

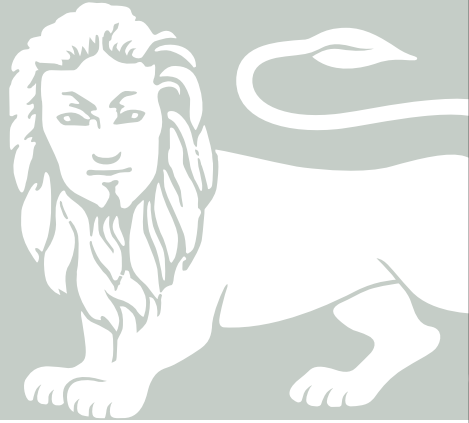


هَذَا مِنْ فَضْلِ رَبِّي



**Habib Metropolitan Bank**  
(Subsidiary of Habib Bank AG Zurich)

# Our Vision



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

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## CORPORATE INFORMATION



### BOARD OF DIRECTORS

#### CHAIRMAN

Kassim Parekh

#### CHIEF EXECUTIVE

Anjum Iqbal

#### DIRECTORS

Muhammad H. Habib

Reza S. Habib

Bashir Ali Mohammad

Anwar H. Japanwala

Ronald V. Emerson

Wazir Ali Khoja

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.

## DIRECTORS' REVIEW

On behalf of the Board of Directors of Habib Metropolitan Bank, I am pleased to present our unaudited accounts for the nine months ended September 30, 2010.

During the period under review, our country was affected by the worst floods in our history. These floods had an adverse effect on the previously positive economic outlook with the agriculture sector suffering the most damage. This sector accounts for 26% of our GDP and is directly responsible for the livelihoods of millions of people.

Total flood damage is estimated around US\$10 billion, which is 5% of GDP. Approximately 4.5 million acres have been affected and millions of people have been left homeless.

Despite the agricultural damage, analysts project the rabi crop will be substantially better in the next season. Dams have also filled up and there should be sufficient water supply to cater for consumption next year.

Pakistan's GDP growth is not expected to meet the target of 4.5% which has now being revised downwards to 3%. Current account deficit has not been affected due to robust workers' remittances and donations coming from the donor agencies and foreigners. Net foreign exchange reserves also increased to US\$ 17 billion.

Inflation, which was already at high levels, is expected to stay on an increasing trend primarily due to the flood damage, a likely increase in electricity prices, increase in the food item prices and implementation of reformed GST. Interest rates are also likely to increase in the near future and, effective from September 30, 2010, the SBP has raised the discount rate by 0.5% to 13.5% to try and curtail the inflationary pressures.

Despite present conditions, by Allah's grace your Bank continues to make steady progress as reflected in the attached financial statements. At the period end, the total assets of the Bank stood at Rs. 229 billion. The Bank's deposits increased to Rs. 156 billion as against Rs.142 billion at the preceding year end while advances increased by Rs. 5 billion to close at Rs.107 billion. The Bank's pre-tax profit for the period end amounted to Rs. 3.016 billion reflecting an EPS of Rs. 2.45 per share.

The Bank has, during the quarter, recognized an additional Rs. 447 million of non-performing loans and made additional provisions of Rs. 814 million due to adverse economic conditions particularly with exports. However, due to recent duty tariff concessions on textile exports offered by the European Union and the economic recovery in the developed economies, we anticipate that our exports here will increase significantly and we expect to make recoveries from these loans in future. The Bank also continues to maintain a general provision over and above the required levels.

At quarter end, HMB's net equity stands at Rs. 20.28 billion with a comfortable 11.85% capital adequacy level (Basel II) against the required 10%.



HMB continues to enjoy AA+ (Double A plus) ratings for long term and A1+ (A one plus) ratings for short term by the Pakistan Credit Rating Agency Limited (PACRA). 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.

With a branch network of 126 branches including 3 sub branches, HMB is providing a full range of banking services including cash management services, e-salary services for corporate employees, on-line utility bills payment solutions on its ATMs and through our 24-hour call centre, on-line instant fund transfer facilities, SWIFT, teleinfo, web-info and mobile banking alerts (GSM) to our customers. The Bank plans to open more branches during the year and continue with its program for upgrading existing branches to provide better services.

Furthermore, our call centre "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 plans to add further innovative services on this platform for the ease and accessibility of customers.

HMB Islamic Banking Division has expanded its reach to 48 locations in 6 cities to cater to the Islamic banking needs of its customers seeking Sha'ria compliant products in a more effective manner.

