

HBL



Annual Report

2012

The numbers
speak for
themselves

1500
branches
nationwide

1 trillion
deposits

AAA
Credit Rating

2012



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Corporate Information

Board of Directors

Sultan Ali Allana Chairman	Nauman K. Dar President & CEO	Moez Ahamed Jamal Director	Sajid Zahid Director
Director Aga Khan Fund for Economic Development, S.A.	Chairman Habib Bank Financial Services (Pvt.) Limited	Director Marcuard Family Office	Director Pakistan Petroleum Limited
Jubilee Holdings Limited (East Africa)	Habib Finance International Limited, Hong Kong	Diamond Trust Bank, Kenya	Jt. Senior Partner Orr, Dignam & Co. Advocates
Jubilee Life Insurance Company Limited (formerly NJLI)	Habibsons Bank Limited UK	Director and Partner JAAM AG, Switzerland	Trustee HBL Foundation
Tourism Promotion Services (Pakistan) Limited	Director Habib Allied International Bank Plc. UK	Absolute Investment Services, Switzerland	Proprietor Global Finanz Agency AG
Industrial Promotion Services (Pakistan) Limited	Council Member The Institute of Bankers Pakistan		
Allana Watch (Pvt.) Limited	Member Pakistan Bank's Association		
Partner Oriental Boats (Partnership)	Pakistan Business Council		



R. Zakir Mahmood Director	Ahmed Jawad Director	Mushtaq Malik Director	Sikandar Mustafa Khan Director
Chairman Habib Allied International Bank Plc., UK.	Director Bizcorp (Pvt.) Limited	Consultant Byco Petroleum Limited	Chairman Millat Tractors Limited
Director Khushhali Bank	Trustee HBL Foundation		Bolan Castings Limited
Jubilee General Insurance Company Limited (formerly NJI)			Millat Equipment Limited
Chairman/Trustee HBL Foundation			Millat Industrial Products Limited
			Vice Chairman Pakistan Business Council
			Board Member Pakistan Aeronautical Complex Board KAMRA
			Director Arabian Sea Country Club Limited
			Pakistan Business Council
			National Productivity Organisation
			Namal Education Foundation

Board Committees

Audit Committee

Mr. Moez Ahamed Jamal	Chairman
Mr. Sajid Zahid	Member
Mr. Ahmed Jawad	Member
Mr. Salim Amlani	Secretary

Risk Management Committee

Mr. Sajid Zahid	Chairman
Mr. Nauman K. Dar	Member
Mr. Mushtaq Malik	Member
Mr. Sikandar Mustafa Khan	Member
Mr. Rizwan Haider	Secretary

Human Resource and Remuneration Committee

Mr. Sultan Ali Allana	Chairman
Mr. Nauman K. Dar	Member
Mr. Moez Ahamed Jamal	Member
Dr. Razi Azmat	Secretary



Chief Financial Officer

Mr. Ayaz Ahmed

Legal Advisor

Mandviwala and Zafar
Advocates and Legal Consultants

Company Secretary

Ms. Nausheen Ahmad

Auditors

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Registrars

THK Associates (Pvt.) Ltd.
Ground Floor, State Life Bldg. No. 3
Dr. Ziauddin Ahmed Road
Karachi
Phone : 021-111-000-322
Fax : 021-35655595

HBL Shares Office

Phone : 021-32474396
Fax : 021-32415623

Head Office

Habib Bank Limited
Habib Bank Plaza
I. I. Chundrigar Road
Karachi - 75650, Pakistan
Phone: 021-32418000 [50 lines]

Registered Office

Habib Bank Limited
4th Floor, Habib Bank Tower,
Jinnah Avenue, Blue Area,
Islamabad, Pakistan.
Phone: 051-2872203, 051-2821183
Fax : 051-287205

Websites

Corporate website:
www.hbl.com
ibank (internet banking)
www.hblbank.com

Management

Mr. Nauman K. Dar

President & CEO

Mr. Ayaz Ahmed

Chief Financial Officer

Mr. Rizwan Haider

Chief Risk Officer

Mr. Jamil Iqbal

Chief Compliance Officer

Mr. Salahuddin Manzoor

Global Treasurer

Mr. Faiq Sadiq

Head - Payment Services

Ms. Nausheen Ahmad

Company Secretary & Head Legal

Mr. Aslam Gadit

Special Advisor to the President & CEO

Mr. Aamir Irshad

Head - Corporate Banking

Ms. Sima Kamil

Head - Retail & Consumer Banking

Mr. Abid Sattar

Head - Global Operations

Mr. Aman Aziz Siddiqui

Head - Strategic Planning & Development

Mr. Salim Amlani

Chief Internal Auditor

Mr. Mudassir H. Khan

Chief Information Officer

Mr. Hassan Raza

Head - Structured Credits

Mr. Shahid Ghaffar

Head - Investor Relations & Corporate Representation

Dr. Razi Azmat

Head - Human Resources

Mr. Mubashar Maqbool

Head - Commercial Banking

**Mr. Shahid Fakhruddin**

G.M. International & Market Risk Management

Mr. Mohammad Ali

Chief Representative Islamabad

Mr. Aly Mustansir

Head - Marketing & Brand Management

Mr. Habib Yousuf

Head - Financial Institution Division

Mr. Wajahat Rasul Khan

G.M. Network Management - International

Mr. Mirza Saleem Baig

Head - Islamic Banking

Mr. Aamir Kureshi

Head - Consumer Banking

Mr. Tulu Islam

G.M. Branch & Trade Operations

Mr. Farhan Talib

Head - Investment Banking

Mr. Tauqir Mazhar

Chief Representative Lahore

Financial Highlights - Consolidated

	2012 Rupees in Million	2011 Rupees in Million	Variance Percentage
FINANCIAL POSITION			
Total Deposits	1,214,964	933,632	30.13
Total Assets - Net	1,610,309	1,139,554	41.31
Advances - Net	499,818	457,368	9.28
Liquid Assets	920,709	511,913	79.86
Shareholders Equity & Revaluation Surplus	131,810	108,351	21.65
PROFIT & LOSS			
Total Income*	73,720	71,181	3.57
Total Expenditure	31,784	30,114	5.55
Provision for non-performing loans & Others	7,045	6,745	4.45
Pre-Tax Profit	34,891	34,321	1.66
Profit after Taxation	22,356	22,333	0.10
Earnings per share (Rs/Share)	18.36	18.30	
FINANCIAL RATIOS			
			Percentage
Non-Interest Income to Total Income*	21.65	20.77	
Operating Expenses to Total Income*	42.13	41.26	
Total Assets Growth Rate	41.31	23.24	
Non-Performing Loans (NPL) to Gross Loans	10.30	11.23	
Provision against NPL's to NPL	81.74	81.50	
Capital Adequacy Ratio	15.81	15.62	
Total Risk Weighted Assets to Total Assets	48.25	59.43	
Net Advances to Total Deposits	41.14	48.99	
Liquid Assets to Deposits Ratio	75.78	54.83	
Return on Average Assets	1.63	2.16	
Return on Average Equity	20.40	21.70	
OTHERS			
			Rupees in Million
Home Remittances	271,090	226,536	19.67
Exports / Imports Remittances	544,192	608,265	(10.53)
Number of Branches	1,540	1,506	2.26
Number of Staff	13,978	13,661	2.32

*Total Income is the sum of Net Interest Income and Non-interest Income



Progress Since 2002 to 2012 - At a Glance - Consolidated

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(Rupees in million)											
Balance Sheet											
Shareholders Equity & Revaluation Surplus	19,707	23,485	31,190	40,331	52,530	59,274	65,418	83,227	95,038	108,351	131,810
Total Assets	403,037	434,932	487,765	528,894	594,062	689,001	749,807	863,925	924,699	1,139,554	1,610,309
Total Deposits	328,182	360,648	404,629	432,545	459,140	531,298	597,091	682,750	747,375	933,632	1,214,964
Advances - Net	167,523	183,654	259,089	316,882	349,433	382,173	456,356	454,662	459,750	457,368	499,818
Investments - Net	142,878	158,871	134,523	107,384	119,587	175,197	129,833	216,468	254,909	418,604	797,095
Operating Results											
Total Income	18,564	21,363	23,588	32,870	38,971	39,875	48,133	53,830	59,757	71,181	73,720
Total Expenditure	11,811	9,803	13,789	15,766	17,204	18,382	21,814	23,149	24,953	30,114	31,784
Provision for NPL & Others	2,450	5,804	2,552	3,270	2,927	7,823	9,388	9,300	7,764	6,745	7,045
Provision for Taxation	2,054	1,452	1,484	4,187	6,140	3,749	6,068	7,981	10,006	11,988	12,535
Profit/(Loss) before Taxation	4,088	5,469	7,247	13,834	18,840	13,670	16,932	21,382	27,040	34,321	34,891
Profit/(Loss) after Taxation	2,034	4,018	5,763	9,647	12,700	9,921	10,864	13,401	17,034	22,333	22,356
Others											
Home Remittances	38,229	46,326	47,423	54,759	66,656	79,322	94,530	128,970	158,693	226,536	271,090
Imports Remittances	118,689	139,515	162,402	153,392	189,125	178,684	298,933	245,006	320,115	327,172	284,746
Exports Remittances	95,901	118,642	134,090	118,882	117,593	129,742	172,518	177,101	229,379	281,093	259,446
Number of Branches	1,473	1,470	1,469	1,470	1,477	1,489	1,508	1,494	1,501	1,506	1,540
Number of Staff of HBL	19,005	18,800	18,625	16,314	14,572	14,552	14,123	13,211	13,269	13,661	13,978

Directors' Report

On behalf of the Board of Directors, I am pleased to present the Consolidated Financial Statements and the Auditors' Report for the year ended December 31, 2012.

Economic and Market Review

The economy witnessed modest recovery despite challenging economic environment, both locally and around the globe. The real GDP grew by 3.7 percent during the FY2012 as compared to 3 percent in the previous year. The economy however, underperformed compared with growth target of 4.2 percent for the FY 2012 primarily due to the severe energy crises, deteriorating law and order and weakening global economy. The agriculture sector recorded a growth of 3.1 percent in FY2012 compared to 2.4 percent in FY 2011. The livestock sub-sector (with a 55.1 percent share in agriculture) remained the main contributor to growth, followed by major crops i.e. cotton, rice and sugarcane. The industrial sector showed growth of 3.4 percent as against 0.7 percent in the previous year. Small Scale Manufacturing contributed about 45% in the industrial growth, while contribution by Large Scale Manufacturing was limited to 26%. The service sector, the largest contributor (over 55 percent) in the GDP, grew by 4 percent in FY2012 as against 4.4 percent in the corresponding period last year.

The inflationary pressure eased significantly as CPI reduced from 13.7 percent from FY 2011 to 11 percent in FY 2012 and further to 6.9 percent as on December 31, 2012. Worker remittances showed robust increase of 17.8% to US\$ 13.2 billion for the FY 2012.

Trade deficit increased to US \$ 15.5 billion for FY 2012 as against US \$ 10.5 billion in the previous year. Rising trade deficit, declining foreign direct investment and lower disbursement of fresh loan put pressure on country's total liquid foreign exchange reserves, which declined from US \$ 18.24 billion to US \$ 15.23 billion as on June 30, 2012. The decline in foreign exchange reserves coupled with appreciation of US Dollar against major world currencies resulted in depreciation to Pak Rupee by 9.1% against US Dollar during FY 2012 as against 0.6 percent in FY 2011.

The State Bank of Pakistan continued its policy of reducing policy rate. During the year under review, the policy rate was first reduced to 10.50% from 12% on August 13, 2012. It was again reduced to 10% on October 8, 2012 and further to 9.5% on December 17, 2012. In all the policy rate was reduced by 250 bps during the year under review.



Financial Performance:

The financials of the Group are summarized below :-

	2012	2011
	Rupees in million	
Profit after tax	<u>22,356</u>	<u>22,333</u>
Un-appropriated profit bought forward	56,981	47,468
Profit attributable to equity holders of the Bank	<u>22,256</u>	<u>22,190</u>
Transferred from surplus on revaluation of fixed assets- net of tax	248	263
	<u>22,504</u>	<u>22,453</u>
Profit available for appropriation	<u>79,485</u>	<u>69,921</u>
Appropriations:		
Transfer to statutory reserves	(2,209)	(2,120)
Cash dividend	(4,408)	(6,512)
Issued as bonus shares	(1,102)	(1,002)
Half year interim dividend	(4,243)	(3,306)
Total appropriations	<u>(11,962)</u>	<u>(12,940)</u>
Un-appropriated Profit carried forward	<u>67,523</u>	<u>56,981</u>
Basic and Diluted Earnings after tax-Rupees per Share	<u>18.36</u>	<u>18.30</u>

In spite of challenging economic environment, HBL continued to show strong growth in deposit. Total deposits of HBL stood at 1,215 billion as on December 31, 2012 showing an impressive growth of 30% compared to corresponding period last year. The domestic deposit at Rs.1,041 billion witnessed robust growth of 32% which is much above the industry growth of 11%. Retail deposits contributed significantly in increasing the deposits base of HBL. The strong performance by Retail banking helped HBL to cross Rupee One Trillion in domestic deposits, making HBL the first banking company to have achieved this milestone in the history of Pakistan. The CASA stood at 67% as on December 31, 2012 as against 69% in the corresponding period last year. The Capital Adequacy Ratio (CAR) improved further and stood at 15.81% as on 31 December 2012 as against 15.62% as on December 31, 2011. The investment stood at Rs. 797 billion while advances at Rs. 500 billion as on December 31, 2012 as against Rs. 419 billion and Rs. 457 billion respectively in the previous year.

Net Interest Income of HBL increased by 2% to Rs. 57.76 billion as compared to previous year. The non- interest income was up by 8% from Rs. 14.78 billion for the year ended 31 December 2011 to Rs. 15.96 billion for the year ended December 31, 2012.

The profit before tax stood at Rs. 34.9 billion for the year ended December 31, 2012 indicating an increase of 1.7% over previous year while after tax profit at Rs.22.4 billion was maintained at last year level. The earning per share before and after tax was Rs. 28.78 and Rs. 18.36 respectively for the year ended December 31, 2012 as against Rs. 28.31 and Rs. 18.30 respectively in the corresponding period last year.

The overall improvement in HBL performance is attributable to diversified range of products and services for our valued customers, quality of investment portfolio, diversified advances and stringent cost and internal controls. The management of the Bank is fully committed to provide best possible services and product range to its customers in a challenging local and international economic environment.

During the year HBL Islamic Banking (HBL-IB) showed robust growth. The HBL Islamic Banking deposits increased sharply by 160% to Rs.31 billion as on December 31, 2012 against Rs.12 billion as on December 31, 2011. The exponential growth in HBL-IB deposits was possible due to addition of 11 new branches along with two sub branches, relocation of 11 branches to high potential areas and addition of 33 new windows for Islamic Banking. By December 2012 the HBL-IB comprised of 33 branches, 2 sub-branches and 266 windows making it one of the biggest Islamic Banking network amongst conventional commercial banks. The HBL-IB has developed a strong asset team to target new businesses based on HBL synergies. During the year HBL-IB participated in several syndications and is now well positioned to acquire syndication and structuring mandates at its own.

International Banking (IB) is an integral part of HBL and one of the oldest franchises in the markets we operate in. It has contributed 18% towards Group total assets, 14 % of total deposit and 14% in operating profits. The International Banking witnessed strong growth of 20% in Deposits to Rs. 175 billion in 2012 from Rs.145 billion in 2011. The IB advances grew by 12% to Rs. 143 billion in 2012 from Rs. 127 billion in 2011. The operating profit of IB showed impressive growth of 60% to Rs.5.7 billion in 2012.

Payment Services activities which covers cash management, cards, branchless banking and alternate delivery channels to customers are one of the fastest growing activities of HBL. In 2012 the cash management processed Rs.751 billion in transaction depicting handsome growth of 42%. The card business is rapidly growing and HBL today has the largest network of ATMs deployed in the Country: during the year 242 ATMS were added taking the total number of ATMs to 750 all over Pakistan. Branchless Banking Pilot Project was launched pan Pakistan in the last quarter of 2012. HBL is committed to provide convenient and efficient banking solutions for its customers. The Bank has entered into an agreement with Union Pay (UP) of China to issue UP cards in Pakistan and global markets where HBL has presence. This alliance will give HBL the ability to advance its financial inclusion plan by providing innovative and affordable product solutions for its customers. HBL also plans to launch a new state of art internet banking platform to include web portal access via smart application.

In order to increase the customer base, enhanced services and improve efficiency 33 new branches were added to the HBL network, increasing the total number of branches to 1540 by 2012. The number of online branches as of December 31, 2012 is 1404. A new web based Home Remittances system was launched during the year to provide enhanced transaction processing and enquiry capability to our customers, correspondent banks and HBL branches.

Other Initiatives

It is the endeavor of HBL to continue to be a key developer of consumer finance products for its customers. To achieve this objective HBL has entered into an agreement with Citibank Pakistan to acquire its Credit Card and Consumer Lending Portfolio in Pakistan. The acquisition of this business will strengthen HBL position in consumer banking particularly Credit Card market.

With a view to further strengthen risk management, the Bank set itself the goal of implementing the Foundation Internal Rating Based (FIRB) approach of Basel II for the management of credit risk. During 2012 the Bank achieved significant milestones in this regard. The implementation of FIRB approach will provide impetus to the Bank in its efforts in organizational realignment, better portfolio and capital management, streamlining and automation of credit processes and, most importantly, risk based strategic planning. The Bank is in the process of development of Internal Credit Risk Rating Models. The rating models are expected to be developed during 2013 as is the



substantial completion of the second and final phase of data collection for the purpose of refinement and validation of these models. Roll out of these models is targeted for 2014.

The Internal Audit function of the Bank is being further strengthened. The Internal Audit is in the process of shifting Internal Audit's Strategy from protecting value to adding-value to the business processes of the organization, adoption of Risk Based Audit Approach to target high-risk areas of the audit universe and continue the shift away from traditional 100% transactional audit. The Internal Audit Function also intends to enhance expertise to assist implementation of Basel II in the areas of credit risks, market risk and operational risk within the time limit as prescribed by State Bank of Pakistan.

The current financial global crises has posed serious challenges to the financial services industry, worldwide. Pakistan is also facing serious economic challenges due to high commodity prices, energy crises, huge losses to public sector enterprises (PSEs), and decline in foreign direct investment and increasing current account deficit. As a result certain businesses in the country have been severely affected leading to cash flow and debt repayment issues. In today's volatile economic environment, managing stressed accounts require specialized and complex relationship skill in legal and business issues to support private sector as engine for growth. A new "Structural Credits Function" has been set up to manage the classified portfolio along with all those complex relationships that require specialized management.

The Bank has also set up a new "Investor Relations and Corporate Representation Function" with a view to maintaining HBL's profile as a Public Listed Company and to monitor performance of HBL's subsidiaries and associates.

Dividend / Bonus

The Board has recommended a final dividend of Rs.4.00 per share for the year ended December 31, 2012. The Board had earlier declared and paid interim dividend @ Rs.3.5 per share, making total dividend for the year to Rs.7.50 per share. In addition to above the Board has also decided to issue Bonus Share at the rate of 10% in proportion of 10 shares for every 100 shares held.

Credit Rating Upgraded

JCR VIS Credit Rating Agency of Pakistan has upgraded the entity ratings of the Bank to "AAA / A-1+" (Triple A/ A-One Plus) from "AA+/A-1+" (Double A Plus / A-One Plus) with 'Stable' outlook. HBL has therefore become the first private sector bank of Pakistan to achieve this landmark.

Awards

HBL was conferred with following awards:

1. "Leading Bank in Home Remittances" Award for the year 2011 by the Pakistan Remittance Initiative
2. "Strongest Bank in Pakistan" by Asian Banker Magazine.

Future Outlook

The reduction in policy rate by 450 bps since 2011, without any reduction in minimum deposit rate on saving accounts will significantly reduce banking sector spreads. Continuing energy crises and slow down in global economy would continue to arrest growth and as a consequence the demand for fresh credit from private sector is likely to be slow in the near future. The banks would, therefore, be forced to invest in low yield government securities and as a result profit margin of the banking sector may be affected.

Changes in Directorship

Mr. R. Zakir Mahmood retired as President & CEO of the Bank after serving for over twelve years on September, 28 2012. He will, however, continue as a Director on the Board of HBL. Mr. Nauman K. Dar has been appointed as President & CEO of HBL. The Board places on record their appreciation for the contribution of Mr. R. Zakir Mahmood and wish the new President and CEO Mr. Nauman K. Dar every success.

Meetings of the Board:

Eleven Board meetings were held during 2012 and were attended by the Directors as follows:

Name	Attendance
Mr. Sultan Ali Allana	11
Mr. Nauman K. Dar*	3
Mr. R. Zakir Mahmood**	11
Mr. Moez Ahamed Jamal	11
Mr. Sajid Zahid	11
Mr. Ahmed Jawad	11
Mr. Mushtaq Malik	11
Mr. Sikandar Mustafa Khan	11

*Appointed as President & CEO w.e.f September 29,2012

**Retired as President & CEO w.e.f September 28,2012

Auditors:

The present auditors, Messrs Ernst & Young Ford Rhodes Sidat Hyder, retire. As per Code of Corporate Governance they are eligible for reappointment. Accordingly, the Board of Directors endorses the recommendation of the Audit Committee for the appointment of Messrs Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, as the auditors of the bank for the financial year 2013.



Statement under Section XVI of the Code of Corporate Governance:

The Board is committed to ensure that requirements of corporate governance set by Securities and Exchange Commission of Pakistan are fully met and the Directors are pleased to report that:

- a) The financial statements prepared by the management of the Bank present a true and fair view of the state of its affairs, operational results, cash flows and changes in equity.
- b) Proper books of accounts of the Bank have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) The Bank has followed international accounting standards (as applicable to Banks in Pakistan) in the preparation of accounts and there is no departure from the said standards.
- e) As a continuous process, efforts have been made to effectively implement the internal control system. HBL is in the process of adopting an internationally accepted COSO Internal Control – Integrated Framework as part of compliance with SBP Internal Control Guidelines. The Bank has also evaluated its Internal Control over Financial Reporting (ICFR) using the US PCAOB Auditing Standard (AS – 5). A dedicated Management Testing and Reporting Framework for ICFR is being developed as a part of COSO implementation project.
- f) There are no doubts about the Banks' ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance as detailed in the regulations.
- h) Key operating and financial data for the last ten years is presented in the financial statements under the section "Progress since 2002 to 2012 – Consolidated".
- i) The Directors, CEO, CFO and Company Secretary have confirmed that neither they nor their spouses are engaged in the business of stock brokerage.
- j) Risk Management, Human Resource and Audit Committees constituted by the Board are functioning efficiently in accordance with their Terms of Reference. The Board has met regularly and held eleven meetings in the year.

The Statement of Internal Control, Statement of Compliance with Review Report and the Auditors' reports are attached to the Financial Statements.

