 month to 3 months	over 3 months to 6 months	over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years		
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	-	13,923,393	-	-	-	-	-	-	-	-	-	-	13,923,393
Balances with other banks	0.15% to 5.00%	3,123,094	1,729,939	-	-	-	-	-	-	-	-	-	1,393,155
Lendings to financial institutions	13.35% to 14.00%	3,190,399	1,090,399	2,100,000	-	-	-	-	-	-	-	-	-
Investments	6.00% to 16.48%	100,993,820	836,978	20,202,406	34,535,081	13,281,318	4,909,138	3,637,708	1,393,468	11,326,758	-	-	10,870,965
Advances	1.50% to 25.00%	119,827,636	13,599,604	66,028,306	29,136,466	2,289,676	2,143,453	1,406,949	763,486	782,091	179,912	-	3,497,693
Other assets	-	5,332,859	-	-	-	-	-	-	-	-	-	-	5,332,859
Total		246,391,201	17,256,920	88,330,712	63,671,547	15,570,994	7,052,591	5,044,657	2,156,954	12,108,849	179,912	-	35,018,065
Liabilities													
Bills payable	-	2,572,954	-	-	-	-	-	-	-	-	-	-	2,572,954
Borrowings	4.00% to 13.00%	62,529,729	25,443,293	21,128,980	11,869,021	-	-	388,063	1,077,465	1,254,282	-	-	1,368,625
Deposits and other accounts	0.25% to 16.67%	160,457,975	41,856,405	26,355,796	32,279,468	11,256,483	1,596,977	1,939,485	3,918,698	1,736,070	-	-	39,518,593
Other liabilities	-	5,685,302	-	-	-	-	-	-	-	-	-	-	5,685,302
Total		231,245,960	67,299,698	47,484,776	44,148,489	11,256,483	1,596,977	2,327,548	4,996,163	2,990,352	179,912	-	49,145,474
On-balance sheet gap		15,145,241	(50,042,778)	40,845,936	19,523,058	4,314,511	5,455,614	2,717,109	(2,839,209)	9,118,497	179,912	-	(14,127,409)
Off-balance sheet financial instruments													
Forward purchase		55,991,653	-	-	-	-	-	-	-	-	-	-	55,991,653
Forward sale		(68,631,860)	-	-	-	-	-	-	-	-	-	-	(68,631,860)
Off-balance sheet gap		(12,640,207)	-	-	-	-	-	-	-	-	-	-	(12,640,207)
Total yield / interest risk sensitivity gap		2,505,034	(50,042,778)	40,845,936	19,523,058	4,314,511	5,455,614	2,717,109	(2,839,209)	9,118,497	179,912	-	(26,767,616)
Cumulative yield / interest risk sensitivity gap		2,505,034	(50,042,778)	(9,196,842)	10,326,216	14,640,727	20,096,341	22,813,450	19,974,241	29,092,738	29,272,650	-	2,505,034

41.5.1 Reconciliation of assets and liabilities exposed to yield/interest rate risk with total assets and liabilities

	December 31, 2011	December 31, 2010
Reconciliation to total assets		
Total financial assets	282,494,527	246,391,201
Add: non financial assets		
Operating fixed assets	3,195,886	3,352,702
Deferred tax assets	2,019,809	1,868,328
Other assets	509,136	598,421
Balance as per balance sheet	5,724,831	5,819,451
Reconciliation to total liabilities		
Total financial liabilities	263,025,134	231,245,960
Add: non financial liabilities		
Deferred tax liability	620,716	-
Other liabilities	620,716	656,559
Balance as per balance sheet	263,645,850	231,902,519

41.6 Liquidity risk

Liquidity risk is the risk that the Bank will not be able to raise funds to meet its commitments. ALCO manages the liquidity position on a continuous basis.

The Bank's liquidity model is based on "self-reliance" with an extensive branch network to diversify the Bank deposit base. The Bank's liquidity profile generally comprises of short-term, secured assets, in line with the Bank's credit strategy. Long term investments and loans are generally kept at an amount lower than the Bank's capital / reserves.

The contractual maturities of assets and liabilities at the year end have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. Assets and liabilities that do not have contractual maturity and time / payable on demand have been classified in the first bucket, except that investments in equity securities, certain other liabilities and other assets are assumed to mature on the expected date on which the assets / liabilities will be realised / settled.

41.6.1 Maturities of assets and liabilities – based on contractual maturity of assets and liabilities of the Bank

The maturity profile set out below has been prepared as required by IAS on the basis of contractual maturities, except for products that do not have a contractual maturity which are shown in the manner as explained above.

2011

	Rupees in '000									
	Upto 1 month	Over 1 month to 3 months	over 3 months to 6 months	over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years	
Assets										
Cash and balances with treasury banks	14,233,690	14,233,690	-	-	-	-	-	-	-	-
Balances with other banks	3,551,591	3,551,591	-	-	-	-	-	-	-	-
Lendings to financial institutions	2,361,754	2,361,754	-	-	-	-	-	-	-	-
Investments	147,524,622	13,407,761	36,477,824	44,368,278	8,131,641	1,227,094	11,644,752	14,425,403	300,000	
Advances	109,656,714	33,024,917	22,019,577	10,938,887	3,519,982	2,574,671	2,723,304	3,073,371	75,882	
Operating fixed assets	3,195,886	35,327	106,290	212,580	422,630	402,100	222,953	450,476	1,272,670	
Deferred tax assets	2,019,809	(26,407)	89,270	176,197	412,196	289,012	1,280,548	(72,058)	(195,391)	
Other assets	5,675,292	2,935,520	504,725	1,020,889	51,088	33,900	18,328	2,438	-	
	288,219,358	69,524,153	59,197,686	56,716,831	12,537,537	4,526,777	15,889,885	17,879,630	1,453,161	
Liabilities										
Bills payable	3,733,794	3,733,794	-	-	-	-	-	-	-	-
Borrowings	66,641,226	45,120,443	7,724,678	509,046	384,086	203,726	643,802	664,577	45,413	
Deposits and other accounts	185,399,802	129,165,357	12,687,890	8,585,237	1,869,326	2,609,670	3,332,944	1,932,497	-	
Other liabilities	7,871,028	3,537,692	785,985	989,396	73,597	102,746	477,589	449,939	-	
	263,645,850	181,557,286	21,198,553	10,083,679	2,327,009	2,916,142	4,454,335	3,047,013	45,413	
Net assets / (liabilities)	24,573,508	(112,033,133)	37,999,133	46,633,152	10,210,528	1,610,635	11,435,550	14,832,617	1,407,748	
Share capital	10,478,315									
Reserves	8,807,718									
Unappropriated profit	4,949,767									
Surplus on revaluation of assets - net of tax	337,708									
	24,573,508									

41.6.2 Maturities of assets and liabilities - based on historical pattern of assets and liabilities of the Bank

The maturity profile set out below has been prepared as determined by the assets and liabilities committee (ALCO), keeping in view the historical pattern of those current and saving deposit accounts which do not have contractual maturity.

