بسم الله الرحمن الرحیم

هٰذَا مِنْ فَضْلِ رَبِّيْ

Habib Metropolitan Bank

(Subsidiary of Habib Bank AG Zurich)

Our Vision

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN
Kassim Parekh

CHIEF EXECUTIVE
Anjum Iqbal

DIRECTORS
Muhammad H. Habib
Reza S. Habib
Bashir Ali Mohammad
Anwar H. Japanwala
Ronald V. Emerson
Firasat Ali
Mohamedali R. Habib*
* Executive Director

AUDIT COMMITTEE
Reza S. Habib
Kassim Parekh
Mohamedali R. Habib

COMPANY SECRETARY
Muhammad Imran

SHARE REGISTRAR
Noble Computer Services (Private) Limited
Mezzanine Floor, Siddiqsons Tower,
3-Jinnah C.H. Society, Main Shahrah-e-Faisal,
Karachi 75350.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Eighteenth Annual General Meeting of the shareholders of Habib Metropolitan Bank Ltd will be held at the Moosa D. Dessai ICAP Auditorium, Institute of Chartered Accountants of Pakistan, G-31/8, Chartered Accountants Avenue, Clifton, Karachi on Monday, March 29, 2010 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, 2009 together with the Directors' and Auditors' reports thereon.

2. To approve, as recommended by the Board of Directors, dividend of 16% bonus shares and of 10% cash. 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, 2010 and fix their remuneration. The present Auditors, Messrs KPMG Taseer Hadi & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.

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

By Order of the Board

Karachi: March 1, 2010

MUHAMMAD IMRAN
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, 2010 to April 8, 2010 (both days inclusive).

CHAIRMAN'S REVIEW TO THE SHAREHOLDERS

بسم الله الرحمن الرحيم

Dear Shareholders,

On behalf of the Board of Directors of Habib Metropolitan Bank, I take pleasure in presenting this report, together with the accounts of the Bank for the year ended December 31, 2009. The operating financial results and appropriations, as recommended by the Board of Directors, are summarized below:

		Rupees in '000
Profit before provisions and tax		**6,783,288**
Provision for non-performing loans & investments		(2,569,646)
Profit before tax		**4,213,642**
Taxation	– Current	(1,690,909)
	– Deferred	216,761
		(1,474,148)
Profit after taxation		**2,739,494**
Un-appropriated profit brought forward		3,087,692
Profit available for appropriation		**5,827,186**
Appropriations:		
	– Transfer to statutory reserve	547,899
	– Issue of bonus shares in the ratio of 25 shares for every 100 shares held - 2008	1,505,505
		2,053,404
Un-appropriated profit carried forward		**3,773,782**

The Directors are pleased to propose a final dividend of 16% bonus shares (16 shares for every 100 shares held) and 10% cash dividend.

By Allah's grace, your Bank achieved new milestones during the year. Our deposits crossed the Rupees 142 billion mark at the year-end and total assets exceeded Rupees 237 billion. HMB's profit before provisions and taxation reflect a healthy increase from Rs 6.0 billion last year to Rs 6.8 billion during 2009, a 13% increase which demonstrates the Bank's strong earnings' capacity. However, due to the economic environment, the Bank recognized an additional Rs 4.6 billion of non-performing loans during 2009 and accordingly made additional provisions of Rs 2.5 billion for the year. The Bank's post-tax profit for the year amounted to Rupees 2.7 billion as against Rs 3.3 billion last year. This performance translates into an EPS of Rs 3.64 per share.

At year-end, HMB's equity stands at Rupees 18.9 billion, at a comfortable 11.9% capital adequacy level against the required 10%.

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

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

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

On behalf of the Board

KASSIM PAREKH
Chairman

Karachi: March 1, 2010

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, 2009.

ECONOMIC AND BANKING REVIEW

During the year 2009, our country's trade balance reflects healthy improvement mainly on account of reduced cost of imports. With the International Monetary Fund support program and a commitment expressed by the global community to extend monetary aid to Democratic Pakistan, the country's foreign exchange reserves have increased significantly, although Rupee continues to depreciate against the US Dollar. Weakening domestic demand, reduced commodity prices & lower government borrowing from SBP has also led to reduction in core inflation. The Country's Stock Exchanges have managed to regain investor confidence and the market index reflects a positive sentiment. Further, remittance inflows from overseas Pakistanis have remained strong which provided positive support to the economy. These factors along with several ongoing policy and structural reforms resulted in improvement in Pakistan's international ratings by Moodys from Negative to Stable outlook.

Although the potential Economic crisis has been averted and the economy has stabilized, the country's manufacturing and export activity continues to remain under pressure. Power shortage remains a fundamental detriment to economic growth for which various short and long term measures are being taken by the Government. This is a matter of utmost priority as the rising costs of input needs to be kept under control for us to compete in international markets. The economy is also facing severe pressure due to the ongoing war against terror in the North and the remaining rehabilitation of Internally Displaced Persons (IDPs).

Despite liquidity shortages, the inter-bank money markets were stabilized due to very active intervention by the State Bank of Pakistan. During the year, market rates depicted a downward curve which was translated in a 250 bps gradual reduction by SBP in discount rates during the year. Market conditions resulted in an industry wide halt in consumer financing while credit off-take by the private sector continued to remain under pressure. However, the rate reductions during the year are expected to have positive impact on the country's gross domestic product and going forward, we expect some improvement in private sector credit demand. The SBP now reviews the monetary policy on bi-monthly basis which also ensures a closer market rates management.

During the period, the rates offered by the National Savings Schemes have also been reduced along with some fundamental changes with respect to institutional deposits. We expect the banking sector to increase its share of deposits with these changes.

With global as well as local economic slowdown, maintaining asset quality remains a fundamental challenge to the banking sector and the industry 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 Rupees 142 billion mark at the year-end and total assets exceeded Rupees 237 billion. This growth remains in line with the banking sector's overall performance during the year.

During the year, the Bank's gross revenues increased by 19% to Rs 25.1 billion, 85% of which was contributed by profit/mark-up earned on loans and investments. The Bank has maintained concerted efforts to increase margins as well as keeping its establishment costs at acceptable levels. Resultantly, your Bank continues to enjoy a healthy cost to revenue ratio. Your Bank's performance also reflects increased fee based earnings and significant foreign exchange earnings.

HMB's profit before provisions and taxation reflect a healthy increase from Rs 6.0 billion last year to Rs 6.8 billion during 2009, a 13% increase which is a strong reflection of the Bank's current operations. However, due to prevailing market conditions especially with regard export markets, the Bank recognized an additional

Rs 4.6 billion of non-performing loans during 2009 and made additional provisions of Rs 2.5 billion during the year.The Bank's pre-tax profit for the year amounted to Rupees 4.2 billion as against Rs 4.8 billion last year reflecting a 11.5% decline. This translates into an (post-tax) EPS of Rs 3.64 per share.

The Bank's total non-performing loan portfolio stands at Rs 6.4 billion at year end, representing an infection ratio of less than 6%, which is one of the lowest levels in the industry. The portfolio also includes certain loans which have been classified by the Bank keeping in view weakened financials and diminished capacity to repay obligations by a few borrowing relationships. However, due to the Bank's strong customer selection with adequate collateral coverage, we expect to make significant recoveries from these loans in the future.

At year-end, HMB's equity stands at Rupees 18.9 billion with a comfortable 11.9% capital adequacy level (Basel II) against the required 10%.

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

Changes in Accounting Policies:

- Starting January 2009, the Bank has changed its accounting policy in respect of 'Presentation of financial statements' due to the applicability of new IAS 1 (Revised) 'Presentation of Financial Statements' (effective for annual periods beginning on or after 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring ‘non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income.

- During the year the Bank's Islamic banking branches adopted Islamic Financial Accounting Standard (IFAS) 2 “Ijara” in respect of Ijara financing arrangements. This standard requires Ijarah arrangements by the Islamic Banking branches to be accounted for as assets held under Ijarah stated at cost less accumulated depreciation and impairment.

- During the year the bank has decided to segregate the income earned on Foreign Documentary Bills Purchased (FDBP) into Income from dealing in foreign currencies and Discount Income, which is now recognized on amortization basis over the term of FDBP and reflected in the Bank's Mark-up/ Return /Interest Earned. Previously, such income was recognized as income from dealing in foreign currencies through revaluation over the FDBP tenor. Although the impact of this change is not material, however the management believes it to be more appropriate accounting treatment. This change has been accounted for retrospectively in accordance with the requirements of International Accounting Standard 8 “Accounting Policies, changes in Accounting Estimates and Errors” and the corresponding figures have been changed accordingly. Due to this change, profit before tax for the year is higher by Rs. 82 million (2008: Rs. 23 million).

Commitments

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

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

MILESTONES AND ACHIEVEMENTS

CREDIT RATING

By the grace of Allah, for the 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, show the entity at 1639th mark with a country rank at the 10th position. Habib Bank AG Zurich, being the Bank's parent company, holds a prestigious 557th position in International Banks as per "The Banker".

ENHANCED REACH TO OUR CUSTOMERS

With Allah's Blessings, HMB network now stands at 120 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 19 cities with new locations of Khanpur and Bhawalpur added during the year. Your Bank opened 10 new branches during the year and plans to open more in 2010. In addition, the Bank also operates two sub-branches and six offsite collection booths.

HMB continued 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. Accordingly, 5 branches were relocated during the year which enhanced Bank's network coverage. 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 steadily.

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

Your Bank's Islamic Banking business has now established itself and has grown considerably during the year with total assets of Rs 12.8 billion at the year-end. The Islamic Banking branches are fully capable of catering to the customers seeking Sha'ria compliant products. The Bank has also established Islamic Banking Service Counters with trained staff at 22 branches across 6 cities allowing the Bank to cater to the islamic banking needs of its customers in a more effective manner. More of such counters are planned to be opened in future.

During the year, your Bank's subsidiary company by the name of Habib Metropolitan Financial Services (HMFS) commenced (equity) brokerage services for individual investors providing convenient and trusted investment services to valued clients. HMFS activities are expected to increase as investors' confidence returns to Pakistan's equity markets and business volumes are restored.

TECHNOLOGY

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

The Bank also installed 13 new Automated Teller Machines (ATMs) during the year taking the total strength of the ATMs to 89 across the country. These ATMs provide services to HMB accountholders as well as customers having accounts with other banks on both MNET and 1LINK switches. The Bank has already deployed utility bill payment solutions on its ATMs and the same will also be made available through our 24-hour call center and website. Transaction growth has been encouraging throughout the ATM network and we will continue to deploy further ATMs during 2010.

HUMAN RESOURCES

The total strength of the HMB family has grown from 2473 to 2695 during the year. During the year, 2 employees, with family, were selected through ballot to perform Hajj on Bank's costs.

Your Bank continues to make contributions to Employee Old Age benefit program as required by the EOBI Act. Further, an amount of Rs 106 million has been charged to the current year profit and loss account in respect of Workers Welfare Fund.

As a key element of strategy, your Bank places strong focus on training. During the year, the Bank conducted more than 149 in-house training courses encompassing 14,600+ man hours. In addition, 244 employees were sent on outsourced training initiatives. In addition, the Bank is enhancing its existing management trainee program enrolling industry best talent to work for your Bank and build their careers in the field of banking in a highly motivating work environment.

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

SERVICE QUALITY INITIATIVES

In previous years, your Bank commenced a multi-year exercise for centralizing branch banking operations onto a Central Processing Platform. The Bank's Central Processing Unit (CPU) has achieved great milestones during 2009 and we expect this initiative to be substantially completed during 2010. The centralization of several branch operations will create capacity, enhance controls and improved quality of service throughout the network.

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

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 33 million against Rs 24 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 1000 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 2009 to the Government of Pakistan as direct taxes. Furthermore, an additional amount of about Rs 5 billion was collected through the Bank's network comprising of indirect tax deductions and recoveries for the exchequer.

CORPORATE GOVERNANCE

CHANGES IN THE BOARD OF DIRECTORS

There have been no changes to the Board during the year 2009.

BOARD MEETINGS

During the year 2009, 5 Board meetings were held and the attendance of the directors during their tenure on the Board was as follows:

Name of Directors	Feb 7	Mar 2	Apr 22	Aug 25	Oct 20
Mr. Kassim Parekh	✔	✔	✔	✔	✔
Mr. Muhammad H. Habib	✔	✔	✔	✔	✔
Mr. Reza S. Habib	✔	–	✔	✔	✔
Mr. Bashir Ali Mohammad	–	✔	✔	✔	✔
Mr. Anwar H. Japanwala	✔	✔	✔	–	–
Mr. Ronald V. Emerson	✔	–	✔	–	✔
Mr. Firasat Ali	✔	✔	✔	✔	✔
Mr. Mohamedali R. Habib	✔	✔	✔	✔	✔
Mr. Anjum Z. Iqbal	✔	✔	✔	✔	✔

PATTERN OF SHAREHOLDINGS

The pattern of shareholdings as on December 31, 2009 is annexed to the report.

AUDITORS

The present auditors KPMG Taseer Hadi & Co., Chartered Accountants, retire and being eligible offers themselves for reappointment. As required under the Code of Corporate Governance, the Audit Committee has recommended the appointment of KPMG Taseer Hadi & Co., Chartered Accountants as auditors of the Bank for the year ending December 31, 2010.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

1. The financial statements prepared by the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

2. Proper books of accounts have been maintained by the Bank.

3. Appropriate accounting policies have been consistently applied in preparation of financial statements.

4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure there from, if any, has been adequately disclosed.

5. The system of internal control is sound in design and has been effectively implemented and monitored.

6. There are no significant doubts upon the Bank's ability to continue as a going concern.

7. There has been no departure from the best practices of the corporate governance, as detailed in the listing regulations.

8. The key operating and financial data of last six years of the Bank is placed below:

	2009	2008	2007	2006	2005	2004
Shareholders' equity	18,889	16,150	13,359	10,665	5,093	3,568
Paid-up capital	7,528	6,022	5,018	3,005	1,560	1,200
Total assets	237,412	182,711	172,867	148,668	79,564	67,891
Deposits	142,457	128,433	121,141	102,493	56,713	48,596
Advances	102,293	108,261	89,827	83,324	43,519	40,122
Investments	111,680	53,632	61,736	39,556	22,804	15,560
Profit before taxation	4,214	4,764	4,045	3,143	2,098	1,378
Profit after taxation	2,739	3,293	2,694	2,096	1,506	816
Earnings per share (Rs)	3.64	5.47	5.37	9.32	9.65	6.80
Dividends (%)	16 (B)	25 (B)	I-67(B)	–	33.33 (B)	30 (B)
	10 (C)		F-20(B), 10(C)			
No. of staff	2,695	2,473	2,300	1,963	1,143	1,045
No. of branches	120	110	100	82	51	47

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

- Provident Fund Rs. 474,100 thousand as at June 30, 2008
- Gratuity Fund Rs. 155,580 thousand as at December 31, 2008

RISK MANAGEMENT

STATEMENT ON RISK MANAGEMENT FRAMEWORK

Risk Management aspects are embedded in HMB's strategy and organization structure. The Bank's entire branch network is on-line and our state-of-the-art processing system is secure and has adequate capacity. Separation of duties is built into the Bank's system and organization. The Internal Audit Division conducts independent, risk-based review & verification of the Bank's branches and major functions throughout the year for evaluation of control system. Internal reporting/MIS are additional tools for management in controlling risks. An independent Risk Management Department is staffed with seasoned professionals, working on all aspects of risk. The Bank has adopted a cohesive risk management structure for credit, operations, liquidity & market risk.

The Bank's Risk Management Committee oversees the Bank's strategy, efforts and processes related to 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 and self-liquidating basis. Major portion of the Bank's credit portfolio is priced on floating rate basis using KIBOR as a reference which minimizes interest rate risk.

The risk inherent in credit extension is further mitigated by standard credit granting procedures which ensure proper evaluation, adequacy of security, 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 market 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 resilient 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 organization 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 Internal Control Unit which 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. The Bank's Capital Adequacy stands at a comfortable 11.9% as at the year-end against requirement of 10%.

COMPLIANCE

Your Bank follows a robust Know Your customer (KYC) and Anti Money Laundering (AML) program. The compliance policy, manual and detailed procedures are in place with rigorous training 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 risks at the time of opening the account and enhanced due diligence controls are applied for riskier relationships. The Bank has installed a state-of-the-art monitoring system. The system performs a review of transactions through different compliance monitors on predefined thresholds. This facilitates transaction monitoring which is a key AML/KYC control and risk mitigate. The Bank plans to further enhance its customer due diligence processes during the year 2010 including a review and enhancement of the Bank's system based tools to monitor transactions from compliance perspective.

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 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 adopted an internationally accepted COSO Internal Control - Integrated Framework, as envisaged under the SBP Internal Control Guidelines for financial reporting and has engaged a reputable advisory firm to assist in such initiative. The Bank has devised a well-defined and comprehensive Internal Control Programme and a staged roadmap for implementation. In accordance with this Programme, the Bank has completed detailed documentation of the existing processes and controls, together with a comprehensive gap analysis of the control design. Work on these two phases is subject to review by the Bank's external auditors.

It is also important to note that with the sizeable completion of the Bank's project to centralize processing of account opening, imports, credit administration and allied functions as well as enhanced automation of the Bank's credit, treasury and risk operations during 2009, a significant number of these control gaps already stand addressed effectively. For the remaining gaps at hand, the Bank has commenced the process of developing detailed remediation plans to address the gaps identified and ensure implementation of planned initiatives in a timely manner. In addition, comprehensive management testing plans and framework are also planned to be developed for ensuring on-going operating effectiveness of key controls.

Although effective remediation of the gaps identified will strengthen the Bank's existing Control Environment, management is confident that these gaps do not carry a significant bearing on the Bank's existing operations and related controls. Further, the Bank's operational model relies primarily on a state-of-the-art, award winning technology solution which has strong built-in risk mitigating features such as access controls, segregation of duties, necessary maker-checker concept and extensive monitoring/MIS tools keeping the overall operational risks to an acceptable level.

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 control 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

Pakistan's agricultural sector is currently performing well which is expected to provide a boost, to the local economy in the coming months, by way of increased domestic consumption. Inflation is also expected to remain under control with stable interest rates.

The country's trade balance is expected to show positive improvement however, this remains largely dependent on international crude oil and commodity prices. Further, with global recovery in question increasing exports remain a major challenge. The government is committed to follow the IMF program and although Rupee will remain under pressure, the country's foreign exchange reserves are expected to remain stable.

In the current operating environment, maintaining asset quality and margins pose fundamental challenges to the banking industry. Trade performance, directly linked to recovery in international markets & commodity prices, will determine volumes and impact fee based & foreign exchange income. Further, to meet regulatory capital requirements, the banking sector is expected to undergo further consolidation.

Your Bank will endeavour to enhance its market share in the country's trade/commercial activity. Your Bank will retain its strong customer focus and, by further developing on-going initiatives, will create further capacity for growth, provide new and innovative financial solutions and enter new customer segments. We have a a well-developed business strategy that has been communicated across the organization in a cohesive manner.

