



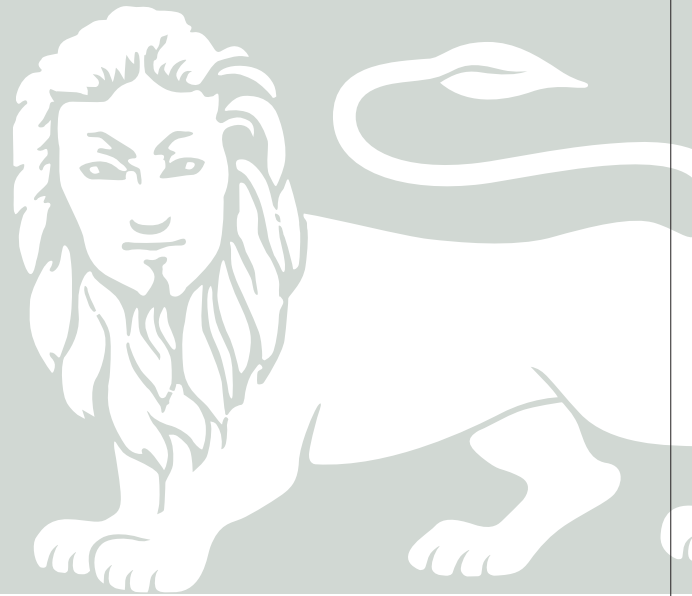
هَذَا مِنْ فَضْلِ رَبِّي



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

CONTENTS

| | |
|---|-----|
| Corporate Information | 1 |
| Notice of Annual General Meeting | 2 |
| Chairman's Review to the Shareholders | 4 |
| Directors' Report to the Shareholders | 5 |
| Statement of Compliance with Best Practices of Code of Corporate Governance | 13 |
| Auditors' Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance | 15 |
| Statement on Internal Controls | 16 |
| Sha'ria Advisor's Report | 18 |
| Auditors' Report | 19 |
| Unconsolidated Statement of Financial Position | 20 |
| Unconsolidated Profit and Loss Account | 21 |
| Unconsolidated Statement of Comprehensive Income | 22 |
| Unconsolidated Cash Flow Statement | 23 |
| Unconsolidated Statement of Changes in Equity | 24 |
| Notes to the Unconsolidated Financial Statements | 25 |
| Pattern of Shareholdings | 90 |
| Consolidated Financial Statements | 93 |
| Branch Network | 165 |
| Proxy Form | |



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.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Nineteenth Annual General Meeting of the shareholders of Habib Metropolitan Bank Ltd. will be held at the Moosa D. Dessai ICAP Auditorium, Institute of Chartered Accountants of Pakistan, G-31/8, Chartered Accountants Avenue, Clifton, Karachi on Wednesday, March 30, 2011 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, 2010 together with the Directors' and Auditors' reports thereon.
2. To approve, as recommended by the Board of Directors, dividend @ 20 % in the form of bonus shares. In the event of any member holding fractional shares, the Directors are 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 elect 8 (eight) Directors as fixed by the Board
4. To appoint Auditors for the financial year ending December 31, 2011 and fix their remuneration. The present Auditors, Messrs. KPMG Taseer Hadi & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS

5. To authorize Board of Directors to provide Chairman with appropriate office premises and support staff for carrying out his duties in his capacity as the Chairman of the Bank pursuant to BPRD Circular No 14 of 2009 dated August 7, 2009.

A Statement of Material Fact under section 160(1) (b) of the Companies Ordinance 1984 relating to the aforesaid special business to be transacted at the said Annual General Meeting is appended below.

ANY OTHER BUSINESS

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

By Order of the Board

Karachi: March 1, 2011

MUHAMMAD IMRAN
Company Secretary

Notes:

1. The number of directors to be elected pursuant to Section 178(1) of the Companies Ordinance, 1984, has been fixed at 8 (eight). The following being eligible have offered themselves for re-election.

Mr. Kassim Parekh, Mr. Muhammad H. Habib, Mr. Reza S. Habib, Mr. Bashir Ali Mohammad, Mr. Ronald V. Emerson , Mr. Wazir Ali Khoja and Mr. Mohamedali R. Habib.
2. Any member desirous to contest the election of Directors shall file the following with the Company Secretary of the Bank at its Registered Office, Spencer's Building, I.I. Chundrigar Road, Karachi, not later than fourteen days before the day of the above said meeting:
 - a) His/her intention to offer himself / herself for the election in terms of Section 178(3) of the Companies Ordinance, 1984 together with a consent in Form 28;
 - b) Declarations under clauses (ii) to (v) of the code of Corporate Governance;
 - c) Fit & Proper Test, Affidavit and a completed questionnaire as required in terms of BPRD Circular No. 4 of April 23, 2007.
3. 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.
4. 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.
5. Members are requested to notify the change of addresses, if any.
6. The share transfer book of the bank will remain closed from March 25, 2011 to April 8, 2011 (both days inclusive).

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

This statement sets out the material facts concerning the special business to be transacted at the Annual General Meeting of the Bank to be held on March 30, 2011.

Pursuant to BPRD Circular No 14 of 2009 dated August 7, 2009, approval of the shareholders will be sought and resolution to be passed for the following:

1. To provide Chairman with appropriate office premises by the Bank and support staff for carrying out his duties in his capacity as the Chairman of the Bank.

“Resolved that the Board of Directors is authorized to provide Chairman with appropriate office premises by the Bank and support staff for carrying out his duties in his capacity as Chairman of the Bank.”

CHAIRMAN'S REVIEW TO THE SHAREHOLDERS



Dear Shareholders,

On behalf of the 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, 2010. The operating financial results and appropriations, as recommended by the Board of Directors, are summarized below:

| | Rupees in '000 |
|---|------------------|
| Profit before provisions and taxation | 7,067,883 |
| Provision for non-performing loans & investments | (3,041,548) |
| Profit before taxation | 4,026,335 |
| Taxation – Current | (1,904,158) |
| – Deferred | 695,861 |
| | (1,208,297) |
| Profit after taxation | 2,818,038 |
| Un-appropriated profit brought forward | 3,773,782 |
| Profit available for appropriation | 6,591,820 |
| Appropriations: | |
| – Transfer to statutory reserve | (563,608) |
| – Issue of bonus shares in the ratio of 16 shares for every 100 shares held - 2009 | (1,204,404) |
| – Cash dividend (Re. 1 per share) – 2009 | (752,753) |
| | (2,520,765) |
| Un-appropriated profit carried forward | 4,071,055 |

The Directors are pleased to propose a final dividend of 20% bonus shares (20 shares for every 100 shares held) for the year under review.

By Allah's grace, your Bank achieved new milestones during the year. The Bank's deposits crossed Rs. 160 billion mark at the year-end and advances have increased to Rs. 120 billion against Rs. 102 billion last year. Total assets exceeded Rs. 252 billion.

The Bank recognized an additional Rs. 4.6 billion of non-performing loans and accordingly made additional provisions of Rs. 2.9 billion for the year. Despite present conditions, HMB's profits before provisions and taxation increased during 2010, which demonstrates the Bank's resilient earning capacity. This performance translates into an EPS of Rs 3.23 per share.

At year-end, HMB's equity stands at Rs. 20.3 billion, with a capital adequacy levels of 10.64% 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

Karachi: March 1, 2011

KASSIM PAREKH
Chairman

Dear Shareholders:

It gives me pleasure to present you the annual accounts of Habib Metropolitan Bank (HMB), for the financial year ended December 31, 2010.

ECONOMIC AND BANKING REVIEW

The year of 2010 began well and Pakistan seemed to be on the way to a steady economic recovery with GDP rising at the close of FY2010 (June). GDP growth was primarily due to a recovery in the manufacturing sector. Inflation had also remained under control and the trade deficit improved. The Current Account deficit also improved notably with the Country's FX reserves continuing a steady increase and Home Remittances continued to pour into the system. The Pak rupee remained stable throughout the year, slightly depreciating against US\$. Finally, international credit rating agencies upgraded Pakistan from CCC plus to B Minus by S&P, while Moody's revised its outlook to positive.

Thus, in the short term, the Country was doing well economically despite various challenges, at least until the floods came.

Pakistan suffered the worst floods in its history in the middle of 2010. Approximately 4.5mn acres were damaged and over 10 million people were left homeless and without any means of support. Economic losses of US\$3-4bn in the agriculture sector (22% of GDP) and US\$9-10bn in total for an economy size of around US\$180bn meant that the Country suffered significantly. There was massive damage to cotton & rice crops as well as livestock, and infrastructure (bridges, roads and villages) built up over decades has been damaged and all will now need reconstruction, putting considerable pressure on the nation's resources.

Despite all these problems, the underlying strength of the economy is apparent. Home remittances remain strong at the end of the year, as do FX reserves, and our current account deficit improved and became zero as of December 31, 2010.

The Country's Stock Exchanges have managed to regain investor confidence and the market index reflects a positive sentiment.

Monetary policy remained tight over the course of the year, and the SBP increased discount rates by 150 bps in three stages to 14%. Market conditions resulted in an industry wide halt in consumer financing while credit off-take by the private sector remained under pressure.

The Banking Sector, after a decline in deposit growth in 2008 and 2009, deposits started to grow again, recording an increase of over 18.4%. Advances remained low at 6.8% growth but there was a reduction in private sector borrowing while public sector lending continued to increase. Non Performing Loans increased, reaching almost Rs 500bn in Sept 2010. However, the growth as compared to 2009 was substantially lower.

BANK'S PERFORMANCE FOR THE YEAR

Despite present conditions, by Allah's grace, your Bank continues to make steady progress as reflected in the attached financial statements. At year end, the Bank's deposits crossed Rs. 160 billion mark and total assets exceeded Rs. 252 billion. Advances increased to Rs 120 billion whereas investments stood at Rs. 101 billion.

During the year, the Bank's gross revenues increased by 11% to Rs 27.8 billion. The Bank has made concerted efforts to increase margins as well as keeping its establishment costs at the acceptable levels. Resultantly, your Bank continues to enjoy a healthy cost to income ratio. Your bank's performance also reflects increased fee based earnings and a significant rise in the foreign exchange income.

HMB's profits before provisions and taxation reflect an increase from Rs 6.8 billion last year to Rs 7.1 billion during 2010, which is a reflection on the Bank's healthy revenue stream. However, with the recognition of an additional Rs 4.6 billion of non-performing loans during 2010 carrying a provision of Rs 2.9 billion for the year, the Bank's post-tax profit for the year amounted to Rs. 2.8 billion as against Rs 2.7 billion last year. This performance translates into an EPS of Rs 3.23 per share.

The Bank's non-performing loans include such facilities which have been classified by the Bank keeping in view the diminished capacity to repay obligations by a few borrowing relationships. However, due to the Bank's strong customer selection and adequate collateral coverage, we expect to make significant recoveries from these loans in the future.

At year-end, HMB's net equity stands at Rs. 20.3 billion with a capital adequacy level of 10.6% against the required 10%.

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 effective in steering through turbulent times. In the prevalent economic scenario, your Bank continues to build & maintain strong relationships with customers while remaining proactive in managing asset quality.

CREDIT RATING

By the grace of Allah, for the tenth 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.

ENHANCED REACH TO OUR CUSTOMERS

With Allah's Blessings, HMB network now stands at 143 online branches including sub branches across Pakistan providing a full range of banking services. HMB branches are now operational in 24 cities. Your Bank opened 15 new branches and 6 sub branches during the year and plans to open more in 2011. Additionally, the Bank also operates six offsite collection booths.

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 our parent organization, Habib Bank AG Zurich's international presence and the 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.

Our Islamic Banking business has now established itself and registered growth during the year. The Islamic Banking branches are fully capable of catering to the customers seeking Sha'ria compliant products. During the year, the Bank established Islamic Banking Service Counters with trained staff at 90 branches across Pakistan allowing us to cater to the needs of our customers in a more effective manner. More such counters are planned to be opened in future.

During the year, your Bank's subsidiary company, 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.

ALTERNATE DELIVERY CHANNEL

The Bank installed 24 new Automated Teller Machines (ATMs) during the year taking the total strength of the ATMs to 114 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 centre and website. Transaction growth has been encouraging throughout the ATM network and we will continue to deploy further ATMs during 2011.

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

HUMAN RESOURCES

The total strength of the HMB family has grown from 2,695 to 2,937 during the year.

As a key element of strategy, your Bank places strong focus on training. During the year, the Bank conducted more than 122 in-house training courses encompassing 16,000+ man hours. In addition, 226 employees were sent on outsourced training initiatives. In addition, the Bank is enhancing its existing management trainee program employing the industry best talent to work and build their careers in a highly energized work environment.

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

CORPORATE SOCIAL RESPONSIBILITIES

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 extended assistance in three major areas i.e. education, rehabilitation of flood affected people and health care. These donations amount to Rs. 37 million against Rs. 33 million last year. Being a conscientious corporate citizen, HMB came to the aid of the compatriots hit by the country's worst flood in the history. For rehabilitation of flood affected people, HMB has contributed Rs. 10 million through well reputed organizations.

During the year HMB donated Rs. 11 million to financially support several NGOs to enable education to reach to the under privileged, nationwide. The Citizens Foundation remains one of the larger recipients and through them; HMB is running six schools in under privileged rural areas where more than 1,000 children are enrolled.

During the year, HMB also supported many health care institutions through donations amount to Rs. 6 million, prominent among which are The Kidney Centre, Shaukat Khanum Memorial Trust, SIUT Trust, Aziz Tabba Foundation, Habib Medical Trust, Patients Welfare Association (Dow Medical College & Civil Hospital, Karachi) Bait-ul-sukoon Cancer Hospital.

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 1.8 billion paid during the year 2010 to the Government of Pakistan as direct taxes. Furthermore, an additional amount of about Rs 4.5 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

In August 2010, Board co-opted Mr. Wazir Ali Khoja - nominee of NIT in place of Mr. Firasat Ali - NIT nominee who resigned. The Board welcome Mr. Wazir Ali Khoja and wishes to place on record their profound appreciation for the valuable contribution made by Mr. Firasat Ali during his association as Director.

BOARD MEETINGS

During the year 2010, 5 Board meetings were held and the attendance of the directors during their tenure on the Board was as follows:

| Name of Directors | Feb 12 | Mar 1 | Apr 21 | Aug 25 | Oct 26 |
|-------------------------|--------|-------|--------|--------|--------|
| Mr. Kassim Parekh | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. Muhammad H. Habib | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. Reza S. Habib | ✓ | ✓ | ✓ | – | ✓ |
| Mr. Bashir Ali Mohammad | – | ✓ | ✓ | ✓ | ✓ |
| Mr. Anwar H. Japanwala | – | – | – | – | – |
| Mr. Ronald V. Emerson | ✓ | ✓ | – | ✓ | ✓ |
| Mr. Wazir Ali Khoja* | N/A | N/A | N/A | – | ✓ |
| Mr. Mohamedali R. Habib | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. Firasat Ali (+) | ✓ | ✓ | ✓ | N/A | N/A |

* appointed on August 13

(+) resigned on July 14

Leave of absence was granted to Mr. Anwar H. Japanwala.

PATTERN OF SHAREHOLDING

The pattern of shareholdings as on December 31, 2010 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, 2011.

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:

| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|--------------------------------|----------------|---------|---------|----------------|---------|-----------|
| Shareholders' equity | 20,954 | 18,889 | 16,150 | 13,359 | 10,665 | 5,093 |
| Paid-up capital | 8,732 | 7,528 | 6,022 | 5,018 | 3,005 | 1,560 |
| Total assets | 252,211 | 237,412 | 182,711 | 172,867 | 148,668 | 79,564 |
| Deposits | 160,458 | 142,457 | 128,433 | 121,141 | 102,493 | 56,713 |
| Advances | 119,828 | 102,293 | 108,261 | 89,827 | 83,324 | 43,519 |
| Investments | 100,994 | 111,680 | 53,632 | 61,736 | 39,556 | 22,804 |
| Profit before taxation | 4,026 | 4,214 | 4,764 | 4,045 | 3,143 | 2,098 |
| Profit after taxation | 2,818 | 2,739 | 3,293 | 2,694 | 2,096 | 1,506 |
| Earnings per share (Rs) | 3.23 | 3.64 | 5.47 | 5.37 | 9.32 | 9.65 |
| Dividends (%) | 20(B) | 16 (B) | 25 (B) | I-67(B) | — | 33.33 (B) |
| | | 10 (C) | | F-20(B), 10(C) | | |
| No. of staff | 2,937 | 2,695 | 2,473 | 2,300 | 1,963 | 1,143 |
| No. of branches / sub-branches | 143 | 122 | 110 | 100 | 82 | 51 |

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

- Provident Fund Rs. 672,152 thousand as at June 30, 2009
- Gratuity Fund Rs. 101,500 thousand as at December 31, 2009

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 (ALCO) 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 resilience financial position of HMB.

OPERATIONAL RISK

Operational Risk is prevalent in all activities of the Bank and the Bank's Operational Risk Policy addresses Operational Risk from Technology, Process, Human, and External aspects. The Business Continuity Plan (BCP) includes risk management strategies to mitigate inherent risk and prevent interruption of mission critical services caused by any unfortunate disaster event. The Internal Controls Unit (ICU) working with Compliance and Risk Management teams of the Bank is responsible for implementation of Controls environment as per our business environment and regulatory guidelines. The plan is to enhance the scope of the ICU to encompass all aspects of risk and controls self assessment.

BASEL II IMPLEMENTATION

The Basel-II implementation has been a major focus area. Through extensive planning and data base parameterization, we have developed automated processes/ modules to cater to Basel II capital calculation

requirements. The Bank's Capital Adequacy stands at 10.64% as at the year-end against requirement of 10%.

COMPLIANCE

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

CONTROLS

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

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

SBP Internal Control Guidelines require the Bank's management to evaluate the effectiveness of overall set of internal controls including financial reporting controls which are required to be independently validated by the external auditors. The Bank has devised a well-defined and comprehensive Internal Control Programme and a staged roadmap for implementation. In this connection, the Bank has adopted an internationally accepted COSO Internal Control - Integrated Framework, as envisaged under the SBP Internal Control Guidelines for Financial Reporting and has engaged a reputable advisory firm to assist in such initiative. 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.

It is also important to note that due to centralization and automation initiatives taken during recent years, a significant number of these control gaps already stand addressed effectively. For the remaining gaps, the Bank has developed detailed remediation plans to address the gaps identified. In addition, comprehensive management testing plans and framework have been developed for ensuring ongoing operating effectiveness of key controls.

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 Controls Infrastructure, performing continuous reviews to improve the quality of the Bank's Internal Control Environment, ensuring an effective balance in safety and performance of

processes and adding value towards the Bank's risk mitigation endeavors.

Reporting directly to the Audit Committee, Internal Audit employs a risk-based, proactive approach to all branches, operational areas and key activities of the Bank with a significant emphasis on corrective actions and elimination of control lapses. These reviews are performed identifying related key risk indicators, system weaknesses and to identify control, cost & revenue efficiencies. Views expressed by external auditors and regulatory inspectors 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 'GOOD' ratings denoting an effective control and audit practice across the Bank.

FUTURE OUTLOOK

Even though macroeconomic fundamentals have improved, the country's manufacturing and export activity will continue to remain under pressure, however, certain sector do show good prospects. The energy shortage issue 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 cost of inputs 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). Inflationary pressures combined with the weak fiscal position are expected to result in a continued tight monetary policy in future. The reconstruction and rehabilitation of the flood affected areas will also have an effect on the economy for several years.

Given the macroeconomic landscape, we remain cautious but confident about the Bank's future prospects. With a strong customer focus, we are following a well-planned strategy whereby enhanced capacity is being created by centralization of operations, new products are being deployed to enable us to enter new markets and grow revenue while we effectively defend our market share in the country's trade activities.

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

ACKNOWLEDGEMENTS

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

On behalf of the Board

Karachi: March 1, 2011

ANJUM IQBAL
Chief Executive

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

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

1. The Bank encourages representation of independent non-executive directors. At present the Board includes seven non-executive directors including five independent directors.
2. All the Directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Bank.
3. All the resident directors of the Bank are registered taxpayers and none of them have defaulted in payment of any loan to a banking company, a DFI / NBFIs.
4. A casual vacancy occurring in the Board on 14 July 2010 was filled up by the director within the period of thirty days.
5. The Bank has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the Directors and employees of the Bank.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including determination of remuneration and terms and conditions of employment of the Chief Executive Officer and Executive Director 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 and one of the directors of the bank has attended the course arranged by Pakistan Institute of Corporate Governance.
10. All related party transactions were placed before the Audit Committee and were approved by the Board of Directors. All transactions were made on terms equivalent to those that prevail in arm's length transactions.
11. There was no new appointment of Chief Financial Officer and Company Secretary. The remuneration and terms and conditions of employment of Chief Financial Officer and Company Secretary, as determined by the Chief Executive Officer, have been approved by the Board of Directors. During the year, Head of Internal Audit was 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 31 December 2010 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 shareholding.
15. The Bank has complied with all the corporate and financial reporting requirements of the Code.

