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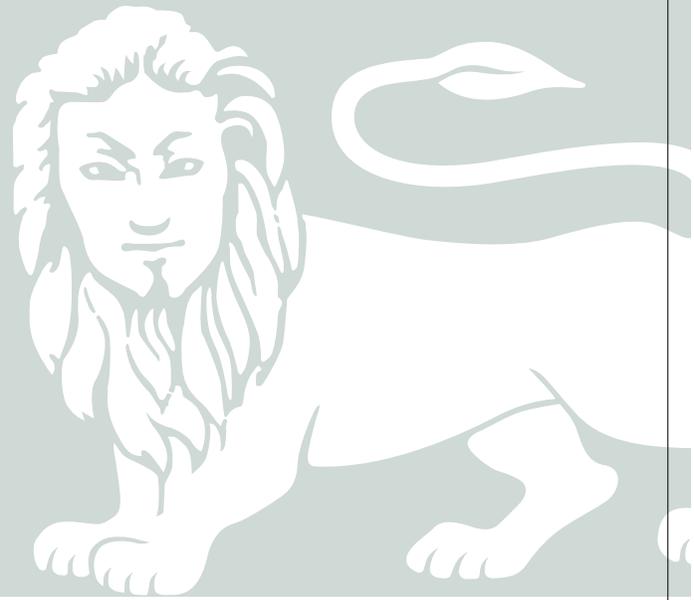
هَذَا مِنْ فَضْلِ رَبِّي



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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BOARD OF DIRECTORS

CHAIRMAN

Kassim Parekh

CHIEF EXECUTIVE

Anjum Iqbal

DIRECTORS

Muhammad H. Habib

Reza S. Habib

Bashir Ali Mohammad

Anwar H. Japanwala

Ronald Victor Emerson

Firasat Ali

Mohamedali R. Habib*

* Executive Director

AUDIT COMMITTEE

Reza S. Habib

Kassim Parekh

Mohamedali R. Habib

COMPANY SECRETARY

Fuzail Abbas

SHARE REGISTRAR

Noble Computer Services (Private) Limited

2nd Floor, Sohni Centre, BS 5 & 6,

Main Karimabad, Block-4, Federal B Area,

Karachi - 75950

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Seventeenth Annual General Meeting of the shareholders of Habib Metropolitan Bank Ltd will be held at the Moosa D. Dessai Auditorium, Institute of Chartered Accountants of Pakistan, G-31/8, Chartered Accountants Avenue, Clifton, Karachi on Monday, March 30, 2009 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, 2008 together with the Directors and Auditors reports thereon.
2. To approve, as recommended by the Board of Directors, dividend @ 25% in the form of bonus shares. In the event of any member holding fractional shares, the Directors be authorized to consolidate such fractional entitlement and sell in the stock market and to pay the proceeds of sale when realized to a charitable trust.
3. To appoint Auditors for the financial year ending December 31, 2009 and fix their remuneration. On the proposal of the parent company, the Board of Directors have recommended appointment of M/s KPMG Taseer Hadi & Co., Chartered Accountants, who have also consented to act as Auditors.
4. To consider any other business with the permission of the Chair.

Special Business

1. To authorize the Board of Directors to approve payment of remuneration to Chairman for extra-work performed for attending Board of Directors/Sub-committee Meetings.

By Order of the Board

Karachi: March 2, 2009

FUZAIL ABBAS
Company Secretary

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 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 25, 2009 to April 8, 2009 (both days inclusive).
5. A statement under section 160 of the Companies Ordinance, 1984 pertaining to Special Business is annexed.

Statement 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 30, 2009.

Approval of the shareholders will be sought and resolution to be passed for the following:

1. To authorize the Board of Directors to approve payment of remuneration to Chairman for extra-work performed for attending Board of Directors/Sub-committee Meetings.

Resolved that in Article 106 of the Articles of Association, after the first para the following para be added:

“The Board of Directors are authorized to pay Rs. 500,000 (Rupees five hundred thousand only) per meeting of Board of Directors/Sub-committees to the Chairman as remuneration for extra-work assigned to him by the Board.”

CHAIRMAN'S REVIEW TO THE SHAREHOLDERS



Dear Shareholders,

The Directors of Habib Metropolitan Bank take pleasure in presenting this report, together with the accounts of the Bank for the year ended December 31, 2008. The operating financial results and appropriations, as recommended by the Board of Directors, are summarized below:

	Rupees in '000
Profit before tax	4,740,110
Taxation – Current	(1,992,000)
– Prior years	(29,186)
– Deferred	558,453
	(1,462,733)
Profit after taxation	3,277,377
Un-appropriated profit brought forward	2,059,958
Profit available for appropriation	5,337,335
Appropriations:	
– Transfer to statutory reserve	656,000
– Issue of bonus shares in the ratio of 20 shares for every 100 shares held - 2007	1,003,670
– Cash dividend (Re. 1 per share) - 2007	501,835
	(2,161,505)
Un-appropriated profit carried forward	3,175,830

The Directors are pleased to propose a dividend of 25% bonus shares (25 shares for every 100 shares held) for the year under review.

By Allah's grace, your Bank achieved new milestones during the year. Our deposits crossed Rs.128 billion mark at the year-end and total assets exceeded Rs.182 billion. HMB's pre-tax profit for the year amounted to Rs.4.7 billion. This performance translates into an EPS of Rs.5.44 per share, an increase of 17% from 2007.

At year-end, HMB's equity stands at Rs.15.1 billion, at a comfortable 10%+ on capital adequacy levels against the required 9%.

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

We 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. We also thank the staff members for their devotion, diligence and commendable performance.

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

On behalf of the Board

Karachi: March 2, 2009

KASSIM PAREKH
Chairman

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, 2008.

ECONOMIC AND BANKING REVIEW

Year 2008 was full of challenges. Country's trade gap widened on account of high oil/ commodity prices and inflation rose sharply driving market rates up with high volatility. The growing trade imbalance and a net outflow of portfolio investment pressurized the Pak Rupee to shed its value sharply, which further escalated inflation. With the flight of investment, the country's foreign exchange reserves reduced to an alarmingly low level. The country's stock markets also remained highly volatile. Due to the severe liquidity crisis, partly fueled by steep reductions in property values, the SECP imposed trading suspension at the stock markets for more than 100 days which resulted in a loss of investors' confidence. This situation had its toll on Investment Banks, Asset Management & Leasing sectors which suffered unsustainable portfolio losses.

Following the above economic conditions, Pakistan's country ratings were revised downward to CCC+ by S&P and B-3 by Moody's. To handle these worsening conditions, the country joined the IMF program, which provided instant support of USD 3.1bn out of total commitment of USD7.6bn. The IMF however imposed several economic conditions and the Government has started to move in that direction by eliminating fuel & power subsidies, higher discount rate at 15% and restricting fiscal deficit. Pakistan's GDP growth has slowed down to an expected 2.5% in current year as against the previous years' average growth of 6%+.

The overall growth in banking sector remained low during the year. Overall banking deposits grew by 6.6% only as against the 5-year Cumulative Average Growth Rate (CAGR) of 14.7%. As a result, the industry Advances Deposit Ratio (ADR) remained high. Advances growth during the year is mainly attributable to the power and oil sector as it faced acute liquidity shortages due to non-payment of subsidy by Government authorities. This has created a large and complex "circular" debt issue.

First half of the year witnessed tight monetary measures by the State Bank of Pakistan. Discount rate moved up by 150 bp to 12% and the cash reserve requirements were also enhanced by 100bps to 9%. LC Margins were imposed on selected products and the statutory liquidity requirements were also increased by 100bps to 19%. However, with such stringent measures, the banking sector faced a severe liquidity crunch during third quarter 2008 and the inter-bank rates moved up dramatically. SBP managed this situation by reducing the cash reserve requirements and by funding 100% exposure under export refinance scheme.

Monetary tightening by SBP along with inflationary pressure resulted in an industry wide halt in consumer financing. Further, stock market crash trimmed banking sector returns from equity trading. With surge in interest rates and global as well as local economic slowdown, maintaining asset quality remains a fundamental challenge to the banking sector.

In the current environment, the banking sector is likely to show a higher ratio of non-performing advances.

BANK'S PERFORMANCE FOR THE YEAR

By Allah's grace, your Bank achieved new milestones during the year. The Bank's deposits crossed the Rs. 128 billion mark at the year-end and total assets exceeded Rs. 182 billion. Advances increased to Rs. 108 billion. This growth remains in line with the banking sector's overall performance during the year.

HMB's pre-tax profit for the year amounted to Rs. 4.7 billion. This performance translates into an EPS of Rs 5.44 per share reflecting an increase of 17% when compared to 2007.

At year-end, HMB's net equity stands at Rupees 15.1 billion with a comfortable 10%+ capital adequacy level against the required 9%.

While the operating environment presented great challenges to the banking sector, your Bank followed a cautious strategy to maintain excess liquidity and keep asset quality at satisfactory levels. The Bank's business model remained very effective in steering the Bank through turbulent times. Your Bank's performance reflects improvement in margins, increased fee based earnings and a significant rise in the foreign exchange earnings. 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 eighth 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 of July 2008, show the entity at 1384th mark with a country rank at the 8th position. Habib Bank AG Zurich, being the Bank's parent company, holds a prestigious 549th position in international banks as per The Bankers' Magazine of July 2008. All these ranks have improved from previous levels.

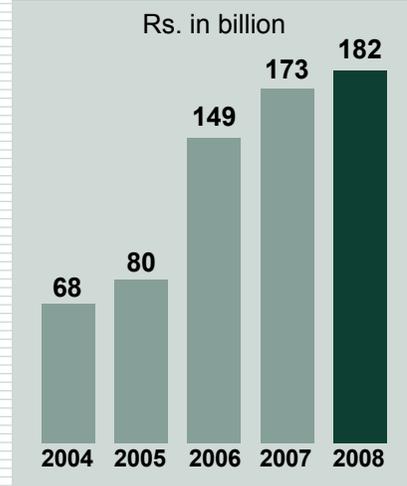
ENHANCED REACH TO OUR CUSTOMERS

With Allah's Blessings, HMB network now stands at 110 online branches across Pakistan providing a full range of banking services. This includes 4 full service islamic banking branches. HMB branches are now operational in 17 cities with new locations of Kamoke and Hub (Lasbela) added during the year. Your Bank opened 10 new branches during the year and plans to open more in 2009. In addition, the Bank also operates six offsite collection booths.

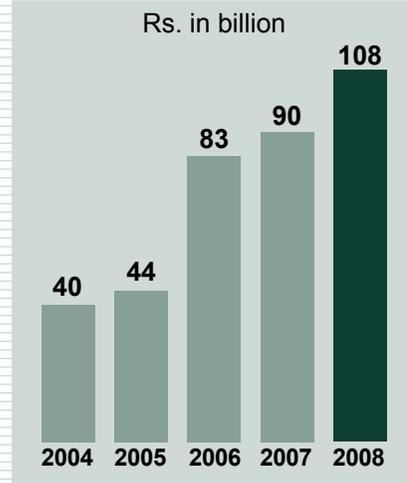
HMB continues with its program for upgrading and re-positioning existing branches to provide better service and for an extended reach to the Bank's esteemed clientele. With enhanced network and an elaborate product suite that provides both personal and business solutions to our valued customers, HMB's customer base continues to grow rapidly.

With HBZ's International presence and the Bank's extensive correspondent relationships across the globe, our trade business continues to demonstrate strong growth. 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 HMB. With innovative products, strong technology support and outstanding service standards, HMB continues to be the choice bank for the country's commercial and trade business houses. During the year, the International Finance

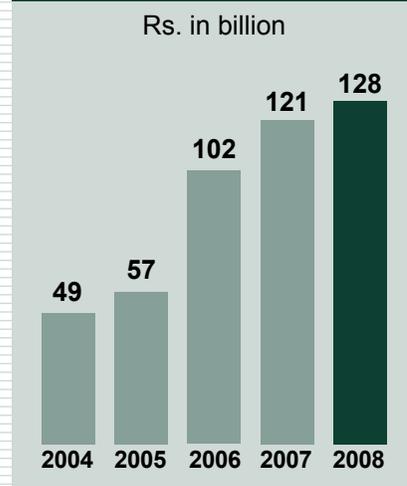
Total Assets



Advances



Deposits



Corporation (IFC) reviewed the Bank's Letter of Credit confirmation facility and doubled the limit taking into account the Bank's credit rating, business volumes and the quality of business being routed under this facility.

Your Bank's Islamic Banking business has now established itself and has grown considerably during the year with total assets of Rs 8.2 billion at the year-end. The Islamic banking branches are fully capable of catering to the customers seeking Sha'ria compliant products. Additionally, Islamic banking counters in various branches are operational and more are planned.

During 2007, HMB formed a subsidiary company by the name of Habib Metropolitan Financial Services (HMFS). HMFS commenced (equity) brokerage services during 2008 providing convenient and trusted investment services to valued clients. HMFS activities are expected to increase as investor confidence returns to Pakistan's equity markets and business volumes are restored.

TECHNOLOGY

Technology remains fundamental to your Bank's core strategy and with state-of-the-art, award winning technology platform, the Bank continues to add automated solutions. During the year, the Bank's network connectivity was substantially upgraded and the Bank acquired enhanced modules for central processing and treasury operations. Further, Basle II Implementation was fully achieved. Various initiatives were also taken to enhance controls and efficiency in internal processes. The Bank also upgraded its network security and the Bank's website "www.hmb.com.pk" now enjoys the industry best security. This enables the Bank to offer exciting web-based banking products which are planned for 2009.

The Bank also installed 13 Automated Teller Machines (ATM) during the year taking the total strength of the ATMs to 76 across the country. These ATMs provide services to HMB account holders as well as customers having accounts with other banks on both MNET and 1LINK switches. During the year, the Bank has tested and deployed utility bill payment solutions on its ATMs. Transaction growth has been encouraging throughout the ATM network and we will continue to deploy further ATMs during 2009.

HUMAN RESOURCES

The total strength of the HMB family has grown from 2,300 to 2,473 during the year. During the year, 3 employees were selected through ballot to perform Hajj on Bank's costs.

As a key element of strategy, your Bank places strong focus on training. During the year, the Bank conducted more than 130 in-house training courses encompassing 10,500+ man hours. In addition 440 employees were sent on outsourced training initiatives.

Your Bank also registered into the Employee Old Age Benefit program during the year and has commenced making contributions to this scheme as required by the EOBI Act. Further, the Federal Budget 2008-2009 levied Workers Welfare Fund onto the scheduled banks for which an amount of Rs 126 million has been charged to the current year profit and loss account.

HMB remains an equal opportunity employer providing exciting careers and growth perspective to prospective bankers.

SERVICE QUALITY INITIATIVES

During the year, your Bank commenced a multi-year exercise for centralizing branch banking operations onto a Central Processing Platform. The Bank's Central Processing Unit (CPU) was formally inaugurated in December 2008. The CPU has already commenced operations which will gain momentum during 2009 and the project will create capacity, enhance controls and improved quality of service throughout the network.

Maintaining exemplary service quality remains fundamental to your Bank's strategy. As a service quality initiative, your Bank launched its own call centre "HMB Connect" during the year. 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.

During the year, your Bank launched its Best Practices Manuals for all general banking, trade, credit and treasury related activities on a purpose-built, secured Information Portal. The bank's training initiative has also been aligned with these Manuals. The HMB Info Portal is a useful source of information for HMB employees and hosts the Bank's policies, manuals and key information. With these initiatives, your Bank expects to gain significantly improved and standardized customer services across the network.

CORPORATE SOCIAL RESPONSIBILITIES

As a member of society, HMB acknowledges its corporate social responsibilities and continues to make regular contributions to a host of non-profit / social organisations. During the year, the Bank's donations amount to Rs 24 million against Rs 20 million last year. The Citizens Foundation remains one of the larger recipients and through them; HMB is running six schools in under privileged rural areas where more than 1,000 children are enrolled.

Details of your Bank's other social contributions can be found in the notes to the accounts.

HMB is a leading tax payer with more than Rs 2.0 billion paid during 2008 to the Government of Pakistan as direct taxes. Further, an estimated amount of more than Rs 2.5 billion was collected through the Bank's network comprising of indirect tax deductions and recoveries for the exchequer.

OPERATING RESULTS

During the year, the Bank's gross revenues increased by 33% to Rs 20.1 billion. 78% of increase in the gross revenues was contributed by profit/mark-up earned on loans and investments. The Bank's non-mark-up based earnings reflect a healthy increase of Rs 1,098 million, an increase of 35%, out of which Rs 889 million is directly attributable to increased Foreign Exchange earnings. This rise is due to increase in trade volumes as well as devaluation of Pakistan Rupee during the year. The Bank has maintained concerted efforts to increase margins as well as keeping its establishment costs at the acceptable levels. Resultantly, your Bank continues to enjoy a healthy cost to revenue ratio.

I now outline a few items, which have material impact on these financial statements:

Non-Performing Loans and Advances

As detailed under note 12 to these financial statements, the total non-performing loans of the Bank stand at Rs 1,748 million, reflecting an infection ratio of 1.6%. This ratio however is one of the lowest in the industry and depicts a healthy credit portfolio. The non performing loans also include an amount of Rs 697 million which has been classified by the Bank this year on a subjective assessment basis keeping in view the weakened financial situation and diminished capacity to repay obligations by a few borrowing relationships. This is an industry-wide issue however your Bank expects to make material recoveries during 2009.