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

ACKNOWLEDGEMENTS

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

On behalf of the Board

ANJUM IQBAL
Chief Executive

Karachi: March 1, 2010

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED DECEMBER 31, 2009

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

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

1. The Bank encourages representation of non-executive directors on its Board of Directors. At present the Board includes seven non-executive directors.
2. All the Directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Bank.
3. All the resident directors of the Bank are registered taxpayers and none of them have defaulted in payment of any loan to a banking company, a DFI / NBFI.
4. No casual vacancy occurred in the Board during the year 2009.
5. The Bank has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the Directors and employees of the Bank.
6. The Board has developed a vision/mission statement 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 determination of remuneration and terms and conditions of employment of the Chief Executive Officer and Company Secretary 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 five 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.
10. All related party transactions have been placed before the Audit Committee and have been approved by the Board of Directors. All transactions were made on terms equivalent to those that prevail in arm's length transactions.
11. There was no new appointment of Chief Financial Officer and Head of Internal Audit during the year. The remuneration and terms and conditions of employment Chief Financial Officer and Head of Internal Audit as determined by the Chief Executive Officer, have been approved by the Board of Directors. During the year, new Company Secretary has been appointed by the Board of Directors whose remuneration and terms and conditions of employment as determined by the Chief Executive Officer, have been approved by the Board of Directors.
12. The Directors' Report for the year ended December 31, 2009 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Bank were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.
14. The Directors, Chief Executive Officer and Executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholdings.
15. The Bank has complied with all the corporate and financial reporting requirements of the Code.

16. The Board has formed an Audit Committee. It comprises of three members of whom two are non-executive directors including the Chairman of the committee.

17. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

18. An effective independent internal audit function is in place.

19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. We confirm that all other material principles contained in the code have been complied with.

On behalf of the Board

ANJUM IQBAL
Chief Executive

Karachi: March 1, 2010

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

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

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, as applicable to the Bank for the year ended December 31, 2009.

KPMG Taseer Hadi & Co
Chartered Accountants

Karachi: March 1, 2010

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.

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 adopted an internationally accepted COSO Internal Control - Integrated Framework, as envisaged under the SBP Internal Control Guidelines for Financial Reporting and has engaged a reputable advisory firm to assist in such initiative. The Bank has devised a well-defined and comprehensive Internal Control Programme and a staged roadmap for implementation. In accordance with this Programme, the Bank has completed detailed documentation of the existing processes and controls, together with a comprehensive gap analysis of the control design. Work on these two phases is subject to review by the Bank's external auditors.

It is also important to note that with the sizeable completion of the Bank's project to centralize processing of account opening, imports, credit administration and allied functions as well as enhanced automation of the Bank's credit, treasury and risk operations during 2009, a significant number of these control gaps already stand addressed effectively. For the remaining gaps at hand, the Bank has commenced the process of developing detailed remediation plans to address the gaps identified and ensure implementation of planned initiatives in a timely manner. In addition, comprehensive management testing plans and framework are also planned to be developed for ensuring on-going operating effectiveness of key controls.

Although effective remediation of the gaps identified will strengthen the Bank's existing control environment, management is confident that these gaps do not carry a significant bearing on the Bank's existing operations and related controls. Further, the Bank's operational model relies primarily on a state-of-the-art, award winning technology solution which has strong built-in risk mitigating features such as access controls, segregation of duties, necessary maker-checker concept and extensive monitoring/MIS tools keeping the overall operational risks to an acceptable level.

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

On an overall basis, Internal Controls at HMB were operating with reasonable adequacy throughout the year ended December 31, 2009 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

ANJUM IQBAL
Chief Executive

Karachi: March 1, 2010

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 Ltd. (IBB - HMB).

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

To ensure strict Sha'ria Compliance in implementation of Islamic banking products, the Sha'ria Compliance Department actively monitored various activities like direct purchases in Murabaha, the percentage of physical inspection in Murabaha transactions, meeting with the client to ensure process flow and other Islamic Banking Operations throughout the year.

To ensure Sha'ria compliance, the HMB Islamic Banking was also involved in development of various industry-specific process flows for Murabaha, Diminishing Musharakah and Ijarah for corporate customers and around 60 transactional process flows were reviewed and revised.

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.

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

Karachi: March 1, 2010

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed unconsolidated balance sheet of Habib Metropolitan Bank Limited ("the Bank") as at 31 December 2009 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for 15 branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;

b) in our opinion:

   i) the 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 changes mentioned in note 6 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 unconsolidated balance sheet, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement, and unconsolidated statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2009 and its true balance of 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.

The financial statements of the Bank for the year ended 31 December 2008 were audited by another firm of Chartered Accountants who had expressed an unqualified opinion thereon vide their report dated 2 March 2009.

KPMG Taseer Hadi & Co
Chartered Accountants
Amyn Pyrani

Karachi: March 1, 2010

UNCONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2009

	Note	2009	2008 (Restated)
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	8	**11,192,498**	11,401,384
Balances with other banks	9	**4,836,399**	2,974,237
Lendings to financial institutions	10	**150,000**	98,176
Investments	11	**111,679,520**	53,631,532
Advances	12	**102,293,132**	108,261,259
Operating fixed assets	13	**2,431,227**	1,583,360
Deferred tax assets	14	**824,706**	1,144,451
Other assets	15	**4,004,748**	3,616,454
		237,412,230	182,710,853
LIABILITIES			
Bills payable	16	**3,111,467**	2,372,146
Borrowings	17	**68,186,674**	30,372,598
Deposits and other accounts	18	**142,457,376**	128,432,616
Sub-ordinated loans		**–**	–
Liabilities against assets subject to finance lease		**–**	–
Deferred tax liabilities		**–**	–
Other liabilities	19	**4,916,200**	6,528,843
		218,671,717	167,706,203
NET ASSETS		**18,740,513**	15,004,650
REPRESENTED BY			
Share capital	20	**7,527,525**	6,022,020
Reserves		**7,587,835**	7,039,936
Unappropriated profit		**3,773,782**	3,087,692
		18,889,142	16,149,648
Deficit on revaluation of assets - net of tax	21	**(148,629)**	(1,144,998)
		18,740,513	15,004,650
CONTINGENCIES AND COMMITMENTS	22		

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

KASSIM PAREKH	**ANJUM IQBAL**	**MOHAMEDALI R. HABIB**	**BASHIR ALI MOHAMMAD**
Chairman	Chief Executive	Director	Director

UNCONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009	2008 (Restated)
		Rupees in '000	
Mark-up / return / interest earned	24	21,376,259	17,158,260
Mark-up / return / interest expensed	25	(14,665,453)	(11,839,342)
Net mark-up / interest Income		6,710,806	5,318,918
Provision against non-performing loans and advances	12.5	2,503,202	1,004,572
Provision for diminution in the value of investments	11.3	66,444	242,713
Bad debts written off directly	12.7.1	–	2,535
		(2,569,646)	(1,249,820)
Net mark-up / interest income after provisions		4,141,160	4,069,098
Non mark-up / interest income			
Fee, commission and brokerage income		1,265,105	1,183,328
Dividend income		438,250	655,845
Income from dealing in foreign currencies		1,532,500	1,697,696
Gain on sale/redemption of securities	26	206,381	170,926
Unrealized gain / (loss) on revaluation of investments classified as held-for-trading		–	–
Other income	27	260,093	220,711
Total non mark-up / interest income		3,702,329	3,928,506
		7,843,489	7,997,604
Non mark-up / interest expenses			
Administrative expenses	28	3,523,721	3,086,634
Other provisions / write offs		–	–
Other charges	29	106,126	147,150
Total non mark-up / interest expenses		(3,629,847)	(3,233,784)
		4,213,642	4,763,820
Extraordinary / unusual items		–	–
Profit before taxation		4,213,642	4,763,820
Taxation - Current		(1,690,909)	(2,000,299)
- Prior years		–	(29,186)
- Deferred		216,761	558,453
	30	(1,474,148)	(1,471,032)
Profit after taxation		2,739,494	3,292,788
Unappropriated profit brought forward		3,087,692	2,059,958
Profit available for appropriation		5,827,186	5,352,746
			(Restated)
Basic and diluted earnings per share (Rupees)	31	3.64	4.37

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

KASSIM PAREKH	ANJUM IQBAL	MOHAMEDALI R. HABIB	BASHIR ALI MOHAMMAD
Chairman	Chief Executive	Director	Director

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008 (Restated)
	Rupees in '000	
Profit after taxation for the year	**2,739,494**	3,292,788
Other comprehensive income	**–**	–
Comprehensive income transferred to equity	**2,739,494**	3,292,788
Components of comprehensive income not reflected in equity		
Surplus/(Deficit) on revaluation of investments	**1,532,875**	(1,847,821)
Deferred tax on revaluation of investments	**(536,506)**	646,875
	3,735,863	2,091,842

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

KASSIM PAREKH	**ANJUM IQBAL**	**MOHAMEDALI R. HABIB**	**BASHIR ALI MOHAMMAD**
Chairman	Chief Executive	Director	Director

UNCONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009	2008 (Restated)
		Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**4,213,642**	4,763,820
Less: Dividend income		**438,250**	655,845
		3,775,392	4,107,975
Adjustments			
Depreciation	13.2	**237,013**	164,431
Provision against non-performing loans and advances	12.5	**2,503,202**	1,004,572
Provision for diminution in the value of investments	11.3	**66,444**	242,713
Net (gain) / loss on sale of fixed assets	27	**(7,387)**	103
		2,799,272	1,411,819
		6,574,664	5,519,794
(Increase) / decrease in operating assets			
Lendings to financial institutions		**(51,824)**	3,891,073
Advances		**3,464,925**	(19,439,022)
Other assets		**(388,294)**	(1,135,068)
		3,024,807	(16,683,017)
Increase / (decrease) in operating liabilities			
Bills payable		**739,321**	(837,895)
Borrowings from financial institutions		**37,222,060**	(239,618)
Deposits and other accounts		**14,024,760**	7,349,446
Other liabilities (excluding current taxation)		**(1,341,648)**	1,258,486
		50,644,493	7,530,419
		60,243,964	(3,632,804)
Income tax paid		**(2,051,346)**	(2,236,631)
Net cash flows from operating activities		**58,192,618**	(5,869,435)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		**(56,842,078)**	2,113,729
Net investments in held-to-maturity securities		**350,000**	4,200,000
Investment in subsidiary company		**–**	(299,999)
Dividend received		**438,250**	655,845
Investments in operating fixed assets		**(1,086,464)**	(462,582)
Proceeds from sale of fixed assets		**8,971**	9,174
Net cash flows from investing activities		**(57,131,321)**	6,216,167
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**(37)**	(501,122)
Net cash flows from financing activities		**(37)**	(501,122)
Increase/(decrease) in cash and cash equivalents		**1,061,260**	(154,390)
Cash and cash equivalents at the beginning of the year		**12,947,153**	12,751,362
Effect of exchange rate changes on cash and cash equivalents		**224,288**	574,469
Cash and cash equivalents at end of the year	32	**14,232,701**	13,171,441

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

KASSIM PAREKH	ANJUM IQBAL	MOHAMEDALI R. HABIB	BASHIR ALI MOHAMMAD
Chairman	Chief Executive	Director	Director

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Share Capital	Reserves: Share Premium	Reserves: Statutory Reserve	Reserves: Special Reserve	Reserves: Revenue Reserve	Un-appropriated Profit	Total
	Rupees in '000						
Balance as at 1 January 2008	5,018,350	2,550,985	2,092,590	240,361	1,500,000	2,059,958	13,462,244
Effect of change in accounting policy – note 6.3	–	–	–	–	–	(103,549)	(103,549)
Balance as at 1 January 2008 – (re-stated)	5,018,350	2,550,985	2,092,590	240,361	1,500,000	1,956,409	13,358,695
Changes in equity for the year ended 31 December 2008							
Total comprehensive income for the year ended 31 December 2008 – profit for the year	–	–	–	–	–	3,292,788	3,292,788
Transactions with shareholders recognised directly in equity							
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)
	1,003,670	–	–	–	–	(1,505,505)	(501,835)
Transfer to statutory reserve	–	–	656,000	–	–	(656,000)	–
Balance as at 31 December 2008	6,022,020	2,550,985	2,748,590	240,361	1,500,000	3,087,692	16,149,648
Changes in equity for the year ended 31 December 2009							
Total comprehensive income for the year ended 31 December 2009 – profit for the year	–	–	–	–	–	2,739,494	2,739,494
Transactions with shareholders recognised directly in equity							
Issue of bonus shares in the ratio of 25 shares for every 100 shares held	1,505,505	–	–	–	–	(1,505,505)	–
Transfer to statutory reserve	–	–	547,899	–	–	(547,899)	–
Balance as at 31 December 2009	**7,527,525**	**2,550,985**	**3,296,489**	**240,361**	**1,500,000**	**3,773,782**	**18,889,142**

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

KASSIM PAREKH	**ANJUM IQBAL**	**MOHAMEDALI R. HABIB**	**BASHIR ALI MOHAMMAD**
Chairman	Chief Executive	Director	Director

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 the three stock exchanges in Pakistan. The Bank operates 120 (2008: 110) branches including 4 (2008: 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.

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

2. BASIS OF PRESENTATION

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

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

2.3 Basis of measurement

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

3. STATEMENT OF COMPLIANCE

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

3.2 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 requirements prescribed by SBP through various circulars.

3.3 Standards, Interpretations and Amendments to Published Approved Accounting Standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 1 January 2010.

- Revised IFRS 3 - Business Combinations (applicable for annual periods beginning on or after 01 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the Bank's financial statements.

- Amended IAS 27 - Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 01 July 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will bemeasured at fair value with the gain or loss recognized in the profit and loss account. The application of the standard is not likely to have an effect on the Bank's financial statements.

- IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 01 October 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Bank's operations.

- IFRIC – 17 - Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 01 July 2009) states that when a Bank distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non-cash asset is distributed, the difference between the carrying amount and fair value is recognised in the profit and loss account. As the Bank does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Bank's financial statements.

- The International Accounting Standards Board made certain amendments to existing standards as part of its Second annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2010 financial statements. These amendments are unlikely to have an impact on the Bank's financial statements.

- Amendment to IFRS 2 - Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 01 January 2010). Currently effective IFRSs require attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements. This amendment has no impact on the

Bank's financial statements.

- Amendment to IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 01 February 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Bank's financial statements.

- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 01 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Bank's financial statements.

- IAS 24 - Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after 01 January 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

- Amendments to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 01 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Bank's financial statements.

- Improvent to IFRS 2008 – Amendments to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations – (effective for annual periods beginning on or after 01 July 2009). The amendments specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in IFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. This amendment is not likely to have any impact on Bank's financial statements.

4. USE OF ESTIMATES AND JUDGEMENTS

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

i) Classification of investments

- In classifying investments as "held-for-trading" the Bank has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.

- In classifying investments as "held-to-maturity" the Bank follows the guidance provided in SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

- The investments which are not classified as held-for-trading or held to maturity are classified as available-for-sale.

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

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

iii) Valuation and impairment of available-for-sale equity investments

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

iv) Income taxes

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

v) Fixed assets, depreciation and amortisation

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

vi) Defined benefits plan

Liability is determined on the basis of actuarial advice using the “Projected Unit Credit Method”.

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are the same as those applied in the preparation of the annual financial statements of the Bank for the year ended 31 December 2008, except for the changes mentioned in note 6 to these financial statements.

5.1 Cash and cash equivalents

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

5.2 Lendings to / borrowings from financial institutions

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

Sale under repurchase obligation

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

Purchase under resale obligation

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

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

5.3 Investments

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

5.3.2 Other investments are classified as follows:

Held-for-trading

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

Held-to-maturity

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

Available-for-sale

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

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

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

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

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

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

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

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

Loans and advances

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

Finance lease receivables

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

Ijarah receivables

In accordance with the requirements of Islamic Financial Accounting Standard (IFAS) No.2 for the accounting and financial reporting of "Ijarah" effective 01 January 2009, ijarah arrangements by the Islamic Banking branches are accounted for as 'Assets held under ijarah' and are stated at cost less accumulated depreciation, residual value and impairment losses, if any. Accordingly assets subject to Ijarahs commencing on after 01 January 2009 have been reflected in note 12 to these unconsolidated financial statements under "Advances". Rental income on these Ijarahs is recognised in the Bank's profit and loss account on a time proportion basis, while depreciation is calculated on Ijarah assets on a straight line basis over the period of Ijarah from the date of delivery of respective assets to mustajir (lessee) up to the date of maturity / termination of ijarah agreement and is charged to the profit and loss account. The classification and provisioning of Ijarah assets is done in line with the requirements laid down in the prudential regulations and are recognised in the profit and loss account.

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

5.5 Fixed assets

Tangible - Owned (operating)

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

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

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

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

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

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

Intangible

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

Capital work-in-progress

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

5.6 Derivative financial instruments

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

5.7 Provisions

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

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

5.8 Taxation

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

Current

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

Deferred

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

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

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

5.9 Employees' benefits

5.9.1 Retirement benefits

Defined benefit plan

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

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

Defined contribution plan

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

5.9.2 Other benefits

Employee compensated absences

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

5.10 Revenue recognition

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

a) Advances and investments

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

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

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

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

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

b) Lease financing / Ijarah contracts

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

Rental income on Ijarahs executed on or after 01 January 2009 by the Islamic Banking branches is recognised in the profit and loss account on a time proportion basis.

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

c) **Fees, brokerage and commission**

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

5.11 Off setting

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

5.12 Foreign currencies

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

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

5.13 Segment reporting

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

Business segments

a) **Trading and sales**

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

b) **Retail banking**

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

c) **Commercial banking**

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

Geographical segments

The Bank conducts all its operations in Pakistan.

5.14 Dividend distribution and appropriations

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

5.15 Earnings per share

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

5.16 Impairment

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

6. CHANGES IN ACCOUNTING POLICES

6.1 Starting 01 January 2009, the Bank has changed its accounting policy in respect of 'Presentation of financial statements'.

IAS 1 (Revised) 'Presentation of Financial Statements' (effective for annual periods beginning on or after 1 January 2009) - The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. Further, under revised standard, an equity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. The Bank has opted to present the components of profit or loss in a separate statement while a statement of comprehensive income is presented separately as permitted under revised IAS 1.

Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earning per share.