Being a conscientious corporate citizen, HMB acknowledges its corporate social responsibility and came to the aid of our compatriots hit by the country's worst flood in the history. Your Bank has contributed Rs. 5 million through well reputed organisation in addition to Bank's employees who have donated their one-day salary amounted to Rs. 3.7 million for the flood affected. These were utilised for providing food, health services, construction of new houses and school buildings.

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

Karachi: October 26, 2010

**Anjum Iqbal**  
Chief Executive

# UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UN-AUDITED)

AS AT 30 SEPTEMBER 2010

	Note	30 September, 2010 (Un-Audited)	31 December, 2009 (Audited)
Rupees in '000			
<b>ASSETS</b>			
Cash and balances with treasury banks		12,422,626	11,192,498
Balances with other banks	5	2,469,957	4,836,399
Lendings to financial institutions	6	7,000,000	150,000
Investments	7	90,599,269	111,679,520
Advances	8	106,758,636	102,293,132
Operating fixed assets	9	2,883,592	2,431,227
Deferred tax assets - net	10	1,442,705	824,706
Other assets		5,445,018	4,004,748
		<b>229,021,803</b>	<b>237,412,230</b>
<b>LIABILITIES</b>			
Bills payable		3,310,874	3,111,467
Borrowings	11	43,502,032	68,186,674
Deposits and other accounts	12	156,937,943	142,457,376
Sub-ordinated loans		—	—
Liabilities against assets subject to finance lease		—	—
Deferred tax liabilities		—	—
Other liabilities		5,571,413	4,916,200
		<b>209,322,262</b>	<b>218,671,717</b>
<b>NET ASSETS</b>		<b>19,699,541</b>	<b>18,740,513</b>
<b>REPRESENTED BY</b>			
Share capital		8,731,929	7,527,525
Reserves		8,015,835	7,587,835
Unappropriated profit		3,527,440	3,773,782
		<b>20,275,204</b>	<b>18,889,142</b>
Deficit on revaluation of assets - net of tax	13	(575,663)	(148,629)
		<b>19,699,541</b>	<b>18,740,513</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	14		

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

**KASSIM PAREKH**  
Chairman

**ANJUM IQBAL**  
Chief Executive

**BASHIR ALI MOHAMMAD**  
Director

**MOHAMEDALI R. HABIB**  
Director

**UNCONSOLIDATED CONDENSED INTERIM  
PROFIT AND LOSS ACCOUNT (UN-AUDITED)**  
FOR THE QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2010



	30 September 2010		30 September 2009	
Note	Quarter ended	Nine months ended	Quarter ended	Nine months ended
	(Restated)			
	Rupees in '000			
Mark-up / return / interest earned	5,579,687	17,146,456	5,630,013	15,762,777
Mark-up / return / interest expensed	(3,768,846)	(11,899,869)	(3,854,571)	(10,604,649)
Net mark-up / interest income	1,810,841	5,246,587	1,775,442	5,158,128
Provision against non-performing loans and advances	813,758	2,172,282	254,084	1,115,433
Provision for diminution in the value of investments	1,870	86,453	—	32,777
Bad debts written-off directly	—	—	—	—
	(815,628)	(2,258,735)	(254,084)	(1,148,210)
Net mark-up / interest income after provisions	995,213	2,987,852	1,521,358	4,009,918
Non mark-up / interest income				
Fee, commission and brokerage income	375,053	1,179,738	301,396	916,621
Dividend income	170,430	405,724	142,127	313,618
Income from dealing in foreign currencies	368,265	1,141,818	110,465	917,653
Gain on sale / redemption of securities	17,615	209,081	101,155	144,659
Unrealized gain / (loss) on revaluation of investments classified as 'held for trading'	—	—	—	—
Other income	57,867	194,029	44,776	196,179
Total non mark-up / interest income	989,230	3,130,390	699,919	2,488,730
	1,984,443	6,118,242	2,221,277	6,498,648
Non mark-up / interest expenses				
Administrative expenses	1,026,040	3,015,816	906,197	2,581,459
Other provisions / write-offs	—	—	—	—
Other charges	29,126	85,943	28,000	84,273
Total non mark-up / interest expenses	(1,055,166)	(3,101,759)	(934,197)	(2,665,732)
	929,277	3,016,483	1,287,080	3,832,916
Extra-ordinary / unusual items	—	—	—	—
Profit before taxation	929,277	3,016,483	1,287,080	3,832,916
Taxation — Current	393,454	1,265,726	386,504	1,325,331
— Prior years	—	—	—	—
— Deferred	(131,018)	(388,058)	(16,043)	(155,040)
	(262,436)	(877,668)	(370,461)	(1,170,291)
Profit after taxation	666,841	2,138,815	916,619	2,662,625
	Rupees			
	(Restated)			
Basic and diluted earnings per share	15	0.76 2.45	1.05	3.05