Specific Provision for Non-Performing Loans and Advances

The specific provision for the non-performing loans is kept in compliance with the SBP Prudential Regulations. The provision has been made after taking into account liquid securities realisable without recourse to court held against non-performing advances. Subsequent to year end, the SBP issued circular number 02 of 2009 dated 27 January 2009 whereby the Prudential Regulations were amended to allow the benefit of Forced Sale Value (FSV) of commercial and residential properties, held against non-performing advances, to be taken into account for the purpose of calculating the provisioning

requirement. However, as a matter of prudence, your Bank has decided not to avail such benefit for computing the above provision. This matter has been disclosed in detail under note 12.3 to the accounts.

General Provision for Loans and Advances

As detailed under note 12.4 to these financial statements, in addition to the specific provision requirements, your Bank also maintains general provision as a matter of prudence, on the basis of management's assessment of credit and general banking risk characteristics such as nature of credit, collateral type, industry sector and other relevant factors.

During the year, an additional Rs 530 million has been provided by the Bank in this respect. The general provision is maintained in line with the Bank's approved policy.

Provision for diminution in the value of investments – impairment

With the crash of the Karachi Stock Exchange, suspension of stock trading as well as redemption in mutual funds in late 2008, the overall banking and investment sectors were badly affected by unusually high revaluation losses. In this respect, the Bank has charged an amount of Rs 228 million to the current year profit and loss account as provision for diminution in the value of investment – please refer Note 11.3 to the accounts. This amount represents impairment loss due to significant decline in the quoted market price of equity securities and net asset values of mutual funds. Subsequent to the year end, the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan allowed banks to carry-over the impairments losses on such securities for one year to 2009 and recognize the same on a quarterly basis. However, the SECP also encouraged charging off the same to the 2008 profits being the preferred and prudent accounting treatment. Your Bank has adopted the encouraged method and the impairment loss has been fully recognised in the profit and loss account.

Consolidations

These accounts also include consolidated financial statements, as required under IAS 27 – “Consolidated and Separate Financial Statements”; to account for the activities of the Bank's local subsidiary Habib Metropolitan Financial Services (HMFS) and Hong Kong based fully owned subsidiary company “Habib Metropolitan Trade Services Limited” (HMTS).

The Bank's Hong Kong based subsidiary was set up as a legal vehicle to optimize revenues on trade flows to China. With the change in market dynamics and availability of alternate means, HMTS does not constitute material activities in the overall context of HMB's business and is therefore in the process of winding-up.

Penalties

During the year, the SBP levied a penalty of Rs 21.9 million on HMB in respect of the SBP On-site Inspection Report as at June 30, 2007. The penalty has increased as compared to previous years mainly because SBP performed Bank's inspection since December 31, 2004, after a gap of 2+ years and the number of days for which penalty was computed were counted accordingly. The Bank applied for a refund of penalty which was partially accepted. The management is taking suitable corrective actions to improve controls to avoid such penalties in future.

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.

COORPORATE GOVERNANCE

CHANGES IN THE BOARD OF DIRECTORS

Your Board of Directors has appointed Mr. Anjum Iqbal as Chief Executive Officer of the Bank effective October 25, 2008. Mr. Anjum Iqbal is a very senior banker and during his 33 years career with an International Bank, has served in many locations including Greece, Venezuela, Turkey, South Africa and the UK. Before joining HMB, he was Managing Director – Commercial Banking Group (Europe, Middle East & Africa) and Regional Head – Poland, Turkey and CIS. The Board welcomes Mr. Anjum Iqbal to HMB and is confident that HMB shall grow even further and reach new heights under his able guidance.

Upon retirement, the Board of Directors elected Mr. Kassim Parekh as Chairman. Mr. Kassim Parekh, perhaps one of the Pakistan's most reputed bankers, remained the Bank's President & CEO since its inception in 1992. By the grace of Allah, under Mr Parekh's inspirational leadership, HMB flourished and now stands amongst the top 10 banks in Pakistan.

Further, the Board accepted the resignation of Mr. A. R. Wadiwala, founding director of the Bank, and appreciated his valuable association with the Bank. Mr Wadiwala made tremendous contributions as a member of the Board and its Audit and Credit Committees.

In November 2008, the Board co-opted Mr. Ronald Victor Emerson as Non-Executive Director of the Bank in place of Mr. A R Wadiwala. Mr. Emerson is presently an Associate Fellow of Oxford's Said Business School, at its Executive Education Centre in United Kingdom. Mr. Emerson has had a distinguished career in international banking and has served as a Senior Advisor at the Bank of England and the Financial Services Authority. Your Board welcomes Mr Emerson to HMB and expects to benefit from his knowledge and experience in the field of banking and leadership.

BOARD MEETINGS

During the year 2008, 4 Board meetings were held and the attendance of the directors during their tenure on the Board was as follows:

Name of Directors	Mar 3	Apr 9	Aug 7	Oct 25
Mr. Kassim Parekh	✓	✓	✓	✓
Mr. Muhammad H. Habib	✓	-	✓	✓
Mr. Reza S. Habib	-	✓	✓	✓
Mr. Bashir Ali Mohammad	✓	✓	✓	✓
Mr. Anwar H. Japanwala	✓	✓	-	✓
Mr. Ronald V. Emerson*	N/A	N/A	N/A	N/A
Mr. Firasat Ali	✓	✓	✓	✓
Mr. Mohamedali R. Habib	✓	✓	✓	✓
Mr. A. R. Wadiwala (+)	✓	✓	✓	-

* appointed on Nov 11
(+) resigned on Oct 25

PATTERN OF SHAREHOLDING

The pattern of shareholdings as on December 31, 2008 is annexed to the report.

AUDITORS

The present auditors M/s Ford Rhodes Sidat Hyder & Co., Chartered Accountants will retire at the conclusion of 16th Annual General Meeting. On the recommendation of the Board's Audit Committee, the Board of Directors has proposed the appointment of M/s KPMG Taseer Hadi & Co as auditors for the year 2009. M/s KPMG are the external audit firm for the HBZ group's network.

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 except for change as disclosed in note 2 of accounts.
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:

Name of Directors	2008	2007	2006	2005	2004	2003
Shareholders' equity	16,238	13,462	10,665	5,093	3,568	2,753
Paid-up capital	6,022	5,018	3,005	1,560	1,200	1,000
Total assets	182,357	172,867	148,668	79,564	67,891	58,982
Deposits	128,370	121,066	102,493	56,713	48,596	39,338
Advances	108,261	89,827	83,324	43,519	40,122	32,230
Investments	53,632	61,736	39,556	22,804	15,560	17,959
Profit before taxation	4,740	4,204	3,143	2,098	1,378	1,224
Profit after taxation	3,277	2,797	2,096	1,506	816	678
Earnings per share (Rs)	5.44	5.57	9.32	9.65	6.80	6.78
Dividends (%)	25 (B)	1-67(B)	–	33.33 (B)	30 (B)	20 (B)
		F-20(B), 10(C)				
No. of staff	2,473	2,300	1,963	1,143	1,045	901
No. of branches	110	100	82	51	47	40

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

- Provident Fund Rs. 471,478 thousand as at June 30, 2008
- Gratuity Fund Rs. 129,712 thousand as at December 31, 2007

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 secured 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 Division 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 the 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 our exposure on a short-term 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, examination of charge/control documents and monitoring of exposures on an ongoing basis.

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. Liquidity and market risk management policies are in place and contain action plans to further strengthen the Bank's risk management system.

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 has formalized "Stress Test" report based on the guidelines issued by the State Bank of Pakistan. The stress testing results depict a solid and resilience financial position of HMB.

OPERATIONAL RISK

An important aspect of HMB's Operations Risk Management Strategy is the Bank's Operational Risk Management Manual. The Manual takes guidance from Basel-II and Committee of Sponsoring Organization of Treadway Commission (COSO) publications, State Bank guidelines and from standard industry practices.

Since Operational Risk is prevalent in all major banking activities, the Manual addresses enterprise wide risk drivers i.e. Organizational, Technology, Policy / Process, Human, and External.

At the more detailed level, while procedures are generally documented, we have utilized the services of a well-reputed professional firm to document best practices throughout the Bank. Whereas the documentation stands complete, the project for implementation through training is on-going.

Our Business Continuity Plan (BCP) includes risk management strategies to mitigate inherent risk and prevent interruption of mission critical services caused by a disaster event. We have further strengthened the Bank's Operational Risk infrastructure through the establishment of a separate Operational and Risk Control Unit. An Internal Control Unit has been established and provides focused monitoring of exceptions to the management in a proactive manner. Management plans include enhancing the scope & function of the existing control unit to encompass all aspects of operational risk.

BASEL II IMPLEMENTATION

The Basel-II implementation has been a major focus area. Through extensive planning and data base

parameterization, we have developed automated processes/modules to cater to Basel II capital calculation requirements. From December 2008, Basle II has been implemented and the Bank's Capital Adequacy stands at a comfortable 10.5% as at the year-end against requirement of 9%. The Bank's calculation methodology has also been reviewed by a qualified external firm who have expressed satisfaction with the Bank's Basell II process.

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 on this area imparted across the network. We have also set in place suitable and professionally trained staff to manage the overall compliance program from the Head Office. 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 risk at the time of opening the account and enhanced due diligence controls are applied for riskier relationships. During 2008, the Bank has completed the process of installing 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 mitigate.

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 largely 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 is now fully operational 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 validated by the external auditors. In this connection, the Bank has decided to adopt COSO Framework and Auditing Standard 5 (AS 5), being the most widely used frameworks globally, and has introduced a comprehensive Internal Control Program for eventual compliance with such standards. The bank has engaged a reputable advisory firm to assist in such initiative and has completed a detailed documentation of the existing processes and controls, together with a comprehensive gap analysis of the control design in place. The exercise is expected to materially complete during 2009.

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 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 provided 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. 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. These QCRs reflect a Satisfactory “PLUS” ratings denoting an effective control and audit practice across the Bank.

FUTURE OUTLOOK

Year 2009 is expected to be full of challenges for Pakistan on various fronts. The country’s trade balance is expected to show positive improvement. Imports will ease off with reduced crude oil and commodity prices. However, with global slowdown and IMF program in place, increasing exports remains a major challenge and the country’s economic growth is expected to be lower.

However, as the inflation & interest rates stabilize, we expect the growth rate to take momentum and the country’s agriculture and large-scale manufacturing sectors are expected to add to the GDP growth. The government is committed to follow the IMF program and although rupee will remain under pressure, the country’s foreign exchange reserves will stabilize.

Banking is expected to continue facing strong challenges in this scenario. While health of the credit portfolio remains of prime significance, margins are likely to decline. Trade imbalance and global slowdown will affect business volumes and will have a negative impact on overall trade & fee based income. With SBP’s revised and enlarged capital requirements, the banking sector is expected to undergo yet another phase of consolidation and increasing competition.

We remain vigilant to the situation and expect that, with Allah’s blessing and the continued patronage of our loyal stakeholders, HMB will continue to make satisfactory progress despite the 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

Karachi: March 2, 2009

ANJUM IQBAL
Chief Executive

This statement is being presented to comply with the Code of Corporate Governance contained in 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 non-executive directors on its Board of Directors. At present the Board includes seven non-executive directors.
2. The Directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Bank.
3. All the resident directors of the Bank are registered taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI / NBF1.
4. A casual vacancy occurred in the Board during the year and was filled up by the Directors within the prescribed period.
5. The Bank has prepared a Statement of Ethics and Business Practices, which has been signed by the Directors and employees of the Bank.
6. The Board has developed a vision/mission statement 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 and in his absence by a Director elected by the Board for this purpose. 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 have attended the orientation course organized by the State Bank of Pakistan.
10. The Board has approved appointment of Chief Financial Officer/Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the Chief Executive Officer. No new appointments in the given positions were made during the year.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.
13. 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.
14. The Bank has complied with all the corporate and financial reporting requirements of the Code.
15. 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.
16. 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.

17. An effective internal audit function is already in place.
18. 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.
19. 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.
20. We confirm that all other material principles contained in the code have been complied with.

On behalf of the Board

Karachi: March 2, 2009

ANJUM IQBAL
Chief Executive

**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 (the Code) for the year ended December 31, 2008 prepared by the Board of Directors of Habib Metropolitan Bank Limited (the Bank) to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange where the Bank is listed.

The responsibility for compliance with the Code 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 and report if it does not. A review is limited primarily to inquiry of the Bank's 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.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Bank for the year ended December 31, 2008.

Karachi: March 2, 2009

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

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 control 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 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 now fully operational at the Risk Management Function which provides focused monitoring of exceptions to the management in a proactive manner. This function is expected to reflect further improvement to the Bank's existing Review and Monitoring Controls.

SBP Internal Control Guidelines require the Bank's management to evaluate the effectiveness of overall set of internal controls while the evaluation specifically in relation to financial reporting controls is also to be independently validated by the external auditors. In this connection, the bank has decided to adopt COSO Framework and Auditing Standard 5 (AS 5), being the most widely used frameworks globally, and has introduced a comprehensive Internal Control Programme broken down into various stages for eventual compliance with such standards.

The bank has engaged a reputable advisory firm to assist in such initiative and has completed a detailed documentation of the existing processes and controls, together with a comprehensive gap analysis of the control design in place. The exercise has resulted in identification of improvement opportunities in various areas of the bank's operations and the management is planning to initiate the remediation process soon under well crafted plans. In the next stage, a comprehensive management framework will also be developed to provide a consistent basis for testing required under the above-mentioned standards. In view of the importance of the programme, it has also been decided to support the implementation through a strong project management organisation within the bank to ensure that the milestones are achieved on a timely basis. Your management does not expect any material deviations/gaps arising out of the above exercise. However, the management believes that besides providing a basis for regulatory compliance on one hand, adoption of the above-mentioned framework ensures better risk mitigation through incorporation of best practices, where required, and priorities controls depending on the level of underlying risk.

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, 2008 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 endorse Management's evaluation of Internal Controls.

On behalf of the Board

Karachi: March 2, 2009

ANJUM IQBAL
Chief Executive

SHA'RIA 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), and I hereby report that in my opinion;

- a. the affairs of IBB-HMB have been carried out in accordance with rules and principles of Sha'ria, SBP regulations and guidelines related to Sha'ria 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 Sha'ria rule and principles; and
- c. any earnings that have been realized from sources or by means prohibited by Sha'ria rules and principles have been credited to charity account.

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

Karachi: March 2, 2009

MUHAMMAD NAJEEB KHAN
Sha'ria Advisor
Habib Metropolitan Bank Ltd.
Islamic Banking Division

AUDITORS' REPORT TO THE MEMBERS



We have audited the annexed balance sheet of Habib Metropolitan Bank Ltd. (the Bank) as at 31 December 2008, and the related profit and loss account, cash flow statement and 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 fifteen 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 the amounts and disclosures in the financial statements. An audit also includes assessing the 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 case of loans and advances covered more than sixty percent of the total loans and advances of the Bank, we report that:

- (a) in our opinion, proper books of accounts 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 balance sheet 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 except for the change in accounting policy as disclosed in note 2 to the financial statements with which we concur;
 - (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 balance sheet, profit and loss account, cash flow statement and 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 2008 and its true balance of the profit, its cash flows and 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.

Karachi: March 2, 2009

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

BALANCE SHEET

AS AT DECEMBER 31, 2008

	Note	2008	2007
Rupees in '000			
ASSETS			
Cash and balances with treasury banks	8	11,401,384	10,201,545
Balances with other banks	9	2,974,237	3,691,183
Lendings to financial institutions	10	98,176	3,989,249
Investments	11	53,631,532	61,735,796
Advances	12	108,261,259	89,826,806
Operating fixed assets	13	1,528,913	1,294,486
Deferred tax assets	14	1,144,451	—
Other assets	15	3,317,451	2,127,936
		182,357,403	172,867,001
LIABILITIES			
Bills payable	16	2,372,146	3,210,041
Borrowings	17	30,435,543	29,991,633
Deposits and other accounts	18	128,369,670	121,066,469
Sub-ordinated loans		—	—
Liabilities against assets subject to finance lease		—	—
Deferred tax liabilities	14	—	60,874
Other liabilities	19	6,087,256	5,019,792
		167,264,615	159,348,809
NET ASSETS		15,092,788	13,518,192
REPRESENTED BY			
Share capital	20	6,022,020	5,018,350
Reserves		7,039,936	6,383,936
Unappropriated profit		3,175,830	2,059,958
		16,237,786	13,462,244
(Deficit)/Surplus on revaluation of assets - net of tax	21	(1,144,998)	55,948
		15,092,788	13,518,192
CONTINGENCIES AND COMMITMENTS			
	22		

The annexed notes 1 to 45 and annexures I & II form an integral part of these financial statements.