		2011									
		Rupees in '000									
Total	Upto 1 month	Over 1 month to 3 months	over 3 months to 6 months	over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years		
Assets											
Cash and balances with treasury banks	14,233,690	-	-	-	-	-	-	-	-	-	
Balances with other banks	3,551,591	-	-	-	-	-	-	-	-	-	
Lendings to financial institutions	2,361,754	-	-	-	-	-	-	-	-	-	
Investments	147,524,622	17,541,867	36,477,823	44,368,277	8,131,641	1,227,094	11,644,752	14,425,403	300,000		
Advances	109,656,714	33,024,917	22,019,577	10,938,887	3,519,982	2,574,671	2,723,304	3,073,371	75,882		
Operating fixed assets	3,195,886	35,328	70,860	106,290	212,580	402,100	222,953	450,476	1,272,669		
Deferred tax assets	2,019,809	(26,407)	66,442	89,270	176,197	289,012	1,280,548	(72,058)	(195,391)		
Other assets	5,675,292	2,935,520	1,108,404	504,725	1,020,889	33,900	18,328	2,438	-		
	288,219,358	69,524,158	50,493,696	59,197,685	56,716,830	12,537,537	4,526,777	15,889,885	17,879,630	1,453,160	
Liabilities											
Bills payable	3,733,794	-	-	-	-	-	-	-	-	-	
Borrowings	66,641,226	11,341,427	7,811,744	616,400	489,911	355,052	759,765	327,742	-		
Deposits and other accounts	185,399,802	34,933,466	22,404,475	57,168,164	16,444,204	17,184,548	3,332,944	1,932,497	-		
Other Liabilities	7,871,028	3,520,783	785,986	1,006,306	73,597	102,745	477,588	449,938	-		
	263,645,850	84,193,266	31,002,205	58,790,870	17,007,712	17,642,345	4,570,297	2,710,177	-		
Net assets / (liabilities)	24,573,508	(14,669,108)	28,195,480	(2,074,040)	(4,470,175)	(13,115,568)	11,319,588	15,169,453	1,453,160		
Share capital	10,478,315										
Reserves	8,807,718										
Unappropriated profit	4,949,767										
Surplus on revaluation of assets - net of tax	337,708										
	24,573,508										

41.7 Operational risk

The Bank operates in a controlled manner and operational risk is generally managed effectively. With the evolution of operation risk management into a separate distinct discipline, the Bank's strategy is to further strengthen risk management system along new industry standards.

The Bank's operational risk management strategy takes guidance from Basel – II, Committee of Sponsoring Organization of Tread way Commission (COSO) publications, the SBP guidelines and standard industry practices. The operational risk management manual addresses enterprise wide risk drivers inclusive of technology infrastructure, software hardware and I. T. security.

While broadening risk awareness and assuring regulatory compliance, Internal Audit department of the Bank is an important pillar of the Bank's risk management and controls infrastructure, performing continuous reviews to improve the quality of the Bank's internal control environment, ensuring an effective balance in safety and performance of processes and adding value towards the Bank's risk mitigation endeavors.

The Bank's business continuity plan includes risk management strategies to mitigate inherent risk and prevent interruption of mission critical services caused by disaster event. The Bank's operational risk management infrastructure has been further strengthened through the establishment of a separate operational and risk control unit.

41.8 Operational risk - Disclosures Basel II specific

The Bank uses Basic Indicator Approach (BIA) for regulatory capital at risk calculation for operational risk. Under BIA the capital charge for operational risk is a fixed percentage of average positive annual gross income of the Bank over the past three years Figures of capital charge of operation risk for the year is Rs. 1,693,657 thousand (2010: Rs.1,520,685 thousand).

42. KEY ISLAMIC BANKING OPERATIONS

42.1 The Bank is operating 4 (2010: 4) Islamic Banking branches in Pakistan. The balance sheet and profit and loss account of these branches as at 31 December 2011 and for the year are as follows:

BALANCE SHEET

As at 31 December 2011

	2011	2010
	Rupees in '000	
ASSETS		
Cash and balances with treasury banks	865,436	713,721
Balances with and due from financial institutions	–	–
Investments	10,050,774	8,949,438
Financing and receivables		
– Murabaha	4,377,344	2,955,742
– Ijarah	932,855	1,340,624
– Diminishing Musharaka	560,639	495,831
– Export Refinance Murabaha	564,352	443,775
– Foreign Documentary Bills Purchased	10,935	229,866
	6,446,125	5,465,838
Other assets	1,247,975	936,743
	<u>18,610,310</u>	<u>16,065,740</u>
LIABILITIES		
Bills payable	123,105	91,025
Deposits and other accounts		
– Current accounts	1,635,512	1,089,391
– Saving deposits	3,108,458	3,132,614
– Fixed deposits	6,999,909	5,120,843
– Deposit from financial institutions - remunerative	2,996,860	3,922,899
– Deposits from financial institutions - non - remunerative	6,735	2,946
	14,747,474	13,268,693
Borrowings	564,352	468,775
Due to head office	597,648	198,331
Other liabilities	1,008,498	898,358
	<u>17,041,077</u>	<u>14,925,182</u>
NET ASSETS	<u>1,569,233</u>	<u>1,140,558</u>
REPRESENTED BY:		
Islamic Banking Fund	1,002,249	802,141
Un-appropriated profit	538,933	313,875
	<u>1,541,182</u>	<u>1,116,016</u>
Surplus on revaluation of assets	28,051	24,542
	<u>1,569,233</u>	<u>1,140,558</u>

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2011

2011

2010

Rupees in '000

Profit / return on financing, investments and placements earned	2,094,756	1,473,761
Profit / return on deposits and other dues expensed	1,452,193	1,165,652
Net spread earned	642,563	308,109
Provision against non-performing financing	73,661	4,043
Provision for diminution in the value of investments	-	-
Provision for consumer financing - ijarah	(59)	(358)
Bad debts written off directly	-	-
	73,602	3,685
Net spread after provisions	568,961	304,424
OTHER INCOME		
Fee, commission and brokerage income	21,443	23,279
Dividend income	-	10,634
Income from dealing in foreign currencies	16,614	19,73
Gain on sale/redemption of securities	377	10,677
Unrealized gain/(loss) on revaluation of investments classified as held-for-trading	-	-
Other income	30,973	27,303
Total other income	69,407	91,625
	638,368	396,049
OTHER EXPENSES		
Administrative expenses	99,435	82,174
Other provisions / write offs	-	-
Other charges	-	-
Total other expenses	99,435	82,174
	538,933	313,875
Extraordinary / unusual items	-	-
PROFIT BEFORE TAXATION	538,933	313,875
42.2 Remuneration to Sharia'h Advisor	1,683	1,485
42.3 Charity Fund		
Opening balance	33	-
Additions during the year	10	33
Payments/utilization during the year	(33)	-
Closing balance	10	33

43. GENERAL

43.1 Non adjusting event after balance sheet date

The Board of Directors in its meeting held on February 27, 2012 has proposed a cash dividend of Rs 1.50 per share amounting to Rs. 1,571,747 thousand (2010: bonus shares @ 20% amounting to Rs. 1,746,386 thousand) for approval by the members of the company in forthcoming Annual General Meeting.