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

On behalf of the Board

Karachi: March 1, 2011

ANJUM IQBAL
Chief Executive

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

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

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended 31 December, 2010.

Karachi: 1 March 2011

KPMG Taseer Hadi & Co
Chartered Accountants

STATEMENT OF INTERNAL CONTROLS

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

Management Evaluation of Internal Control System

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

The Bank's fundamental policy is to embed controls in each of our processes and make controls an important part of all our business activities. Each member of the staff is also responsible for ensuring that the Bank always operates in a controlled manner and inordinate risks are not taken in any activity. The Bank's organization structure and lines of authority are well-defined and processes throughout the Bank are largely governed by policies and procedures approved by the Board. However, their review and updating to meet regulatory requirements & changing practices remains a continued activity to achieve effective control objectives. The Bank's Best Practices Operational Manuals for key areas are set in place to improve the quality of service, training and product knowledge across the Bank. Further, the Bank did not incur any material losses arising from operational risk exposures. The Bank's accounting policies, practices and methodologies for various estimates have been reviewed by external auditors and there have been no material disputes thereon.

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

SBP Internal Control Guidelines require the Bank's management to evaluate the effectiveness of overall set of internal controls including financial reporting controls which are required to be independently validated by the external auditors. The Bank has devised a well-defined and comprehensive Internal Control Programme and a staged roadmap for implementation. In this connection, the Bank has adopted an internationally accepted COSO Internal Control - Integrated Framework, as envisaged under the SBP Internal Control Guidelines for Financial Reporting and has engaged a reputable advisory firm to assist in such initiative. 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. It is also important to note that due to centralization and automation initiatives taken during recent years, a significant number of these control gaps already stand addressed effectively. For the remaining gaps, the Bank has developed detailed remediation plans to address the gaps identified. In addition, comprehensive management testing plans and framework have been developed for ensuring ongoing operating effectiveness of key controls.

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, 2010 and reflect improvement from last year in organization structure; effective adherence with lines of authority; automation and effectiveness of processes.

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

Board of Directors' remarks on the Management's evaluation of Internal Controls

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

On behalf of the Board

Karachi: March 1, 2011

ANJUM IQBAL
Chief Executive

SHA'RIA ADVISOR'S REPORT

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

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

To ensure Sha'ria compliance, the HMB Islamic Banking was involved in development of various industry-specific process flows for Murabaha, Diminishing Musharakah, Ijarah, Al-Bai & other related financing transactions. In 2010, Sha'ria Compliance Department attended a total of 33 meetings with the clients at Bank's premises however 25 visits were conducted at the clients' premises and over 24 transactional Process Flows for SME customers & over 41 transactional process flows for corporate clients were developed, reviewed & revised.

In addition, around 100 specific approvals have been issued to the related Department, Branch & IBD with respect to transactions like Murabaha, Diminishing Musharakah (DM), Ijarah, Al-Bai and other policies & procedures related to new Products / addendum.

In the light of guidelines issued by SBP Islamic Banking Division, Sha'ria Compliance Department has also conducted Sha'ria Review / Revision of LC Procedure Form, in case of Ijarah / DM required against Import of machinery, as well as Ijarah Agreement & documentation.

In 2010, the HMB Islamic Banking has also transferred its liability side products from Musharakah to Mudarabah & the terms & conditions of Account Opening Form have been reviewed & revised by Sha'ria Compliance Department accordingly.

Apart from this, aimed at enhancing the level of understanding of Islamic Banking concepts & products, a total of 6 Islamic banking training sessions were held in 2010 in which around 108 employees participated. The sessions included Manual based trainings covering Concepts, Scope & Application of Murabaha, Musawama, L/C & Ijarah transactions for employees at Branches, Central Processing Unit and Head Office level as well as FAQ based training for Islamic Deposit Mobilisation Officers (DMOs) placed at different branches.

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

Karachi: March 1, 2011

MUHAMMAD NAJEEB KHAN

Sha'ria Advisor
Habib Metropolitan Bank
Islamic Banking Division

AUDITORS' REPORT TO THE MEMBERS



We have audited the annexed unconsolidated statement of financial position of Habib Metropolitan Bank Limited as at 31 December 2010 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for 15 branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
 - i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement, and unconsolidated statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2010 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.

Karachi: 1 March 2011

KPMG Taseer Hadi & Co
Chartered Accountants
Amyr Pirani

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

| | Note | 2010 | 2009 |
|---|------|--------------------|-------------|
| Rupees in '000 | | | |
| ASSETS | | | |
| Cash and balances with treasury banks | 8 | 13,923,393 | 11,192,498 |
| Balances with other banks | 9 | 3,123,094 | 4,836,399 |
| Lendings to financial institutions | 10 | 3,190,399 | 150,000 |
| Investments | 11 | 100,993,820 | 111,679,520 |
| Advances | 12 | 119,827,636 | 102,293,132 |
| Operating fixed assets | 13 | 3,352,702 | 2,431,227 |
| Deferred tax assets | 14 | 1,868,328 | 824,706 |
| Other assets | 15 | 5,931,280 | 4,004,748 |
| | | 252,210,652 | 237,412,230 |
| LIABILITIES | | | |
| Bills payable | 16 | 2,572,954 | 3,111,467 |
| Borrowings | 17 | 62,529,729 | 68,186,674 |
| Deposits and other accounts | 18 | 160,457,975 | 142,457,376 |
| Sub-ordinated loans | | — | — |
| Liabilities against assets subject to finance lease | | — | — |
| Deferred tax liabilities | | — | — |
| Other liabilities | 19 | 6,341,861 | 4,916,200 |
| | | 231,902,519 | 218,671,717 |
| NET ASSETS | | 20,308,133 | 18,740,513 |
| REPRESENTED BY | | | |
| Share capital | 20 | 8,731,929 | 7,527,525 |
| Reserves | | 8,151,443 | 7,587,835 |
| Unappropriated profit | | 4,071,055 | 3,773,782 |
| | | 20,954,427 | 18,889,142 |
| Deficit on revaluation of assets - net of tax | 21 | (646,294) | (148,629) |
| | | 20,308,133 | 18,740,513 |
| CONTINGENCIES AND COMMITMENTS | | | |
| | 22 | | |

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

KASSIM PAREKH
Chairman

ANJUM IQBAL
Chief Executive

BASHIR ALI MOHAMMAD
Director

MOHAMEDALI R. HABIB
Director

UNCONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2010



| | Note | 2010 | 2009 |
|---|--------|---------------------|--------------|
| | | Rupees in '000 | |
| Mark-up / return / interest earned | 24 | 23,380,314 | 21,376,259 |
| Mark-up / return / interest expensed | 25 | (16,433,491) | (14,665,453) |
| Net mark-up / interest Income | | 6,946,823 | 6,710,806 |
| Provision against non-performing loans and advances | 12.5 | 2,937,763 | 2,503,202 |
| Provision for diminution in the value of investments | 11.3 | 103,785 | 66,444 |
| Bad debts written off directly | 12.7.1 | — | — |
| | | (3,041,548) | (2,569,646) |
| Net mark-up / interest income after provisions | | 3,905,275 | 4,141,160 |
| Non mark-up / interest income | | | |
| Fee, commission and brokerage income | | 1,589,451 | 1,265,105 |
| Dividend income | | 568,553 | 438,250 |
| Income from dealing in foreign currencies | | 1,775,133 | 1,532,500 |
| Gain on sale/redemption of securities | 26 | 245,436 | 206,381 |
| Unrealized gain / (loss) on revaluation of investments classified as held-for-trading | | — | — |
| Other income | 27 | 250,497 | 260,093 |
| Total non mark-up / interest income | | 4,429,070 | 3,702,329 |
| | | 8,334,345 | 7,843,489 |
| Non mark-up / interest expenses | | | |
| Administrative expenses | 28 | 4,172,840 | 3,523,721 |
| Other provisions / write offs | 19.1 | 38,922 | — |
| Other charges | 29 | 96,248 | 106,126 |
| Total non mark-up / interest expenses | | (4,308,010) | (3,629,847) |
| | | 4,026,335 | 4,213,642 |
| Extraordinary / unusual items | | — | — |
| Profit before taxation | | 4,026,335 | 4,213,642 |
| Taxation - Current | | (1,904,158) | (1,690,909) |
| - Prior years | | — | — |
| - Deferred | | 695,861 | 216,761 |
| | 30 | (1,208,297) | (1,474,148) |
| Profit after taxation | | 2,818,038 | 2,739,494 |
| Unappropriated profit brought forward | | 3,773,782 | 3,087,692 |
| Profit available for appropriation | | 6,591,820 | 5,827,186 |
| | | | (Restated) |
| Basic and diluted earnings per share (Rupees) | 31 | 3.23 | 3.14 |

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

KASSIM PAREKH
Chairman

ANJUM IQBAL
Chief Executive

BASHIR ALI MOHAMMAD
Director

MOHAMEDALI R. HABIB
Director

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Note | 2010 Rupees in '000 | 2009 |
|---|------|------------------------|------------------|
| Profit after taxation for the year | | 2,818,038 | 2,739,494 |
| Other comprehensive income | | — | — |
| Comprehensive income transferred to equity | | 2,818,038 | 2,739,494 |
| Components of comprehensive income not reflected in equity | | | |
| (Deficit) / Surplus on revaluation of investments | | (845,421) | 1,532,875 |
| Deferred tax on revaluation of investments | 14.1 | 347,756 | (536,506) |
| | | (497,665) | 996,369 |
| Total comprehensive income | | 2,320,373 | 3,735,863 |

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

KASSIM PAREKH
Chairman

ANJUM IQBAL
Chief Executive

BASHIR ALI MOHAMMAD
Director

MOHAMEDALI R. HABIB
Director

UNCONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010



| | Note | 2010 | 2009 |
|--|------|---------------------|---------------------|
| | | Rupees in '000 | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before taxation | | 4,026,335 | 4,213,642 |
| Less: Dividend income | | 568,553 | 438,250 |
| | | 3,457,782 | 3,775,392 |
| Adjustments | | | |
| Depreciation | 13.2 | 324,202 | 237,013 |
| Provision against non-performing loans and advances | 12.5 | 2,937,763 | 2,503,202 |
| Provision against off-balance sheet obligations | 19.1 | 38,922 | — |
| Provision for diminution in the value of investments-net | 11.3 | 28,910 | (23,035) |
| Net (gain) on sale of fixed assets | 27 | (5,404) | (7,387) |
| | | 3,324,393 | 2,709,793 |
| | | 6,782,175 | 6,485,185 |
| (Increase) / decrease in operating assets | | | |
| Lendings to financial institutions | | (3,040,399) | (51,824) |
| Advances | | (20,472,267) | 3,464,925 |
| Other assets | | (1,926,532) | (388,294) |
| | | (25,439,198) | 3,024,807 |
| Increase / (decrease) in operating liabilities | | | |
| Bills payable | | (538,513) | 739,321 |
| Borrowings | | (5,229,374) | 37,222,060 |
| Deposits and other accounts | | 18,000,599 | 14,024,760 |
| Other liabilities (excluding current taxation) | | 1,286,424 | (1,252,169) |
| | | 13,519,136 | 50,733,972 |
| | | (5,137,887) | 60,243,964 |
| Income tax paid | | (1,805,950) | (2,051,346) |
| Net cash flows from operating activities | | (6,943,837) | 58,192,618 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Net investments in available-for-sale securities | | 10,861,369 | (56,842,078) |
| Net investments in held-to-maturity securities | | (1,050,000) | 350,000 |
| Dividend received | | 568,553 | 438,250 |
| Investments in operating fixed assets | | (1,250,644) | (1,086,464) |
| Proceeds from sale of fixed assets | | 10,371 | 8,971 |
| Net cash flows from investing activities | | 9,139,649 | (57,131,321) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividend paid | | (750,651) | (37) |
| Net cash flows from financing activities | | (750,651) | (37) |
| Increase in cash and cash equivalents | | 1,445,161 | 1,061,260 |
| Cash and cash equivalents at the beginning of the year | | 14,124,969 | 12,947,153 |
| Effect of exchange rate changes on cash and cash equivalents | | 107,732 | 224,288 |
| Cash and cash equivalents at the end of the year | 32 | 15,677,862 | 14,232,701 |

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

KASSIM PAREKH
Chairman

ANJUM IQBAL
Chief Executive

BASHIR ALI MOHAMMAD
Director

MOHAMEDALI R. HABIB
Director

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Reserves | | | | | Un-appropriated Profit | Total |
|---|------------------|------------------|-------------------|-----------------|------------------|------------------------|-------------------|
| | Share Capital | Share Premium | Statutory Reserve | Special Reserve | Revenue Reserve | | |
| | 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 |
| 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 owners recorded directly in equity | | | | | | | |
| Issue of bonus shares in the ratio of 25 shares for every 100 shares held for the year ended 31 December 2008 | 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 |
| Changes in equity for the year ended 31 December 2010 | | | | | | | |
| Total comprehensive income for the year ended 31 December 2010 – profit for the year | – | – | – | – | – | 2,818,038 | 2,818,038 |
| Transactions with owners recorded directly in equity | | | | | | | |
| Issue of bonus shares in the ratio of 16 shares for every 100 shares held for the year ended 31 December 2009 | 1,204,404 | – | – | – | – | (1,204,404) | – |
| Cash dividend (Re. 1 per share) | – | – | – | – | – | (752,753) | (752,753) |
| | 1,204,404 | – | – | – | – | (1,957,157) | (752,753) |
| Transfer to statutory reserve | – | – | 563,608 | – | – | (563,608) | – |
| Balance as at 31 December 2010 | 8,731,929 | 2,550,985 | 3,860,097 | 240,361 | 1,500,000 | 4,071,055 | 20,954,427 |

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

KASSIM PAREKH
Chairman

ANJUM IQBAL
Chief Executive

MOHAMEDALI R. HABIB
Director

BASHIR ALI MOHAMMAD
Director

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 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 the three stock exchanges in Pakistan. The Bank operates 135 (2009: 120) branches including 4 (2009: 4) Islamic banking branches and 8 (2009: 2) sub-branches in Pakistan. The Bank is a subsidiary of Habib Bank AG Zurich - Switzerland (the holding company) which is incorporated in Switzerland.

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

2. BASIS OF PRESENTATION

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

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

2.3 Basis of measurement

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

3. STATEMENT OF COMPLIANCE

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

i) Classification of investments

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

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

The Bank reviews its loan portfolio and debt securities classified as investments to assess amount of non-performing loans and advances and debt securities and provision required there-against. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, 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 the available-for-sale equity investments as 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 judgement. In making this judgement, 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, change in technology and operational and financing cash flows.

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

Non financial assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. If any such indication exists, the Bank estimates the recoverable amount of the asset and the impairment loss, if any. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of future cash flows from the asset discounted at a rate that reflects market interest rates adjusted for risks specific to the asset. If the recoverable amount of an intangible or tangible asset is less than its carrying value, an

impairment loss is recognised immediately in the profit and loss account and the carrying value of the asset reduced by the amount of the loss. A reversal of an impairment loss on intangible assets is recognized as it arises provided the increased carrying value does not exceed that which it would have been had no impairment loss been recognized.

v) Income taxes

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

vi) Fixed assets, depreciation and amortisation

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

vii) Defined benefits plan

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

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these unconsolidated financial statements are the same as those applied in the preparation of the unconsolidated financial statements of the Bank for the year ended 31 December 2009.

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 subsidiaries, are carried at market value. Investments classified as held to maturity are carried at amortized cost whereas investments in a subsidiary is carried at cost less impairment losses, if any.

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

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

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

All "regular way" purchases and sales of investments are recognized on the trade date, i.e., the date that the Bank commits to purchase or sell the asset. Regular way purchases

or sales are purchases or sales of investments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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

Loans and advances

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

Finance lease receivables

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

Ijarah

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

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

5.5 Fixed assets

Tangible - Owned (operating)

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for 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 is calculated on a straight line basis over the period of Ijarah from the date of delivery of respective assets to the mustajir (lessee) up to the date of maturity / termination of Ijarah agreed.

Subsequent cost are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can

be measured reliably. All other repairs and maintenance are charged to the profit and loss account.

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

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

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

Intangible

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

Capital work-in-progress

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

5.6 Derivative financial instruments

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

5.7 Provisions

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

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

5.8 Taxation

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

Current

Provision for current taxation is based on taxable income for the year at the current rates of taxation after taking into consideration available tax credits and rebates. The charge for the

current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalized during the year.

Deferred

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

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

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

5.9 Employees' benefits

5.9.1 Retirement benefits

Defined benefit plan

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

Defined contribution plan

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

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

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

c) Fees, brokerage and commission

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

5.11 Off setting

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

5.12 Foreign currencies

Foreign currency transactions are translated into local currency at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. Forward exchange

contracts including foreign exchange bills purchased, are revalued using forward exchange rates applicable to their respective remaining maturities. Exchange gains or losses are included in income currently. Commitments for outstanding forward foreign exchange contracts disclosed in these financial statements are translated at contracted rates. Contingent liabilities/commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee term 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 /commercial 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 of assets (other than loans and advances and investments)

At each balance sheet date, the Bank reviews the carrying amount of its assets (other than deferred tax asset) to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of relevant asset is estimated. Recoverable amount is the greater of the net selling price and value in use. If the

recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. The resulting impairment loss is recognized as an expense immediately. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

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

5.17 Financial instruments

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

5.18 Murabaha

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

5.19 Diminishing Musharaka

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

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 1 January 2011.

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 01, 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 amendment 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 July 01, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on Bank's financial statements.

- IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after January 01, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment will 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 January 01, 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.
- Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 1, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.
- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 1, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The amendment has no impact on the Bank's 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 | 2010 | 2009 |
|---|-------------|-------------------|-------------|
| | | Rupees in '000 | |
| In hand | | | |
| Local currency | | 1,929,455 | 1,718,787 |
| Foreign currencies | | 937,771 | 373,053 |
| | | 2,867,226 | 2,091,840 |
| With State Bank of Pakistan in | | | |
| Local currency current accounts | 8.1 | 7,796,785 | 6,290,443 |
| Foreign currency current account | 8.2 | 74,706 | 34,599 |
| Foreign currency deposit accounts | | | |
| – cash reserve accounts | 8.3 | 779,722 | 688,928 |
| – special cash reserve accounts | 8.4 | 2,307,567 | 2,039,742 |
| | | 10,958,780 | 9,053,712 |
| With National Bank of Pakistan in | | | |
| Local currency current accounts | | 91,705 | 36,745 |
| National Prize Bonds | | 5,682 | 10,201 |
| | | 13,923,393 | 11,192,498 |

8.1 These accounts are maintained to comply with the statutory cash reserve requirements and include cash reserve account of Rs. 647,054 thousand (2009: 667,291 thousand) in respect of the Islamic Banking branches of the Bank.

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

8.3 Represents cash reserve maintained with SBP against foreign currency deposits and include amount of Rs. 17,556 thousand (2009: 14,995 thousand) in respect of the Islamic Banking branches of the Bank.

8.4 Represents special cash reserve maintained with SBP against foreign currency deposits and include amount of Rs. 21,067 thousand (2009: 17,943 thousand) in respect of the Islamic Banking branches of the Bank.

| 9. BALANCES WITH OTHER BANKS | | 2010 | 2009 |
|-------------------------------------|-----|------------------|-------------|
| | | Rupees in '000 | |
| In Pakistan | | | |
| On current accounts | | 414,336 | 194,743 |
| On deposit accounts | 9.1 | 17,205 | 159 |
| | | 431,541 | 194,902 |
| Outside Pakistan | | | |
| On current accounts | 9.2 | 978,819 | 1,356,074 |
| On deposit accounts | 9.3 | 1,712,734 | 3,285,423 |
| | | 2,691,553 | 4,641,497 |
| | | 3,123,094 | 4,836,399 |

9.1 This carry mark-up rate of 5.00% (2009: 5.00%) per annum.

9.2 Include balances in current accounts of Rs. 163,577 thousand (2009: Rs. 65,247 thousand) with branches of the holding company.

9.3 This carry mark-up rate of 0.15% (2009: 0.1053%) per annum.

10. LENDINGS TO FINANCIAL INSTITUTIONS

| LENDINGS TO FINANCIAL INSTITUTIONS | Note | 2010 | 2009 |
|--|------|----------------|---------|
| | | Rupees in '000 | |
| Call money lendings | 10.2 | 2,100,000 | 100,000 |
| Repurchase agreement lendings (Reverse repo) | 10.3 | 640,399 | — |
| Letter of placements | 10.4 | 450,000 | 50,000 |
| | | 3,190,399 | 150,000 |
| 10.1 Particulars of lendings | | | |
| In local currency | | 3,190,399 | 150,000 |
| | | 3,190,399 | 150,000 |

10.2 This carry mark-up rates ranging between 13.35% to 14.00% (2009: 12.25%) per annum and will mature upto 28 March 2011.