6.2 The State Bank of Pakistan, vide its IBD Circular No 1 dated 27 January 2009, has adopted IFAS No. 2 for the accounting and financial reporting of “Ijarah” with effect from 01 January 2009. This standard requires ijarah arrangements by the Islamic Banking branches to be accounted for as assets held under ijarah stated at cost less accumulated depreciation and impairment, if any. Accordingly, net assets / investments in Ijarahs during the period from 1 January 2009 to 31 December 2009 have been reflected in note No. 12 to these unconsolidated financial statements under "Advances". The rental income on these Ijarahs is recognized on accrual basis in the Bank's profit and loss account. Depreciation is calculated on Ijarah assets on straight line basis over the period of Ijarah from the date of delivery of respective assets to mustajir (lessee) up to the date of maturity / termination of ijarah agreement and is charged to the profit and loss account. The classification and provisioning of Ijarah assets is done in line with the requirements laid down in SBP Prudential Regulations. As per the policy applied for all future contracts, the adoption of the standard effective from 01 January 2009 did not require any restatement. The financial impact of this change is not material.

6.3 The bank has decided to segregate the income earned on Foreign Documentary Bills Purchased (FDBP) into Income from dealing in foreign currencies and Discount Income, which is now recognized on amortization basis over the term of FDBP and reflected in the bank's mark-up / return / interest earned. Previously, the income was recognized as income from dealing in foreign currencies over the FDBP tenor. Although the impact of this change is not material, however the management believes it to be more appropriate accounting treatment, making the bank s financial statement more comparable. This change has been accounted for retrospectively in accordance with the requirements of International Accounting Standard 8 "Accounting Policies, changes in Accounting Estimates and Errors" and the corresponding figures of the earliest period presented have been restated accordingly. Due to this change, profit before tax for the year and unearned income as of the balance sheet date is higher by Rs. 82 million (2008: Rs. 23 million; 2007: lower by Rs. 159 million) and Rs. 53 million (2008: Rs. 135 million; 2007: lower by Rs. 159 million) respectively.

The restated balance sheet for three years have been given in Annexure III to these financial statements.

7. FUNCTIONAL AND PRESENTATION CURRENCY

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

8. CASH AND BALANCES WITH TREASURY BANKS

	Note	2009	2008
		Rupees in '000	
In hand			
Local currency		**1,718,787**	1,967,601
Foreign currencies		**373,053**	463,180
		2,091,840	2,430,781
With State Bank of Pakistan in			
Local currency current accounts	8.1	**6,290,443**	6,871,297
Foreign currency current account	8.2	**34,599**	17,984
Foreign currency deposit accounts			
- cash reserve accounts	8.3	**688,928**	510,976
- special cash reserve accounts	8.4	**2,039,742**	1,515,923
		9,053,712	8,916,180
With National Bank of Pakistan in			
Local currency current accounts		**36,745**	49,433
National Prize Bonds		**10,201**	4,990
		11,192,498	11,401,384

8.1 These accounts are maintained to comply with the statutory cash reserve requirements and include cash reserve account of Rs. 667,291 thousand (2008: 941,386 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 non-remunerated (2008: 0.90% per annum).

9. BALANCES WITH OTHER BANKS

	Note	2009	2008
		Rupees in '000	
In Pakistan			
On current accounts		**194,743**	233,385
On deposit account	9.1	**159**	8,019
		194,902	241,404
Outside Pakistan			
On current accounts	9.3	**1,356,074**	1,204,020
On deposit accounts	9.2 & 9.3	**3,285,423**	1,528,813
		4,641,497	2,732,833
		4,836,399	2,974,237

9.1 This carries mark-up rate of 5.00% (2008: 5.00%) per annum.

9.2 These carry mark-up rate of 0.1053% (2008: 1.00% to 2.75%) per annum.

9.3 Include balances in current and deposit accounts of Rs. 65,247 thousand (2008: Rs. 22,649 thousand) and Rs. Nil (2008: Rs. 971,485 thousand) respectively with branches of the holding company.

10. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2009	2008
Call money lendings	10.2	**100,000**	–
Repurchase agreement lendings (Reverse repo)	10.3	**–**	98,176
Letter of placements	10.4	**50,000**	–
		150,000	98,176
10.1 Particulars of lendings			
In local currency		**150,000**	98,176
		150,000	98,176

10.2 This carries mark-up rate of 12.25% (2008:14.00%) per annum and will mature on 25 February 2010.

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

	2009			2008		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	Rupees in'000					
Pakistan Investment Bonds	–	–	–	98,176	–	98,176

10.4 This represents clean placement with Non-Banking financial institution, carrying mark-up rate of 14.00% (2008:NIL) per annum and will mature on 14 January 2010.

11. INVESTMENTS

	Note	2009 Held by Bank	2009 Given as collateral	2009 Total	2008 Held by Bank	2008 Given as collateral	2008 Total
		Rupees in'000					
11.1 Investments by types							
Available-for-sale securities							
Market Treasury Bills		**36,395,925**	**34,383,407**	**70,779,332**	25,869,803	6,480,493	32,350,296
Pakistan Investment Bonds	11.5	**12,736,368**	**4,788,400**	**17,524,768**	10,924,261	–	10,924,261
Ordinary Shares of listed companies		**276,750**	**–**	**276,750**	58,974	–	58,974
Ordinary Shares of un-listed companies		**123,101**	**–**	**123,101**	123,101	–	123,101
Preference Shares of listed company		**40,000**	**–**	**40,000**	40,000	–	40,000
Preference Shares of unlisted company		**–**	**–**	**–**	25,000	–	25,000
Listed Term Finance Certificates		**1,911,435**	**–**	**1,911,435**	1,396,963	–	1,396,963
Unlisted Term Finance Certificates		**4,407,393**	**–**	**4,407,393**	1,316,642	–	1,316,642
Sukuk Certificates/Bonds		**8,118,738**	**–**	**8,118,738**	2,200,000	–	2,200,000
Open end mutual funds		**8,524,630**	**–**	**8,524,630**	6,380,460	–	6,380,460
Closed end mutual funds		**129,055**	**–**	**129,055**	177,348	–	177,348
		72,663,395	**39,171,807**	**111,835,202**	48,512,552	6,480,493	54,993,045
Held-to-maturity securities							
Certificate of Investments		**–**	**–**	**–**	350,000	–	350,000
Subsidiaries							
Habib Metropolitan Trade Services Limited - Hong Kong Nil (2008: 10,000) ordinary shares of HKD 1/- each*		**–**	**–**	**–**	79	–	79
Habib Metropolitan Financial Services Limited 29,999,997 (2008:29,999,997) ordinary shares of Rs. 10/- each)		**300,000**	**–**	**300,000**	300,000	–	300,000
		300,000	**–**	**300,000**	300,079	–	300,079
Investments at cost		**72,963,395**	**39,171,807**	**112,135,202**	49,162,631	6,480,493	55,643,124
Provision for diminution in the value of investments	11.3	**(227,022)**	**–**	**(227,022)**	(250,057)	–	(250,057)
Investments net of provision		**72,736,373**	**39,171,807**	**111,908,180**	48,912,574	6,480,493	55,393,067
Deficit on revaluation of available-for-sale investments - net	21	**(78,405)**	**(150,255)**	**(228,660)**	(1,745,634)	(15,901)	(1,761,535)
Investments after revaluation of available-for-sale investments		**72,657,968**	**39,021,552**	**111,679,520**	47,166,940	6,464,592	53,631,532

* Subsidiary was dissolved on 10 November 2009.

11.2 Investments by segments

	Note	2009	2008
		Rupees in '000	
Federal Government Securities			
- Market Treasury Bills		**70,779,332**	32,350,296
- Pakistan Investment Bonds	11.5	**17,524,768**	10,924,261
		88,304,100	43,274,557
Fully paid up Ordinary Shares			
- Listed Companies		**276,750**	58,974
- Unlisted Companies		**123,101**	123,101
		399,851	182,075
Fully paid up Preference Shares			
- Listed company		**40,000**	40,000
- Unlisted company		**–**	25,000
		40,000	65,000
Term Finance Certificates and Sukuk certificates / Bonds			
- Listed Term Finance Certificates		**1,911,435**	1,396,963
- Unlisted Term Finance Certificates		**4,407,393**	1,316,642
- Sukuk Certificates / Bonds		**8,118,738**	2,200,000
		14,437,566	4,913,605
Mutual Funds			
- Open end		**8,524,630**	6,380,460
- Closed end		**129,055**	177,348
		8,653,685	6,557,808
Certificates of Investments		**–**	350,000
Subsidiaries			
- Habib Metropolitan Trade Services Limited - Hong Kong Nil (2008: 10,000) ordinary shares of HKD 1/- each		**–**	79
- Habib Metropolitan Financial Services Limited 29,999,997 (2008: 29,999,997) ordinary shares of Rs.10/- each		**300,000**	300,000
		300,000	300,079
Investments at cost		**112,135,202**	55,643,124
Provision for diminution in the value of investments	11.3	**(227,022)**	(250,057)
Investments - net of provisions		**111,908,180**	55,393,067
Deficit on revaluation of available-for-sale investments – net	21	**(228,660)**	(1,761,535)
Investments after revaluation of available-for-sale investment		**111,679,520**	53,631,532

11.3 Particulars of provision for diminution in the value of investments

	2009	2008
	Rupees in '000	
- Opening balance	**250,057**	7,344
- Charge for the year	**66,444**	242,713
- Reversals	**(89,479)**	-
- Closing balance	**227,022**	250,057

11.3.1 Particulars of provision in respect of type and segment

Available-for-sale securities

	2009	2008
- Ordinary shares of listed companies	**38,110**	37,780
- Ordinary shares of unlisted companies	**36,835**	11,361
- Listed term finance certificates	**23,611**	11,458
- Sukuk Certificates / Bonds	**24,053**	–
- Open end mutual funds	**22,695**	107,824
- Closed end mutual funds	**81,718**	81,634
	227,022	250,057

11.4 Information relating to investments in Federal Government Securities, ordinary and preference shares of listed and unlisted companies, open and closed end mutual funds, listed and unlisted Term Finance Certificates and Sukuk certificates / Bonds required to be disclosed as part of the financial statements under the SBP's BSD Circular No. 4, dated 17 February 2006, is given in Annexure "I" and is an integral part of these financial statements.

11.5 Pakistan Investment Bonds includes Rs. 158.500 million as at 31 December 2009 (2008: Rs. 158.500 million) pledged with State Bank of Pakistan and National Bank of Pakistan against TT/DD discounting facilities and demand loan facilities.

12. ADVANCES

	Note	2009	2008
		Rupees in '000	
Loans, cash credits, running finances, etc.			
In Pakistan		**86,998,347**	85,304,478
Net investment in finance lease/ijarah financing			
In Pakistan	12.2	**1,385,434**	2,560,428
Net assets in Ijarah under IFAS 2	12.10	**212,552**	–
Bills discounted and purchased (excluding Market treasury bills)			
Payable in Pakistan		**4,810,638**	5,382,542
Payable outside Pakistan		**13,515,637**	17,143,916
		18,326,275	22,526,458
Advances – gross		**106,922,608**	110,391,364
Provision against non-performing advances			
- specific		**(4,204,731)**	(1,083,785)
- general		**(424,745)**	(1,046,320)
	12.5	**(4,629,476)**	(2,130,105)
Advances – net of provisions		**102,293,132**	108,261,259

	2009	2008
	Rupees in '000	

12.1 Particulars of advances – gross

		2009	2008
12.1.1	In local currency	**95,623,555**	95,931,381
	In foreign currencies	**11,299,053**	14,459,983
		106,922,608	110,391,364
12.1.2	Short term (for upto one year)	**92,746,494**	98,883,595
	Long term (for over one year)	**14,176,114**	11,507,769
		106,922,608	110,391,364

12.2 Net investment in finance leases/ijarah financing

	2009				2008			
	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	**129,421**	**1,300,450**	**–**	**1,429,871**	1,039,658	1,721,523	–	2,761,181
Residual value	**17,168**	**104,009**	**–**	**121,177**	51,782	117,760	–	169,542
Minimum lease payments	**146,589**	**1,404,459**	**–**	**1,551,048**	1,091,440	1,839,283	–	2,930,723
Financial charges for future periods	**(14,690)**	**(150,924)**	**–**	**(165,614)**	(124,032)	(246,263)	–	(370,295)
Present value of minimum lease payments	**131,899**	**1,253,535**	**–**	**1,385,434**	967,408	1,593,020	–	2,560,428

12.3 Advances include Rs. 6,364,335 thousand (2008: Rs. 1,747,599 thousand) which have been placed under non-performing status as detailed below:

2009

Category of Classification	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees in '000								
Substandard	**230,099**	**–**	**230,099**	**32,426**	**–**	**32,426**	**32,426**	**–**	**32,426**
Doubtful	**1,082,445**	**–**	**1,082,445**	**405,567**	**–**	**405,567**	**405,567**	**–**	**405,567**
Loss	**5,051,791**	**–**	**5,051,791**	**3,766,738**	**–**	**3,766,738**	**3,766,738**	**–**	**3,766,738**
	6,364,335	**–**	**6,364,335**	**4,204,731**	**–**	**4,204,731**	**4,204,731**	**–**	**4,204,731**

2008

Category of Classification	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

12.4 Amendments in prudential regulations in respect of provisioning against non-performing loans

In accordance with BSD Circular No. 2 dated 27 January 2009 issued by the State Bank of Pakistan, the Bank has availed the benefit of FSV against the non-performing advances (excluding consumer housing finance portfolio). The State Bank of Pakistan vide its Circular dated 20 October 2009 has further increased the limit for consideration of FSV benefit from 30% to 40% and has also allowed the FSV of industrial property for calculation of provisioning requirement. Had the benefit of FSV not been availed by the Bank, the specific provision against non-performing advances would have been higher and consequently profit before taxation and advances (net of provisions) as at 31 December 2009 would have been lower by approximately Rs. 1,303.499 million. Increase in profit is not available for the distribution of cash and stock dividend to shareholders.

12.5 Particulars of provision against non-performing advances:

	Note	2009			2008		
		Specific	General	Total	Specific	General	Total
		Rupees in '000					
Opening balance		1,083,785	1,046,320	2,130,105	700,981	516,274	1,217,255
Charge for the year		3,203,349	–	3,203,349	531,254	530,046	1,061,300
Reversals		(78,572)	(621,575)	(700,147)	(56,728)	–	(56,728)
Net charge for the year		3,124,777	(621,575)	2,503,202	474,526	530,046	1,004,572
Amount written off	12.7	(3,831)	–	(3,831)	(91,722)	–	(91,722)
Closing balance	12.6	4,204,731	424,745	4,629,476	1,083,785	1,046,320	2,130,105

12.5.1 General provision includes provision of Rs. 16.195 million (2008: Rs. 23.051 million) made against consumer portfolio in accordance with the Prudential Regulations issued by SBP at 1.5% of fully secured and at 5% of the unsecured consumer portfolio. For the remaining balance of general provision refer note 5.4

12.6 Particulars of provision against non-performing advances:

	2009			2008		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local currency	4,204,731	424,745	4,629,476	1,083,785	1,046,320	2,130,105

12.7 Particulars of write offs:

		2009	2008
		Rupees in '000	
12.7.1	Against provisions	3,831	91,722
	Directly charged to profit and loss account	–	2,535
		3,831	94,257
12.7.2	Write offs of Rs. 500,000/- and above	3,249	89,950
	Write offs of below Rs. 500,000/-	582	4,307
		3,831	94,257

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

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of Rs. 500,000 or above allowed to the persons during the year ended 31 December 2009 is enclosed as Annexure II.

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

	Note	2009	2008
		Rupees in '000	
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons			
Balance at beginning of year		**583,277**	486,031
Loans granted during the year		**261,532**	336,935
Repayments		**(223,901)**	(239,689)
Balance at end of year		**620,908**	583,277
Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members			
Balance at beginning of year		**1,550,222**	754,000
Loans granted during the year		**28,110,309**	17,650,494
Repayments		**(27,919,604)**	(16,854,272)
Balance at end of year		**1,740,927**	1,550,222

12.10 Net book value of investments in Ijarah under IFAS - 2 is net of depreciation of Rs. 43.947 million (2008: NIL).

13. OPERATING FIXED ASSETS

	Note	2009	2008
Capital work-in-progress	13.1	**88,673**	130,697
Property and equipment	13.2	**2,342,554**	1,452,663
Intangible Assets	13.3	**–**	-
		2,431,227	1,583,360

13.1 Capital work-in-progress

	Note	2009	2008
Civil works	13.1.1	**85,879**	50,716
Equipments		**2,794**	3,731
Advances against purchase of property for own use		**–**	76,250
		88,673	130,697

13.1.1 This represents renovations being carried out at the branches.

13.2 Property and equipment

	COST			DEPRECIATION			BOOK VALUE	
	As at 1 January 2009	Additions/ (deletions)	As at 31 December 2009	As at 1 January 2009	Charge for the year/ (deletions)	As at 31 December 2009	As at 31 December 2009	Rate of depre-ciation %
	Rupees in '000							
Freehold land	22,690	–	22,690	–	–	–	22,690	–
Leasehold land	7,488	43,200	50,688	–	–	–	50,688	–
Buildings/office premises	1,136,635	815,538	1,952,173	313,909	50,277	364,186	1,587,987	4
Furniture, fixtures, office and computer equipment	404,424	156,634	555,736	150,610	98,425	244,109	311,627	15 & 25
		(5,322)			(4,926)			
Vehicles	9,494	2,013	9,997	4,493	1,515	5,686	4,311	20
		(1,510)			(322)			
Leasehold improvements	447,493	111,103	558,596	106,549	86,796	193,345	365,251	20
2009	**2,028,224**	**1,128,488 (6,832)**	**3,149,880**	**575,561**	**237,013 (5,248)**	**807,326**	**2,342,554**	

	COST			DEPRECIATION			BOOK VALUE	
	As at 1 January 2008	Additions/ (deletions)	As at 31 December 2008	As at 1 January 2008	Charge for the year/ (deletions)	As at 31 December 2008	As at 31 December 2008	Rate of depre-ciation %
	Rupees in '000							
Freehold land	22,690	–	22,690	–	–	–	22,690	–
Leasehold land	7,488	–	7,488	–	–	–	7,488	–
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	404,424	93,089	62,354	150,610	253,814	15 & 25
		(6,714)			(4,833)			
Vehicles	9,357	8,778	9,494	4,213	1,525	4,493	5,001	20
		(8,641)			(1,245)			
Leasehold improvements	299,126	150,719	447,493	43,590	65,311	106,549	340,944	20
		(2,352)			(2,352)			
2008	**1,699,866**	**346,065 (17,707)**	**2,028,224**	**419,560**	**164,431 (8,430)**	**575,561**	**1,452,663**	

13.2.1 The cost of fully depreciated assets still in use is Rs.114,958 thousand (2008: Rs. 99,188 thousand).

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

Particulars	Cost	Book Value	Sales proceed	Mode of disposal	Particulars of Purchaser
	Rupees in '000				
Vehicles	**578**	**554**	**662**	Insurance claim	Adamjee Insurance Co. Ltd, Karachi
	312	**299**	**643**	Insurance claim	Adamjee Insurance Co. Ltd, Karachi
	890	**853**	**1,305**		

13.3 Intangible assets

The cost of fully amortised intangible assets (computer software) still in use is Rs. 27,875 thousand (2008: Rs. 27,875 thousand).