43.2 These unconsolidated financial statements have been prepared in accordance with the revised forms of annual financial statements of the banks issued by the State Bank of Pakistan through its BSD Circular No. 04 dated 17 February 2006.

44. DATE OF AUTHORIZATION FOR ISSUE

These unconsolidated financial statements were authorized for issue on February 27, 2012 by the Board of Directors of the Bank.

KASSIM PAREKH
Chairman

SIRAJUDDIN AZIZ
President &
Chief Executive Officer

BASHIR ALI MOHAMMAD
Director

MOHAMEDALI R. HABIB
Director

ANNEXURE "1" AS REFERRED TO IN NOTE 11.4 OF THE UNCONSOLIDATED FINANCIAL STATEMENTS

1. MARKET TREASURY BILLS

These securities have a maturity period of 1 year, with yield ranging between 11.70% to 13.91% (2010: 12.24% to 13.25%) per annum.

2. PAKISTAN INVESTMENT BONDS

These securities have a maturity period of 3 to 10 years with interest rates ranging between 8.00% to 12.00% (2010: 8.00% to 12.00%) per annum.

3. FULLY PAID-UP ORDINARY SHARES - LISTED

	2011		2010		Paid-up Value		Market Value		Cost		Rating	
	No. of shares of Rs. 10/- each				2011	2010	2011	2010	2011	2010	2011	2010
					Rupees in '000							
Adamjee Insurance Company Limited	243,800	243,800	2,438	2,438	11,339	21,333	25,748	25,748	AA	AA		
Attock Cement Ltd	376,500	-	3,765	-	19,202	-	19,050	-	**	**		
Bank Al Habib Limited	860,900	709,084	8,609	7,091	24,561	25,711	18,599	18,320	AA+	AA+		
Bank Alfalah Limited	2,104,377	1,495,000	21,044	14,950	23,674	16,759	22,805	17,227	AA	AA		
DGK Cement	1,075,681	-	10,757	-	20,470	-	24,848	-	**	-		
Engro Chemical Pakistan Limited	183,000	-	1,830	-	16,964	-	24,857	-	AA-	-		
Fatima Fertilizers Company Limited	4,050,000	5,000,000	40,500	50,000	92,826	56,400	57,105	70,500	A	**		
Fauji Fertilizers Company Limited	515,000	346,258	5,150	3,463	77,013	43,580	54,652	25,010	**	**		
Habib Bank Limited	203,039	-	2,030	-	21,538	-	24,763	-	AA+	-		
HUB Power Company Limited	588,125	-	5,881	-	20,114	-	22,026	-	AA-	-		
ICI Pakistan Limited	115,000	135,000	1,150	1,350	13,831	19,472	19,637	23,052	**	**		
Jahangir Siddiqui & Co. Limited	-	395,000	-	3,950	-	4,306	-	10,974	-	AA+		
Jahangir Siddiqui Investment Company Limited	-	200,992	-	2,010	-	1,343	-	3,205	-	A+		
Kot Addu Power Company Limited	541,682	403,042	5,417	4,030	22,382	16,396	24,143	18,425	AA+	**		
Lucky Cement Limited	349,381	-	3,494	-	26,218	-	25,865	-	**	-		
MCB Bank Limited	140,000	-	1,400	-	18,844	-	27,630	-	AA+	-		
National Bank of Pakistan Limited	500,000	210,000	5,000	2,100	20,525	16,132	20,341	15,589	AAA	AAA		
National Refinery Ltd	70,756	-	708	-	17,172	-	23,090	-	AAA	-		
Nishat Mills Limited	370,000	-	3,700	-	14,967	-	23,718	-	AA-	-		
Oil and Gas Development Corporation Limited	145,000	-	1,450	-	21,985	-	19,568	-	AAA	-		
Pak Oil Fields Limited	68,000	-	680	-	23,559	-	24,557	-	**	-		
Pakistan Petroleum Limited	216,350	-	2,164	-	36,416	-	40,757	-	**	-		
Soneri Bank Limited	781,941	695,059	7,819	6,951	3,050	5,776	13,480	13,480	AA-	AA-		
United Bank Limited	402,258	-	4,023	-	21,074	-	24,261	-	AA+	-		
					567,724	227,208	581,500	241,530				