Statement of Corporate Social Responsibility – (CSR)

HBL as a responsible Corporate Citizen is committed in fulfilling its role to serve society in areas such as health, education, low cost housing, disaster mitigation, environment protection, preservation of craft, culture and heritage, arts, poverty alleviation, empowerment of women, rural/socio economic development, entrepreneurial development and strengthening of civil society.

To achieve above objectives the Bank established HBL Foundation in 2009 with the mandate to promote development and well being of the people with the objective of improving their quality of life. The Bank has been consistently donating huge amount to the Fund towards achievement of its objective. A sum of Rs.218 million was donated to the Fund in 2012, whereas total donation by the Bank amounted to Rs. 255 million (including donation to the Foundation) for 2012 for the achieving objectives as set out above.

HBL is an equal opportunity employer based on merit without any discrimination in race, religion and gender. It provides extensive in house training facilities for continuous personal development of its employees.

HBL is extremely active in promoting sports in Pakistan. In this connection the Bank regularly sponsors / co-sponsors several sports events.

Value of Investments in employee retirement benefits fund:

The following is the value of investments of provident, gratuity, pension and benevolent funds maintained by the Bank, based on the latest audited financial statements.

	Rupees in Million
Employee's Provident Fund	8,224
Employee's Pension Fund	3,620
Employee's Gratuity Fund	1,146
Employee's Benevolent Fund – Executive and Officers	997
Employee's Benevolent Fund – Clerical and Non-Clerical	354

Pattern of Shareholding:

The pattern of Shareholding as at December 31, 2012 is annexed to the financial statements.

Training programs attended by Directors:

Details have been provided in Statement of Compliance.

Appreciation and Acknowledgement:

I would like to appreciate the efforts of our Regulators and Government of Pakistan and in particular the Ministry of Finance and the State Bank of Pakistan for developing and strengthening the banking and financial service industry through improved regulatory and governance framework.

I would like to take this opportunity to also thank on behalf of the Board and Management of the Group, the customers and the shareholders for entrusting their confidence in us and assure them that we remain committed to maintaining high service standards and a strong culture of good corporate governance and compliance in all our endeavors.

On behalf of the Board

Nauman K. Dar

President & Chief Executive Officer

February 12, 2013



Statement of Internal Control

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievements of the Bank's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. Management assumes the responsibility of establishing and maintaining adequate internal controls and procedures under the policies approved by the Board. In this connection the Bank has documented Procedures and Manuals, which incorporates the internal controls applicable while conducting any banking transactions. These procedures are revised and updated as and when required.

The Internal Audit Group (IAG) of the Bank reviews the adequacy and implementation of internal controls on a regular basis and deficiencies if any are followed up until they are rectified. Quarterly updates on unresolved significant issues highlighted by the IAG are reviewed by the Audit Committee of the Board of Directors together with the recommendations for improvements.

The system of internal control is designed to minimize the risk of failure to achieve the organization's policies, aims and objectives; it can therefore, only provide reasonable and not absolute assurance against material misstatements or loss. The system of internal controls being followed by the Bank is considered adequate and sound in design and is being effectively implemented and monitored.

HBL is in compliance with the requirements and timelines of Staged Roadmap for implementation of the State Bank of Pakistan (SBP) Internal Control Guidelines. The Bank has adopted internationally accepted COSO Internal Control – Integrated Framework for overall set of Internal Controls and is submitting quarterly status report on the progress of the Bank's compliance with the Internal Controls over Financial Reporting (ICFR) based on the road map issued vide BSD Circular dated February 24, 2009. There is a formal process of approval by the Board audit committee on a quarterly basis as required under BSD Circular dated January 16, 2012. The External Auditors of the Bank has completed the Long Form Report on the Bank's internal controls as of September 30, 2012 which has been submitted to SBP.

Jamil Iqbal
Chief Compliance Officer

Ayaz Ahmed
Chief Financial Officer

Salim Amlani
Chief Internal Auditor

Review Report

To the Members, Statement of Compliance with the best practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) for the year ended 31 December 2012 prepared by the Board of Directors (the Board) of Habib Bank Limited (the Bank) to comply with the Regulation G-1 of Prudential Regulation for Corporate / Commercial Banking issued by the State Bank of Pakistan.

The responsibility for compliance with the Code is that of the Board of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Bank's compliance with the provisions of the Code and report if it does not. A review is limited primarily to 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Bank's corporate governance procedures and risks.

Further, Sub - Regulation (x) of Listing Regulation 35 notified by The Karachi Stock Exchange Limited requires the Bank to place before the Board 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 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 does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code, effective for the year ended 31 December 2012.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: February 12, 2013
Karachi



Statement of Compliance

With the best practices of Code of Corporate Governance for the year ended December 31, 2012

This Statement is being presented to comply with the Code of Corporate Governance (the Code) contained in the Regulation No. 35 of the Listing Regulations of the 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 Board has adopted the Code of Corporate Governance and applies the principles in the following manner:

- The Board has eight Directors in which except for the Chief Executive Officer, four Directors including the Chairman are non-executive and three are independent Directors i.e. Mr. Moez Jamal, Mr. Sajid Zahid and Mr. Sikandar Mustafa Khan.
- The Directors have confirmed that none of them is serving as a director in more than seven listed companies.
- All the resident Directors have confirmed that they are registered taxpayers and none of them have defaulted in the payment of any loans to a banking company, a development financial institution or non-banking finance company or stock exchange.
- The Board of Directors of Habib Bank Limited was elected in 2012 for a three year term which will expire on March 26, 2015.
- No casual vacancy occurred on the Board during the year. However under section 200(2) of the Companies Ordinance, 1984 and Article 67(iii) of the Article of Association of the Bank the new President and CEO was appointed on September 28, 2012.
- The Board adopted a vision / mission statement, overall corporate strategy and significant policies of the Bank. The Bank maintains a complete record/ log of all policies along with the dates on which these were approved or amended including the dates when these are required to be updated.
- All the major decisions relating to investment and disinvestment of funds are taken in accordance with the policies laid down by the Board of Directors.
- The Board of Directors has approved the appointment, remuneration and terms and conditions of employment of the Chief Executive Officer.
- All meetings of the Board of Directors were chaired by Mr. Sultan A. Allana, Chairman of the Board. The Board met eleven times during the year and continued to closely monitor the Bank's performance. The committees of the Board also met regularly during the year. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated. The Chief Financial Officer and the Company Secretary also attended the meetings of the Board.
- As the Directors had undergone training with the Institute of Directors, UK at the onset of their Term on the Board, this year no training was planned. However, the Directors have familiarized themselves

with their responsibilities under the Code of Corporate Governance and other relevant laws / regulations have received a Directors Manual explaining the relevant laws and regulations..

- The Board has approved the appointments of the Chief Financial Officer, Head of Internal Audit and Company Secretary including their remuneration and terms and conditions of their employment.
- The Director's Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- The Directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank, except as mentioned in the Pattern of Share Holding.
- The Bank has circulated the Code of Ethics and Business Conduct, which has been approved by the Board of Directors.
- The Chief Executive Officer and Chief Financial Officer have duly endorsed the financial statements of the Bank before its approval by the Board.
- The Bank has complied with the applicable corporate and financial reporting requirements of the Code.
- The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan and the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on Code of ethics as adopted by the Institute of Chartered Accountants of Pakistan. The auditors have also confirmed that they or any of the partners of the firm, their spouses and minor children do not hold any shares in the Bank.
- The statutory auditors or the persons associated with them have not been appointed to provide other services other than approved services and the auditors have confirmed that they have observed IFAC guidelines in this regard.
- The Board Audit Committee comprises of three members, all of whom are non-executive directors including the Chairman of the Committee. The Board Risk Management Committee and Board HR Committee comprise of three members each, a majority of whom are non-executive directors. The Chairman of both the Committees is a non-executive director. The IT Steering Committee was discontinued by the Board on October 31, 2012.
- An effective Internal Audit Group is in place. The Head of Internal Audit reports directly to the Board Audit Committee.
- The Audit Committee met eleven times during the year 2012. On the recommendation of the Audit Committee, the Board approves the Financial Statements of the bank. The Terms of Reference of the Audit Committee have been formulated and approved by the Board.
- The other Board Committees met as follows:
 - i. Board Risk Management Committee six times in the year.
 - ii. Board Human Resource Committee six times in the year.
 - iii. Board IT Steering Committee one time in the year.
- The Board considers and approves the related party transactions after review of the Audit Committee.



- We confirm that all other material principles contained in the Code have been complied with.
- The 'Closed period' prior to announcement of interim/final results, and business decisions, which may materially affect the market price of companies' securities, was determined and intimated to Directors, Employees and Stock Exchanges.
- Material / price sensitive information has been disseminated among all market participants at once through stock exchanges.

This Statement of Compliance with best practices of corporate governance is being published and circulated along with the annual report of the Bank.

For and on behalf of the Board

Nauman K. Dar

President & Chief Executive Officer

February 12, 2013

Auditors' Report

To the members - Consolidated

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of Habib Bank Limited ("the Bank") and its subsidiary companies as at 31 December 2012 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flows statement together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions / conclusions on the financial statements of Habib Bank Limited and its subsidiary companies namely HBL Asset Management Limited, First Habib Bank Modaraba and HBL Currency Exchange (Private) Limited. The financial statements of remaining subsidiary companies were audited / reviewed by other firms of Chartered Accountants whose reports have been furnished to us and our opinion in so far as it relates to the amounts included for such companies, is based solely on the reports of such other auditors.

These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of Habib Bank Limited and its subsidiary companies as at 31 December 2012 and the results of their operations for the year then ended.

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: February 12, 2013
Karachi



Consolidated Statement of Financial Position

As At December 31, 2012

2012 (US \$ in '000)	2011 (US \$ in '000)		Note	2012 (Rupees in '000)	2011 (Rupees in '000)
ASSETS					
1,618,425	1,064,333	Cash and balances with treasury banks	5	157,229,517	103,399,623
493,877	487,387	Balances with other banks	6	47,980,032	47,349,505
255,567	428,010	Lendings to financial institutions	7	24,828,255	41,581,029
8,204,807	4,308,857	Investments	8	797,094,548	418,604,147
5,144,822	4,707,865	Advances	9	499,817,906	457,367,656
243,257	197,300	Operating fixed assets	10	23,632,324	19,167,654
62,342	74,894	Deferred tax asset	11	6,056,483	7,275,888
552,441	461,234	Other assets	12	53,669,507	44,808,703
16,575,538	11,729,880			1,610,308,572	1,139,554,205
LIABILITIES					
194,990	143,022	Bills payable	13	18,943,207	13,894,502
2,023,481	406,318	Borrowings	14	196,580,548	39,473,670
12,506,098	9,610,236	Deposits and other accounts	15	1,214,963,700	933,631,525
56,003	51,839	Sub-ordinated loans	16	5,440,654	5,036,100
-	-	Liabilities against assets subject to finance lease	17	-	-
-	-	Deferred tax liability		-	-
425,555	390,442	Other liabilities		41,342,703	37,931,420
15,206,127	10,601,857			1,477,270,812	1,029,967,217
1,369,411	1,128,023			133,037,760	109,586,988
NET ASSETS					
REPRESENTED BY:					
Shareholders' equity					
124,784	113,440	Share capital	18	12,122,748	11,020,680
405,347	330,889	Reserves		39,379,354	32,145,755
695,045	586,525	Unappropriated profit		67,523,215	56,980,697
1,225,176	1,030,854	Total equity attributable to the equity holders of the Bank		119,025,317	100,147,132
12,632	12,726	Non-controlling interest		1,227,207	1,236,290
131,603	84,443	Surplus on revaluation of assets - net of deferred tax	19	12,785,236	8,203,566
1,369,411	1,128,023			133,037,760	109,586,988
CONTINGENCIES AND COMMITMENTS					
20 & 21					

The annexed notes 1 to 49 and annexures I to V form an integral part of these consolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Consolidated Profit and Loss Account

For the year ended December 31, 2012

2012 (US \$ in '000)	2011 (US \$ in '000)		Note	2012 (Rupees in '000)	2011 (Rupees in '000)
1,201,987	1,014,727	Mark-up / return / profit / interest earned	22	116,772,653	98,580,423
607,438	434,198	Mark-up / return / profit /interest expensed	23	59,012,392	42,182,220
594,549	580,529	Net mark-up / profit / interest income		57,760,261	56,398,203
74,564	68,941	Provision against non-performing loans and advances	9.4 / 9.6	7,243,887	6,697,555
72	(797)	Charge / (reversal) against off-balance sheet obligations	17.1	7,015	(77,393)
(4,981)	2,440	(Reversal) / charge against diminution in the value of investments	8.7	(483,865)	237,083
-	-	Bad debts written off directly		-	-
69,655	70,584	Net mark-up / profit / interest income after provisions		6,767,037	6,857,245
524,894	509,945			50,993,224	49,540,958
Non mark-up / interest income					
69,848	62,645	Fee, commission and brokerage income		6,785,687	6,085,970
5,046	4,474	Dividend income		490,213	434,606
17,397	11,131	Share of profit of associates and joint venture		1,690,100	1,081,358
26,434	38,663	Income from dealing in foreign currencies		2,568,079	3,756,094
14,005	5,580	Gain on sale of securities	24	1,360,596	542,118
260	(379)	Unrealised gain / (loss) on held for trading securities	8.13	25,253	(36,820)
31,294	30,052	Other income	25	3,040,178	2,919,535
164,284	152,166	Total non mark-up / interest income		15,960,106	14,782,861
689,178	662,111			66,953,330	64,323,819
Non mark-up / interest expense					
319,727	302,334	Administrative expenses	26	31,061,370	29,371,659
2,860	(1,152)	Other provisions / write offs - net	12.1	277,848	(111,873)
188	799	Other charges	27	18,285	77,588
7,253	6,846	Workers welfare fund	28	704,620	665,047
330,028	308,827	Total non mark-up / interest expenses		32,062,123	30,002,421
359,150	353,284			34,891,207	34,321,398
Profit before taxation					
Taxation					
129,469	107,662	- current	29	12,577,897	10,459,376
4,336	291	- prior years		421,210	28,264
(4,772)	15,447	- deferred		(463,640)	1,500,736
129,033	123,400			12,535,467	11,988,376
230,117	229,884	Profit after taxation		22,355,740	22,333,022
Attributable to:					
229,092	228,410	Equity holders of the Bank		22,256,064	22,189,763
(578)	587	Non-controlling interest		(56,174)	57,063
1,603	887	Minority investor of HBL Funds		155,850	86,196
230,117	229,884			22,355,740	22,333,022
-----Rupees-----					
Basic and diluted earnings per share					
			30	18.36	18.30

The annexed notes 1 to 49 and annexures I to V form an integral part of these consolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director



Consolidated Statement of Comprehensive Income

For the year ended December 31, 2012

			2012 (US \$ in '000)	2011 (US \$ in '000)	2012 (Rupees in '000)	2011 (Rupees in '000)
230,116	229,883	Profit for the year			22,355,740	22,333,022
Other comprehensive income						
(1,604)	(887)	Minority share of HBL funds transferred to other liabilities			(155,850)	(86,196)
52,526	7,177	Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates			5,102,885	697,203
281,038	236,173	Comprehensive income transferred to equity			27,302,775	22,944,029
Components of comprehensive income not recognized as Income and equity						
17,203	-	Surplus on revaluation of fixed assets			1,671,231	-
(1,811)	-	Deferred tax on revaluation of fixed assets			(175,930)	-
50,751	4,946	Surplus on revaluation of investments			4,930,408	480,500
(16,421)	(2,300)	Deferred tax on revaluation of investments			(1,595,283)	(223,430)
330,760	238,819				32,133,201	23,201,099
Attributable to:						
329,614	237,884	Equity holders of the Bank			32,021,819	23,110,263
566	715	Non-controlling interest			55,035	69,415
580	220	Minority investor			56,347	21,421
330,760	238,819				32,133,201	23,201,099

The annexed notes 1 to 49 and annexures I to V form an integral part of these consolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2012

Share capital	Attributable to shareholders of the Group						Sub Total	Non-controlling interest	Total			
	Exchange translation reserve	Reserves										
		Joint venture and subsidiaries	Bank	General	Unappropriated profit							
(Rupees in '000)												
Balance as at December 31, 2010	10,018,800	9,216,986	254,641	13,810,116	6,073,812	47,467,704	86,842,059	1,212,656	88,054,715			
Total comprehensive income for the year												
Profit for the year ended December 31, 2011	-	-	-	-	-	22,275,959	22,275,959	57,063	22,333,022			
Minority share of HBL funds transferred to other liabilities	-	-	-	-	-	(86,196)	(86,196)	-	(86,196)			
- Other comprehensive income												
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	-	670,235	-	-	-	-	670,235	26,968	697,203			
	-	670,235	-	-	-	22,189,763	22,859,998	84,031	22,944,029			
Transactions with owners, recorded directly in equity												
Final cash dividend paid at Rs. 6.5 per share for the year ended December 31, 2010	-	-	-	-	-	(6,512,220)	(6,512,220)	-	(6,512,220)			
Issued as bonus shares	1,001,880	-	-	-	-	(1,001,880)	-	-	-			
Half year interim cash dividend paid at Rs. 3 per share	-	-	-	-	-	(3,306,204)	(3,306,204)	-	(3,306,204)			
Cash dividend paid at Rs. 1.3 per certificate by modaraba	-	-	-	-	-	-	-	(46,458)	(46,458)			
	1,001,880	-	-	-	-	(10,820,304)	(9,818,424)	(46,458)	(9,864,882)			
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	263,499	263,499	-	263,499			
Transferred to statutory reserve	-	-	45,783	2,074,182	-	(2,119,965)	-	-	-			
Minority share of surplus on revaluation of securities of subsidiaries	-	-	-	-	-	-	-	(13,939)	(13,939)			
Balance as at December 31, 2011	11,020,680	9,887,221	300,424	15,884,298	6,073,812	56,980,697	100,147,132	1,236,290	101,383,422			
Total comprehensive income for the year												
Profit for the year ended December 31, 2012	-	-	-	-	-	22,411,914	22,411,914	(56,174)	22,355,740			
Minority share of HBL funds transferred to other liabilities	-	-	-	-	-	(155,850)	(155,850)	-	(155,850)			
- Other comprehensive income												
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	-	5,024,599	-	-	-	-	5,024,599	78,286	5,102,885			
	-	5,024,599	-	-	-	22,256,064	27,280,663	22,112	27,302,775			
Transactions with owners, recorded directly in equity												
Final Cash dividend paid at Rs. 4 per share for the year ended December 31, 2011	-	-	-	-	-	(4,408,272)	(4,408,272)	-	(4,408,272)			
Half year interim cash dividend paid at Rs. 3.5 per share	-	-	-	-	-	(4,242,962)	(4,242,962)	-	(4,242,962)			
Cash dividend at Rs. 1.475 per certificate by modaraba	-	-	-	-	-	-	-	(52,713)	(52,713)			
Issued as bonus shares	1,102,068	-	-	-	-	(1,102,068)	-	-	-			
	1,102,068	-	-	-	-	(9,753,302)	(8,651,234)	(52,713)	(8,703,947)			
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	248,756	248,756	-	248,756			
Transferred to statutory reserve	-	-	52,583	2,156,417	-	(2,209,000)	-	-	-			
Minority share of surplus on revaluation of securities of subsidiaries	-	-	-	-	-	-	-	21,518	21,518			
Balance as at December 31, 2012	12,122,748	14,911,820	353,007	18,040,715	6,073,812	67,523,215	119,025,317	1,227,207	120,252,524			

The annexed notes 1 to 49 and annexures I to V form an integral part of these consolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director



Consolidated Cash Flow Statement

For the year ended December 31, 2012

2012 (US \$ in '000)	2011 (US \$ in '000)	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
CASH FLOWS FROM OPERATING ACTIVITIES				
359,151	353,284		Profit before taxation	34,891,207
(22,443)	(15,604)		Dividend income and share of profit of associates and joint venture	(2,180,313)
(14,005)	(5,580)		Gain on sale of securities	(1,360,596)
(36,448)	(21,184)			(3,540,909)
322,703	332,100			31,350,298
				32,263,317
Adjustment for:				
14,629	14,661		Depreciation	1,421,212
820	453		Amortisation	79,704
(4,981)	2,440		(Reversal) / charge against diminution in the value of investments	(483,865)
74,564	68,941		Provision against non-performing loans and advances	7,243,887
(260)	379		Unrealised (gain) / loss on held for trading securities	(25,253)
1,836	7,764		Exchange (gain) / loss on sub-ordinated loans / Goodwill - net	178,325
317	(80)		Loss / (gain) on sale of operating fixed assets - net	30,821
(491)	-		Gain on sale of non-banking assets	(47,707)
2,932	(2,589)		Miscellaneous provisions	284,863
89,366	91,969			8,681,987
412,069	424,069			40,032,285
				41,197,988
(Increase) / decrease in operating assets				
172,443	(115,715)		Lendings to financial institutions	16,752,774
(281,239)	(33,296)		Investments - held for trading	(27,322,283)
(511,521)	(44,418)		Advances	(49,694,137)
(92,367)	(75,476)		Other assets	(8,973,417)
(712,684)	(268,905)			(69,237,063)
				(26,124,017)
Increase / (decrease) in operating liabilities				
51,968	42,403		Bills payable	5,048,705
1,617,163	(10,151)		Borrowings	157,106,878
2,895,863	1,917,214		Deposits and other accounts	281,332,175
33,071	116,836		Other liabilities	3,212,720
4,598,065	2,066,302			446,700,478
4,297,450	2,221,466			417,495,700
(135,843)	(126,805)			(13,197,145)
4,161,607	2,094,661			404,298,555
				203,495,438
Net cash flows from operating activities				
CASH FLOWS FROM INVESTING ACTIVITIES				
(3,527,318)	(1,632,843)		Net investments	(342,677,896)
5,042	4,228		Dividend income received	489,850
(42,051)	(31,836)		Fixed capital expenditure	(4,085,247)
(2,002)	(15,917)		Goodwill	(194,483)
1,861	1,712		Proceeds from sale of fixed assets	180,783
823	-		Proceeds from sale of non-banking assets	80,000
51,720	6,899		Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	5,024,599
(3,511,925)	(1,667,757)			(341,182,394)
				(162,022,161)
Net cash flows used in investing activities				
CASH FLOWS FROM FINANCING ACTIVITIES				
806	278		Exchange adjustment on translation of non-controlling interest in subsidiary	78,286
(89,903)	(100,922)		Dividend paid	(8,734,026)
(89,097)	(100,644)			(8,655,740)
				(9,777,580)
560,585	326,260		Net cash flows used in financing activities	
			Increase in cash and cash equivalents during the year	54,460,421
1,467,081	1,207,154		Cash and cash equivalents at beginning of the year	142,526,488
84,639	18,306		Effects of exchange rate changes on cash and cash equivalents	8,222,640
1,551,720	1,225,460			150,749,128
2,112,305	1,551,720			
			Cash and cash equivalents at end of the year	205,209,549
				150,749,128
		31		

The annexed notes 1 to 49 and annexures I to V form an integral part of these consolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

1. THE GROUP AND ITS OPERATIONS

Habib Bank Limited (the Bank) is incorporated in Pakistan and is engaged in commercial banking, modaraba management and asset management related services in Pakistan and overseas. The Bank's Registered office is situated at Habib Bank Tower, 4th Floor, Jinnah Avenue, Islamabad and principal office is at Habib Bank Plaza, I.I.Chundrigar Road, Karachi. The Bank's shares are listed on all three stock exchanges in Pakistan. The Bank operates 1,497 (2011: 1,464) branches inside Pakistan including 33 (2011: 22) Islamic Banking Branches and 43 branches (2011: 42) outside the country including Karachi Export Processing Zone (KEPZ).