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

| | Note | 2010 Held by Bank | 2010 Further given as collateral | Total | Held by Bank | 2009 Further given as collateral | Total |
|-----------------------|--------|----------------------|-------------------------------------|---------|--------------|-------------------------------------|-----------------|
| | | | | | | | (Rupees in'000) |
| Market treasury bills | 10.3.2 | 640,399 | – | 640,399 | – | – | – |

10.3.1 This lending carry mark-up rate of 13.90% (2009: Nil) per annum and will mature on 03 January 2011.

10.3.2 Market value of securities held as collateral against lendings to financial institutions as at 31 December 2010 amounted to Rs. 640.767 million (2009: Nil).

10.4 This represents clean placement with a Non-Banking Financial Institution, carrying mark-up rates ranging between 13.90% to 14.00% (2009: 14.00%) per annum and will mature by 7 January 2011.

| | Note | 2010 | | | 2009 | | |
|--|------|--------------|---------------------|-------------|--------------|---------------------|-------------|
| | | Held by Bank | Given as collateral | Total | Held by Bank | Given as collateral | Total |
| (Rupees in'000) | | | | | | | |
| 11. INVESTMENTS | | | | | | | |
| 11.1 Investments by types | | | | | | | |
| Available-for-sale securities | | | | | | | |
| Market Treasury Bills | 11.7 | 20,254,957 | 24,133,119 | 44,388,076 | 36,395,925 | 34,383,407 | 70,779,332 |
| Pakistan Investment Bonds | 11.5 | 12,475,620 | 8,955,800 | 21,431,420 | 12,736,368 | 4,788,400 | 17,524,768 |
| Ordinary Shares of listed companies | | 241,530 | — | 241,530 | 276,750 | — | 276,750 |
| 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 |
| Listed Term Finance Certificates | | 2,282,470 | — | 2,282,470 | 1,995,353 | — | 1,995,353 |
| Unlisted Term Finance Certificates | | 4,060,056 | — | 4,060,056 | 4,372,433 | — | 4,372,433 |
| Sukuk Certificates and Bonds | | 18,192,348 | — | 18,192,348 | 8,069,780 | — | 8,069,780 |
| Open end mutual funds | | 10,147,832 | — | 10,147,832 | 8,524,630 | — | 8,524,630 |
| Close end mutual funds | | 67,000 | — | 67,000 | 129,055 | — | 129,055 |
| | | 67,884,914 | 33,088,919 | 100,973,833 | 72,663,395 | 39,171,807 | 111,835,202 |
| Held-to-maturity securities | | | | | | | |
| Certificate of Investments | 11.6 | 1,050,000 | — | 1,050,000 | — | — | — |
| Subsidiary | | | | | | | |
| Habib Metropolitan Financial Services Limited: 29,999,997 (2009: 29,999,997) ordinary shares of Rs. 10/- each) | | 300,000 | — | 300,000 | 300,000 | — | 300,000 |
| Investments at cost | | 69,234,914 | 33,088,919 | 102,323,833 | 72,963,395 | 39,171,807 | 112,135,202 |
| Provision for diminution in the value of investments | 11.3 | (255,932) | — | (255,932) | (227,022) | — | (227,022) |
| Investments net of provision | | 68,978,982 | 33,088,919 | 102,067,901 | 72,736,373 | 39,171,807 | 111,908,180 |
| Deficit on revaluation of available-for-sale securities - net | 21 | (726,452) | (347,629) | (1,074,081) | (78,405) | (150,255) | (228,660) |
| Investments after revaluation of available- for-sale securities | | 68,252,530 | 32,741,290 | 100,993,820 | 72,657,968 | 39,021,552 | 111,679,520 |

| | Note | 2010 | 2009 |
|---|------|--------------------|--------------------|
| | | Rupees in '000 | |
| 11.2 Investments by segments | | | |
| Federal Government Securities | | | |
| - Market Treasury Bills | | 44,388,076 | 70,779,332 |
| - Pakistan Investment Bonds | 11.5 | 21,431,420 | 17,524,768 |
| - GOP Ijarah Sukuk | | 16,024,896 | 5,998,186 |
| | | 81,844,392 | 94,302,286 |
| Fully paid up Ordinary Shares | | | |
| - Listed companies | | 241,530 | 276,750 |
| - Unlisted companies | | 123,101 | 123,101 |
| | | 364,631 | 399,851 |
| Fully paid up Preference Shares | | | |
| - Listed company | | 40,000 | 40,000 |
| Term Finance Certificates, Sukuk Certificates and Bonds | | | |
| - Listed Term Finance Certificates | | 2,282,470 | 1,995,353 |
| - Unlisted Term Finance Certificates | | 4,060,056 | 4,372,433 |
| - Sukuk Certificates / Bonds | | 2,167,452 | 2,071,594 |
| | | 8,509,978 | 8,439,380 |
| Mutual Funds | | | |
| - Open end | | 10,147,832 | 8,524,630 |
| - Close end | | 67,000 | 129,055 |
| | | 10,214,832 | 8,653,685 |
| Certificates of Investments | | 1,050,000 | — |
| Subsidiary | | | |
| - Habib Metropolitan Financial Services Limited 29,999,997 (2009: 29,999,997) ordinary shares of Rs.10/- each | | 300,000 | 300,000 |
| Investments at cost | | 102,323,833 | 112,135,202 |
| Provision for diminution in the value of investments | 11.3 | (255,932) | (227,022) |
| Investments - net of provisions | | 102,067,901 | 111,908,180 |
| Deficit on revaluation of available-for-sale securities – net | 21 | (1,074,081) | (228,660) |
| Investments after revaluation of available-for-sale securities | | 100,993,820 | 111,679,520 |

| 11.3 Particulars of provision for diminution in the value of investments | 2010 | 2009 |
|---|-----------------|-------------|
| | Rupees in '000 | |
| – Opening balance | 227,022 | 250,057 |
| – Charge for the year | 103,785 | 66,444 |
| – Reversal of provision upon disposal of investments | (74,875) | (89,479) |
| – Closing balance | 255,932 | 227,022 |

**11.3.1 Particulars of provision in respect of
type and segment**

Available-for-sale securities

Fully paid-up ordinary shares

| | | |
|--------------------|---------------|--------|
| Listed companies | 48,223 | 38,110 |
| Unlisted companies | 38,356 | 36,835 |

| | | |
|---|---------------|--------|
| Listed Term Finance Certificates | 93,507 | 23,611 |
|---|---------------|--------|

| | | |
|-------------------------------------|---------------|--------|
| Sukuk Certificates and Bonds | 28,803 | 24,053 |
|-------------------------------------|---------------|--------|

Mutual Funds

| | | |
|-----------|---------------|--------|
| Open end | 7,905 | 22,695 |
| Close end | 39,138 | 81,718 |

| | |
|----------------|---------|
| 255,932 | 227,022 |
|----------------|---------|

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

11.5 These carry markup rates ranging from 8.00% to 14.00% per annum and will mature upto 3 September 2019. These includes Rs. 158.500 million as at 31 December 2010 (2009: Rs. 158.500 million) pledged with State Bank of Pakistan and National Bank of Pakistan against TT/DD discounting facilities and demand loan facilities.

11.6 These carry markup rates ranging from 13.90% to 13.95% per annum and will mature upto 9 March 2011.

11.7 These carry markup rates ranging from 12.24% to 13.25% per annum and will mature upto 28 July 2011.

| | Note | 2010 Rupees in '000 | 2009 |
|---|-------|------------------------|-------------|
| 12. ADVANCES | | | |
| Loans, cash credits, running finances, etc. In Pakistan | | 100,914,709 | 86,998,347 |
| Net investment in finance lease / Ijarah financing In Pakistan | 12.2 | 906,984 | 1,385,434 |
| Net assets in Ijarah under IFAS 2 | 12.10 | 901,886 | 212,552 |
| Bills discounted and purchased (excluding Market treasury bills) | | | |
| Payable in Pakistan | | 6,344,275 | 4,810,638 |
| Payable outside Pakistan | | 18,282,153 | 13,515,637 |
| | | 24,626,428 | 18,326,275 |
| Advances – gross | | 127,350,007 | 106,922,608 |
| Provision against non-performing advances | | | |
| - specific | | (7,463,452) | (4,204,731) |
| - general | | (58,919) | (424,745) |
| | 12.5 | (7,522,371) | (4,629,476) |
| Advances – net of provisions | | 119,827,636 | 102,293,132 |
| 12.1 Particulars of advances – gross | | | |
| 12.1.1 In local currency | | 107,434,187 | 95,623,555 |
| In foreign currencies | | 19,915,820 | 11,299,053 |
| | | 127,350,007 | 106,922,608 |
| 12.1.2 Short term (for upto one year) | | 109,318,646 | 92,746,494 |
| Long term (for over one year) | | 18,031,361 | 14,176,114 |
| | | 127,350,007 | 106,922,608 |

12.2 Net investment in finance lease / ijarah financing

| | 2010 | | | | 2009 | | | |
|---|-------------------------|---|-----------------|------------------|-------------------------|---|-----------------|-----------|
| | Not later than one year | Later than one and less than five years | Over five years | Total | Not later than one year | Later than one and less than five years | Over five years | Total |
| | Rupees in '000 | | | | | | | |
| Lease rentals receivable | 263,870 | 637,168 | 2,901 | 903,939 | 129,421 | 1,300,450 | – | 1,429,871 |
| Residual value | 12,068 | 114,768 | 579 | 127,415 | 17,168 | 104,009 | – | 121,177 |
| Minimum lease payments | 275,938 | 751,936 | 3,480 | 1,031,354 | 146,589 | 1,404,459 | – | 1,551,048 |
| Financial charges for future periods | (22,790) | (101,020) | (560) | (124,370) | (14,690) | (150,924) | – | (165,614) |
| Present value of minimum lease payments | 253,148 | 650,916 | 2,920 | 906,984 | 131,899 | 1,253,535 | – | 1,385,434 |

- 12.3** Advances include Rs. 10,961,145 thousand (2009 : Rs.6,364,335 thousand) which have been placed under non-performing status as detailed below:

| Category of Classification | 2010 | | | 2009 | | |
|----------------------------|---------------------|--------------------|------------------|---------------------|--------------------|------------------|
| | Classified advances | Provision required | Provision held | Classified advances | Provision required | Provision held |
| Rupees in '000 | | | | | | |
| Substandard | 348,017 | 73,725 | 73,725 | 230,099 | 32,426 | 32,426 |
| Doubtful | 2,417,408 | 836,356 | 836,356 | 1,082,445 | 405,567 | 405,567 |
| Loss | 8,195,720 | 6,553,371 | 6,553,371 | 5,051,791 | 3,766,738 | 3,766,738 |
| | 10,961,145 | 7,463,452 | 7,463,452 | 6,364,335 | 4,204,731 | 4,204,731 |

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

In accordance with BSD Circular No. 2 dated 27 January 2009 issued by the State Bank of Pakistan, during the year the Bank has further availed the benefit of FSV against the non-performing advances (excluding consumer housing finance portfolio). Had this benefit of FSV not been taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 676.720 million and profit after taxation for the year ended 31 December 2010 would have been lower by approximately Rs. 439.868 million. As of 31 December 2010, had the benefit of FSVs not taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 1,980.219 million and accumulated profit would have been lower by Rs. 1,287.142 million. This amount of Rs. 1,287.142 million is not available for the distribution of cash and stock dividend to the shareholders.

12.5 Particulars of provision against non-performing advances:

| | Note | 2010 | | | 2009 | | |
|-------------------------|------|----------------|-----------|-----------|-----------|-----------|-----------|
| | | Specific | General | Total | Specific | General | Total |
| | | Rupees in '000 | | | | | |
| Opening balance | | 4,204,731 | 424,745 | 4,629,476 | 1,083,785 | 1,046,320 | 2,130,105 |
| Charge for the year | | 3,826,217 | – | 3,826,217 | 3,203,349 | – | 3,203,349 |
| Reversals | | (522,628) | (365,826) | (888,454) | (78,572) | (621,575) | (700,147) |
| Net charge for the year | | 3,303,589 | (365,826) | 2,937,763 | 3,124,777 | (621,575) | 2,503,202 |
| Amount written off | 12.7 | (44,868) | – | (44,868) | (3,831) | – | (3,831) |
| Closing balance | 12.6 | 7,463,452 | 58,919 | 7,522,371 | 4,204,731 | 424,745 | 4,629,476 |

- 12.5.1** General provision includes provision of Rs. 22.117 million (2009: Rs. 16.195 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:

| | 2010 | | | 2009 | | |
|-------------------|-----------|---------|-----------|-----------|---------|-----------|
| | Specific | General | Total | Specific | General | Total |
| Rupees in '000 | | | | | | |
| In local currency | 7,463,452 | 58,919 | 7,522,371 | 4,204,731 | 424,745 | 4,629,476 |

12.7 Particulars of write-offs:

| | 2010 | 2009 |
|--|----------------|-------|
| | Rupees in '000 | |
| 12.7.1 Against provisions | 44,868 | 3,831 |
| Directly charged to profit and loss account | — | — |
| | 44,868 | 3,831 |
| 12.7.2 Write-offs of Rs. 500,000/- and above | 44,023 | 3,249 |
| Write-offs of below Rs. 500,000/- | 845 | 582 |
| | 44,868 | 3,831 |

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 2010 is enclosed as Annexure II.

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

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

| | | |
|-------------------------------|-----------|-----------|
| Balance at beginning of year | 620,908 | 583,277 |
| Loans granted during the year | 323,171 | 261,532 |
| Repayments | (253,545) | (223,901) |
| Balance at end of year | 690,534 | 620,908 |

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 | 1,740,927 | 1,550,222 |
| Loans granted during the year | 30,558,362 | 28,110,309 |
| Repayments | (30,100,823) | (27,919,604) |
| Balance at end of year | 2,198,466 | 1,740,927 |

12.10 Net book value of investments in Ijarah under IFAS - 2 is net of depreciation of Rs. 219.988 million (2009: Rs. 43.947 million).

| | Note | 2010 | 2009 |
|---|--------|----------------|-----------|
| | | Rupees in '000 | |
| 13. OPERATING FIXED ASSETS | | | |
| Capital work-in-progress | 13.1 | 550,779 | 88,673 |
| Property and equipment | 13.2 | 2,801,923 | 2,342,554 |
| Intangible Assets | 13.3 | — | — |
| | | 3,352,702 | 2,431,227 |
| 13.1 Capital work-in-progress | | | |
| Civil works | 13.1.1 | 85,797 | 85,879 |
| Equipments | | 13,732 | 2,794 |
| Advances against purchase of properties | | 451,250 | — |
| | | 550,779 | 88,673 |

13.1.1 This represents renovations being carried out at the branches.

13.2 Property and equipment

| | COST | | | DEPRECIATION | | | BOOK VALUE | |
|--|-----------------------|-------------------------|------------------------|-----------------------|----------------------------------|------------------------|------------------------|------------------------|
| | As at 01 January 2010 | Additions/ (deletions) | As at 31 December 2010 | As at 01 January 2010 | Charge for the year/ (deletions) | As at 31 December 2010 | As at 31 December 2010 | Rate of depreciation % |
| | Rupees in '000 | | | | | | | |
| Freehold land | 22,690 | — | 22,690 | — | — | — | 22,690 | — |
| Leasehold land | 50,688 | — | 50,688 | — | — | — | 50,688 | — |
| Buildings / office premises | 1,952,173 | 402,970 | 2,355,143 | 364,186 | 71,584 | 435,770 | 1,919,373 | 4 |
| Furniture, fixtures, office and computer equipment | 555,736 | 171,107 (15,846) | 710,997 | 244,109 | 131,982 (14,208) | 361,883 | 349,114 | 15 & 25 |
| Vehicles | 9,997 | 7,215 (4,152) | 13,060 | 5,686 | 1,874 (824) | 6,736 | 6,324 | 20 |
| Leasehold improvements | 558,596 | 207,246 (493) | 765,349 | 193,345 | 118,762 (492) | 311,615 | 453,734 | 20 |
| 2010 | 3,149,880 | 788,538 (20,491) | 3,917,927 | 807,326 | 324,202 (15,524) | 1,116,004 | 2,801,923 | |

| | COST | | | DEPRECIATION | | | BOOK VALUE | |
|--|-----------------------|--------------------------|------------------------|-----------------------|----------------------------------|------------------------|------------------------|------------------------|
| | As at 01 January 2010 | Additions/ (deletions) | As at 31 December 2009 | As at 01 January 2010 | Charge for the year/ (deletions) | As at 31 December 2009 | As at 31 December 2009 | Rate of depreciation % |
| | 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 (5,322) | 555,736 | 150,610 | 98,425 (4,926) | 244,109 | 311,627 | 15 & 25 |
| Vehicles | 9,494 | 2,013 (1,510) | 9,997 | 4,493 | 1,515 (322) | 5,686 | 4,311 | 20 |
| 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 | |

13.2.1 The cost of fully depreciated assets still in use is Rs. 138,241 thousand (2009: Rs. 114,958 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 | Sale Proceed | Mode of disposal | Particulars of purchaser |
|----------------|--------------|--------------|--------------|--------------------------|---|
| Rupees in '000 | | | | | |
| Vehicles | 560 | 555 | 900 | Best available Quotation | Mr. Eijaz Abdul Sattar (Son of deceased employee) |
| Vehicles | 489 | 484 | 278 | As per Bank policy | Mr. Mohammad Ali Pasha (Bank's ex employee) |
| Vehicles | 411 | 402 | 501 | As per Bank policy | Mr. Mohammad Ali Pasha (Bank's ex employee) |
| Vehicles | 432 | 424 | 561 | As per Bank policy | Mr. Abdul Aziz Memon (Bank's employee) |
| Vehicles | 343 | 339 | — | As per Bank policy | Mr. Abdul Aziz Memon (Bank's employee) |
| Vehicles | 343 | 339 | — | As per Bank policy | Mr. Usman N. Abedin, (Bank's employee) |
| | 2,578 | 2,543 | 2,240 | | |

13.3 Intangible assets

The cost of fully amortised intangible assets (computer software) still in use is Rs. 27,875 thousand (2009: Rs. 27,875 thousand).