14. DEFERRED TAX ASSETS

	2009	2008
	Rupees in '000	
Deferred tax debits arising in respect of:		
– Deficit on revaluation of investment securities	**80,031**	616,537
– Provision against diminution in the value of investments	**43,827**	87,520
– Provisions against non-performing advances	**1,060,149**	745,537
	1,184,007	1,449,594
Deferred tax credits arising due to:		
– Accelerated depreciation	**(359,301)**	(251,781)
– Net investment in finance lease	**–**	(53,362)
	(359,301)	(305,143)
Net deferred tax asset recognised by the bank	**824,706**	1,144,451

14.1. Reconciliation of deferred tax

Deferred debits arising in respect of	Balance as at 1 January 2007	Recognised in profit and loss account	Recognised in equity	Balance as at 31 December 2008	Recognised in profit and loss account	Recognised in equity	Balance as at 31 December 2009
	Rupees in '000						
Deficit on revaluation of investment	(30,338)	–	646,875	616,537	**–**	**(536,506)**	**80,031**
Provision against diminution in value of investments	–	87,520	–	87,520	**(43,693)**	**–**	**43,827**
Provision against non-performing advances - note 30.3 & 30.4	426,036	319,501	–	745,537	**314,612**	**–**	**1,060,149**
	395,698	407,021	646,875	1,449,594	**270,919**	**(536,506)**	**1,184,007**
Deferred credits arising due to							
Accelerated tax depreciation	(196,443)	(55,338)	–	(251,781)	**(107,520)**	**–**	**(359,301)**
Net investment in finance lease	(260,132)	206,770	–	(53,362)	**53,362**	**–**	**–**
	(456,575)	151,432	–	(305,143)	**(54,158)**	**–**	**(359,301)**
	(60,877)	558,453	646,875	1,144,451	**216,761**	**(536,506)**	**824,706**

	2009	2008
	Rupees in '000	

15. OTHER ASSETS

Income / mark-up accrued in local currency	**2,984,163**	2,550,397
Income / mark-up accrued in foreign currencies	**49,498**	37,077
Advances, deposits, advance rent and other prepayments	**328,178**	220,601
Branch adjustment account	**387**	–
Unrealized gain on forward foreign exchange contracts	**432,357**	723,759
Receivable from the SBP against encashment of Government Securities	**42,275**	43,100
Stationery and stamps on hand	**25,912**	23,770
Advance payments against Murabaha	**133,051**	2,106
Others	**8,927**	15,644
	4,004,748	3,616,454

16. BILLS PAYABLE

In Pakistan	**3,111,467**	2,372,146

17. BORROWINGS

In Pakistan	**66,304,447**	29,226,433
Outside Pakistan	**1,882,227**	1,146,165
	68,186,674	30,372,598

17.1 Particulars of borrowings in respect of currencies

In local currency	**66,304,447**	29,226,433
In foreign currencies	**1,882,227**	1,146,165
	68,186,674	30,372,598

	Note	2009	2008
		Rupees in '000	
17.2 Details of borrowings			
Secured			
Borrowings from the State Bank of Pakistan			
- under export refinance scheme		**24,820,596**	20,550,658
- under long term financing - export oriented projects		**1,858,677**	1,923,101
- under long term financing facility - locally manufactured plant and machinery		**677,608**	314,780
	17.2.1	**27,356,881**	22,788,539
Repurchase agreement borrowings	17.2.2	**38,807,235**	6,379,879
		66,164,116	29,168,418
Unsecured			
Call borrowings	17.2.3	**100,000**	–
Overdrawn nostro accounts		**1,755,865**	1,146,165
Overdrawn local bank accounts		**40,331**	58,015
Other short term borrowing	17.2.4	**126,362**	–
		2,022,558	1,204,180
		68,186,674	30,372,598

17.2.1 This carries mark-up rates ranging between 4.00% to 7.70% (2008: 4.00% to 7.00%) per annum which is payable quarterly or upon maturity of loans, whichever is earlier.

17.2.2 This have been borrowed from financial institutions and are secured against Federal Government Securities and carries mark-up rates ranging between 12.00% to 12.40% (2008: 11.50% to 14.90%) per annum, with maturities upto June 2010.

17.2.3 This is an unsecured borrowing from Financial Institution, carrying mark-up at the rate of 12.25% (2008: NIL) per annum and will mature on 25 February 2010.

17.2.4 This is an unsecured borrowing from Financial Institution in foreign currency, carrying mark-up at the rate of 1.00% (2008: NIL) per annum and will mature on 22 March 2010.

18. DEPOSITS AND OTHER ACCOUNTS

	2009	2008
	Rupees in '000	
Customers		
Fixed deposits	**63,745,868**	62,433,208
Savings deposits	**39,879,767**	29,654,843
Current accounts (non-remunerative)	**33,250,907**	31,196,681
Others	**1,478,044**	1,804,139
	138,354,586	125,088,871
Financial institutions		
Remunerative deposits	**3,963,566**	3,197,655
Non-remunerative deposits	**139,224**	146,090
	4,102,790	3,343,745
	142,457,376	128,432,616

18.1 Particulars of deposits

	2009	2008
In local currency	**129,007,755**	118,068,128
In foreign currencies	**13,449,621**	10,364,488
	142,457,376	128,432,616

	Note	2009	2008
		Rupees in '000	

19. OTHER LIABILITIES

	Note	2009	2008 (Restated)
Mark-up / return / interest payable in local currency		**2,986,068**	3,861,534
Mark-up / return / interest payable in foreign currencies		**8,500**	29,739
Unearned commission and income on bills discounted		**158,948**	243,917
Accrued expenses		**251,062**	227,637
Current taxation (provisions less payments)	30	**328,606**	735,160
Unclaimed dividend		**1,049**	1,086
Unrealized loss on forward foreign exchange contracts		**157,400**	353,450
Branch adjustment account		**–**	1,679
Workers' welfare fund	29.1	**136,861**	125,862
Excise duty payable		**21,078**	9,754
Locker deposits		**271,593**	216,024
Advance against diminishing musharaka		**33,661**	152,490
Advance rental for Ijara		**10,316**	12,877
Security deposits against leases/ Ijara		**402,380**	475,672
Sundry creditors		**28,314**	51,470
Others		**120,364**	30,492
		4,916,200	6,528,843

20. SHARE CAPITAL

20.1 Authorised capital

2009	2008		2009	2008
Number of shares			(Rupees in '000)	
1,200,000,000	1,200,000,000	Ordinary shares of Rs. 10/- each	**12,000,000**	12,000,000

20.2 Issued, subscribed and paid-up capital

2009	2008	Ordinary shares of Rs. 10/- each	2009	2008
30,000,000	30,000,000	- issued for cash	**300,000**	300,000
92,500,000	92,500,000	- issued upon amalgamation	**925,000**	925,000
630,252,500	479,702,000	- issued as bonus shares	**6,302,525**	4,797,020
752,752,500	602,202,000		**7,527,525**	6,022,020

20.3 As of the balance sheet date, Habib Bank AG Zurich – Switzerland (the holding company) held 383,904 thousand (2008: 307,123 thousand) ordinary shares of Rs.10/- each (51% holding).

21. DEFICIT ON REVALUATION OF ASSETS - NET OF TAX

	2009	2008
	(Rupees in '000)	
Available-for-sale securities		
Market Treasury Bills	**27,645**	(77,273)
Pakistan Investment Bonds	**(264,249)**	(1,316,755)
Listed Shares	**31,317**	–
Term Finance Certificates	**(112,001)**	12,605
Sukuk Certificates/Bonds	**(19,200)**	17,925
Mutual Funds	**107,828**	(398,037)
	(228,660)	(1,761,535)
Related deferred tax asset - net	**80,031**	616,537
	(148,629)	(1,144,998)

22. CONTINGENCIES AND COMMITMENTS

22.1 Direct credit substitutes

	2009	2008
Bank guarantees of indebtness in favour of:		
– Banking companies and other financial institutions	**106,518**	1,900

22.2 Transaction-related contingent liabilities

	2009	2008
Includes performance bonds, bid bonds, advance payment guarantees and shipping guarantees favouring:		
i) Government	**7,384,640**	7,967,160
ii) Banking companies and other financial institutions	**184,431**	95,529
iii) Others	**6,521,564**	2,034,386
	14,090,635	10,097,075

22.3 Trade-related contingent liabilities

	2009	2008
Letter of credits	**33,926,635**	23,253,326
Acceptances	**8,815,049**	8,105,504

22.4 Commitments in respect of forward exchange contracts

	2009	2008
Purchase	**25,374,364**	13,207,319
Sale	**29,690,658**	25,402,670

22.5 Commitments in respect of Repurchase agreement borrowings

	2009	2008
Commitments in respect of Repurchase agreement borrowings	**4,655,405**	–

22.6 Commitments in respect of operating leases

	2009	2008
Not later than one year	**81,741**	130,293
Later than one year and not later than five years	**65,749**	123,255
	147,490	253,548

The Bank has entered into non-cancellable lease agreements with a Modaraba which has been duly approved by the Religious Board as Ijara transactions. The monthly rental instalments are spread over a period of 34 months. When a lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

	2009	2008
	Rupees in '000	
22.7 Commitments for the acquisition of operating fixed assets	**14,884**	33,250
22.8 Claims against bank not acknowledged as debt	**1,634,510**	249,714

22.9 Commitments in respect of forward lendings

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

	2009	2008
22.10 Commitments in respect of syndicate financing	**593,191**	1,940,529
22.11 Commitments in respect of investment in Sukuk certificates and Tem finance certificates	**294,696**	1,442,970

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

	2009	2008 (Restated)
On loans and advances to:		
Customers	**10,117,082**	10,971,424
Financial institutions	**1,651,511**	73,163
	11,768,593	11,044,587
On investments in:		
Available-for-sale securities	**8,909,983**	4,822,076
Held-to-maturity securities	**26,328**	340,412
	8,936,311	5,162,488
On deposits with financial institutions	**533,639**	632,689
On securities purchased under resale agreements	**137,716**	318,496
	21,376,259	17,158,260

	Note	2009	2008
		Rupees in '000	

25. MARK-UP / RETURN / INTEREST EXPENSED

	Note	2009	2008
Deposits and other accounts		**9,560,866**	9,055,708
Securities sold under repurchase agreements		**3,530,426**	1,698,624
Other short term borrowings		**1,456,924**	972,183
Long term borrowings		**117,237**	112,827
		14,665,453	11,839,342

26. GAIN ON SALE / REDEMPTION OF SECURITIES

	Note	2009	2008
Federal Government Securities			
Market Treasury Bills		**20,864**	141
Pakistan Investment Bonds		**33,528**	–
Fully paid-up ordinary shares			
Listed companies		**39,915**	642
Mutual Funds			
Open-end and Close-end		**112,074**	170,143
		206,381	170,926

27. OTHER INCOME

	Note	2009	2008
Rent on property		**8,492**	1,405
Net gain/(loss) on sale of fixed assets		**7,387**	(103)
Recovery of expenses from customers	27.1	**116,772**	104,567
Others	27.2	**127,442**	114,842
		260,093	220,711

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	2009	2008
		Rupees in '000	

28. ADMINISTRATIVE EXPENSES

	Note	2009	2008
Salaries, allowances, etc.		**1,565,937**	1,360,516
Contract staff		**83,216**	67,595
Charge for defined benefit plan	34	**40,094**	33,690
Contribution to defined contribution plan		**61,479**	50,290
Non-executive directors' fees, allowances and other expenses		**6,650**	190
Brokerage and commission		**67,872**	58,940
Rent, taxes, insurance, electricity etc.		**440,069**	388,061
Legal and professional charges		**33,829**	24,970
Communication		**119,341**	111,660
Repairs and maintenance		**116,417**	112,875
Rentals of operating leases		**130,491**	167,006
Stationery and printing		**55,036**	49,923
Management fee		**134,640**	112,170
Advertisement and publicity		**34,702**	34,469
Donations	28.1	**33,100**	24,166
Auditors' remuneration	28.2	**2,270**	3,873
Depreciation	13.2	**237,013**	164,431
Security charges		**57,993**	47,810
Travelling and conveyance		**38,308**	38,711
Computer software maintenance		**44,467**	53,541
Motor car running		**30,653**	25,208
Cartage, handling and freight charges		**35,264**	30,400
Others		**154,880**	126,139
		3,523,721	3,086,634

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

DONEE

	2009	2008
The Citizens Foundation	**6,600**	6,620
Memon Health and Education Foundation	**4,800**	-
Habib Medical Trust	**3,500**	960
Mohammadali Habib Welfare Trust	**1,200**	-
Habib University Foundation	**1,000**	-
Abbas-e-Alamdar Hostel	**960**	984
Al Sayyeda Benevolent Trust	**960**	960
Habib Poor Fund	**960**	960
Rahmatbai Habib Food & Clothing Trust	**960**	960
Rahmatbai Habib Widow & Orphans Trust	**960**	960
Pakistan Memon Educational & Welfare Society	**600**	600
Abdul Sattar Edhi Foundation	**500**	500
Fatimiyah Education Network	**500**	500
Marie Adelaide Leprosy Centre	**500**	450
Shaukat Khanum Memorial Trust	**500**	500
SIUT Trust	**500**	500
The Institute of Business Administration	**500**	500
The Kidney Centre	**500**	500
The Layton Rehmatulla Benevolent Trust	**500**	500
Zehra Homes	**500**	250

DONEE	2009	2008
	Rupees in '000	
Memon Educational Board	**450**	400
Pakistan Memon Women Educational Society	**450**	400
Al-Umeed Rehabilitation Association	**300**	400
Kashmir Education Foundation	**300**	300
Al-Asad Welfare Trust	**250**	–
Anjuman Behbood-e-Samat-e-Atfal	**250**	250
Bait-ul-Sukoon	**250**	100
Chiniot Anjuman Islamic	**250**	–
Kiran Patient Welfare Association	**250**	250
Pak Medical and Welfare Trust	**250**	250
Rotary Club of Karachi Continental	**250**	–
SOS Children Village of Pakistan	**250**	–
Spencers Eye Hospital	**250**	250
The Medical Aid Foundation	**250**	–
Ahmed Abdullah Foundation	**200**	200
Bantva Memon Jamat	**200**	200
Bantva Memon Rahat Committee	**200**	200
Bantva Anjuman Himayat-e-Islam	**125**	125
Academy of Quranic studies	**120**	120
Alamgir Welfare Trust International	**100**	100
Chhipa Welfare Association	**100**	–
Dar-ul-Sukun	**100**	250
Friend of Burns Centre	**100**	–
HOPE (Health Oriented Preventive Education)	**100**	–
IDA Rieu Poor Welfare Association	**100**	200
PAKTURK International	**100**	–
Patients Welfare Association	**100**	100
Poor Patients Aid Society Civil Hospital Karachi	**100**	–
Rising Sun-Education & Welfare Society	**100**	50
The Society for the Prevention & Cure of Blindness	**100**	100
Developments in Literacy	**–**	200
Imam Zainul Abedin (A.S) Hospital	**–**	100
Lahore University of Management Sciences	**–**	500
Madarsa Jafria	**–**	168
Milestone Charitable Trust	**–**	110
Sada Welfare Foundation	**–**	100
Safina-e-Ahlebait	**–**	174
Sun Development Foundation	**–**	113
Tabba Heart Institute	**–**	500
Vasavad Memon Anjuman	**–**	100
	32,945	23,514

28.2 Auditors' remuneration

	2009	2008
Audit fee	**1,200**	1,200
Review of half-yearly financial statements	**400**	300
Special audit certifications and sundry advisory services	**600**	350
Tax services	**–**	1,792
Out-of-pocket expenses	**70**	231
	2,270	3,873

	Note	2009	2008
		Rupees in '000	

29. OTHER CHARGES

	Note	2009	2008
Penalties imposed by the State Bank of Pakistan		**325**	21,288
Workers' Welfare Fund	29.1	**105,801**	125,862
		106,126	147,150

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

30. TAXATION

	Note	2009	2008 (Restated)
For the year			
- Current		**1,690,909**	2,000,299
- Deferred		**(216,761)**	(558,453)
		1,474,148	1,441,846
For the prior year(s)			
- Current		**–**	29,186
- Deferred		**–**	–
		–	29,186
	30.2	**1,474,148**	1,471,032

30.1 Income tax assessments of the Bank have been finalised upto the tax year 2006 (corresponding to the accounting year ended 31 December 2005). The Bank has filed income tax return for the tax year 2009 (corresponding to the accounting year ended 31 December 2008) and the same is deemed to be assessed in terms of section 120 of the Income Tax Ordinance, 2001. Certain appeals are pending for the tax years 2007 and 2008 (corresponding to the accounting years ended 31 December 2006 and 31 December 2007). However, adequate provisions are being held by the Bank.

30.2 Relationship between tax expense and accounting profit

	2009	2008 (Restated)
Profit before tax	**4,213,642**	4,763,820
Tax at the applicable rate of 35% (2008: 35%)	**1,474,775**	1,667,337
Tax effect of income taxed at reduced rate	**(118,045)**	(166,530)
Tax effect permanent differences	**114,639**	(58,961)
Tax effect for prior years	**–**	29,186
Others	**2,779**	–
Tax charge for the year	**1,474,148**	1,471,032

30.3 The Finance Act, 2009, has made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. The deduction for provisions for doubtful and loss categories of advances and off balance sheet items is allowed upto a maximum of 1% of total advances. The amount of bad debts classified as OAEM (in agriculture) and Substandard under Prudential Regulation issued by State Bank of Pakistan would not be allowed as an expense. Provisioning in excess of 1% of total advances would be allowed to be carried over to succeeding years. Therefore, the management has carried out an exercise at period end and concluded that they would be able to get deduction of provision in excess of 1% of total advances and have recognised deferred tax asset on such provision amounting to Rs. 746.943 million.

30.4 The amendments introduced in the Seventh Schedule do not provide for any transitional mechanism i.e. how and when the provision for bad debts disallowed up to tax year 31 December 2008 (financial year ended 31 December 2007) would be allowed as a deduction. The matter was taken up by the Pakistan Banks Association (PBA) and the Institute of Chartered Accountants of Pakistan (ICAP) with the Federal Board of Revenue (FBR). FBR vide its letter reference F.No. 4(1)ITP/2008-49 dated 23 December 2009 has informed ICAP that it has decided to insert a new Rule 8(a) to allow for amounts provided for in tax year 2008 and prior to said tax year for doubtful debts, which were neither claimed nor allowed as tax deductible in any year shall be allowed as deduction in tax year in which such doubtful debts are written off.

However, to date no SRO has been issued to incorporate the agreed amendments to the Seventh Schedule. The Bank has treated the FBR commitment as effective. Accordingly, the tax charge for the current and prior period and deferred tax has been recognized on the basis of amendments agreed by FBR vide its above referred letter.