Holding company

Habib Bank Limited, Pakistan

Subsidiaries

- Habib Finance International Limited, Hong Kong – wholly owned
- Habib Bank Financial Services (Private) Limited, Pakistan – wholly owned
- HBL Currency Exchange (Private) Limited, Pakistan – wholly owned
- HBL Asset Management Limited, Pakistan – wholly owned
- Habib Allied International Bank Plc., United Kingdom – shareholding at 90.50%
- Habibsons Bank Limited, United Kingdom – shareholding at 90.50%
- First Habib Bank Modaraba, Pakistan
- HBL Stock Fund, Pakistan – shareholding 81.08%
- HBL Multi Asset Fund, Pakistan - shareholding 89.96%
- HBL Income Fund, Pakistan - shareholding 61.57%

The subsidiary company of the Bank, Habib Bank Financial Services (Private) Limited exercises control over Habib Bank Modaraba as its management company and also has a direct economic interest in it. The Bank has consolidated the financial statements of the modaraba as the ultimate holding company. Habibsons Bank Limited is wholly owned subsidiary of Habib Allied International Bank Plc.

2. BASIS OF PRESENTATION

- In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.
- The US Dollar amounts shown in the consolidated financial statements are stated solely for information convenience. The statement of consolidated financial position, profit and loss account, statement of comprehensive income and cash flow statement for the year ended December 31, 2012 and 2011 and have been converted using the exchange rate of Rs. 97.1497 per US Dollar.

2.1 Basis of measurement

These financial statements have been prepared under the historical cost convention except that certain classes of fixed assets are stated at revalued amounts less accumulated depreciation, trading and available for sale investments, derivative financial instruments and forward foreign exchange contracts are measured at fair value.

The consolidated financial statements are presented in Pakistan Rupees, which is Bank's functional currency. The amounts are rounded to nearest thousand.

2.2 Basis of consolidation

- Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, so as to obtain economic benefits from its activities.

- The consolidated financial statements incorporate the financial statements of Habib Bank Limited and the financial statements of subsidiary companies from the date that control commences until the date that control ceases. The financial statements of such subsidiary companies are incorporated on a line-by-line basis and the investment held by the Bank is eliminated against the corresponding share capital of subsidiaries in the consolidated financial statements.
- Material intra-group balances and transactions are eliminated.
- Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control established by contractual agreement. Associates and joint ventures are accounted for using the equity method.

2.3 Use of estimates and judgments

The preparation of consolidated financial statements in conformity with the approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Group'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 Group's financial statements or where judgment was exercised in application of accounting policies are as follows:

- i) Classification of investments (refer 4.3)
- ii) Valuation and impairment of available for sale equity investments and associates (refer 4.12)
- iii) Provision against non performing advances (refer 4.4)
- iv) Fixed assets, depreciation and amortisation (refer 4.5)
- v) Fair value of derivatives (refer 4.17)
- vi) Defined benefits plans and other benefits (refer 4.8)

2.3.1 Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

3. STATEMENT OF COMPLIANCE

3.1 These consolidated 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 and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan 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 SBP and Securities and Exchange Commission of Pakistan (SECP). Whenever the requirements of Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the directives issued by SBP and SECP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the said directives shall prevail.

The SBP, vide its BSD Circular Letter No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments Recognition and Measurement and International Accounting Standard 40, Investment Property for banking companies till further instructions. Further, SECP has deferred applicability of IFRS - 7, Financial Instruments: Disclosures on banks through S.R.O 411(1)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2013:

- Amendments to IAS 1 Presentation of Financial Statements: Financial statement presentation' regarding other comprehensive income (effective for annual periods beginning on or after 1 July 2012). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position.

- Amendments to IAS 19 - Employee benefits (Revised): For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognized in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income / expense. All other changes in the net defined benefit asset / liability are recognized in other comprehensive income with no subsequent recycling to profit and loss. Had the change been taken in current year, profit before taxation would have been higher by Rs. 1.18 billion and comprehensive income would have been lower by Rs. 1.18 billion.
- Amendments in IAS 28 Investments in Associates: As a consequence of the new IFRS 11 Joint Arrangements, IAS 28 Investments in Associates, has been renamed as IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment results in no impact on the Group's financial position as it is already accounting joint ventures through equity method. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.
- Amendments in IAS 32 Financial Instruments: Presentation Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014). These amendments clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. It is clarified that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event. Further clarifying offsetting criteria to settlement systems, the IAS 32 requires the reporting entity to intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion. These amendments are likely to affect presentation of assets and liabilities in the Group's financial position.
- Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

IASB Effective date
(annual periods beginning
Standard on or after)

IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2015
IFRS 10 – Consolidated Financial Statements	January 01, 2013
IFRS 11 – Joint arrangements	January 01, 2013
IFRS 12 – Disclosure of Interest in Other Entities	January 01, 2013
IFRS 13 – Fair Value Measurement	January 01, 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury and other banks in current and deposit accounts.

4.2 Lendings / borrowings (reverse repo / repo)

Where securities are sold subject to a commitment to re-purchase them at a pre-determined price, they remain on the statement of financial position and a liability is recorded in respect of the consideration received in "borrowings". Conversely, securities purchased under analogous commitments to resell are not recognized on the statement of financial position and the consideration paid is recorded in "lendings to financial institutions".

The difference between the sale and purchase price is recognized as mark-up / return expensed or earned on time proportion basis as the case may be.

4.3 Investments

The Group classifies its investment portfolio into the following categories:

Held-for-trading

These are securities, which are either acquired for generating a profit from short-term fluctuations 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 maturity that the Group has the positive intent 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.

Investments, including those referred to in para above, are accounted for as follows:

- Quoted securities are carried at fair value.
- Unquoted equity securities are valued at lower of cost and break-up value. Break-up value of unquoted equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.
- Securities classified as held-to-maturity are carried at amortised cost less impairment loss if any.

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the Group commits to purchase or sell the investments.

Investments other than those categorised as held for trading includes transaction costs associated with the investments. In case of investments classified as held for trading, transaction costs are expensed in the profit and loss account.

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulation issued by the SBP.

Any unrealized surplus / deficit arising on revaluation of investments classified as 'held-for-trading' are taken to the profit and loss account and unrealized surplus / deficit arising on revaluation of investments classified as 'available-for-sale' is taken directly to "surplus / deficit on revaluation of securities" in the statement of financial position.

Investment in associates / joint venture

Associates and joint venture are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost and the carrying amount is increased /decreased to recognize the investor's share of the profit and loss / reserve of the investee subsequent to the date of acquisition.

4.4 Advances

Advances are stated net of provision against non-performing advances. Provision against non-performing advances of Pakistan operations and domestic subsidiaries, including general provision is made in accordance with the requirements of the prudential regulations issued by the SBP. Provision against non-performing advances of overseas branches and subsidiary companies are made as per the requirements of the respective regulatory regimes. Advances are written off when there are no realistic prospects of recovery in accordance with the requirements of the prudential regulations issued by the SBP or the requirements of respective regulatory regimes.

Finance lease receivables

Leases where the Group transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable is recognized at an amount equal to the present value of the lease payments including any guaranteed residual value. Net investment in finance lease is included in advances to customers.

Ijarah

Assets given on Ijarah, after taking into account the estimated residual value, are stated at cost less accumulated depreciation using straight line method over the life of the asset. Impairment evaluation of loss on sale expected from the unilateral commitment given by the customer to purchase the asset at the expiry of the Ijarah term and the Group's policy to accept the offer is carried out by comparing the Written Down Value to the Net Present Value of the expected cash flows at the date of statement of financial position. Impairment losses evaluated, are booked in the Profit and Loss Account as and when occurred. The residual value of the Ijarah asset is the estimated amount that Group could obtain from disposal of assets as defined in para 6 of IAS 16 - Property, plant and equipment. This has been estimated on the basis that all assets given on Ijarah have an economic life of ten years and if the assets were depreciated over this life the written down value at end of Ijarah term would represent the residual value.

These Ijarah are shown under advances and further analysis is provided in annexure V of these consolidated financial statements.

4.5 Operating fixed assets and depreciation

4.5.1 Tangible

Fixed assets and capital work-in-progress, are stated at cost, except for land and buildings which are carried at revalued amount less accumulated depreciation, where applicable, and accumulated impairment losses (if any).

Cost of fixed assets of foreign branches and subsidiary companies include exchange differences arising on translation at year-end rates. Land and buildings are revalued by independent professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. Surplus arising on revaluation is credited to the 'surplus on revaluation of fixed assets' account (net of deferred tax). Under the provision of the Companies Ordinance, 1984, deficit arising on revaluation of fixed assets is adjusted against the balance in the above surplus account.

All operating assets are being depreciated over their expected useful lives using the straight-line method from the date the assets are available for use.

Depreciation is calculated so as to write-off the assets over their expected useful lives at the rates specified in note 10.3 to these consolidated financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each date of statement of financial position.

Depreciation on addition and deletion of tangible assets during the year is charged in proportion to the period of use.

Normal repairs and maintenance are charged to the profit and loss account as and when incurred. However, renewals are capitalized.

Gains or losses arising on the disposal of fixed assets are included in income currently. Surplus on revaluation of fixed assets (net of deferred tax) realized on disposal and incremental depreciation during the year is transferred directly to un-appropriated profit.

4.5.2 Intangible

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method over their estimated useful lives. Amortization is charged at the rate stated in note 10.2. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful lives and amortization method are reviewed and adjusted, if appropriate at each date of statement of financial position. Intangible assets having an indefinite useful life are stated at acquisition cost less impairment, if any.

4.5.3 Goodwill

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at its cost less accumulated impairment losses, if any. Goodwill acquired in a business combination is tested for impairment annually or whenever there is an indication of impairment as per the requirements of International Accounting Standard (IAS) 36, 'Impairment of Assets'. Impairment charge in respect of goodwill is recognized in the profit and loss account.



4.6 Borrowings / deposits

- a) Borrowings / deposits are recorded at the proceeds received.
- b) The cost of borrowings / deposits is recognized as an expense in the period in which this is incurred.

4.7 Sub - Ordinated Debt

Sub-ordinated debt is initially recorded at the amount of proceeds received. Mark-up accrued on sub-ordinated debt is charged to the profit and loss account.

4.8 Employee benefits

The Bank operates the following schemes for its employees:

i) Approved Pension Fund (Defined benefit scheme)

For those who opted for pension scheme introduced in 1977, the Bank operates a pension scheme to its executives / officers and clerical employees. However, for the executives / officers this benefit is based on the salary and services as at March 31, 2005. The Provident Fund and Gratuity benefit were offered to such executives / officers in respect of the future service after that date. During the year, the Bank has shifted the gross pension calculation basis to the last drawn basic salary at the time of retirement. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

ii) Approved Gratuity Fund (Defined benefit scheme)

For those who did not opt for pension scheme introduced in 1977 and opted for Gratuity scheme instead and for the new employees hired on or after 01.01.2002, the Bank operates approved gratuity scheme. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

iii) Provident Fund (Defined contributory scheme)

Under this scheme, both employees and the Bank contribute to the fund.

iv) Benevolent Fund (Defined contributory scheme)

The Bank operates funded benevolent schemes for its executives / officers and clerical employees. Under this scheme, the employees of the Bank are entitled to receive defined grants / facilities during their service and after retirement. The benevolent fund plan covers all the employees of the Bank. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

v) Post Retirement Medical Benefits

The Bank also provides post retirement medical benefits to its officers/executives and clerical employees retiring before December 31, 2005. The employees under officers and executives cadre are entitled to receive lump sum payments in lieu of post retirement medical facilities as a full and final settlement, effective January 01, 2006 onwards. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

vi) Compensated Absences

The Bank also makes provision in the financial statements for its liabilities towards compensated absences. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

vii) Other Post Retirement Benefits

The scheme offers a maximum of six months' benefits to executives retiring after completing 25 years of service. However in case of death of an executive, the house rent benefit is paid for one year. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

Actuarial gain / loss

Actuarial gain / loss arise out of differences between actuarial assumptions and actual experience are recognized immediately in profit and loss.

Other schemes

Employee benefits offered by subsidiary companies are as follows:

Habib Allied International Bank Plc. United Kingdom	Defined Contribution Pension scheme
Habibsons Bank Limited, United Kingdom	Defined Contribution Pension scheme
Habib Finance International Limited, Hong Kong	Provident fund and long service payment scheme

4.9 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to Pakistani rupees at the exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of statement of financial position. The fair value of forward cover taken from the SBP for foreign currency deposits is added / deducted from value of foreign currency deposits. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

Foreign operations

The assets and liabilities of foreign operations are translated to Pakistani rupees at exchange rates prevailing at the date of statement of financial position. The income and expenses of foreign operations are translated at average rate of exchange for the year.

Translation gains and losses

Translation gains and losses are included in the profit and loss account, except those arising on the translation of net investment in foreign operations i.e., foreign branches, subsidiaries, joint ventures or associates which are taken to equity under "Exchange Translation Reserve" and are recognized in profit or loss account on disposal.

Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of statement of financial position.

4.10 Revenue recognition

Advances and investments

Income on advances is recognized on a time proportion basis as per terms of contract. Debt security investments are recognized on a time proportion basis that takes into account effective yield on the asset. Where debt securities are purchased at a premium or discount, those premiums / discounts are amortized through the profit and loss account over the remaining maturity, using the effective yield method.

Interest or mark-up / profit recoverable on classified advances and investments is recognized on receipt basis. Interest / mark-up / profit on rescheduled / restructured advances and investments is recognized as permitted by the regulations of SBP or overseas regulatory authorities of countries where the branches / companies operate, except where in the opinion of the management it would not be prudent to do so.

Dividend income from investments (other than those which are accounted for under the equity method) is recognized when the right to receive is established.

Lease financing

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.



Unrealized lease income is suspended on classified leases, in accordance with the requirements of the Prudential Regulations of the SBP. Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognized as income on receipt basis. Repossessed vehicles on account of default are recorded in memorandum account.

Murabaha

Murabaha transactions are reflected as receivable at the invoiced amount. However, the profit on that sale revenue not due for payment is deferred by recording a credit to the "Deferred Murabaha Income" account.

Letters of credit and guarantees

Commission on letters of credit and guarantees etc. is recognized on time proportion basis.

Customer Loyalty Programmes

The revenue from award credits for loyalty points earned on use of various products of the Group is measured by reference to their fair value and is recognised when award credits are redeemed.

Fee, Commission and Brokerage Income

Fee, Commission and Brokerage income is recognized on accrual basis

4.11 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 items recognized directly in equity.

Current

Current taxation is the tax payable on taxable income earned from local as well as foreign operations for the year using tax rates enacted at the date of statement of financial position and, any adjustments to tax payable relating to prior years.

Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences between the amounts attributed to the assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognized on differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

4.12 Impairment

i) Available for sale equity securities

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

ii) Impairment in associates and subsidiaries

The Group considers that the decline in the recoverable value of the investment in associates and subsidiaries below their cost may be evidence of impairment. Recoverable value is calculated as the higher of fair value less costs to sell and value in use. An impairment loss is recognized when the recoverable amount falls below the carrying value and is charged to the profit and loss account. Subsequent reversal of impairment loss, upto the cost of the investment in associates and subsidiaries, is credited to the profit and loss account.

iii) Impairment in non-financial assets

The carrying amount of the Groups' assets (other than deferred tax asset) are reviewed at each date of statement of financial position to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account except for an impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the revaluation surplus. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

4.13 Provision for guarantee claim

Provision for guarantee claim is recognized when intimated and reasonable certainty exists that the Group will settle the obligation. Expected recoveries are recognized by debiting customer's account. Charge to profit and loss account is stated net of expected recoveries.

4.14 Other provisions

Other provisions are recognized when the Group has a legal or constructive obligation as a result of past events and it is probable that 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 date of statement of financial position and are adjusted to reflect the current best estimate.

4.15 Off setting

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

4.16 Financial Assets and Liabilities

Financial instruments carried on the statement of financial position include cash and bank balances, lending to financial institutions, investments, advances, certain receivables, bills payable, borrowings, deposits, sub-ordinated loans and certain other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the relevant policy notes.

4.17 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value using valuation techniques. All the derivative financial instruments are carried as an asset when the fair value is positive and liability when the fair value is negative. Any change in the fair value of derivative financial instruments is taken directly to the profit and loss account.

4.18 Dividend distribution

Declarations of dividend to holders of the equity instruments of the Group are recognised as liability in the period in which it is approved.

4.19 Earnings per share

The Group presents basic and diluted earnings per share (EPS). Basic and diluted earnings per share is calculated by dividing profit for the year attributable to equityholders of the Group by the weighted average number of ordinary shares outstanding during the year.

4.20 Share issuance cost

Share issuance cost directly attributable to issuance of shares, is recognized as deduction from the share premium account.

4.21 Segment reporting

A segment is a distinguishable component of the Group 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 Group's primary format of reporting is based on business segments.



Business segments

- *Retail Banking*

Consists of retail lending, deposits and banking services to private individuals and small businesses including credit cards.

- *Corporate / Commercial Banking*

Consists of lendings for project finance, trade finance, corporate and commercial customers and investment banking, includes advices and placements to corporate mergers and acquisitions, underwriting, privatizations and securitization.

- *Treasury*

Involves the businesses of proprietary trading, fixed income, equity and foreign exchanges.

- *International Banking Group*

It represents Group's operations in 25 countries and is considered a separate segment for monitoring purposes.

- *Head Office*

This includes balances held at Head Office level for regulatory requirements or other operational reasons and business segments not shown separately. This also includes some non performing loans not managed by other business segments, statutory liquidity and shareholders equity related balances and their associated cost / income.

Geographical segments

The group operates in following geographic regions:

- Pakistan
- Asia Pacific (including South Asia)
- Europe
- North America
- Middle East
- Others

5. CASH AND BALANCES WITH TREASURY BANKS

**Note 2012 2011
(Rupees in '000)**

In hand including National Prize Bonds

Local currency	20,759,210	14,845,215
Foreign currency	3,591,355	2,320,597
	<u>24,350,565</u>	<u>17,165,812</u>

With State Bank of Pakistan in

Local currency current account	5.2 { 33,565,059	32,539,366
Foreign currency current account	4,996,232	3,369,553
Foreign currency deposit account	14,953,636	10,138,523
	<u>53,514,927</u>	<u>46,047,442</u>

With other Central Banks in

Foreign currency current account	5.1 / 5.4 { 49,948,770	15,163,891
Foreign currency deposit account	13,723,506	10,347,857
	<u>63,672,276</u>	<u>25,511,748</u>

With National Bank of Pakistan in

Local currency current account	15,691,749	14,674,621
	<u>157,229,517</u>	<u>103,399,623</u>

5.1 The above balances include remunerative accounts amounting to Rs. 62,144.813 million (2011: 25,575.353 million).

5.2 This represents current accounts maintained for Cash Reserve Requirement of SBP.

5.3 This represents deposit accounts maintained for Special Cash Reserve Requirement of SBP and US Dollar Settlement account maintained with the SBP. This carries mark-up at the annual rate of 0% (2011: 0%).

5.4 Balances held with the Central Banks of respective countries in accordance with the local statutory / regulatory requirements. Since, the Group operates in different countries, these carry varied mark-up rates as given by the Central Banks of respective countries.

	Note	2012 (Rupees in '000)	2011
6. BALANCES WITH OTHER BANKS			
In Pakistan			
On current account		526,832	809,447
On deposit account		402,282	-
		<u>929,114</u>	<u>809,447</u>
Outside Pakistan	6.1		
On current account		8,519,315	5,473,648
On deposit account		38,531,603	41,066,410
		<u>47,050,918</u>	<u>46,540,058</u>
		<u>47,980,032</u>	<u>47,349,505</u>

6.1 This includes remunerative current account balance amounting to Rs. 743.075 million (2011: Rs. 32.866 million). Since, the Group operates in different countries, these carry varied mark-up rates as given by the external banks of respective countries.

	Note	2012 (Rupees in '000)	2011
7. LENDINGS TO FINANCIAL INSTITUTIONS			
7.1. In local currency			
Call money lendings	7.2.1	6,780,000	1,450,000
Repurchase agreement lendings (reverse repo)	7.2	<u>18,048,255</u>	<u>40,131,029</u>
		<u>24,828,255</u>	<u>41,581,029</u>

7.2 Securities held as collateral against lendings to financial institutions	Note	2012			2011		
		Held by Group	Further given as collateral	Total	Held by Group	Further given as collateral	Total
----- (Rupees in '000) -----							
Market treasury bills		15,763,590	-	15,763,590	38,058,870	-	38,058,870
Pakistan investment bonds	7.2.1	2,284,665	-	2,284,665	2,072,159	-	2,072,159
		<u>18,048,255</u>	<u>-</u>	<u>18,048,255</u>	<u>40,131,029</u>	<u>-</u>	<u>40,131,029</u>

7.2.1 Market value of securities held as collateral against lendings to financial institutions as at December 31, 2012 amounted to Rs. 18,095.918 million (2011: Rs. 40,253.648 million). These carry annual mark-up rates ranging from 7% to 9.75% (2011: 12.15% to 13.10%) and 6.5% to 9.5% (2011: 11.25% to 13.40%) for call money lendings and repurchase agreement lendings respectively.