14. DEFERRED TAX ASSETS

Deferred tax debits arising in respect of:

- Deficit on revaluation of investment securities
- Provision against diminution in the value of investments
- Provisions against non-performing advances (including off-balance sheet obligations)

Deferred tax credits arising due to:

- Accelerated tax depreciation

Net deferred tax asset recognised by the bank

2010 **2009**
Rupees in '000

| | |
|------------------|-----------|
| 427,787 | 80,031 |
| 65,760 | 43,827 |
| 1,818,804 | 1,060,149 |
| 2,312,351 | 1,184,007 |
| (444,023) | (359,301) |
| 1,868,328 | 824,706 |

14.1. Reconciliation of deferred tax

| Deferred debits arising in respect of | Balance as at 01 January 2009 | Recognised in profit & loss account | Recognised in equity | Balance as at 31 December 2009 | Recognised in profit & loss account | Recognised in equity | Balance as at 31 December 2010 |
|---|-------------------------------|-------------------------------------|----------------------|--------------------------------|-------------------------------------|----------------------|--------------------------------|
| Rupees in '000 | | | | | | | |
| Deficit on revaluation of investment | 616,537 | – | (536,506) | 80,031 | – | 347,756 | 427,787 |
| Provision against diminution in value of investments | 87,520 | (43,693) | – | 43,827 | 21,933 | – | 65,760 |
| Provision against non-performing advances (including off-balance sheet obligations) - note 30.3 | 745,537 | 314,612 | – | 1,060,149 | 758,655 | – | 1,818,804 |
| | 1,449,594 | 270,919 | (536,506) | 1,184,007 | 780,588 | 347,756 | 2,312,351 |
| Deferred credits arising due to | | | | | | | |
| Accelerated tax depreciation | (251,781) | (107,520) | – | (359,301) | (84,727) | – | (444,023) |
| Net investment in finance lease | (53,362) | 53,362 | – | – | – | – | – |
| | (305,143) | (54,158) | – | (359,301) | (84,727) | – | (444,023) |
| | 1,144,451 | 216,761 | (536,506) | 824,706 | 695,861 | 347,756 | 1,868,328 |

15. OTHER ASSETS

| | 2010 | 2009 |
|---|-----------|-----------|
| Rupees in '000 | | |
| Income / mark-up accrued in local currency | 3,689,121 | 2,984,163 |
| Income / mark-up accrued in foreign currencies | 22,122 | 49,498 |
| Advances, deposits, advance rent and other prepayments | 285,236 | 307,858 |
| Branch adjustment account | – | 387 |
| Unrealized gain on forward foreign exchange contracts | 1,360,030 | 432,357 |
| Receivable from the SBP against encashment of Government Securities | 30,617 | 42,275 |
| Stationery and stamps on hand | 31,287 | 25,912 |
| Advance payments against Ijarah | 196,073 | 20,320 |
| Advance payments against Diminishing Musharaka | 82,135 | – |
| Advance payments against Murabaha | 207,991 | 133,051 |
| Others | 26,668 | 8,927 |
| | 5,931,280 | 4,004,748 |

16. BILLS PAYABLE

| | | |
|-------------|-----------|-----------|
| In Pakistan | 2,572,954 | 3,111,467 |
| | 2,572,954 | 3,111,467 |

| | Note | 2010 | 2009 |
|---|--------|-------------------|------------|
| | | Rupees in '000 | |
| 17. BORROWINGS | | | |
| In Pakistan | | 61,172,031 | 66,304,447 |
| Outside Pakistan | | 1,357,698 | 1,882,227 |
| | | 62,529,729 | 68,186,674 |
| 17.1 Particulars of borrowings in respect of currencies | | | |
| In local currency | | 61,172,031 | 66,304,447 |
| In foreign currencies | | 1,357,698 | 1,882,227 |
| | | 62,529,729 | 68,186,674 |
| 17.2 Details of borrowings | | | |
| Secured | | | |
| Borrowings from the State Bank of Pakistan | | | |
| - under export refinance scheme | | 25,710,819 | 24,820,596 |
| - under long term financing - export oriented projects | | 1,300,872 | 1,858,677 |
| - under long term financing facility - locally manufactured plant and machinery | | 1,418,938 | 677,608 |
| | 17.2.1 | 28,430,629 | 27,356,881 |
| Repurchase agreement borrowings | 17.2.2 | 32,630,475 | 38,807,235 |
| | | 61,061,104 | 66,164,116 |
| Unsecured | | | |
| Call borrowings | 17.2.3 | 100,000 | 100,000 |
| Overdrawn nostro accounts | | 1,357,698 | 1,755,865 |
| Overdrawn local bank accounts | | 10,927 | 40,331 |
| Other short term borrowing | | — | 126,362 |
| | | 1,468,625 | 2,022,558 |
| | | 62,529,729 | 68,186,674 |

17.2.1 These carrying mark-up rates ranging between 4.00% to 9.50% (2009: 4.00% to 7.70%) per annum which is payable quarterly or upon maturity of loans, whichever is earlier.

17.2.2 These have been borrowed from financial institutions and are secured against Federal Government Securities and carry mark-up rates ranging between 12.70% to 13.00% (2009: 12.00% to 12.40%) per annum, with maturities upto 17 March 2011.

17.2.3 This is an unsecured borrowing from Financial Institution, carrying mark-up at the rate of 12.60% (2009: 12.25%) per annum and will mature on 3 January 2011.

18. DEPOSITS AND OTHER ACCOUNTS

Note

2010**2009**

Rupees in '000

Customers

| | | |
|-------------------------------------|--------------------|-------------|
| Fixed deposits | 69,954,427 | 63,745,868 |
| Savings deposits | 38,873,120 | 39,879,767 |
| Current accounts (non-remunerative) | 37,316,518 | 33,250,907 |
| Others | 1,818,566 | 1,478,044 |
| | 147,962,631 | 138,354,586 |

Financial institutions

| | | |
|---------------------------|--------------------|-------------|
| Remunerative deposits | 12,111,834 | 3,963,566 |
| Non-remunerative deposits | 383,510 | 139,224 |
| | 12,495,344 | 4,102,790 |
| | 160,457,975 | 142,457,376 |

18.1 Particulars of deposits

| | | |
|-----------------------|--------------------|-------------|
| In local currency | 144,776,586 | 129,007,755 |
| In foreign currencies | 15,681,389 | 13,449,621 |
| | 160,457,975 | 142,457,376 |

19. OTHER LIABILITIES

| | | |
|---|------------------|-----------|
| Mark-up / return / interest payable in local currency | 3,722,026 | 2,986,068 |
| Mark-up / return / interest payable in foreign currencies | 23,081 | 8,500 |
| Unearned commission and income on bills discounted | 119,288 | 158,948 |
| Accrued expenses | 259,044 | 251,062 |
| Current taxation (provisions less payments) | 426,814 | 328,606 |
| Provision against off-balance sheet obligations | 38,922 | — |
| Unclaimed dividend | 3,150 | 1,049 |
| Unrealized loss on forward foreign exchange contracts | 628,822 | 157,400 |
| Branch adjustment account | 181 | — |
| Workers' welfare fund | 122,759 | 136,861 |
| Excise duty payable | 26,128 | 21,078 |
| Locker deposits | 313,297 | 271,593 |
| Advance against Diminishing Musharaka | 37,067 | 33,661 |
| Advance rental for Ijarah | 17,743 | 10,316 |
| Security deposits against leases/ Ijarah | 437,229 | 402,380 |
| Sundry creditors | 67,395 | 28,314 |
| Others | 98,915 | 120,364 |
| | 6,341,861 | 4,916,200 |

19.1 Provision against off-balance sheet obligations

| | | |
|---------------------|---------------|---|
| Opening balance | — | — |
| Charge for the year | 38,922 | — |
| Closing balance | 38,922 | — |

20. SHARE CAPITAL

20.1 Authorised capital

| 2010 | 2009 | | 2010 | 2009 |
|----------------------|---------------|----------------------------------|-------------------|------------|
| Number of shares | | | Rupees in '000 | |
| 1,200,000,000 | 1,200,000,000 | Ordinary shares of Rs. 10/- each | 12,000,000 | 12,000,000 |

20.2 Issued, subscribed and paid-up capital

| | | Ordinary shares of Rs. 10/- each | | |
|--------------------|-------------|----------------------------------|------------------|-----------|
| 30,000,000 | 30,000,000 | - issued for cash | 300,000 | 300,000 |
| 92,500,000 | 92,500,000 | - issued upon amalgamation | 925,000 | 925,000 |
| 750,692,900 | 630,252,500 | - issued as bonus shares | 7,506,929 | 6,302,525 |
| 873,192,900 | 752,752,500 | | 8,731,929 | 7,527,525 |

20.3 As of the balance sheet date, Habib Bank AG Zurich – Switzerland (the holding company) held 445,328 thousand (2009: 383,904 thousand) ordinary shares of Rs.10/- each (51% holding).

21. DEFICIT ON REVALUATION OF ASSETS - NET OF TAX

Available-for-sale securities

Federal Government Securities

| | | |
|---------------------------|--------------------|-----------|
| Market Treasury Bills | (132,006) | 27,645 |
| Pakistan Investment Bonds | (1,140,910) | (264,249) |
| GOP Ijarah Sukuk | 73,714 | 69,785 |

Fully paid-up ordinary shares – Listed

(762) 31,317

Term Finance Certificates

| | | |
|----------|-----------------|-----------|
| Listed | (46,592) | (108,839) |
| Unlisted | (4,915) | (3,162) |

Sukuk Certificates and Bonds

(30,806) (88,985)

Mutual Funds

| | | |
|-----------|----------------|---------|
| Open end | 189,756 | 107,649 |
| Close end | 18,440 | 179 |

Related deferred tax asset - net

| | |
|--------------------|-----------|
| (1,074,081) | (228,660) |
| 427,787 | 80,031 |
| (646,294) | (148,629) |

22. CONTINGENCIES AND COMMITMENTS

22.1 Direct credit substitutes

Bank guarantees of indebtedness in favour of:

| | | |
|--|----------------|---------|
| – Banking companies and other financial institutions | 238,522 | 106,518 |
|--|----------------|---------|

22.2 Transaction-related contingent liabilities

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

| | | |
|--|-------------------|------------|
| i) Government | 9,351,603 | 7,384,640 |
| ii) Banking companies and other financial institutions | 286,415 | 184,431 |
| iii) Others | 3,711,022 | 6,521,564 |
| | 13,349,040 | 14,090,635 |

| | 2010 Rupees in '000 | 2009 |
|---|------------------------|-------------------|
| 22.3 Trade-related contingent liabilities | | |
| Letters of credit | <u>49,231,412</u> | <u>33,926,635</u> |
| Acceptances | <u>10,313,588</u> | <u>8,815,049</u> |
| 22.4 Commitments in respect of forward exchange contracts | | |
| Purchase | <u>55,991,653</u> | <u>25,374,364</u> |
| Sale | <u>68,631,860</u> | <u>29,690,658</u> |
| 22.5 Commitments in respect of Repurchase agreement borrowings | <u>–</u> | <u>4,655,405</u> |
| 22.6 Commitments in respect of operating leases | | |
| Not later than one year | <u>57,991</u> | <u>81,741</u> |
| Later than one year and not later than five years | <u>30,154</u> | <u>65,749</u> |
| | <u>88,145</u> | <u>147,490</u> |
| 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 72 months. When a lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place. | | |
| 22.7 Commitments for the acquisition of operating fixed assets | <u>62,154</u> | <u>14,884</u> |
| 22.8 Claims against bank not acknowledged as debt | <u>2,229,910</u> | <u>1,634,510</u> |
| 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. | | |
| 22.10 Commitments in respect of syndicate financing | <u>253,691</u> | <u>593,191</u> |
| 22.11 Commitments in respect of investment in Sukuk Certificates and Term Finance Certificates | <u>48,572</u> | <u>294,696</u> |

23. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

24. MARK-UP / RETURN / INTEREST EARNED

| | Note | 2010 | 2009 |
|---|------|----------------|------------|
| | | Rupees in '000 | |
| On loans and advances to: | | | |
| Customers | | 11,811,187 | 10,117,082 |
| Financial institutions | | 36,534 | 1,651,511 |
| | | 11,847,721 | 11,768,593 |
| On investments in: | | | |
| Available-for-sale securities | | 10,724,362 | 8,909,983 |
| Held-to-maturity securities | | 97,011 | 26,328 |
| | | 10,821,373 | 8,936,311 |
| On deposits with financial institutions | | 551,173 | 533,639 |
| On securities purchased under resale agreements | | 160,047 | 137,716 |
| | | 23,380,314 | 21,376,259 |

25. MARK-UP / RETURN / INTEREST EXPENSED

| | | | |
|---|--|------------|------------|
| Deposits and other accounts | | 10,838,649 | 9,560,866 |
| Securities sold under repurchase agreements | | 3,292,775 | 3,530,426 |
| Short term borrowings | | 2,115,233 | 1,456,924 |
| Long term borrowings | | 186,834 | 117,237 |
| | | 16,433,491 | 14,665,453 |

26. GAIN ON SALE / REDEMPTION OF SECURITIES – NET

| | | | |
|--------------------------------------|--|---------|---------|
| Federal Government Securities | | | |
| Market Treasury Bills | | (2,450) | 20,864 |
| Pakistan Investment Bonds | | – | 33,528 |
| Fully paid-up ordinary shares | | | |
| Listed companies | | 63,954 | 39,915 |
| Sukuk Certificates | | 1,188 | – |
| Mutual Funds | | | |
| Open-end and Close-end | | 182,744 | 112,074 |
| | | 245,436 | 206,381 |

27. OTHER INCOME

| | | | |
|-------------------------------------|------|---------|---------|
| Rent on properties | | 19,554 | 8,492 |
| Net gain on sale of fixed assets | | 5,404 | 7,387 |
| Recovery of expenses from customers | 27.1 | 120,893 | 116,772 |
| Others | 27.2 | 104,646 | 127,442 |
| | | 250,497 | 260,093 |

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 | 2010 Rupees in '000 | 2009 |
|---|------|------------------------|------------------|
| 28. ADMINISTRATIVE EXPENSES | | | |
| Salaries, allowances, etc. | | 1,882,257 | 1,565,937 |
| Contractual Staff | | 97,229 | 83,216 |
| Charge for defined benefit plan | 34.4 | 58,708 | 40,094 |
| Contribution to defined contribution plan | | 72,883 | 61,479 |
| Directors' fees | | 6,120 | 6,650 |
| Brokerage and commission | | 71,233 | 67,872 |
| Rent, taxes, insurance, electricity etc. | | 550,209 | 440,069 |
| Legal and professional charges | | 53,844 | 33,829 |
| Communication | | 134,471 | 119,341 |
| Repairs and maintenance | | 125,412 | 116,417 |
| Rentals of operating leases | | 87,205 | 130,491 |
| Stationery and printing | | 67,363 | 55,036 |
| Management fee | | 141,175 | 134,640 |
| Advertisement and publicity | | 47,168 | 34,702 |
| Donations | 28.1 | 35,855 | 33,100 |
| Auditors' remuneration | 28.2 | 2,949 | 2,270 |
| Depreciation | 13.2 | 324,202 | 237,013 |
| Security charges | | 70,360 | 57,993 |
| Travelling and conveyance | | 40,496 | 38,308 |
| Computer software maintenance | | 53,528 | 44,467 |
| Motor car running | | 42,043 | 30,653 |
| Cartage, handling and freight charges | | 35,630 | 35,264 |
| Others | | 172,500 | 154,880 |
| | | 4,172,840 | 3,523,721 |

28.1 None of the directors, executives and their spouses had any interest in the donations disbursed during the year except for donations paid to Habib University Foundation, Habib Medical Trust 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

| | | |
|---|-------|-------|
| The Citizens Foundation | 8,200 | 6,600 |
| Raast Welfare Society | 6,000 | — |
| Aziz Tabba Foundation (Tabba Heart Institute) | 1,200 | — |
| Bait-ul-Sukoon Cancer Hospital | 1,000 | — |
| Habib University Foundation | 1,000 | 1,000 |
| Mohamedali Habib Welfare Trust | 1,000 | 1,200 |
| Al-Sayyeda Benevolent Trust | 960 | 960 |
| Habib Medical Trust | 960 | 3,500 |
| Habib Poor Fund | 960 | 960 |
| RahmatBai Habib Food & Clothing Trust | 960 | 960 |
| RahmatBai Habib Widows & Orphan Trust | 960 | 960 |
| Abbas-e-Alamdard Hostel | 860 | 960 |
| Sindh Institute of Urology and Transplantation (SIUT) | 750 | 500 |
| Al-Asad Welfare Trust | 600 | 250 |
| Pakistan Memon Educational & Welfare Society | 600 | 600 |
| Abdul Sattar Edhi Foundation | 500 | 500 |
| Hussaini Foundation | 500 | — |
| Memon Educational Board | 500 | 450 |
| Pakistan Memon Women Educational Society | 500 | 450 |

| DONEE | Note | 2010 Rupees in '000 | 2009 |
|---|------|------------------------|----------------|
| The Institute of Business Administration (I.B.A.) | | 500 | 500 |
| Young President Organization | | 500 | — |
| Zehra Homes | | 480 | 500 |
| Marie Adelaide Leprosy Centre | | 450 | 500 |
| Dhoraji Association | | 375 | — |
| Al-Umeed Rehabilitation Association | | 250 | 300 |
| Anjuman Behbood-e-Samat-e-Atfal | | 250 | 250 |
| Bantva Memon Jamat | | 250 | 200 |
| Bantva Memon Rahat Committee | | 250 | 200 |
| Developments in Literacy | | 250 | — |
| Fatimiyah Education Network (KPSIAJ) | | 250 | 500 |
| Pak Medical and Welfare Trust (Paknight Clinic) | | 250 | 250 |
| Rotary Club of Karachi Continental | | 250 | 250 |
| Shaukat Khanum Memorial Trust | | 250 | 500 |
| SOS Childrens Village of Pakistan | | 250 | 250 |
| The Kidney Centre | | 250 | 500 |
| The Layton Rahmatulla Benevolent Trust | | 250 | 500 |
| Ahmed Abdullah Foundation (MA Ayesha Memorial Centre) | | 200 | 200 |
| Combined Military Hospital (C.M.H.) | | 200 | — |
| Kashmir Education Foundation | | 200 | 300 |
| Special Olympics Pakistan | | 200 | — |
| The Medical Aid Foundation | | 200 | 250 |
| Sada Welfare Foundation | | 175 | — |
| Bantva Anjuman Himayat-e-Islam | | 150 | 125 |
| Academy of Quaranic Studies | | 120 | 120 |
| Memon Health and Education Foundation | | — | 4,800 |
| Bait-ul-Sukoon | | — | 250 |
| Chiniot Anjuman Islamia | | — | 250 |
| Kiran Patient Welfare Association | | — | 250 |
| Spencers Eye Hospital | | — | 250 |
| | | 34,760 | 31,845 |
| 28.2 Auditors' remuneration | | | |
| Audit fee | | 1,350 | 1,200 |
| Review of half-yearly financial statements | | 450 | 400 |
| Special audit certifications and sundry advisory services | | 708 | 600 |
| Out-of-pocket expenses | | 441 | 70 |
| | | 2,949 | 2,270 |
| 29. OTHER CHARGES | | | |
| Penalties imposed by the SBP | | 216 | 325 |
| Workers' welfare fund | 29.1 | 96,032 | 105,801 |
| | | 96,248 | 106,126 |

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.

| | Note | 2010 Rupees in '000 | 2009 |
|---------------------|------|------------------------|-----------|
| 30. TAXATION | | | |
| For the year | | | |
| Current | | 1,904,158 | 1,690,909 |
| Deferred | | (695,861) | (216,761) |
| | 30.2 | 1,208,297 | 1,474,148 |

30.1 Income tax assessments of the Bank have been finalised upto the tax year 2007 (corresponding to the accounting year ended 31 December 2006). Income tax returns for the tax years 2008, 2009 and 2010 (corresponding to the accounting years ended 31 December 2007, 2008 and 2009) filed under section 120 of Income Tax Ordinance have been selected for audit by the Income Tax authorities who vide respective years' assessment orders disallowed certain expenses and provisions against which the Bank's appeals are pending with Appellate Tribunal Inland Revenue (ATIR) and Commissioner Inland Revenue (Appeals). However, adequate provisions are being held by the Bank.

30.2 Relationship between tax expense and accounting profit

| | | |
|---|------------------|-----------|
| Profit before tax | 4,026,335 | 4,213,642 |
| Tax at the applicable rate of 35% (2009: 35%) | 1,409,217 | 1,474,775 |
| Tax effect of income taxed at reduced rate | (212,331) | (3,406) |
| Others | 11,411 | 2,779 |
| Tax charge for the year | 1,208,297 | 1,474,148 |

30.3 Through Finance Act, 2010 certain amendments have been introduced in Seventh Schedule to the Income Tax Ordinance, 2001. The provision for advances & off balance sheet items will now be allowed at 5% of total gross advances for consumer and SMEs (as defined in SBP prudential Regulation). The provision for advances and off balance sheet items other than those falling in definition of consumer & SMEs will be allowed upto 1% of such total gross advances.

Further a new Rule 8(A) has been introduced in Seventh Schedule to allow for amounts provided for in tax year 2008 and prior to said tax year for doubtful debts, which were neither claimed nor allowed as tax deductible in any year shall be allowed as deduction in tax year in which such doubtful debts are written off.