KASSIM PAREKH
Chairman

ANJUM IQBAL
Chief Executive

FIRASAT ALI
Director

BASHIR ALI MOHAMMAD
Director

PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2008



	Note	2008	2007
		Rupees in '000	
Mark-up / return / interest earned	24	15,870,172	11,983,551
Mark-up / return / interest expensed	25	(10,919,922)	(8,259,184)
Net mark-up / interest Income		4,950,250	3,724,367
Provision against non-performing loans and advances	12.4	1,004,572	434,740
Provision for diminution in the value of investments	11.3	242,713	7,344
Bad debts written off directly	12.6.1	2,535	76
		(1,249,820)	(442,160)
Net mark-up / interest income after provisions		3,700,430	3,282,207
Non mark-up / interest income			
Fee, commission and brokerage income		1,183,328	996,771
Dividend income		655,845	33,211
Income from dealing in foreign currencies		2,042,654	1,153,820
Gain on sale/redemption of securities	26	170,926	822,388
Unrealized gain/(loss) on revaluation of investments classified as held-for-trading		-	-
Other income	27	220,711	169,516
Total non mark-up / interest income		4,273,464	3,175,706
		7,973,894	6,457,913
Non mark-up / interest expenses			
Administrative expenses	28	3,086,634	2,253,559
Other provisions / write offs		-	-
Other charges	29	147,150	456
Total non mark-up / interest expenses		(3,233,784)	(2,254,015)
		4,740,110	4,203,898
Extraordinary / unusual items		-	-
Profit before taxation		4,740,110	4,203,898
Taxation - Current		(1,992,000)	(1,279,000)
- Prior years		(29,186)	(174,000)
- Deferred		558,453	46,108
	30	(1,462,733)	(1,406,892)
Profit after taxation		3,277,377	2,797,006
Unappropriated profit brought forward		2,059,958	1,835,302
Profit available for appropriation		5,337,335	4,632,308
			(Restated)
Basic earnings per share - (Rupees)	31	5.44	4.64
Diluted earnings per share - (Rupees)	31	5.44	4.64

The annexed notes 1 to 45 and annexures I & II form an integral part of these financial statements.

KASSIM PAREKH
Chairman

ANJUM IQBAL
Chief Executive

FIRASAT ALI
Director

BASHIR ALI MOHAMMAD
Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008	2007
Rupees in '000			
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		4,740,110	4,203,898
Less: Dividend income		655,845	33,211
		4,084,265	4,170,687
Adjustments			
Depreciation	13.1	164,431	60,837
Provision against non-performing loans and advances	12.4	1,004,572	434,740
Provision for diminution in the value of investments	11.3	242,713	7,344
Loss/(Gain) on sale of fixed assets	27	103	(6,137)
		1,411,819	496,784
		5,496,084	4,667,471
(Increase) / decrease in operating assets			
Lendings to financial institutions		3,891,073	1,457,861
Advances		(19,439,022)	(6,937,487)
Other assets		(1,189,515)	(80,127)
		(16,737,464)	(5,559,753)
Increase / (decrease) in operating liabilities			
Bills payable		(837,895)	1,590,245
Borrowings from financial institutions		(239,618)	227,674
Deposits and other accounts		7,303,201	18,573,757
Other liabilities (excluding current taxation)		1,122,890	940,285
		7,348,578	21,331,961
		(3,892,802)	20,439,679
Income tax paid		(2,077,325)	(1,366,003)
Net cash (used in) / inflow from operating activities		(5,970,127)	19,073,676
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		2,113,729	(21,304,318)
Net investments in held-to-maturity securities		4,200,000	(1,100,000)
Investment in subsidiary company		(299,999)	-
Dividend received		655,845	33,211
Investments in operating fixed assets		(408,135)	(712,489)
Sale proceeds of operating fixed assets		9,174	12,425
Net cash inflow from / (used in) investing activities		6,270,614	(23,071,171)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(501,122)	(4)
Decrease in cash and cash equivalents		(200,635)	(3,997,499)
Cash and cash equivalents at beginning of the year		13,309,131	17,306,630
Cash and cash equivalents at end of the year	32	13,108,496	13,309,131

The annexed notes 1 to 45 and annexures I & II form an integral part of these financial statements.

KASSIM PAREKH
Chairman

ANJUM IQBAL
Chief Executive

FIRASAT ALI
Director

BASHIR ALI MOHAMMAD
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008



	Reserves					Un-appropriated Profit	Total
	Share Capital	Share premium	Statutory Reserve	Special Reserve	Revenue Reserve		
	Rupees in '000						
Balance as at December 31, 2006	3,005,000	2,550,985	1,533,590	240,361	1,500,000	1,835,302	10,665,238
Issue of bonus shares in the ratio of 67 shares for every 100 shares held	2,013,350	-	-	-	-	(2,013,350)	-
Profit after taxation	-	-	-	-	-	2,797,006	2,797,006
Transfer to statutory reserve	-	-	559,000	-	-	(559,000)	-
Balance as at December 31, 2007	5,018,350	2,550,985	2,092,590	240,361	1,500,000	2,059,958	13,462,244
Issue of bonus shares in the ratio of 20 shares for every 100 shares held	1,003,670	-	-	-	-	(1,003,670)	-
Cash dividend (Re 1 per share)	-	-	-	-	-	(501,835)	(501,835)
Profit after taxation	-	-	-	-	-	3,277,377	3,277,377
Transfer to statutory reserve	-	-	656,000	-	-	(656,000)	-
Balance as at December 31, 2008	6,022,020	2,550,985	2,748,590	240,361	1,500,000	3,175,830	16,237,786

The annexed notes 1 to 45 and annexures I & II form an integral part of these financial statements.

KASSIM PAREKH
Chairman

ANJUM IQBAL
Chief Executive

FIRASAT ALI
Director

BASHIR ALI MOHAMMAD
Director

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2008

1. STATUS AND NATURE OF BUSINESS

Habib Metropolitan Bank Ltd. (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 stock exchanges in Pakistan. The registered office of the Bank is situated at Spencer's Building, I.I Chundrigar Road, Karachi. The Bank operates 110 (2007: 100) branches including 4 (2007: 4) Islamic banking branches in Pakistan. The Bank is a subsidiary of Habib Bank AG Zurich - Switzerland (the holding company) which is incorporated in Switzerland.

2. BASIS OF PRESENTATION

These financial statements have been prepared in conformity with the format of financial statements prescribed by the State Bank of Pakistan (SBP) vide BSD Circular No. 04, dated 17 February 2006.

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 financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon. However, during the year the Islamic banking branches of the Bank have adopted Islamic Financial Accounting Standard (IFAS) 1 "Murabaha" in respect of murabaha financing arrangements. This standard requires murabaha arrangements to be accounted for as a purchase and sale transaction of the underlying goods, and the related profit be recognised on a time proportionate basis over a period of murabaha transaction. The adoption of the above standard and the consequent change in the accounting policy have not resulted in a material impact on these financial statements.

These financial statements are separate financial statements of the Bank in which investments in subsidiaries are accounted for on the basis of direct equity interest and are not consolidated.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and IFAS issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the SBP. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by the SECP and the SBP differ with the requirements of IFRS / IFAS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives shall prevail.

The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" and IAS 40 "Investment Property" for Banking companies till further instructions. Further, according to the notification of SECP dated 28 April 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 financial statements. However, investments have been classified and valued in accordance with the requirement of various circulars issued by SBP.

During the year, interpretations of accounting standards, namely IFRIC 11 "IFRS 2 - Group Reporting and Treasury Share Transactions", IFRIC 12 "Service Concession Arrangements" and IFRIC 14 "IAS 19 - The Limit on Defined Benefit Asset Minimum Funding Requirements and their Interaction" become effective. However, these interpretation do not affect the Bank's financial statements.

4. BASIS OF MEASUREMENT

These 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 value as disclosed in notes 5.3 and 5.6 respectively.

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

These include cash and balances with treasury and other banks less over drawn nostro and local bank accounts.

5.2 Repurchase/resale agreements

The Bank enters into transactions of repos and reverse repos 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. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as 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. Amounts paid under these obligations are included in reverse repurchase agreement lendings. The difference between purchase and resale price is accrued as income over the term of the reverse repos agreement.

5.3 Investments

Investments in subsidiaries and associates are stated at cost less provision for impairment, if any. Other investments in securities are classified as follows:

Held-for-trading

These are 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.

Held-to-maturity

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

Available-for-sale

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

All regular way purchases and sales of investments are recognised on the trade date, i.e. the date the Bank commits to purchase / sell the investments. Regular way purchases and sales of equity investments require delivery of securities within 2 days after the transaction date as required by stock exchange regulations.

Investments (other than held-for-trading) are initially recognised at fair value plus transaction cost associated with the investment. Investments classified as held-for-trading are initially recognised at fair value, and transaction costs are expensed in the profit and loss account.

After initial recognition quoted securities, other than those classified as held-to-maturity, are carried at market value. Unquoted securities are valued at cost less impairment losses, if any. Held-to-maturity securities are carried at amortised cost.

Surplus / (deficit) arising on revaluation of quoted securities which are classified as available-for-sale is taken to a separate account which is shown in the balance sheet below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realized upon disposal. The unrealized surplus / (deficit) arising on revaluation of quoted securities which are classified as held-for-trading is taken to the profit and loss account.

Provision for diminution in the values of securities (except Bonds and Term Finance Certificates) is made after considering impairment, if any, in their value and charged to profit and loss account. Provision for impairment against Bonds and Term Finance Certificates is made as per the aging criteria prescribed by the Prudential Regulations issued by the SBP.

Premium or discount on debt securities classified as available-for-sale and held-to-maturity is amortised using effective interest method and taken to the profit and loss account.

5.4 Advances including net investment in finance lease

Loans and advances

These are stated net of provisions against non-performing advances. The provision 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 and general banking risk characteristics such as nature of credit, collateral type, industry sector and other relevant factors. Advances are written-off when there are no realistic prospects of recovery. Murabaha receivables are stated at gross amount receivable less deferred income and provisions, if any.

Finance lease receivables

Lease 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 lease payments. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

5.5 Operating fixed assets

Tangible

These are stated at cost less accumulated depreciation and impairment, if any, except for land and capital work-in-progress which are stated at cost.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset at the rates specified in note 13.1. Depreciation on additions during the year is charged from the date of addition. In case of disposals during the year, the depreciation is charged uptill the date of disposal.

Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Normal repairs and maintenance are charged to the profit and loss account as and when incurred.

The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

An item of fixed asset is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal.

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

Impairment

The carrying amount of assets is reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If each indication exists, and when the carrying value exceeds the estimated recoverable amount, assets are written down to the recoverable amount. The resulting impairment loss is taken to the profit and loss account currently.

5.6 Financial instruments

Financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provision of the instrument. Financial assets are de-recognized when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognized when obligation specific in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognized in the profit and loss account of the current period.

Derivative financial instruments are initially recognized 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.

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

5.7 Provisions

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.

Provisions for guarantee claims and other off balance sheet obligations are recognized when intimated and reasonable certainty exists for the Bank to settle the obligation. Expected recoveries are recognized by debiting the customers' account. Charge to profit and loss account is stated net off expected recoveries.

5.8 Taxation

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, if any. 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 temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the balance sheet date, expected to be applicable at the time of its reversal.

A deferred tax asset is recognised only to the extent that it is probable that the future taxable profit will be available and credits 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

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 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 using "Projected Unit Credit Method". The actuarial gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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.

Employees' compensated absences

Employees' entitlement to annual leave is recognized when they accrue to employees. A provision is made for estimated liability for annual leaves as a result of services rendered by the employee against unavailed leaves, as per term of service contract, up to balance sheet date.

5.10 Revenue recognition

Mark-up / interest / return on advances and investments is recognised on accrual basis, except for income which is required to be suspended in compliance with Prudential Regulations issued by the SBP.

Income from dealing in foreign currencies is recognised on accrual basis.

Other fee, commission and brokerage except income from letter of guarantee is accounted for on receipt basis. Income from letter of guarantee is recognized on accrual basis.

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

Income from murabaha is accounted for on a time proportionate basis over a period of murabaha transaction.

Profit and loss on sale of investments is included in income currently.

5.11 Foreign currencies

The financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

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 are revalued using forward exchange rates applicable to their respective remaining maturities. Exchange gains or losses are included in income currently.

5.12 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing product 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 segment reporting format have been determined and prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 04, dated February 17, 2006.

5.13 Transactions with related parties

Transactions with related parties are entered into at arm's length.

5.14 Dividend and appropriations

Dividends and other appropriation to reserves (excluding statutory reserve) declared subsequent to balance sheet date are considered as non-adjusting event and are recorded in the financial statements when declared.

6. ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which forms the basis of making judgement about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in period of revision and future periods if the revision affects both current and future periods. The estimates and judgements that have a significant effect on the financial statements are in respect of the following:

	Note
Classification of investments and provision for diminuation in the value of investments	5.3 & 11
Provision against non-performing advances	5.4 & 12
Useful lives of assets and methods of depreciation	5.5 & 13
Deferred taxation	5.8 & 14
Defined benefit plan	5.9 & 34

7. ACCOUNTING STANDARDS NOT YET EFFECTIVE

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretations.

Standard or Interpretation	Effective date (accounting period beginning on or after)
IAS I Presentation of Financial Statements (Revised)	January 01, 2009
IAS 23 Borrowings Costs (Revised)	January 01, 2009
IAS 27 Consolidated and Separate Financial Statements (Revised)	January 01, 2009
IFRS 3 Business Combinations (Revised)	July 01, 2009
IFRS 4 Insurance Contracts	January 01, 2009
IFRS 8 Operating Segments	January 01, 2009
IFRIC 13 Customer Loyalty Programs	July 01, 2008
IFRIC 15 Agreements for the Construction of Real Estate	January 01, 2009
IFRIC 16 Hedges of a Net Investment in Foreign Operation	October 01, 2008
IFRIC 17 Distributions of Non-cash Assets to Owners	July 01, 2009
IFRIC 18 Transfers of Assets from Customers	July 01, 2009
IFAS 2 Ijara	January 01, 2009

The Bank considers that the above standards and interpretations except for IFAS 2, are either not relevant or will have no material impact on its financial statements in the period of initial application other than certain changes or enhancements in the presentations and disclosures in the financial statements provided such presentation and disclosure requirements do not conflict with the format of financial statements prescribed by SBP for banks.

IFAS 2 would affect the accounting for ijarah financing contract undertaken by the Islamic banking branches of the Bank. The Standard would be applicable prospectively to such contracts entered into on or after 01 January 2009 and requires that the assets leased out under the ijarah arrangements be recorded as fixed assets separate from the assets in the Bank's own use. The said assets will be carried at cost less depreciation and impairment if any. The rentals from ijarah are to be recognised in the profit and loss account on a straight line basis over the term of the contract. Currently, the ijarah arrangements are accounted for by the Bank as finance leases in accordance with the accounting policy is stated in note 5.4 above.

In addition to the above, amendments and improvements to various accounting standards have also been issued by IASB which are generally effective for accounting periods beginning on or after 1 January 2009. The management is in the process of evaluating the impact of such amendments and improvements on the Bank's financial statements for the ensuing periods.

	Note	2008	2007
Rupees in '000			
8. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
- local currency		1,967,601	1,490,460
- foreign currencies		463,180	343,772
National Prize Bonds		4,990	8,506
		2,435,771	1,842,738
With State Bank of Pakistan in			
- local currency current accounts	8.1	6,871,297	7,202,615
- foreign currency current account	8.2	17,984	44,038
- foreign currency deposit account			
- cash reserve account - non - remunerative	8.3	510,976	542,500
- special cash reserve account - remunerative	8.4	1,515,923	542,500
		8,916,180	8,331,653
With National Bank of Pakistan in local currency current accounts		49,433	27,154
		11,401,384	10,201,545

8.1 These accounts are maintained to comply with the statutory cash reserve requirements and include cash reserve account of Rs. 941,386 thousand (2007: 512,880 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.

8.4 Represents special cash reserve maintained with SBP against foreign currency deposits and is remunerated at the rate declared by the SBP on monthly basis. The special cash reserve account carries mark-up rate of 0.90% (2007 : 4.24%) per annum.

	Note	2008	2007
Rupees in '000			
9. BALANCES WITH OTHER BANKS			
In Pakistan			
- Current accounts		232,907	279,288
- Deposit accounts	9.1	8,497	808,251
		241,404	1,087,539
Outside Pakistan			
- Current accounts	9.3	1,204,020	1,236,443
- Deposit accounts	9.2 & 9.3	1,528,813	1,367,201
		2,732,833	2,603,644
		2,974,237	3,691,183

9.1 These carry mark-up rates ranging between 5% to 9% (2007: 3.75% to 9%) per annum.

9.2 These carry mark-up rates ranging between 1% to 2.75% (2007: 3.75% to 5.87%) per annum.

9.3 Include balances in current and deposit accounts of Rs.44,429 thousand (2007: Rs.90,953 thousand) and Rs.971,485 thousand (2007: Rs.1,184,785 thousand) respectively with branches of the holding company.

	Note	2008	2007
Rupees in '000			
10. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings		-	2,000,000
Repurchase agreement lendings (Reverse Repo)	10.2	98,176	1,989,249
		98,176	3,989,249
10.1 Particulars of Lendings			
In local currency		98,176	3,989,249
In foreign currencies		-	-
		98,176	3,989,249

10.2 Securities held as collateral against lendings to financial institutions (Reverse Repo)

Note	2008			2007		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
Rupees in'000						
Market Treasury Bills	-	-	-	1,451,749	-	1,451,749
Pakistan Investment Bonds	10.2.1	98,176	98,176	500,000	-	500,000
Term Finance Certificates		-	-	37,500	-	37,500
		98,176	98,176	1,989,249	-	1,989,249

10.2.1 Pakistan Investment Bonds have been purchased under resale agreement at a rate of 14% (2007: 9.5%) per annum. The agreement matured on January 26, 2009.

10.3 Market value of the securities under repurchase agreement lendings amounted to Rs. 98,233 thousand (2007: Rs. 2,029,391 thousand).