8. INVESTMENTS	Note	2012			2011			
		Held by Group	Given as collateral	Total	Held by Group	Given as collateral	Total	
(Rupees in '000)								
8.1 Investments by type								
Held for Trading Securities (HTF)								
Federal Government Securities - Pakistan Investment Bonds - Market Treasury Bills								
2,203,724	-	2,203,724	395,470	-	395,470	-	395,470	
28,676,723	-	28,676,723	2,870,862	-	2,870,862	-	2,870,862	
Fully paid-up ordinary shares								
31,195	-	31,195	-	-	-	-	-	
348,908	-	348,908	-	-	-	-	-	
Overseas Government Securities Debentures and Corporate Debt Instruments / Units - Unlisted securities								
-	-	-	1,349,186	-	1,349,186	-	1,349,186	
847,486	-	847,486	170,235	-	170,235	-	170,235	
32,108,036	-	32,108,036	4,785,753	-	4,785,753	-	4,785,753	
Held-to-Maturity Securities (HTM)								
Federal Government Securities - Pakistan Investment Bonds								
43,323,255	-	43,323,255	44,181,840	-	44,181,840	-	44,181,840	
Debentures and Corporate Debt Instruments / Units - Listed securities - Unlisted securities								
210,064	-	210,064	-	-	-	-	-	
4,052,624	-	4,052,624	4,251,370	-	4,251,370	-	4,251,370	
12,198,340	-	12,198,340	8,726,933	-	8,726,933	-	8,726,933	
59,784,283	-	59,784,283	57,160,143	-	57,160,143	-	57,160,143	
Available-for-Sale Securities (AFS)								
Federal Government Securities - Market Treasury Bills								
405,856,222	157,998,809	563,855,031	265,930,965	-	265,930,965	-	265,930,965	
46,136,502	-	46,136,502	26,335,105	-	26,335,105	-	26,335,105	
- Pakistan Investment Bonds - Government of Pakistan Guaranteed Bonds								
425,000	-	425,000	425,000	-	425,000	-	425,000	
- Government of Pakistan Bonds / Sukuk / (US Dollar / Euro)								
32,413,964	-	32,413,964	16,461,243	-	16,461,243	-	16,461,243	
6,806,891	-	6,806,891	7,968,949	-	7,968,949	-	7,968,949	
Overseas Government Securities Fully paid-up ordinary shares - Listed companies - Unlisted companies								
4,232,888	-	4,232,888	2,510,571	-	2,510,571	-	2,510,571	
769,510	-	769,510	761,038	-	761,038	-	761,038	
Debentures and Corporate Debt Instruments / Units - Listed securities - Unlisted securities								
11,446,544	-	11,446,544	6,264,740	-	6,264,740	-	6,264,740	
24,792,522	-	24,792,522	22,521,055	-	22,521,055	-	22,521,055	
11,113	-	11,113	11,529	-	11,529	-	11,529	
100,000	-	100,000	200,000	-	200,000	-	200,000	
3,031,728	-	3,031,728	3,436,951	-	3,436,951	-	3,436,951	
536,022,884	157,998,809	694,021,693	352,827,146	-	352,827,146	-	352,827,146	
Investment in Associates and Joint Venture								
8.4	8,352,908	-	8,352,908	6,604,823	-	6,604,823		
Investment at cost								
Provision for diminution / impairment in the value of investments including associates								
8.7	(1,755,518)	-	(1,755,518)	(2,364,383)	-	(2,364,383)		
Net investment								
8.13	25,253	-	25,253	(36,820)	-	(36,820)		
19.2	4,477,925	-	4,477,925	(366,720)	-	(366,720)		
	79,968	-	79,968	(5,795)	-	(5,795)		
Total investments at market value								
	639,095,739	157,998,809	797,094,548	418,604,147	-	418,604,147		

8.2 Investments by segments

	Note	2012 (Rupees in '000)	2011
Federal Government Securities			
- Market Treasury Bills		592,531,754	268,801,827
- Pakistan Investment Bonds		91,663,481	70,912,415
- Government of Pakistan Guaranteed Bonds		425,000	425,000
- Government of Pakistan Bonds / Sukuk / (US Dollar / Euro)		32,413,964	16,461,243
Overseas Government Securities		19,354,140	16,695,882
Fully paid-up Ordinary Shares			
- Listed companies		4,264,083	2,510,571
- Unlisted companies		769,511	761,038
Debentures and Corporate Debt Instruments / Units			
- Listed securities		11,656,608	6,264,740
- Unlisted securities		28,845,143	28,121,613
Preference Shares		100,000	200,000
NIT Units		11,113	11,529
Investments of mutual funds		3,879,215	3,607,184
Investment in Associates and Joint Venture	8.4	8,352,908	6,604,823
		794,266,920	421,377,865
Less: Provision for diminution / impairment in the value of investments including associates	8.7	(1,755,518)	(2,364,383)
Net investment		792,511,402	419,013,482
Surplus / (deficit) on revaluation of held for trading securities	8.13	25,253	(36,820)
Surplus / (deficit) on revaluation of available for sale securities	19.2	4,477,925	(366,720)
Surplus / (deficit) on revaluation of investment of associates		79,968	(5,795)
		797,094,548	418,604,147

8.3 The market value of securities classified as "held-to-maturity" as at December 31, 2012 amounted to Rs. 61,691.295 million (2011: Rs. 56,195.087 million).

8.4 Investment in associates and joint venture company

	2012 (Rupees in '000)	2011
Kyrgyz Investment and Credit Bank, Kyrgyz Republic - Holding - 18% (2011: 18%)		
- Unlisted		
Opening balance	561,913	335,536
Investment during the year	-	116,235
Share of profit for the year - net of tax	145,716	92,608
Exchange translation reserve for the year	50,624	22,158
Dividend received during the year	(38,604)	(4,624)
	719,649	561,913
Diamond Trust Bank Limited, Kenya - Holding - 11.68% (2011: 11.21%) - Listed		
Opening balance	2,000,634	1,502,241
Investment during the year	321,021	211,546
Share of profit for the year - net of tax	475,664	293,872
Surplus on investment / fixed assets	37,868	-
Exchange translation reserve for the year	109,388	20,665
Dividend received during the year	(40,128)	(27,690)
	2,904,447	2,000,634
Himalayan Bank Limited, Nepal, - Holding - 20% (2011: 20%) - Listed		
Opening balance	1,074,062	1,005,171
Share of profit for the year - net of tax	253,705	244,555
Exchange translation reserve for the year	56,161	(130,066)
Dividend received during the year	(71,838)	(45,598)
	1,312,090	1,074,062



	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
Jubilee General Insurance Company Limited, - Holding - 16.24% (2011: 14.27%)			
- Listed			
Opening balance		935,504	561,790
Investment during the year		139,800	297,722
Share of profit for the year - net of tax		141,486	91,246
Dividend received during the year		(44,327)	(15,254)
		1,172,463	935,504
Jubilee Life Insurance Company Limited, Holding - 17.95% (2011: 17.95%) - Listed			
Opening balance		518,781	482,871
Investment during the year		-	-
Share of profit for the year - net of tax		92,875	52,793
Dividend received during the year		(33,765)	(16,883)
		577,891	518,781
HBL Money Market Fund, Holding - 3.18% (2011: 2.76%) - Listed			
Opening balance		231,315	175,477
Investment during the year		52,000	29,000
Share of profit for the year		26,393	26,762
Surplus on investment		121	76
		309,829	231,315
	8.5.2		
HBL Islamic Stock Fund, Holding - 97.65% (2011: 96.14%) - Listed			
Opening balance		256,349	-
Investment during the year		-	250,000
Share of profit for the year		65,524	11,260
Surplus / (deficit) on investment		28,409	(4,911)
		350,282	256,349
HBL Islamic Money Market Fund, Holding - 73.14% (2011: 64.08%) - Listed			
Opening balance		267,158	-
Investment during the year		-	250,000
Share of profit for the year		26,041	17,158
Deficit on investment		(4)	-
		293,195	267,158
HBL Pension Equity SubFund - Holding 92.53% (2011: 99.28%) - Unlisted			
Opening balance		29,713	-
Investment during the year		-	30,000
Share of profit for the year		3,281	105
Surplus / (deficit) on investment		9,903	(392)
		42,897	29,713
HBL Pension Debt SubFund - Holding 44.50% (2011: 96.34%) - Unlisted			
Opening balance		30,169	-
Investment during the year		-	30,000
Share of profit for the year		3,416	171
Surplus / (deficit) on investment		71	(2)
		33,656	30,169
HBL Pension Money Market SubFund - Holding 39.55% (2011: 97.26%) - Unlisted			
Opening balance		30,169	-
Investment during the year		-	30,000
Share of profit for the year		3,338	171
Surplus / (deficit) on investment		18	(2)
		33,525	30,169
HBL Islamic Pension Equity SubFund - Holding 83.44% (2011: 99.93%) - Unlisted			
Opening balance		29,598	-
Investment during the year		-	30,000
Share of profit for the year		4,275	162
Surplus / (deficit) on investment		9,559	(564)
		43,432	29,598

	2012	2011 (Rupees in '000)
HBL Islamic Pension Debt SubFund - Holding 65.25% (2011: 99.93%)- Unlisted		
Opening balance	30,200	-
Investment during the year	-	30,000
Share of profit for the year	2,983	200
Deficit on investment	(91)	-
	33,092	30,200
HBL Islamic Pension Money Market SubFund - Holding 61.47% (2011: 99.97%) - Unlisted		
Opening balance	30,199	-
Investment during the year	-	30,000
Share of profit for the year	3,049	199
Deficit on investment	(92)	-
	33,156	30,199
	<u>7,859,604</u>	<u>6,025,764</u>

8.4.1 The market value of shares of above investments in listed associates at December 31, 2012 amounted to Rs. 9,972.507 million (2011: Rs. 4,857.766 million).

8.5 The Group has significant influence in Diamond Trust Bank Limited, Kyrgyz Investment and Credit Bank, Jubilee General Insurance Company Limited and Jubilee Life Insurance Company Limited because of Aga Khan Fund for Economic Development's (parent of Group) holding in these entities.

8.5.1 The investments have been tested for impairment under the policy of the Group as given in note no. 4.12 and provision has been made where required and disclosed in note no. 8.7.

8.5.2 The Group has subscribed for units of these funds. Currently, the holding of the Group is high due to initial investments which are expected to go down with sale of units. Accordingly, these investments have been accounted for as investment in associates under IAS 28.

8.6 Summary of financial information of associates and joint venture company

Based on the financial statements as on	2012					
	Assets	Liabilities	Equity	Revenue	Profit / (loss)	----- (Rupees in '000)-----
Diamond Trust Bank Limited, Kenya	September 30, 2012	146,682,771	126,868,021	19,814,750	13,721,613	3,225,369
Himalayan Bank Limited, Nepal	October 16, 2012	62,117,775	56,421,320	5,696,454	1,168,732	220,475
Kyrgyz Investment and Credit Bank	December 31 2011	16,408,390	12,777,420	3,630,970	1,438,107	558,965
Jubilee Life Insurance Company Limited	September 30, 2012	21,001,275	19,408,222	1,593,053	107,922	360,791
Jubilee General Insurance Company Limited	September 30, 2012	10,860,248	7,030,003	3,830,245	2,828,804	583,993
HBL Money Market Fund	December 31, 2012	8,835,789	52,299	8,783,490	1,042,378	913,188
HBL Islamic Stock Fund	December 31, 2012	375,442	8,925	366,517	81,347	67,853
HBL Islamic Money Market Fund	December 31, 2012	414,391	3,305	411,086	44,249	35,567
HBL Pension Equity Sub Fund	December 31, 2012	46,635	310	46,325	4,265	3,429
HBL Pension Debt Sub Fund	December 31, 2012	74,793	414	74,379	5,976	5,768
HBL Pension Money Market Sub Fund	December 31, 2012	83,241	320	82,921	5,801	5,831
HBL Islamic Pension Equity Sub Fund	December 31, 2012	52,476	408	52,068	5,745	4,915
HBL Islamic Pension Debt Sub Fund	December 31, 2012	50,515	334	50,181	4,245	3,773
HBL Islamic Pension Money Market Sub Fund	December 31, 2012	53,328	233	53,095	4,144	3,856



	Based on the financial statements as on	2011				
		Assets	Liabilities	Equity	Revenue	Profit / (loss)
		(Rupees in '000)				
Diamond Trust Bank Limited, Kenya	September 30, 2011	113,703,197	100,574,944	13,128,253	6,621,275	2,150,182
Himalayan Bank Limited, Nepal	October 16, 2011	55,744,110	50,972,421	4,771,689	1,323,860	192,760
Kyrgyz Investment and Credit Bank	December 31, 2010	10,701,739	8,523,794	2,177,945	959,402	158,962
Jubilee Life Insurance Company Limited	September 30, 2011	14,455,998	13,182,256	1,273,742	350,947	217,937
Jubilee General Insurance Company Limited	September 30, 2011	9,387,618	6,114,093	3,273,525	2,068,685	527,845
HBL Money Market Fund	December 31, 2011	7,772,880	28,290	7,744,590	753,741	677,416
HBL Islamic Stock Fund	December 31, 2011	280,280	6,635	273,645	21,119	11,588
HBL Islamic Money Market Fund	December 31, 2011	427,923	2,388	425,535	31,038	26,486
HBL Pension Equity Sub Fund	December 31, 2011	30,055	124	29,931	199	106
HBL Pension Debt Sub Fund	December 31, 2011	31,443	126	31,317	272	177
HBL Pension Money Market Sub Fund	December 31, 2011	31,146	126	31,020	271	176
HBL Islamic Pension Equity Sub Fund	December 31, 2011	29,744	125	29,619	255	162
HBL Islamic Pension Debt Sub Fund	December 31, 2011	30,347	126	30,221	294	200
HBL Islamic Pension Money Market Sub Fund	December 31, 2011	30,335	126	30,209	293	199

8.6.1 The Group has made further investment in the following associates during the year, consequently, shareholding has increased to:

	December 31, 2012	December 31, 2011
	Shareholding %	
Jubilee General Insurance Company Limited	16.24%	14.27%
Diamond Trust Bank Limited, Kenya	11.68%	11.21%
HBL Money Market Fund	3.18%	2.76%

8.7 Particulars of provision held against diminution in value of investments

The balances disclosed in note 8.1 are stated net of specific provision held. The analysis of total provision held is as follows:

	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
Opening balance		2,364,383	2,122,286
Charge		78,441	302,030
Reversal		(235,367)	(149,755)
Impairment charge on listed securities		130,434	200,166
Impairment reversal on listed securities		(457,373)	(115,358)
Total (reversal) / charge - net		(483,865)	237,083
Write offs		(125,000)	-
Exchange adjustment		-	5,014
Closing balance	8.7.1	1,755,518	2,364,383

2012 2011
(Rupees in '000)

8.7.1 Particulars of provision in respect of type and segment

Held to Maturity securities (HTM)

- Debentures and corporate debt instruments	17,623	50,511
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Available-for-sale securities (AFS)

- Fully paid-up ordinary shares

- Listed companies	358,552	535,517
- Unlisted companies	57,982	51,241
- Debentures and corporate debt instruments	295,374	440,773
- Preference shares	-	100,000
- Units	171,086	256,629
- Investments of mutual funds	281,640	356,451
Associate	573,261	573,261
	1,755,518	2,364,383

8.8 Investments held for maintaining the liquidity requirements of the SBP amounted to Rs. 151.245 million as at December 31, 2012 (2011: Rs. 111.394 million).

8.9 Investments include Rs. 543.114 million as at December 31, 2012 (2011: Rs. 519.958 million) pledged with SBP and National Bank of Pakistan against TT/DD discounting facilities and demand loan facilities.

8.10 Investments include Rs. 9.992 million as at December 31, 2012 (2011: Rs. 9.567 million) pledged with the Controller of Military Accounts in lieu of Regimental Fund Accounts being maintained at various branches of the bank.

8.11 Investments include strategic investments amounting to Rs. 3,311 million as at December 31, 2012 (2011: Rs. 2,850 million) under BPD circular letter no. 16 of 2006 dated August 1, 2006.

8.12 Information relating to investments including credit ratings in shares of listed and unlisted companies, redeemable capital and bonds, required to be disclosed as part of the financial statements by the SBP, is given in Annexure " I" and is an integral part of these financial statements.

2012 2011
(Rupees in '000)

8.13 Unrealized gain / (loss) on revaluation of held for trading securities

Market Treasury Bills	16,298	1,504
Pakistan Investment Bonds	11,699	(2,955)
Shares	(1,447)	-
Overseas Government Securities	2,033	-
Investments of mutual fund	<u>(3,330)</u>	<u>(35,369)</u>
	<u>25,253</u>	<u>(36,820)</u>



	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
9. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		386,290,218	361,688,597
Outside Pakistan		98,673,662	90,131,791
		<u>484,963,880</u>	<u>451,820,388</u>
Net investment in finance lease - in Pakistan	9.1.3	4,729,126	3,852,860
Bills discounted and purchased (excluding Government treasury bills)			
Payable in Pakistan		12,122,572	10,420,082
Payable outside Pakistan		43,972,534	37,360,374
		<u>56,095,106</u>	<u>47,780,456</u>
Provision against non-performing advances	9.4	(45,970,206)	(46,086,048)
		<u>499,817,906</u>	<u>457,367,656</u>
Fully provided non-performing advances classified as loss for more than five years			
In Pakistan		18,622,245	13,640,851
Provision	9.6	(18,622,245)	(13,640,851)
		<u>-</u>	<u>-</u>
9.1 Particulars of advances			
9.1.1 In local currency		366,324,313	334,292,895
In foreign currency including foreign currency financing by domestic branches amounting to Rs. 19,631.886 million (2011: Rs. 20,045.548 million)		133,493,593	123,074,761
		<u>499,817,906</u>	<u>457,367,656</u>
9.1.2 Short term (for upto one year)		346,365,974	248,901,472
Long term (for over one year)		153,451,932	208,466,184
		<u>499,817,906</u>	<u>457,367,656</u>
9.1.3 Net investment in finance lease			

	2012				2011			
	Not later than one year	Later than one and less than five years	More than five years	Total	Not later than one year	Later than one and less than five years	More than five years	Total
(Rupees in '000) -----								
Lease rentals receivable	23,491	5,039,444	1,108,417	6,171,352	27,970	3,940,515	1,088,637	5,057,122
Residual value	31	6,605	1,453	8,089	215	30,006	8,393	38,614
Gross investment in finance lease	23,522	5,046,049	1,109,870	6,179,441	28,185	3,970,521	1,097,030	5,095,736
Unearned finance income	(1,474)	(1,132,010)	(316,831)	(1,450,315)	(1,991)	(927,568)	(313,317)	(1,242,876)
Net investment in finance lease	22,048	3,914,039	793,039	4,729,126	26,194	3,042,953	783,713	3,852,860

9.2 Advances include Rs. 56,236.494 million (2011: Rs. 56,549.062 million) which have been placed under non-performing status, other than those accounts classified as loss and fully provided for more than five years which have been placed in separate category as referred to in note 9.6, as detailed below:

Category of classification	Note	2012											
		Non-performing advances			Provision required and held			Net non-performing advances					
Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas
Specific provision													
Other assets especially mentioned		626,140	-	626,140	-	-	-	-	626,140	-	626,140		
Substandard		5,609,462	3,771,528	9,380,990	1,360,027	1,112,015	2,472,042	4,249,435	2,659,513	6,908,948			
Doubtful		4,333,278	1,899,356	6,232,634	2,110,217	1,220,517	3,330,734	2,223,061	678,839	2,901,900			
Loss		30,200,379	9,796,351	39,996,730	28,267,188	9,664,547	37,931,735	1,933,191	131,804	2,064,995			
		<u>40,769,259</u>	<u>15,467,235</u>	<u>56,236,494</u>	<u>31,737,432</u>	<u>11,997,079</u>	<u>43,734,511</u>	<u>9,031,827</u>	<u>3,470,156</u>	<u>12,501,983</u>			
General provision		<u>9.2.2</u>			<u>1,532,092</u>	<u>703,603</u>	<u>2,235,695</u>						
		<u>40,769,259</u>	<u>15,467,235</u>	<u>56,236,494</u>	<u>33,269,524</u>	<u>12,700,682</u>	<u>45,970,206</u>	<u>9,031,827</u>	<u>3,470,156</u>	<u>12,501,983</u>			
2011													
Category of classification	Note	Non-performing advances			Provision required and held			Net non-performing advances					
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Specific provision													
Other assets especially mentioned		1,112,720	-	1,112,720	-	-	-	-	1,112,720	-	1,112,720		
Substandard		5,380,653	4,061,518	9,442,171	1,268,410	781,960	2,050,370	4,112,243	3,279,558	7,391,801			
Doubtful		3,963,781	2,316,268	6,280,049	1,981,891	1,732,995	3,714,886	1,981,890	583,273	2,565,163			
Loss		30,682,077	9,032,045	39,714,122	29,951,932	8,589,936	38,541,868	730,145	442,109	1,172,254			
		<u>41,139,231</u>	<u>15,409,831</u>	<u>56,549,062</u>	<u>33,202,233</u>	<u>11,104,891</u>	<u>44,307,124</u>	<u>7,936,998</u>	<u>4,304,940</u>	<u>12,241,938</u>			
General provision					<u>1,277,089</u>	<u>501,835</u>	<u>1,778,924</u>						
		<u>41,139,231</u>	<u>15,409,831</u>	<u>56,549,062</u>	<u>34,479,322</u>	<u>11,606,726</u>	<u>46,086,048</u>	<u>7,936,998</u>	<u>4,304,940</u>	<u>12,241,938</u>			

9.2.1 Classification of overseas non-performing advances and provision there against and general provisioning of overseas advances have been made in accordance with the accounting policy as referred in note 4.4.

9.2.2 This includes general provision for agri loans amounting to Rs. 775 million which has been maintained by the Group on prudent basis as the Group is in process of analyzing the impact of flood effected portfolio on account by account level.

9.3 The Group monitors non-performing advances classified as loss for more than five years and fully provided as a separate category as shown in note 9.6. This category is not included in note 9.2 and in analytical break-up of other notes.

9.4 Particulars of provision against non-performing advances

Note	2012			2011			
	Specific	General	Total	Specific	General	Total	
(Rupees in '000)							
Opening balance	44,307,124	1,778,924	46,086,048	41,177,649	1,517,976	42,695,625	
Exchange adjustment / other movements	362,172	59,245	421,417	676,468	14,765	691,233	
Transfer of provision on consolidation of Habibsons Bank limited	-	-	-	110,342	-	110,342	
Charge for the year	8,610,432	489,473	9,099,905	7,668,524	260,441	7,928,965	
Reversals	(841,249)	(91,947)	(933,196)	(401,035)	(14,258)	(415,293)	
Net charge against non-performing loans	7,769,183	397,526	8,166,709	7,267,489	246,183	7,513,672	
Write offs	9.7	(2,710,584)	-	(2,710,584)	(753,595)	-	(753,595)
Transferred to interest suspense	-	-	-	(2,198,908)	-	(2,198,908)	
Transferred to over 5 years category	9.6	(5,993,384)	-	(5,993,384)	(1,972,321)	-	(1,972,321)
Closing balance	<u>43,734,511</u>	<u>2,235,695</u>	<u>45,970,206</u>	<u>44,307,124</u>	<u>1,778,924</u>	<u>46,086,048</u>	
In local currency		31,737,432	1,532,092	33,269,524	33,202,233	1,277,089	34,479,322
In foreign currency		11,997,079	703,603	12,700,682	11,104,891	501,835	11,606,726
		<u>43,734,511</u>	<u>2,235,695</u>	<u>45,970,206</u>	<u>44,307,124</u>	<u>1,778,924</u>	<u>46,086,048</u>



9.5 Forced sale value (FSV) against non-performing advances

In accordance with BSD Circular No. 2 dated January 27, 2009 and BSD Circular No.10 dated October 20, 2009 issued by the SBP, the Bank has 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 as at December 31, 2012 would have been higher by Rs. 1,707.585 million and profit before taxation for the year ended December 31, 2012 would have been lower by approximately Rs.1,019.859 million (after taking into account the effect of discounting of FSV taken in previous year). Increase in retained earnings net of tax amounting to Rs. 1,109.930 million would not be available for the distribution of cash and stock dividend to share holders.