**Ratings are not available

6. TERM FINANCE CERTIFICATES - LISTED

	No. of certificates of Rs. 5,000/- each		Market Value		Cost		Rating	
	2011	2010	2011	2010	2011	2010	2011	2010
	Rupees in '000		Rupees in '000		Rupees in '000		Rupees in '000	
Al Zamin Leasing Modaraba Limited	10,000	10,000	38,924	39,583	38,924	39,583	**	**
Allied Bank Limited I	10,000	10,000	50,010	49,031	49,900	49,920	AA-	AA-
Allied Bank Limited II	59,839	59,839	283,530	287,711	298,956	299,075	AA-	AA-
Askari Bank Limited I	5,000	5,000	24,915	24,805	24,935	24,945	AA-	AA-
Askari Bank Limited II	2,000	2,000	9,932	9,776	9,976	9,980	AA-	AA-
Askari Bank Limited III	15,000	15,000	76,724	76,095	74,940	74,970	AA-	AA-
Bank Al Falah Limited IV	15,000	15,000	75,240	75,750	74,940	74,970	AA-	AA-
Bank Al Habib Limited I	23,000	23,000	69,433	108,807	76,276	112,691	AA	AA
Bank Al Habib Limited II	10,000	10,000	51,307	49,680	49,910	49,930	AA	AA
Bank Al Habib Limited III	20,000	20,000	107,026	100,060	99,800	99,880	AA	AA
Engro Chemical Pakistan Limited - IPO	20,000	20,000	97,843	97,902	99,840	99,880	AA	AA
Engro Chemical Pakistan Limited - Perpetual	24,000	24,000	118,416	106,200	119,473	119,394	AA	AA
Faysal Bank Ltd	1,974	1,974	4,946	7,350	4,925	7,389	AA-	AA-
Faysal Bank Limited I	7,994	7,994	39,664	38,745	39,502	39,367	AA-	AA-
Faysal Bank Limited II	30,000	30,000	155,068	150,000	149,941	150,000	AA-	AA-
Financial Receivables Securitization Limited	5,000	5,000	10,358	14,417	10,413	14,578	A+	A+
IGI Investment Bank Limited	-	10,000	-	12,478	-	12,495	-	A+
Jahangir Siddiqui & Company Limited	10,000	10,000	25,110	50,149	24,955	49,920	AA	AA
NIB Bank Limited	33,388	33,388	163,431	162,395	161,137	159,865	A+	A+
Orix Leasing Pakistan Limited II	10,000	10,000	8,060	24,780	8,327	24,980	AA+	AA+
Orix Leasing Pakistan Limited III	40,000	-	100,580	-	100,000	-	AA+	-
Pak Arab Fertilizer Limited	30,000	30,000	111,518	136,807	110,459	139,907	AA	AA
Pak HY Oils Limited	12,000	12,000	60,000	60,000	60,000	60,000	**	**
Pakistan Mobile Communication (Private) Limited	8,000	-	20,024	-	19,968	-	AA-	-
Pakistan Mobile Communication (Private) Limited	-	27,380	-	119,514	-	133,862	-	A+
Security Leasing Corporation Ltd	10,000	-	7,691	-	10,938	-	**	-
Soneri Bank Limited	17,000	17,000	63,190	83,354	63,597	84,813	A+	A+
Standard Chartered Bank Limited	4,742	4,742	16,977	22,703	16,583	22,491	AAA	AAA
United Bank Limited I	10,000	10,000	31,508	46,103	33,250	49,885	AA	AA
United Bank Limited II	6,500	6,500	30,891	28,474	28,815	25,759	AA	AA
United Bank Limited III	5,000	5,000	24,870	24,920	24,950	24,960	AA	AA
United Bank Limited IV	9,994	9,994	49,780	47,542	46,148	45,550	AA	AA
World Call Telecom Limited II	-	3,600	-	5,962	-	5,995	-	AA-
World Call Telecom Limited III	41,996	41,996	104,337	174,783	117,315	175,436	-	A
			2,031,303	2,235,876	2,049,093	2,282,470		

**Ratings are not available

6.1 Other particulars of listed term finance certificates are as follows:

	Coupon rate	Payment	Maturity date
Al Zamin Leasing Modaraba Limited	6 months KIBOR plus 190 bps	Semi annually	12-May-13
Allied Bank Limited I	6 months KIBOR plus 190 bps	Semi annually	6-Dec-14
Allied Bank Limited II	6 months KIBOR plus 85 bps	Semi annually	28-Aug-19
Askari Bank Limited I	6 months KIBOR plus 150 bps	Semi annually	4-Feb-13
Askari Bank Limited II	6 months KIBOR plus 150 bps	Semi annually	31-Oct-13
Askari Bank Limited III	6 months KIBOR plus 250 bps	Semi annually	18-Nov-19
Bank Al Falah Limited IV	6 months KIBOR plus 250 bps	Semi annually	2-Dec-17
Bank Al Habib Limited I	Fixed @ 10.00% per annum	Semi annually	15-Jul-12
Bank Al Habib Limited II	6 months KIBOR plus 195 bps	Semi annually	7-Feb-15
Bank Al Habib Limited III	Fixed @ 15.50% per annum	Quarterly	15-Jun-17
Engro Chemical Pakistan Limited - IPO	6 months KIBOR plus 155 bps	Semi annually	30-Nov-15
Engro Chemical Pakistan Limited - Perpetual	6 months KIBOR plus 170 bps	Semi annually	18-Sep-18
Faysal Bank Limited I	6 months KIBOR plus 140 bps	Semi annually	12-Nov-14
Faysal Bank Limited II	6 months KIBOR plus 225 bps	Semi annually	27-Dec-17
Faysal Bank Ltd	6 months KIBOR plus 190 bps	Semi annually	10-Feb-13
Financial Receivables Securitization Limited	6 months KIBOR plus 200 bps	Semi annually	27-Dec-13
Jahangir Siddiqui & Company Limited	6 months KIBOR plus 250 bps	Semi annually	21-May-12
NIB Bank Limited	6 months KIBOR plus 115 bps	Semi annually	5-Mar-16
Orix Leasing Pakistan Limited II	6 months KIBOR plus 150 bps	Semi annually	25-May-12
Orix Leasing Pakistan Limited III	6 months KIBOR plus 120 bps	Semi annually	15-Jan-13
Pak Arab Fertilizer Limited	6 months KIBOR plus 150 bps	Semi annually	28-Feb-13
Pak HY Oils Limited	6 months KIBOR plus 225 bps	Semi annually	6-Dec-13
Pakistan Mobile Communication (Private) Limited	6 months KIBOR plus 285 bps	Semi annually	31-May-13
Security Leasing Corporation Limited	Fixed @ 6% per annum	Monthly	1-Apr-14
Soneri Bank Limited	6 months KIBOR plus 160 bps	Semi annually	5-May-13
Standard Chartered Bank Limited	6 months KIBOR plus 200 bps	Semi annually	1-Feb-13
United Bank Limited I	Fixed @ 8.45% per annum	Semi annually	10-Aug-12
United Bank Limited II	Fixed @ 9.49% per annum	Semi annually	15-Mar-13
United Bank Limited III	6 months KIBOR plus 170 bps	Semi annually	8-Sep-14
United Bank Limited IV	6 months KIBOR plus 85 bps	Semi annually	14-Feb-18
World Call Telecom Limited III	6 months KIBOR plus 160 bps	Semi annually	7-Oct-13