	Note	2008			2007		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
11. INVESTMENTS	11.4	Rupees in'000					
11.1 Investments by types							
Available-for-sale securities							
Market Treasury Bills		25,869,803	6,480,493	32,350,296	26,470,917	11,266,204	37,737,121
Pakistan Investment Bonds		10,924,261	–	10,924,261	7,000,014	2,492,491	9,492,505
Ordinary Shares of listed companies		58,974	–	58,974	70,405	–	70,405
Ordinary Shares of un-listed companies		123,101	–	123,101	88,101	–	88,101
Preference Shares of listed companies		40,000	–	40,000	40,000	–	40,000
Preference Shares of unlisted companies		25,000	–	25,000	25,000	–	25,000
Listed Term Finance Certificates		1,462,796	–	1,462,796	1,264,640	–	1,264,640
Unlisted Term Finance Certificates		1,550,809	–	1,550,809	474,324	–	474,324
Sukuk Bonds		1,900,000	–	1,900,000	1,075,000	–	1,075,000
Open ended mutual funds		6,380,460	–	6,380,460	6,659,830	–	6,659,830
Close ended mutual funds		177,348	–	177,348	179,848	–	179,848
		48,512,552	6,480,493	54,993,045	43,348,079	13,758,695	57,106,774
Held-to-maturity securities							
Certificate of Investments		350,000	–	350,000	4,550,000	–	4,550,000
Subsidiaries							
Habib Metropolitan Trade Services Limited - Hong Kong (under winding-up) 10,000 (2007:10,000) Ordinary shares of HKD 1/- each)		79	–	79	79	–	79
Habib Metropolitan Financial Services Limited 29,999,997 (2007:100) Ordinary shares of Rs. 10/- each)		300,000	–	300,000	1	–	1
		300,079	–	300,079	80	–	80
Investments at cost		49,162,631	6,480,493	55,643,124	47,898,159	13,758,695	61,656,854
Provision for diminution in the value of investments	11.3	(250,057)	–	(250,057)	(7,344)	–	(7,344)
Investments net of provision		48,912,574	6,480,493	55,393,067	47,890,815	13,758,695	61,649,510
(Deficit) / Surplus on revaluation of available-for-sale investments - net	21	(1,745,634)	(15,901)	(1,761,535)	89,254	(2,968)	86,286
Investments after revaluation of available-for-sale investments		47,166,940	6,464,592	53,631,532	47,980,069	13,755,727	61,735,796

	Note	2008	2007
		Rupees in '000	
11.2 Investments by segments	11.4		
Federal Government Securities			
- Market Treasury Bills		32,350,296	37,737,121
- Pakistan Investment Bonds		10,924,261	9,492,505
		<u>43,274,557</u>	<u>47,229,626</u>
Fully Paid Up Ordinary Shares			
- Listed Companies		58,974	70,405
- Unlisted Companies		123,101	88,101
		<u>182,075</u>	<u>158,506</u>
Fully Paid Up Preference Shares			
- Listed Companies		40,000	40,000
- Unlisted Companies		25,000	25,000
		<u>65,000</u>	<u>65,000</u>
Term Finance Certificates, Bonds and Participation Term Certificates			
- Listed Term Finance Certificates		1,462,796	1,264,640
- Unlisted Term Finance Certificates		1,550,809	474,324
- Sukuk Bonds		1,900,000	1,075,000
- Certificate of Investments		350,000	4,550,000
		<u>5,263,605</u>	<u>7,363,964</u>
Mutual Funds			
- Open ended mutual funds		6,380,460	6,659,830
- Close ended mutual funds		177,348	179,848
		<u>6,557,808</u>	<u>6,839,678</u>
Subsidiaries			
- Habib Metropolitan Trade Services Limited - Hong Kong (under winding-up) 10,000 (2007:10,000) Ordinary shares of HKD 1/- each		79	79
- Habib Metropolitan Financial Services Limited 29,999,997 (2007:100) Ordinary .shares of Rs.10/- each		300,000	1
		<u>300,079</u>	<u>80</u>
Investments at cost		<u>55,643,124</u>	<u>61,656,854</u>
Provision for diminution in the value of investments	11.3	<u>(250,057)</u>	<u>(7,344)</u>
Investments - net of provisions		<u>55,393,067</u>	<u>61,649,510</u>
(Deficit) / Surplus on revaluation of available-for-sale investments – net	21	<u>(1,761,535)</u>	<u>86,286</u>
Investments after revaluation of available-for-sale investment		<u><u>53,631,532</u></u>	<u><u>61,735,796</u></u>
11.3 Particulars of provision for diminution in the value of investments			
- Opening balance		7,344	–
- Charge for the year		242,713	7,344
- Closing balance		<u>250,057</u>	<u>7,344</u>

	Note	2008	2007
Rupees in '000			
11.3.1 Particulars of provision in respect of type and segment			
Available-for-sale securities			
- Mutual funds	11.3.2	189,458	-
- Listed shares	11.3.2	37,780	-
- Unlisted companies		11,361	7,344
- Listed term finance certificate		11,458	-
		250,057	7,344

11.3.2 Represent impairment loss due to significant decline in the quoted market price of equity securities and net asset values of mutual funds. The said impairment loss has been determined on the basis of valuation of such listed equity securities / mutual funds using the market prices quoted on the stock exchange / net asset values as on 31 December 2008. However, in case of mutual funds, where issue and redemption of units was suspended on 31 December 2008, the valuation is based on net asset values as of the date when the said funds recommenced the redemption of units. The Bank has fully recognised the impairment loss as a matter of prudence in the profit and loss account.

11.4 Information relating to investments in Federal Government Securities, ordinary and preference shares of listed and unlisted companies, mutual funds, Term Finance Certificates and 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.

	Note	2008	2007
Rupees in '000			
12. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		85,304,478	70,318,994
Outside Pakistan		-	-
		85,304,478	70,318,994
Net investment in finance lease			
In Pakistan	12.2	2,560,428	2,180,889
Outside Pakistan		-	-
		2,560,428	2,180,889
Bills discounted and purchased (excluding Market treasury bills)			
Payable in Pakistan		5,382,542	4,570,152
Payable outside Pakistan		17,143,916	13,974,026
		22,526,458	18,544,178
Advances – gross		110,391,364	91,044,061
Provision against non-performing advances			
- specific		(1,083,785)	(700,981)
- general		(1,046,320)	(516,274)
	12.4	(2,130,105)	(1,217,255)
Advances – net of provisions		108,261,259	89,826,806

		2008	2007
		Rupees in '000	
12.1	Particulars of advances – gross		
12.1.1	In local currency	95,931,381	74,308,938
	In foreign currencies	14,459,983	16,735,123
		110,391,364	91,044,061
12.1.2	Short term (for upto one year)	98,883,595	81,184,185
	Long term (for over one year)	11,507,769	9,859,876
		110,391,364	91,044,061

12.2 Net investment in finance leases

	2008				2007			
	Not later than one year	Later than one & less than five years	Over five years	Total	Not later than one year	Later than one & less than five years	Over five years	Total
	Rupees in '000							
Lease rentals receivable	1,039,658	1,721,523	-	2,761,181	1,048,023	1,334,995	-	2,383,018
Residual value	51,782	117,760	-	169,542	22,078	82,181	-	104,259
Minimum lease payments	1,091,440	1,839,283	-	2,930,723	1,070,101	1,417,176	-	2,487,277
Financial charges for future periods	(124,032)	(246,263)	-	(370,295)	(130,487)	(175,901)	-	(306,388)
Present value of minimum lease payments	967,408	1,593,020	-	2,560,428	939,614	1,241,275	-	2,180,889

12.3 Advances include Rs. 1,747,599 thousand (2007: Rs. 804,247 thousand) which have been placed under non-performing status as detailed below:

Category of Classification	2008								
	Classified Advances			Provision required			Provision held*		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees in '000								
Substandard	715,558	-	715,558	178,890	-	178,890	178,890	-	178,890
Doubtful	231,698	-	231,698	142,088	-	142,088	142,088	-	142,088
Loss	800,343	-	800,343	762,807	-	762,807	762,807	-	762,807
	1,747,599	-	1,747,599	1,083,785	-	1,083,785	1,083,785	-	1,083,785

* The above provision has been made after taking into account liquid securities realisable without recourse to court held against non-performing advances. Subsequent to year end, the SBP vide circular number 02 of 2009 dated 27 January 2009 has amended the Prudential Regulations whereby benefit of Forced Sale Value (FSV) of commercial and residential properties, to the extent of 30% of value, held against non-performing advances has been allowed to be taken into account for the purpose of calculating the provisioning requirement. However, the Bank has presently decided not to avail such benefit for computing the above provision as in the previous years.

12.4 Particulars of provision against non-performing advances:

	2008			2007		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	700,981	516,274	1,217,255	304,575	513,460	818,035
Charge for the year	531,254	530,046	1,061,300	472,218	3,994	476,212
Reversals	(56,728)	-	(56,728)	(40,292)	(1,180)	(41,472)
Net charge for the year	474,526	530,046	1,004,572	431,926	2,814	434,740
Amount written off	(91,722)	-	(91,722)	(35,520)	-	(35,520)
Closing balance	1,083,785	1,046,320	2,130,105	700,981	516,274	1,217,255

12.4.1 The general provision includes provision 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.

12.5 Particulars of provision against non-performing advances:

	2008			2007		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local Currency	1,083,785	1,046,320	2,130,105	700,981	516,274	1,217,255
In foreign Currencies	-	-	-	-	-	-
	<u>1,083,785</u>	<u>1,046,320</u>	<u>2,130,105</u>	<u>700,981</u>	<u>516,274</u>	<u>1,217,255</u>

Note **2008** 2007
Rupees in '000

12.6 Particulars of write offs:

12.6.1 Against provisions	91,722	35,520
Directly charged to profit and loss account	2,535	76
	<u>94,257</u>	<u>35,596</u>
12.6.2 Write offs of Rs. 500,000/- and above	89,950	35,427
Write offs of below Rs. 500,000/-	4,307	169
	<u>94,257</u>	<u>35,596</u>

12.7 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 December 31, 2008 is enclosed as Annexure II.

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

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

Opening balance	486,031	471,301
Loans granted during the year	336,935	206,993
Repayments	(239,689)	(192,263)
Closing balance	<u>583,277</u>	<u>486,031</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

Opening balance	753,624	410,678
Loans granted during the year	17,350,601	15,415,463
Repayments	(16,555,972)	(15,072,517)
Closing balance	<u>1,548,253</u>	<u>753,624</u>

Debts due by subsidiaries, companies controlled firms, managed modarabas and other related parties

	<u>-</u>	<u>-</u>
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13. OPERATING FIXED ASSETS

Property and equipment	13.1	1,452,663	1,280,306
Advance against purchase of property for own use		76,250	14,180
		<u>1,528,913</u>	<u>1,294,486</u>

13.1 Property and equipment

	COST			DEPRECIATION			BOOK VALUE	Rate of depreciation %
	As at January 1, 2008	Additions/ (deletions)	As at December 31, 2008	As at January 1, 2008	Charge for the year/ (deletions)	As at December 31, 2008	As at December 31, 2008	
Rupees in '000								
Leasehold land	30,178	–	30,178	–	–	–	30,178	–
Buildings/office premises	1,130,769	5,866	1,136,635	278,668	35,241	313,909	822,726	4
Furniture, fixtures, office and computer equipment	230,436	180,702 (6,714)	404,424	93,089	62,354 (4,833)	150,610	253,814	15 & 25
Vehicles	9,357	8,778 (8,641)	9,494	4,213	1,525 (1,245)	4,493	5,001	20
Leasehold improvements	299,126	150,719 (2,352)	447,493	43,590	65,311 (2,352)	106,549	340,944	20
2008	1,699,866	346,065 (17,707)	2,028,224	419,560	164,431 (8,430)	575,561	1,452,663	

	COST			DEPRECIATION			BOOK VALUE	Rate of depreciation %
	As at January 1, 2007	Additions/ (deletions)	As at December 31, 2007	As at January 1, 2007	Charge for the year/ (deletions)	As at December 31, 2007	As at December 31, 2007	
Rupees in '000								
Leasehold land	30,178	–	30,178	–	–	–	30,178	–
Buildings/office premises	763,153	367,616	1,130,769	253,856	24,812	278,668	852,101	4
Furniture, fixtures, office and computer equipment	110,049	124,606 (4,219)	230,436	75,141	21,032 (3,084)	93,089	137,347	15 & 25
Vehicles	7,276	8,250 (6,169)	9,357	4,222	1,007 (1,016)	4,213	5,144	20
Leasehold improvements	68,631	230,495	299,125	29,604	13,986	43,590	255,536	20
2007	979,287	730,967 (10,388)	1,699,866	362,823	60,837 (4,100)	419,560	1,280,306	

13.1.1 As per the management's estimates, the fair value of properties is Rs. 1,778,000 thousand. The fair value of other fixed assets is not considered to be materially different from the carrying value.

13.1.2 The cost of fully depreciated assets still in use is Rs.99,188 thousand (2007: Rs.57,152 thousand).

13.1.3 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 less):

Particulars	Cost	Book Value	Sales proceed	Mode of disposal	Particulars of Purchaser
Furniture, fixtures, office and computer equipment	1,799	1,013	–	Retirement benefit	Mr. Kassim Parekh (Ex-President & CEO)
Vehicles	5,310	5,278	–	Retirement benefit	Mr. Kassim Parekh (Ex-President & CEO)
	320	307	850	Insurance claim	Adamjee Insurance Co. Ltd, Karachi
	1,071	1,065	2,000	Negotiations	Toyota Central Motors, Karachi
	496	487	519	Negotiations	Mr. Farhan Hamdeed Bakhshy
	<u>7,197</u>	<u>7,137</u>	<u>3,369</u>		
	<u>8,996</u>	<u>8,150</u>	<u>3,369</u>		

13.2 Intangible assets

The cost of fully amortised intangible assets (computer software) still in use is Rs. 27,875 thousand (2007: Rs. 27,875 thousand).

	Note	2008 Rupees in '000	2007
14. DEFERRED TAX ASSETS / (LIABILITIES)			
Deferred tax credits arising due to:			
Deficit on revaluation of securities		–	(30,338)
Net investment in finance lease		(53,362)	(260,132)
Accelerated depreciation		(251,781)	(196,443)
		<u>(305,143)</u>	<u>(486,913)</u>
Deferred tax debits arising in respect of:			
Surplus on revaluation of securities		616,537	–
Provision for diminution in the value of investment		87,520	–
Provision for non-performing advances		745,537	426,039
		<u>1,449,594</u>	<u>426,039</u>
		<u>1,144,451</u>	<u>(60,874)</u>
15. OTHER ASSETS			
Income / mark-up accrued in local currency		2,550,315	1,607,423
Income / mark-up accrued in foreign currencies		37,077	74,655
Receivable from defined benefit plan	34	–	5,548
Advances, deposits and other prepayments		275,048	290,682
Due from the SBP against encashment of Government Securities		43,100	45,727
Stationery and stamps on hand		23,770	27,555
Unrealized gain on forward exchange contracts		370,309	–
Membership of Karachi Stock Exchange (Guarantee) Limited		–	34,750
Others		17,832	41,596
		<u>3,317,451</u>	<u>2,127,936</u>
16. BILLS PAYABLE			
In Pakistan		<u>2,372,146</u>	<u>3,210,041</u>

	Note	2008 Rupees in '000	2007
17. BORROWINGS			
In Pakistan		29,232,450	29,362,736
Outside Pakistan		1,203,093	628,897
		30,435,543	29,991,633
17.1 Particulars of borrowings with respect of currencies			
In local currency		29,232,450	29,362,736
In foreign currency		1,203,093	628,897
		30,435,543	29,991,633
17.2 Details of borrowings			
Secured			
Borrowings from the SBP			
- export refinance scheme		20,550,658	12,397,762
- long term financing - export oriented projects		2,237,881	2,137,979
	17.2.1	22,788,539	14,535,741
Repurchase agreement borrowings	17.2.2	6,379,879	13,758,695
		29,168,418	28,294,436
Unsecured			
Call borrowings		-	1,113,600
Overdrawn nostro accounts		1,203,093	566,897
Overdrawn local bank accounts		64,032	16,700
		1,267,125	1,697,197
		30,435,543	29,991,633

17.2.1 These carry mark-up rate of 7.50% (2007: 7.50%) 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 11.5% to 14.9% (2007: 9.1% to 10%) per annum, with maturities upto February 2009.

18. DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits	62,433,207	54,812,561
Savings deposits	29,654,843	28,326,985
Current accounts - non-remunerative	31,190,498	33,326,687
Others	1,804,305	1,185,870
	125,082,853	117,652,103

Financial institutions

Remunerative deposits	3,197,655	3,209,976
Non-remunerative deposits	89,162	204,390
	3,286,817	3,414,366
	128,369,670	121,066,469

	Note	2008	2007
		Rupees in '000	
18.1 Particulars of deposits			
In local currency		118,062,110	110,200,612
In foreign currencies		10,307,560	10,865,857
		128,369,670	121,066,469
19. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		3,861,534	3,008,904
Mark-up / return / interest payable in foreign currencies		29,739	57,882
Unearned commission and income on bills discounted		110,757	78,594
Accrued expenses		227,637	198,282
Workers' Welfare Fund		125,862	-
Current taxation (provisions less payments)	30	782,619	838,758
Unclaimed dividends		1,086	373
Branch adjustment account		1,679	42
Unrealized loss on forward exchange contracts		-	14,658
Excise duty payable		9,754	4,795
Locker deposits		216,024	185,709
Advance against diminishing musharaka		152,490	103,194
Advance rental for Ijara		12,877	53,494
Security deposits against leases/ Ijara		475,672	359,036
Sundry creditors		51,470	99,100
Others		28,056	16,971
		6,087,256	5,019,792
20. SHARE CAPITAL			
20.1 Authorised capital			
		2008	2007
		Number of shares	
		1,200,000,000	600,000,000
		Ordinary shares of Rs 10/- each	
		12,000,000	6,000,000
20.2 Issued, subscribed and paid-up capital			
		Ordinary shares of Rs10/- each	
		30,000,000	30,000,000
		- issued for cash	
		92,500,000	92,500,000
		- issued upon amalgamation	
		479,702,000	379,335,000
		- issued as bonus shares	
		602,202,000	501,835,000
20.3			
As of the balance sheet date, Habib Bank AG Zurich – Switzerland (the holding company) held 307,123 thousand (2007: 255,936 thousand) ordinary shares of Rs.10/- each (51% holding).			