31. BASIC AND DILUTED EARNINGS PER SHARE

	Note	2009	2008 (Restated)
		Rupees in '000	
Profit after taxation		**2,739,494**	3,292,788
			(Restated)
		(Number in '000)	
Weighted average number of ordinary shares (in'000)	31.1	**752,753**	752,753
			(Restated)
		Rupees	
Basic and diluted earnings per share		**3.64**	4.37

31.1 The weighted average number of shares for 2008 have been adjusted for the effect of bonus shares issued during the year.

32. CASH AND CASH EQUIVALENTS

	Note	2009	2008
		Rupees in '000	
Cash and balances with treasury banks	8	**11,192,498**	11,401,384
Balances with other banks	9	**4,836,399**	2,974,237
Overdrawn nostro accounts	17.2	**(1,755,865)**	(1,146,165)
Overdrawn local banks accounts	17.2	**(40,331)**	(58,015)
		14,232,701	13,171,441

33. STAFF STRENGTH

	2009	2008
	Number	
Permanent	**1,640**	1,477
Temporary/on contractual basis	**477**	460
Bank's own staff strength at the end of the year	**2,117**	1,937
Outsourced	**578**	536
Total Staff Strength	**2,695**	2,473

34. DEFINED BENEFIT PLAN

34.1 General description

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

34.2 Principal actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2009 using "Projected Unit Credit Actuarial Cost Method". The main assumptions used for the actuarial valuation were as follows:

	2009	2008
Discount rate – percent (per annum)	**13**	15
Expected rate of return on plan assets – percent (per annum)	**13**	15
Long term rate of salary increase – percent (per annum)	**13**	15

	Note	2009	2008
		Rupees in '000	
34.3 Reconciliation of defined benefit plan			
Fair value of plan assets	34.6	**250,760**	205,633
Present value of defined benefit obligation	34.7	**(355,096)**	(263,311)
Unrecognised actuarial loss		**104,336**	58,291
Unrecognised past service cost		**–**	(613)
		–	–
34.4 Movement in defined benefit plan			
Opening balance		**–**	5,548
Charge for the year	34.5	**40,094**	(33,690)
Contribution to the fund		**(40,094)**	28,142
Closing balance		**–**	–
34.5 Charge for defined benefit plan			
Current service cost		**28,504**	25,765
Interest cost		**39,497**	24,083
Expected return on plan assets		**(30,845)**	(18,948)
Actuarial loss recognised		**3,551**	3,404
Negative past service cost		**(613)**	(614)
		40,094	33,690
34.6 Movement in fair value of plan assets			
Opening balance		**205,633**	189,481
Expected return on plan assets		**30,845**	18,948
Actuarial loss recognized	34.8	**(4,529)**	(13,329)
Benefits paid		**(21,283)**	(17,609)
Contribution to the fund		**40,094**	28,142
Closing balance		**250,760**	205,633

	Note	2009	2008
		Rupees in '000	

34.7 Movement in present value of defined benefit obligation

	Note	2009	2008
Opening balance		**263,311**	240,826
Current service cost		**28,504**	25,765
Interest cost		**39,497**	24,083
Actuarial loss/(gain) recognized	34.8	**45,067**	(9,754)
Benefits paid		**(21,283)**	(17,609)
Closing balance		**355,096**	263,311

34.8 Annual actuarial loss recognised

	2009	2008
Experience loss/(gain) on obligation	**45,067**	(9,754)
Experience loss on plan assets	**4,529**	13,329
Total loss recognised during the year	**49,596**	3,575

34.9 Actual return on plan assets

	2009	2008
Actual return on plan assets	**26,316**	5,619

34.10 Plan assets comprise the following:

	2009		2008	
	Rupees in '000	%	Rupees in '000	%
Government Securities	**179,997**	72%	170,746	83%
Bank Deposits	**70,763**	28%	34,887	17%
	250,760	100%	205,633	100%

34.11 Historical Information

	2009	2008	2007	2006	2005
	Rupees in '000				
Present value of defined benefit obligation	**355,096**	263,311	240,826	165,137	62,317
Fair value of plan assets	**(250,760)**	(205,633)	(189,481)	(187,976)	(59,894)
Deficit/(Surplus)	**104,336**	57,678	51,345	(22,839)	2,423
Actuarial loss/(gain) on obligation	**45,067**	(9,754)	41,318	13,243	14,530
Actuarial loss/(gain) on assets	**4,529**	13,329	(7,650)	6,514	(7,564)

35. DEFINED CONTRIBUTION PLAN

The general description of the plan is included in note 5.9

36. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President & Chief Executive		Directors		Executives	
	2009	2008	**2009**	2008	**2009**	2008
	Rupees in '000					
Fees	**–**	–	**6,650**	190	**–**	–
Managerial remuneration	**42,000**	12,948	**–**	–	**692,531**	502,822
Charge for defined benefit plan	**243**	975	**–**	–	**1,970**	1,266
Contribution to defined contribution plan	**3,600**	1,170	**–**	–	**27,905**	21,869
Rent and house maintenance	**–**	1,586	**–**	–	**–**	–
Utilities	**–**	111	**1,074**	810	**–**	–
Bonus	**3,000**	3,562	**–**	–	**85,084**	70,963
Others	**3,600**	103,411	**2,593**	3,010	**–**	–
	52,443	123,763	**10,317**	4,010	**807,490**	596,920
Number of persons	**1**	2	**8**	7	**430**	322

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

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITES

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

	Trade & Sales	Retail Banking	Commercial Banking	Total
	Rupees in '000			
2009				
Total income *	**10,600,408**	**7,402,430**	**12,597,394**	**30,600,232**
Total expenses *	**9,753,288**	**7,166,994**	**9,466,308**	**26,386,590**
Net income	**847,120**	**235,436**	**3,131,086**	**4,213,642**
Segment assets (gross)	**122,430,062**	**1,022,583**	**113,959,585**	**237,412,230**
Segment non performing loans	**13,250**	**16,621**	**6,334,464**	**6,364,335**
Segment provision required	**13,250**	**12,163**	**4,179,318**	**4,204,731**
Segment liabilities	**40,990,493**	**92,324,565**	**85,356,659**	**218,671,717**
Segment return on net assets (%)	**8.66%**	**8.02%**	**11.01%**	**10.35%**
Segment cost of funds (%)	**7.97%**	**7.76%**	**8.31%**	**7.88%**
2008				
Total income *	6,468,806	5,256,831	13,428,603	25,154,240
Total expenses *	5,354,200	4,981,799	10,054,421	20,390,420
Net income (loss)	1,114,606	275,032	3,374,182	4,763,820
Segment assets (gross)	54,625,597	1,163,573	126,921,683	182,710,853
Segment non performing loans	15,000	2,986	1,729,613	1,747,599
Segment provision required	3,750	1,369	1,078,666	1,083,785
Segment liabilities	6,494,847	71,505,213	89,706,143	167,706,203
Segment return on net assets (%)	11.84%	7.35%	10.58%	9.13%
Segment cost of funds (%)	9.80%	6.97%	7.92%	7.14%

* Includes inter-segment revenues and expenses

39. TRANSACTIONS WITH RELATED PARTIES

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

Banking transactions with related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk.

Contributions to the accounts in respect of staff retirement benefits are made in accordance with actuarial valuation (terms of contribution plan). Remuneration of the key management personnel are in accordance with the terms of their employment. Other transactions are at agreed terms.

HMB

	31 December 2009					
	Holding Company	**Subsidiaries**	**Associates**	**Key Management Personnel**	**Retirement Benefit Plans**	**Total**
	Rupees in '000					
Deposits						
At beginning of the year	**8,111**	**241,752**	**1,608,912**	**7,536**	**631,304**	**2,497,615**
Received during the year	**11,408,758**	**159,423,257**	**325,627,006**	**162,776**	**2,173,822**	**498,795,619**
Repaid during the year	**(11,397,419)**	**(159,393,123)**	**(323,704,503)**	**(124,274)**	**(1,954,600)**	**(496,573,919)**
At end of the year	**19,450**	**271,886**	**3,531,415**	**46,038**	**850,526**	**4,719,315**
Advances						
At beginning of the year	**–**	**–**	**1,550,222**	**11,409**	**–**	**1,561,631**
Disbursed during the year	**–**	**–**	**28,110,309**	**7,202**	**–**	**28,117,511**
Recovered during the year	**–**	**–**	**(27,919,604)**	**(3,071)**	**–**	**(27,922,675)**
At end of the year	**–**	**–**	**1,740,927**	**15,540**	**–**	**1,756,467**
Bank balances	**30,875**	**–**	**6,504**	**–**	**–**	**37,379**
Mark-up/return/ interest payable	–	**2,403**	–	–	–	**2,403**
Management fee payable for technical and consultancy services	**126,400**	**–**	**–**	**–**	**–**	**126,400**
Prepayments	**–**	**–**	**13,891**	**–**	**–**	**13,891**
Trade related contingent liabilities	**–**	**25,000**	**2,287,830**	**–**	**–**	**2,312,830**
Advance received against prepaid card	**–**	**–**	**2,907**	**–**	**–**	**2,907**
Advance received against insurance premium	**–**	**–**	**60**	**–**	**–**	**60**

	31 December 2008					
	Holding Company	Subsidiaries	Associates	Key Management Personnel	Retirement Benefit Plans	Total
	Rupees in '000					
Deposits						
At beginning of the year	66,719	-	3,188,774	15,384	480,409	3,751,286
Received during the year	13,103,757	64,957,652	257,685,945	138,682	1,020,256	336,906,292
Repaid during the year	(13,162,365)	(64,715,900)	(259,265,807)	(146,530)	(869,361)	(338,159,963)
At end of the year	8,111	241,752	1,608,912	7,536	631,304	2,497,615
Advances						
At beginning of the year	-	-	754,000	16,828	-	770,828
Given during the year	-	-	17,650,494	985	-	17,651,479
Recovered during the year	-	-	(16,854,272)	(6,404)	-	(16,860,676)
At end of the year	-	-	1,550,222	11,409	-	1,561,631
Bank balances	990,756	–	6,440	–	–	997,196
Mark-up/return/ interest payable	–	2,522	–	–	–	2,522
Management fee payable for technical and consultancy services	112,170	–	–	–	–	112,170
Prepayments	–	–	12,059	–	–	12,059
Trade related contingent liabilities	–	–	1,256,265	–	–	1,256,265
Advance received against insurance premium	–	–	56	–	–	56

Transactions during the year

	For the year ended 31 December 2009						
	Holding Company	Subsidiaries	Associates	Key Management Personnel	Directors' fee	Retirement Benefit Plans	Total
	Rupees in '000						
Mark-up/return/interest earned	3,840	–	136,292	993	–	–	141,125
Management fee expense for technical and consultancy services	134,640	–	–	–	–	–	134,640
Mark-up/return/interest expensed	–	29,225	420,964	1,753	–	72,151	524,093
Commission / Brokerage / Bank charges recovered	–	363	14,509	–	–	–	14,872
Rent income	–	–	853	–	–	–	853
Remuneration	–	–	–	112,140	–	–	112,140
Directors' fees	–	–	–	–	6,650	–	6,650
Contribution to defined benefit plan	–	–	–	–	–	40,094	40,094
Contribution to defined contribution plan	–	–	–	–	–	61,479	61,479
Bank charges	2,936	569	8,934	–	–	–	12,439
Insurance premium expenses	–	–	29,046	–	–	–	29,046
Rent expenses	–	–	16,885	–	–	–	16,885
Maintenance, Electricity, Stationery & Entertainment	–	–	11,039	–	–	–	11,039

Transactions during the year	Holding Company	Subsidiaries	Associates	Key Management Personnel	Directors' fee	Retirement Benefit Plans	Total
	For the year ended 31 December 2008						
	Rupees in '000						
Mark-up/return/interest earned	66,391	–	99,835	774	–	–	167,000
Management fee expense for technical and consultancy services	112,170	–	–	–	–	–	112,170
Mark-up/return/interest expensed	–	12,920	284,520	244	–	17,591	315,275
Commission / Brokerage / Bank charges recovered	–	1	8,206	–	–	–	8,207
Rent income	–	–	767	–	–	–	767
Remuneration	–	–	–	169,848	–	–	169,848
Directors' fees	–	–	–	–	190	–	190
Contribution to defined benefit plan	–	–	–	–	–	33,690	33,690
Contribution to defined contribution plan	–	–	–	–	–	50,290	50,290
Bank charges	1,741	3	4,450	–	–	–	6,194
Transfer to KSE membership at book value	–	34,750	–	–	–	–	34,750
Investment made during the period	–	299,999	–	–	–	–	299,999
Insurance premium expenses	–	–	26,062	–	–	–	26,062
Rent expenses	–	–	3,599	–	–	–	3,599
Maintenance, Electricity, Stationery & Entertainment	–	–	1,411	–	–	–	1,411

40. CAPITAL ASSESSMENT AND ADEQUACY

40.1 Scope of Applications

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

40.2 Capital Structure

Bank's regulatory capital has two tiers:

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

Tier 2 capital of the Bank includes general provisions for loan losses (up to a maximum of 1.25 % of risk weighted assets) only.

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

40.3 Regulatory Capital Base

	2009	2008
	Rupees in '000	
Tier I Capital		
Shareholders capital / assigned capital	**7,527,525**	6,022,020
Balance in share premium account	**2,550,985**	2,550,985
Reserves	**5,036,850**	4,488,951
Un-appropriated profits (Net of Losses)	**3,773,782**	3,087,692
Less: Deficit on account of revaluation of available-for-sale investments	**(228,660)**	(1,761,535)
50% deduction for investment in subsidiaries	**(150,000)**	(150,040)
Total Tier I Capital	**18,510,482**	14,238,073
Tier II Capital		
General provision subject to 1.25% of total risk weighted assets	**424,745**	1,046,320
50% deduction for investment in subsidiaries	**(150,000)**	(150,040)
Total Tier II Capital	**274,745**	896,280
Eligible Tier III Capital	**–**	–
Total regulatory capital base	**18,785,227**	15,134,353

* Corresponding figures are based on the audited return required to be submitted by the Bank to the State Bank of Pakistan by 31 March 2009 and have been adjusted for the effect of change in accounting policy mentioned in note 6.3.

40.4 Objectives of Managing Capital

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

Externally Imposed Capital Requirements

In order to strengthen the solvency of Banks / Development Financial Institutions (DFI), SBP through its BSD Circular No. 07 dated 15 April 2009 has directed the Banks to raise their minimum paid up capital to Rs. 6 billion (free of losses) by the end of financial year 2009.

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

The paid up capital of the Bank for the year ended 31 December 2009 was Rs. 7.527 billion and is in compliance with the SBP requirements for the said year. In addition, the Banks are also required to maintain the minimum Capital Adequacy Ratio (CAR) of 10% of the Risk Weighted Assets of the Bank.

The Bank's CAR as at 31 December 2009 was 11.87%.

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

Capital Requirements and Risk Weighted Assets

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

		Capital Requirements		Risk Weighted Assets	
		2009	2008 *(Restated)	**2009**	2008 *(Restated)
		Rupees in '000			
Credit risk					
Portfolios subject to standardised approach (Simple)					
Cash and cash equivalents		**–**	–	**–**	–
Government of Pakistan and SBP		**3,460**	–	**34,599**	–
Public Sector Entities		**273,271**	66,899	**2,732,710**	743,321
Banks		**288,819**	342,357	**2,888,191**	3,803,968
Corporate		**8,626,388**	8,550,953	**86,263,882**	95,010,590
Retail		**466,783**	452,613	**4,667,828**	5,029,028
Residential mortgage finance		**16,696**	12,939	**166,963**	143,772
Past due loans		**196,353**	16,265	**1,963,525**	180,722
Listed, unlisted equity investments and regulatory capital instruments issued by other banks, held in banking book		**145,928**	59,150	**1,459,283**	657,226
Claims on fixed assets		**243,123**	23,840	**2,431,227**	264,892
All other assets		**1,159,711**	902,121	**11,597,106**	10,023,563
Off Balance Sheet - Non market related		**2,603,500**	1,310,943	**26,035,002**	14,566,035
Off Balance Sheet - Market related		**68,294**	79,113	**682,941**	879,029
Market risk					
Capital requirement for portfolios subject to Standardised Approach					
Interest rate risk		**28,726**	20,325	**287,263**	225,838
Foreign exchange risk		**132,830**	13,748	**1,328,300**	152,752
Equity position risk		**–**	–	**–**	–
Operational risk					
Capital requirement for operational risks subject to Basic Indicator Approach		**1,575,102**	1,290,256	**15,751,019**	14,336,181
		15,828,984	13,141,522	**158,289,839**	146,016,917
Capital adequacy ratio					
Total eligible regulatory capital held (note 40.2)	(a)	**18,785,147**	15,134,353		
Total risk weighted assets (note 40.4)	(b)	**158,289,839**	146,016,917		
Capital Adequacy Ratio	(a)/(b)	**11.87%**	10.36%		

* Corresponding figures are based on the audited return required to be submitted by the Bank to the State Bank of Pakistan by 31 March 2009 and have been adjusted for the effect of change in accounting policy mentioned in note 6.3.

41. RISK MANAGEMENT

Risk management aspects are embedded in the Bank's strategy, organizational 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.

41.1 Credit risk

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

As per Basel II methodology the gross credit risk weighted exposure incorporating relevant credit conversion factor is Rs. 141 billion (2008: Rs. 131 Billion) as depicted in note 40.4.