With reference to allowability of provision, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognized deferred tax asset on such provision amounting to Rs. 1,818.804 million.

| | Note | 2010 Rupees in '000 | 2009 |
|---|------|------------------------|------------|
| 31. BASIC AND DILUTED EARNINGS PER SHARE | | | |
| Profit after taxation | | 2,818,038 | 2,739,494 |
| | | (Number in '000) | (Restated) |
| Weighted average number of ordinary shares | 31.1 | 873,193 | 873,193 |
| | | Rupees | (Restated) |
| Basic and diluted earnings per share | | 3.23 | 3.14 |

31.1 The weighted average number of shares for 2009 have been adjusted for the effect of bonus shares issued during the year.

| | | 2010 Rupees in '000 | 2009 |
|---------------------------------------|------|------------------------|-------------|
| 32. CASH AND CASH EQUIVALENTS | | | |
| Cash and balances with treasury banks | 8 | 13,923,393 | 11,192,498 |
| Balances with other banks | 9 | 3,123,094 | 4,836,399 |
| Overdrawn nostro accounts | 17.2 | (1,357,698) | (1,755,865) |
| Overdrawn local banks accounts | 17.2 | (10,927) | (40,331) |
| | | 15,677,862 | 14,232,701 |

| | | 2010 Number | 2009 |
|--|--|----------------|-------|
| 33. STAFF STRENGTH | | | |
| Permanent | | 1,965 | 1,640 |
| Temporary / on contractual basis | | 393 | 477 |
| Bank's own staff strength at the end of the year | | 2,358 | 2,117 |
| Outsourced | | 579 | 578 |
| Total Staff Strength | | 2,937 | 2,695 |

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 2010 using "Projected Unit Credit Actuarial Cost Method". The main assumptions used for the actuarial valuation were as follows:

| | Note | 2010 | 2009 |
|--|------|------|------|
| Discount rate – percent (per annum) | | 14 | 13 |
| Expected rate of return on plan assets – percent (per annum) | | 15 | 13 |
| Long term rate of salary increase – percent (per annum) | | 14 | 13 |

34.3 Reconciliation of defined benefit plan

| | | 2010 | 2009 |
|---|------|----------------|-----------|
| | | Rupees in '000 | |
| Fair value of plan assets | 34.6 | 337,025 | 250,760 |
| Present value of defined benefit obligation | 34.7 | (420,087) | (355,096) |
| Unrecognised actuarial loss | | 83,062 | 104,336 |
| | | – | – |

34.4 Movement in defined benefit plan

| | | | |
|--------------------------|------|----------|----------|
| Opening balance | | – | – |
| Charge for the year | 34.5 | 58,708 | 40,094 |
| Contribution to the fund | | (58,708) | (40,094) |
| Closing balance | | – | – |

34.5 Charge for defined benefit plan

| | | | |
|--------------------------------|--|----------|----------|
| Current service cost | | 36,542 | 28,504 |
| Interest cost | | 46,162 | 39,497 |
| Expected return on plan assets | | (32,599) | (30,845) |
| Actuarial loss recognised | | 8,603 | 3,551 |
| Negative past service cost | | – | (613) |
| | | 58,708 | 40,094 |

34.6 Movement in fair value of plan assets

| | | | |
|----------------------------------|------|----------|----------|
| Opening balance | | 250,760 | 205,633 |
| Expected return on plan assets | | 32,599 | 30,845 |
| Actuarial gain/(loss) recognized | 34.8 | 14,060 | (4,529) |
| Benefits paid | | (19,102) | (21,283) |
| Contribution to the fund | 34.4 | 58,708 | 40,094 |
| Closing balance | | 337,025 | 250,760 |

| | Note | 2010 Rupees in '000 | 2009 |
|---|------|------------------------|----------|
| 34.7 Movement in present value of defined benefit obligation | | | |
| Opening balance | | 355,096 | 263,311 |
| Current service cost | | 36,541 | 28,504 |
| Interest cost | | 46,162 | 39,497 |
| Actuarial loss recognized | 34.8 | 1,390 | 45,067 |
| Benefits paid | | (19,102) | (21,283) |
| Closing balance | | 420,087 | 355,096 |
| 34.8 Annual actuarial loss recognised | | | |
| Experience loss on obligation | | 1,390 | 45,067 |
| Experience (gain) / loss on plan assets | | (14,060) | 4,529 |
| Net (gain) / loss recognised during the year | | (12,671) | 49,596 |
| 34.9 Actual return on plan assets | | 46,659 | 26,316 |

| 34.10 Plan assets comprise the following: | 2010 | | 2009 | |
|--|----------------|---------------|----------------|--------|
| | Rupees in '000 | % | Rupees in '000 | % |
| Government Securities | 1,500 | 0.45% | 179,997 | 71.78% |
| Bank Deposits | 335,525 | 99.55% | 70,763 | 28.22% |
| | 337,025 | 100% | 250,760 | 100% |

| 34.11 Historical Information | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|------------------|-----------|-----------|-----------|-----------|
| | Rupees in '000 | | | | |
| Present value of defined benefit obligation | 420,087 | 355,096 | 263,311 | 240,826 | 165,137 |
| Fair value of plan assets | (337,025) | (250,760) | (205,633) | (189,481) | (187,976) |
| Deficit/(Surplus) | 83,062 | 104,336 | 57,678 | 51,345 | (22,839) |
| Actuarial (gain) / loss on obligation | 1,390 | 45,067 | (9,754) | 41,318 | 13,243 |
| Actuarial (gain) / loss on assets | (14,060) | 4,529 | 13,329 | (7,650) | 6,514 |

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 | |
|---|-----------------------------|--------|-----------|--------|------------|---------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | Rupees in '000 | | | | | |
| Fees | – | – | 6,120 | 6,650 | – | – |
| Managerial remuneration | 45,000 | 42,000 | – | – | 898,538 | 692,531 |
| Charge for defined benefit plan | 250 | 243 | – | – | 2,794 | 1,970 |
| Contribution to defined contribution plan | 3,600 | 3,600 | – | – | 37,077 | 27,905 |
| Utilities | – | – | 1,129 | 1,074 | – | – |
| Bonus | – | 3,000 | – | – | 110,583 | 85,084 |
| Others | 3,600 | 3,600 | 5,263 | 2,593 | – | – |
| | 52,450 | 52,443 | 12,512 | 10,317 | 1,048,992 | 807,490 |
| Number of persons | 1 | 1 | 8 | 8 | 561 | 430 |

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

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

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

* Includes inter-segment income and expenses

39. TRANSACTIONS WITH RELATED PARTIES

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

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

| | 31 December 2010 | | | | | |
|--|------------------|---------------|---------------|--------------------------|--------------------------|---------------|
| | Holding Company | Subsidiary | Associates | Key Management Personnel | Retirement Benefit Plans | Total |
| | Rupees in '000 | | | | | |
| Deposits | | | | | | |
| At beginning of the year | 19,450 | 271,886 | 3,531,415 | 46,038 | 850,526 | 4,719,315 |
| Received during the year | 10,155,609 | 132,920,884 | 401,599,525 | 192,382 | 4,451,142 | 549,319,542 |
| Repaid during the year | (10,081,985) | (133,049,226) | (401,910,557) | (177,927) | (4,067,783) | (549,287,478) |
| At end of the year | 93,074 | 143,544 | 3,220,383 | 60,493 | 1,233,885 | 4,751,379 |
| Advances | | | | | | |
| At beginning of the year | — | — | 1,740,927 | 15,540 | — | 1,756,467 |
| Disbursed during the year | — | — | 30,558,362 | 12,331 | — | 30,570,693 |
| Recovered during the year | — | — | (30,100,823) | (5,595) | — | (30,106,418) |
| At end of the year | — | — | 2,198,466 | 22,276 | — | 2,220,742 |
| Bank balances held by the Bank | 164,431 | — | 57,588 | — | — | 222,019 |
| Over drawn bank balances held by the Bank | (48,942) | — | (763,041) | — | — | (811,983) |
| Mark-up/return/interest payable | — | 1,515 | — | — | — | 1,515 |
| Management fee payable for technical and consultancy services* | 137,100 | — | — | — | — | 137,100 |
| Prepayments | — | — | 14,789 | — | — | 14,789 |
| Transaction-related contingent liabilities | — | 25,000 | 1,023,991 | — | — | 1,048,991 |
| Trade-related contingent liabilities | — | — | 2,002,067 | — | — | 2,002,067 |
| Advance received against prepaid card | — | — | 1,609 | — | — | 1,609 |
| Advance received against insurance premium | — | — | 54 | — | — | 54 |

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

31 December 2009

| | Holding Company | Subsidiary | 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 held by the Bank | 65,602 | — | 7,641 | — | — | 73,243 |
| Over drawn bank balances held by the Bank | (34,727) | — | (1,137) | — | — | (35,864) |
| 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 |

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

Transactions during the year

| | For the year ended 31 December 2010 | | | | | | Total |
|--|-------------------------------------|------------|------------|--------------------------|----------------|--------------------------|---------|
| | Holding Company | Subsidiary | Associates | Key Management Personnel | Directors' fee | Retirement Benefit Plans | |
| | Rupees in '000 | | | | | | |
| Mark-up/return/interest earned | — | — | 95,960 | 1,386 | — | — | 97,346 |
| Mark-up/return/interest expensed | — | 25,887 | 542,461 | 7,530 | — | 115,648 | 691,526 |
| Commission / Brokerage / Bank charges recovered | — | 519 | 11,610 | — | — | — | 12,129 |
| Rent income | — | 1,200 | 938 | — | — | — | 2,138 |
| Salaries and allowances | — | — | — | 112,705 | — | — | 112,705 |
| Directors' fees | — | — | — | — | 6,120 | — | 6,120 |
| Contribution to defined benefit plan | — | — | — | — | — | 58,708 | 58,708 |
| Contribution to defined contribution plan | — | — | — | — | — | 72,883 | 72,883 |
| Bank charges paid | 2,329 | 228 | 8,067 | — | — | — | 10,624 |
| Rent expenses | — | — | 16,127 | — | — | — | 16,127 |
| Insurance premium expenses | — | — | 30,778 | — | — | — | 30,778 |
| Maintenance, Electricity, Stationery & Entertainment | — | — | 22,655 | — | — | — | 22,655 |
| Management fee expense for technical and consultancy services* | 141,175 | — | — | — | — | — | 141,175 |
| Donation | — | — | 2,920 | — | — | — | 2,920 |
| Share registration charges | — | — | 1,384 | — | — | — | 1,384 |

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

Transactions during the year

| | For the year ended 31 December 2009 | | | | | | |
|--|-------------------------------------|------------|------------|--------------------------|----------------|--------------------------|---------|
| | Holding Company | Subsidiary | 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 |
| 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 | — | 1,200 | 853 | — | — | — | 2,053 |
| Salaries & allowances | — | — | — | 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 paid | 2,936 | 569 | 8,934 | — | — | — | 12,439 |
| Rent expenses | — | — | 16,885 | — | — | — | 16,885 |
| Insurance premium expenses | — | — | 29,046 | — | — | — | 29,046 |
| Maintenance, Electricity, Stationery & Entertainment | — | — | 11,039 | — | — | — | 11,039 |
| Management fee expense for technical and consultancy services* | 134,640 | — | — | — | — | — | 134,640 |
| Donation | — | — | 5,460 | — | — | — | 5,460 |
| Share registration charges | — | — | 1,402 | — | — | — | 1,402 |

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

40. CAPITAL ASSESSMENT AND ADEQUACY

40.1 Scope of Applications

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

40.2 Capital Structure

Bank's regulatory capital has two tiers:

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

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 | 2010 | 2009 |
|---|-------------------|-------------------|
| | Rupees in '000 | |
| Tier I Capital | | |
| Shareholders' capital | 8,731,929 | 7,527,525 |
| Balance in share premium account | 2,550,985 | 2,550,985 |
| Reserves | 5,600,458 | 5,036,850 |
| Un-appropriated profit (net of losses) | 4,071,055 | 3,773,782 |
| Less: Deficit on account of revaluation of available-for-sale securities | (1,074,081) | (228,660) |
| 50% deduction for investment in a subsidiary | (150,000) | (150,000) |
| Total Tier I Capital | 19,730,346 | 18,510,482 |
| Tier II Capital | | |
| General provision subject to 1.25% of total risk weighted assets | 22,117 | 424,745 |
| 50% deduction for investment in a subsidiary | (150,000) | (150,000) |
| Total Tier II Capital | (127,883) | 274,745 |
| Eligible Tier III Capital | — | — |
| Total regulatory capital base | 19,602,463 | 18,785,227 |

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. 7 billion (free of losses) by the end of financial year 2010.

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 2010 was Rs. 8.732 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 2010 was 10.64%.

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 | |
|--|----------------------|-------------|----------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| | 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 | 42,539 | 273,271 | 425,392 | 2,732,710 |
| Banks | 373,806 | 288,819 | 3,738,060 | 2,888,191 |
| Corporate | 9,954,906 | 8,626,388 | 99,549,060 | 86,263,882 |
| Retail | 480,391 | 466,783 | 4,803,913 | 4,667,828 |
| Residential mortgage finance | 18,291 | 16,696 | 182,912 | 166,963 |
| Past due loans | 374,141 | 196,353 | 3,741,405 | 1,963,525 |
| Listed, unlisted equity investments and regulatory capital instruments issued by other banks | 184,380 | 145,928 | 1,843,797 | 1,459,283 |
| Claims on fixed assets | 335,270 | 243,123 | 3,352,702 | 2,431,227 |
| All other assets | 1,330,431 | 1,159,711 | 13,304,309 | 11,597,106 |
| Off Balance Sheet - Non market related | 2,860,510 | 2,603,500 | 28,605,097 | 26,035,002 |
| Off Balance Sheet - Market related | 108,962 | 68,294 | 1,089,620 | 682,941 |
| Market risk | | | | |
| Capital requirement for portfolios subject to Standardised Approach | | | | |
| Interest rate risk | 84,355 | 22,981 | 1,054,438 | 287,263 |
| Foreign exchange risk | 289,062 | 106,264 | 3,613,275 | 1,328,300 |
| Equity position risk | — | — | — | — |
| Operational risk | | | | |
| Capital requirement for operational risks subject to Basic Indicator Approach | | | | |
| | 1,520,685 | 1,260,082 | 19,008,563 | 15,751,019 |
| | 17,957,729 | 15,481,653 | 184,312,543 | 158,289,839 |
| Capital adequacy ratio | | | | |
| Total eligible regulatory capital held (note 40.3) | (a) | 19,602,463 | 18,785,227 | |
| Total risk weighted assets (note 40.4) | (b) | 184,312,543 | 158,289,839 | |
| Capital Adequacy Ratio | (a)/(b) | 10.64% | 11.87% | |

41. RISK MANAGEMENT

Risk management aspects are embedded in the Bank's strategy, organization structure and processes. The Bank has adopted a cohesive risk management structure for credit, operations, liquidity and market risk to strengthen the process and system from the foundation as controls are more effective and valuable when built into the process. Effective risk management is considered essential in the preservation of the assets and long-term profitability of the Bank. Clear guidelines and limits, which are under regular review, are backed 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.160 billion (2009: Rs. 141 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

| |
|--|
| Agriculture, forestry, hunting and fishing |
| Automobile and transportation equipment |
| Cement |
| Chemical and pharmaceuticals |
| Construction |
| Electronics and electrical appliances |
| Exports / Imports |
| Financial |
| Footwear and leather garments |
| Individuals |
| Insurance |
| Mining and quarrying |
| Power (electricity), gas, water, sanitary |
| Services |
| Sugar |
| Textile |
| Transport, storage and communication |
| Wholesale and retail trade |
| Others |

| 2010 | | | | | |
|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| Advances (Gross) | | Deposits | | Contingencies and Commitments | |
| Rs. in '000 | % | Rs. in '000 | % | Rs. in '000 | % |
| 127,406 | 0.10 | 998,078 | 0.62 | 105,486 | 0.05 |
| 2,071,813 | 1.63 | 3,433,320 | 2.14 | 1,420,584 | 0.71 |
| 1,209,359 | 0.95 | 328,565 | 0.20 | 547,500 | 0.27 |
| 5,403,090 | 4.24 | 2,628,030 | 1.64 | 4,082,757 | 2.04 |
| 1,061,893 | 0.83 | 1,629,610 | 1.02 | 318,614 | 0.16 |
| 3,501,501 | 2.75 | 1,195,059 | 0.74 | 2,065,477 | 1.03 |
| 9,975,924 | 7.83 | 8,141,531 | 5.07 | 1,743,208 | 0.87 |
| 1,454,981 | 1.14 | 8,863,452 | 5.52 | 124,717,178 | 62.22 |
| 1,471,861 | 1.16 | 1,399,118 | 0.87 | 56,668 | 0.03 |
| 1,315,785 | 1.03 | 51,313,307 | 31.98 | 936,378 | 0.47 |
| — | — | 1,479,851 | 0.92 | 482 | 0.00 |
| 528,240 | 0.41 | 152,337 | 0.09 | 21,560 | 0.01 |
| 2,899,750 | 2.28 | 1,221,646 | 0.76 | 847,934 | 0.42 |
| 2,145,992 | 1.69 | 4,613,249 | 2.88 | 520,308 | 0.26 |
| 538,807 | 0.42 | 397,330 | 0.25 | 256,078 | 0.13 |
| 70,129,529 | 55.07 | 6,296,505 | 3.92 | 11,755,926 | 5.87 |
| 2,638,358 | 2.07 | 1,519,924 | 0.95 | 4,537,854 | 2.26 |
| 2,657,706 | 2.09 | 6,866,206 | 4.28 | 1,550,961 | 0.77 |
| 18,218,012 | 14.31 | 57,980,857 | 36.13 | 44,953,594 | 22.43 |
| 127,350,007 | 100.00 | 160,457,975 | 100.00 | 200,438,547 | 100.00 |

Segment by sector

| |
|---------------------|
| Public / Government |
| Private |

| 2010 | | | | | |
|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| Advances (Gross) | | Deposits | | Contingencies and Commitments | |
| Rs. in '000 | Percent | Rs. in '000 | Percent | Rs. in '000 | Percent |
| 2,243,202 | 1.76 | 13,544,155 | 8.44 | 4,879,131 | 2.43 |
| 125,106,805 | 98.24 | 146,913,820 | 91.56 | 195,559,416 | 97.57 |
| 127,350,007 | 100.00 | 160,457,975 | 100.00 | 200,438,547 | 100.00 |

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

| | 2010 | | 2009 | |
|--|---------------------|-------------------------|---------------------|-------------------------|
| | Classified Advances | Specific provision held | Classified Advances | Specific provision held |
| | Rupees in '000 | | | |
| Agriculture, forestry, hunting and fishing | — | — | 600 | 600 |
| Automobile and transportation equipment | 124,986 | 59,847 | 62,547 | 62,547 |
| Chemical and pharmaceuticals | 23,869 | 4,750 | 1,042 | 1,042 |
| Construction | 12,478 | 7,317 | 231,135 | 78,439 |
| Electronics and electrical appliances | 736,082 | 710,787 | 477,225 | 380,387 |
| Exports / Imports | 473,189 | 267,807 | 101,445 | 27,244 |
| Footwear and leather garments | 584,795 | 448,315 | 597,909 | 461,430 |
| Individuals | 74,636 | 53,184 | 54,311 | 54,311 |
| Services | 142,434 | 65,122 | 100,458 | 70,666 |
| Textile | 7,496,087 | 4,888,071 | 2,819,174 | 1,738,670 |
| Transport, storage and communication | 21,029 | 2,695 | 119,649 | 73,858 |
| Wholesale and retail trade | 747,097 | 574,964 | 556,352 | 337,823 |
| Others | 524,463 | 380,593 | 1,242,488 | 917,714 |
| | 10,961,145 | 7,463,452 | 6,364,335 | 4,204,731 |

Details of non-performing advances and specific provisions by sector

| | 2010 | | 2009 | |
|---------|---------------------|-------------------------|---------------------|-------------------------|
| | Classified Advances | Specific provision held | Classified Advances | Specific provision held |
| | Rupees in '000 | | | |
| Private | 10,961,145 | 7,463,452 | 6,364,335 | 4,204,731 |

Geographical segment analysis

| | 2010 | | | |
|----------|------------------------|-----------------------|---------------------|-------------------------------|
| | Profit before taxation | Total assets employed | Net assets employed | Contingencies and Commitments |
| | Rupees in '000 | | | |
| Pakistan | 4,026,335 | 252,210,652 | 20,308,133 | 200,438,547 |

Total assets employed include intra group items of Rs. 164.431 million.

41.1.2 Credit risk: General disclosures – Basel II specific

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

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

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

Types of Exposures and ECAI's used

| Exposures | 2010 | | | | |
|----------------|---------|-------|-------|-------|---------|
| | JCR-VIS | PACRA | S & P | Fitch | Moody's |
| Corporate | P | P | — | — | — |
| Banks | P | P | P | P | — |
| Sovereigns | — | — | P | — | — |
| SME's | P | P | — | — | — |
| Securitisation | — | — | — | — | — |
| Others | — | — | — | — | — |

41.2 Credit Exposures subject to Standardised Approach

| Exposures | Rating Category | 31 December 2010 | | | 31 December 2009 | | |
|--|-----------------|------------------|-----------|-------------|------------------|-----------|-------------|
| | | Amount | Deduction | Net | Amount | Deduction | Net |
| | | Outstanding | CRM | Amount | Outstanding | CRM | Amount |
| | | Rupees in '000 | | | | | |
| Corporate | 1 | 5,195,236 | 9,416 | 5,185,820 | 5,659,306 | 25,545 | 5,633,761 |
| | 2 | 439,200 | — | 439,200 | 666,050 | — | 666,050 |
| | 3 , 4 | — | — | — | — | — | — |
| | 5 , 6 | 77,224 | — | 77,224 | 119,824 | — | 119,824 |
| Claims on banks with original maturity of 3 months or less | | 3,451,025 | 640,399 | 2,810,626 | 2,860,959 | — | 2,860,959 |
| Retail | | 8,683,790 | 248,421 | 8,435,369 | 8,280,409 | 523,423 | 7,756,986 |
| Public sector entities | 1 | 1,296,689 | — | 1,296,689 | 386,044 | — | 386,044 |
| Others | | 129,865,286 | — | 129,865,286 | 131,379,790 | — | 131,379,790 |
| Unrated | | 132,458,792 | 5,180,114 | 127,278,678 | 116,575,326 | 1,148,878 | 115,426,448 |

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

The forms of collateral that are deemed eligible under the 'Simple Approach' to Credit Risk Mitigation as per SBP guidelines are used by the Bank and includes cash margin, lien on deposits, saving certificates, GOP guarantees and securities against landing (reverse repo).