8. SUKUK CERTIFICATES AND BONDS

	2011	2010	2011	2010	2011	2010
	No. of certificates of Rs. 5,000/- each		Cost Rupees in '000		Rating	
Amreli Steel (Private) Limited	16,000	16,000	80,000	80,000	A-	A
Engro Chemical Pakistan Limited	20,000	20,000	96,353	95,712	**	AA
Engro Chemical Pakistan Limited	10,000	10,000	50,000	50,000	**	AA
Engro Foods Limited	20,000	20,000	100,000	100,000	A	A-
GOP Ijara Sukuk-1st Issue	-	60,000	-	300,000	-	**
GOP Ijara Sukuk-2nd Issue	-	220,000	-	1,109,086	-	**
GOP Ijara Sukuk-3rd Issue	360,486	360,000	1,802,431	1,815,111	**	**
GOP Ijara Sukuk-4th Issue	560,058	560,000	2,800,291	2,800,698	**	**
GOP Ijara Sukuk-5th Issue	904,000	2,000,000	4,520,000	10,000,000	**	**
GOP Ijara Sukuk-8th Issue	180,000	-	900,000	-	**	**
GOP Ijara Sukuk-9th Issue	1,000,000	-	5,000,000	-	**	**
Haq Bahu Sugar Mills Limited	-	8,100	-	20,250	-	**
K.S.Sulemanji Esmailji & Sons (Private) Limited	30,000	30,000	79,759	142,500	**	**
Liberty Power Technology Limited	108,754	101,096	531,899	505,482	**	**
Maple Leaf Cement Limited	21,000	21,000	100,515	98,363	D	**
Maple Leaf Cement Limited	788	788	3,937	3,938	D	**
Sitara Energy Limited	9,864	9,864	42,272	49,318	**	**
Sitara Per Oxide Limited	20,000	20,000	93,750	93,750	**	**
Sui Southern Gas Company Limited	80,000	80,000	159,319	318,640	AA	AA
Three Star Hosiery Mills Limited	1,900	1,900	9,500	9,500	**	**
WAPDA 1st Issue	50,000	50,000	200,000	250,000	**	**
WAPDA 2nd Issue	70,000	70,000	350,000	350,000	**	**
			<u>16,920,026</u>	<u>18,192,348</u>		

**Ratings not available

8.1 Other particulars of Sukuk certificates / bonds are as follows:

	Coupon rate	Payment	Maturity date
Amreli Steel (Private) Limited	3 months KIBOR plus 250 bps	Quarterly	9-Dec-16
Engro Chemical Pakistan Limited	6 months KIBOR plus 150 bps	Semi annually	6-Sep-15
Engro Chemical Pakistan Limited	6 months KIBOR plus 211 bps	Semi annually	30-Jun-17
Engro Foods Limited	6 months KIBOR plus 69 bps	Semi annually	13-Jan-17
GOP Ijara Sukuk-3rd Issue	* 6M T.Bills W.Avg	Semi annually	11-Mar-12
GOP Ijara Sukuk-4th Issue	* 6M T.Bills W.Avg - 0.05	Semi annually	17-Sep-12
GOP Ijara Sukuk-5th Issue	* 6M T.Bill Cutoff	Semi annually	15-Nov-13
GOP Ijara Sukuk-8th Issue	* 6M T.Bill Cutoff	Semi annually	16-May-14
GOP Ijara Sukuk-9th Issue	* 6M T.Bill Cutoff	Semi annually	26-Dec-14
K.S.Sulemanji Esmailji & Sons (Private) Limited	3 months KIBOR plus 140 bps	Quarterly	30-Jun-14
Liberty Power Technology Limited	3 months KIBOR plus 300 bps	Quarterly	18-Mar-21
Maple Leaf Cement Limited	3 months KIBOR plus 100 bps	Quarterly	3-Dec-13
Maple Leaf Cement Limited	3 months KIBOR plus 100 bps	Quarterly	31-Mar-12
Sitara Energy Limited	6 months KIBOR plus 115 bps	Semi annually	16-May-13
Sitara Per Oxide Limited	3 months KIBOR plus 110 bps	Quarterly	19-Aug-16
Sui Southern Gas Company Limited	3 months KIBOR plus 20 bps	Quarterly	31-Dec-12
Three Star Hosiery Mills Limited	6 months KIBOR plus 325 bps	Semi annually	4-Aug-13
WAPDA 1st Issue	6 months KIBOR plus 35 bps	Semi annually	22-Apr-12
WAPDA 2nd Issue	6 months KIBOR plus 25 bps	Semi annually	13-Jul-17

*These rates are based on Reuters sheet applicable for next six months.

9. OPEN END MUTUAL FUNDS

	No. of Units		Net Asset Value		Rupees in '000		Cost		Rating	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
ABL Cash Fund	113,933,827	35,523,653	1,141,480	355,560	1,160,000	360,000	AA + (f)	AA + (f)	AA + (f)	AA + (f)
ABL Income Fund	52,426,713	67,151,651	525,090	672,161	529,974	678,266	A + (f)	A + (f)	A + (f)	A + (f)
Alfalah GHP Cash Fund	199,999	99,999	100,107	50,096	100,000	50,000	**	**	**	**
Alfalah GHP Principal Protected Fund	-	586,704	-	31,641	-	25,000	-	-	-	**
Arif Habib Dow Jones Safe Pak Titans 15 Index Fund	415,762	400,000	20,929	22,816	20,000	20,000	**	**	**	**
Askari Sovereign Cash Fund	5,197,849	2,370,918	522,363	247,663	535,969	250,000	AA + (f)	AA + (f)	AA + (f)	**
Atlas Money Market Fund	791,567	449,107	398,617	231,515	400,048	220,000	AA + (f)	AA + (f)	AA + (f)	**
BMA Empress Cash Fund	6,434,694	9,549,448	65,084	100,983	66,955	100,000	AA + (f)	AA + (f)	AA + (f)	AA + (f)
Faysal Saving & Growth Fund	3,657,871	5,601,093	378,846	588,955	373,995	575,184	A + (f)	A + (f)	A + (f)	A + (f)
First Habib Cash Fund	1,176,394	-	121,179	-	120,000	-	AA + (f)	AA + (f)	**	**
First Habib Income Fund	1,284,564	989,707	131,984	101,603	130,000	100,000	AA - (f)	AA - (f)	**	**
HBL Income Fund	1,057,706	1,555,615	108,599	156,433	103,551	152,297	A + (f)	A + (f)	A (f)	A (f)
HBL Money Market Fund	3,344,039	1,385,410	345,043	142,588	340,000	140,000	AA + (f)	AA + (f)	AA + (f)	AA + (f)
IGI Capital Protected Fund	203,278	-	19,457	-	20,000	-	**	**	**	**
IGI Income Fund	728,235	728,235	73,263	73,436	75,000	75,000	A + (f)	A + (f)	A (f)	A (f)
IGI Money Market Fund	3,529,619	1,518,516	355,369	152,783	330,657	150,000	AA + (f)	AA + (f)	AA + (f)	AA + (f)
JS Cash Fund	1,382,971	987,362	140,123	100,405	140,000	100,000	AA + (f)	AA + (f)	AA + (f)	AA + (f)
JS Fund of Fund	564,560	638,376	49,800	60,933	50,000	54,429	4 - Star	4 - Star	4 - Star	4 - Star
KASB Income Opportunity Fund (Formerly KASB Liquid Fund)	-	1,617,562	-	135,750	-	169,924	-	-	-	**
Lakson Asset Allocation Global Commodities Fund	999,403	-	101,978	-	100,000	-	**	**	**	**
Lakson Asset Allocation Developed Market Fund	499,735	-	50,986	-	50,000	-	**	**	**	**
Lakson Asset Allocation Emerging Market Fund	499,735	-	50,980	-	50,000	-	**	**	**	**
Lakson Equity Fund	134,172	-	12,399	-	14,000	-	3 Star	3 Star	**	**
Lakson Income Fund	982,499	589,709	99,497	59,116	100,000	60,000	AA - (f)	AA - (f)	**	**
Lakson Money Market Fund	5,744,440	3,462,380	579,893	346,460	580,000	350,000	AA (f)	AA (f)	**	**
MCB Cash Management Optimizer	9,848,054	8,254,124	1,013,223	843,634	1,000,000	800,000	AA + (f)	AA + (f)	**	**
MCB Dynamic Cash Fund	4,085,487	5,789,266	422,611	604,864	421,629	600,058	A + (f)	A + (f)	**	**
MCB Stock Fund	304,012	-	23,774	-	25,000	-	4 - Star	4 - Star	**	**
Meezan Cash Fund	12,807,063	11,621,527	642,150	596,068	640,846	550,000	AA (f)	AA (f)	AA + (f)	AA + (f)