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

**KASSIM PAREKH**  
Chairman

**ANJUM IQBAL**  
Chief Executive

**BASHIR ALI MOHAMMAD**  
Director

**MOHAMEDALI R. HABIB**  
Director

**UNCONSOLIDATED CONDENSED INTERIM  
STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)**  
FOR THE QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2010

	30 September 2010		30 September 2009	
	Quarter ended	Nine months ended	Quarter ended	Nine months ended
	(Restated)			
	Rupees in '000			
Profit after taxation for the period	666,841	2,138,815	916,619	2,662,625
Other comprehensive income	—	—	—	—
Comprehensive income transferred to equity	666,841	2,138,815	916,619	2,662,625
Components of comprehensive income not reflected in equity				
(Deficit) / surplus on revaluation of investments	(619,844)	(656,976)	(210,736)	(1,547,697)
Deferred tax on revaluation of investments	216,946	229,942	133,707	(481,159)
	(402,898)	(427,034)	(77,029)	1,066,538
Total comprehensive income	263,943	1,711,781	839,590	3,729,163

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

**KASSIM PAREKH**  
Chairman

**ANJUM IQBAL**  
Chief Executive

**BASHIR ALI MOHAMMAD**  
Director

**MOHAMEDALI R. HABIB**  
Director

**UNCONSOLIDATED CONDENSED INTERIM  
CASH FLOW STATEMENT (UN-AUDITED)**  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010



	30 September 2010	30 September 2009 (Restated)
	Rupees in '000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	3,016,483	3,832,916
Less: Dividend income	(405,724)	(313,618)
	<b>2,610,759</b>	<b>3,519,298</b>
<b>Adjustments</b>		
Depreciation	231,513	162,881
Provision against non-performing loans and advances	2,172,282	1,115,433
Provision for diminution in the value of investments – net	54,157	32,777
(Gain) on sale of fixed assets	(4,957)	(2,601)
	<b>2,452,995</b>	<b>1,308,490</b>
	<b>5,063,754</b>	<b>4,827,788</b>
<b>(Increase) / decrease in operating assets</b>		
Lendings to financial institutions	(6,850,000)	(4,651,824)
Advances	(6,637,786)	8,004,215
Other assets	(1,440,270)	(288,270)
	<b>(14,928,056)</b>	<b>3,064,121</b>
<b>Increase / (decrease) in operating liabilities</b>		
Bills payable	199,407	930,197
Borrowings	(24,912,607)	41,221,934
Deposits	14,480,567	5,907,109
Other liabilities (excluding taxation and dividend)	976,934	(823,494)
	<b>(9,255,699)</b>	<b>47,235,746</b>
	<b>(19,120,001)</b>	<b>55,127,655</b>
Income tax paid	(1,589,582)	(1,573,698)
<b>Net cash flows from operating activities</b>	<b>(20,709,583)</b>	<b>53,553,957</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investments in available-for-sale securities	21,769,118	(53,459,768)
Net investments in held-to-maturity securities	(1,400,000)	350,000
Dividend received	405,724	313,618
Investments in operating fixed assets	(687,693)	(1,002,581)
Proceeds from sale of fixed assets	8,772	3,537
<b>Net cash flows from investing activities</b>	<b>20,095,921</b>	<b>(53,795,194)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(750,617)	(37)
<b>Net cash flows from financing activities</b>	<b>(750,617)</b>	<b>(37)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(1,364,279)</b>	<b>(241,274)</b>
Cash and cash equivalents at beginning of the period	14,096,331	12,986,063
Effect of exchange rate changes on cash and cash equivalent	136,370	185,378
<b>Cash and cash equivalents at the end of the period</b>	<b>12,868,422</b>	<b>12,930,167</b>

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

**KASSIM PAREKH**  
Chairman

**ANJUM IQBAL**  
Chief Executive

**BASHIR ALI MOHAMMAD**  
Director

**MOHAMEDALI R. HABIB**  
Director

**UNCONSOLIDATED CONDENSED INTERIM  
STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)**  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