	2008	2007
	Rupees in '000	
21. (DEFICIT)/SURPLUS ON REVALUATION OF ASSETS - NET OF TAX		
Available-for-sale securities :		
Market Treasury Bills	(77,273)	(20,352)
Pakistan Investment Bonds	(1,316,755)	16,464
Term finance certificates/bonds	30,530	22,070
Listed Shares	-	4,172
Mutual Funds	(398,037)	63,932
	(1,761,535)	86,286
Related deferred tax liability	616,537	(30,338)
	<u>(1,144,998)</u>	<u>55,948</u>
22. CONTINGENCIES AND COMMITMENTS		
22.1 Direct credit substitutes		
Represents bank guarantees of indebtedness	<u>1,900</u>	<u>12,435</u>
22.2 Transaction-related contingent liabilities		
Includes performance bonds, bid bonds, advance payment guarantees and shipping guarantees favouring:		
i) Government	7,967,160	7,437,940
ii) Banking companies and other financial institutions	95,529	121,190
iii) Others	2,034,386	2,165,057
	<u>10,097,075</u>	<u>9,724,187</u>
22.3 Trade-related contingent liabilities		
Letter of credits	23,253,326	34,103,602
Acceptances	8,105,504	10,287,128
22.4 Commitments in respect of forward exchange contracts		
Purchase	13,207,319	17,048,483
Sale	25,402,670	26,389,801
22.5 Commitments in respect of operating leases		
Not later than one year	130,293	28,073
Later than one year and not later than five years	123,255	346,117
	<u>253,548</u>	<u>374,190</u>
<p>The Bank has entered into non-cancellable operating lease agreements with a Modaraba which has been duly approved by the Religious Board as Ijara transactions. The monthly rental installments are spread over a period of 46 months. When an operating 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.</p>		
22.6 Commitments for the acquisition of operating fixed assets	<u>33,250</u>	<u>24,562</u>

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	Note	2008	2007
		Rupees in '000	
On loans and advances to:			
Customers		9,463,935	6,513,996
Financial institutions		73,163	80,487
		<u>9,537,098</u>	<u>6,594,483</u>
On investments in:			
Available-for-sale securities		5,044,066	3,958,661
Held-to-maturity securities		340,412	339,958
		<u>5,384,478</u>	<u>4,298,619</u>
On deposits with financial institutions		630,100	584,859
On securities purchased under resale agreements		318,496	505,590
		<u>15,870,172</u>	<u>11,983,551</u>
25. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		9,182,860	7,413,879
Securities sold under repurchase agreements		1,698,625	790,108
Other borrowings		38,437	55,197
		<u>10,919,922</u>	<u>8,259,184</u>
26. GAIN ON SALE/REDEMPTION OF SECURITIES			
Pakistan Investment Bonds		-	209,469
Market Treasury Bills		141	(132)
Listed companies		642	8,236
Mutual Funds		170,143	604,815
		<u>170,926</u>	<u>822,388</u>
27. OTHER INCOME			
(Loss) / gain on sale of fixed assets		(103)	6,137
Recovery of expenses from customers	27.1	104,601	101,766
Others	27.2	116,213	61,613
		<u>220,711</u>	<u>169,516</u>

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

27.2 Includes income from various general banking services such as cheque book charges, cheque return charges, cheque handling charges, rent of lockers etc.

	Note	2008	2007
		Rupees in '000	
28. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		1,360,516	946,375
Contract staff		67,595	46,223
Charge for defined benefit plan	34	33,690	24,602
Contribution to defined contribution plan		50,290	39,700
Non-executive directors' fees, allowances and other expenses		190	210
Brokerage and commission		58,940	46,991
Rent, taxes, insurance, electricity, etc.		398,716	306,984
Legal and professional charges		24,970	25,971
Communications		111,660	92,896
Repairs and maintenance		102,219	69,261
Rentals of operating leases		167,006	190,756
Stationery and printing		73,172	59,951
Management fee	40	112,170	82,601
Advertisement and publicity		34,469	30,637
Donations	28.1	24,166	20,260
Auditors' remuneration	28.2	3,873	3,410
Depreciation	13.1	164,431	60,837
Security charges		47,810	35,299
Travelling and conveyance		38,711	27,316
Computer software maintenance		53,541	35,614
Motor car running		25,209	11,892
Cartage, handling and freight charges		30,400	18,825
Others		102,890	76,948
		3,086,634	2,253,559

28.1 Details of the donations given in excess of Rupees 100,000/- are given below :

DONEE

Abbas-e-Alamdar Hostel	984	884
Abdul Sattar Edhi Foundation	500	250
Academy of Quranic Studies	120	120
Ahmed Abdullah Foundation	200	100
Al Sayyeda Benevolent Trust	960	960
Al-Umeed Rehabilitation Association	400	100
Anjuman Behbood-e-Samat-e-Atfal	250	250
Bantva Memon Jamat	200	175
Bantva Memon Rahat Committee	200	175
Bantva Anjuman Himayat-e-Islam	125	100
Children Foundation Trust	–	1,000
Dar-ul-Sukun	250	100
Developments in Literacy	200	–
Fatimiyah Education Network	500	250
Habib Medical Trust	960	960
Habib Poor Fund	960	960
IDA Rieu Poor Welfare Association	200	100
Kashmir Education Foundation	300	100
Kiran Patient Welfare Association	250	–
Lahore University of Management Sciences	500	250
Madarsa Jafria	168	183

	Note	2008	2007
		Rupees in '000	
DONEE			
Marie Adelaide Leprosy Centre		450	250
Memon Educational Board		400	350
Milestone Charitable Trust		110	–
Pakistan Memon Educational & Welfare Society		600	600
Pakistan Memon Women Educational Society		400	350
Pak Medical and Welfare Trust		250	100
Rahmatbai Habib Food & Clothing Trust		960	960
Rahmatbai Habib Widows & Orphans Trust		960	960
Safina-e-Ahleibait		174	186
Shaukat Khanum Memorial Trust		500	250
Society for Welfare of Patient of SIUT		500	300
Spencers Eye Hospital		250	–
Sun Development Foundation		113	–
Tabba Heart Institute		500	750
The Citizens Foundation		6,620	5,738
The Institute of Business Administration		500	–
The Kidney Centre		500	250
The Layton Rehmatulla Benevolent Trust		500	250
Zehra Home		250	–
28.2 Auditors' remuneration			
Audit fee		1,200	1,200
Review of half-yearly financial statements		300	300
Special audit certifications and sundry advisory services		350	461
Tax services		1,792	1,123
Out-of-pocket expenses		231	326
		3,873	3,410
29. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		21,288	456
Workers' Welfare Fund	29.1	125,862	–
		147,150	456
29.1 The Worker's Welfare Ordinance, 1971 has been amended vide Finance Act, 2008 by virtue of which, the Bank is now liable to pay workers' welfare fund @ 2% of accounting profit before tax or declared income as per income tax return, whichever is higher.			
30. TAXATION			
- Current		1,992,000	1,279,000
- Prior years		29,186	174,000
- Deferred		(558,453)	(46,108)
	30.2	1,462,733	1,406,892
30.1 Income tax assessments of the Bank have been finalised upto the tax year 2007 (corresponding to the accounting year ended December 31, 2006). The Bank has filed income tax return for the tax year 2008, (corresponding to the accounting year ended December 31, 2007) and the same is deemed to be assessed in terms of section 120 of the Income Tax Ordinance, 2001.			

	Note	2008 Rupees in '000	2007
30.2 Relationship between tax expense and accounting profit			
Profit before tax		<u>4,740,110</u>	<u>4,203,898</u>
Tax at the applicable rate of 35% (2007: 35%)		1,659,039	1,471,364
Tax effect of income not subject to tax		-	(115,286)
Tax effect of income taxed at reduced rate		(166,531)	(6,323)
Tax effect of expenses / (income) that are not adjustable in determining taxable income		499,492	(70,755)
Tax effect of temporary differences		(558,453)	(46,108)
Tax effect for prior years		29,186	174,000
Tax charge for the year		<u>1,462,733</u>	<u>1,406,892</u>

31. BASIC AND DILUTED EARNINGS PER SHARE

Profit after taxation		<u>3,277,377</u>	<u>2,797,006</u>
Weighted average number of ordinary shares (in'000)	31.1	<u>602,202</u>	<u>602,202</u>
Basic and diluted earnings per share (Rupees)		<u>5.44</u>	<u>4.64</u>

31.1 The weighted average number of shares for 2007 have been adjusted for the effect of bonus shares issued during the year.

32. CASH AND CASH EQUIVALENTS

Cash and balances with treasury banks	8	11,401,384	10,201,545
Balances with other banks	9	2,974,237	3,691,183
Overdrawn nostro account	17.2	(1,203,093)	(566,897)
Overdrawn local banks account	17.2	(64,032)	(16,700)
		<u>13,108,496</u>	<u>13,309,131</u>

33. STAFF STRENGTH

		2008	2007
		Number	
Permanent		1,477	1,395
Temporary/on contractual basis		460	404
Bank's own staff strength		1,937	1,799
Outsourced		536	501
Total Staff Strength		<u>2,473</u>	<u>2,300</u>

34. DEFINED BENEFIT PLAN

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.

Principal actuarial assumptions

The actuarial valuation was carried out on December 31, 2008 using "Projected Unit Credit Actuarial Cost Method". The main assumptions used for actuarial valuation were as follows:

	2008	2007
Discount rate – percent (per annum)	15	10
Expected rate of return on plan assets – percent (per annum)	15	10
Long term rate of salary increase – percent (per annum)	15	10

Reconciliation of defined benefit plan

	2008	2007
	Rupees in '000	
Fair value of plan assets	205,633	189,481
Present value of defined benefit obligation	(263,311)	(240,826)
Unrecognised actuarial loss	58,291	58,120
Unrecognised past service cost	(613)	(1,227)
	<u>-</u>	<u>5,548</u>

Movement in defined benefit plan

Opening balance	5,548	30,150
Charge for the year	(33,690)	(24,602)
Contribution to the fund	28,142	-
Closing balance	<u>-</u>	<u>5,548</u>

Charge for defined benefit plan

Current service cost	25,765	27,500
Interest cost	24,083	16,514
Expected return on plan assets	(18,948)	(18,798)
Actuarial loss recognised	3,404	-
Negative past service cost	(614)	(614)
	<u>33,690</u>	<u>24,602</u>

Movement in fair value of plan assets

Opening balance	189,481	187,976
Expected return on plan assets	18,948	18,798
Actuarial loss recognized	(13,329)	(7,650)
Benefits paid	(17,609)	(9,643)
Contribution to the fund	28,142	-
Closing balance	<u>205,633</u>	<u>189,481</u>

Movement in present value of defined benefit obligation

Opening balance	240,826	165,137
Current service cost	25,765	27,500
Interest cost	24,083	16,514
Actuarial (gain)/loss recognized	(9,754)	41,318
Benefits paid	(17,609)	(9,643)
Closing balance	<u>263,311</u>	<u>240,826</u>

	2008	2007
	Rupees in '000	
Annual actuarial loss		
Experience (gain) / loss on obligation	(9,754)	41,318
Experience loss on plan assets	13,329	7,650
Total loss during the year	3,575	48,968
Actual return on plan assets	5,619	11,148

Plan assets comprise the following:

	2008		2007	
	Amount	%	Amount	%
	Rupees in '000		Rupees in '000	
Government Securities	170,746	83%	188,158	99%
Bank Deposits	34,887	17%	1,323	1%
	205,633	100%	189,481	100%

Historical Information

	2008	2007	2006
	Rupees in '000		
Present value of defined benefit obligation	263,311	240,826	165,137
Fair value of plan assets	(205,633)	(189,481)	(187,976)
Deficit/(Surplus)	57,678	51,345	(22,839)

35. DEFINED CONTRIBUTION PLAN

The general description of the plan is included in note 5.9

36. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Note	President & Chief Executive		Directors		Executives	
		2008*	2007	2008	2007	2008	2007
Rupees in '000							
Fees		-	-	190	210	-	-
Managerial Remuneration		12,948	2,839	-	-	502,822	318,172
Charge for defined benefit plan		975	226	-	-	17,942	12,011
Contribution to defined contribution plan		1,170	284	-	-	21,869	14,797
Rent and house maintenance		1,586	1,637	-	-	-	-
Utilities		111	150	810	450	-	-
Bonus		3,562	734	-	-	70,963	47,398
Others	36.1	103,411	1,928	3,010	1,719	-	-
		123,763	7,798	4,010	2,379	613,596	392,378
Number of persons		2	1	7	7	322	226

36.1 Includes one time ex-gratia payment made by the Bank upon retirement to ex-President /Chief Executive.

36.2 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.

* Represents compensation paid to the ex-President/Chief Executive and current Chief Executive of the Bank.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value of investments in Federal Government Securities is based on PKRV rates (Reuters Page).

Fair value of listed securities is based on their market prices whereas fair value of mutual funds is based on net asset value of the funds. Fair value of unquoted equity instruments is determined on the basis of break-up value of these investments as per the latest available audited financial statements.

The provision for impairment of loans and advances and debt securities has been calculated in accordance with the Bank's accounting policy as stated in note 5.4.

38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Trade & Sales	Retail Banking	Commercial Banking
Rupees in '000			
2008			
Total income*	6,468,806	5,256,831	13,404,893
Total expenses*	5,354,200	4,981,799	10,054,421
Net income	1,114,606	275,032	3,350,472
Segment assets (gross)	54,625,597	1,163,573	126,568,233
Segment non performing loans	–	6,725	1,043,557
Segment provision required	–	6,725	851,530
Segment liabilities	6,494,847	71,505,213	89,264,555
Segment return on net assets (%)	11.84	7.35	10.59
Segment cost of funds (%)	9.80	6.97	7.94
2007			
Total income*	5,387,878	3,943,930	10,207,236
Total expenses*	4,592,174	3,319,401	7,423,571
Net income	795,704	624,529	2,783,665
Segment assets (gross)	66,217,524	1,084,275	106,339,707
Segment non performing loans	–	2,986	801,261
Segment provision required	–	1,369	699,612
Segment liabilities	14,924,219	55,401,880	89,718,260
Segment return on net assets (%)	8.14	7.12	9.60
Segment cost of funds (%)	6.93	5.99	6.98

* Includes inter-segment revenues and expenses

39. TRUST ACTIVITIES

The Bank acts as a Trustee of the Metro Bank Pakistan Sovereign Fund (the Fund). As of December 31, 2008, Net Asset Value of the Fund was Rs. 373,868 thousand (2007: Rs. 824,331 thousand)

40. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Bank comprise of the holding company, subsidiaries, entities with common directorships, directors and their close family members, staff retirement benefit funds, key executives and major shareholders of the Bank.

The details of transactions with related parties during the year are as follows:

	2008	2007
	Rupees in '000	
Balance outstanding at year end		
Holding company		
Bank balances	1,015,486	1,275,738
Management fee payable	112,170	82,601
Subsidiary company		
Deposits	241,752	-
Entities with common directorships		
Advances	1,548,253	753,624
Deposits	1,197,119	3,165,383
Trade related contingent liabilities	1,256,265	1,769,63
Key Management Personnel		
Advances	11,409	16,828
Deposits	7,536	15,384
Retirement benefit plan		
Deposits	631,304	480,409
Transactions for the year		
Holding company		
Mark-up/return/interest earned	66,391	146,176
Management fee for technical and consultancy services	112,170	82,601
Subsidiary company		
Investment made during the year	299,999	-
Transfer of KSE membership at book value	34,750	-
Mark-up/return/interest expensed	12,920	-
Re-imburement of expenses	533	-
Entities with common directorships		
Mark-up/return/interest earned	99,618	38,815
Mark-up/return/interest expensed	283,039	439,097
Commission/bank charges recovered	8,202	8,145
Insurance premium paid	1,481	1,369
Rent income	767	658
Key Management Personnel		
Mark-up/return/interest earned	774	709
Mark-up/return/interest expensed	244	361
Salaries, allowances, etc	169,848	55,881
Directors' fee	190	210
Retirement benefit plan		
Mark-up/return/interest expensed	17,591	28,003
Contributions to defined benefit plan	28,142	-
Contributions to defined contribution plan	50,290	39,700

The above transactions are carried at arm's length basis other than the transfer of KSE membership at book value and advances to key management personnel which are in accordance with their terms of employment.

41. CAPITAL ADEQUACY

41.1 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. The SBP through its BSD Circular No.19 dated 05 September 2008 requires the minimum paid up capital (net of losses) for all banks to be raised to Rs. 23 billion by the year ending on 31 December 2013. The raise is to be achieved in a phased manner requiring Rs. 5 billion paid up capital (net of losses) by the end of the financial year 2008. The paid up capital of the Bank as of 31 December 2008 stands at Rs. 6.02 billion. In addition to the above paid up capital requirement, the banks are also required to maintain a Capital Adequacy Ratio (CAR) of 9% of the risk weighted exposure. The Bank's CAR as at 31 December 2008 was 10.43% of its risk weighted exposure.