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

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

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

41.1.1 Segmental Information

Segment by class of business

	2009					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rs. in '000	Percent	Rs. in '000	Percent	Rs. in '000	Percent
Textile	57,006,461	53.32	5,690,494	3.99	8,051,843	6.75
Exports / imports	9,173,047	8.58	5,190,611	3.64	4,755,391	3.98
Chemical and pharmaceuticals	4,792,207	4.48	2,342,727	1.64	3,122,702	2.62
Wholesale and retail trade	2,596,024	2.43	4,481,478	3.15	622,163	0.52
Electronics and electrical appliances	2,332,130	2.18	796,604	0.56	398,971	0.33
Services	2,280,877	2.13	9,127,481	6.41	299,554	0.25
Automobile and transportation equipment	1,924,047	1.80	4,093,908	2.87	1,252,946	1.05
Power (electricity), gas, water, sanitary	1,804,987	1.69	1,862,519	1.31	6,693,128	5.61
Transport, storage and communication	3,091,877	2.89	1,342,757	0.94	315,649	0.26
Construction	1,164,271	1.09	1,086,826	0.76	517,346	0.43
Individuals	1,205,121	1.13	49,819,584	34.97	54,424	0.05
Cement	1,367,909	1.28	108,985	0.08	623,416	0.52
Financial	1,885,178	1.76	2,011,411	1.41	60,769,612	50.92
Footwear and leather garments	1,296,469	1.21	2,143,981	1.50	32,423	0.03
Sugar	510,984	0.48	605,735	0.43	42,650	0.04
Insurance	23,544	0.02	707,453	0.50	41,453	0.03
Mining and quarrying	31,679	0.03	94,240	0.07	1,911	0.01
Agriculture, forestry, hunting and fishing	33,690	0.03	90,078	0.06	158,629	0.13
Others	14,402,106	13.47	50,860,504	35.71	31,589,824	26.47
	106,922,608	100.00	142,457,376	100.00	119,344,035	100.00

Segment by sector

	2009					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rs. in '000	Percent	Rs. in '000	Percent	Rs. in '000	Percent
Public /Government	3,782,722	3.54	16,250,958	11.41	804,819	0.67
Private	103,139,886	96.46	126,206,418	88.59	118,539,216	99.33
	106,922,608	100.00	142,457,376	100.00	119,344,035	100.00

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

	2009		2008	
	Classified Advances	**Specific provision held**	Classified Advances	Specific provision held
	Rupees in '000			
Textile	**2,819,174**	**1,738,670**	438,306	384,982
Footwear and leather garments	**597,909**	**461,430**	30,752	30,752
Wholesale and retail trade	**556,352**	**337,823**	2,490	2,490
Electronics and electrical appliances	**477,225**	**380,387**	625,836	172,884
Construction	**231,135**	**78,439**	–	–
Transport, storage and communication Services	**119,649**	**73,858**	–	–
Exports / imports	**100,458**	**70,666**	–	–
Automobile and transportation equipment	**101,445**	**27,244**	1,000	1,000
Individuals	**62,547**	**62,547**	31,934	31,934
Chemical and pharmaceuticals	**54,311**	**54,311**	79,684	58,452
Agriculture, forestry, hunting and fishing	**1,042**	**1,042**	1,042	1,042
Others	**600**	**600**	58,995	58,995
	1,242,488	**917,714**	477,560	341,254
	6,364,335	**4,204,731**	1,747,599	1,083,785

Details of non-performing advances and specific provisions by sector

	2009		2008	
	Classified Advances	**Specific provision held**	Classified Advances	Specific provision held
	Rupees in '000			
Private	**6,364,335**	**4,204,731**	1,747,599	1,083,785
	6,364,335	**4,024,731**	1,747,599	1,083,785

Geographical segment anlaysis

	2009			
	Profit before taxation	**Total assets employed**	**Net assets employed**	**Contingencies and Commitments**
	Rupees in '000			
Pakistan	**4,213,642**	**237,412,230**	**18,740,513**	**119,344,035**

Total assets employed include intra group items of Rs. 66 million.

41.1.2 Credit risk - General disclosures Basel II sepcific

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

	2009				
Exposures	**JCR-VIS**	**PACRA**	**S & P**	**Fitch**	**Moody's**
Corporate	✓	✓	–	–	–
Banks	✓	✓	✓	✓	–
Sovereigns	–	–	–	–	✓
SME's	–	–	–	–	–
Securitisation	–	–	–	–	–
Others	✓	✓	–	–	–

41.2 Credit Exposures subject to Standardised Approach

Exposures	Rating Category	31 December 2009 Amount Outstanding	31 December 2009 Deduction CRM	31 December 2009 Net Amount	31 December 2008 Amount Outstanding	31 December 2008 Deduction CRM	31 December 2008 Net Amount
		Rupees in '000					
Corporate	1	5,659,306	25,545	5,633,761	4,420,359	–	4,420,359
	2	666,050	–	666,050	875,302	–	875,302
	3 , 4	–	–	–	47,031	–	47,031
	5 , 6	119,824	–	119,824	–	–	–
Claims on banks with original maturity of 3 months or less		2,860,959	–	2,860,959	7,373,311	5,822,956	1,550,355
Retail		8,280,409	523,423	7,756,986	7,710,422	345,005	7,367,417
Public sector entities	1	386,044	–	386,044	900,000	–	900,000
Others		131,379,790	–	131,379,790	75,802,671	556,924	75,245,747
Unrated		116,575,326	1,148,878	115,426,448	113,336,685	3,561,812	109,774,873

Credit risk: Disclosures with respect to credit risk mitigation for Standardised and IRB Approaches – Basel II specific

The forms of collateral that are deemed to eligible collateral under the 'Simple Approach' to Credit Risk Mitigation as per SBP guidelines are used by 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.

Banking Book

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

Equity position risk in the banking book-Basel II specific

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

The Bank books the equity at cost and has adopted 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 shares).

Composition of equity investments

	Held for Trading	Available for sale	Investment in Subsidiary
	Rupees in '000		
Equity Investments - Publicly Traded	–	405,805	–
Equity Investments - Others	–	123,101	300,000
Total Value	–	528,906	300,000

The cumulative realized gain of Rs. 206.381 million from sale of equity securities/certificates of mutual funds and units of open end mutual funds; however unrealized loss of Rs. 148.629 million was recognized in the balance sheet in respect of "AFS" securities.

41.3 Market risk

Market Risk is the risk of loss in earnings and capital due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions.

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

41.4 Foreign exchange risk

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

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

	2009			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	**218,332,673**	**203,309,119**	**4,316,294**	**19,339,848**
United States Dollar	**16,515,611**	**11,870,307**	**(5,623,070)**	**(977,766)**
Euro	**1,782,050**	**1,511,246**	**(240,344)**	**30,460**
Great Britain Pound	**201,049**	**1,483,019**	**1,274,919**	**(7,051)**
Asian Currency unit	**449,373**	**143,431**		**305,942**
Japanes Yen	**23,481**	**349,290**	**338,538**	**12,729**
Arab Emirates Dirham	**86,413**	**69**	**(68,247)**	**18,097**
Canadian Dollar	**3,144**	**1,308**	**29**	**1,865**
Australian Dollar	**730**	**–**		**– 730**
Saudi Riyal	**114**	**3,916**	**–**	**(3,802)**
Other Currencies	**17,592**	**12**	**1,881**	**19,461**
	19,079,557	**15,362,598**	**(4,316,294)**	**(599,335)**
	237,412,230	**218,671,717**		**18,740,513**

	2008			
	Assets	Liabilities (Restated)	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	163,011,383	156,178,537	12,193,446	19,026,292
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
	19,699,470	11,527,666	(12,193,446)	(4,021,642)
	182,710,853	167,706,203	–	15,004,650

41.5 Interest rate risk

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

	2009											
	Effective Yield/ Interest Rate %	Total	Exposed to Yield/Interest risk									Non-interest bearing financial insruments
			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	
		Rupees in '000										
On balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	–	11,192,498	-	-	-	-	-	-	-	-	-	11,192,498
Balances with other banks	0.11% to 5.00%	4,836,399	3,285,582	-	-	-	-	-	-	-	-	1,550,817
Lendings to financial institutions	12.60%	150,000	50,000	100,000	-	-	-	-	-	-	-	-
Investments	8.00% to 16.25%	111,679,520	-	16,936,131	28,656,523	25,742,212	8,611,009	5,503,436	3,335,471	13,127,049	437,798	9,329,891
Advances	1.25% to 25.00%	102,293,132	2,143,749	39,522,312	27,903,058	16,312,900	3,512,696	3,897,780	3,871,841	2,531,253	362,544	2,234,999
Other assets	–	3,704,511	-	-	-	-	-	-	-	-	-	3,704,511
		233,856,060	5,479,331	56,558,443	56,559,581	42,055,112	12,123,705	9,401,216	7,207,312	15,658,302	800,342	28,012,716
Liabilities												
Bills payable	–	3,111,467	-	-	-	-	-	-	-	-	-	3,111,467
Borrowings	5.00% to 12.40%	68,186,674	34,891,730	11,495,072	14,884,140	4,379,447	7,801	285,709	1,351,389	891,386	-	-
Deposits and other accounts	0.30% to 16.67%	142,457,376	61,952,898	21,048,748	5,054,951	12,356,148	1,088,149	1,168,747	3,565,861	1,353,700	-	34,868,174
Other liabilities	–	3,626,486	-	-	-	-	-	-	-	-	-	3,626,486
		217,382,003	96,844,628	32,543,820	19,939,091	16,735,595	1,095,950	1,454,456	4,917,250	2,245,086	-	41,606,127
On-balance sheet gap		16,474,057	(91,365,297)	24,014,623	36,620,490	25,319,517	11,027,755	7,946,760	2,290,062	13,413,216	800,342	(13,593,411)
Off-balance sheet financial instruments												
Forward Purchase		25,374,364	-	-	-	-	-	-	-	-	-	25,374,364
Forward Commitment of repurchase agreement borrowings		4,655,405	-	-	-	-	-	-	-	-	-	4,655,405
Forward Sale		(29,690,658)	-	-	-	-	-	-	-	-	-	(29,690,658)
Off-balance sheet gap		339,111	-	-	-	-	-	-	-	-	-	339,111
Total yield / interest risk sensitivity gap		16,813,168	(91,365,297)	24,014,623	36,620,490	25,319,517	11,027,755	7,946,760	2,290,062	13,413,216	800,342	(13,254,300)
Cumulative yield / interest risk sensitivity gap		**16,813,168**	**(91,365,297)**	**(67,350,674)**	**(30,730,184)**	**(5,410,667)**	**5,617,088**	**13,563,848**	**15,853,910**	**29,267,126**	**30,067,468**	**16,813,168**

							2008					
			Exposed to Yield/Interest risk									
	Effective Yield/ Interest Rate %	Total	Upto 1 month	Over 1 month to 3 months	over 3 months to 6 months	over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years	Non-interest bearing financial insruments
		Rupees in '000										
On balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.90%	11,401,384	1,515,923	-	-	-	-	-	-	-	-	9,885,461
Balances with other banks	5.00% - 9.00%	2,974,237	1,537,310	-	-	-	-	-	-	-	-	1,436,927
Lendings to financial institutions	14.00%	98,176	98,176	-	-	-	-	-	-	-	-	-
Investments	8.00% - 18.52%	53,631,532	14,672,758	14,919,676	4,898,611	241,520	580,610	6,107,249	1,748,880	3,587,603	704,490	6,170,135
Advances	3.50% - 24.50%	108,261,259	11,563,503	34,357,137	25,126,271	25,042,765	3,484,922	3,171,198	2,124,877	1,995,856	730,916	663,814
Other assets		3,374,646	-	-	-	-	-	-	-	-	-	3,374,646
		179,741,234	29,387,670	49,276,813	30,024,882	25,284,285	4,065,532	9,278,447	3,873,757	5,583,459	1,435,406	21,530,983
Liabilities												
Bills payable		2,372,146	-	-	-	-	-	-	-	-	-	2,372,146
Borrowings	7.50%-14.00%	30,372,598	13,898,625	-	13,596,991	2,185,154	691,828	-	-	-	-	-
Deposits and other accounts	0.50%-19.50%	128,432,616	27,890,651	22,353,612	12,865,331	16,731,421	5,064,899	2,542,846	3,066,410	2,413,732	2,413,732	33,089,982
Other liabilities		4,870,031	-	-	-	-	-	-	-	-	-	4,870,031
		166,047,391	41,789,276	22,353,612	26,462,322	18,916,575	5,756,727	2,542,846	3,066,410	2,413,732	2,413,732	40,332,159
On-balance sheet gap		13,693,843	(12,401,606)	26,923,201	3,562,560	6,367,710	(1,691,195)	6,735,601	807,347	3,169,727	(978,326)	(18,801,176)
Off-balance sheet financial instruments												
Forward Purchase		13,207,319	-	-	-	-	-	-	-	-	-	13,207,319
Forward Sale		(25,402,670)	-	-	-	-	-	-	-	-	-	(25,402,670)
Off-balance sheet gap		(12,195,351)	-	-	-	-	-	-	-	-	-	(12,195,351)
Total yield / interest risk sensitivity gap		1,498,492	(12,401,606)	26,923,201	3,562,560	6,367,710	(1,691,195)	6,735,601	807,347	3,169,727	(978,326)	(30,996,527)
Cumulative yield / interest risk sensitivity gap		1,498,492	(12,401,606)	14,521,595	18,084,155	24,451,865	22,760,670	29,496,271	30,303,618	33,473,345	32,495,019	1,498,492

41.5.1 Reconciliation of Assets and Liabilities exposed to Yield/Interest Rate Risk with Total Assets and Liabilities

Reconciliation to total assets	December 31 2009	December 31 2008
	(Rupees in '000)	
Total financial assets	**233,856,060**	179,741,234
Add: Non financial assets		
Operating fixed assets	**2,431,227**	1,583,360
Deferred tax asset	**824,706**	1,144,451
Other assets	**300,237**	241,808
	3,556,170	2,969,619
Balance as per balance sheet	**237,412,230**	182,710,853

Reconciliation to total liabilities	December 31 2009	December 31 2008
	(Rupees in '000)	
Total financial liabilities	**217,382,003**	166,047,391
Add: Non financial liabilities		
Deferred tax liability	**–**	–
Other liabilities	**1,289,714**	1,658,812
	1,289,714	1,658,812
Balance as per balance sheet	**218,671,717**	167,706,203

41.6 Liquidity risk

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

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

The contractual maturities of assets and liabilities at the year end have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. Assets and liabilities not having a contractual maturity are assumed to mature on the expected date on which the assets / liabilities will be realised / settled.

	2009									
Maturities of assets and liabilities	Total	Upto 1 month	Over 1 month to 3 months	over 3 months to 6 months	over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
	Rupees in '000									
Assets										
Cash and balances with treasury banks	11,192,498	11,192,498	–	–	–	–	–	–	–	–
Balances with other banks	4,836,399	4,836,399	–	–	–	–	–	–	–	–
Lendings to financial institutions	150,000	50,000	100,000	–	–	–	–	–	–	–
Investments	111,679,520	9,329,891	16,936,131	28,656,523	25,742,212	8,611,009	5,503,436	3,335,471	13,127,049	437,798
Advances	102,293,132	4,378,748	39,522,312	27,903,058	16,312,900	3,512,696	3,897,780	3,871,841	2,531,253	362,544
Operating fixed assets	2,431,227	19,752	39,504	59,256	118,512	237,024	237,024	474,048	1,185,120	60,987
Deferred Taxes	824,706	–	–	–	824,706	–	–	–	–	–
Other assets	4,004,748	3,386,361	174,926	127,513	297,723	–	–	18,225	–	–
	237,412,230	33,193,649	56,772,873	56,746,350	43,296,053	12,360,729	9,638,240	7,699,585	16,843,422	861,329
Liabilities										
Bills payable	3,111,467	3,111,467	–	–	–	–	–	–	–	–
Borrowings	68,186,674	34,891,730	11,495,072	14,884,140	4,379,447	7,801	285,709	1,351,389	891,386	–
Deposits and other accounts	142,457,376	96,821,072	21,048,748	5,054,951	12,356,148	1,088,149	1,168,747	3,565,861	1,353,700	–
Other liabilities	4,916,200	3,226,410	53,743	205,730	756,344	–	–	673,973	–	–
	218,671,717	138,050,679	32,597,563	20,144,821	17,491,939	1,095,950	1,454,456	5,591,223	2,245,086	–
Net assets / (liabilities)	18,740,513	(104,857,030)	24,175,310	36,601,529	25,804,114	11,264,779	8,183,784	2,108,362	14,598,336	861,329
Share capital	7,527,525									
Reserves	7,587,835									
Unappropriated profit	3,773,782									
Deficit on revaluation of assets - net of use	(148,629)									
	18,740,513									

2008

	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
	Rupees in '000									
Assets										
Cash and balances with treasury banks	11,401,384	11,401,384	–	–	–	–	–	–	–	–
Balances with other banks	2,974,237	2,974,237	–	–	–	–	–	–	–	–
Lendings to financial institutions	98,176	98,176	–	–	–	–	–	–	–	–
Investments	53,631,532	16,672,758	19,089,811	4,898,611	241,520	580,610	6,107,249	1,748,880	3,587,603	704,490
Advances	108,261,259	10,479,718	34,357,137	25,126,271	26,790,364	3,484,922	3,171,198	2,124,877	1,995,856	730,916
Operating fixed assets	1,583,360	68,170	41,169	158,588	164,676	329,352	487,983	333,422	–	–
Other assets	1,144,451	104,270	27,046	43,952	248,437	259,882	460,864	–	–	–
	3,616,454	3,469,930	–	–	123,807	–	–	–	9,375	13,342
Liabilities	182,710,853	45,268,643	53,515,163	30,227,422	27,568,804	4,654,766	10,227,294	4,207,179	5,592,834	1,448,748
Bills payable	2,372,146	2,372,146	–	–	–	–	–	–	–	–
Borrowings	30,372,598	13,898,625	–	13,596,991	2,185,154	691,828	–	–	–	–
Deposits and other accounts	128,432,616	27,854,198	29,003,752	22,936,871	21,697,407	7,695,810	5,066,270	4,379,020	4,895,017	4,904,271
Other liabilities	6,528,843	4,717,861	–	844,460	–	737,499	–	–	–	229,023
	167,706,203	48,842,830	29,003,752	37,378,322	23,882,561	9,125,137	5,066,270	4,379,020	4,895,017	5,133,294
Net assets	15,004,650	(3,574,187)	24,511,411	(7,150,900)	3,686,243	(4,470,371)	5,161,024	(171,841)	697,817	(3,684,546)
Share capital	6,022,020									
Reserves	7,039,936									
Unappropriated profit	3,087,692									
Deficit on revaluation of assets - net of tax	(1,144,998)									
	15,004,650									

41.7 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.

41.8 Operational risk – Disclosures Basel II specific

The Bank uses Basic Indicator Approach (BIA) for regulatory capital at risk calculation for operational risk. Under BIA the capital charge for operational risk is a fixed percentage of average positive annual gross income of the bank over the past three years. Figures of capital charge of operation risk for December 2009 was Rs. 1,260,082 thousand (2008: Rs. 1,146,894 thousand).