	Share Capital	Reserves					Unappro- priated profit	Total
		Share premium	Statutory reserve	Special reserve	Revenue reserve	Reserve for issue of bonus shares		
	Rupees in '000							
Balance as at 1 January 2009	6,022,020	2,550,985	2,748,590	240,361	1,500,000	—	3,087,692	16,149,648
Comprehensive income transferred to equity (profit for the period) - Restated	—	—	—	—	—	—	2,662,625	2,662,625
Transactions with owners, recorded directly in equity								
Transfer to reserve for issuance of bonus shares in the ratio of 25 shares for every 100 shares held	—	—	—	—	—	1,505,505	(1,505,505)	—
Issue of bonus share in the ratio of 25 shares for every 100 shares held	1,505,505	—	—	—	—	(1,505,505)	—	—
Transferred to statutory reserve	—	—	541,000	—	—	—	(541,000)	—
Balance as at 30 September 2009	7,527,525	2,550,985	3,289,590	240,361	1,500,000	—	3,703,812	18,812,273
Comprehensive income transferred to equity (profit for the period)	—	—	—	—	—	—	76,869	76,869
Transfer to statutory reserve	—	—	6,899	—	—	—	(6,899)	—
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
Comprehensive income transferred to equity (profit for the period)	—	—	—	—	—	—	2,138,815	2,138,815
Transactions with owners, recorded directly in equity								
Transfer to reserve for issuance of bonus share in the ratio of 16 shares for every 100 shares held	—	—	—	—	—	1,204,404	(1,204,404)	—
Cash dividend (Re. 1 per share)	—	—	—	—	—	—	(752,753)	(752,753)
Issue of bonus share in the ratio of 16 shares for every 100 shares held	1,204,404	—	—	—	—	(1,204,404)	—	—
Transferred to statutory reserve	—	—	428,000	—	—	—	(428,000)	—
Balance as at 30 September 2010	8,731,929	2,550,985	3,724,489	240,361	1,500,000	—	3,527,440	20,275,204

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

**KASSIM PAREKH**  
Chairman

**ANJUM IQBAL**  
Chief Executive

**BASHIR ALI MOHAMMAD**  
Director

**MOHAMEDALI R. HABIB**  
Director



**NOTES TO THE UNCONSOLIDATED CONDENSED  
INTERIM FINANCIAL INFORMATION (UN-AUDITED)**  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010



**1. STATUS AND NATURE OF BUSINESS**

Habib Metropolitan Bank Limited (the Bank) was incorporated in Pakistan on 3 August 1992 as a public limited company, under the Companies Ordinance, 1984 and is engaged in commercial banking and related services. Its shares are listed on all stock exchanges in Pakistan. The registered office of the Bank is situated at Spencer's Building, I.I. Chundrigar Road, Karachi. The Bank operates 123 (31 December 2009: 120) branches including 4 (31 December 2009: 4) Islamic Banking Branches in Pakistan. The Bank is a subsidiary of Habib Bank AG Zurich, which is incorporated in Switzerland.

**2. BASIS OF PREPARATION**

- 2.1** These unconsolidated condensed interim financial information are presented in condensed form in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting. These unconsolidated condensed interim financial information do not include all of the information required for full financial statements and should be read in conjunction with the financial statements of the Bank for the year ended 31 December 2009.
- 2.2** These unconsolidated condensed interim financial information are being submitted to the shareholders in accordance with the requirements of section 245 of Companies Ordinance, 1984. These unconsolidated interim financial information are unaudited.
- 2.3** These are separate unconsolidated condensed interim financial statements of the Bank in which investment in a subsidiary is accounted for on the basis of direct equity interest and is not consolidated.

**3. ACCOUNTING POLICIES AND ESTIMATES**

- 3.1** The accounting policies and methods of computation followed in the preparation of these unconsolidated condensed interim financial information are consistent with those applied in the preparation of the annual unconsolidated financial statements of the Bank for the year ended 31 December 2009.
- 3.2** The basis for accounting estimates adopted in the preparation of these unconsolidated condensed interim financial information are the same as those applied in the preparation of the annual unconsolidated financial statements of the Bank for the year ended 31 December 2009.