41.2 Regulatory Capital Base

	2008	2007
	Rupees in '000	
Tier I Capital		
Share Capital	6,022,020	5,018,350
Balance in share premium account	2,550,985	2,550,985
Reserves	4,488,951	3,832,951
Un-appropriated profits	3,175,830	2,059,958
Less: Deficit on account of revaluation of available-for-sale investments	(1,761,535)	-
50% deduction for investment in subsidiaries	(150,040)	(40)
Total Tier I Capital	14,326,211	13,462,204
Tier II Capital		
General provision subject to 1.25% of total risk weighted assets	1,046,320	516,274
50% deduction for investment in subsidiaries	(150,040)	(40)
Total Tier II Capital	896,280	516,234
Eligible Tier III Capital	-	-
Total regulatory capital base	15,222,491	13,978,438

41.3 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	
	2008	2007	2008	2007
	Rupees in '000			
Credit risk				
Cash and cash equivalents	-	-	-	-
Sovereign	-	-	-	-
Public Sector Entities	66,899	15,768	743,321	197,102
Banks	342,357	364,775	3,803,968	4,559,687
Corporate	8,550,953	6,522,463	95,010,590	81,530,791
Retail	452,613	121,262	5,029,028	1,515,769
Mortgage finance	12,939	11,299	143,772	141,235
Past due loans	16,265	32,472	180,722	405,894
Equity	59,150	219,630	657,226	2,745,381
Claims on fixed assets	23,840	-	264,892	-
All other fixed assets	902,121	772,736	10,023,563	9,659,197
OBS - Non market related	1,310,943	1,107,913	14,566,035	13,848,910
OBS - Market related	79,113	44,603	879,029	557,541
Market risk				
Interest rate risk	18,067	-	225,838	-
Foreign exchange risk	12,220	24,111	152,752	301,385
Equity position risk	-	-	-	-
Operational risk	1,146,894	673,457	14,336,181	8,418,212
	12,994,374	9,910,489	146,016,917	123,881,104
Capital adequacy ratio				
Total eligible regulatory capital held	15,222,491	13,978,438		
Total risk weighted assets	146,016,917	123,881,104		
CAR	10.43%	11.28%		

42. 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 up 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.

42.1 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. 131 million as depicted in note 41.

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 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.

42.1.1 Segmental Information

Segment by class of business

	2008					
	Advances		Deposits		Contingencies and Commitments	
	Rs. in '000	Percent	Rs. in '000	Percent	Rs. in '000	Percent
Textile	59,644,569	54.03	4,735,420	3.69	6,759,168	16.19
Exports/Imports	7,962,200	7.21	3,167,176	2.47	10,769,876	25.80
Chemical and pharmaceuticals	4,023,955	3.65	1,874,131	1.46	2,400,278	5.75
Wholesale and retail trade	3,284,494	2.98	2,898,815	2.26	674,443	1.62
Electronics and electrical appliances	2,527,105	2.29	725,492	0.57	986,029	2.36
Services	2,159,258	1.96	5,406,426	4.21	350,906	0.84
Automobile and transportation equipment	1,898,547	1.72	1,806,747	1.41	1,267,733	3.04
Power (electricity), gas, water and sanitary	1,889,857	1.71	2,855,833	2.22	6,314,685	15.13
Transport, storage and communication	1,845,685	1.67	3,383,293	2.64	259,219	0.62
Construction	1,566,564	1.42	1,208,267	0.94	363,925	0.87
Individuals	1,523,088	1.38	43,995,105	34.27	23,859	0.06
Cement	1,413,280	1.28	28,467	0.02	669,207	1.60
Financial	1,369,679	1.24	3,286,817	2.56	299,935	0.72
Footwear and leather garments	1,369,097	1.24	1,464,992	1.14	57,918	0.14
Sugar	751,709	0.68	696,532	0.54	107,232	0.26
Insurance	104,668	0.10	1,612,247	1.26	15,662	0.04
Mining and quarrying	39,019	0.04	39,790	0.03	8	0.00
Agriculture, forestry, hunting and fishing	38,196	0.03	182,286	0.14	482,353	1.16
Others	16,980,394	15.38	49,001,834	38.17	9,942,167	23.82
	110,391,364	100	128,369,670	100	41,744,603	100

Segment by sector

	2008					
	Advances		Deposits		Contingencies and Commitments	
	Rs. in '000	Percent	Rs. in '000	Percent	Rs. in '000	Percent
Private	109,232,970	98.95	117,793,688	91.76	36,557,147	87.57
Public /Government	1,158,394	1.05	10,575,982	8.24	5,187,456	12.43
	110,391,364	100.00	128,369,670	100.00	41,744,603	100.00

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

	2008		2007	
	Classified Advances	Specific provision held	Classified Advances	Specific provision held
	Rupees in '000			
Textile	438,306	384,982	372,527	346,847
Individuals	79,684	58,452	39,761	37,572
Agriculture, forestry, hunting and fishing	58,995	58,995	64,624	64,624
Automobile and transportation equipment	31,934	31,934	648	648
Electronics and electrical appliances	625,836	172,884	31,339	31,339
Footwear and leather garments	30,752	30,752	—	—
Wholesale and retail trade	2,490	2,490	—	—
Chemical and pharmaceuticals	1,042	1,042	40,207	40,207
Exports/Imports	1,000	1,000	—	—
Others	477,560	341,254	255,141	179,744
	1,747,599	1,083,785	804,247	700,981

Details of non-performing advances and specific provisions by sector

	2008		2007	
	Classified Advances	Specific provision held	Classified Advances	Specific provision held
	Rupees in '000			
Private	1,747,599	1,083,785	804,247	700,981
Public/Government	—	—	—	—
	1,747,599	1,083,785	804,247	700,981

Geographical segment analysis

	2008			
	Profit before taxation	Total assets employed	Net assets employed	Contingence and Commitments
	Rupees in '000			
Pakistan	4,740,110	182,357,403	15,092,788	41,744,603

Total assets employed include intra group items of Rs. 2,265 million.

42.1.2 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 is as per SBP Basel II guidelines as is given below:

Types of Exposures and ECAI's used

Exposures	2008			
	JCR-VIS	PACRA	S & P	Fitch
Corporate	✓	✓	✓	✓
Banks	✓	✓	✓	✓
Sovereigns	✓	✓	✓	✓
SME's	✓	✓	✓	✓
Securitisation	N.A	N.A	N.A	N.A
Others	✓	✓	✓	✓

Credit Exposures subject to Standardised Approach

Exposures	Rating Category #	Rating Risk Weight	2008		
			Amount Outstanding	Deduction CRM	Net Amount
Cash and cash equivalents		0%	2,815,766	-	2,815,766
Claims on Government of Pakistan and SBP, denominated in PKR		0%	51,508,089	-	51,508,089
Foreign currency claims on SBP arising out of statutory obligations of banks in Pakistan		0%	2,044,883	-	2,044,883
Claims on Public Sector Entities in Pakistan	1	20%	400,000	-	400,000
Claims on Public Sector Entities in Pakistan	2,3	50%	1,118,034	-	1,118,034
Claims on Public Sector Entities in Pakistan	4,5	100%	-	-	-
Claims on banks		0%	-	556,924	556,924
Claims on banks	1	20%	3,204,670	(556,924)	2,647,746
Claims on banks	2,3	50%	633,438	-	633,438
Claims on banks	4,5	100%	40,659	-	40,659
Claims on banks	6	150%	-	-	-
Claims, denominated in foreign currency, on banks with original maturity of 3 months or less	1,2,3	20%	2,159,270	-	2,159,270
Claims on banks with original maturity of 3 months or less denominated in PKR and funded in PKR		0%	-	5,822,956	5,822,956
		20%	7,373,311	(5,822,956)	1,550,355
Claims on Corporates (Excluding equity exposures)		0%	-	2,700,514	2,700,514
Claims on Corporates (Excluding equity exposures)	1	20%	2,962,803	98,176	3,060,979
Claims on Corporates (Excluding equity exposures)	2	50%	675,969	-	675,969
Claims on Corporates (Excluding equity exposures)	3,4	100%	47,031	-	47,031
Claims categorized as retail portfolio		0%	-	343,005	343,005
Claims categorized as retail portfolio		75%	7,048,376	(343,005)	6,705,371
Claims fully secured by residential property		35%	410,776	-	410,776
Past due loan (not secured against residential)	PRO L.T	150%	18,320	-	18,320
Past due loan (not secured against residential)	PRO M.T	100%	132,775	-	132,775
Past due loan (not secured against residential)	PRO M.T	50%	40,933	-	40,933
Listed Equity investments and regulatory capital instruments issued by other banks (other than deducted from capital) held in the banking book.			570,167	-	570,167
Unlisted equity investments (other than that deducted from capital) held in banking book			58,039	-	58,039
Claims on all fixed assets under operating lease			264,892	-	264,892
All other assets			9,415,049	-	9,415,049
Unrated			99,195,793	(2,798,690)	96,397,103
			192,139,043		192,439,043

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 (CRM) as per SBP guidelines are used by HMB 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. For details of each separately disclosed credit risk portfolio under the standardised approach and related eligible financial collateral, refer the table above.

Equity position risk in the banking book – Basel II specific

Investment in equities is governed by the Board of Directors' approved Investment Policy 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 the '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 companies).

42.3 Market risk

Market risk is the possibility that fluctuation in interest rates, foreign exchange or stock prices will change the market value of financial product(s) leading to a loss.

The Board of Directors oversees the Bank's strategy for market risk exposures. 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.

42.4 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.

	2008			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	162,657,933	170,829,737	12,193,446	4,021,642
United States Dollar	15,893,994	9,450,305	(10,695,455)	(4,251,766)
Euro	2,368,099	938,481	(1,401,238)	28,380
Great Britain Pound	1,077,179	1,077,853	(1,716)	(2,390)
Asian Currency unit	216,075	56,937	–	159,138
Japanes Yen	72,008	3,984	(60,521)	7,503
Arab Emirates Dirham	51,781	106	(41,909)	9,766
Canadian Dollar	4,551	–	–	4,551
Australian Dollar	4,091	–	–	4,091
Saudi Riyal	1,905	–	1,905	3,810
Other Currencies	9,787	–	5,488	15,275
	182,357,403	182,357,403	–	–

42.5 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 repriced on a periodic basis based on interest rates scenario.

	Effective Yield/Interest Rate %	Exposed to Yield/Interest risk									
		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	Above 10 years	Non-interest bearing financial instruments
On balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	0.90%	1,515,923	-	-	-	-	-	-	-	-	9,885,461
Balances with other banks	5.00% – 9.00%	1,537,310	-	-	-	-	-	-	-	-	1,436,927
Lendings to financial institutions	14.00%	98,176	-	-	-	-	-	-	-	-	-
Investments	8.00% – 18.52%	14,672,758	14,919,676	4,898,611	241,520	580,610	6,107,249	1,748,880	3,587,603	730,916	6,170,135
Advances	3.50% – 24.50%	10,479,718	34,357,137	25,126,271	25,042,765	3,484,922	3,171,198	2,124,877	1,995,856	704,490	1,747,599
Other assets		-	-	-	-	-	-	-	-	-	3,317,451
Liabilities											
Bills payable		-	-	-	-	-	-	-	-	-	2,372,146
Borrowings	7.50% – 14.00%	13,961,570	-	13,596,991	2,185,154	691,828	-	-	-	-	-
Deposits and other accounts	0.50% – 19.50%	27,833,722	22,353,612	12,865,331	16,731,421	5,064,899	2,542,846	3,066,410	2,413,732	2,413,732	33,083,965
Other liabilities		-	-	-	-	-	-	-	-	-	6,087,256
On-balance sheet gap		41,795,292	22,353,612	26,462,322	18,916,575	5,756,727	2,542,846	3,066,410	2,413,732	2,413,732	41,543,367
Off-balance sheet financial instruments											
Forward lending		-	-	-	-	-	-	-	-	-	-
Forward borrowing		-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity gap		(13,491,407)	26,923,201	3,562,560	6,367,710	(1,691,195)	6,735,601	807,347	3,169,727	(978,326)	(18,985,794)
Cumulative Yield/Interest Risk Sensitivity gap		(13,491,407)	13,431,794	16,994,354	23,362,064	21,670,869	28,406,470	29,213,817	32,383,544	31,405,218	12,419,424

2007

	Effective Yield/Interest Rate %	Exposed to Yield/Interest risk										Non-interest bearing financial instruments	
		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	Above 10 years			
On balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	4.24%	542,500	—	—	—	—	—	—	—	—	—	—	9,659,045
Balances with other banks	3.75% to 9.00%	2,175,452	—	—	—	—	—	—	—	—	—	—	1,515,731
Lendings to financial institutions	9.25% to 10.60%	2,701,749	1,250,000	37,500	—	—	—	—	—	—	—	—	—
Investments	8.00% to 14.00%	3,094,000	12,662,367	4,182,693	22,990,516	1,658,699	166,491	7,268,672	2,588,336	—	—	—	7,124,022
Advances	3.50% to 20.00%	5,773,840	26,344,138	19,397,184	30,998,044	2,607,481	2,607,481	—	1,010,251	—	—	—	804,247
Other assets		—	—	—	—	—	—	—	—	—	—	—	2,127,936
Total		14,287,541	40,256,505	23,617,377	53,988,560	4,266,180	2,773,972	7,268,672	3,598,587	284,140	21,230,981		
Liabilities													
Bills payable		—	—	—	—	—	—	—	—	—	—	—	3,210,041
Borrowings	2.00% to 10.00%	13,639,031	6,098,450	7,335,010	298,096	528,505	355,846	488,178	684,920	—	—	—	583,597
Deposits and other accounts	1.50% to 10.80%	11,131,828	21,541,696	19,265,766	19,546,060	2,106,436	3,763,172	3,857,935	2,588,051	—	—	—	34,978,624
Other liabilities		—	—	—	—	—	—	—	—	—	—	—	4,181,034
Total		24,770,859	27,640,146	26,600,776	19,844,156	2,634,941	4,119,018	4,326,113	3,272,971	2,286,901	2,286,901	42,953,296	
On-balance sheet gap		(10,483,318)	12,616,359	(2,983,399)	34,144,404	1,631,239	(1,345,046)	2,942,559	325,616	(2,002,761)	(21,722,315)		
Off-balance sheet financial instruments													
Forward lending		—	—	—	—	—	—	—	—	—	—	—	—
Forward borrowing		—	—	—	—	—	—	—	—	—	—	—	—
Off-balance sheet gap		—	—	—	—	—	—	—	—	—	—	—	—
Total Yield/Interest Risk Sensitivity gap		(10,483,318)	12,616,359	(2,983,399)	34,144,404	1,631,239	(1,345,046)	2,942,559	325,616	(2,002,761)	(21,722,315)		
Cumulative Yield/Interest Risk Sensitivity gap		(10,483,318)	2,133,041	(850,358)	33,294,046	34,925,285	33,580,239	36,522,798	36,848,414	34,845,653	13,123,338		

2007

		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	
Maturities of assets and liabilities											
Assets											
Cash and balances with treasury banks	10,201,545	—	—	—	—	—	—	—	—	—	—
Balances with other banks	3,691,183	—	—	—	—	—	—	—	—	—	—
Lendings to financial institutions	3,989,249	1,250,000	37,500	—	—	—	—	—	—	—	—
Investments	61,735,796	10,218,022	12,662,367	4,182,693	22,990,516	1,658,699	166,491	7,268,672	2,588,336	—	—
Advances	89,826,806	5,773,840	26,344,138	19,397,184	28,517,553	2,480,491	5,214,962	—	1,814,498	284,140	—
Operating fixed assets	1,294,486	6,450	12,900	19,350	38,700	77,400	154,800	232,200	387,000	365,686	—
Deferred Taxes	2,127,936	1,846,737	31,239	62,241	110,466	26,678	—	50,575	—	—	—
Other assets	172,867,001	34,439,526	40,300,644	23,698,968	51,657,235	4,243,268	5,536,253	7,551,447	4,789,834	649,826	—
Liabilities											
Bills payable	3,210,041	3,210,041	—	—	—	—	—	—	—	—	—
Borrowings	29,991,633	14,222,628	7,335,010	298,096	528,505	355,846	355,846	468,178	684,920	—	—
Deposits and other accounts	121,066,469	14,638,791	28,007,894	28,288,188	3,854,861	5,511,597	5,606,360	5,606,360	5,210,690	4,909,540	—
Deferred tax liability	60,874	—	—	—	14,465	—	—	—	46,409	—	—
Other liabilities	5,019,792	1,128,375	613,222	1,604,551	197	856,502	856,502	359,036	—	185,709	—
Net assets / (liabilities)	159,348,809	33,199,835	31,409,198	35,956,126	30,190,835	4,398,028	6,723,945	6,433,574	5,942,019	5,095,249	—
	13,518,192	1,239,691	8,891,446	(12,257,158)	21,466,400	(154,760)	(1,187,692)	1,117,873	(1,152,185)	(4,445,423)	—
Share capital	5,018,350										
Reserves	6,383,936										
Unappropriated profit	2,059,958										
Surplus on revaluation of assets	55,948										
	13,518,192										

42.7 Operational risk

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

The Bank's operations risk management strategy takes guidance from Basel – II, Committee of Sponsoring Organization of Treadway 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 endeavours.

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.

42.8 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 December 2008 was Rs. 1,146,894 thousand (2007: Rs. 673,457 thousand).