	2011		2010		2011		2010		2011		2010		
	No. of Units		Rupees in '000		Net Asset Value		Rupees in '000		Cost		Rating		
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	
Meezan Islamic Income Fund	3,102,090	6,050,044	157,400	310,669	157,674	300,000	A (f)	A (f)	A (f)	A (f)	A (f)	A (f)	
Meezan Sovereign Fund	21,240,224	8,559,253	1,068,808	439,774	1,085,000	435,000	AA + (f)	AA + (f)	AA + (f)	AA + (f)	AA + (f)	AA + (f)	
MSF Perpetual	32,210,274	34,150,424	1,648,522	1,693,861	1,551,117	1,627,566	AA (f)	AA (f)	AA (f)	AA (f)	3 - Star	3 - Star	
NAFA Financial Sector Income Fund	8,433,433	-	86,139	-	85,000	-	AA (f)	AA (f)	AA (f)	AA (f)	**	**	
NAFA Government Securities Liquid Fund	14,771,221	-	150,402	-	150,000	-	AAA (f)	AAA (f)	AAA (f)	AAA (f)	**	**	
NAFA Income Opportunity Fund (Formerly Nafa Cash Fund)	12,261,190	37,900,466	117,400	386,100	122,897	380,936	A (f)	A (f)	A (f)	A (f)	A (f)	A (f)	
NAFA Stock Fund	3,945,271	-	23,931	-	25,000	-	3 - Star	3 - Star	3 - Star	3 - Star	**	**	
National Investment Trust	5,602,522	3,125,000	145,105	98,188	150,000	100,000	3 - Star	3 - Star	3 - Star	3 - Star	5 - Star	5 - Star	
NIT Government Bond	-	10,299,204	-	108,344	-	100,000	-	-	-	-	100,000	**	**
Pak Oman Government Securities Fund	980,162	-	10,029	-	10,000	-	AA (f)	AA (f)	AA (f)	AA (f)	-	-	
Pakistan Income Enhancement Fund	2,283,002	3,917,158	119,127	202,008	116,564	200,000	AA - (f)	AA - (f)	AA - (f)	AA - (f)	**	**	
Pakistan Income Fund	1,896,859	2,826,827	101,558	150,755	100,097	149,172	AA - (f)	AA - (f)	AA - (f)	AA - (f)	5 - Star	5 - Star	
Pakistan Stock Market Fund	509,061	-	24,807	-	25,000	-	4 Star	4 Star	4 Star	4 Star	-	-	
PICIC Income Fund	1,401,446	1,990,151	141,364	199,324	140,838	200,000	A + (f)	A + (f)	A + (f)	A + (f)	A + (f)	A + (f)	
UBL Government Securities Fund	98,019	-	9,838	-	10,000	-	**	**	**	**	**	**	
UBL Liquidity Plus Fund	12,846,243	9,394,347	1,290,847	941,283	1,308,919	950,000	AA + (f)	AA + (f)	AA + (f)	AA + (f)	AA + (f)	AA + (f)	
UBL Principal Protected Plan - I	-	220,663	-	22,110	-	25,000	-	-	-	-	25,000	**	**
UBL Savings Income Fund	1,976,125	994,805	210,729	101,804	200,000	100,000	AA - (f)	AA - (f)	AA - (f)	AA - (f)	**	**	
United Stock Fund	734,214	-	23,700	-	25,000	-	**	**	**	**	**	**	
			<u>12,824,530</u>	<u>10,329,683</u>	<u>12,740,730</u>	<u>10,147,832</u>							

**Ratings not available

10. CLOSE END MUTUAL FUNDS

	2011		2010		2011		2010		2011		2010	
	No. of Units		Rupees in '000		Net Asset Value		Rupees in '000		Cost		Rating	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Meezan Balanced Fund	2,500,000	2,500,000	22,750	18,750	25,000	25,000	**	**	**	**	**	**
PICIC Energy Fund	4,200,000	4,200,000	29,904	27,552	42,000	42,000	**	**	**	**	**	**
			<u>52,654</u>	<u>46,302</u>	<u>67,000</u>	<u>67,000</u>						

**Ratings not available

11. Break-up value per ordinary share of Habib Metropolitan Financial Services Limited (subsidiary company) based on its audited financial statements as of 31 December 2011 amounted to Rs. 10.27 (2010: Rs. 10.08) per share.