42. KEY ISLAMIC BANKING OPERATIONS

42.1 The Bank is operating 4 (2008: 4) Islamic banking branches in Pakistan. The balance sheet and profit and loss account of these branches as at December 31, 2009 and for the year are as follows:

BALANCE SHEET
As at 31 December 2009

	2009	2008
	Rupees in '000	
ASSETS		
Cash and balances with treasury banks	**729,330**	986,565
Balances with and due from financial institutions	**478**	478
Investments	**7,740,463**	1,429,020
Financing and receivables		
– Murabaha	**2,069,501**	2,322,967
– Ijarah	**1,196,447**	1,804,204
– Diminishing musharaka	**418,286**	1,184,840
Due from Head Office	**110,924**	198,271
Other assets	**501,465**	192,465
	12,766,894	8,118,810
LIABILITIES		
Bills payable	**31,952**	33,231
Deposits and other accounts		
– Current accounts	**734,112**	434,020
– Saving accounts	**4,543,425**	847,305
– Term deposits	**4,425,802**	2,527,470
– Deposit from financial institutions -remunerative	**1,370,586**	2,781,327
– Deposits from financial institutions-non-remunerative	**509**	17,423
Due to Head Office	**–**	–
Other liabilities	**780,998**	669,817
NET ASSETS	**11,887,384**	7,310,593
	879,510	808,217
REPRESENTED BY:		
Islamic banking fund	**602,106**	601,977
Unappropriated profit	**253,690**	217,220
	855,796	819,197
Surplus / (Deficit) on revaluation of assets	**23,714**	(10,980)
	879,510	808,217

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2009

	2009	2008
	Rupees in '000	
Profit / return on financing, investments and placements earned	**1,104,621**	682,388
Profit / return on deposits and other dues expensed	**843,867**	455,143
Net spread earned	**260,754**	227,245
Provision against non performing financing	**–**	4,826
Provision for diminution in the value of investments	**–**	–
Provision for consumer financing ijarah	**(669)**	575
Bad debts written off directly	**–**	–
	(669)	5,401
Net spread after provisions	**261,423**	221,844
OTHER INCOME		
Fee, commission and brokerage income	**14,004**	12,201
Dividend income	**28,966**	20,470
Income from dealing in foreign currencies	**5,544**	14,670
Gain on sale/redemption of securities	**–**	–
Unrealized gain/(loss) on revaluation of investments classified as held-for-trading	**–**	–
Other income	**17,404**	13,526
Total other income	**65,918**	60,867
	327,341	282,711
OTHER EXPENSES		
Administrative expenses	**73,651**	65,491
Other provisions / write offs	**–**	–
Other charges	**–**	–
Total other expenses	**73,651**	65,491
Extra ordinary / unusual items	**253,690**	217,220
PROFIT BEFORE TAXATION	**253,690**	217,220

	2009	2008
42.2 Remuneration to Sha'ria Advisor/Board	**1,444**	1,045
42.3 Charity Fund		
Opening balance	**–**	**43**
Additions during the year	**–**	**1**
Payments/utilizaion during the year	**–**	**(44)**
Closing balance	**–**	**–**

43. RECLASSIFICATION

In addition to the change in accounting policy mentioned in note 6.3 to these financial statements, following corresponding figures have been re-arranged and re-classified to reflect more appropriate presentation of events and transactions for the purpose of comparison. The significant reclassifications are given below:

From	To	2008	2007
		Rupees in '000	
Other assets	Operating fixed assets	**54,447**	–
Borrowings	Deposits and other accounts	**62,946**	74,150
Other assets	Other liabilities	**353,450**	–

44. GENERAL

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

45. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on March 1, 2010 by the Board of Directors of the Bank.

KASSIM PAREKH	ANJUM IQBAL	MOHAMEDALI R. HABIB	BASHIR ALI MOHAMMAD
Chairman	Chief Executive	Director	Director

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

1. MARKET TREASURY BILLS

These securities have maturity period of 1 year, with yield ranging between 11.25% to 13.88 % (2008: 9.75% to 13.85%) per annum.

2. PAKISTAN INVESTMENT BONDS

These securities have maturity period of 3 to 10 years with interest rates ranging between 8% to 14% (2008: 8% to 14%) per annum.

3. FULLY PAID-UP ORDINARY SHARES - LISTED

	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	No. of shares of Rs. 10/- each		Paid-up Value		Market Value		Cost		Rating	
			Rupees in '000							
Adamjee Insurance Company Limited	**218,000**	5,000	**2,180**	50	**26,263**	509	**24,718**	949	**AA**	AA
Bank Al Habib Limited	**562,355**	130,200	**5,624**	1,302	**14,119**	3,238	**15,980**	4,370	**AA+**	AA
Engro Chemical Pakistan Limited	**110,000**	–	**1,100**	–	**20,160**	–	**19,533**	–	**AA**	AA
Fauji Fertilzers Company Limited	**364,258**	100,461	**3,643**	1,005	**37,493**	5,900	**26,310**	10,182	**	**
HUB Power Company Limited	**1,770**	–	**18**	–	**55**	–	**29**	–	**AA+**	**
ICI Pakistan Limited	**50,000**	–	**500**	–	**8,424**	–	**8,435**	–	**	**
Jahangir Siddiqui Investment Company Limited	**380,992**	–	**3,810**	–	**5,475**	–	**6,316**	–	**	AA+
Kot Addu Power Company Limited	**285,000**	–	**2,850**	–	**13,073**	–	**13,185**	–	**	**
Lucky Cement Limited	**340,000**	–	**3,400**	–	**22,522**	–	**22,909**	–	**	**
MCB Bank Limited	**90,000**	–	**900**	–	**19,771**	–	**20,105**	–	**AA+**	A1+
National Bank of Pakistan Limited	**100,000**	5,000	**1,000**	50	**7,437**	252	**7,920**	465	**AAA**	AAA
Nishat Mills Limited	**120,000**	–	**1,200**	–	**8,388**	–	**7,210**	–	**A+**	A+
Oil and Gas Development Corporation Limited	**325,000**	125,000	**3,250**	1,250	**35,948**	6,249	**24,240**	14,437	**	AAA
Pakistan Petroleum Limited	**272,920**	71,000	**2,729**	710	**51,743**	7,144	**49,298**	16,249	**	**
Soneri Bank Limited	**579,216**	474,768	**5,792**	4,748	**6,412**	5,222	**12,322**	12,322	**AA-**	AA-
Standard Chartered Modaraba	**94,000**	–	**940**	–	**851**	–	**805**	–	**AA+**	**
United Bank Limited	**290,000**	–	**2,900**	–	**16,951**	–	**17,435**	–	**AA+**	A1+
					295,085	28,514	**276,750**	58,974		

**Ratings are not available

4. FULLY PAID-UP ORDINARY SHARES - UNLISTED

	Percentage of Holding	Number of shares held	Cost	Breakup Value of Investment	Based on Audited Financial statements	Name of Chief Executive	Credit Rating
			Rupees in '000				
Khushali Bank Limited	1.47%	2,500,000	25,000	27,575	31 December 08	Mr. Ghalib Nishtar	A-
Pakistan Export Finance Guarantee Limited	5.26%	1,136,088	11,361	–	–	Mr. S. M. Zaeem	**
DHA Cogen Limited	0.0018%	5,000,000	50,000	24,950	30 June 09	Mr. Michael Yap	**
Dawood Family Takaful Limited	4.67%	3,500,000	35,000	34,580	31 December 08	Mr. Abdul Halim Nasri	**
Society for World Wide Inter Bank Fund Transfer (SWIFT)	–	14	1,740	3,997	31 December 08	Mr. Lazaro Campos	**
			123,101				

** Ratings not available

5. FULLY PAID-UP PREFERENCE SHARES - LISTED

	2009	2008	2009	2008
	No. of shares		Rupees in '000	
Chenab Limited Preference shares of Rs. 10/- each	4,000,000	4,000,000	40,000	40,000

These are non-voting, cumulative preference shares and carry preferred dividend of 9.25% (2008:9.25%) per annum on cumulative basis and have a market value of Rs. 28,000 thousand (2008: 32,600 thousand) at 31 December 2009.

6. TERM FINANCE CERTIFICATES - LISTED

	No. of certificates of Rs. 5,000/- each		Market Value		Cost		Rating	
	2009	2008	2009	2008	2009	2008	2009	2008
			Rupees in '000					
Allied Bank Limited I	10,000	10,000	48,381	54,516	49,940	49,960	AA-	AA-
Allied Bank Limited II	59,839	–	267,780	–	299,195	–	A+	N/A
Askari Bank Limited I	5,000	5,000	24,092	24,965	24,955	24,965	AA-	AA-
Askari Bank Limited II	2,000	2,000	9,596	9,988	9,984	9,988	AA-	AA-
Askari Bank Limited III	15,000	–	73,018	–	75,000	–	AA-	AA-
Bank Al Habib Limited I	23,000	20,000	105,362	99,840	111,414	99,840	AA-	AA-
Bank Al Habib Limited II	10,000	10,000	49,950	50,660	49,950	49,970	AA-	AA-
Engro Chemical Pakistan Limited - IPO	24,000	24,000	92,926	123,310	99,920	123,310	AA	AA
Engro Chemical Pakistan Limited - Perpetual	20,000	20,000	116,551	99,960	119,316	99,960	AA	AA
First Financial Receivables Securitization Limited	5,000	5,000	18,312	22,908	18,743	22,908	AA-	AA-
IGI Investment Bank Limited	10,000	10,000	24,828	37,485	24,990	37,485	A+	A+
Jahangir Siddiqi & Company Limited	10,000	10,000	51,147	49,960	49,940	49,960	AA+	AA+
NIB Bank Limited	13,400	13,400	61,454	66,987	66,960	66,987	A+	A+
Orix Leasing Pakistan Limited II	10,000	10,000	41,809	55,467	41,633	49,970	AA+	AA+
Orix Leasing Pakistan Limited III	40,000	2,000	177,000	200,000	200,000	200,000	AA+	AA+
Pak Arab Fertilizer Limited	20,000	20,000	93,841	99,980	99,940	99,980	AA	AA
Pakistan Mobile Communication (Private) Limited	27,380	30,000	132,157	30,000	132,786	30,000	AA-	N/A
Royal Bank of Scotland	1,974	1,974	9,748	9,856	9,852	9,856	AA-	AA-
Sitara Energy Limited	–	11,273	–	56,364	–	56,364	–	N/A
Soneri Bank Limited	17,000	17,000	81,821	84,881	84,847	84,881	A+	A+
Standard Chartered Bank Limited	4,742	1,974	23,697	24,639	23,682	23,690	AAA	AAA
Trust Investment Bank Limited	5,000	5,000	4,792	10,000	5,000	10,000	A	A
Trust Leasing Company Limited	–	4,000	–	4,300	–	4,000	–	A
United Bank Limited I	10,000	10,000	44,284	48,525	49,904	49,923	AA	AA
United Bank Limited II	6,500	–	27,978	–	22,703	–	AA	AA
United Bank Limited III	5,000	5,000	24,656	26,991	24,970	24,980	AA	AA
World Call Telecom Limited II	3,600	3,600	11,732	17,986	11,990	17,986	AA-	AA-
World Call Telecom Limited III	41,995	20,000	197,912	100,000	203,821	100,000	AA-	AA-
			1,814,824	1,409,568	1,911,435	1,396,963		

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

	Rate	Payment	Maturity Date
Allied Bank Limited I	6 months KIBOR plus 190 bps	Semi annually	6-Dec-14
Allied Bank Limited II	6 months KIBOR plus 85 bps	Semi annually	28-Aug-19
Askari Bank Limited I	6 months KIBOR plus 250 bps	Semi annually	4-Feb-13
Askari Bank Limited II	6 months KIBOR plus 150 bps	Semi annually	31-Oct-13
Askari Bank Limited III	6 months KIBOR plus 150 bps	Semi annually	18-Nov-19
Bank Al Habib Limited I	FIXED @ 10.00% per annum	Semi annually	15-Jul-12
Bank Al Habib Limited II	6 months KIBOR plus 195 bps	Semi annually	7-Feb-15
Engro Chemical Pakistan Limited - IPO	6 months KIBOR plus 155 bps	Semi annually	30-Nov-15
Engro Chemical Pakistan Limited - Perpetual	6 months KIBOR plus 170 bps	Semi annually	18-Sep-18
First Financial Receivables Securitization Limited	6 months KIBOR plus 225 bps	Semi annually	27-Dec-13
IGI Investment Bank Limited	6 months KIBOR plus 200 bps	Semi annually	10-Jul-11
Jahangir Siddiqi & Company Limited	6 months KIBOR plus 325 bps	Semi annually	21-May-12
NIB Bank Limited	6 months KIBOR plus 170 bps	Semi annually	5-Mar-16
Orix Leasing Pakistan Limited II	3 months KIBOR plus 275 bps	Quarterly	25-May-12
Orix Leasing Pakistan Limited III	6 months KIBOR plus 115 bps	Semi annually	15-Jan-13
Pak Arab Fertilizer Limited	6 months KIBOR plus 150 bps	Semi annually	28-Feb-13
Pakistan Mobile Communication (Private) Limited	6 months KIBOR plus 150 bps	Semi annually	28-Oct-13
Royal Bank of Scotland	6 months KIBOR plus 225 bps	Semi annually	19-Feb-13
Sitara Energy Limited	6 months KIBOR plus 165 bps	Semi annually	13-Nov-13
Soneri Bank Limited	3 months KIBOR plus 115 bps	Quarterly	5-May-13
Standard Chartered Bank Limited	6 months KIBOR plus 160 bps	Semi annually	1-Feb-13
Trust Investment Bank Limited	6 months KIBOR plus 200 bps	Semi annually	15-Nov-10
Trust Leasing Company Limited	6 months KIBOR plus 325 bps	Semi annually	17-Jul-09
United Bank Limited I	6 months KIBOR plus 200 bps	Semi annually	10-Aug-12
United Bank Limited II	FIXED @ 9.49% per annum	Semi annually	15-Mar-13
United Bank Limited III	6 months KIBOR plus 170 bps	Semi annually	8-Sep-14
World Call Telecom Limited II	6 months KIBOR plus 160 bps	Semi annually	28-Nov-11
World Call Telecom Limited III	6 months KIBOR plus 275 bps	Semi annually	7-Oct-13

7. TERM FINANCE CERTIFICATES - UNLISTED

	2009	2008	2009	2008	2009	2008
	No. of certificates of Rs. 5,000/- each		Cost Rupees in '000		Rating	
Avari Hotels Limited (Chief Executive: Mr. Brayan Dinshawji Avari)	**20,000**	10,133	**100,000**	50,667	**A-**	A-
Bank Al Falah Limited (Chief Executive: Mr. Sirajuddin Aziz)	**15,000**	–	**75,000**	–	**AA-**	**
Bank Al Habib Limited (Chief Executive: Mr. Abbas D. Habib)	**20,000**	–	**99,960**	–	**	**
Bunny's Limited (Chief Executive: Mr. Rafaqat)	**1,020**	–	**5,100**	–	**	**
Faisalabad Electric Supply Corporation (Chief Executive: Mr. Ahmed Saeed Akhtar)	**67,000**	67,000	**335,000**	335,000	**	**
Gujranwala Electric Power Corporation (Chief Executive: Mr. Rana Muhammad Ashraf)	**67,000**	67,000	**335,000**	335,000	**	**
Islamabad Electric Supply Corporation (Chief Executive: Mr. Raja Abdul Ghafoor)	**67,000**	67,000	**335,000**	335,000	**	**
Jamshoro Joint Venture Limited (Chief Executive: Mr. Iqbal Z Ahmed)	**–**	11,000	**–**	6,875	**-**	A
New Allied Electronics Industries (Private) Limited (Chief Executive: Mr. Mian Pervaiz Akhtar)	**10,000**	10,000	**23,611**	45,833	**D**	**
Pak HY Oils Limited (Chief Executive: Mr. Tariq Paracha)	**12,000**	–	**60,000**	–	**	**
Pakistan International Airlines Corporation Limited (Chief Executive: Mr.Mohammad Aijaz Haroon)	**27,411**	38,700	**137,028**	137,057	**	**
Pakistan Mobile Communication (Private) Limited (Chief Executive: Mr.Rashid Khan)	**8,000**	8,000	**39,944**	39,960	**AA-**	**
Power Holding (Private) Limited (Government of Pakistan)	**568,600**	–	**2,843,000**	–	**	**
Security Leasing Corporation Limited (Chief Executive: Mr. Mohammad Khalid Ali)	**10,000**	10,000	**18,750**	31,250	**	**
			4,407,393	1,316,642		

**Ratings not available

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

	Coupon Rate	Payment	Maturity Date
Avari Hotels Limited	6 months KIBOR plus 325 bps	Semi annually	1-Nov-14
Bank Al Habib Limited	Fixed @ 15.50% per annum	Quarterly	15-Jun-17
Bank Alfalah Limited	6 months KIBOR plus 250 bps	Semi annually	2-Dec-17
Bunny's Limited	6 months KIBOR plus 250 bps	Semi annually	1-Dec-13
Faisalabad Electric Supply Corporation	6 months KIBOR plus 23 bps	Semi annually	3-Jun-11
Gujranwala Electric Power Corporation	6 months KIBOR plus 23 bps	Semi annually	3-Jun-11
Islamabad Electric Supply Corporation	6 months KIBOR plus 23 bps	Semi annually	3-Jun-11
Jamshoro Joint Venture Limited	6 months KIBOR plus 300 bps	Quarterly	18-Mar-21
New Allied Electronics Industries (Private) Limited	6 months KIBOR plus 250 bps	Semi annually	21-May-12
Pak HY Oils Limited	6 months KIBOR plus140 bps	Semi annually	15-Jan-13
Pakistan Air lines International Corporation Limited	6 months KIBOR plus 85 bps	Semi annually	19-Feb-13
Pakistan Mobile Communication (Private) Limited	6 months KIBOR plus 285 bps	Semi annually	31-May-13
Power Holding (Private) Lmited	6 months KIBOR plus 200 bps	Semi annually	18-Sep-14
Security Leasing Corporation Limited	6 months KIBOR plus 245 bps	Semi annually	28-Mar-11

8. SUKUK CERTIFICATES / BONDS

	No. of certificates of Rs. 5,000/- each 2009	2008	Cost Rupees in '000 2009	2008	Rating 2009	2008
Al Zamin Leasing Modaraba	**10,000**	10,000	**48,958**	50,000	**A**	A
Amreli Steel (Private) Limited	**16,000**	–	**80,000**	–	**A**	**
Engro Chemical Pakistan Limited	**20,000**	–	**94,837**	–	**	**
Engro Foods Limited	**20,000**	–	**100,000**	–	**A-**	**
GOP Ijara Sukuk-1st Issue	**60,000**	–	**300,000**	–	**	**
GOP Ijara Sukuk-2nd Issue	**220,000**	–	**1,118,248**	900,000	**	**
GOP Ijara Sukuk-3rd Issue	**360,000**	–	**1,827,792**	–	**	**
GOP Ijara Sukuk-4th Issue	**560,000**	–	**2,801,105**	–	**	**
Haq Bahu Sugar Mills Limited	**8,100**	–	**40,500**	–	**	**
K.S.Sulemanji Esmailji & Sons (Private) Limited	**30,000**	30,000	**142,500**	150,000	**	**
Liberty Power Technology Limited	**10,000**	–	**50,000**	–	**	**
Liberty Power Technology Limited	**31,061**	–	**155,304**	–	**	**
Maple Leaf Cement Limited	**21,000**	–	**96,213**	–	**	**
Sitara Per Oxide Limited	**11,273**	–	**56,364**	–	**	**
Sitara Per Oxide Limited	**20,000**	20,000	**100,000**	100,000	**	**
Sui Southern Company Limited	**50,000**	60,000	**248,403**	300,000	**	**
Sui Southern Gas Company Limited	**30,000**	–	**149,014**	–	**	**
Three Star Hosiery Mills Limited	**1,900**	–	**9,500**	–	**	**
WAPDA 2nd Issue	**90,000**	90,000	**450,000**	450,000	**	**
WAPDA Ist Issue	**50,000**	50,000	**250,000**	250,000	**	**
			8,118,738	2,200,000		