#### 4. FINANCIAL RISK MANAGEMENT

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

#### 5 BALANCES WITH OTHER BANKS

	30 September 2010 (Un-Audited)	31 December 2009 (Audited)
	Rupees in '000	
<b>In Pakistan</b>		
– Current accounts	219,611	194,743
– Deposit accounts	257,570	159
	477,181	194,902
<b>Outside Pakistan</b>		
– Current accounts	1,129,567	1,356,074
– Deposit accounts	863,209	3,285,423
	1,992,776	4,641,497
	2,469,957	4,836,399

#### 6. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	7,000,000	100,000
Letter of placements	–	50,000
	7,000,000	150,000

## 7. INVESTMENTS

INVESTMENTS	30 September 2010 (Un-Audited)			31 December 2009 (Audited)			
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
	Note	Rupees in '000					
<b>Available-for-sale securities</b>							
Market Treasury Bills		28,481,653	15,791,918	44,273,571	36,395,925	34,383,407	70,779,332
Pakistan Investment Bonds		19,531,915	1,621,102	21,153,017	12,736,368	4,788,400	17,524,768
Ordinary shares of listed companies		345,062	–	345,062	276,750	–	276,750
Ordinary shares of unlisted companies		123,101	–	123,101	123,101	–	123,101
Preference shares of a listed company		40,000	–	40,000	40,000	–	40,000
Listed Term Finance Certificates		2,134,327	–	2,134,327	1,911,435	–	1,911,435
Unlisted Term Finance Certificates		4,078,149	–	4,078,149	4,407,393	–	4,407,393
Sukuk Certificates / Bonds		8,289,124	–	8,289,124	8,118,738	–	8,118,738
Open end mutual funds		9,522,041	–	9,522,041	8,524,630	–	8,524,630
Closed end mutual funds		107,692	–	107,692	129,055	–	129,055
		72,653,064	17,413,020	90,066,084	72,663,395	39,171,807	111,835,202
<b>Held-to-maturity securities</b>							
Certificate of Investments		1,400,000	–	1,400,000	–	–	–
<b>Subsidiary</b>							
Habib Metropolitan Financial Services Limited		300,000	–	300,000	300,000	–	300,000
<b>Investments at cost</b>		74,353,064	17,413,020	91,766,084	72,963,395	39,171,807	112,135,202
Less: Provision for diminution in the value of investments		(281,179)	–	(281,179)	(227,022)	–	(227,022)
<b>Investments – net of provisions</b>		74,071,885	17,413,020	91,484,905	72,736,373	39,171,807	111,908,180
Deficit on revaluation of available-for-sale securities – net	13	(695,669)	(189,967)	(885,636)	(78,405)	(150,255)	(228,660)
<b>Investments after revaluation of available-for-sale securities</b>		73,376,216	17,223,053	90,599,269	72,657,968	39,021,552	111,679,520

## 8. ADVANCES

	Note	30 September 2010 (Un-Audited)	31 December 2009 (Audited)
		Rupees in '000	
Loans, cash credits, running finances, etc. – In Pakistan		89,452,567	86,998,347
Net investments, in finance lease / ijara financing – In Pakistan		1,036,801	1,385,434
Net assets / investments in ijarah under IFAS 2		600,167	212,552
Bills discounted and purchased (excluding Market Treasury Bills)			
Payable in Pakistan		5,241,814	4,810,638
Payable outside Pakistan		17,188,278	13,515,637
		22,430,092	18,326,275
Advances - gross		113,519,627	106,922,608
Provision against non-performing advances			
– specific	8.1	(6,336,246)	(4,204,731)
– general	8.3	(424,745)	(424,745)
		(6,760,991)	(4,629,476)
Advances - net of provisions		106,758,636	102,293,132

**8.1** Advances include Rs. 9,367,272 thousand (2009: Rs 6,364,335 thousand) which have been placed under non-performing status as detailed below:

30 September 2010 (Un-Audited)					
Category of Classification	Domestic	Overseas	Total	Provision Required	Provision Held
	Rupees in '000				
Substandard	249,484	–	249,484	59,251	59,251
Doubtful	2,589,329	–	2,589,329	1,041,571	1,041,571
Loss	6,528,459	–	6,528,459	5,235,424	5,235,424
	9,367,272	–	9,367,272	6,336,246	6,336,246
31 December 2009 (Audited)					
Category of Classification	Domestic	Overseas	Total	Provision Required	Provision Held
	Rupees in '000				
Substandard	230,099	–	230,099	32,426	32,426
Doubtful	1,082,445	–	1,082,445	405,567	405,567
Loss	5,051,791	–	5,051,791	3,766,738	3,766,738
	6,364,335	–	6,364,335	4,204,731	4,204,731

**8.2** 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 30 September 2010 would have been lower by approximately Rs 1,521.190 million (31 December 2009: Rs.1,303.499 million). Increase in profit is not available for the distribution of cash and stock dividend to shareholders.