Note	2012 (Rupees in '000)	2011
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9.6 Particulars of provision against fully provided non-performing advances classified as loss for more than five years

Opening balance	13,640,851	12,527,683
Transferred to interest suspense	(18,617)	-
Reversal	(922,822)	(816,117)
Transferred during the year	9.4 5,993,384	1,972,321
Write offs	9.7 (70,551)	(43,036)
	<u><u>18,622,245</u></u>	<u><u>13,640,851</u></u>

9.7 Particulars of write-offs

9.7.1 Against provisions

<u><u>2,781,135</u></u>	<u><u>796,631</u></u>
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9.7.2 Analysis of write-offs

Rs. 500,000 and above in Pakistan (Note 9.8)	115,275	53,038
Below Rs. 500,000 in Pakistan and overseas	2,665,860	743,593
	<u><u>2,781,135</u></u>	<u><u>796,631</u></u>

9.8 Details of advances write-off of Rs 500,000 and above

The statement required under sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2012 is given in Annexure II.

9.9 Particulars of advances to directors, associated companies, etc.

	2012			2011		
	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the year	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the year
----- (Rupees in '000) -----						

Debts due by directors or executives of the Group or any of them either severally or jointly with any other persons:

- in respect of directors	-	-	-	-	-	-
- in respect of executives * (Other than KMPs)	1,516,400	1,549,100	443,704	1,231,700	1,265,700	476,312
- in respect of key management personnel / Companies in which key management personnel or their spouse are interested	371,200	382,000	64,257	383,208	392,308	46,450

Debts due by companies or firms in which the Key Management Personnel of the Group are interested as directors, partners or in the case of private companies as members

792,234	1,284,393	100,000
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1,270,273	1,298,593	391,500
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The disclosure of the year-end balance, limit/ amount sanctioned and the highest amount outstanding during the year is considered the most meaningful information to represent the amount of the transactions and the amount of outstanding balances during the year.

* (These represent staff loans given by the Group to its executives as per their terms of employment)

** (Maximum amount has been arrived at by reference to month end balance)

	Note	2012 (Rupees in '000)	2011
10. OPERATING FIXED ASSETS			
Capital work-in-progress	10.1	1,713,276	803,132
Intangible assets			
- Goodwill		1,967,015	1,546,303
- Computer software	10.2	241,848	127,579
Tangible fixed assets	10.3	19,710,185	16,690,640
		<u>23,632,324</u>	<u>19,167,654</u>

10.1 Capital work-in-progress

Civil works	948,078	586,317
Others	765,198	216,815
	<u>1,713,276</u>	<u>803,132</u>



10.2 Intangible assets

Description	COST			AMORTISATION			Book value as at December 31, 2012	Rate of amortization %
	As at January 1, 2012	Additions / (deletions) during the year	As at December 31, 2012	As at January 1, 2012	Charge for the year / (Amortisation on deletions)			
Computer software								
2012								
Description	COST			AMORTISATION			Book value as at December 31, 2012	Rate of amortization %
	As at January 1, 2012	Additions / (deletions) during the year	As at December 31, 2012	As at January 1, 2012	Charge for the year / (Amortisation on deletions)			
Computer software								
2011								
Description	COST			AMORTISATION			Book value as at December 31, 2011	Rate of amortization %
	As at January 1, 2011	Additions / (deletions) during the year	As at December 31, 2011	As at January 1, 2011	Charge for the year / (Amortisation on deletions)			
Computer software								

10.3 Tangible fixed assets

Description	COST / REVALUATION			DEPRECIATION			Book value as at December 31, 2012	Rate of depreciation %
	As at January 1, 2012	Additions / (deletions) / adjustment during the year	Surplus / (deficit) on revaluation during the year	As at December 31, 2012	As at January 1, 2012	Charge for the year / (depreciation on deletions) / adjustments		
Rupees in '000 -----								
Land	9,388,643	559,767 (156,864) (1,526)	1,168,572	10,958,592	-	-	-	10,958,592
Building	5,638,063	612,904 (72,589) 176,984	(402,712)	5,952,650	879,104	169,191 (42,740) 69,415	(452,204)	622,766
Machinery	610,107	46,637 (15,275)	(93,781)	547,688	463,533	124,900 (15,275)	(546,948)	26,210
Leasehold improvements	2,238,639	344,867 (4,107)	-	2,579,399	1,434,869	346,848 (2,358)	-	1,779,359
Furniture and fixtures and office equipments	7,522,727	1,245,103 (343,876) 206,777	-	8,630,671	6,069,550	736,970 (323,460) 171,493	-	6,654,553
Vehicles	398,812	28,550 (33,839)	-	401,682	259,295	43,303 (31,146)	-	277,609
	25,796,991	2,837,828 (626,550) 390,334	672,079	29,070,682	9,106,351	1,421,212 (414,979) 247,065	(999,152)	9,360,497
								19,710,185



Description	COST / REVALUATION			DEPRECIATION			As at December 31, 2011	Book value as at December 31, 2011	Rate of depreciation %
	As at January 1, 2011	Additions / (deletions) / adjustment during the year	Surplus / (deficit) on revaluation during the year	As at December 31, 2011	As at January 1, 2011	Charge for the year / (depreciation on deletions) / adjustments	Surplus / (deficit) on revaluation Reversed during the year		
	Rupees in '000 :								
Land	8,468,476	1,059,068 (139,860) 959	-	9,388,643	-	-	-	9,388,643	-
Building	5,075,310	412,018 (9,026) 159,761	-	5,638,063	631,663	181,852 (515) 66,104	-	879,104	4,758,959
Machinery	571,482	38,625	-	610,107	274,997	188,536	-	463,533	146,574
Leasehold improvements	2,006,688	231,951	-	2,238,639	1,102,465	332,405	-	1,434,870	803,769
Furniture and fixtures and office equipments	6,761,329	683,723 (389,206) 467,881	-	7,522,727	5,386,417	663,385 (380,507) 400,255	-	6,069,550	1,453,177
Vehicles	401,655	35,747 (38,323) (267)	-	398,812	238,412	58,113 (36,879) (351)	-	259,295	139,517
	23,284,940	2,460,132 (576,415) 628,334	-	25,796,991	7,633,954	1,424,291 (417,901) 466,008	-	9,106,352	16,690,639

10.4 With effect from July 01, 2012, estimated useful life of building and vehicles has been revised from 40 to 60 years and 5 years to 10 years respectively to make it more reflective of consumption pattern of these assets. The effect of these changes on depreciation expense in current and next year is as follows:

	December 31, 2012	December 31, 2013
	Building	Vehicle
		Rupees in '000 -----
Decrease in Depreciation expense	24,647	17,500

10.5 Habib Bank Limited's (HBL) domestic properties were revalued by independent professional valuers as on June 30, 2012. These properties were revalued by Iqbal A. Nanjee & Co., professional valuers on the basis of market value. The revaluation has resulted in increasing the surplus on revaluation of fixed assets by Rs. 1,695.912 million. HBL property of Lebanon branch was revalued as on November 23, 2012 by Banking Control Commission of Lebanon resulted in a surplus of Rs. 15.721 million. HBL property of KEPZ branch was revalued on July 27, 2012 by J & M Associates, licensed valuer, on market value basis resulted in a surplus of Rs. 8.255 million. Moreover, properties of Habib Allied International Bank Plc., United Kingdom, subsidiary were revalued by Walker Fraser Steele, Chartered Surveyors and Property Link Professional Surveys Ltd. as on December 11, 2012 and December 03, 2012 respectively. These revaluations have resulted in a deficit of Rs.48.658 million. These revaluations have resulted in a cumulative surplus of Rs. 1,671.230 million. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

	Domestic	Lebanon	KEPZ	UK
	----- (Rupees in '000) -----			
Land	9,446,155	-	232	-
Building	4,081,358	17,843	2,177	246,562
Machinery	70,588	-	-	-

The movement in surplus on revaluation of properties is given in note 19.1 to these consolidated financial statements.

10.6 Details of disposal of fixed assets

The information relating to disposal of fixed assets in aggregate having book value exceeding Rs. 250,000 or cost exceeding Rs. 1 million (whichever is lower), is required to be disclosed as part of the financial statements by the SBP is given in Annexure III and is an integral part of these consolidated financial statements.

10.7 At December 31, 2012 carrying value of properties and equipment retired from active service and held for disposal purposes amounted to Rs. 3.824 million (2011: Rs. 142.998 million). The cost / valuation of fully depreciated properties and equipment that are still in the Group's use, as at the above date, amounted to Rs. 5,116.025 million (2011: Rs. 4,450.289 million).

11. DEFERRED TAX ASSET

Deductible temporary differences on

- recognised tax losses
- provision against investments
- provision against doubtful debts & Off-balance sheet
- liabilities written back under sec. 34(5) of the ITO
- provision against others
- revaluation of investments

**Note 2012 2011
(Rupees in '000)**

849,867	561,549
(167,641)	96,475
6,396,134	6,144,996
1,329,865	972,498
116,510	116,810
(1,361,584)	233,699
7,163,151	8,126,027

Taxable temporary differences on

- fixed assets

(1,106,668) (850,139)

Net deferred tax asset recognised by the Group

6,056,483 7,275,888



11.1 Movement in temporary differences during the year

	Balance As at January 1, 2011	Recognised in profit or loss	Recognised in equity	Other Movement	Balance as at December 31, 2011	Recognised in profit or loss	Recognised in equity	Balance as at December 31, 2012
	(Rupees in '000)							
Deductible temporary differences on								
- recognised tax losses	720,579	(176,009)	24,012	(7,033)	561,549	201,023	87,295	849,867
- provision against investments	1,113,227	(1,016,752)	-	-	96,475	(264,116)	-	(167,641)
- provision against doubtful debts & Off-balance sheet	6,957,566	(812,570)	-	-	6,144,996	251,138	-	6,396,134
- liabilities written back under sec. 34(5) of the ITO	1,035,294	(62,796)	-	-	972,498	357,367	-	1,329,865
- provision against others	201,302	(84,492)	-	-	116,810	(300)	-	116,510
- revaluation of investments	457,129	-	(223,430)	-	233,699	-	(1,595,283)	(1,361,584)
Taxable temporary differences on								
- fixed assets	(912,894)	62,755	-	-	(850,139)	(81,472)	(175,057)	(1,106,668)
	<u>9,572,203</u>	<u>(2,089,864)</u>	<u>(199,418)</u>	<u>(7,033)</u>	<u>7,275,888</u>	<u>463,640</u>	<u>(1,683,045)</u>	<u>6,056,483</u>

12. OTHER ASSETS

	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
Income / mark-up / profit accrued in local currency		13,921,481	14,721,650
Income / mark-up / profit accrued in foreign currency		1,538,216	1,215,755
Advances, deposits, advance rent and other prepayments		1,965,830	991,826
Advances against murabaha		366,226	196,894
Advance taxation (payments less provisions)		10,660,445	10,462,407
Receivable from defined benefit plans		-	63,080
Stationery and stamps on hand		42,494	41,684
Accrued income		511,274	161,954
Due from Government of Pakistan / SBP		2,547,755	1,622,525
Unrealised gain on forward foreign exchange contract / derivative instruments		595,829	1,154,950
Non-banking assets acquired in satisfaction of claims [market value Rs. 3,093.330 million (2011: Rs. 2,008.437 million)]		2,573,070	2,239,003
Receivable from National Savings Centre / Clearing in transit		18,982,481	11,300,092
Claims against fraud and forgeries		202,973	73,743
Others		322,292	877,477
		<u>54,230,366</u>	<u>45,123,040</u>
Provision held against other assets	12.1	<u>(560,859)</u>	<u>(314,337)</u>
Other Assets - net		<u>53,669,507</u>	<u>44,808,703</u>

12.1 Provision against other assets

Opening balance	314,337	455,888
Charge for the year	281,768	51,406
Reversal	(3,920)	(163,279)
Net charge / (reversal)	277,848	(111,873)
Write off	(36,946)	(29,501)
Other movement	-	(4,500)
Exchange adjustment	5,620	4,323
Closing balance	<u>560,859</u>	<u>314,337</u>

13. BILLS PAYABLE

Note	2012 (Rupees in '000)	2011
In Pakistan	18,363,545	13,087,411
Outside Pakistan	579,662	807,091
	<u>18,943,207</u>	<u>13,894,502</u>

14. BORROWINGS

In Pakistan	182,420,105	27,761,453
Outside Pakistan	14,160,443	11,712,217
	<u>196,580,548</u>	<u>39,473,670</u>

14.1 Particulars of borrowings

In local currency	182,420,105	27,761,453
In foreign currency	14,160,443	11,712,217
	<u>196,580,548</u>	<u>39,473,670</u>

14.2 Details of borrowings

Secured

Borrowings from State Bank of Pakistan under:

- Export refinance scheme	14.3	16,845,030	18,182,197
- Long term financing facility - locally manufactured and imported plant & machinery		5,074,278	4,204,722
- Long term finance - export oriented projects		974,062	1,774,534
- Refinance facility for modernization of SMEs		12,649	-
- Financing facility for Storage of Agricultural Produce		15,277	-

Repurchase agreement borrowings	14.4	<u>157,998,809</u>	-
		<u>180,920,105</u>	<u>24,161,453</u>

Unsecured

In Pakistan

- Interbank call money borrowing	14.5	1,500,000	3,600,000
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Outside Pakistan

- Overdrawn nostro accounts	14.6	1,056,635	455,484
- Borrowings of overseas branches and subsidiaries		13,103,808	11,256,733
		14,160,443	11,712,217
		15,660,443	15,312,217
		<u>196,580,548</u>	<u>39,473,670</u>

14.3 Borrowings from SBP under the export and export oriented projects refinance schemes of SBP are secured by the bank's cash and security balances held by SBP. These carry annual mark-up rates ranging from 7.2% to 9.8% (2011: 9.7% to 11%).

14.4 These carry annual mark-up rates ranging from 8.8% to 9.2%.

14.5 These carry annual mark-up rates ranging from 8.0% to 9.0% (2011: 9.7% to 13.05%).

14.6 Since, the Group operates in different countries, these carry varied mark-up rates as given by the external banks of respective countries.



15. DEPOSITS AND OTHER ACCOUNTS

Customers

	2012 (Rupees in '000)	2011 (Rupees in '000)
Current accounts - non-remunerative	310,567,157	240,687,417
Current accounts - remunerative	1,446,233	1,694,058
Savings chequing account	491,760,576	392,253,551
Fixed deposits	<u>391,066,656</u>	<u>281,178,059</u>
	<u>1,194,840,622</u>	<u>915,813,085</u>

Financial institutions

	2012 (Rupees in '000)	2011 (Rupees in '000)
Current accounts - non-remunerative	5,969,114	6,631,876
Savings chequing account	4,490,688	2,815,116
Fixed deposits	<u>9,663,276</u>	<u>8,371,448</u>
	<u>20,123,078</u>	<u>17,818,440</u>
	<u>1,214,963,700</u>	<u>933,631,525</u>

15.1 Particulars of deposits

In local currency	938,670,082	718,288,989
In foreign currency {including foreign currency deposits of domestic branches of Rs. 101,599.466 million (2011: Rs. 70,334.543 million)}	276,293,618	215,342,536
	<u>1,214,963,700</u>	<u>933,631,525</u>

16 SUB-ORDINATED LOAN

16.1 The Group has obtained loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million (2011: US \$ 50 million) equivalent to Pak Rupees 4,857.485 million (2011: 4,497.285 million). The principal amount is repayable in four equal half yearly installments commencing from the year June 2013 to December 2014. Interest is payable on bi - annual basis commencing from December 2007 at LIBOR + 1.75%. The loan is unsecured and subordinated as to payment of principal and interest to all other indebtedness of the group (including deposits). The loan may not be prepaid or repaid before maturity without the prior written approval of the SBP. The Bank is not exposed to significant exchange risk as the loan forms part of the Bank's foreign currency net open position.

16.2 During the year 2010, Habibsons Bank Limited has issued a subordinated loan of US \$ 6,000,000 equivalent to Pak Rupees 583.168 million (2011: Rs. 538.815 million) . This is repayable in the year 2020 and carries interest at LIBOR + 2.00%. The loan is subordinated to the claims of depositors and other creditors.

17. OTHER LIABILITIES

	Note 2012 (Rupees in '000)	2011 (Rupees in '000)
Mark-up / return / profit payable in local currency	18,127,380	15,140,777
Mark-up / return / profit payable in foreign currency	975,296	684,177
Security deposits	534,848	386,452
Accrued expenses	<u>5,362,869</u>	<u>6,692,067</u>
Unrealised loss on forward foreign exchange contracts / derivative instruments	387,057	870,377
Unclaimed dividends	120,912	55,969
Dividend payable	23,471	53,550
Provision for employees' compensated absences	33.2.8 1,355,387	1,720,577
Provision for post retirement medical benefits	33.2.3 2,235,674	2,399,600
Provision against off-balance sheet obligations	17.1 1,083,490	1,209,983
Branch adjustment account	2,951,593	2,885,557
Provision for staff retirement benefits	666,909	615,252
Payable to defined benefit plan	1,089,600	44,863
Amounts due to minority investors in funds consolidated by HBL	1,343,065	924,481
Provision for workers welfare fund	1,895,524	1,204,571
Unearned income	342,457	470,310
Qarza-e-Hasna Fund	344,585	346,913
Duties and taxes payable	1,031,456	785,654
Insurance payable	148,889	106,361
Reward point payable	57,946	40,352
Liability against trading of securities	-	266,772
Payable to HBL Foundation	557,189	355,079
Others	<u>707,106</u>	<u>671,726</u>
	<u>41,342,703</u>	<u>37,931,420</u>

2012 2011
(Rupees in '000)

17.1 Provision against off-balance sheet obligations

Opening balance	1,209,983	1,279,381
Charge	133,485	75,334
Reversal	(126,470)	(152,727)
Net charge /(reversal)	7,015	(77,393)
Write off	-	(8,186)
Other movement	(157,585)	18,526
Exchange adjustment	24,073	(2,345)
Closing balance	<u>1,083,486</u>	<u>1,209,983</u>

18. SHARE CAPITAL

18.1 Authorised capital

2012	2011	
		Number of shares in '000
<u>3,000,000</u>	<u>1,380,000</u>	Ordinary shares of Rs. 10 each
		<u>30,000,000</u> <u>13,800,000</u>

18.2 Issued, subscribed and paid-up capital

2012	2011	
		Number of shares in '000
		Ordinary shares of Rs. 10 each
690,000	690,000	
<u>522,275</u>	<u>412,068</u>	
<u>1,212,275</u>	<u>1,102,068</u>	
		Fully paid in cash
		Issued as bonus shares
		6,900,000 6,900,000
		<u>5,222,748</u> <u>4,120,680</u>
		<u>12,122,748</u> <u>11,020,680</u>

18.3 Exchange translation reserve

This comprises all foreign currency differences arising from the translation of financial statements of foreign operations.

18.4 Statutory reserves

Every banking company incorporated in Pakistan is required to transfer 20% of their profits to a statutory reserve until the reserve equals share capital, thereafter 10% of the profits of the holding company are to be transferred to this reserve.

2012 2011
(Rupees in '000)

18.5 Dividends

The following cash dividends and bonus shares were declared and paid / issued by the Bank:

Cash dividend: Rs. 7 per share (2011: Rs. 6.5 per share)	<u>7,714,476</u>	<u>6,512,220</u>
Bonus share: 1 shares for every 10 shares held (2011: 1 share for every 10 shares held)	<u>1,102,068</u>	<u>1,001,880</u>
Half year interim cash dividend paid at Rs. 3.5 per share	<u>4,242,962</u>	
After December 31, 2012 the following dividends were proposed by the Directors for 2012. The dividends have not been accounted for and, there are no income tax consequences.		
Cash dividend: Rs. 4 per share	<u>4,849,099</u>	
Bonus share: 1 share for every 10 shares held	<u>1,212,275</u>	



19. SURPLUS ON REVALUATION OF ASSETS - net of deferred tax	Note	2012 (Rupees in '000)	2011
Surplus arising on revaluation of:			
- fixed assets	19.1	9,588,927	8,342,382
- investments	19.2	3,196,309	(138,816)
Surplus on revaluation of assets - net of deferred tax		<u>12,785,236</u>	<u>8,203,566</u>

19.1 Surplus on revaluation of fixed assets

Surplus on revaluation of fixed assets as at January 1	9,143,739	9,476,539
Surplus on revaluation of bank's properties recognised during the year	1,671,231	-
Surplus realised on disposal of revalued properties during the year	(155,285)	(139,331)
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax	(93,471)	(124,168)
Related deferred tax liability of incremental depreciation charged during the year	(50,347)	(66,860)
Related deferred tax liability on disposal of revalued properties	(873)	(2,441)
Surplus on revaluation of fixed assets as at December 31	<u>10,514,994</u>	<u>9,143,739</u>
Less: related deferred tax liability on		
- revaluation as at January 1	801,357	870,658
- revaluation of bank's properties recognised during the year	175,930	-
- surplus realised on disposal of revalued properties during the year	(873)	(2,441)
- incremental depreciation charged during the year transferred to profit and loss account	(50,347)	(66,860)
	<u>926,067</u>	<u>801,357</u>
	<u>9,588,927</u>	<u>8,342,382</u>

19.2 Surplus / (deficit) on revaluation of investments

Market Treasury Bills	1,863,369	611,824
Pakistan Investment Bonds	1,490,249	(197,281)
Government of Pakistan Sukuk and US Dollar / Euro Bonds	(103,195)	(834,680)
Listed Securities	800,331	157,497
NIT Units	11,283	7,089
Other Investments	415,888	(111,169)
Deficit on revaluation of investment of associates	4,477,925	(366,720)
Related deferred tax (liability) / asset	79,968	(5,795)
	<u>(1,361,584)</u>	<u>233,699</u>
	<u>3,196,309</u>	<u>(138,816)</u>

20. CONTINGENCIES AND COMMITMENTS

20.1 Direct credit substitutes - financial guarantees

Guarantees in favour of:		
- Government	306,856	354,078
- Financial institutions	295,000	318,596
- Others	35,337,468	22,236,973
	<u>35,939,324</u>	<u>22,909,647</u>

20.2 Transaction-related contingent liabilities

Guarantees in favour of:		
- Government	535,006	1,604,813
- Financial institutions	3,610,133	636,292
- Others	41,118,227	33,562,792
	<u>45,263,366</u>	<u>35,803,897</u>

	2012 (Rupees in '000)	2011 (Rupees in '000)
20.3 Trade-related commitments		
Credit cash	78,028,544	70,799,073
Credit documentary acceptances	18,535,338	23,706,700
Credit acceptances	<u>37,882,972</u>	<u>24,016,127</u>
	<u>134,446,854</u>	<u>118,521,900</u>
20.4 Other contingencies		
Claims against the Group not acknowledged as debts	<u>33,504,140</u>	<u>84,671,933</u>

20.5 Commitments in respect of forward lending

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

	2012 (Rupees in '000)	2011 (Rupees in '000)
Purchase	167,104,754	151,577,433
Sale	167,168,508	151,582,034

The above commitments have maturities falling within one year.