S. No.	Name and address of the borrower	Name of Individuals/ partners/directors (with CNIC No.)	Father's/Husband's Name	Outstanding liabilities at beginning of the year			Outstanding liabilities at beginning of the year			Interest/ mark-up written off	Total
				Principal	Interest/ mark-up	Total	Principal	Interest/ mark-up	Total		
1	2	3	4	5	6	7	8	9	10		
Rupees in '000											
4.	Lakhany Textile International E-11,SITE, Karachi.	Mr. Aftab Lakhany 42201-4368454-9 Mr. Jawed Lakhany 42201-3844708-3	Mr. Abdul Ghaffar Lakhany Mr. Abdul Ghaffar Lakhany	90,000	2,342	92,342	12,500	2,342	14,842		
5.	Taj Textile Mills Ltd 31-C/1, Ghailib Road, Gulberg III, Lahore.	Mr. Jahangir Elahi 35202-2561094-5 Mr. Amir Jahangir 35202-0676798-7 Mr. Shahrukh Elahi 35202-6374883-5 Mr. Tanvir Elahi 35005-5222250-3 Mr. Tariq Latif 35201-8390613-3	Mr. Ehsan Elahi Mr. Jahangir Elahi Mr. Tanvir Elahi Mr. Ehsan Elahi Mr. Abdul Latif	5,179	3,358	8,537	5,179	3,358	8,537		
6.	AGA Enterprise 2nd Floor, Mehboob Chambers Near Lal Masjid, Jodia Bazar, Adamjee Dawood Road, Karachi	Mr. Abdul Ghani Hamdani 42301-1271638-3	Mr. Ahmed	1,042	670	1,712	1,042	670	1,712		
7.	Global Tyres Shop No.1, Bahadurshah Centre, Opposite Urdu Bazar, Karachi	Mr. Zeeshan Iftikhar 42301-1092502-9	Mr. Iftikhar Nisar	5,468	-	5,468	1,000	-	1,000		
8.	Abu Obeda & Company Plot No.363, Sector 7-A, Korangi Industrial Area, Karachi	Mr. Abuzar 42301-7206426-9	Mr. Abu Zafar Shaikh	874	-	874	874	-	874		

S. No.	Name and address of the borrower	Name of individuals/ partners/directors (with CNIC No.)	Father's/Husband's Name	Outstanding liabilities at beginning of the year			Total	Principal written-off	Interest/ mark-up written off	Total
				Principal	Interest/ mark-up	Total				
1	2	3	4	5	6	7	8	9	10	
										Rupees in '000
9.	PROGAS Pakistan Ltd. D-133, Block-4, Clifton, Karachi	Mr. Abbas Bilgrami 61101-1938245-3 Mr. Umer Saboor 42301-5345790-9 Mr. Ali Haider Bilgrami 61101-1938256-9 Mr. Abdul Hamid Mayet 42201-1640150-5	Mr. Razi-ul-Hassan Bilgrami Mr. Abdul Saboor Choudhry Mr. Razi-ul-Hassan Bilgrami Mr. Mohammad Masroor Makhdoomi	164,584	48,771	213,355	-	9,878	9,878	
10.	2F International PSO Petrol Pump, 24 Jahangir Road ,Karachi	Mr. Nasir Ahmed Siddiqui 42301-1345419-3 (late)	Mr. Kamal Ahmed Siddiqui	16,900	2,415	19,315	-	2,415	2,415	
11.	Meher Sons 110- Badami Bagh Lahore	Mr. Bilal Ahmed 35202-6077730-3	Mr. Ahmed Tofiq	2,000	2,424	4,424	-	2,324	2,324	
12.	Haji Ibrahim & Sons Shop-5 Plot- 19 B.R-5, Luxmidas Street, Near Mereweather Tower, Karachi.	(Late) Mr. Haji Ebrahim 517-88-042537 Mr. Abdul Jabbar 42201-5121468-1 Mr. Muhammad Farooq 42201-7725443-7 Mrs. Zubeida H. Ebrahim 517-35-042538 Mrs. Tahira Abdul Jabbar 42201-8530848-8 Mrs. Mahmooda Farooq 422012-202386-4	Mr. Muhammad Ahmed Mr. Haji Ebrahim Mr. Haji Ebrahim Mr. Haji Ebrahim Mr. Abdul Jabbar Mr. Muhammad Farooq	3,555	1,690	5,245	-	1,690	1,690	

PATTERN OF SHAREHOLDINGS – CDC AND PHYSICAL

AS ON 31 DECEMBER 2011

Number of shareholders	Size of shareholding Rs. 10 each			Total shares held
266	1	–	100	8,175
377	101	–	500	107,728
285	501	–	1,000	218,902
916	1,001	–	5,000	2,270,569
316	5,001	–	10,000	2,265,088
419	10,001	–	15,000	5,042,297
58	15,001	–	20,000	1,044,752
75	20,001	–	25,000	1,730,131
29	25,001	–	30,000	792,046
21	30,001	–	35,000	683,822
30	35,001	–	40,000	1,105,095
21	40,001	–	45,000	903,016
32	45,001	–	50,000	1,539,016
15	50,001	–	55,000	778,200
12	55,001	–	60,000	692,729
11	60,001	–	65,000	684,455
5	65,001	–	70,000	338,084
9	70,001	–	75,000	650,747
5	75,001	–	80,000	386,120
6	80,001	–	85,000	496,189
5	85,001	–	90,000	440,559
6	90,001	–	95,000	548,145
6	95,001	–	100,000	588,226
6	100,001	–	105,000	617,813
7	105,001	–	110,000	754,510
3	110,001	–	115,000	342,609
2	115,001	–	120,000	231,242
11	120,001	–	125,000	1,347,857
1	125,001	–	130,000	125,280
4	130,001	–	135,000	530,439
4	135,001	–	140,000	548,973
3	140,001	–	145,000	423,986
5	145,001	–	150,000	739,761
3	150,001	–	155,000	457,089
1	155,001	–	160,000	157,125
1	160,001	–	165,000	161,500
3	165,001	–	170,000	503,580
4	170,001	–	175,000	690,003
3	175,001	–	180,000	531,174
1	180,001	–	185,000	181,321
1	185,001	–	190,000	187,641
2	190,001	–	195,000	386,728
2	195,001	–	200,000	395,245
2	205,001	–	210,000	418,401

Number of shareholders	Size of shareholding Rs. 10 each		Total shares held
2	210,001	– 215,000	421,380
2	215,001	– 220,000	432,498
2	220,001	– 225,000	446,836
1	225,001	– 230,000	229,654
2	240,001	– 245,000	485,820
2	250,001	– 255,000	506,031
1	260,001	– 265,000	262,392
1	265,001	– 270,000	265,483
2	270,001	– 275,000	545,097
2	275,001	– 280,000	554,736
1	295,001	– 300,000	300,000
2	305,001	– 310,000	618,240
1	315,001	– 320,000	316,600
1	320,001	– 325,000	323,640
1	335,001	– 340,000	339,211
1	340,001	– 345,000	340,881
1	350,001	– 355,000	354,806
1	355,001	– 360,000	360,000
2	360,001	– 365,000	725,286
1	365,001	– 370,000	366,140
1	390,001	– 395,000	391,000
1	405,001	– 410,000	405,225
1	455,001	– 460,000	456,958
1	475,001	– 480,000	476,586
3	480,001	– 485,000	1,450,546
1	485,001	– 490,000	489,769
2	495,001	– 500,000	998,904
1	500,001	– 505,000	502,934
1	510,001	– 515,000	510,312
1	520,001	– 525,000	524,218
2	525,001	– 530,000	1,050,988
1	560,001	– 565,000	564,000
1	590,001	– 595,000	594,382
2	595,001	– 600,000	1,199,431
2	600,001	– 605,000	1,208,748
1	605,001	– 610,000	608,793
1	630,001	– 635,000	632,337
1	635,001	– 640,000	635,730
1	665,001	– 670,000	665,624
1	695,001	– 700,000	697,200
3	725,001	– 730,000	2,175,861
1	735,001	– 740,000	737,308
2	755,001	– 760,000	1,510,941
1	775,001	– 780,000	776,462