43. ISLAMIC BANKING BUSINESS

43.1 The Bank is operating 4 (2007: 4) Islamic banking branches in Pakistan. The balance sheet and profit and loss account of these branches as at December 31, 2008 and for the year are as follows:

43.1.1 BALANCE SHEET

As at December 31, 2008

	2008	2007
	Rupees in '000	
ASSETS		
Cash and balances with treasury banks	986,565	551,062
Balances with and due from financial institutions	478	800,632
Investments	1,429,020	432,500
Financing and receivables		
- Murabaha	2,449,851	1,842,382
- Ijara	1,804,204	1,820,897
- Diminishing Musharaka	1,184,840	1,033,550
Due from head office	198,271	-
Other assets	192,465	173,076
TOTAL ASSETS	8,245,694	6,654,099
LIABILITIES		
Bills payable	33,231	61,806
Deposits and other accounts		
- Current accounts	434,020	344,106
- Saving accounts	847,305	1,261,557
- Term deposits	2,527,470	1,691,342
- Deposits from financial institutions - remunerative	2,781,327	1,824,198
- Deposits from financial institutions - non-remunerative	17,423	30
Due to head office	-	393,037
Other liabilities	796,701	538,788
TOTAL LIABILITIES	7,437,477	6,114,864
NET ASSETS	808,217	539,235
REPRESENTED BY:		
Islamic banking fund	601,977	401,550
Unappropriated profit	217,220	137,685
	819,197	539,235
Deficit on revaluation of assets	(10,980)	-
	808,217	539,235

43.1.2 PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2008

	2008	2007
	Rupees in '000	
Profit / return on financing and placements earned	682,388	444,210
Profit / return on deposits and other dues expensed	455,143	276,081
Net spread earned	227,245	168,129
Provision against non performing financing	5,401	-
Provision for diminution in the value of investments	-	-
Provision for consumer financing ijarah	-	308
Bad debts written off directly	-	-
	5,401	308
Net spread after provisions	221,844	167,821
OTHER INCOME		
Fee, commission and brokerage income	12,201	11,334
Dividend income	20,470	-
Income from dealing in foreign currencies	14,670	1,284
Gain on sale/redemption of securities	-	-
Unrealized gain/(loss) on revaluation of investments classified as held-for-trading	-	-
Other income	13,526	8,299
Total other income	60,867	20,917
	282,711	188,738
OTHER EXPENSES		
Administrative expenses	65,491	51,053
Other provisions / write offs	-	-
Other charges	-	-
	65,491	51,053
Extra ordinary / unusual items	-	-
PROFIT BEFORE TAXATION	217,220	137,685
43.2 Remuneration to Shariah Advisor/Board	1,045	1,086
43.3 Charity Fund		
Opening balance	43	33
Additions during the year	1	69
Payments/utilizaion during the year	(44)	(59)
Closing balance	-	43

44. GENERAL

- 44.1** Captions, as prescribed by BSD Circular No. 04, dated February 17, 2006 issued by the SBP, in respect of which there are no amounts have not been reproduced in these financial statements, except for the captions of the balance sheet and profit and loss account.
- 44.2** Figures have been rounded off to the nearest thousand rupees.
- 44.3** Subsequent to the year end, the Board of Directors resolved to issue bonus shares of Rs. 10/- each in the ratio of 25 ordinary shares for every 100 ordinary shares held. Accordingly, the Board approved transfer of Rs.1,505,505 thousand from unappropriated profit to reserve for issue of bonus shares.

45. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on March 2, 2009 by the Board of Directors of the Bank.

KASSIM PAREKH
Chairman

ANJUM IQBAL
Chief Executive

FIRASAT ALI
Director

BASHIR ALI MOHAMMAD
Director

ANNEXURE I (REFERRED NOTE 11.4)
DETAILS OF INVESTMENTS AS AT DECEMBER 31, 2008

1. MARKET TREASURY BILLS

These securities have maturity period of 1 year, with yield ranging between 9.75% to 13.85 % (2007: 9% to 9.4%) per annum.

2. PAKISTAN INVESTMENT BONDS

These securities have maturity period of 3 to 10 years with interest rates ranging between 8% to 14% (2007: 8% to 14%) per annum. These include securities having book value of Rs. 158,500 thousand (2007: Rs. 158,500 thousand) pledged with the SBP and National Bank of Pakistan as security for TT discounting facility.

3. FULLY PAID-UP ORDINARY SHARES - LISTED

	2008	2007	2008	2007	2008	2007	2008	2007
	No. of shares of Rs. 10/- each		Paid up value		Market value		Cost	
	Rupees in '000							
Adamjee Insurance Company Limited	5,000	–	50	–	509	–	949	–
Bank Al-Habib Limited	130,200	84,000	13,020	8,400	3,238	6,485	4,370	3,646
Fauji Fertilizer Company Limited	100,461	95,461	10,046	9,546	5,900	11,336	10,182	9,682
National Bank of Pakistan	5,000	–	500	–	252	–	465	–
Oil and Gas Development Corporation Limited	125,000	115,000	12,500	11,500	6,249	13,737	14,437	13,372
Pakistan Oil Fields Limited	–	25,000	–	2,500	–	8,360	–	8,462
Pakistan Petroleum Limited	71,000	90,000	7,100	9,000	7,144	22,055	16,249	22,921
Soneri Bank Limited	474,768	474,768	47,477	47,477	5,222	20,605	12,322	12,322
					28,514	82,578	58,974	70,405

	2008 No. of shares	2007	2008 Rupees in '000	2007 Rupees in '000
4. FULLY PAID-UP ORDINARY SHARES - UNLISTED				
Khushali Bank Limited Ordinary shares of Rs. 1,000,000/- each Chief Executive - Mr. Ghalib Nishtar Break-up value per share Rs. 1,078,934/- based on audited accounts for the year ended December 31,2007	25	25	25,000	25,000
Pakistan Export Finance Guarantee Ordinary shares of Rs. 10/- each Chief Executive - Mr. S. M. Zaeem Break-up value per share Rs. 3.14/- based on audited accounts for the year ended December 31, 2007	1,136,088	1,136,088	11,361	11,361
DHA Cogen Limited Ordinary shares of Rs. 10/- each Chief Executive - Mr. Michael Yap Break-up value per share Rs. 9.84/- based on audited accounts for the year ended June 30, 2008	5,000,000	5,000,000	50,000	50,000
Dawood Family Takaful Limited Ordinary shares of Rs. 10/- each Chief Executive - Mr. Abdul Halim Nasri Break-up value per share Rs. 9.92/- based on audited accounts for the year ended June 30, 2008	3,500,000	–	35,000	–
Society for World Wide Inter Bank Fund Transfer (SWIFT) Ordinary shares of Euro 2,290/- each Chief Executive - Mr. Pascal Deman	14	14	1,740	1,740
			123,101	88,101
5. FULLY PAID-UP PREFERENCE SHARES - LISTED				
Chenab Limited Preference shares of Rs. 10/- each These are non-voting, cumulative preference shares redeemable by August 2008 and carry preferred dividend of 9.25% (2007:9.25%) per annum on cumulative basis and have a market value of Rs. 32,680 thousand (2007: 32,000 thousand).	4,000,000	4,000,000	40,000	40,000
			2008	2007
	No. of shares		Rupees in '000	Rupees in '000
6. FULLY PAID-UP PREFERENCE SHARES - UNLISTED				
Jamshoro Joint Venture Limited Ordinary shares of Rs. 10/- each These are non-voting, cumulative preference shares redeemable after January 2009 and carry preferred dividend of 9.25% (2007:9.25%) per annum on cumulative basis.	2,500,000	2,500,000	25,000	25,000

7. TERM FINANCE CERTIFICATES - LISTED

	No. of certificates of Rs. 5,000/- each		Market Value		Cost		Rating	
	2008	2007	2008	2007	2008	2007	2008	2007
	Rupees in '000		Rupees in '000		Rupees in '000		Rupees in '000	
Allied Bank Limited	10,000	10,000	54,516	54,538	49,960	49,980	AA-	A+
Al Zamin Leasing Modaraba	10,000	—	50,000	—	50,000	—	A	—
Askari Bank Limited	5,000	5,000	24,965	25,474	24,965	24,975	AA-	AA-
Askari Bank Limited II	2,000	2,000	9,988	9,992	9,988	9,992	AA-	AA-
Bank Alfalah Limited	—	12,700	—	71,640	—	63,398	AA-	AA-
Bank Al-Habib Limited I	20,000	20,000	99,840	99,880	99,840	99,880	AA-	AA-
Bank Al-Habib Limited II	10,000	10,000	50,660	50,679	49,970	49,990	AA-	AA-
Engro Chemical Pakistan Limited - IPO	20,000	20,000	99,960	100,000	99,960	100,000	AA	AA
Engro Chemical Pakistan Limited - Perpetual	24,000	—	123,310	—	123,310	—	AA	—
First International Investment Bank Limited	10,000	10,000	37,485	49,980	37,485	49,980	A+	A+
First Receivables Securitization Limited	5,000	5,000	22,908	24,995	22,908	24,995	AA-	AA-
Ittehad Chemicals Limited	—	1,714	—	2,854	—	2,854	—	A-
Jahangir Siddiqi & Company Limited	10,000	10,000	49,960	49,980	49,960	49,980	AA+	AA+
Jahangir Siddiqi & Company Limited	—	7,182	—	8,967	—	8,967	—	AA+
Muslim Commercial Bank Limited	—	8,544	—	12,821	—	12,821	—	A1+
New Allied Electronics Industries (Pvt) Ltd.	10,000	10,000	45,833	50,000	45,833	50,000	—	A-
NIB Bank Limited	13,400	13,400	66,987	67,000	66,987	67,000	A+	A
Orix Leasing Pakistan Limited II	10,000	10,000	55,467	55,489	49,970	49,990	AA+	AA+
Orix Leasing Pakistan Limited III	2,000	40,000	200,000	200,000	200,000	200,000	AA+	AA+
Pak Arab Fertilizer Limited	20,000	20,000	99,980	100,000	99,980	100,000	AA	AA-
Pakistan Services Limites	—	2,987	—	4,435	—	4,265	—	A-
Prime Commercial Bank Limited	—	1,974	—	9,860	—	9,860	—	A+
Royal Bank of Scotland	1,974	—	9,856	—	9,856	—	AA-	—
Sitara Energy Limited	11,273	—	56,364	—	56,364	—	Unrated	—
Soneri Bank Limited	17,000	17,000	84,881	84,915	84,881	84,915	A+	A+
Standard Chartered Bank Limited	1,974	4,742	24,639	24,649	23,690	23,701	AAA	AAA
Trust Investment Bank Limited - II	5,000	5,000	10,000	15,000	10,000	15,000	A	AA
Trust Leasing Company Limited	—	5,857	—	12,010	—	11,172	—	AA-
Trust Leasing Company Limited	4,000	4,000	4,300	8,000	4,000	8,000	A	AA-
United Bank Limited I	10,000	10,000	48,525	48,558	49,923	49,942	AA	AA
United Bank Limited III	5,000	5,000	26,991	27,001	24,980	24,990	AA	AA
WorldCall TeleCom Limited II	3,600	3,600	17,986	17,993	17,986	17,993	AA-	AA-
WorldCall TeleCom Limited III	20,000	—	100,000	—	100,000	—	AA-	—
			1,475,401	1,286,710	1,462,796	1,264,640		

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

	Rate	Payment	Maturity Date
Allied Bank Limited	6 months KIBOR plus 190 bps	semi annually	16-Nov-14
Al Zamin Leasing Modaraba	6 months KIBOR plus 190 bps	semi annually	12-May-12
Askari Bank Limited	6 months KIBOR plus 150 bps	semi annually	03-Feb-13
Askari Bank Limited II	6 months KIBOR plus 150 bps	semi annually	26-Oct-13
Bank Al-Habib Limited I	6 months KIBOR plus 150 bps	semi annually	29-Jun-12
Bank Al-Habib Limited II	6 months KIBOR plus 195 bps	semi annually	29-Dec-14
Engro Chemical Pakistan Limited - IPO	6 months KIBOR plus 155 bps	semi annually	21-Jun-15
Engro Chemical Pakistan Limited - Perpetual	6 months KIBOR plus 170 bps	semi annually	18-Sep-18
First International Investment Bank Limited	6 months KIBOR plus 225 bps	semi annually	27-Jun-11
First Receivables Securitization Limited	6 months KIBOR plus 200 bps	semi annually	26-Dec-13
Jahangir Siddiqi & Company Limited	6 months KIBOR plus 250 bps	semi annually	8-Jan-12
New Allied Electronics Industries (Pvt) Ltd.	3 months KIBOR plus 275 bps	Quarterly	14-May-11
NIB Bank Limited	6 months KIBOR plus 180 bps	semi annually	27-Dec-15
Orix Leasing Pakistan Limited II	6 months KIBOR plus 150 bps	semi annually	19-Sep-11
Orix Leasing Pakistan Limited III	6 months KIBOR plus 120 bps	semi annually	13-Jul-12
Pak Arab Fertilizer Limited	6 months KIBOR plus 150 bps	semi annually	12-Jul-12
Royal Bank of Scotland	6 months KIBOR plus 190 bps	semi annually	3-Mar-10
Sitara Energy Limited	6 months KIBOR plus 115 bps	semi annually	13-Nov-13
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
Trust Investment Bank Limited - II	6 months KIBOR plus 200 bps	semi annually	15-Nov-10
Trust Leasing Company Limited	6 months KIBOR plus 300 bps	semi annually	17-Jul-09
United Bank Limited I	8 year's PIB rate plus 100 bps	semi annually	29-Jun-12
United Bank Limited III	6 months KIBOR plus 170 bps	semi annually	28-Jun-14
WorldCall TeleCommunication Limited II	6 months KIBOR plus 275 bps	semi annually	5-Dec-11
WorldCall TeleCommunication Limited III	6 months KIBOR plus 240 bps	semi annually	16-May-13

8. TERM FINANCE CERTIFICATES - UNLISTED

	2008	2007	2008	2007	2008	2007
	No. of certificates of Rs. 5,000/- each		Rupees in '000		Rating	
Avari Hotels Limited	10,133	10,133	50,667	50,667	A-	AA
Jamshoro Joint Venture Limited	11,000	11,000	6,875	20,625	-	A
Pakistan International Airlines Corporation Limited	38,700	38,700	137,057	169,306	Unrated	Unrated
Pakistan Mobile Communication (Private) Limited	38,000	68,000	69,960	189,976	Unrated	Unrated
Security Leasing Corporation Limited	10,000	10,000	31,250	43,750	Unrated	Unrated
Faisalabad Electric Supply Corporation I	67,000	-	335,000	-	Unrated	-
Gujranwala Electric Power Corporation I	67,000	-	335,000	-	Unrated	-
Islamabad Electric Supply Corporation I	67,000	-	335,000	-	Unrated	-
Sitara Peroxide Limited	20,000	-	100,000	-	Unrated	-
K. S. Sulemanji Esmailji & Sons (Pvt) Ltd	30,000	-	150,000	-	Unrated	-
			1,550,809	474,324		

8.1 Other particulars of unlisted term finance certificates are as follows:

	Rate	Payment	Maturity Date
Avari Hotels Limited	6 months KIBOR plus 325 bps	semi annually	1-Nov-14
Jamshoro Joint Venture Limited	3 months KIBOR plus 275 bps	Quarterly	15-Dec-09
Pakistan International Airlines Corporation Limited	6 months KIBOR plus 85 bps	semi annually	9-Feb-11
Pakistan Mobile Communication (Private) Limited	6 months KIBOR plus 285 bps	semi annually	24-Feb-13
Security Leasing Corporation Limited	6 months KIBOR plus 130 bps	semi annually	28-Mar-11
Faisalabad Electric Supply Corporation I	6 months KIBOR plus 23 bps	semi annually	3-Jun-11
Gujranwala Electric Power Corporation I	6 months KIBOR plus 23 bps	semi annually	3-Jun-11
Islamabad Electric Supply Corporation I	6 months KIBOR plus 23 bps	semi annually	3-Jun-11
Sitara Peroxide Limited	6 months KIBOR plus 110 bps	Quarterly	31-Dec-12
K. S. Sulemanji Esmailji & Sons (Pvt) Ltd	6 months KIBOR plus 130 bps	Quarterly	28-Jun-12

9. SUKUK BONDS

	2008	2007	Maturity Date	2008	2007	2008	2007
	No. of certificates of Rs. 5,000/- each			Rupees in '000		Rating	
WAPDA	140,000	155,000	Oct 12, Jun-17	700,000	775,000	Unrated	Unrated
Sui Southern Gas Company Limited	60,000	60,000	Dec-12	300,000	300,000	Unrated	Unrated
State Bank of Pakistan	-	-	Dec-11	900,000	-	Unrated	Unrated
				1,900,000	1,075,000		

9.1 Other particulars of Sukuk are as follows:

	Rate	Payment	Maturity Date
WAPDA	6 months KIBOR minus 25 bps	Semi – annually	13-Jan-18 to 31-Dec-18
Sui Southern Gas Company Limited	3 months KIBOR plus 20 bps	Quarterly	31-Dec-12
Pakistan Ijarah Sukuk Bonds	14.75%	Semi – annually	31-Dec-11

10. CERTIFICATES OF INVESTMENT

Represent Certificates of Investment of various financial institutions carrying mark-up rates ranging between 17.5 to 20% (2007: 9.45% to 10%) per annum maturing in January 2009.