**8.3** General provision includes provision of Rs. 22.010 million (31 December 2009: Rs.16.195 million) made against consumer portfolio in accordance with the Prudential Regulations issued by the SBP at 1.5% of fully secured and at 5% of the unsecured consumer portfolio. The Bank also maintains general provision 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 as approved by Board of Directors of the Bank.

## 9. OPERATING FIXED ASSETS

During the current period, additions and disposals in operating fixed assets amounted to Rs. 311.210 million (30 September 2009: Rs. 433.479 million) and Rs. 3.815 million (30 September 2009: Rs. 0.935 million) respectively.

## 10. DEFERRED TAX ASSETS – NET

The Finance Acts 2009 and 2010, have made certain significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. Deductions for provisions against doubtful and loss categories of advances and off balance sheet items is allowable up to a maximum of 5% of Small and Medium Enterprises (SMEs) and consumer advances and up to 1% of other advances. The amount of bad debts classified as OAEM (in Agriculture) and Substandard under Prudential Regulation issued by State Bank of Pakistan is not allowable as an expense. Provisioning in excess of 5% and 1% of respective advances is 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 5% of SMEs and consumer advances and 1% of other advances and have recognized deferred tax asset on such provision amounting to Rs. 1,128.708 million.

	30 September 2010 (Un-Audited)	31 December 2009 (Audited)
	Rupees in '000	
<b>11. BORROWINGS</b>		
<b>Secured</b>		
Borrowings from State Bank of Pakistan		
– under export refinance scheme	21,197,407	24,820,596
– under long term finance – export oriented projects	1,443,220	1,858,677
– under long term financing facility – locally manufactured plant and machinery	1,286,868	677,608
	23,927,495	27,356,881
Repurchase agreement borrowings	17,350,376	38,807,235
	41,277,871	66,164,116
<b>Unsecured</b>		
Call borrowings	200,000	100,000
Overdrawn nostro accounts	1,991,992	1,755,865
Overdrawn local bank accounts	32,169	40,331
Other short term borrowings	–	126,362
	2,224,161	2,022,558
	43,502,032	68,186,674
<b>12. DEPOSITS AND OTHER ACCOUNTS</b>		
<b>Customers</b>		
Fixed deposits	72,359,376	63,745,868
Saving deposits	41,319,649	39,879,767
Current accounts (non-remunerative)	35,463,210	33,250,907
Others	1,850,850	1,478,044
	150,993,085	138,354,586
<b>Financial Institutions</b>		
Remunerative deposits	5,574,384	3,963,566
Non-remunerative deposits	370,474	139,224
	5,944,858	4,102,790
	156,937,943	142,457,376
14		



**30 September 2010**    **31 December 2009**  
(Un-Audited)    (Audited)  
Rupees in '000

### 13. DEFICIT ON REVALUATION OF ASSETS - NET OF TAX

#### Available-for-sale securities:

Market Treasury Bills	(130,848)	27,645
Pakistan Investment Bonds	(816,999)	(264,249)
Listed Shares	(44,745)	31,317
Term Finance Certificates	(85,448)	(112,001)
Sukuk Certificates / Bonds	48,333	(19,200)
Mutual Funds	144,071	107,828
	(885,636)	(228,660)
Related deferred tax asset - net	309,973	80,031
	(575,663)	(148,629)

### 14. CONTINGENCIES AND COMMITMENTS

#### 14.1 Direct credit substitutes

Bank guarantees of indebtedness in favour of:  
– Banking companies and other financial institutions

**106,518**    106,518

#### 14.2 Transaction-related contingent liabilities

Includes performance bonds, bid bonds, advance payment guarantees and shipping guarantees favouring:

i) Government	9,666,893	7,384,640
ii) Banking companies and other financial institutions	104,465	184,431
iii) Others	4,600,344	6,521,564
	14,371,702	14,090,635

#### 14.3 Trade-related contingent liabilities

Letters of credit	40,673,827	33,926,635
Acceptances	10,144,974	8,815,049

#### 14.4 Commitments in respect of forward exchange contracts

Purchase	43,132,682	25,374,364
Sale	52,808,843	29,690,658

#### 14.5 Commitments in respect of repurchase agreement borrowings

–    4,655,405

	<b>30 September 2010</b> (Un-Audited)	31 December 2009 (Audited)
	Rupees in '000	
<b>14.6 Commitments in respect of operating leases</b>		
Not later than one year	<b>62,797</b>	81,741
Later than one year and not later than five years	<b>38,906</b>	65,749
	<b>101,703</b>	147,490
<b>14.7 Commitments for the acquisition of operating fixed assets</b>	<b>45,552</b>	14,884
<b>14.8 Claims against bank not acknowledged as debt</b>	<b>2,236,910</b>	1,634,510
<b>14.9 Commitments in respect of forward lendings</b>		
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.		
<b>14.10 Commitments in respect of syndicate financing</b>	<b>270,830</b>	593,191
<b>14.11 Commitments in respect of investment in sukuk certificates and term finance certificates</b>	<b>227,777</b>	294,696