**Ratings not available

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

	Coupon Rate	Payment	Maturity Date
Al Zamin Leasing Modaraba	6 months KIBOR plus190 bps	Semi annually	12-May-12
Amreli Steel (Private) Limited	3 months KIBOR plus 175 bps	Quarterly	9-Dec-16
Engro Chemical Pakistan Limited	6 months KIBOR	Semi annually	6-Sep-15
Engro Foods Limited	6 months KIBOR plus 69 bps	Semi annually	13-Jan-17
GOP Ijara Sukuk-1st Issue	*13.03%	Semi annually	26-Sep-11
GOP Ijara Sukuk-2nd Issue	*14.76%	Semi annually	29-Dec-11
GOP Ijara Sukuk-3rd Issue	*12.58%	Semi annually	11-Mar-12
GOP Ijara Sukuk-4th Issue	*12.53%	Semi annually	17-Sep-12
Haq Bahu Sugar Mills Limited	6 months KIBOR plus 325 bps	Semi annually	13-Aug-11
K.S.Sulemanji Esmailji & Sons (Private) Limited	3 months KIBOR plus 140 bps	Quarterly	30-Jun-14
Liberty Power Technology Limited	3 months KIBOR plus 300 bps	Quarterly	19-Aug-13
Liberty Power Technology Limited	6 months KIBOR plus 300 bps	Quarterly	18-Mar-21
Maple Leaf Cement Limited	6 months KIBOR plus 170 bps	Semi annually	3-Dec-13
Sitara Per Oxide Limited	6 months KIBOR plus 115 bps	Semi annually	16-May-13
Sitara Per Oxide Limited	6 months KIBOR plus 190 bps	Semi annually	10-Feb-13
Sui Southern Company Limited	3 months KIBOR plus 20 bps	Quarterly	31-Dec-12
Sui Southern Gas Company Limited	3 months KIBOR plus 20 bps	Quarterly	31-Dec-12
Three Star Hosiery Mills Limited	6 months KIBOR plus 325 bps	Semi annually	4-Aug-13
WAPDA 2nd Issue	6 months KIBOR plus 25 bps	Semi annually	13-Jul-17
WAPDA Ist Issue	6 months KIBOR plus 35 bps	Semi annually	22-Apr-12

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

9. OPEN ENDED MUTUAL FUNDS

	No. of Units 2009	No. of Units 2008	Net Asset Value 2009	Net Asset Value 2008	Cost 2009	Cost 2008	Rating 2009	Rating 2008
			Rupees in '000					
ABL Income Fund	61,974,248	2,500,000	620,319	25,022	625,000	25,000	A+(f)	A(f)
AKD Index & Tracker Fund	1,516,896	1,582,913	12,150	8,611	12,000	15,000	**	5-Star
AKD Opportunity Fund	787,852	811,646	34,153	23,944	34,000	50,000	**	**
Alfalah GHP Principal Protected Fund	538,637	500,000	29,006	23,890	25,000	25,000	**	**
Askari Asset Allocation Fund	307,714	629,050	19,195	37,815	28,565	60,000	**	**
Askari Income Fund	2,765,910	6,702,795	293,795	635,693	290,918	705,000	3 - Star	5-Star
Atlas Income Fund	390,930	394,750	201,786	188,568	200,789	200,000	3 - Star	4-Star
Crosby Dragon Fund	888,844	–	95,924	–	100,000	–	**	**
Faysal Saving & Growth Fund	494,951	1,479,874	50,935	153,285	50,184	150,000	A	A+(f)
First Habib Stock Fund	150,000	–	14,830	–	15,000	–	**	**
HBL Income Fund	4,448,476	4,346,613	437,419	413,493	450,000	450,000	A	**
IGI Income Fund	726,392	–	76,663	–	75,000	–	**	**
IGI Islamic Fund	198,906	–	20,040	–	20,000	–	**	**
JS Fund of Fund	1,043,125	–	107,630	–	100,000	–	**	**
JS Income Fund	4,879,477	4,953,704	503,464	499,631	500,000	500,000	**	5-Star
KASB Liquid Fund	3,583,840	7,002,677	317,487	636,263	376,480	745,000	**	5-Star
Lakson Money Market Fund	1,501,356	–	152,126	–	150,000	–	**	**
MCB Dynamic Allocation Fund	237,819	250,000	19,190	13,762	19,000	25,000	**	**
MCB Dynamic Cash Fund	6,990,342	6,990,342	723,181	689,885	730,000	730,000	3 - Star	**
Meezan Cash Fund	501,500	–	26,319	–	25,000	–	AA	**
Meezan Islamic Income Fund	5,801,479	5,772,472	294,889	280,037	300,000	300,000	A+	A(f)
MSF Perpetual	27,144,183	8,425,300	1,394,125	371,893	1,250,467	370,460	**	**
Nafa Cash Fund	59,463,049	37,189,583	604,549	356,630	600,457	400,000	3 - Star	A(f)
Nafa Islamic Multi Asset Fund	–	2,500,000	–	21,312	–	25,000	5 - Star	**
Nafa Stock Fund	9,772,715	3,216,727	70,442	17,117	70,000	40,000	2 - Star	**
National Investment Trust	3,125,000	–	94,531	–	100,000	–	2 - Star	**
NIT Government Bond	10,000,000	–	101,335	–	100,000	–	**	**
Pakistan Income Enhancement Fund	2,935,995	–	148,767	–	150,000	–	**	**
Pakistan Income Fund	3,790,032	6,054,073	192,761	292,109	200,000	300,000	3 - Star	5 - Star
Pakistan Stock Market Fund	1,176,471	368,351	72,353	13,832	72,000	25,000	3 - Star	**
UBL Islamic Income Fund	499,790	150,000	49,949	13,985	50,000	15,000	**	**
UBL Principal Protected Plan - I	211,686	190,721	20,939	17,095	25,000	25,000	**	**
UBL Principal Protected Plan - II	656,256	–	62,448	–	50,000	–	**	**
Unit Trust Of Pakistan	1,753,627	–	200,808	–	200,000	–	**	**
United Growth & Income Fund	14,133,173	7,850,919	1,435,190	751,105	1,404,770	800,000	A	A(f)
United Money Market Fund	–	4,106,743	–	389,622	–	400,000	**	A+(f)
United Stock Advantage Fund (Class - A)	1,159,420	–	98,991	–	100,000	–	**	**
UTP Islamic Fund	65,765	–	25,140	–	25,000	–	4 - Star	**
			8,622,829	5,874,599	8,524,630	6,380,460		

**Ratings not available

10. CLOSED END MUTUAL FUNDS

	2009	2008	2009	2008	2009	2008	2009	2008
	Number of Units		Market Value		Cost		Rating	
			Rupees in '000					
BMA Principal Guaranteed Fund - I	–	5,517,697	–	49,659	–	49,575	**	**
JS Large Capital Fund (Formerly								**
UTP Large Capital Fund)	**2,820,500**	2,820,500	**12,974**	9,279	**27,959**	27,959	**	**
Meezan Balanced Fund	**2,500,000**	2,500,000	**15,250**	12,700	**25,000**	25,000	**	5 - Star
Pakistan Strategic Allocation Fund	**3,416,000**	3,087,000	**15,167**	8,582	**32,150**	30,868	**4 - Star**	4 - Star
PICIC Energy Fund	**4,200,000**	4,200,000	**19,908**	15,162	**42,000**	42,000	**	**
PICIC Growth Fund	**42,000**	42,000	**599**	332	**1,946**	1,946	**	
			63,898	95,714	**129,055**	177,348		

**Ratings not available

11. Break-up value per ordinary share of Habib Metropolitan Financial Services Limited (subsidiary company) based on its audited financial statements as of 31 December 2009 amounted to Rs. 10.37 (2008: Rs. 10.05) per share.

ANNEXURE “II” AS REFERRED TO NOTE 12.8 OF THE FINANCIAL STATEMENTS

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RS. 500,000/- OR ABOVE PROVIDED

DURING THE YEAR ENDED DECEMBER 31, 2009

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			
				(Rupees in ‘000)					
1.	Mr. Maqbool Ahmed 308-Sachi Tower, M.A. Jinnah Road, Karachi	Mr. Maqbool Ahmed 42201-4922998-5	Mr. Abdul Sattar	5,600	346	5,946	2,310	346	2,656
2.	Karachi Rubber Store Taj Manzil, Jameela Street, Saeed Manzil, M. A. Jinnah Road Karachi	Syed Abid Ali Shah 42101-1605876-7	Syed Amjad Ali Shah	2,489	540	3,029	939	540	1,479
			Total	**8,089**	**886**	**8,975**	**3,249**	**886**	**4,135**

HMB

ANNEXURE "III" AS REFERRED TO NOTE 6.3 OF THE FINANCIAL STATEMENTS
UNCONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2009

	2009	2008 (Restated)	2007 (Restated)
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	**11,192,498**	11,401,384	10,201,545
Balances with other banks	**4,836,399**	2,974,237	3,691,183
Lendings to financial institutions	**150,000**	98,176	3,989,249
Investments	**111,679,520**	53,631,532	61,735,796
Advances	**102,293,132**	108,261,259	89,826,806
Operating fixed assets	**2,431,227**	1,583,360	1,294,486
Deferred tax assets	**824,706**	1,144,451	–
Other assets	**4,004,748**	3,616,454	2,127,936
	237,412,230	182,710,853	172,867,001
LIABILITIES			
Bills payable	**3,111,467**	2,372,146	3,210,041
Borrowings	**68,186,674**	30,372,598	29,917,483
Deposits and other accounts	**142,457,376**	128,432,616	121,140,619
Sub-ordinated loans	**–**	–	–
Liabilities against assets subject to finance lease	**–**	–	–
Deferred tax liabilities	**–**	–	60,874
Other liabilities	**4,916,200**	6,528,843	5,123,341
	218,671,717	167,706,203	159,452,358
NET ASSETS	**18,740,513**	15,004,650	13,414,643
REPRESENTED BY:			
Share capital	**7,527,525**	6,022,020	5,018,350
Reserves	**7,587,835**	7,039,936	6,383,936
Unappropriated profit	**3,773,782**	3,087,692	1,956,409
	18,889,142	16,149,648	13,358,695
(Deficit)/Surplus on revaluation of (assets)/liability - net of tax	**(148,629)**	(1,144,998)	55,948
	18,740,513	15,004,650	13,414,643

CONTINGENCIES AND COMMITMENTS

PATTERN OF SHAREHOLDINGS CDC AND PHYSICAL

AS ON DECEMBER 31, 2009

Number of Shareholders	Size of Shareholding Rs. 10 each			Total Shares held
314	1	-	100	10,996
484	101	-	500	139,468
365	501	-	1,000	275,244
955	1,001	-	5,000	2,315,148
589	5,001	-	10,000	4,572,659
105	10,001	-	15,000	1,297,976
90	15,001	-	20,000	1,575,573
35	20,001	-	25,000	783,593
48	25,001	-	30,000	1,306,243
41	30,001	-	35,000	1,362,655
25	35,001	-	40,000	942,846
14	40,001	-	45,000	608,446
12	45,001	-	50,000	571,346
8	50,001	-	55,000	416,633
11	55,001	-	60,000	635,593
8	60,001	-	65,000	496,948
11	65,001	-	70,000	746,715
6	70,001	-	75,000	442,682
8	75,001	-	80,000	612,486
3	80,001	-	85,000	248,536
9	85,001	-	90,000	789,973
3	90,001	-	95,000	281,405
1	95,001	-	100,000	97,500
3	100,001	-	105,000	305,127
3	105,001	-	110,000	318,297
3	110,001	-	115,000	337,725
2	115,001	-	120,000	233,322
8	120,001	-	125,000	983,804
3	125,001	-	130,000	383,267
2	130,001	-	135,000	260,520
5	135,001	-	140,000	690,979
1	140,001	-	145,000	141,097
5	145,001	-	150,000	750,000
2	150,001	-	155,000	305,793
3	160,001	-	165,000	487,084
1	170,001	-	175,000	173,657
1	175,001	-	180,000	176,606
1	180,001	-	185,000	182,363
1	185,001	-	190,000	188,500
2	190,001	-	195,000	388,566
2	195,001	-	200,000	397,528
2	200,001	-	205,000	400,434
1	215,001	-	220,000	217,086
2	220,001	-	225,000	447,657
1	225,001	-	230,000	225,107
2	230,001	-	235,000	464,027
2	240,001	-	245,000	485,812
1	250,001	-	255,000	252,200
2	255,001	-	260,000	518,871
4	260,001	-	265,000	1,045,632
1	265,001	-	270,000	267,197
1	270,001	-	275,000	270,098
1	280,001	-	285,000	280,892
1	290,001	-	295,500	292,415
1	295,001	-	300,000	300,000
1	305,001	-	310,000	308,496
1	310,001	-	315,000	314,125
1	320,001	-	325,000	324,750
1	325,001	-	330,000	328,275

Number of Shareholders	Size of Shareholding Rs. 10 each			Total Shares held
1	335,001	-	340,000	336,800
4	345,001	-	350,000	1,392,061
1	355,001	-	360,000	358,915
2	375,001	-	380,000	755,022
1	395,001	-	400,000	397,117
1	405,001	-	410,000	407,788
1	415,001	-	420,000	415,737
1	425,001	-	430,000	425,502
5	430,001	-	435,000	2,167,312
1	500,001	-	505,000	504,696
1	515,001	-	520,000	519,700
3	520,001	-	525,000	1,563,120
1	525,001	-	530,000	529,676
4	540,001	-	545,000	2,170,894
1	545,001	-	550,000	550,000
5	575,001	-	580,000	2,891,760
1	595,001	-	600,000	595,271
2	605,001	-	610,000	1,215,734
2	620,001	-	625,000	1,245,036
2	690,001	-	695,000	1,385,209
1	725,001	-	730,000	726,450
3	740,001	-	745,000	2,230,011
2	745,001	-	750,000	1,490,170
1	750,001	-	755,000	754,988
1	755,001	-	760,000	758,477
1	760,001	-	765,000	762,134
1	795,001	-	800,000	797,080
1	815,001	-	820,000	818,961
2	865,001	-	870,000	1,736,774
1	960,001	-	965,000	960,410
1	985,001	-	990,000	987,130
1	1,000,001	-	1,005,000	1,001,712
1	1,040,001	-	1,045,000	1,042,076
2	1,085,001	-	1,090,000	2,170,970
2	1,115,001	-	1,120,000	2,233,480
1	1,120,001	-	1,125,000	1,120,291
1	1,155,001	-	1,160,000	1,158,423
1	1,160,001	-	1,165,000	1,160,170
1	1,195,001	-	1.200,000	1,196,426
1	1,215,001	-	1,220,000	1,220,000
1	1,335,001	-	1,340,000	1,340,000
1	1,380,001	-	1,385,000	1,383,355
1	1,485,001	-	1,490,000	1,486,677
3	1,490,001	-	1,495,000	4,475,344
1	1,535,001	-	1,540,000	1,536,777
1	1,620,001	-	1,625,000	1,624,600
2	1,735,001	-	1,740,000	3,473,554
1	1,770,001	-	1,775,000	1,771,470
2	1,950,001	-	1,955,000	3,907,800
1	2,195,001	-	2,200,000	2,199,217
1	3,210,001	-	3,215,000	3,210,728
1	3,370,001	-	3,375,000	3,375,000
1	3,910,001	-	3,915,000	3,914,617
1	4,005,001	-	4,010,000	4,005,937
1	4,190,001	-	4,195,000	4,192,117
1	5,400,001	-	5,405,000	5,401,091
1	5,930,001	-	5,935,000	5,931,563
1	6,225,001	-	6,230,000	6,229,025
1	7,070,001	-	7,075,000	7,071,174

Number of Shareholders	Size of Shareholding Rs. 10 each			Total Shares held
1	7,525,001	-	7,530,000	7,527,525
1	7,940,001	-	7,945,000	7,944,080
1	8,430,001	-	8,435,000	8,431,127
1	8,910,001	-	8,915,000	8,910,102
1	9,900,001	-	9,905,000	9,903,656
1	13,890,001	-	13,895,000	13,894,387
1	18,725,001	-	18,730,000	18,729,606
1	19,340,001	-	19,345,000	19,342,022
1	26,970,001	-	26,975,000	26,972,471
1	50,595,001	-	50,600,000	50,597,392
1	51,930,001	-	51,935,000	51,934,855
1	383,900,001	-	383,905,000	383,903,775
3,320				752,752,500

COMBINED PATTERN OF CDC AND PHYSICAL SHAREHOLDINGS

AS ON DECEMBER 31, 2009

HMB

Category No.	Categories of Shareholders	Number of Shares held	Category wise No. of Share holders	Category wise Shares held	(%)
1	Individuals		3,123	103,252,362	13.72
2	Investment Companies		6	3,100,502	0.41
3	Joint Stock Companies		62	3,835,765	0.51
4	Directors, Chief Executive Officer and their spouse and minor children		11	24,361,281	3.24
	Mr. Kassim Parekh	1,736,777			
	Mr. Muhammad H. Habib	1,486,677			
	Mr. Reza S. Habib	1,085,485			
	Mr. Bashir Ali Mohammad	13,894,387			
	Mr. Anwar H. Japanwala	1,042,076			
	Mr. Ronald V. Emerson	625			
	Mr. Firasat Ali – Nominee NIT	–			
	Mr. Mohamedali R. Habib	1,158,423			
	Syeda Mohamedali R. Habib	578,352			
	Mrs. Farah Fatimah Muhammad H. Habib	745,085			
	Mrs. Sarwat Reza S. Habib	434,177			
	Mrs. Dilshad Anwar H. Japanwala	2,199,217			
5	Executives		44	2,201,932	0.29
6	NIT / ICP		4	102,538,269	13.62
	National Bank of Pakistan, Trustee Deptt.	102,537,447			
	Investment Corporation of Pakistan	822			
7	Associated Companies, undertakings and related parties		4	385,257,033	51.18
	Habib Bank AG Zurich	383,903,775			
	Habib Insurance Company Limited	1,196,426			
	Trustees Thal Ltd. Emp. Ret Benefit Fund	32,565			
	Trustees Thal Ltd. Emp. Provident Fund	124,267			
8	Public Sector Companies and Corporations		–	–	–
9	Banks, DFIs, NBFIs, Insurance companies, Modarabas & Mutual Funds		27	48,902,941	6.50
10	Foreign Investors		20	71,298,455	9.47
11	Co-operative Societies		1	7,071,174	0.94
12	Charitable Trusts		8	482,410	0.06
13	Others		10	450,376	0.06
	Total		**3,320**	**752,752,500**	**100.00**

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

Total Paid-up Capital of the company	752,752,500 shares
10% of the paid-up capital of the Company	75,275,250 shares

Name(s) of Shareholder(s)	Description	No. of Shares held	Percentage (%)
Habib Bank AG Zurich, Switzerland	Falls in Category #7	383,903,775	51.00
National Bank of Pakistan, Trustee Department	Falls in Category #6	102,537,447	13.62