11. OPEN ENDED MUTUAL FUNDS

	2008		2007		Face Value Rs.	2008		2007		2008	2007	Rating
	No. of Units		Net Asset Value			Rupees in '000		Cost				
Metro Bank Pakistan Sovereign Fund*	8,425,300	16,762,000	371,893	821,338	50	370,460	819,830	Unrated	Unrated			Unrated
ABL Income Fund	2,500,000	-	25,022	-	10	25,000	-	A(f)	-			-
AKD Index and Tracker Fund	1,582,913	1,500,000	8,611	19,890	10	15,000	15,000	5 Star	Unrated			Unrated
AKD Opportunity Fund	811,646	-	23,944	-	50	50,000	-	Unrated	-			-
Alfalsh GHP Principal Protected Fund	500,000	3,382,151	23,890	177,867	50	25,000	175,000	Unrated	Unrated			Unrated
AMZ Plus Income Fund	-	3,861,983	-	408,818	100	-	400,000	Bbb+(f)	A (f)			A (f)
Askari Assets Allocation Fund	629,050	-	37,815	-	100	60,000	-	Unrated	-			-
Askari Income Fund	6,702,795	7,660,819	635,693	809,059	100	705,000	800,000	5 Star	A (f)			A (f)
Atlas Income Fund	394,750	478,176	188,568	250,550	500	200,000	250,000	4 Star	5 star			5 star
BMA Chundrigarh Road Savings Fund	-	1,506,072	-	15,515	10	-	15,000	A (f)	Unrated			Unrated
Dawood Money Market Fund	-	1,712,383	-	180,590	100	-	180,000	5 Star	3 Star			3 Star
Faysal Savings growth Fund	1,479,874	965,826	153,285	101,557	100	150,000	100,000	A+ (f)	A+ (f)			A+ (f)
HBL Income Fund	4,346,613	4,856,727	413,493	507,819	100	450,000	500,000	Unrated	Unrated			Unrated
IGI Income Fund	-	2,179,708	-	228,739	100	-	225,000	Unrated	Unrated			Unrated
JS Aggressive Income Fund	-	5,000,000	-	50,000	10	-	50,000	Unrated	Unrated			Unrated
JS Income Fund	4,953,704	3,881,945	499,631	410,554	100	500,000	405,000	5 Star	5 Star			5 Star
KASB Balance Fund	-	2,500,000	-	25,000	50	-	25,000	Unrated	Unrated			Unrated
KASB Liquid Fund	7,002,677	6,726,388	636,263	707,549	100	745,000	695,000	5 Star	Unrated			Unrated
MCB Dynamic Allocation Fund	250,000	-	13,762	-	100	25,000	-	Unrated	-			-
MCB Dynamic Cash Fund	6,990,342	2,236,852	689,885	234,216	100	730,000	225,000	Unrated	Unrated			Unrated
Meezan Islamic Income Fund	5,772,472	-	280,037	-	50	300,000	-	A (f)	-			-
NAFA Cash Fund	37,189,583	67,221,725	356,630	706,608	10	400,000	700,000	A (f)	5 Star			5 Star
NAFA Islamic Income Fund	-	1,500,000	-	15,196	10	-	15,000	Unrated	Unrated			Unrated
NAFA Islamic Multi Asset Fund	2,500,000	2,500,000	21,312	24,341	10	25,000	25,000	Unrated	Unrated			Unrated
NAFA Stock Fund	3,216,727	-	17,117	-	10	40,000	-	Unrated	-			-
Pak Oman BoP Advantage Plus Fund	-	998,942	-	50,696	50	-	50,000	A (f)	A (f)			A (f)
Pakistan Income Fund	6,054,073	7,640,879	292,109	401,070	50	300,000	400,000	5 Star	4 Star			4 Star
Pakistan International Element Islamic Fund	-	600,556	-	32,250	50	-	25,000	Unrated	Unrated			Unrated
Pakistan Stock Market Fund	368,351	-	13,832	-	50	25,000	-	Unrated	-			-
UBL Islamic Income Fund	150,000	150,000	13,985	15,000	100	15,000	15,000	Unrated	Unrated			Unrated
UBL Principal Protected Plan - I	190,721	-	17,095	-	50	25,000	-	Unrated	-			-
United Growth & Income Fund	7,850,919	1,925,855	751,105	201,672	100	800,000	200,000	A (f)	A (f)			A (f)
United Money Market Fund	4,106,743	3,373,078	389,622	352,955	100	400,000	350,000	A+ (f)	A+ (f)			A+ (f)
	5,874,599	6,748,849	6,380,460	6,659,830								

* The Bank is also a trustee of the Fund.

12. CLOSE ENDED MUTUAL FUNDS

	2008	2007	2008	2007	2008	2007	2008	2007
	No. of certificates of Rs. 5,000/- each		Market Value		Cost		Rating	
			Rupees in '000					
BMA Principal Guaranteed Fund-I	5,517,697	5,254,950	49,659	47,557	49,575	49,575	Unrated	Unrated
Intersecurities Islamic Fund	-	250,000	-	2,569	-	2,500	-	Unrated
Meezan Balanced Fund	2,500,000	2,500,000	12,700	21,000	25,000	25,000	Unrated	5-Star
Pakistan Strategic Allocation Fund	3,087,000	3,087,000	8,582	28,092	30,868	30,868	5-Star	4-Star
PICIC Energy Fund	4,200,000	4,200,000	15,162	31,500	42,000	42,000	4-Star	Unrated
PICIC Growth Fund	42,000	42,000	332	1,197	1,946	1,946	Unrated	2-Star
UTP-Large Capital Fund	2,820,500	2,820,500	9,279	22,846	27,959	27,969	Unrated	4-Star
			95,714	154,761	177,348	179,848		

* Unit of 10 each and 100 each

* Unit of Rs. 100 each

**ANNEXURE II (REFERRED TO NOTE 12.7)
STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER
FINANCIAL RELIEF OF RS. 500,000/- OR ABOVE PROVIDED
DURING THE YEAR ENDED DECEMBER 31, 2008**

S. No.	Name and address of the borrower	Name of Individuals/ partners/directors (with NIC No.)	Father's/Husband's Name	Outstanding liabilities at beginning of the year		Principal written-off	Interest/ mark-up written off	Total
				Principal	Interest/ mark-up			
1.	Abdul Majeed 137-Lakshmidas Street, Kharadar, Karachi.	Mr. Abdul Majeed 511-52-019052	Mr. Abdul Hameed	8,813	-	8,813	-	8,813
2.	AIM Fashion, 30-B, Near Al-Fatah Masjid, Block B, North Nazimabad, Karachi.	Mr. Saeed 42501-8635782-9	Mr. Abdul Majeed	1,213	-	1,213	-	1,213
3.	Anum Weaving (Private) Ltd. 20-KM, Ferozepur Road, Lahore	Mr. Anis Ismail Naviwala 35202-7910452-7 Mr. Anis Karim 35202-9884667-0 Mr. Javed Arshad Bhatti 35202-8469816-7 Mr. Mohammad Ahsan 271-54-091273 Mr. Mohammad Rafiq 517-85-070755 Mr. Mohammad Yahya 517-86-071753	Mr. Mohammad Naviwala	4,826	-	4,826	-	4,826
4	Dye-Chem Industries (Private) Limited 84-B, Phase II, Gadoon Amazai Industrial Estate, Distt. Swabi, N.W.F.P.	Mr. Mansoor Ahmad Khatri 42000-0471446-5 Mr. Abdul Rahim Khatri 42201-0287054-1 Mr. Abdul Aziz Khatri 42301-1067990-1 Mr. M. Siddiq Khatri 42201-0357972-7	Haji Ayub Abdul Rehman Haji Ayub Haji Muhammad	40,207	-	40,207	-	40,207
5	Halima Garments (Private) Limited 7-A, Muslim Town, Lahore	Mr. Ali Abbas 271-88-250914 Mr. Ali Sajjad 271-88-250913 Mrs. Haleema Shuja N.A. Ms. Alia Hassan 271-90250916 Mr. Tariq Rashid 35201-4899442-7	Mr. Shuja-ul-Hassan Mr. Shuja-ul-Hassan Mr. Shuja-ul-Hassan Mr. Shuja-ul-Hassan	9,713	-	9,713	-	9,713

HIMB

S. No.	Name and address of the borrower	Name of Individuals/ partners/directors (with NIC No.)	Father's/Husband's Name	Outstanding liabilities at beginning of the year			Principal written-off	Interest/ mark-up written off	Total
				Principal	Interest/ mark-up	Total			
6.	Mumtaz Apparel (Private) Limited D-165/A, S.I.T.E. Karachi	Mr. Akbar 42301-0855821-1 Mr. Amir Ali 42301-0861033-7	Mr. Amir Ali Mr. Kassam Ali	1,983	58	2,041	1983	58	2,041
7.	Soft Knit Textile Mills (Private) Limited Rawind Road, Lahore	Mr. Sohaib Ahmed 35202-3038237-1 Mr. Awais Ahmed 35202-3038244-3 Mr. Saleh Mehmood N.A. Ms. Kaneiza N.A.		15,364	1,950	17,314	15,364	1,950	17,314
8.	Star Label (Private) Limited 16-Montgomery Road Lahore	Mian Shahbaz Moin-ud-Din 35202-2757476-1 Mian Shukat Ali 267-91-481573 Mrs. Kaukab Murtaza 266-59-375705 Mrs. Misbah Shaukat 267-91-481575		554	72	626	454	72	526
9.	Simsona Knitwear 69/8, GreenVilas, FCC Gulberg, Lahore	Mr. Muhammad Nasir 35202-2759114-9	Mr. Mohammad Irshad	954	—	954	954	—	954
10.	Scantex (Private) Limited C 1 B-20, 21, Sector 16, Korangi Industrial Area Karachi	Mr. S. Abdul Aziz 42301-0848747-3 Mr. Tahir Aziz 42301-0553545-3 Mr. S. Sohail Aziz 42301-97098327-7	Mr. Haji Allah Ditta Mr. Abdul Aziz Mr. Abdul Aziz	6,423	—	6,423	6,423	—	6,423
Total				90,050	2,080	92,130	89,950	2,080	92,030

**PATTERN OF SHAREHOLDINGS CDC
AND PHYSICAL**

AS ON DECEMBER 31, 2008



Number of Shareholders	Size of Shareholding Rs. 10 each		Total Shares held
398	1	- 100	15,368
467	101	- 500	133,138
393	501	- 1,000	290,090
953	1,001	- 5,000	2,232,724
547	5,001	- 10,000	3,758,391
115	10,001	- 15,000	1,436,357
46	15,001	- 20,000	793,413
53	20,001	- 25,000	1,176,640
42	25,001	- 30,000	1,164,543
24	30,001	- 35,000	777,792
18	35,001	- 40,000	663,162
15	40,001	- 45,000	632,600
8	45,001	- 50,000	384,182
10	50,001	- 55,000	517,690
10	55,001	- 60,000	575,217
9	60,001	- 65,000	557,208
9	65,001	- 70,000	608,587
9	70,001	- 75,000	650,759
4	75,001	- 80,000	308,098
4	80,001	- 85,000	336,221
4	90,001	- 95,000	369,314
7	95,001	- 100,000	685,964
4	100,001	- 105,000	414,670
2	105,001	- 110,000	215,216
3	110,001	- 115,000	335,830
1	115,001	- 120,000	118,800
3	120,001	- 125,000	364,935
3	125,001	- 130,000	381,531
1	130,001	- 135,000	131,986
2	135,001	- 140,000	277,852
5	145,001	- 150,000	745,891
2	150,001	- 155,000	305,800
3	155,001	- 160,000	472,930
2	160,001	- 165,000	324,066
1	170,001	- 175,000	174,500
2	175,001	- 180,000	358,126
1	180,001	- 185,000	184,262
2	190,001	- 195,000	386,540
1	195,001	- 200,000	195,910
4	205,001	- 210,000	834,496
3	210,001	- 215,000	635,784
1	215,001	- 220,000	216,079
3	220,001	- 225,000	673,474
1	225,001	- 230,000	228,086
3	235,001	- 240,000	707,280
1	245,001	- 250,000	245,472
1	255,001	- 260,000	259,800
1	260,001	- 265,000	262,620
1	265,001	- 270,000	269,440
3	275,001	- 280,000	833,650
2	295,001	- 300,000	590,144
1	310,001	- 315,000	313,932
1	340,001	- 345,000	340,402
5	345,001	- 350,000	1,740,926
1	355,001	- 360,000	359,880
1	370,001	- 375,000	373,324
1	380,001	- 385,000	382,231
1	395,001	- 400,000	400,000

Number of Shareholders	Size of Shareholding Rs. 10 each		Total Shares held
2	410,001	- 415,000	825,707
3	415,001	- 420,000	1,250,496
1	420,001	- 425,000	423,741
4	430,001	- 435,000	1,736,716
5	460,001	- 465,000	2,313,410
1	475,001	- 480,000	476,217
2	485,001	- 490,000	972,588
3	495,001	- 500,000	1,495,147
1	525,001	- 530,000	529,094
1	550,001	- 555,000	552,410
1	555,001	- 560,000	555,758
1	580,001	- 585,000	581,160
3	590,001	- 595,000	1,784,010
2	595,001	- 600,000	1,192,136
1	600,001	- 605,000	603,991
1	605,001	- 610,000	606,782
1	610,001	- 615,000	610,969
2	690,001	- 695,000	1,389,420
1	765,001	- 770,000	768,328
2	830,001	- 835,000	1,667,325
2	865,001	- 870,000	1,736,776
2	890,001	- 895,000	1,786,784
1	895,001	- 900,000	896,233
2	925,001	- 930,000	1,854,875
1	955,001	- 960,000	957,141
1	1,105,001	- 1,110,000	1,106,684
2	1,110,001	- 1,115,000	2,223,242
1	1,185,001	- 1,190,000	1,189,342
2	1,190,001	- 1,195,000	2,384,276
2	1,385,001	- 1,390,000	2,778,844
1	1,410,001	- 1,415,000	1,414,422
1	1,415,001	- 1,420,000	1,417,176
2	1,560,001	- 1,565,000	3,126,240
1	1,630,001	- 1,635,000	1,634,758
1	1,755,001	- 1,760,000	1,759,374
1	2,565,001	- 2,570,000	2,568,583
1	2,695,001	- 2,700,000	2,700,000
1	2,710,001	- 2,715,000	2,715,000
1	3,130,001	- 3,135,000	3,131,694
1	3,200,001	- 3,205,000	3,204,750
1	3,350,001	- 3,355,000	3,353,694
1	4,175,001	- 4,180,000	4,175,257
1	4,320,001	- 4,325,000	4,320,873
1	5,010,001	- 5,015,000	5,013,231
1	6,020,001	- 6,025,000	6,022,020
1	6,355,001	- 6,360,000	6,355,264
1	6,420,001	- 6,425,000	6,423,220
1	6,740,001	- 6,745,000	6,744,902
1	7,145,001	- 7,150,000	7,146,882
1	7,920,001	- 7,925,000	7,922,925
1	11,115,001	- 11,120,000	11,115,510
1	13,360,001	- 13,365,000	13,363,927
1	15,470,001	- 15,475,000	15,473,618
1	21,575,001	- 21,580,000	21,577,977
1	40,475,001	- 40,480,000	40,477,402
1	41,545,001	- 41,550,000	41,547,356
1	307,120,001	- 307,125,000	307,123,020
<u>3,300</u>			<u>602,202,000</u>

COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS

AS ON DECEMBER 31, 2008



Category No.	Categories of Share holders	Number of Shares held	Category wise No. of Share holders	Category wise Shares held	(%)
1	Individuals		3,080	83,946,367	13.94
2	Investment Companies		14	4,523,054	0.75
3	Joint Stock Companies		77	2,708,844	0.45
4	Directors, Chief Executive Officer and their spouse and minor children		11	19,489,028	3.24
	Mr. Kassim Parekh	1,389,422			
	Mr. Muhammad H. Habib	1,189,342			
	Mr. Reza S. Habib	868,388			
	Mr. Bashir Ali Mohammad	11,115,510			
	Mr. Anwar H. Japanwala	833,661			
	Mr. Ronald V. Emerson	500			
	Mr. Firasat Ali – Nominee NIT	–			
	Mr. Mohamedali R. Habib	926,739			
	Mrs. Farah Fatimah Muhammad H. Habib	596,068			
	Mrs. Sarwat Reza S. Habib	347,342			
	Mrs. Dilshad Anwar H. Japanwala	1,759,374			
	Mrs. Syeda Mohamedali R. Habib	462,682			
5	Executives		45	1,847,173	0.31
6	NIT / ICP		4	82,030,616	13.62
	National Bank of Pakistan, Trustee Deptt.	82,029,958			
	Investment Corporation of Pakistan	658			
7	Associated Companies, undertakings and related parties		4	308,205,627	51.18
	Habib Bank AG Zurich, Zurich Switzerland	307,123,020			
	Habib Insurance Company Limited	957,141			
	Trustees Thal Ltd. Emp. Ret Benefit Fund	26,052			
	Trustees Thal Ltd. Emp. Provident Fund	99,414			
8	Public Sector Companies and Corporations		–	–	–
9	Banks, DFIs, NBFIs, Insurance companies, Modarabas & Mutual Funds		27	37,627,866	6.25
10	Foreign Investors		21	56,918,195	9.45
11	Co-operative Societies		1	4,175,257	0.69
12	Charitable Trusts		8	390,231	0.06
13	Others		8	339,742	0.06
	Total		3,300	602,202,000	100.00

Share-Holders Holding Ten percent or more voting interest in the listed company

Total Paid-up Capital of the company 602,202,000 shares
10% of the paid-up capital of the Company 60,220,200 shares

Name(s) of Share Holder(s)	Description	No. of Shares held	Percentage (%)
Habib Bank AG Zurich, Zurich, Switzerland	Falls in Category #7	307,123,020	51.00
National Bank of Pakistan, Trustee Department	Falls in Category #6	82,029,958	13.62