**14.12 Taxation**

Income tax assessments of the Bank have been finalised upto the tax year 2007 (corresponding to the accounting year ended 31 December 2006). Certain appeals are pending for the tax years 2008 and 2009 (corresponding to the accounting years ended 31 December 2007 and 31 December 2008). However, adequate provisions are being held by the Bank.

**15. BASIC AND DILUTED EARNINGS PER SHARE**

BASIC AND DILUTED EARNINGS PER SHARE				
	30 September 2010		30 September 2009	
	Quarter ended	Nine months ended	Quarter ended	Nine months ended
	(Un-Audited)		(Restated)	
	Rupees in '000			
Profit after taxation	666,841	2,138,815	916,619	2,662,625
	(Restated)			
	Number in '000			
Weighted average number of ordinary shares	873,193	873,193	873,193	873,193
	(Restated)			
	Rupees			
Basic and diluted earnings per share	0.76	2.45	1.05	3.05

**15.1** The comparative figure of weighted average number of shares outstanding has been restated to include the effect of bonus shares issued by the Bank during the period.



## 16. RELATED PARTY TRANSACTIONS

The Bank has related party relationships with its subsidiary, companies with common directorship, directors, employees' retirement 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.

### 30 September 2010 (Un-Audited)

	Holding Company	Subsidiary	Associates	Key Management Personnel	Retirement Benefit Plans	Total
	Rupees in '000					
<b>Deposits</b>						
At beginning of the period	19,450	271,886	3,531,415	46,038	850,526	4,719,315
Received during the period	4,608,152	110,642,713	349,486,145	135,201	4,336,479	469,208,690
Repaid during the period	(4,581,214)	(110,646,830)	(347,834,597)	(114,665)	(4,018,783)	(467,196,089)
At the end of the period	46,388	267,769	5,182,963	66,574	1,168,222	6,731,916
<b>Advances</b>						
At the beginning of the period	-	-	1,740,927	15,540	-	1,756,467
Disbursed during the period	-	-	32,665,594	10,327	-	32,675,921
Recovered during the period	-	-	(32,837,994)	(3,492)	-	(32,841,486)
At the end of the period	-	-	1,568,527	22,375	-	1,590,902
Bank balances	493,536	-	9,057	-	-	502,593
Mark-up/return/interest payable	-	2,315	-	-	-	2,315
Management fee payable for technical and consultancy services	186,363	-	-	-	-	186,363
Prepayments	-	-	23,516	-	-	23,516
Transaction-related contingent liabilities	-	25,000	1,000,397	-	-	1,025,397
Trade-related contingent liabilities	-	-	1,691,321	-	-	1,691,321
Advance received against prepaid card	-	-	2,249	-	-	2,249
Advance received against insurance premium	-	-	42	-	-	42

	31 December 2009 (Audited)					
	Holding Company	Subsidiary	Associates	Key Management Personnel	Retirement Benefit Plans	Total
	Rupees in '000					
<b>Deposits</b>						
At the 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 the end of the year	19,450	271,886	3,531,415	46,038	850,526	4,719,315
<b>Advances</b>						
At the 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 the 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
Transaction-related contingent liabilities	–	25,000	944,168	–	–	969,168
Trade-related contingent liabilities	–	–	1,343,662	–	–	1,343,662
Advance received against prepaid card	–	–	2,907	–	–	2,907
Advance received against insurance premium	–	–	60	–	–	60