Commitments in respect of foreign currency options

Purchase	1,317,948	336,655
Sale	1,317,948	336,655

Commitments in respect of Cross Currency Swaps

Purchase	3,659,009	2,868,771
Sale	3,659,009	2,868,771

Commitments in respect of foreign and local currency interest rate swaps

Purchase	444,199	482,551
Sale	291,449	329,801

20.7 Commitments for acquisition of operating fixed assets / intangibles

663,125

617,961

20.8 HBL has entered into contract with Citibank N.A Pakistan to acquire its consumer portfolio with expected transaction value of Rs. 2 billion. The transaction has been approved by the Competition Commission of Pakistan, however approval from SBP is awaited.

20.9 The income tax returns of the Bank have been submitted upto and including the Bank's financial year 2011. The tax authorities have concluded the audit of years 2002 through 2011.

While amending the assessment under section 122(5A) of the Income Tax Ordinance, 2001 for the tax year 2006, the tax authorities have disallowed double income tax relief relating to Azad Jammu & Kashmir (AJK) branches. The exposure of the Bank on this issue at the period end is Rs. 2,923 million.

Management's view is that the settlement reached, after deliberations by the technical committee formed by the Prime Minister and Chairman AJ&K Council, relates to the long outstanding issue of basis of computation of income in AJK. The foreign tax credit claimed by the Bank is in accordance with accounting practice and the law.

Appeal against this issue is pending at appellate stage; however, the management is confident that the eventual outcome of this issue will be in the favour of the Bank.

With reference to allowability of provision as per rule 8(A) of the seventh schedule, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognized deferred tax asset on such provision amounting to Rs. 2.494 billion.



21. DERIVATIVE INSTRUMENTS

Derivatives are a type of financial contract, the value of which is determined by reference to one or more underlying assets or indices. The major categories of such contracts include forwards, futures, swaps and options. Derivatives also include structured financial products that have one or more characteristics of forwards, futures, swaps and options.

The Bank as an Authorized Derivative Dealer (ADD) is an active participant in the Pakistan derivatives market. Although the ADD license covers only the transactions mentioned below (permitted under the Financial Derivatives Business Regulations issued by the SBP), the Bank offers a wide variety of derivatives products to satisfy customers' needs, specific approval for which is sought from the SBP on a transaction by transaction basis:

- (a) Foreign Currency Options
- (b) Forward Rate Agreements
- (c) Interest Rate Swaps
- (d) Cross Currency Swaps

These transactions cover the aspects of both market making and hedging.

The authority for approving policies lies with the Board of Directors (BoD) and the Board Risk Management Committee (BRMC). The Market Risk Committee (MRC) has been assigned the responsibility of ensuring meticulous compliance with these policies.

With regard to derivatives, the MRC is authorized to:

- Review the derivatives business with reference to market risk exposure and assign various limits in accordance with the risk appetite of the Bank.
- Review the Derivatives Business Policy and recommend approval to the BRMC / BoD.
- Review and approve derivatives product programs.
- Authorize changes in procedures and processes regarding derivatives and structured products.

Overall responsibility for derivatives trading activity lies with the Treasury and Capital Markets Group (TCM).

Measurement & monitoring of market and credit risk exposure and limits and its reporting to the senior management and the BoD is done by Market & Treasury Risk (MTR), which also coordinates with the business regarding approvals for derivatives risk limits. Treasury Operations records derivatives activity in the Bank's books, and handles its reporting to the SBP.

21.1 Product Analysis Counterparties

	2012					
	Interest Rate Swaps		FX Options		Cross Currency Swaps	
	No. of Contracts	No. of Principal* (Rupees in '000)	No. of Contracts	No. of Principal* (Rupees in '000)	No. of Contracts	No. of Principal * (Rupees in '000)
With Banks for Hedging Market Making	- 1	291,449	- 49	1,317,948	- 4	3,659,009
With other entities for Hedging Market Making	- 2	444,199	- 49	1,317,948	- 4	3,659,009
Total Hedging Market Making	- 3	735,648	- 98	2,635,896	- 8	7,318,018

Counterparties	2011					
	Interest Rate Swaps		FX Options		Cross Currency Swaps	
	No. of Contracts	No. of Principal* (Rupees in '000)	No. of Contracts	No. of Principal* (Rupees in '000)	No. of Contracts	No. of Principal * (Rupees in '000)
With Banks for Hedging Market Making	- 1	329,801	- 8	336,655	- 3	2,868,771
With other entities for Hedging Market Making	- 2	482,551	- 8	336,655	- 3	2,868,771
Total Hedging Market Making	- 3	812,352	- 16	673,310	- 6	5,737,542

* At the exchange rate prevailing at the end of the reporting year.

21.2 Maturity Analysis

Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			(Rupees in '000)		
Upto 1 Month	2	40,932	(56)	56	-
1 to 3 Months	34	1,890,874	(14,858)	15,076	218
3 Months to 6 Months	67	2,536,207	(19,786)	18,299	(1,487)
6 Months to 1 Year	2	4,481,268	(297)	1,794	1,497
1 to 2 Years	2	1,157,383	(2,862)	5,737	2,875
3 to 5 Years	2	582,898	(14,935)	15,442	507
	109	10,689,562	(52,794)	56,404	3,610

Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			(Rupees in '000)		
Upto 1 Month	2	63,239	(679)	679	-
1 to 3 Months	12	559,649	(2,753)	2,753	-
3 Months to 6 Months	2	50,422	(202)	202	-
1 to 2 Years	7	5,890,293	(29,420)	37,271	7,851
3 to 5 Years	2	659,602	(15,309)	15,999	690
	25	7,223,205	(48,363)	56,904	8,541

**22. MARK-UP / RETURN / PROFIT EARNED**

**2012 2011
(Rupees in '000)**

On loans and advances to

- Customers	52,638,723	55,322,841
- Financial institutions	314,565	335,189

On investments

- Available-for-sale	53,386,033	37,034,803
- Held-for-trading	1,452,756	522,999
- Held-to-maturity	5,661,289	1,555,366

On deposits with financial institutions

1,240,767 787,159

On lendings to financial institutions

2,078,520 3,022,066

 116,772,653 **98,580,423**

23. MARK-UP / RETURN / PROFIT EXPENDED

Deposits	51,225,796	37,971,786
Securities sold under repurchase agreement borrowings	4,903,995	789,508
Other short term borrowings	2,451,644	2,885,067
Long term borrowings	430,957	535,859

 59,012,392 **42,182,220**

24. GAIN ON SALE OF SECURITIES - NET***Federal Government Securities***

- Market treasury bills	585,362	300,689
- Pakistan investment bonds	115,490	(91,109)
- Other securities	200,940	566

Listed shares

458,804 331,972

 1,360,596 **542,118**

25. OTHER INCOME

Incidental charges	2,361,529	2,074,577
Rent on lockers	391,073	373,805
(Loss) / gain on sale of operating fixed assets - net	(30,821)	7,798
Gain on sale of non-banking asset	47,707	-
Rent on property	104,354	98,540
Bad debts recovered	32,277	34,472
Miscellaneous earnings	134,059	330,343

 3,040,178 **2,919,535**

26. ADMINISTRATIVE EXPENSES

	Note	2012 (Rupees in '000)	2011
Salaries, allowances, etc.		16,383,404	15,291,879
Charge for defined benefit / contribution plan and other benefits		1,380,760	1,630,205
Non-executive directors' fees		19,800	13,700
Brokerage and commission		56,668	20,872
Rent, taxes, insurance, electricity, etc		3,329,500	2,877,099
Legal and professional charges		1,007,188	1,688,803
Communications		694,982	620,784
Repairs and maintenance		1,352,611	1,173,755
Stationery and printing		637,304	533,152
Auditors' remuneration	26.1	166,660	114,678
Advertisement and publicity		1,197,453	1,030,922
Amortisation	10.2	79,704	44,024
Depreciation	10.3	1,421,212	1,424,290
Entertainment		159,622	127,168
Travelling		425,674	369,407
Conveyance		127,075	111,030
Training		221,047	139,346
Security charges		887,175	764,834
Remittance charges		131,764	164,623
Donations	26.3	254,886	253,028
Documentation and processing charges		543,829	409,788
Others		583,052	568,272
		<u>31,061,370</u>	<u>29,371,659</u>

26.1 Auditors' remuneration

Audit fee		3,959	3,682
Fee for interim review		3,600	3,350
Fee for audit of local branches of Habib Bank Limited		9,209	8,159
Special certifications / examinations and sundry advisory services		1,791	1,652
Out of pocket expenses		<u>2,938</u>	<u>3,202</u>
Overseas subsidiaries / branches and domestic subsidiaries		<u>21,497</u>	<u>20,045</u>
		<u>145,163</u>	<u>94,633</u>
		<u>166,660</u>	<u>114,678</u>

26.2 The Bank operates a short term employee benefit scheme which includes cash award / special bonus for all employees. Under this scheme, the bonus for all Executives, including the Chief Executive Officer is determined on the basis of employees' evaluation and the Bank's performance during the year. The aggregate amount determined for the eligible employees in respect of the above scheme relating to all Executives and for the Key Management Personnel of the Bank amounted to Rs. 1,185.519 million (2011: Rs. 607.803 million) and Rs. 945.304 million (2011: Rs. 424.793 million) respectively.

26.3 Detail of donations in excess of Rs. 100,000 and above are given in Annexure IV.

26.4 Benazir Employees' Stock Option Scheme

On August 14, 2009, the Government of Pakistan (GoP) launched Benazir Employees' Stock Option Scheme ["the Scheme"] for employees of certain State Owned Enterprises (SOEs) and non-State Owned Enterprises.

The Scheme, needs to be accounted for by the covered entities, including the Group, under the provision of amended International Financial Reporting Standard 2 - Share Based Payments (IFRS 2). However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the SECP has granted exemption to such entities from the application of IFRS 2 to the Scheme.

Had the exemption not been granted the staff costs of the Group for the period would have been higher by Rs. 1,502 million, profit before taxation would have been lower by Rs. 1,502 million (earnings per share would have been lower by Rs. 1.24 per share) and, as the Scheme is fully funded by GoP, there would have been no impact on retained earnings / equity of the Group.



	2012 (Rupees in '000)	2011 (Rupees in '000)
27. OTHER CHARGES	<u>18,285</u>	<u>77,588</u>

28. WORKERS WELFARE FUND

The Worker's Welfare Ordinance, 1971 has been amended vide Finance Act, 2008 by virtue of which the Bank is now liable to pay WWF @ 2% of profit before tax as per accounts or declared income as per income tax return, whichever is higher.

	2012 (Rupees in '000)	2011 (Rupees in '000)
29. TAXATION		
For Pakistan - for the year		
- current	11,011,992	9,256,455
- deferred	(463,640)	1,500,736
For Pakistan - prior year		
- current	422,246	(412,996)
- deferred	-	589,128
For Overseas - for the year		
- current	1,565,905	1,202,921
- deferred	-	-
For Overseas - prior year		
- current	(1,036)	(147,868)
- deferred	-	-
	<u>12,535,467</u>	<u>11,988,376</u>

For the purpose of taxation overseas include Habib Bank Limited's branches in Azad Jammu & Kashmir region.

29.1 Relationship between tax expense and accounting profit

Accounting profit for the current year	<u>34,891,207</u>	<u>34,321,398</u>
Tax on income @ 35% (2011: 35%)	12,211,922	12,012,489
- Reduced rate income	(104,065)	509,596
- Penalty imposed by SBP	6,400	27,155
- Prior year charge	421,210	(560,864)
Tax charge for the current year	<u>12,535,467</u>	<u>11,988,376</u>

30. BASIC AND DILUTED EARNINGS PER SHARE

Profit for the year attributable to equity holders of the Bank	<u>22,256,064</u>	<u>22,189,763</u>
	(Number)	
Weighted average number of ordinary shares	<u>1,212,274,800</u>	<u>1,212,274,800</u>
	(Rupees)	
Basic and diluted earnings per share	<u>18.36</u>	<u>18.30</u>

	Note	2012 (Rupees in '000)	2011
31. CASH AND CASH EQUIVALENTS			
Cash and balance with treasury banks	5	157,229,517	103,399,623
Balance with other banks	6	47,980,032	47,349,505
		<u>205,209,549</u>	<u>150,749,128</u>

		(Number)
Permanent		13,960
Others		18
Total staff strength		<u>13,978</u>
		<u>13,661</u>

33. DEFINED BENEFIT PLANS AND OTHER BENEFITS

33.1 Principal actuarial assumptions

The latest actuarial valuation for pension and gratuity schemes was carried out as at December 31, 2012 using the Projected Unit Credit Actuarial Cost Method and assuming that no indexation of pension will take place. The following significant assumptions were used for the valuation of these schemes:

	2012	2011
-----Per annum-----		
Valuation discount rate	12%	13%
Expected rate of increase in salary level	11%	11%
Expected rate of return on funds invested	12%	13%

33.2 Pension, gratuity and benevolent fund schemes

33.2.1 Fair value of plan assets and present value of defined benefits obligations of these schemes as at December 31, 2012 are as follows:

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2012	2011	2012	2011	2012	2011	2012	2011
----- (Rupees in '000) -----								
Fair value of plan assets	5,030,128	4,014,786	204,657	329,342	1,587,950	1,478,094	-	-
Present value of defined benefit obligation	(6,132,451)	(3,951,706)	(302,753)	(374,205)	(1,175,073)	(1,469,644)	(2,182,363)	(2,455,614)
(Deficit) / surplus	(1,102,323)	63,080	(98,096)	(44,863)	412,877	8,450	(2,182,363)	(2,455,614)
Unrecognised past service cost	110,969	-	(150)	-	(51,044)	87,294	(53,311)	56,014
Asset / (provision) recognised in the balance sheet	(991,354)	63,080	(98,246)	(44,863)	361,833	95,744	(2,235,674)	(2,399,600)

33.2.1.1 The surplus on benevolent fund has not been accounted for as this is a contributory scheme with contribution both from the employees and the Bank.



33.2.2 The following amounts have been charged / (credited) to the profit and loss account in respect of the above-referred schemes:

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2012	2011	2012	2011	2012	2011	2012	2011
----- (Rupees in '000) -----								
Current service cost	35,236	40,660	11,315	10,984	19,529	18,915	27,756	21,460
Mark-up cost	572,317	472,479	40,197	44,436	160,808	176,042	303,459	281,158
Expected return on plan assets	(566,390)	(456,547)	(34,365)	(38,153)	(191,317)	(166,562)	-	-
Actuarial (Gain) / loss recognized	906,897	(242,228)	41,687	(20,730)	59,010	(112,051)	173,538	71,705
Past service cost	(93,626)	-	(5,451)	-	(237,790)	26,459	(426,049)	25,953
Contributions - employees	-	-	-	-	(38,164)	-	-	-
Charge / (reversal) for the year	<u>854,434</u>	<u>(185,636)</u>	<u>53,383</u>	<u>(3,463)</u>	<u>(227,924)</u>	<u>(57,197)</u>	<u>78,704</u>	<u>400,276</u>

Charge for the year is included in administrative expenses (note 26 to the financial statements) under 'Charge for defined benefit plans and other benefits' account head. A sensitivity analysis to estimate the impact of increase in medical costs has not been carried out and is not likely to have a material impact on Group's financial statements.

33.2.3 Movement in amounts (receivable from) / payable to defined benefit plans

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2012	2011	2012	2011	2012	2011	2012	2011
----- (Rupees in '000) -----								
Opening balance	(63,080)	122,556	44,863	48,326	(95,744)	(14,273)	2,399,600	2,162,309
Charge / (credit) for the year	854,434	(185,636)	53,383	(3,463)	(227,924)	(57,197)	78,704	400,276
Contributions during the year	(1,100,000)	-	-	-	(38,164)	(24,274)	-	-
Benefits payable	1,300,000	-	-	-	-	-	(242,630)	(162,985)
Closing balance	<u>991,354</u>	<u>(63,080)</u>	<u>98,246</u>	<u>44,863</u>	<u>(361,832)</u>	<u>(95,744)</u>	<u>2,235,674</u>	<u>2,399,600</u>

33.2.4 The significant portion of the assets comprises of debt securities.

33.2.5 Movement of present value of defined benefit obligation

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2012	2011	2012	2011	2012	2011	2012	2011
----- (Rupees in '000) -----								
Opening balance	(3,951,706)	(3,752,486)	(374,205)	(363,236)	(1,469,644)	(1,405,002)	(2,455,614)	(2,244,246)
Current service cost	(35,236)	(40,660)	(11,315)	(10,984)	(19,529)	(18,915)	(27,756)	(21,460)
Mark-up cost	(572,317)	(472,479)	(40,197)	(44,436)	(160,808)	(176,042)	(303,459)	(281,158)
Benefits paid	415,881	236,064	129,999	42,843	89,182	101,666	242,630	162,985
Past Service Cost	(1,317,343)	-	5,601	-	376,129	-	535,374	-
Actuarial Gain / (Loss)	(671,730)	77,855	(12,636)	1,608	9,597	28,649	(173,538)	(71,735)
Closing balance	<u>(6,132,451)</u>	<u>(3,951,706)</u>	<u>(302,753)</u>	<u>(374,205)</u>	<u>(1,175,073)</u>	<u>(1,469,644)</u>	<u>(2,182,363)</u>	<u>(2,455,614)</u>

33.2.6 Movement of fair value of plan assets

	Pension		Gratuity		Benevolent	
	2012	2011	2012	2011	2012	2011
----- (Rupees in '000) -----						
Opening balance	4,014,786	3,629,930	329,342	314,910	1,478,094	1,281,248
Return on plan assets	566,390	456,547	34,365	38,153	191,317	166,562
Employer contribution	1,100,000	-	-	-	38,164	24,274
Employee contributions	-	-	-	-	38,164	24,274
Benefits paid	(415,881)	(236,064)	(129,999)	(42,843)	(89,182)	(101,666)
Actuarial (loss) / gain on plan assets	(235,167)	164,373	(29,051)	19,122	(68,607)	83,402
Closing balance	<u>5,030,128</u>	<u>4,014,786</u>	<u>204,657</u>	<u>329,342</u>	<u>1,587,950</u>	<u>1,478,094</u>

33.2.7 Actual return on plan assets

	Pension		Gratuity		Benevolent	
	2012	2011	2012	2011	2012	2011
	(Rupees in '000)					
Expected return on plan assets	566,390	456,547	34,365	38,153	191,317	166,562
Actuarial (loss) / gain on plan assets	(235,167)	164,373	(29,051)	19,122	(68,607)	83,402
Actual return on plan assets	<u>331,223</u>	<u>620,920</u>	<u>5,314</u>	<u>57,275</u>	<u>122,710</u>	<u>249,964</u>

33.2.8 Other benefits - Employee compensated absences

The liability of the Bank in respect of employee compensated absences as at December 31, 2012, amounted to Rs. 1,355.387 million (2011: Rs. 1,720.577 million). Provision for this balance is held by Bank.

The reversal for the year amounting to Rs. 295.982 million (2011 charge: Rs. 191.602 million) is included in administrative expenses (note 26 to these financial statements) under 'Charge for defined benefit plans and other benefits' account head.

33.2.9 Components of plan assets as a percentage of total plan assets

	2012			2011		
	Pension fund	Gratuity fund	Benevolent fund	Pension fund	Gratuity fund	Benevolent fund
Government securities	91.11%	99.08%	99.44%	97.93%	89.27%	99.44%
Ordinary shares of listed companies	8.26%	-	-	1.61%	-	-
Others (including bank balances)	0.63%	0.92%	0.56%	0.46%	10.73%	0.56%

As per actuarial recommendations, the expected return on plan assets was assumed at 12% per annum on Pension Fund assets, Gratuity Fund assets and Benevolent Fund assets. The expected return on plan assets was determined by considering the expected returns available on the underlying assets.

33.2.10 Expected contributions to be paid to the funds in the next financial year

The Bank contributes to the pension and gratuity funds according to the actuary's advice. Contribution to the benevolent fund is made by the Bank as per the rates set out in the benevolent fund scheme. Based on actuarial advice, the management estimates that the charge / (reversal) in respect of defined benefit plans for the year ended December 31, 2013, subject to the provisions of the Trust Deeds, would be as follows:

	2013				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	Employee compensated absences
	(Rupees in '000)				
Expected charge / (reversal) for the year	291,217	19,934	(57,996)	260,339	157,332



33.2.11 Five year data on surplus/ (deficit) of the plans and experience adjustments

	2012	2011	2010	2009	2008
	(Rupees in '000)				
Pension Fund					
Present value of defined benefit obligations	(6,132,451)	(3,951,706)	(3,752,490)	(3,823,669)	(3,958,503)
Fair value of plan assets	5,030,128	4,014,787	3,629,930	11,308,988	10,235,607
(Deficit) / surplus	(1,102,323)	63,081	(122,560)	7,485,319	6,277,104
Experience adjustments on plan liabilities [loss / (gain)]	671,730	(77,855)	(351,250)	130,299	(1,133,269)
Experience adjustments on plan assets [loss / (gain)]	235,167	(164,373)	433,160	(492,159)	294,093
Gratuity Fund					
Present value of defined benefit obligations	(302,753)	(374,205)	(363,236)	(335,598)	(357,163)
Fair value of plan assets	204,657	329,342	314,910	770,148	651,072
(Deficit) / surplus	(98,096)	(44,863)	(48,326)	434,550	293,909
Experience adjustments on plan liabilities [loss / (gain)]	12,636	(1,608)	10,321	(14,581)	54,269
Experience adjustments on plan assets [loss / (gain)]	29,051	(19,122)	21,601	(51,792)	11,542
Benevolent Fund					
Present value of defined benefit obligations	(1,175,073)	(1,469,644)	(1,405,002)	(1,432,930)	(1,249,439)
Fair value of plan assets	1,587,950	1,478,094	1,281,248	1,170,236	1,276,397
Surplus / (deficit)	412,877	8,450	(123,754)	(262,694)	26,958
Experience adjustments on plan liabilities [loss / (gain)]	(9,597)	(28,649)	(136,963)	(273,358)	(242,864)
Experience adjustments on plan assets [loss / (gain)]	68,607	(83,402)	(6,668)	(43,186)	(36,686)
Post retirement medical benefit					
Present value of defined benefit obligations	(2,182,363)	(2,455,614)	(2,244,246)	(2,180,320)	(2,422,945)
Experience adjustments on plan liabilities [loss / (gain)]	173,538	71,735	(80,259)	(242,351)	(213,334)

34. DEFINED CONTRIBUTION PLAN

HABIB BANK LIMITED (BANK)

34.1 Provident Fund

For employees hired on or after 1st January, 2002 and for those who did not opt for the Bank's Pension scheme introduced in 1977, the bank operates an approved Provident Fund under which both the Bank and employees contribute at following rates:

6% of the Basic Salary	For Executives & Officers
12% of the Basic Salary	For Clerical Staff
For Contractual Employees as per their Service Contracts.	