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 | – | 308,530 | – |
| Equity Investments - Others | – | 123,101 | 300,000 |
| Total Value | – | 431,631 | 300,000 |

The cumulative realized gain of Rs. 245.436 million from sale of equity securities/certificates of mutual funds and units of open end mutual funds; however unrealized loss of Rs. 646.294 million was recognized in the balance sheet in respect of “Available-for-sale” securities.

41.3 Market risk

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

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

41.4 Foreign exchange risk

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

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

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

| 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 |
| Japanese 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 |

41.5 Interest rate risk

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

| | Effective Yield/ Interest Rate % | Exposed to Yield/Interest risk | | | | | | | | | |
|--|-------------------------------------|--------------------------------|--------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|---------------|
| | | 2010 | | | | | | | | | |
| | | 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 | | | | | | | | | | | |
| On balance sheet financial instruments | | | | | | | | | | | |
| Assets | | | | | | | | | | | |
| Cash and balances with treasury banks | — | 13,923,393 | — | — | — | — | — | — | — | — | 13,923,393 |
| Balances with other banks | 0.15% to 5.00% | 3,123,094 | 1,729,939 | — | — | — | — | — | — | — | 1,393,155 |
| Lendings to financial institutions | 13.35% to 14.00% | 3,190,399 | 1,090,399 | 2,100,000 | — | — | — | — | — | — | — |
| Investments | 6.00% to 16.48% | 100,993,820 | 836,978 | 20,202,406 | 34,535,081 | 13,281,318 | 4,909,138 | 3,637,708 | 1,393,468 | 11,326,758 | 10,870,965 |
| Advances | 1.50% to 25.00% | 119,827,636 | 13,599,604 | 66,028,306 | 29,136,466 | 2,289,676 | 2,143,453 | 1,406,949 | 763,486 | 782,091 | 3,497,693 |
| Other assets | — | 5,332,859 | — | — | — | — | — | — | — | — | 5,332,859 |
| | | 246,391,201 | 17,256,920 | 88,330,712 | 63,671,547 | 15,570,994 | 7,052,591 | 5,044,657 | 2,156,954 | 12,108,849 | 35,018,065 |
| Liabilities | | | | | | | | | | | |
| Bills payable | — | 2,572,954 | 25,443,293 | — | — | — | — | — | — | — | 2,572,954 |
| Borrowings | 4.00% to 13.00% | 62,529,729 | 41,856,405 | 21,128,980 | 11,869,021 | 11,256,483 | — | 388,063 | 1,077,465 | 1,254,282 | 1,368,625 |
| Deposits and other accounts | 0.25% to 16.67% | 160,457,975 | — | 26,355,796 | 32,279,468 | — | 1,596,977 | 1,939,485 | 3,918,698 | 1,736,070 | 39,518,593 |
| Other liabilities | — | 5,685,302 | — | — | — | — | — | — | — | — | 5,685,302 |
| | | 231,245,960 | 67,299,698 | 47,484,776 | 44,148,489 | 11,256,483 | 1,596,977 | 2,327,548 | 4,996,163 | 2,990,352 | 49,145,474 |
| On-balance sheet gap | | 15,145,241 | (50,042,778) | 40,845,936 | 19,523,058 | 4,314,511 | 5,455,614 | 2,717,109 | (2,839,209) | 9,118,497 | 179,912 |
| Off-balance sheet financial instruments | | | | | | | | | | | |
| Forward Purchase | | 55,991,653 | — | — | — | — | — | — | — | — | 55,991,653 |
| Forward Sale | | (68,631,860) | — | — | — | — | — | — | — | — | (68,631,860) |
| Off-balance sheet gap | | (12,640,207) | — | — | — | — | — | — | — | — | (12,640,207) |
| Total yield / interest risk sensitivity gap | | 2,505,034 | (50,042,778) | 40,845,936 | 19,523,058 | 4,314,511 | 5,455,614 | 2,717,109 | (2,839,209) | 9,118,497 | 179,912 |
| Cumulative yield / interest risk sensitivity gap | | 2,505,034 | (50,042,778) | (9,196,842) | 10,326,216 | 14,640,727 | 20,096,341 | 22,813,450 | 19,974,241 | 29,092,738 | 29,272,650 |
| | | | | | | | | | | | 2,505,034 |

2009

| | | Exposed to Yield/Interest risk | | | | | | | | | |
|---|-----------------|--------------------------------|--------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|--|
| | | Rupees in '000 | | | | | | | | | |
| | | Total | Upto 1 month | Over 1 month to 3 months | over 3 months to 6 months | over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years | Non-interest bearing financial instruments |
| 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 | 12.6% | 150,000 | 50,000 | 100,000 | — | — | — | — | — | — | — |
| Investments | 8.00% to 16.25% | 111,679,520 | 888,487 | 21,694,590 | 31,399,999 | 25,737,420 | 7,476,182 | 3,663,759 | 3,335,471 | 7,871,227 | 282,494 |
| 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 |
| Other assets | — | 3,648,742 | — | — | — | — | — | — | — | — | 3,648,742 |
| | | 233,800,291 | 6,367,818 | 61,316,902 | 59,303,057 | 42,050,320 | 10,988,878 | 7,561,539 | 7,207,312 | 10,402,480 | 645,038 |
| 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 | — | 4,337,823 | — | — | — | — | — | — | — | — | 4,337,823 |
| | | 218,093,340 | 96,844,628 | 32,543,820 | 19,939,091 | 16,735,595 | 1,095,950 | 1,454,456 | 4,917,250 | 2,245,086 | 42,317,464 |
| On-balance sheet gap | | | | | | | | | | | |
| | | 15,706,951 | (90,476,810) | 28,773,082 | 39,363,966 | 25,314,725 | 9,892,928 | 6,107,083 | 2,290,062 | 8,157,394 | (14,360,517) |
| 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) |
| | | 339,111 | — | — | — | — | — | — | — | — | 339,111 |
| Off-balance sheet gap | | | | | | | | | | | |
| | | 16,046,062 | (90,476,810) | 28,773,082 | 39,363,966 | 25,314,725 | 9,892,928 | 6,107,083 | 2,290,062 | 8,157,394 | 645,038 |
| Total yield / interest risk sensitivity gap | | | | | | | | | | | |
| | | 16,046,062 | (90,476,810) | (61,703,728) | (22,339,762) | 2,974,963 | 12,867,892 | 18,974,892 | 21,265,036 | 29,422,430 | 30,067,468 |
| Cumulative yield / interest risk sensitivity gap | | | | | | | | | | | |
| | | | | | | | | | | | 16,046,062 |

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

| | 2009 | | 2010 | |
|--|----------------|-------------|----------------|-------------|
| | Rupees in '000 | | Rupees in '000 | |
| Reconciliation to total assets | | | | |
| Total financial assets | 246,391,201 | 233,800,291 | 231,245,960 | 218,093,340 |
| Add: Non financial assets | | | | |
| Operating fixed assets | 3,352,702 | 2,431,227 | 656,559 | 578,377 |
| Deferred tax assets | 1,868,328 | 824,706 | | |
| Other assets | 598,421 | 356,006 | | |
| | 5,819,451 | 3,611,939 | | |
| Balance as per balance sheet | 252,210,652 | 237,412,230 | 231,902,519 | 218,671,717 |
| Reconciliation to total liabilities | | | | |
| Total financial liabilities | | | | |
| Add: Non financial liabilities | | | | |
| Other liabilities | | | | |
| Balance as per balance sheet | | | | |

41.6 Liquidity risk

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

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

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

The maturity profile set out below has been prepared as required by IAS on the basis of contractual maturities, except for products that do not have a contractual maturity which are shown in the first bucket. The maturity profile of current and saving deposits that do not have a contractual maturity are considered, as determined by the Assets and Liabilities Management Committee (ALCO) keeping in view the historical behavioural pattern of these accounts, by the Bank as stable core source of funding of its operations. These deposits are not expected to fall below the current year's level.

2010

| | | Rupees in '000 | | | | | | | |
|---|-------------------|---------------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|
| | | Upto 1 month | Over 1 month to 3 months | over 3 months to 6 months | over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years |
| Maturities of assets and liabilities | | Total | | | | | | | |
| Assets | | | | | | | | | |
| Cash and balances with treasury banks | 13,923,393 | 13,923,393 | - | - | - | - | - | - | - |
| Balances with other banks | 3,123,094 | 3,123,094 | - | - | - | - | - | - | - |
| Lendings to financial institutions | 3,190,399 | 1,090,399 | 2,100,000 | - | - | - | - | - | - |
| Investments | 100,993,820 | 10,679,170 | 15,027,055 | 33,166,072 | 13,599,546 | 6,912,033 | 5,268,724 | 3,031,229 | 13,009,991 |
| Advances | 119,827,636 | 9,158,449 | 46,073,673 | 22,684,482 | 23,879,671 | 4,970,622 | 4,233,813 | 4,904,834 | 3,702,869 |
| Operating fixed assets | 3,352,702 | 30,237 | 60,474 | 90,712 | 181,423 | 362,846 | 413,458 | 217,720 | 448,170 |
| Deferred tax assets | 1,868,328 | (5,920) | (11,605) | (16,833) | 412,660 | 1,119,828 | 480,105 | 88,535 | (109,755) |
| Other assets | 5,931,280 | 3,787,093 | 1,088,655 | 405,950 | 630,700 | 554 | - | 18,328 | - |
| | 252,210,652 | 41,785,915 | 64,338,252 | 56,330,383 | 38,704,000 | 13,365,883 | 10,396,100 | 8,260,646 | 17,051,275 |
| Liabilities | | | | | | | | | |
| Bills payable | 2,572,954 | 2,572,954 | - | - | - | - | - | - | - |
| Borrowings | 62,529,729 | 26,811,918 | 21,128,980 | 11,869,021 | - | - | 388,063 | 1,077,465 | 1,254,282 |
| Deposits and other accounts | 160,457,975 | 106,193,670 | 26,355,796 | 7,460,796 | 11,256,483 | 1,596,977 | 1,939,485 | 3,918,698 | 1,736,070 |
| Other liabilities | 6,341,861 | 4,201,453 | 542,232 | 179,071 | 668,579 | - | 437,229 | 313,297 | - |
| | 231,902,519 | 139,779,995 | 48,027,008 | 19,508,888 | 11,925,062 | 1,596,977 | 2,764,777 | 5,309,460 | 2,990,352 |
| Net assets / (liabilities) | 20,308,133 | (97,994,080) | 16,311,244 | 36,821,495 | 26,778,938 | 11,768,906 | 7,631,323 | 2,951,186 | 14,060,923 |
| | | | | | | | | | |
| Share capital | 8,731,929 | | | | | | | | |
| Reserves | 8,151,443 | | | | | | | | |
| Unappropriated profit | 4,071,055 | | | | | | | | |
| Deficit on revaluation of assets - net of tax | (646,294) | | | | | | | | |
| | 20,308,133 | | | | | | | | |

[illegible]

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 endeavors.

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

41.8 Operational risk – Disclosures – Basel II specific

The Bank uses Basic Indicator Approach (BIA) for regulatory capital at risk calculation for operational risk. Under BIA the capital charge for operational risk is a fixed percentage of average positive annual gross income of the Bank over the past three years. Figures of capital charge of operation risk for the year is Rs. 1,520,685 thousand (2009: Rs. 1,260,082 thousand).

42. KEY ISLAMIC BANKING OPERATIONS

42.1 The Bank is operating 4 (2009: 4) Islamic banking branches in Pakistan. The balance sheet and profit and loss account of these branches as at 31 December 2010 and for the year are as follows:

BALANCE SHEET

As at 31 December 2010

2010 2009
Rupees in '000

ASSETS

Cash and balances with treasury banks
Balances with and due from financial institutions
Investments
Financing and receivables
 – Murabaha
 – Ijarah
 – Diminishing Musharaka
 – Export Refinance Murabaha
 – Foreign Documentary Bills Purchased
Due from head office
Other assets

| | |
|------------|------------|
| 713,721 | 729,330 |
| – | 478 |
| 8,949,438 | 7,740,463 |
| 2,955,742 | 2,069,501 |
| 1,340,624 | 1,196,447 |
| 495,831 | 418,286 |
| 443,775 | – |
| 229,866 | – |
| – | 110,924 |
| 936,743 | 501,465 |
| 16,065,740 | 12,766,894 |

LIABILITIES

Bills payable
Deposits and other accounts
 – Current accounts
 – Saving accounts
 – Term deposits
 – Deposit from financial institutions -remunerative
 – Deposits from financial institutions-non-remunerative
Borrowings
Due to head office
Other liabilities

| | |
|-----------|-----------|
| 91,025 | 31,952 |
| 1,089,391 | 734,112 |
| 3,132,614 | 4,543,425 |
| 5,120,843 | 4,425,802 |
| 3,922,899 | 1,370,586 |
| 2,946 | 509 |
| 468,775 | – |
| 198,331 | – |
| 898,358 | 780,998 |

NET ASSETS

| | |
|------------|------------|
| 14,925,182 | 11,887,384 |
| 1,140,558 | 879,510 |

REPRESENTED BY:

Islamic banking fund
Unappropriated profit

| | |
|-----------|---------|
| 802,141 | 602,106 |
| 313,875 | 253,690 |
| 1,116,016 | 855,796 |
| 24,542 | 23,714 |
| 1,140,558 | 879,510 |

Surplus on revaluation of assets

PROFIT AND LOSS ACCOUNT For the year ended 31 December 2010

2010 2009
Rupees in '000

| | | |
|---|-----------|-----------|
| Profit / return on financing, investments and placements earned | 1,473,761 | 1,105,397 |
| Profit / return on deposits and other dues expensed | 1,165,652 | 843,867 |
| Net spread earned | 308,109 | 261,530 |
| Provision against non performing financing | 4,043 | — |
| Provision for diminution in the value of investments | — | — |
| Provision for consumer financing Ijarah | (358) | (669) |
| Bad debts written off directly | — | — |
| | 3,685 | (669) |
| Net spread after provisions | 304,424 | 262,199 |
| OTHER INCOME | | |
| Fee, commission and brokerage income | 23,279 | 14,004 |
| Dividend income | 10,634 | 28,966 |
| Income from dealing in foreign currencies | 19,732 | 5,544 |
| Gain on sale/redemption of securities | 10,677 | 445 |
| Unrealized gain/(loss) on revaluation of investments classified as held-for-trading | — | — |
| Other income | 27,303 | 16,183 |
| Total other income | 91,625 | 65,142 |
| | 396,049 | 327,341 |
| OTHER EXPENSES | | |
| Administrative expenses | 82,174 | 73,651 |
| Other provisions / write offs | — | — |
| Other charges | — | — |
| Total other expenses | 82,174 | 73,651 |
| | 313,875 | 253,690 |
| Extraordinary / unusual items | — | — |
| PROFIT BEFORE TAXATION | 313,875 | 253,690 |

42.2 Remuneration to Sha'ria Advisor

1,485 1,444

42.3 Charity Fund

| | | |
|--------------------------------------|----|---|
| Opening balance | — | — |
| Additions during the year | 33 | — |
| Payments/utilization during the year | — | — |
| Closing balance | 33 | — |

43. GENERAL

43.1 The Board of Directors in its meeting held on March 1, 2011 has proposed bonus share issue in the proportion of 20 shares for every 100 shares held amounting to Rs. 1,746,386 thousand (2009: bonus and cash dividend amounting to Rs. 1,957,157 thousand) for approval by the shareholders in forthcoming Annual General Meeting. The unconsolidated financial statements for the year ended 31 December 2010 do not include the effect of bonus issue, which will be accounted for in the unconsolidated financial statements for the year ending 31 December 2011.

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

44. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on March 1, 2011 by the Board of Directors of the Bank.

KASSIM PAREKH
Chairman

ANJUM IQBAL
Chief Executive

BASHIR ALI MOHAMMAD
Director

MOHAMEDALI R. HABIB
Director

ANNEXURE “I” AS REFERRED TO IN NOTE 11.4 OF THE UNCONSOLIDATED FINANCIAL STATEMENTS

1. MARKET TREASURY BILLS

These securities have a maturity period of 1 year, with yield ranging between 12.24% to 13.25% (2009: 11.25% to 13.88%) per annum.

2. PAKISTAN INVESTMENT BONDS

These securities have a maturity period of 3 to 10 years with interest rates ranging between 8.00% to 14.00% (2009: 8.00% to 14.00%) per annum.

3. FULLY PAID-UP ORDINARY SHARES - LISTED

| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | Rating |
|--|-----------------------------------|---------------|--------------------------------|---------|---------|---------|------|------|------|------|--------|
| | No. of shares of Rs. 10/- each | Paid-up Value | Market Value Rupees in '000 | Cost | | | | | | | |
| Adamjee Insurance Company Limited | 243,800 | 2,438 | 21,333 | 26,263 | 25,748 | 24,718 | AA | AA | | | AA |
| Bank Alfalah Limited | 1,495,000 | 14,950 | 16,759 | — | 17,227 | — | AA | AA | | | — |
| Bank Al Habib Limited | 709,084 | 7,091 | 25,711 | 14,119 | 18,320 | 15,980 | AA+ | AA+ | | | AA+ |
| Engro Chemical Pakistan Limited | — | — | — | 20,160 | — | 19,533 | — | — | | | AA |
| Fatima Fertilizers Company Limited | 5,000,000 | 50,000 | 56,400 | — | 70,500 | — | ** | ** | | | — |
| Fauji Fertilizers Company Limited | 346,258 | 3,463 | 43,580 | 37,493 | 25,010 | 26,310 | ** | ** | | | ** |
| HUB Power Company Limited | — | — | — | 55 | — | 29 | — | — | | | AA+ |
| ICI Pakistan Limited | 135,000 | 1,350 | 19,472 | 8,424 | 23,052 | 8,435 | ** | ** | | | ** |
| Jahangir Siddiqui & Co. Limited | 395,000 | 3,950 | 4,306 | — | 10,974 | — | AA+ | AA+ | | | — |
| Jahangir Siddiqui Investment Company Limited | 200,992 | 2,010 | 1,343 | 5,475 | 3,205 | 6,316 | A+ | A+ | | | ** |
| Kot Addu Power Company Limited | 403,042 | 4,030 | 16,396 | 13,073 | 18,425 | 13,185 | ** | ** | | | ** |
| Lucky Cement Limited | — | — | — | 22,522 | — | 22,909 | — | — | | | ** |
| MCB Bank Limited | — | — | — | 19,771 | — | 20,105 | — | — | | | AA+ |
| National Bank of Pakistan Limited | 210,000 | 2,100 | 16,132 | 7,437 | 15,589 | 7,920 | AAA | AAA | | | AAA |
| Nishat Mills Limited | — | — | — | 8,388 | — | 7,210 | — | — | | | A+ |
| Oil and Gas Development Corporation Limited | — | — | — | 35,948 | — | 24,240 | — | — | | | ** |
| Pakistan Petroleum Limited | — | — | — | 51,743 | — | 49,298 | — | — | | | ** |
| Soneri Bank Limited | 695,059 | 6,951 | 5,776 | 6,412 | 13,480 | 12,322 | AA- | AA- | | | AA- |
| Standard Chartered Modaraba Limited | — | — | — | 851 | — | 805 | — | — | | | AA+ |
| United Bank Limited | — | — | — | 16,951 | — | 17,435 | — | — | | | AA+ |
| | | | 227,208 | 295,085 | 241,530 | 276,750 | | | | | |

**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 | 30,450 | 31 December 09 | Mr. Mohammad Ghalib Nishtar | A- |
| Pakistan Export Finance Guarantee Limited | 5.26% | 1,136,088 | 11,361 | — | — | Mr. S. M. Zaeem | ** |
| DHA Cogen Limited | 1.77% | 5,000,000 | 50,000 | 24,950 | 30 June 09 | Mr. Michael Yap | ** |
| Dawood Family Takaful Limited | 4.67% | 3,500,000 | 35,000 | 33,055 | 31 December 09 | Mr. Abdul Halim Nasri | ** |
| Society for World Wide Inter Bank Fund Transfer (SWIFT) | — | 14 | 1,740 | 3,758 | 31 December 09 | Mr. Lazaro Campos | ** |
| | | | 123,101 | | | | |

** Ratings are not available

5. FULLY PAID-UP PREFERENCE SHARES - LISTED

| | | |
|------------------------------------|---------------|----------------|
| | 2010 | 2009 |
| | No. of shares | Rupees in '000 |
| Chenab Limited | 4,000,000 | 40,000 |
| Preference shares of Rs. 10/- each | 4,000,000 | 40,000 |

These are non-voting, cumulative preference shares and carry preferred dividend of 9.25% (2009: 9.25%) per annum on cumulative basis and have a market value of Rs. 7,200 thousand (2009: 28,000 thousand) at 31 December 2010.