**Transactions for the period ended 30 September 2010 (Un-Audited)**

	<b>Holding Company</b>	<b>Subsidiary</b>	<b>Associates</b>	<b>Key Management Personnel</b>	<b>Retirement Benefit Plans</b>	<b>Directors' Fees</b>	<b>Total</b>
	Rupees in '000						
Mark-up/return/interest earned	—	—	78,628	1,060	—	—	79,688
Management fee for technical and consultancy services	102,662	—	—	—	—	—	102,662
Mark-up/return/interest expensed	—	21,091	417,249	4,777	112,314	—	555,431
Commission/brokerage/bank charges recovered	—	388	8,007	—	—	—	8,395
Rent income	—	900	692	—	—	—	1,592
Remuneration	—	—	—	84,704	—	—	84,704
Directors' fees	—	—	—	—	—	4,590	4,590
Contribution to defined benefit plan	—	—	—	—	36,000	—	36,000
Contribution to defined contribution plan	—	—	—	—	54,221	—	54,221
Bank charges	2,291	149	7,303	—	—	—	9,743
Insurance premium expensed	—	—	22,894	—	—	—	22,894
Rent expenses	—	—	12,085	—	—	—	12,085
Maintenance, electricity, stationary & entertainment	—	—	18,080	—	—	—	18,080
Share registration charges	—	—	967	—	—	—	967

	Transactions for the period ended 30 September 2009 (Un-Audited)						
	Holding Company	Subsidiary	Associates	Key Management Personnel	Retirement Benefit Plan	Directors' Fees	Total
	Rupees in '000						
Mark-up/return/interest earned	3,840	—	94,573	761	—	—	99,174
Management fee for technical and consultancy services	95,880	—	—	—	—	—	95,880
Mark-up/return/interest expensed	—	22,049	318,715	480	54,817	—	396,061
Commission/brokerage/bank charges recovered	—	237	8,202	—	—	—	8,439
Rent income	—	900	634	—	—	—	1,534
Remuneration	—	—	—	77,760	—	—	77,760
Directors' fees	—	—	—	—	—	4,120	4,120
Contribution to defined benefit plan	—	—	—	—	27,000	—	27,000
Contribution to defined contribution plan	—	—	—	—	46,236	—	46,236
Bank charges	1,792	524	7,193	—	—	—	9,509
Insurance premium expense	—	—	21,729	—	—	—	21,729
Rent expenses	—	—	12,291	—	—	—	12,291
Maintenance, electricity, stationary & entertainment	—	—	2,603	—	—	—	2,603
Share registration charges	—	—	1,002	—	—	—	1,002



## 17. KEY ISLAMIC BANKING OPERATIONS

**17.1** The Bank is operating 4 (2009: 4) Islamic banking branches. The balance sheet of these branches as at 30 September 2010 is as follows:

### BALANCE SHEET

	30 September 2010 (Un-Audited)	31 December 2009 (Audited)
	Rupees in '000	
<b>ASSETS</b>		
Cash and balances with treasury banks	922,786	729,330
Balances with and due from financial institutions	250,478	478
Investments	8,251,196	7,740,463
Financing and receivables		
- Murabaha	2,193,667	2,069,501
- Ijara	1,153,172	1,196,447
- Diminishing musharaka	513,590	418,286
- Export refinance murabaha	653,617	—
- Foreign Documentary Bills Purchased	273,487	—
	4,787,533	3,684,234
Due from Head Office	295,856	110,924
Other assets	921,998	501,465
	15,429,847	12,766,894
<b>LIABILITIES</b>		
Bills payable	46,711	31,952
Deposits and other accounts		
- Current accounts	936,496	734,112
- Saving accounts	3,712,145	4,543,425
- Term deposits	4,965,755	4,425,802
- Deposits from financial institutions - remunerative	3,243,911	1,370,586
- non-remunerative	27,614	509
	12,885,921	11,074,434
Borrowings	685,000	—
Due to Head Office	—	—
Other liabilities	735,439	780,998
	14,353,071	11,887,384
<b>NET ASSETS</b>	1,076,776	879,510
<b>REPRESENTED BY</b>		
Islamic banking fund	802,158	602,106
Unappropriated profit	221,466	253,690
	1,023,624	855,796
Surplus on revaluation of assets	53,152	23,714
	1,076,776	879,510

#### **18. RESTATEMENT IN CORRESPONDING FIGURES OF PROFIT AND LOSS ACCOUNT**

Corresponding figures of Profit and Loss account have been restated due to the change in accounting policy made in the unconsolidated annual financial statements of the Bank for the year ended 31 December 2009. The change was made to segregate 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.

#### **19. GENERAL**

The figures have been rounded off to nearest thousand rupees.

#### **20. DATE OF AUTHORISATION FOR ISSUE**

These unconsolidated condensed interim financial information were authorised for issue by the Board of Directors on 26 October 2010.

**KASSIM PAREKH**  
Chairman

**ANJUM IQBAL**  
Chief Executive

**BASHIR ALI MOHAMMAD**  
Director

**MOHAMEDALI R. HABIB**  
Director