The staff who are covered by the Bank's Pension plan now also eligible for Provident fund benefits effective from April 04, 2005 by contributing 6% of the basic pay. Bank also makes equal contributions for these employees.

Payments are made to the employees on retirement, death, resignation and discharge as specified in the rules of the Fund.

The total assets of the Fund were Rs. 10,538.559 million as at December 31, 2011 (2010: Rs. 9,343.967 million) as per latest available audited financial statements.

34.2 Subsidiary companies

34.3 Habib Finance International Limited, Hongkong

Habib Finance International Limited, Hong Kong is maintaining the following two schemes for its employees.

Provident Fund

The company is required to contribute at 5% of salary of all of its employees, subject to a maximum contribution of HK \$ 1,250. Employees who earn HK \$ 6,500 or more per month are also required to contribute the same amount. Those who earn less than HK \$ 6,500 per month have an option to contribute to the fund.

Long Service Payment

The company is required to pay long service payment at 2/3rd of employee's last month's full wages or 2/3rd of HK \$ 22,500 whichever is lower, for every year of service. The maximum payment is the total amount of wages earned during the last 12 months or HK \$ 390,000 whichever is lower.

34.4 Habib Allied International Bank Plc., United Kingdom

Habib Allied International Bank Plc (HAIB) is maintaining a defined contribution pension scheme for its employees. Employer's contribution is 6% of basic salary, whereas contribution from the employee is voluntary. HAIB also makes defined contribution towards personal pension plans of some of the staff members as per their terms of employment.

34.5 Habibsons Bank Limited

Habibsons Bank Limited is maintaining a defined contribution pension scheme for its employees. Employer's contribution for employees of Habibsons Bank Limited is 5% of basic salary with a matching contribution from the scheme members.

35. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Group President / Chief Executive		Directors		Executives	
	2012	2011	2012	2011	2012	2011
	----- (Rupees in '000) -----					
Remuneration / fee of non executives directors	-	-	26,147	20,973	-	-
Managerial remuneration (including allowances)	31,711	21,720	-	-	4,900,155	3,915,353
Contribution to provident and benevolent fund	1,271	1,224	-	-	122,683	99,197
Medical	221	204	-	-	237,760	182,376
House-rent, maintenance, furnishing, others	3,358	1,940	-	-	-	-
Utilities	516	353	-	-	-	-
Conveyance	791	325	-	-	-	-
	<u>37,868</u>	<u>25,766</u>	<u>26,147</u>	<u>20,973</u>	<u>5,260,598</u>	<u>4,196,926</u>
Number of persons	<u>2</u>	<u>1</u>	<u>6</u>	<u>6</u>	<u>2,688</u>	<u>2,187</u>

The Chief Executive Officer and certain Executives are provided with free club memberships and the Chairman / Chief Executive Officer are also provided with free use of the Group's maintained cars in accordance with their entitlement.

In addition to the above, all executives, including Chief Executive Officer of the Bank are also entitled to certain short term employee benefits which are disclosed in note 26.2 to these financial statements.



36. RELATED PARTY TRANSACTIONS

Aga Khan Fund for Economic Development (AKFED), S.A, Switzerland holds 51% shares of the Bank. The Group has related party relationship with its associated undertakings, joint venture company (refer note 8.4), associates of AKFED Group entities, employee benefit schemes (refer note 4.8) of the Group / related party, and members of the Key Management Personnel of the Group / related party, including both Executive and Non-Executive Directors.

Banking transactions with the related parties are executed on arm's length basis i.e. substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk (i.e. under the comparable uncontrolled price method) other than those under terms of employment. Details of loans and advances to related parties are given in note 9.9 to these consolidated financial statements.

Contributions to and accruals in respect of staff retirement and other benefit schemes are made in accordance with the actuarial valuation / terms of the contribution plan.

Details of transactions with related parties and balances with them as at the year-end were as follows:

	2012					
	Individual and companies related through					
	Key Management Personnel	Parent Group Entities	Subsidiary companies	Associates	Joint venture	Other related party
-----Rupees in 000-----						
Balance Sheet						
Deposits	115	3,989,868	-	7,075,302	75,136	2,963,637
Borrowings	-	1,451,441	-	-	-	-
Investments	-	-	-	7,120,785	1,312,091	-
Markup / Other Receivable	-	32,904	-	220,000	-	-
Mark-up / Other Payable	-	113,770	-	29,173	-	1,223,959
Placements / Lendings	-	1,330,363	-	-	-	-
Overdrawn Nostro	-	656,893	-	292,891	738	-
Impairment provision	-	-	-	573,261	-	-
Profit and Loss						
Interest / Other Income	12,400	222,984	-	2,577,340	362,436	-
Interest / Other Expense	-	328,573	-	691,050	-	171,878
Others						
Other contingencies	-	361,835	-	-	-	127,318
Securities Held as custodian	-	4,852,220	898,100	18,035,000	-	12,378,000
Other transactions	80,250	199	-	2,427	-	-
	2011					
	Individual and companies related through					
	Key Management Personnel	Parent Group Entities	Subsidiary companies	Associates	Joint venture	Other related party
-----Rupees in 000-----						
Balance Sheet						
Deposits	-	2,977,033	-	4,205,849	38,735	635,603
Borrowings	-	636,404	-	-	-	-
Investments	-	-	-	4,951,702	1,074,062	-
Markup / Other Receivable	-	57,541	-	115,149	-	63,079
Mark-up / Other Payable	-	167,417	-	24,430	-	85,514
Placements / Lendings	-	362,928	-	-	6,489	-
Overdrawn Nostro	-	622,334	-	486,045	-	-
Impairment provision	-	-	-	573,261	-	-
Profit and Loss						
Interest / Other Income	19,000	241,445	-	1,423,278	244,555	-
Interest / Other Expense	-	158,189	-	444,500	-	127,729
Others						
Other contingencies	-	103,044	-	-	-	-
Securities Held as custodian	92,730	3,715,550	945,000	15,003,000	-	14,129,800

36.1 The donations given in note 26 and annexure IV of these financial statements include donations to HBL Foundation. The Foundation was established by the Board of Directors of HBL to promote development and advance the welfare and well being of the people with the object of improving their quality of life. Liability to the fund is shown in note 17.

36.2 Key Management Personnel

Key Management Personnel comprises Members of Management Forum, Regional Management, Country Managers and Senior Executives:

	2012 (Rupees in '000)	2011 (Rupees in '000)
Managerial remuneration (including allowances)	1,481,639	1,225,839
Contribution to provident and benevolent fund	23,269	20,261
Medical	41,328	30,309
	<u>1,546,236</u>	<u>1,276,409</u>
Number of persons	<u>181</u>	<u>166</u>

In addition Key Management Personnel are paid short-term employee benefits which are disclosed in note 26.2.

37. RISK MANAGEMENT FRAMEWORK

Risk taking is central to banking activity. Success in any venture in general and the banking business in particular is dependent on how well an institution manages its risk. The main goal is to minimize risk and be proactive in efficiently identifying, assessing, measuring (as far as possible), monitoring and controlling risks to an organisation's strategic advantage.

As Group plans to continue diversifying its business and ensuring sustained growth and profitability amidst increasing competitiveness and challenges in the banking industry and works to implement the comprehensive risk management, capital adequacy and internal control standards enforced by the SBP. To this end, the Bank has a well defined Risk Management Framework comprising of an effective risk management strategy, risk management structure and a policy framework.

Risk Management Structure

The Bank's risk management approach is underpinned by an appropriate risk management structure. This structure is represented by various lines of defence in order to ensure that the risks are managed effectively on an entity level:

Supervisory Level	Board of Directors	Board Risk Management Committee and Board Audit Committee.
	Management	ALCO, Management Risk Committee, Credit Policy Committee, Operational Risk Management Committee.
Risk Initiation - Operating Units/ Risk Owners		All Business and Support Groups i.e., Corporate, Investment Banking, Commercial, Retail, Treasury, IT, HR, etc.
Risk Control		Risk Management Group, Compliance
Risk Assurance		Internal Audit and Business Risk Review



Board of Directors (BoD)

The Board provides strategic direction for effective risk management and has the ultimate responsibility for managing all material risks that the Bank is/ may be exposed to, and for ensuring that the required human resources, culture, practices and systems are in place to address such risks. In discharging these responsibilities for overall risk management, the Board has established the Board Risk Management Committee.

Board Risk Management Committee (BRMC)

BRMC is a Board level oversight committee and is the highest risk related policy making and oversight body for all types of risks faced by the Bank, notably credit, market, liquidity and operational risks. It comprises of four directors of the Board (majority being non-executive). The Committee is supported by the Chief Risk Officer (CRO) and other executives as required. BRMC assists the Board in determining the strategic direction of the Bank by providing them the risk perspective.

Asset & Liability Committee (ALCO)

ALCO is the focal point for defining and leading the entire asset liability management process within the Bank. In this regard, ALCO also has responsibility for oversight of all market and liquidity risks. It is chaired by the President/CEO and has representation from all business groups, CRO, Chief Financial Officer (CFO), and Head of Market Risk.

Management Risk Committee (MRC)

Management Risk Committee is a senior management body headed by the CRO that mainly covers risks on integrated basis from an overall perspective of strategy, policy/ framework development, assessment/ measurement tools, MIS framework and Basel II implementation, whereas routine aspects in relation to such risks are managed by designated risk departments. In addition, the Bank has other senior management committees i.e., CPC, ALCO and ORMC to manage more specifically the credit, market and liquidity and operational risks respectively.

Credit Policy Committee (CPC)

Credit Policy Committee, at the functional level, has the responsibility to translate the decisions about strategy into framework, policies and standards for the origination, approval, disbursement, monitoring and reporting of credits and also to participate with the business line management in setting up the Bank's target portfolio profile and limits and in monitoring alignment with the risk strategies, appetite and limits etc. approved by the competent authorities. The CPC is chaired by the CRO with the members comprising of at least one Senior Credit Officer from Corporate Banking, Investment Banking, Commercial and Retail Lending and at least one representative each from the Credit Policy and Credit Administration Divisions within RMG. - The risk management function is independent of business group / divisions.

Operational Risk Management Committee (ORMC)

Operational Risk Management Committee is a senior management body responsible for operational risk management within the Bank both from the strategic as well as tactical perspectives. The Committee has representation from Risk Management Group, Operations, Global Compliance Group and Finance, being headed by the CRO as its Chairman.

Risk Management Group (RMG)

For effective implementation of the risk management framework, a dedicated function i.e. Risk Management Group operates within the Bank, independent from the other business units, support functions as well as the Internal Audit function. RMG is responsible to perform the functions pertaining to development and oversight of risk strategy, policy, framework, methodology and MIS. The Group is headed by a designated Group Executive i.e. CRO reporting to the President but with an independent reporting line to BRMC so as to enable reporting of all material risk issues and matters, particularly in relation to exceptional circumstances where there may be a conflict/ disagreement with the President.

RMG has designated separate personnel/departments to cater to the following significant areas with each of them reporting to the CRO:

- Credit Policy
- Credit Approvals
- Credit Administration
- Portfolio Management
- Consumer Risk Management
- Market & Liquidity Risk Management

The Operational Risk Management Division (ORMD) operates within Global Compliance Group (GCG) independent from the other business units, support functions as well as the Internal Audit function. The Head ORMD is one of the members of the Operational Risk Committee which is chaired by the CRO. In this manner, issues and matters concerning operational risk are independently communicated to CRO so as to enable knowledge of the Bank-wide risks. The key issues are reported to BRMC through the forum of the Operational Risk Committee and/ or MRC, where applicable. In addition, the Head ORMD has a dotted reporting relationship with the CRO.

Business Risk Review (BRR)

BRR working under Internal Audit provide independent assessment to the Board and the senior management of the Bank's risk management framework that includes policies, procedures, methodologies, reporting, and systems.

Credit Risk Management

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with the agreed contract terms. Credit risk makes up the largest part of the Bank's risk exposures. The Bank's credit process is guided by centrally established credit policies, rules and guidelines continuing a close-to-the market approach with an aim to maintain a well-diversified portfolio of credit risk, which produces a reliable and consistent return.

Credit risk policies are established by the Credit Policy Committee/ CRO and approved by the Board through the Board Risk Management Committee. The Bank has a system of checks and balances in place around the extension of credit that are:

- An independent risk management function.
- Approval rules based on three-initial system and co-guarantor approach.
- An independent audit and risk review function.

The Credit Risk Strategy reflects Bank's tolerance for risk i.e. credit risk appetite and the level of expected profitability. This, as a minimum, reflects Bank's strategy to grant credit based on various products, economic sectors, client segments etc., target markets giving due consideration to risks specific to each target market.

Salient features of our credit approval process are delineated below:

- Every extension of credit to any counterparty requires approval by the personnel having credit approval authorities.
- All Business groups must apply consistent standards in arriving at their credit decisions.
- Every material change to a credit facility requires approval at the appropriate/ pre-defined level.
- Credit approval authority is assigned to individuals according to their qualifications and experience.

Certain groups of exposures/ facilities are managed under product programs, which are approved by various levels of approving authorities as defined in the Credit Policy Manual. Each product program contains detailed credit criteria, regulatory, compliance and documentation requirements.

The Bank uses internal risk rating system to supplement the credit risk measurement procedure for all Corporate and Commercial, and most of the Retail exposures. All in all, over 90% of all exposures are rated. All obligor risk ratings are validated and approved by authorized personnel belonging to both the business units and risk management function. The Bank is currently involved with external consultants to introduce more effective internal risk rating framework that will be aligned with the Foundation Internal Ratings Based (FIRB) approach of the Basel II accord.

Stress testing on the credit portfolio is performed according to the guidelines issued by SBP at defined frequency. The scope of stress testing is being expanded to include scenarios in addition to those defined in the SBP guidelines.

The disbursement, administration and monitoring of credit facilities are managed by Credit Administration Departments (CAD) linked to various business units and operates under the CRO as part of the Risk Management Group. CAD is also responsible for collateral/ documents management.

The Bank monitors its credit portfolio on continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of the Bank's credit culture and is intended to ensure that greater attention is paid to such exposure. The Bank has an established Remedial Assets function to focus on expediting recoveries from problem credits. The function negotiates with problem borrowers and recommends restructuring and/ or rescheduling of stuck up loans to the senior management. Cases where the possibilities of economically viable means of recovery are exhausted, legal proceedings are initiated. The Bank follows the guidelines of SBP or the Regulators under which it is operating in other countries for classification/ provisioning/ write-off of problem advances.



Country Risk

The Bank has in place a comprehensive Country Risk Policy. Limits are established for Cross Border Transfer Risk (CBTR) based on the ratings assigned by the internationally recognized rating agencies. The limit utilization is controlled at Head office level and country risk exposures are reported to BRMC at defined frequency. CBTR arises from exposure to counterparties in Countries other than the country where exposure is located. The Bank defines transfer risk as arising where an otherwise solvent and willing debtor is unable to meet its obligation due to the imposition of governmental or regulatory controls restricting its ability to perform under its obligation towards its foreign liabilities.

Market Risk Management

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and equity prices. It emanates from the trading activities mainly carried out by Treasury and investments/ structural positions housed in banking book.

Market risk at the Bank level is managed by the RMG under the supervision of ALCO supported by the Treasury Middle Office (TMO). The Bank carries a limited amount of market risk the bulk of which is located in the banking book stemming from the mismatches in structural assets and liabilities positions.

Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship. Substantial part of the Bank's assets and liabilities are subject to floating rates hence are re-priced simultaneously. However, the Bank is exposed to interest rate risk as a result of mismatches on a relatively small part of its assets and liabilities. The major portion related to this risk is reflected in the banking book owing to the retail activities and investments qualifying for statutory reserve requirements. The overall potential impact of the mismatches on the earnings in short term and economic value of the portfolio in the long term is not material and is being managed within the tolerance limits approved by the Board. The Bank uses simulation and duration gap models to measure and monitor the interest rate sensitivity on the potential earnings and the Bank's economic value of equity.

Foreign Exchange Risk

The Bank's assets are typically funded in the same currency as that of the business transacted to eliminate foreign exchange exposure. However, the Bank is obliged to maintain a reasonable open position in various currencies resulting from the sizeable trade related transactions handled across the Bank. Foreign exchange risks are controlled and monitored through the limits approved by ALCO within the overall limit advised by SBP. The regulatory limit for foreign exchange is relatively small compared to the size of the Bank; hence, the risk generated through foreign exchange activities is insignificant.

End-of-the-day positions are marked to market daily according to the guidelines of SBP and sensitivity is conducted in line with the internal market risk policy of the Bank. The intra-day positions are managed by treasury through stop loss/ dealers limits.

Liquidity Risk Management

Liquidity risk is the risk that the Bank will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets, or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management. The Bank follows a comprehensive liquidity risk management policy duly approved by ALCO and the Board. The policy stipulates maintenance of various ratios, funding preferences, and evaluation of Bank's liquidity under normal and crisis situation (stress testing). To comply with the policy, the Bank has also conducted a behavioral study on its demand deposits to evaluate their stickiness, which may not reflect in their maturity profile. Such evaluation forms part of the liquidity management process to realistically project the reliance on such funding sources. As a result of close monitoring and strict policy towards reliance on core deposit, the Bank has been able to avoid concentration/ reliance on volatile deposit in its books. A comprehensive contingency plan to deal with crisis situation is also in place.

Operational Risk Management (ORM)

In line with the approved Operational Risk Management Policy, Bank has instituted an Operational Risk Management Division (ORMD). Operational Risk Management Policy and a detailed ORM Framework has been prepared and implemented. Operational Risk Coordinators (ORCs) have been assigned from more than 20 departments of the Bank being responsible for implementation of the ORM Framework in coordination with ORMD. The Bank has been granted permission/certification by SBP to move to the more advanced approach i.e, Alternative Standardised Approach (ASA) under Basel II with a capital floor i.e., operational risk charge under ASA should not fall below a certain percentage of operational risk capital charge calculated under BIA for initial 3 years. Capital floors are 90% for 2012, 80%, for 2013 and 70% for 2014. HBL is the first Pakistani bank to achieve this milestone.

The Bank's ORM framework and practices address all the significant areas of ORM within the Bank including Risk Control Self Assessment (RCSA), Key Risk Indicators, Operational Loss Data Management, Operational Risk Reporting, Capital Calculation etc. Detailed RCSA exercises are conducted at regular intervals across the Bank, the results of which are continually evaluated against the losses. Operational loss data collection and evaluation has been underway since 2009. The Bank has also established Key Risk Indicators (KRI) and is monitoring them at regular intervals. Operational risk reports are regularly submitted to the senior management.

Derivatives risk management

There are a number of risks undertaken by the Bank, which need to be monitored and assessed.

Credit Risk

Credit risk refers to the risk of non-performance or default by a party (a customer, guarantor, trade counterparty, third party, etc.), resulting in an adverse impact on the Bank's profitability. Credit risk associated with derivatives transactions is categorized into settlement risk and pre-settlement risk. The credit limit proposals for derivatives transactions are reviewed by the MTR Head who recommends appropriate limits to the Credit Committee for approval. The credit exposure of each counter party is estimated and monitored by Treasury Middle Office on a daily basis.

Market Risk

The Bank, as a policy, hedges back-to-back all Options transactions. In addition, the Bank does not carry any exchange risk on its Cross Currency Swaps portfolio as it hedges the exposure in the interbank market. To manage the interest rate risk of Interest Rate Derivatives, the Bank has implemented various limits which are monitored and reported by Treasury Middle Office on a daily basis.

Liquidity Risk

Derivatives transactions, usually being non-funded in nature, do not carry a specific funding liquidity risk. The liquidity risk arises from the fact that in Pakistan interest rate derivatives generally have a uni-directional demand, and no perfect hedge is available. The Bank mitigates its risk by limiting the portfolio in terms of tenor, notional and sensitivity limits, and can also hedge its risk by taking on and off balance sheet positions in the interbank market, where available.

Operational Risk

The staff involved in the process of trading, settlement and risk management of derivatives are carefully trained to deal with the complexities involved in the process. Adequate systems and controls are in place to carry out derivatives transactions smoothly. Each transaction is processed in accordance with the product program or transaction memo, which contains detailed accounting and operational aspects of the transaction to further mitigate operational risk. In addition, the Treasury Middle Office and the Compliance and Control Department are assigned the responsibility of monitoring any deviation from policies and procedures. The Bank's Audit and Inspection Group also reviews this function, which covers regular review of systems, transactional processes, accounting practices and end-user roles and responsibilities.

The Bank uses a derivatives system which provides an end-to-end valuation solution, supports the routine transactional process and provides analytical tools to measure various risk exposures, carry out stress tests and sensitivity analysis. Treasury Middle Office produces various reports for higher management (BoD, BRMC, MRC, etc) on a periodic basis. These reports provide details of the derivatives business profile containing outstanding positions, profitability, risk exposures and the status of compliance with limits.



Risk Management alignment with Basel II Project

The Bank is one of the few financial institutions in Pakistan planning to adopt the Foundation Internal Ratings Based (FIRB) Approach for credit risk and Internal Models Approach (IMA) for Market Risk (Alternate Standardized Approach for operational risk has already been adopted) under the Basel II Framework and consequently enhancing the quality of risk management processes, methodologies, systems and reporting. In order to undertake the Basel II initiatives in a systematic manner and in full compliance with the related requirements, the Bank has sought the services of an international firm. Bank's Basel II Program includes a number of aspects involving organizational alignments, enhancements in the existing policies, procedures, processes and controls, development of new risk frameworks, existing system upgrades, selection and deployment of various risk applications, development of advanced risk management tools and methodologies and introduction of improved risk reporting MIS. A lot of effort has already gone into aligning Bank's risk management structure, policies, procedures and systems with the requirements of Basel II while the remaining initiatives are currently being undertaken in an integrated manner with plans for completion in due course. The Bank also realizes the criticality of quality human resource and is already in the process of augmenting the skill set by necessary induction and training measures to enable undertaking of planned initiatives and consistently implementing the new risk management framework in line with Basel II. Once completed, the Bank expects to achieve a number of significant business benefits from its Basel II program with more robust risk management and internal control environment in line with international best practices.

Bank is currently engaged in the deployment of a comprehensive suite of advanced systems for Loan Origination, Credit Administration / Collateral Management, and Internal Risk Ratings as part of FIRB related initiatives for credit risk.

38. CAPITAL ADEQUACY

The risk weighted assets to capital ratio is calculated in accordance with the SBP's guidelines on capital adequacy.