6. TERM FINANCE CERTIFICATES - LISTED

| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | Rating |
|---|--|--------|--------------------------------|------------------|------------------|------------------|------|------|--------|
| | No. of certificates of Rs. 5,000/- each | | Market Value Rupees in '000 | | Cost | | | | |
| Allied Bank Limited I | 10,000 | 10,000 | 49,031 | 48,381 | 49,920 | 49,940 | AA- | AA- | AA- |
| Allied Bank Limited II | 59,839 | 59,839 | 287,711 | 267,780 | 299,075 | 299,195 | AA- | AA- | A+ |
| Al Zamin Leasing Modaraba Limited | 10,000 | 10,000 | 39,583 | 46,540 | 39,583 | 48,958 | ** | ** | A |
| Askari Bank Limited I | 5,000 | 5,000 | 24,805 | 24,092 | 24,945 | 24,955 | AA- | AA- | AA- |
| Askari Bank Limited II | 2,000 | 2,000 | 9,776 | 9,596 | 9,980 | 9,984 | AA- | AA- | AA- |
| Askari Bank Limited III | 15,000 | 15,000 | 76,095 | 73,018 | 74,970 | 75,000 | AA- | AA- | AA- |
| Bank Al Falah Limited IV | 15,000 | 15,000 | 75,750 | 72,780 | 74,970 | 75,000 | AA- | AA- | AA- |
| Bank Al Habib Limited I | 23,000 | 23,000 | 108,807 | 105,362 | 112,691 | 111,414 | AA | AA | AA- |
| Bank Al Habib Limited II | 10,000 | 10,000 | 49,680 | 49,950 | 49,930 | 49,950 | AA | AA | AA- |
| Bank Al Habib Limited III | 20,000 | 20,000 | 100,060 | 99,960 | 99,880 | 99,960 | AA | AA | ** |
| Engro Chemical Pakistan Limited - IPO | 20,000 | 20,000 | 97,902 | 92,926 | 99,880 | 99,920 | AA | AA | AA |
| Engro Chemical Pakistan Limited - Perpetual | 24,000 | 24,000 | 106,200 | 116,551 | 119,394 | 119,316 | AA | AA | AA |
| Faysal Bank Limited I | 7,994 | - | 38,745 | - | 39,367 | - | AA- | AA- | - |
| Faysal Bank Limited II | 30,000 | - | 150,000 | - | 150,000 | - | AA | AA | - |
| Financial Receivables Securitization Limited | 5,000 | 5,000 | 14,417 | 18,312 | 14,578 | 18,743 | A+ | A+ | AA- |
| IGI Investment Bank Limited | 10,000 | 10,000 | 12,478 | 24,828 | 12,495 | 24,990 | A+ | A+ | A+ |
| Jahangir Siddiqi & Company Limited | 10,000 | 10,000 | 50,149 | 51,147 | 49,920 | 49,940 | AA | AA | AA+ |
| NIB Bank Limited | 33,388 | 13,400 | 162,395 | 61,454 | 159,865 | 66,960 | A+ | A+ | A+ |
| Orix Leasing Pakistan Limited II | 10,000 | 10,000 | 24,780 | 41,809 | 24,980 | 41,633 | AA+ | AA+ | AA+ |
| Pak Arab Fertilizer Limited | 30,000 | 20,000 | 136,807 | 93,841 | 139,907 | 99,940 | AA | AA | AA |
| Pak HY Oils Limited | 12,000 | 12,000 | 60,000 | 45,000 | 60,000 | 60,000 | ** | ** | ** |
| Pakistan Mobile Communication (Private) Limited | 27,380 | 27,380 | 119,514 | 132,157 | 133,862 | 132,786 | A+ | A+ | AA- |
| Royal Bank of Scotland | 1,974 | 1,974 | 7,350 | 9,748 | 7,389 | 9,852 | AA- | AA- | AA- |
| Soneri Bank Limited | 17,000 | 17,000 | 83,354 | 81,821 | 84,813 | 84,847 | A+ | A+ | A+ |
| Standard Chartered Bank Limited II | 4,742 | 4,742 | 22,703 | 23,697 | 22,491 | 23,682 | AAA | AAA | AAA |
| Trust Leasing and Investment Bank Limited | - | 5,000 | - | 4,792 | - | 5,000 | - | - | A |
| United Bank Limited I | 10,000 | 10,000 | 46,103 | 44,284 | 49,885 | 49,904 | AA | AA | AA |
| United Bank Limited II | 6,500 | 6,500 | 28,474 | 27,978 | 25,759 | 22,703 | AA | AA | AA |
| United Bank Limited III | 5,000 | 5,000 | 24,920 | 24,656 | 24,960 | 24,970 | AA | AA | AA |
| United Bank Limited IV | 9,994 | - | 47,542 | - | 45,550 | - | AA | AA | - |
| World Call Telecom Limited II | 3,600 | 3,600 | 5,962 | 11,732 | 5,995 | 11,990 | A | A | AA- |
| World Call Telecom Limited III | 41,996 | 41,995 | 174,783 | 197,912 | 175,436 | 203,821 | A | A | AA- |
| | | | 2,235,876 | 1,902,104 | 2,282,470 | 1,995,353 | | | |

**Rating are not available

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 |
| Al Zamin Leasing Modaraba Limited | 6 months KIBOR plus 190 bps | Monthly | 12-May-12 |
| 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 Alfalah Limited IV | 6 months KIBOR plus 250 bps | Semi annually | 2-Dec-17 |
| Bank Al Habib Limited I | Fixed @ 10.00% per annum | Semi annually | 15-Jul-12 |
| Bank Al Habib Limited II | 6 months KIBOR plus 195 bps | Semi annually | 7-Feb-15 |
| Bank Al Habib Limited III | Fixed @ 15.50% per annum | Quarterly | 15-Jun-17 |
| Engro Chemical Pakistan Limited - IPO | 6 months KIBOR plus 155 bps | Semi annually | 30-Nov-15 |
| Engro Chemical Pakistan Limited - Perpetual | 6 months KIBOR plus 170 bps | Semi annually | 18-Sep-18 |
| Faysal Bank Limited I | 6 months KIBOR plus 140 bps | Semi annually | 12-Nov-13 |
| Faysal Bank Limited II | 6 months KIBOR plus 225 bps | Semi annually | 27-Dec-17 |
| 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 | 6 months KIBOR plus 150 bps | Semi annually | 25-May-12 |
| Pak Arab Fertilizer Limited | 6 months KIBOR plus 150 bps | Semi annually | 28-Feb-13 |
| Pak HY Oils Limited | 6 months KIBOR plus 225 bps | Semi annually | 15-Jan-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 190 bps | Semi annually | 19-Feb-13 |
| Soneri Bank Limited | 6 months KIBOR plus 160 bps | Semi annually | 5-May-13 |
| Standard Chartered Bank Limited | 6 months KIBOR plus 160 bps | Semi annually | 1-Feb-13 |
| United Bank Limited I | Fixed @ 8.45% per annum | Semi annually | 10-Aug-12 |
| United Bank Limited II | Fixed @ 9.49% per annum | Semi annually | 15-Mar-13 |
| United Bank Limited III | 6 months KIBOR plus 170 bps | Semi annually | 8-Sep-14 |
| United Bank Limited IV | 6 months KIBOR plus 115 bps | Semi annually | 14-Feb-18 |
| World Call Telecom Limited II | 6 months KIBOR plus 275 bps | Semi annually | 28-Nov-11 |
| World Call Telecom Limited III | 6 months KIBOR plus 160 bps | Semi annually | 7-Oct-13 |

7. TERM FINANCE CERTIFICATES - UNLISTED

| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
|---|--|---------|------------------------|------------------|--------|------|
| | No. of certificates of Rs. 5,000/- each | | Cost Rupees in '000 | | Rating | |
| Avari Hotels Limited (Chief Executive: Mr. Brayan Dinshawji Avari) | 20,000 | 20,000 | 84,914 | 100,000 | A- | A- |
| Bunny's Limited (Chief Executive: Mr. Rafaqat) | 1,020 | 1,020 | 5,100 | 5,100 | ** | ** |
| Faisalabad Electric Supply Corporation (Chief Executive: Mr. Ahmed Saeed Akhtar) | 67,000 | 67,000 | 251,250 | 335,000 | ** | ** |
| Gujranwala Electric Power Corporation (Chief Executive: Mr. Rana Muhammad Ashraf) | 67,000 | 67,000 | 251,250 | 335,000 | ** | ** |
| Islamabad Electric Supply Corporation (Chief Executive: Mr. Raja Abdul Ghafoor) | 67,000 | 67,000 | 251,250 | 335,000 | ** | ** |
| New Allied Electronics Industries (Private) Limited (Chief Executive: Mr. Mian Pervaiz Akhtar) | 10,000 | 10,000 | 21,138 | 23,611 | ** | D |
| Orix Leasing Pakistan Limited III (Chief Executive: Mr. Teizoon Kisat) | 40,000 | 40,000 | 166,667 | 200,000 | AA+ | AA+ |
| Pakistan International Airlines Corporation Limited (Chief Executive: Mr. Mohammad Alijaz Haroon) | 27,411 | 27,411 | 136,973 | 137,028 | ** | ** |
| Pakistan Mobile Communication (Private) Limited (Chief Executive: Mr. Rashid Khan) | 8,000 | 8,000 | 33,280 | 39,944 | AA- | AA- |
| Power Holding (Private) Limited (Government of Pakistan) | 568,600 | 568,600 | 2,843,000 | 2,843,000 | ** | ** |
| Security Leasing Corporation Limited (Chief Executive: Mr. Mohammad Khalid Ali) | 10,000 | 10,000 | 15,234 | 18,750 | ** | ** |
| | | | 4,060,056 | 4,372,433 | | |

**Ratings are 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 |
| 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 |
| New Allied Electronics Industries (Private) Limited | 3 months KIBOR plus 275 bps | Quarterly | 21-May-12 |
| Orix Leasing Pakistan Limited III | 6 months KIBOR plus 140 bps | Semi annually | 15-Jan-13 |
| Pakistan International Airlines 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) Limited | 6 months KIBOR plus 200 bps | Semi annually | 18-Sep-14 |
| Security Leasing Corporation Limited | Fixed @ 6% per annum | Monthly | 28-Mar-11 |

8. SUKUK CERTIFICATES AND BONDS

| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
|---|--|---------|------------|-----------|------------------------|------|--------|------|
| | No. of certificates of Rs. 5,000/- each | | | | Cost Rupees in '000 | | Rating | |
| Amreli Steel (Private) Limited | 16,000 | 16,000 | 80,000 | 80,000 | A | A | | |
| Engro Chemical Pakistan Limited | 20,000 | 20,000 | 95,712 | 94,837 | AA | AA | | |
| Engro Chemical Pakistan Limited | 10,000 | — | 50,000 | — | AA | — | | |
| Engro Foods Limited | 20,000 | 20,000 | 100,000 | 100,000 | A- | A- | | |
| GOP Ijara Sukuk-1st Issue | 60,000 | 60,000 | 300,000 | 300,000 | ** | ** | | |
| GOP Ijara Sukuk-2nd Issue | 220,000 | 220,000 | 1,118,248 | 1,118,248 | ** | ** | | |
| GOP Ijara Sukuk-3rd Issue | 360,000 | 360,000 | 1,815,111 | 1,827,792 | ** | ** | | |
| GOP Ijara Sukuk-4th Issue | 560,000 | 560,000 | 2,800,698 | 2,801,105 | ** | ** | | |
| GOP Ijara Sukuk-5th Issue | 2,000,000 | — | 10,000,000 | — | ** | ** | | |
| Hag Bahu Sugar Mills Limited | 8,100 | 8,100 | 20,250 | 40,500 | ** | ** | | |
| K.S.Sulemanji Esmailji & Sons (Private) Limited | 30,000 | 30,000 | 142,500 | 142,500 | ** | ** | | |
| Liberty Power Technology Limited | 101,096 | 41,061 | 505,482 | 205,304 | ** | ** | | |
| Maple Leaf Cement Factory Limited | 21,000 | 21,000 | 98,363 | 96,213 | ** | ** | | |
| Maple Leaf Cement Factory Limited | 788 | — | 3,938 | — | ** | ** | | |
| Sitara Energy Limited | 9,864 | 11,273 | 49,318 | 56,364 | ** | ** | | |
| Sitara Per Oxide Limited | 20,000 | 20,000 | 93,750 | 100,000 | ** | ** | | |
| Sui Southern Gas Company Limited | 80,000 | 80,000 | 318,640 | 397,417 | AA | AA | | |
| Three Star Hosiery Mills Limited | 1,900 | 1,900 | 9,500 | 9,500 | ** | ** | | |
| WAPDA 1st Issue | 50,000 | 50,000 | 250,000 | 250,000 | ** | ** | | |
| WAPDA 2nd Issue | 70,000 | 90,000 | 350,000 | 450,000 | ** | ** | | |
| | | | 18,192,348 | 8,069,780 | | | | |

**Ratings not available

8.1 Other particulars of Sukuk certificates and Bonds are as follows:

| | Coupon Rate | Payment | Maturity Date |
|---|-----------------------------|---------------|---------------|
| Amreli Steel (Private) Limited | 3 months KIBOR plus 250 bps | Quarterly | 9-Dec-16 |
| Engro Chemical Pakistan Limited | 6 months KIBOR plus 211 bps | Semi annually | 6-Sep-15 |
| Engro Chemical Pakistan Limited | 6 months KIBOR plus 150 bps | Semi annually | 30-Jun-17 |
| Engro Foods Limited | 6 months KIBOR plus 69 bps | Semi annually | 13-Jan-17 |
| GOP Ijara Sukuk-1st Issue | * 13.27% per annum | Semi annually | 26-Sep-11 |
| GOP Ijara Sukuk-2nd Issue | * 14.16% per annum | Semi annually | 29-Dec-11 |
| GOP Ijara Sukuk-3rd Issue | * 12.69% per annum | Semi annually | 11-Mar-12 |
| GOP Ijara Sukuk-4th Issue | * 12.64% per annum | Semi annually | 17-Sep-12 |
| GOP Ijara Sukuk-5th Issue | * 13.11% per annum | Semi annually | 15-Nov-13 |
| Hag 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 | 18-Mar-21 |
| Maple Leaf Cement Factory Limited | 3 months KIBOR plus 100 bps | Quarterly | 3-Dec-13 |
| Maple Leaf Cement Factory Limited | 3 months KIBOR plus 100 bps | Quarterly | 31-Mar-12 |
| Sitara Energy Limited | 6 months KIBOR plus 115 bps | Semi annually | 16-May-13 |
| Sitara Per Oxide Limited | 3 months KIBOR plus 115 bps | Quarterly | 19-Aug-16 |
| Sui Southern Gas Company Limited | 3 months KIBOR plus 20 bps | Quarterly | 31-Dec-12 |
| Three Star Hosiery Mills Limited | 6 months KIBOR plus 325 bps | Semi annually | 4-Aug-13 |
| WAPDA 1st Issue | 6 months KIBOR plus 35 bps | Semi annually | 22-Apr-12 |
| WAPDA 2nd Issue | 6 months KIBOR plus 25 bps | Semi annually | 13-Jul-17 |

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

9. OPEN END MUTUAL FUNDS

| | 2010 | | 2009 | | 2010 | | 2009 | | Rating |
|---|--------------|------------|----------------|-----------|-----------|-----------|----------|----------|--------|
| | No. of Units | | Rupees in '000 | | Cost | | Cost | | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | |
| ABL Cash Fund | 35,523,653 | — | 355,560 | — | 360,000 | — | AA + (f) | — | |
| ABL Income Fund | 67,151,651 | 61,974,248 | 672,161 | 620,319 | 678,266 | 625,000 | A+(f) | A+(f) | |
| Arif Habib DOW Jones Safe Pak Titans 15 Index Fund | 400,000 | — | 22,816 | — | 20,000 | — | ** | — | |
| AKD Index & Tracker Fund | — | 1,516,896 | — | 12,150 | — | 12,000 | ** | ** | |
| AKD Opportunity Fund | — | 787,852 | — | 34,153 | — | 34,000 | ** | ** | |
| Alfalal GHP Cash Fund | 99,999 | — | 50,096 | — | 50,000 | — | ** | — | |
| Alfalal GHP Principal Protected Fund | 586,704 | 538,637 | 31,641 | 29,006 | 25,000 | 25,000 | ** | ** | |
| Askari Asset Allocation Fund | — | 307,714 | — | 19,195 | — | 28,565 | ** | ** | |
| Askari Income Fund | — | 2,765,910 | — | 293,795 | — | 290,918 | 5 - Star | 3 - Star | |
| Askari Sovereign Cash Fund | 2,370,918 | — | 247,663 | — | 250,000 | — | ** | — | |
| Atlas Income Fund | — | 390,930 | — | 201,786 | — | 200,789 | 3 - Star | 3 - Star | |
| Atlas Money Market Fund | 449,107 | — | 231,515 | — | 220,000 | — | ** | — | |
| BMA Empress Cash Fund | 9,549,448 | — | 100,983 | — | 100,000 | — | AA + (f) | — | |
| Crosby Dragon Fund | — | 888,844 | — | 95,924 | — | 100,000 | — | — | |
| Faysal Saving & Growth Fund | 5,601,093 | 494,951 | 588,955 | 50,935 | 575,184 | 50,184 | A+(f) | A | |
| First Habib Income Fund | 989,707 | — | 101,603 | — | 100,000 | — | ** | — | |
| First Habib Stock Fund | — | 150,000 | — | 14,830 | — | 15,000 | — | ** | |
| HBL Income Fund | 1,555,615 | 4,448,476 | 156,433 | 437,419 | 152,297 | 450,000 | A (f) | A | |
| HBL Money Market Fund | 1,385,410 | — | 142,588 | — | 140,000 | — | AA + (f) | — | |
| IGI Income Fund | 728,235 | 726,392 | 73,436 | 76,663 | 75,000 | 75,000 | A (f) | ** | |
| IGI Islamic Fund | — | 198,906 | — | 20,040 | — | 20,000 | — | ** | |
| IGI Money Market Fund | 1,518,516 | — | 152,783 | — | 150,000 | — | AA + (f) | — | |
| JS Cash Fund | 987,362 | — | 100,405 | — | 100,000 | — | AA + (f) | — | |
| JS Fund of Fund | 638,376 | 1,043,125 | 60,933 | 107,630 | 54,429 | 100,000 | AA + (f) | ** | |
| JS Income Fund | — | 4,879,477 | — | 503,464 | — | 500,000 | 4 - Star | ** | |
| KASB Income Opportunity Fund (Formerly KASB Liquid Fund) | 1,617,562 | — | 135,750 | — | 169,924 | — | ** | — | |
| KASB Liquid Fund | — | 3,583,840 | — | 317,487 | — | 376,480 | — | ** | |
| Lakson Income Fund | 589,709 | — | 59,116 | — | 60,000 | — | — | ** | |
| Lakson Money Market Fund | 3,462,380 | 1,501,356 | 346,460 | 152,126 | 350,000 | 150,000 | ** | ** | |
| MCB Cash Management Optimizer | 8,254,124 | — | 843,634 | — | 800,000 | — | ** | — | |
| MCB Dynamic Allocation Fund | — | 237,819 | — | 19,190 | — | 19,000 | — | ** | |
| MCB Dynamic Cash Fund | 5,789,266 | 6,990,342 | 604,864 | 723,181 | 600,058 | 730,000 | ** | 3 - Star | |
| Meezan Cash Fund | 11,621,527 | 501,500 | 596,068 | 26,319 | 550,000 | 25,000 | AA + (f) | AA | |
| Meezan Islamic Income Fund | 6,050,044 | 5,801,479 | 310,669 | 294,889 | 300,000 | 300,000 | A (f) | A+ | |
| Meezan Sovereign Fund | 8,559,253 | — | 439,774 | — | 435,000 | — | AA + (f) | — | |
| MSF Perpetual | 34,150,424 | 27,144,183 | 1,693,861 | 1,394,125 | 1,627,566 | 1,250,467 | 3 - Star | ** | |
| Nafa Cash Fund | 37,900,466 | 59,463,049 | 386,100 | 604,549 | 380,936 | 600,457 | 3 - Star | 3 - Star | |
| Nafa Stock Fund | — | 9,772,715 | — | 70,442 | — | 70,000 | A (f) | 2 - Star | |

| | No. of Units | | Net Asset Value | | Rupees in '000 | | Cost | | Rating | |
|-----------------------------------|--------------|------------|-----------------|-----------|----------------|-----------|----------|----------|--------|------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | | | | | | | | | | |
| National Investment Trust | 3,125,000 | 3,125,000 | 98,188 | 94,531 | 100,000 | 100,000 | 5 - Star | 2 - Star | | |
| NIT Government Bond Fund | 10,299,204 | 10,000,000 | 108,344 | 101,335 | 100,000 | 100,000 | ** | ** | | |
| Pakistan Income Enhancement Fund | 3,917,158 | 2,935,995 | 202,008 | 148,767 | 200,000 | 150,000 | ** | ** | | |
| Pakistan Income Fund | 2,826,827 | 3,790,032 | 150,755 | 192,761 | 149,172 | 200,000 | 5 - Star | 3 - Star | | |
| Pakistan Stock Market Fund | — | 1,176,471 | — | 72,353 | — | 72,000 | — | 3 - Star | | |
| PICIC Income Fund | 1,990,151 | — | 199,324 | — | 200,000 | — | A +(f) | — | | |
| UBL Islamic Income Fund | — | 499,790 | — | 49,949 | — | 50,000 | — | ** | | |
| UBL Liquidity Plus Fund | 9,394,347 | — | 941,283 | — | 950,000 | — | AA +(f) | — | | |
| UBL Principal Protected Plan - I | 220,663 | 211,686 | 22,110 | 20,939 | 25,000 | 25,000 | ** | ** | | |
| UBL Principal Protected Plan - II | — | 656,256 | — | 62,448 | — | 50,000 | — | ** | | |
| UBL Savings Income Fund | 994,805 | — | 101,804 | — | 100,000 | — | ** | — | | |
| Unit Trust Of Pakistan | — | 1,753,627 | — | 200,808 | — | 200,000 | — | ** | | |
| United Growth & Income Fund | — | 14,133,173 | — | 1,435,190 | — | 1,404,770 | — | A | | |
| United Stock Advantage Fund | — | — | — | — | — | — | — | — | | |
| (Class - A) | — | 1,159,420 | — | 98,991 | — | 100,000 | — | ** | | |
| UTP Islamic Fund | — | 65,765 | — | 25,140 | — | 25,000 | — | 4 - Star | | |