Number of shareholders	Size of shareholding Rs. 10 each		Total shares held
5	805,001	– 810,000	4,025,325
1	825,001	– 830,000	828,616
2	845,001	– 850,000	1,692,300
1	860,001	– 865,000	863,089
1	865,001	– 870,000	867,098
1	930,001	– 935,000	934,929
1	965,001	– 970,000	967,017
1	1,010,001	– 1,015,000	1,011,218
3	1,030,001	– 1,035,000	3,104,172
1	1,035,001	– 1,040,000	1,037,157
1	1,050,001	– 1,055,000	1,050,943
1	1,055,001	– 1,060,000	1,055,799
1	1,105,001	– 1,110,000	1,109,534
1	1,135,001	– 1,140,000	1,139,023
1	1,200,001	– 1,205,000	1,201,656
1	1,205,001	– 1,210,000	1,208,793
1	1,275,001	– 1,280,000	1,278,000
1	1,335,001	– 1,340,000	1,336,890
2	1,510,001	– 1,515,000	3,021,988
1	1,550,001	– 1,555,000	1,554,501
1	1,555,001	– 1,560,000	1,559,444
1	1,600,001	– 1,605,000	1,600,051
2	1,610,001	– 1,615,000	3,227,480
1	1,665,001	– 1,670,000	1,665,424
1	1,695,001	– 1,700,000	1,698,000
1	1,805,001	– 1,810,000	1,807,332
1	1,825,001	– 1,830,000	1,829,983
1	1,850,001	– 1,855,000	1,854,000
1	1,925,001	– 1,930,000	1,925,629
1	2,020,001	– 2,025,000	2,022,854
1	2,065,001	– 2,070,000	2,069,454
2	2,070,001	– 2,075,000	4,148,636
1	2,115,001	– 2,120,000	2,115,315
1	2,135,001	– 2,140,000	2,139,193
2	2,415,001	– 2,420,000	4,835,186
1	2,435,001	– 2,440,000	2,437,828
1	2,465,001	– 2,470,000	2,465,886
1	2,590,001	– 2,595,000	2,591,659
1	2,715,001	– 2,720,000	2,719,828
1	3,900,001	– 3,905,000	3,901,899
1	4,510,001	– 4,515,000	4,511,878
1	4,610,001	– 4,615,000	4,611,607
1	4,695,001	– 4,700,000	4,698,000
1	5,445,001	– 5,450,000	5,449,146

Number of shareholders	Size of shareholding Rs. 10 each		Total shares held
1	5,835,001	– 5,840,000	5,835,426
1	6,680,001	– 6,685,000	6,681,159
1	6,740,001	– 6,745,000	6,741,406
1	8,410,001	– 8,415,000	8,410,586
1	8,670,001	– 8,675,000	8,670,802
1	9,840,001	– 9,845,000	9,843,073
1	10,475,001	– 10,480,000	10,478,314
1	11,055,001	– 11,060,000	11,058,158
1	11,370,001	– 11,375,000	11,371,328
1	12,400,001	– 12,405,000	12,402,861
1	12,610,001	– 12,615,000	12,611,321
1	13,565,001	– 13,570,000	13,565,888
1	19,340,001	– 19,345,000	19,340,985
1	22,105,001	– 22,110,000	22,107,923
1	25,970,001	– 25,975,000	25,971,610
1	26,920,001	– 26,925,000	26,924,094
1	35,760,001	– 35,765,000	35,764,090
1	37,545,001	– 37,550,000	37,545,679
1	70,430,001	– 70,435,000	70,433,607
1	534,390,001	– 534,395,000	534,394,054
<u>3,131</u>			<u>1,047,831,480</u>

COMBINED PATTERN OF CDC AND PHYSICAL SHAREHOLDINGS

AS ON 31 DECEMBER 2011

Category No.	Categories of Shareholders	Number of Shares held	Category wise No. of Share holders	Category wise Shares held	(%)
1	Individuals		2,940	135,654,190	12.95
2	Investment Companies		5	2,199,985	0.21
3	Joint Stock Companies		51	6,671,588	0.64
4	Directors, Chief Executive Officer and their spouse and minor children		10	29,399,616	2.81
	Mr. Kassim Parekh	2,417,593			
	Mr. Ali S. Habib	1,510,994			
	Mr. Bashir Ali Mohammad	19,340,985			
	Mr. Mohamedali R. Habib	1,612,524			
	Mr. Muhammad H. Habib	2,069,454			
	Mr. Ronald V. Emerson	870			
	Mr. Tariq Ikram	600			
	Mrs. Farah Fatimah Muhammad H. Habib	1,037,157			
	Mrs. Munizeh Ali Habib	604,374			
	Syeda Mohamedali R. Habib	805,065			
5	Executives		42	2,564,884	0.24
6	NIT / ICP		4	72,247,125	6.89
	National Bank of Pakistan, Trustee Deptt.	70,433,607			
	National Bank of Pakistan	5,200			
	IDBP (ICP Unit)	986			
	National Investment Trust Limited	1,807,332			
7	Associated Companies, undertakings and related parties		4	536,277,786	51.18
	Habib Bank AG Zurich	534,394,054			
	Habib Insurance Company Limited	1,665,424			
	Trustees Thal Ltd. Emp. Ret Benefit Fund	45,330			
	Trustees Thal Ltd. Emp. Provident Fund	172,978			
8	Banks, DFIs, NBFIs, Insurance companies, Modarabas & Mutual Funds		32	144,686,609	13.81
9	Foreign Investors		27	107,052,181	10.22
10	Co-operative Societies		1	9,843,073	0.94
11	Charitable Trusts		7	628,469	0.06
12	Others		8	605,974	0.06
	Total		3,131	1,047,831,480	100.00

Shareholders holding ten percent or more voting interest in the listed company

Total Paid-up Capital of the company 1,047,831,480 shares
 10% of the paid-up capital of the Company 104,783,148 shares

Name(s) of Shareholder(s)	Description	No. of Shares held	Percentage (%)
Habib Bank AG Zurich, Switzerland	Falls in Category #7	534,394,054	51.00