**Ratings are not available

10. CLOSE END MUTUAL FUNDS

| CLOSE END MUTUAL FUNDS | | | | | | | |
|---|-----------------|-----------|----------------|--------|--------|---------|----------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | Rating |
| | Number of Units | | Market Value | | Cost | | |
| | | | Rupees in '000 | | | | |
| JS Large Capital Fund (Formerly UTP Large Capital Fund) | — | 2,820,500 | — | 12,974 | — | 27,959 | ** |
| Meezan Balanced Fund | 2,500,000 | 2,500,000 | 18,750 | 15,250 | 25,000 | 25,000 | ** |
| Pakistan Strategic Allocation Fund | — | 3,416,000 | — | 15,167 | — | 32,150 | 4 - Star |
| PICIC Energy Fund | 4,200,000 | 4,200,000 | 27,552 | 19,908 | 42,000 | 42,000 | ** |
| PICIC Growth Fund | — | 42,000 | — | 599 | — | 1,946 | ** |
| | | | 46,302 | 63,898 | 67,000 | 129,055 | |

**Ratings are 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 2010 amounted to Rs. 10.08 (2009: Rs. 10.37) per share.

ANNEXURE "II" AS REFERRED TO IN NOTE 12.8 OF THE CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEFS
OF RS. 500,000/- OR ABOVE PROVIDED DURING THE YEAR ENDED 31 DECEMBER 2010

| 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 | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Rupees in '000 | | | | | | | | | |
| 1. | Hiltex Industries R-8, 3rd Floor, F.R.Chamber, Jodia Bazar, Karachi | Mr. Irfan Iakha 42201-1307586-5 | Mr. Ilyas Lakha | 2,179 | 703 | 2,882 | 2,179 | 703 | 2,882 |
| 2. | Mr. Abdul Sattar Flat No.207, Data Apartment Jam Street, Garden West, Karachi | Mr. Abdul Sattar 42301-0898539-1 | Mr. Muhammad | 3,563 | - | 3,563 | 3,563 | - | 3,563 |
| 3. | Mst. Bilqees D-61, Block-4, Kehkashan, Clifton, Karachi | Mst. Bilqees 42301-0888154-2 | Mr. Yousuf Muhammad | 806 | - | 806 | 806 | - | 806 |
| 4. | Win Win Garment B-110, Sector 6-F, Mehran Town, EBM Cause Way Korangi, Karachi | Mr. Ashfaq Ahmed 42101-1373386-3 Mr. Sohail Ahmed 42201-4333473-7 Mr. Muhammad Asif 42201-5936256-1 | Mr. Mehmood Hussain | 18,077 | 1,392 | 19,469 | 5,026 | 1,392 | 6,418 |
| 5. | Mana & Co. C-1/D-4, Sector 16 Korangi Industrial Area, Karachi | Mr. Maqsood Hussain 42000-0543492-1 | Mr. Jaffar Ali Sagarwala | 28,661 | 545 | 29,206 | 28,661 | 545 | 29,206 |
| 6. | Global Links Bahadurshah Center, Opp Urdu Bazar, Karachi | Mr. Iftikhar Nisar 42000-0363847-3 Mrs. Aliya Iftikhar 42301-4098268-6 | Mr. Nisar Ahmed Mr. Iftikhar Nisar | 5,160 | 749 | 5,909 | 1,798 | 749 | 2,547 |

| 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 | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| | | | | Rupees in '000 | | | | | | |
| 7. | Al- Fazal Motors 217, A/2, Shahrah-e-Quaideen, PECHS, Karachi | Mr. Fazal Mahmood (late) 42201-7820014-9 | Mr. Sharfuddin | 5,485 | 1,188 | 6,673 | 985 | 1,188 | 2,173 | |
| 8. | Anum (Private) Limited Plot # E-56, Estate Avenue, S.I.T.E. Karachi | Mr. Sultan Sikander (late) 42301-1547287-3 | Mr. Mohammad Hussain | 5,505 | 1,423 | 6,928 | 1,005 | 1,423 | 2,428 | |
| 9. | Alam Brothers (Pvt.) Ltd Alam Porvair City, 9-Km, Main Raiwind Road, Bhoptian Chowk, Lahore. | Mr. Mumtaz 42201-0792859-9 | Haji Abdul Karim | | | | | | | |
| | | Mr. Abdul Samad Zindani 42201-4826984-5 | Mr. Mohammad Shafi | | | | | | | |
| | | Mr. Sohail Zindani 42201-0591584-1 | Mr. Mohammad Shafi | | | | | | | |
| | | Mr. Shakil Zindani 42201-0591585-7 | Mr. Mohammad Shafi | | | | | | | |
| | | Mr. Khursheed Alam 35202-6712135-3 | Mr. Arshad Alam | 221,996 | 45,525 | 267,521 | — | 29,528 | 29,528 | |
| | | Mr. Kashif Alam 42000-0503446-9 | Mr. Arshad Alam | | | | | | | |
| | | Mr. Khurram Alam 42000-0503448-1 | Mr. Arshad Alam | | | | | | | |
| | | Mr. Arshad Alam 42201-0469583-7 | Mr. Muhammad Rafiq | | | | | | | |
| 10. | Pak Mehran Automobiles Plot No. 14-C, 13th Commercial Street, Phase II, DHA, Karachi. | Mr. Mohammad Afzal 42000-0561124-7 | Mr. Mohammad Anwar | 2,193 | 776 | 2,969 | — | 701 | 701 | |
| Total | | | | 293,625 | 52,301 | 345,926 | 44,023 | 36,229 | 80,252 | |

PATTERN OF SHAREHOLDINGS CDC AND PHYSICAL

AS ON DECEMBER 31, 2010



| Number of Shareholders | Size of Shareholding Rs. 10 each | | | Total Shares held |
|------------------------|-------------------------------------|---|---------|-------------------|
| 301 | 1 | - | 100 | 10,153 |
| 391 | 101 | - | 500 | 111,445 |
| 347 | 501 | - | 1,000 | 264,174 |
| 901 | 1,001 | - | 5,000 | 2,208,003 |
| 352 | 5,001 | - | 10,000 | 2,578,720 |
| 360 | 10,001 | - | 15,000 | 3,816,030 |
| 66 | 15,001 | - | 20,000 | 1,143,019 |
| 66 | 20,001 | - | 25,000 | 1,418,659 |
| 28 | 25,001 | - | 30,000 | 766,328 |
| 37 | 30,001 | - | 35,000 | 1,168,037 |
| 23 | 35,001 | - | 40,000 | 866,178 |
| 34 | 40,001 | - | 45,000 | 1,418,551 |
| 13 | 45,001 | - | 50,000 | 625,694 |
| 14 | 50,001 | - | 55,000 | 730,897 |
| 6 | 55,001 | - | 60,000 | 348,982 |
| 7 | 60,001 | - | 65,000 | 433,480 |
| 9 | 65,001 | - | 70,000 | 611,632 |
| 7 | 70,001 | - | 75,000 | 509,755 |
| 9 | 75,001 | - | 80,000 | 691,698 |
| 10 | 80,001 | - | 85,000 | 824,275 |
| 6 | 85,001 | - | 90,000 | 525,383 |
| 3 | 90,001 | - | 95,000 | 277,478 |
| 5 | 95,001 | - | 100,000 | 484,282 |
| 7 | 100,001 | - | 105,000 | 715,018 |
| 2 | 105,001 | - | 110,000 | 215,675 |
| 6 | 110,001 | - | 115,000 | 670,796 |
| 4 | 115,001 | - | 120,000 | 467,956 |
| 3 | 120,001 | - | 125,000 | 368,731 |
| 1 | 125,001 | - | 130,000 | 126,124 |
| 2 | 130,001 | - | 135,000 | 262,033 |
| 1 | 135,001 | - | 140,000 | 137,649 |
| 6 | 140,001 | - | 145,000 | 857,006 |
| 1 | 145,001 | - | 150,000 | 149,427 |
| 3 | 150,001 | - | 155,000 | 456,370 |
| 2 | 155,001 | - | 160,000 | 311,808 |
| 2 | 160,001 | - | 165,000 | 322,274 |
| 3 | 175,001 | - | 180,000 | 530,474 |
| 1 | 180,001 | - | 185,000 | 181,092 |
| 2 | 185,001 | - | 190,000 | 373,637 |
| 2 | 190,001 | - | 195,000 | 383,839 |
| 2 | 195,001 | - | 200,000 | 392,967 |
| 2 | 200,001 | - | 205,000 | 404,851 |
| 1 | 210,001 | - | 215,000 | 211,541 |
| 1 | 215,001 | - | 220,000 | 218,660 |
| 1 | 220,001 | - | 225,000 | 221,236 |
| 2 | 225,001 | - | 230,000 | 454,248 |
| 1 | 230,001 | - | 235,000 | 232,042 |
| 2 | 250,001 | - | 255,000 | 502,891 |
| 2 | 255,001 | - | 260,000 | 516,283 |
| 2 | 265,001 | - | 270,000 | 536,879 |
| 1 | 280,001 | - | 285,000 | 284,068 |
| 1 | 285,001 | - | 290,000 | 290,000 |
| 2 | 295,001 | - | 300,000 | 600,000 |
| 3 | 300,001 | - | 305,000 | 905,078 |
| 1 | 305,001 | - | 310,000 | 305,117 |
| 1 | 310,001 | - | 315,000 | 313,313 |
| 1 | 325,001 | - | 330,000 | 325,834 |
| 2 | 335,001 | - | 340,000 | 673,867 |

| Number of Shareholders | Size of Shareholding Rs. 10 each | | | Total Shares held |
|------------------------|-------------------------------------|---|-----------|-------------------|
| 1 | 380,001 | - | 385,000 | 380,799 |
| 1 | 395,001 | - | 400,000 | 397,155 |
| 3 | 400,001 | - | 405,000 | 1,208,790 |
| 2 | 415,001 | - | 420,000 | 832,095 |
| 2 | 435,001 | - | 440,000 | 875,824 |
| 1 | 460,001 | - | 465,000 | 464,158 |
| 1 | 465,001 | - | 470,000 | 467,972 |
| 1 | 470,001 | - | 475,000 | 473,034 |
| 1 | 490,001 | - | 495,000 | 493,582 |
| 1 | 495,001 | - | 500,000 | 499,526 |
| 4 | 500,001 | - | 505,000 | 2,012,054 |
| 1 | 525,001 | - | 530,000 | 526,948 |
| 1 | 560,001 | - | 565,000 | 560,447 |
| 4 | 600,001 | - | 605,000 | 2,416,070 |
| 1 | 610,001 | - | 615,000 | 614,424 |
| 4 | 625,001 | - | 630,000 | 2,518,236 |
| 5 | 670,001 | - | 675,000 | 3,354,440 |
| 1 | 675,001 | - | 680,000 | 679,992 |
| 1 | 690,001 | - | 695,000 | 690,514 |
| 2 | 705,001 | - | 710,000 | 1,410,250 |
| 1 | 715,001 | - | 720,000 | 719,241 |
| 1 | 805,001 | - | 810,000 | 805,848 |
| 1 | 840,001 | - | 845,000 | 842,682 |
| 5 | 860,001 | - | 865,000 | 4,315,406 |
| 1 | 870,001 | - | 875,000 | 874,555 |
| 2 | 875,001 | - | 880,000 | 1,755,619 |
| 1 | 885,001 | - | 890,000 | 888,980 |
| 1 | 900,001 | - | 905,000 | 903,296 |
| 1 | 920,001 | - | 925,000 | 924,612 |
| 2 | 1,005,001 | - | 1,010,000 | 2,014,656 |
| 1 | 1,110,001 | - | 1,115,000 | 1,114,075 |
| 1 | 1,145,001 | - | 1,150,000 | 1,145,070 |
| 1 | 1,155,001 | - | 1,160,000 | 1,160,000 |
| 1 | 1,160,001 | - | 1,165,000 | 1,161,985 |
| 1 | 1,205,001 | - | 1,210,000 | 1,208,808 |
| 2 | 1,255,001 | - | 1,260,000 | 2,518,324 |
| 3 | 1,295,001 | - | 1,300,000 | 3,890,373 |
| 1 | 1,330,001 | - | 1,335,000 | 1,333,376 |
| 1 | 1,340,001 | - | 1,345,000 | 1,343,770 |
| 1 | 1,345,001 | - | 1,350,000 | 1,345,797 |
| 1 | 1,385,001 | - | 1,390,000 | 1,387,854 |
| 1 | 1,410,001 | - | 1,415,000 | 1,415,000 |
| 1 | 1,505,001 | - | 1,510,000 | 1,506,110 |
| 1 | 1,520,001 | - | 1,525,000 | 1,524,986 |
| 1 | 1,530,001 | - | 1,535,000 | 1,535,000 |
| 1 | 1,600,001 | - | 1,605,000 | 1,604,691 |
| 1 | 1,685,001 | - | 1,690,000 | 1,685,712 |
| 1 | 1,720,001 | - | 1,725,000 | 1,724,545 |
| 2 | 1,725,001 | - | 1,730,000 | 3,457,198 |
| 1 | 1,780,001 | - | 1,785,000 | 1,782,661 |
| 1 | 1,815,001 | - | 1,820,000 | 1,815,417 |
| 2 | 2,010,001 | - | 2,015,000 | 4,029,322 |
| 1 | 2,030,001 | - | 2,035,000 | 2,031,524 |
| 1 | 2,050,001 | - | 2,055,000 | 2,054,905 |
| 1 | 2,265,001 | - | 2,270,000 | 2,266,524 |
| 1 | 2,550,001 | - | 2,555,000 | 2,551,091 |
| 1 | 3,720,001 | - | 3,725,000 | 3,724,444 |
| 1 | 3,840,001 | - | 3,845,000 | 3,843,006 |
| 1 | 3,910,001 | - | 3,915,000 | 3,915,000 |

| Number of Shareholders | | Size of Shareholding Rs. 10 each | | Total Shares held |
|------------------------|-------------|----------------------------------|-------------|-------------------|
| 1 | 4,540,001 | - | 4,545,000 | 4,540,955 |
| 1 | 4,860,001 | - | 4,865,000 | 4,862,855 |
| 1 | 5,565,001 | - | 5,570,000 | 5,567,633 |
| 1 | 6,405,001 | - | 6,410,000 | 6,408,523 |
| 1 | 6,925,001 | - | 6,930,000 | 6,925,489 |
| 1 | 7,225,001 | - | 7,230,000 | 7,225,669 |
| 1 | 8,200,001 | - | 8,205,000 | 8,202,561 |
| 1 | 8,730,001 | - | 8,735,000 | 8,731,929 |
| 1 | 9,215,001 | - | 9,220,000 | 9,215,132 |
| 1 | 9,475,001 | - | 9,480,000 | 9,476,107 |
| 1 | 10,335,001 | - | 10,340,000 | 10,335,718 |
| 1 | 10,550,001 | - | 10,555,000 | 10,554,080 |
| 1 | 11,485,001 | - | 11,490,000 | 11,488,240 |
| 1 | 13,510,001 | - | 13,515,000 | 13,514,364 |
| 1 | 16,115,001 | - | 16,120,000 | 16,117,488 |
| 1 | 21,725,001 | - | 21,730,000 | 21,726,342 |
| 1 | 22,435,001 | - | 22,440,000 | 22,436,745 |
| 1 | 29,800,001 | - | 29,805,000 | 29,803,409 |
| 1 | 31,285,001 | - | 31,290,000 | 31,288,066 |
| 1 | 58,690,001 | - | 58,695,000 | 58,693,806 |
| 1 | 445,325,001 | - | 445,330,000 | 445,328,379 |
| 3,180 | | | | 873,192,900 |

COMBINED PATTERN OF CDC AND
PHYSICAL SHAREHOLDINGS

AS ON DECEMBER 31, 2010

| Category No. | Categories of Shareholders | Number of Shares held | Category wise No. of Share holders | Category wise Shares held | (%) |
|--------------|---|--|------------------------------------|---------------------------|---------------|
| 1 | Individuals | | 2,976 | 115,543,280 | 13.23 |
| 2 | Investment Companies | | 4 | 1,792,951 | 0.21 |
| 3 | Joint Stock Companies | | 63 | 5,882,759 | 0.67 |
| 4 | Directors, Chief Executive Officer and their spouse and minor children Mr. Kassim Parekh Mr. Muhammad H. Habib Mr. Reza S. Habib Mr. Bashir Ali Mohammad Mr. Anwar H. Japanwala Mr. Ronald V. Emerson Mr. Mohamedali R. Habib Mrs. Farah Fatimah Muhammad H. Habib Mrs. Sarwat Reza S. Habib Mrs. Dilshad Anwar H. Japanwala Syeda Mohamedali R. Habib | 2,014,661 1,724,545 1,259,162 16,117,488 1,208,808 725 1,343,770 864,298 503,645 2,551,091 670,888 | 11 | 28,259,081 | 3.24 |
| 5 | Executives | | 43 | 2,236,150 | 0.25 |
| 6 | NIT / ICP National Bank of Pakistan, Trustee Deptt. National Bank of Pakistan IDBP (ICP Unit) National Investment Trust Limited | 58,693,806 5,200 953 1,506,110 | 4 | 60,206,069 | 6.89 |
| 7 | Associated Companies, undertakings and related parties Habib Bank AG Zurich Habib Insurance Company Limited Trustees Thal Ltd. Emp. Ret Benefit Fund Trustees Thal Ltd. Emp. Provident Fund | 445,328,379 1,387,854 37,775 144,149 | 4 | 446,898,157 | 51.18 |
| 8 | Banks, DFIs, NBFIs, Insurance companies, Modarabas & Mutual Funds | | 33 | 120,128,118 | 13.76 |
| 9 | Foreign Investors | | 21 | 82,799,278 | 9.48 |
| 10 | Co-operative Societies | | 1 | 8,202,561 | 0.94 |
| 11 | Charitable Trusts | | 11 | 935,431 | 0.11 |
| 12 | Others | | 9 | 309,065 | 0.04 |
| | Total | | 3,180 | 873,192,900 | 100.00 |

| Shareholders holding ten percent or more voting interest in the listed company | | | |
|--|----------------------|--------------------|----------------|
| Total Paid-up Capital of the company | | 873,192,900 shares | |
| 10% of the paid-up capital of the Company | | 87,319,290 shares | |
| Name(s) of Shareholder(s) | Description | No. of Shares held | Percentage (%) |
| Habib Bank AG Zurich, Switzerland | Falls in Category #7 | 445,328,379 | 51.00 |