38.1 Regulatory Capital Base

	2012 (Rupees in '000)	2011 (Rupees in '000)
Tier 1 Capital		
1.1 Fully Paid-up capital	12,122,748	11,020,680
1.2 General Reserves as disclosed on the Balance Sheet	24,467,534	22,258,534
1.3 Un-appropriated / un-remitted profits (net of accumulated losses, if any)	67,523,215	56,980,697
1.4 Non-controlling interest	1,227,207	1,236,290
	105,340,704	91,496,201
Deductions:		
1.5 Book value of intangibles	2,647,860	1,824,905
1.6 Shortfall in provisions required against classified assets irrespective of any relaxation allowed.	2,758,267	-
1.7 50% Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	656,045	537,031
	6,062,172	2,361,936
Total eligible Tier 1 capital	99,278,532	89,134,265
Supplementary Capital		
Tier 2 Capital		
2.1 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets	1,460,695	1,003,924
2.2 Revaluation Reserves up to 45%	6,782,799	3,947,050
2.3 Foreign Exchange Translation Reserves	14,911,820	9,887,221
2.4 Subordinated debt -upto maximum of 50% of Total eligible Tier 1 capital	1,068,917	2,337,729
Total tier 2 Capital	24,224,231	17,175,924
Deductions:		
2.5 50% Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	656,045	537,031
Total eligible Tier 2 Capital	23,568,186	16,638,893
Total Eligible Capital (1+2)	122,846,718	105,773,158

38.2 Risk-Weighted Exposures

Note	Capital Requirements		Risk Weighted Assets	
	2012	2011	2012	2011
-----(Rupees in '000)-----				
Credit Risk				
On-balance sheet				
Other sovereigns, GOP, PG, SBP other than PKR	4,664,013	3,275,114	46,640,129	32,751,140
PSE's	611,759	454,392	6,117,592	4,543,919
Multilateral Development Banks	338,696	-	3,386,960	-
Banks	2,885,950	2,088,027	28,859,495	20,880,272
Corporates	25,906,297	26,691,602	259,062,969	266,916,017
Retail Portfolio	4,424,599	4,521,976	44,245,989	45,219,761
Secured by residential property	271,415	231,560	2,714,153	2,315,598
Past due loans	1,178,256	1,221,217	11,782,556	12,212,171
Listed Equity investments	858,154	730,297	8,581,538	7,302,971
Unlisted equity investments	484,427	348,779	4,844,265	3,487,793
Investments in fixed assets	2,098,446	1,734,275	20,984,464	17,342,749
Other assets	1,207,561	1,301,246	12,075,607	13,012,460
	44,929,573	42,598,485	449,295,717	425,984,851
Off-balance sheet				
Non-market related	10,047,812	7,063,653	100,478,115	70,636,534
Market related	115,182	226,990	1,151,822	2,269,900
	10,162,994	7,290,643	101,629,937	72,906,434
Market Risk				
Interest Rate Risk	3,794,979	2,090,860	47,437,238	26,135,744
Equity Position Risk	766,009	318,920	9,575,113	3,986,504
Foreign Exchange Risk	4,465,558	3,565,395	55,819,472	44,567,439
	9,026,546	5,975,175	112,831,823	74,689,687
Operational Risk - Restricted to 90% of Basis Indicator Approach				
	9,061,910	8,288,439	113,273,880	103,605,490
	73,181,023	64,152,742	777,031,357	677,186,462
Capital Adequacy Ratio				
Total eligible regulatory capital held	38.1	122,846,718	105,773,158	
Total risk weighted assets	38.2	777,031,357	677,186,462	
Capital adequacy ratio		15.81%	15.62%	

38.3 Types of Exposures and ECAI's used

Exposures	JCR-VIS	PACRA	MOODYs	STANDARD & POOR (Specify)	ECA SCORES (Specify)
PSE's	✓	✓	✓		
Banks	✓	✓	✓		
Corporates	✓	✓	✓		
Sovereigns and GOP other than PKR			✓	✓	✓

38.4 Credit Exposures subject to Standardised approach

Exposures	Rating Category	2012			2011		
		Amount outstanding (Rupees in '000)	Deduction CRM	Net exposure	Amount outstanding (Rupees in '000)	Deduction CRM	Net exposure
Cash and cash equivalent		24,350,565	-	24,350,565	17,165,812	-	17,165,812
Claims on GOP in PKR		279,595,532	159,982,937	119,612,595	132,309,047	26,204,154	106,104,893
Claims on SBP arising out of statutory obligations		19,923,432	-	19,923,432	13,466,775	-	13,466,775
Claims on other sovereigns and GOP other than PKR	1	39,559,544	-	39,559,544	10,439,242	-	10,439,242
Claims on other sovereigns and GOP other than PKR	2	3,163,492	-	3,163,492	1,610,563	-	1,610,563
Claims on other sovereigns and GOP other than PKR	3	22,341,299	-	22,341,299	13,664,896	-	13,664,896
Claims on other sovereigns and GOP other than PKR	4,5	20,183,657	-	20,183,657	16,322,210	-	16,322,210
Claims on other sovereigns and GOP other than PKR	6	9,305,121	-	9,305,121	5,791,303	-	5,791,303
Claims on other sovereigns and GOP other than PKR	Unrated	695,834	-	695,834	594,553	-	594,553
Claims on Multilateral Development Banks	Unrated	6,773,919	-	6,773,919	-	-	-
PSE	1	4,731,671	-	4,731,671	11,089,525	-	11,089,525
PSE	Unrated	143,480,819	73,975,276	69,505,543	102,420,433	41,799,397	60,621,036
Banks	1	53,556,529	-	53,556,529	43,397,907	1,107,538	42,290,369
Banks	2,3	5,374,845	253,175	5,121,670	8,493,447	745,778	7,747,669
Banks	Unrated	28,225,147	2,694,680	25,530,467	11,552,219	-	11,552,219
Bank - three months or less	1,2,3	67,600,621	31,203,173	36,397,448	75,133,725	45,024,313	30,109,412
Bank - three months or less	Unrated	8,168,680	-	8,168,680	13,405,588	-	13,405,588
Corporate	1	46,005,587	12,092,178	33,913,409	56,138,205	307	56,137,898
Corporate	2	10,225,945	30,791	10,195,154	25,004,441	-	25,004,441
Corporate	3,4	1,690,144	75	1,690,069	638,924	-	638,924
Corporate	5,6	46,165	-	46,165	21,907	-	21,907
Corporate	Unrated	393,171,161	11,641,002	381,530,159	346,592,640	7,388,999	339,203,641
Retail		65,504,256	5,548,568	59,955,688	65,744,862	3,936,498	61,808,364
Residential mortgage		7,754,723	-	7,754,723	6,615,995	-	6,615,995
Past due loans		12,501,983	-	12,501,983	12,241,938	-	12,241,938
Listed equity and regulatory capital instruments		8,581,538	-	8,581,538	7,302,971	-	7,302,971
Unlisted equity		3,229,510	-	3,229,510	2,325,195	-	2,325,195
Fixed assets		20,984,464	-	20,984,464	17,342,749	-	17,342,749
Other assets		12,075,607	-	12,075,607	13,012,520	-	13,012,520
		1,318,801,790	297,421,855	1,021,379,935	1,029,839,592	126,206,984	903,632,608



38.5 Capital management

The Group's lead regulator SBP sets and monitors capital requirements for the Bank and the Group as a whole. In addition the Group's branches and subsidiaries outside Pakistan are also required to follow capital requirements applicable in respective countries.

In implementing current capital requirements, SBP requires the Group to maintain a prescribed ratio of 10% total capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the methodology provided by SBP which takes account of specific and general market risk, capital charge for interest rate risk and equity price risk using the maturity method.

The Group's regulatory capital is analysed into three tiers:

- Tier I capital, which includes ordinary share capital, capital and other reserves except exchange translation reserve, non-controlling interest, and retained profit.
- Tier II capital includes revaluation surplus, exchange translation reserve, subordinated debt and impairment allowances not kept against identified debts. The revaluation surplus is allowable as Tier II capital upto 45% of the reserve. Subordinated debt is limited to 50% of Tier I capital.
- Tier III supplementary capital consists of short term subordinated debt solely for the purpose of meeting a proportion of the Capital requirements for market risks. The bank currently does not have any Tier III capital.

Total of Tier II and III capital is limited to Tier I capital.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

On and off-balance sheet assets in the banking book are broken down to various asset classes for calculation of credit risk. Ratings for assets are applied using various ECAI's and aligned with appropriate risk buckets. Collaterals if any, are used as an outflow adjustment. Risk weights notified, are applied at net adjusted exposure. Collaterals used include: Government of Pakistan guarantees for advances and investments in PSE / GOP, deposits / margins, lien on deposits, saving certificates and lending of securities (repo & reverse repo).

39. CURRENCY RISK

	2012				2011			
	Assets	Liabilities	Off-balance sheet items	Net currency exposure	Assets	Liabilities	Off-balance sheet items	Net currency exposure
-----(Rupees in '000)-----								
Pakistan Rupee	1,192,794,937	1,098,956,216	(16,620,430)	77,218,291	803,360,024	725,883,779	(12,456,695)	65,019,550
United States Dollar	184,107,763	178,846,874	2,881,140	8,142,029	133,141,900	132,810,199	5,338,924	5,670,625
Great Britain Pound	87,197,491	78,429,060	5,585,491	14,353,922	66,458,560	63,614,875	3,991,646	6,835,331
UAE Dirham	38,601,511	32,614,238	2,132,838	8,120,111	31,124,285	26,630,807	3,901,969	8,395,447
Japanese Yen	326,750	7,066	(98,030)	221,654	339,398	3,652	(323,920)	11,826
Euro	15,170,172	21,251,437	6,456,019	374,754	24,437,616	21,218,238	(283,865)	2,935,513
Other Currencies	92,109,948	67,165,921	(337,028)	24,606,999	80,692,422	59,805,667	(168,059)	20,718,696
	1,610,308,572	1,477,270,812	-	133,037,760	1,139,554,205	1,029,967,217	-	109,586,988

40. MATURITIES OF ASSETS AND LIABILITIES

40.1 In accordance with BSD Circular letter No.03 of 2011, issued by SBP, the Group is required to report assets and liabilities with stated maturities as per their remaining maturities, whereas, assets and liabilities which do not have any contractual maturities should be reported as per their expected maturities calculated on the basis of an objective and systematic behavioral study approved by AlCO committee.

	2012					
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over two to three years
(Rupees in 000)-						
Assets						
Cash and balances with treasury banks	157,229,517	67,399,391	12,528,160	13,842,674	7,082,095	1,230,227
Balances with other banks	47,980,032	39,664,657	5,199,893	2,606,114	509,368	-
Lendings to financial institutions	24,828,255	23,928,255	90,000	-	-	-
Investments	79,709,4548	42,847,241	28,595,557	29,006,478	50,578,387	43,912,676
Advances	499,817,906	60,891,094	47,380,037	57,107,155	35,340,593	22,325,373
Operating fixed assets	23,632,324	-	-	-	-	13,058,012
Deferred tax asset	6,056,483	-	-	-	-	-
Other assets	53,669,507	10,932,911	10,613,855	8,124,352	5,234,778	1,197,444
	<u>1,610,308,572</u>	<u>631,313,549</u>	<u>105,217,502</u>	<u>110,686,773</u>	<u>98,745,221</u>	<u>50,064,313</u>
Liabilities						
Bills payable	18,943,207	4,014,796	6,121,182	8,807,229	-	-
Borrowings from financial institutions	196,580,548	173,077,127	10,001,104	11,643,592	69,444	168,158
Deposits and other accounts - note 40.2	1,214,963,700	176,992,841	125,179,223	119,959,846	157,791,841	24,964,498
Sub-ordinated loans	5,440,654	-	902,257	-	385,726	4,857,495
Other liabilities	41,342,703	39,622,918	-	-	84,629	43,430
	<u>1,477,270,812</u>	<u>393,071,582</u>	<u>142,203,766</u>	<u>140,796,393</u>	<u>157,945,914</u>	<u>30,033,571</u>
Net gap	<u>133,037,760</u>	<u>237,605,867</u>	<u>(36,986,264)</u>	<u>(30,109,620)</u>	<u>(59,200,693)</u>	<u>20,030,742</u>
Share capital	12,122,748					
Reserves	39,379,354					
Unappropriated profit	67,533,215					
Surplus on revaluation of assets - net of tax	12,785,236					
Non-controlling interest	1,227,207					
	<u>133,037,760</u>					



	2011								
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over two to three years	Over three to five years	Over five to ten years	Over ten years
Assets									
Cash and balances with treasury banks	103,399,623	27,704,428	16,476,949	14,971,897	4,459,142	1,397,091	1,268,968	2,526,426	9,124,574
Balances with other banks	47,349,505	35,379,688	7,078,443	3,418,693	1,472,681	-	-	-	25,470,148
Lendings to financial institutions	41,581,029	3,586,218	1,310,351	2,630,016	34,054,444	-	-	-	-
Investments	418,604,147	167,514,917	27,138,976	14,963,119	24,368,894	25,014,775	18,322,210	53,586,730	37,733,429
Advances	457,367,656	41,769,052	44,632,692	50,046,659	23,550,851	28,986,462	24,774,963	186,100,136	53,588,831
Operating fixed assets	19,167,654	-	-	-	-	-	-	-	3,918,010
Deferred tax asset	7,275,888	-	-	-	-	-	-	-	19,167,654
Other assets	44,808,703	19,314,318	7,972,469	6,548,407	9,049,422	1,455,648	2,911,295	1,453,297	-
	<u>1,139,554,205</u>	<u>295,268,619</u>	<u>104,609,880</u>	<u>92,578,91</u>	<u>96,955,434</u>	<u>56,853,376</u>	<u>45,821,789</u>	<u>245,124,587</u>	<u>101,900,131</u>
Liabilities									
Bills payable	13,894,502	2,988,326	4,362,470	6,543,706	-	566,933	607,992	940,697	-
Borrowings from financial institutions	39,473,670	12,850,798	10,007,230	10,071,903	106,184,557	19,982,729	21,537,109	1,252,037	3,176,040
Deposits and other accounts - note 40.2	932,631,525	108,001,834	126,112,818	73,331,227	-	-	-	30,523,819	-
Sub-ordinated loans	5,036,100	-	-	-	3,451,116	72,1854	4,497,285	2,703,169	26,428,907
Other liabilities	37,931,420	20,068,872	9,915,433	-	535,488	535,488	-	-	538,815
	<u>1,029,967,217</u>	<u>143,909,831</u>	<u>150,397,951</u>	<u>93,397,951</u>	<u>107,473,365</u>	<u>21,126,209</u>	<u>27,510,579</u>	<u>34,479,025</u>	<u>230,143,762</u>
Net gap	<u>109,586,988</u>	<u>151,358,791</u>	<u>(45,788,071)</u>	<u>(819,161)</u>	<u>(10,517,930)</u>	<u>35,727,767</u>	<u>18,311,210</u>	<u>210,645,562</u>	<u>(121,087,549)</u>
Share capital	11,020,680								
Reserves	32,145,755								
Unappropriated profit	56,980,697								
Surplus on revaluation of assets - net of tax	8,203,566								
Non-controlling interest	1,236,290								
	<u>109,586,988</u>								

Share capital
Reserves
Unappropriated profit
Surplus on revaluation of assets - net of tax
Non-controlling interest
109,586,988

40.2 Expected maturity dates do not differ significantly from the contract dates except for the maturity of Rs. 722.938 billion (2011: Rs. 577.132 billion) of deposits representing retail deposit accounts considered by the Group as stable core source of funding of its operations.

40.3 In accordance with BSD Circular Letter No.02 dated January 14, 2013, issued by SBP, the Group is required to report maturity gaps of assets and liabilities on contractual basis which are as follows:

	2012					
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years
Assets						
Cash and balances with treasury banks	157,229,517	155,247,383	1,740,557	241,577	-	-
Balances with other banks	47,980,032	43,512,445	3,398,599	559,620	509,368	-
Lendings to financial institutions	24,828,255	4,890,000	590,00	19,348,255	-	-
Investments	797,094,548	140,355,205	132,415,193	122,767,842	268,626,128	26,008,517
Advances	499,108,906	195,108,998	60,508,971	66,731,451	24,010,554	20,292,368
Operating fixed assets	23,632,324	112,614	225,228	337,842	675,683	1,351,367
Deferred tax asset	6,056,483	-	-	-	-	-
Other assets	53,669,507	41,335,138	2,294,508	3,441,762	6,598,099	-
	1,610,308,572	586,618,266	201,173,056	213,434,349	300,419,832	47,652,252
Liabilities						
Bills payable	18,943,207	18,943,207	-	175,491,229	237,218	-
Borrowings from financial institutions	196,580,548	12,285,005	2,722,388	101,301,935	183,231	280,804
Deposits and other accounts	1,274,963,700	879,658,222	106,348,755	1,214,371	10,376,721	9,389,746
Sub-ordinated loans	5,440,654	-	-	338,595	2,428,744	-
Other liabilities	41,342,703	41,004,108	-	-	-	-
	1,477,270,812	951,890,542	109,071,143	268,419,751	103,092,119	12,988,696
Net gap	133,037,760	(865,272,276)	92,101,913	(54,985,402)	197,327,713	34,663,556
Share capital	12,122,748					
Reserves	39,379,354					
Unappropriated profit	67,523,215					
Surplus on revaluation of assets - net of tax	12,785,236					
Non-controlling interest	1,227,207					
	133,037,760					



	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
2011 (Rupees in '000)										
Assets										
Cash and balances with treasury banks	103,399,623	100,069,894	1,714,244	1,398,767	-	216,718	-	-	-	-
Balances with other banks	47,349,505	42,577,308	3,190,251	109,265	-	-	-	-	-	-
Lendings to financial institutions	41,581,029	40,239,805	1,341,424	-	-	-	-	-	-	-
Investments	418,604,147	30,550,662	29,287,634	104,337,473	143,871,328	22,901,020	15,447,646	46,544,926	8,562,188	17,101,670
Advances	457,367,656	124,892,924	40,910,615	47,651,011	21,985,756	31,035,511	26,827,383	90,538,256	32,903,217	40,622,983
Operating fixed assets	19,167,654	79,730	159,461	239,191	478,382	956,763	956,892	1,055,155	737,915	14,504,165
Deferred tax asset	7,275,888	7,275,888	-	-	-	-	-	-	-	-
Other assets	44,808,703	32,080,576	1,984,909	2,977,363	7,765,855	-	-	-	-	-
	1,139,554,205	377,766,187	78,588,538	156,713,070	175,574,002	55,110,012	43,231,921	138,138,337	42,203,320	72,228,818
Liabilities										
Bills payable	13,894,502	13,894,502	-	9,700,467	56,952	584,249	903,963	1,203,145	3,052,016	-
Borrowings from financial institutions	39,473,670	13,453,636	10,010,242	51,631,050	62,483,743	8,792,829	10,438,337	7,839,583	5,284,777	195,466
Deposits and other accounts	933,631,525	694,198,449	92,767,291	-	-	-	4,497,285	-	538,815	-
Subordinated loans	5,036,100	-	37,519,376	-	412,044	-	-	-	-	-
Other liabilities	37,931,420	-	102,777,533	61,331,517	63,461,739	9,377,078	15,839,585	9,042,728	8,875,608	195,466
	109,586,988	(381,299,776)	(24,188,985)	95,381,553	112,112,263	45,732,934	27,392,336	129,095,609	33,327,712	72,033,352
Net gap	109,586,988	109,586,988	109,586,988	109,586,988	109,586,988	109,586,988	109,586,988	109,586,988	109,586,988	109,586,988
Share capital	11,020,680	-	-	-	-	-	-	-	-	-
Reserves	32,145,755	-	-	-	-	-	-	-	-	-
Unappropriated profit	56,980,697	-	-	-	-	-	-	-	-	-
Surplus on revaluation of assets - net of tax	8,203,566	-	-	-	-	-	-	-	-	-
Non-controlling interest	1,236,290	-	-	-	-	-	-	-	-	-
	109,586,988	109,586,988	109,586,988	109,586,988	109,586,988	109,586,988	109,586,988	109,586,988	109,586,988	109,586,988

40.4 The Group has assets and liabilities that have contractual or non-contractual maturities. The Group conducts empirical and statistical studies to assess the expected maturity of assets and liabilities with non-contractual maturities. The behavioral maturities of Demand deposits are determined on the basis of an empirical study conducted by the Bank, based on the past five years of data. The attrition rate of deposits is determined based on historically observed monthly data of all Current and Saving deposit accounts. The parameters used to determine the stickiness of deposits in the study are accounts with balances above a minimum level and monthly change in account balances.

Overdraft facilities are a part of the loan portfolio and roll-over periodically and are constantly a part of the balance sheet. The core or stable part of this asset category can be considered to have a behavioral maturity of a longer tenor. Although, contractually such facilities are short-term, they are generally rolled-over periodically, such as working capital financing for commercial borrowers. Hence these assets need to be analyzed as having a core portion which is stable and constantly appears on the balance sheet and a non-core portion that is relatively volatile. Statistical analysis is used to ascertain the change in maturity profiling over time based on the cyclical changes in the outstanding amount against overdraft facilities.

41. YIELD / INTEREST RATE RISK

41.1 Interest rate risk management

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. In accordance with BSD circular letter no. 03 of 2011, issued by SBP, the Group is required to report interest rate sensitivity gap of assets and liabilities on the basis of an objective and systematic behavioral study approved by ALCO committee.

	Effective yield / interest Rate	Total	Exposed to yield / interest risk						Not exposed to yield / interest risk
			Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over two to three years	Over three to five years	
			(Rupees in '000)						
On-balance sheet assets									
Financial assets									
Cash and balances with treasury banks	1.29%	157,229,517	31,691,240	1,740,557	241,577	-	-	-	-
Balances with other banks		47,980,032	31,978,407	4,363,535	2,007,023	509,368	-	-	-
Lendings to financial institutions	9.19%	24,828,255	23,928,255	900,000	127,847,162	268,855,671	31,686,130	63,680,980	2,592,987
Investments	9.86%	797,094,548	117,109,490	138,833,835	208,604,370	155,634,392	21,781,792	8,629,971	7,678,177
Advances	11.44%	499,817,906	69,630,063	-	-	-	-	-	-
Other assets		41,043,232	-	-	-	-	-	-	-
Total net assets		1,567,993,490	274,337,455	354,442,297	285,730,154	291,146,831	30,308,938	39,364,307	74,333,731
Financial liabilities									
Bills payable		18,943,207	-	-	-	-	-	-	18,943,207
Borrowings from financial institutions	8.48%	196,580,548	170,615,571	10,001,104	11,601,418	69,444	168,158	179,672	420,057
Deposits and other accounts	5.05%	1,214,963,700	115,375,747	112,505,297	54,234,847	90,068,645	10,240,069	10,043,352	9,389,747
Sub-ordinated loans	2.42%	5,440,654	-	-	5,440,654	-	-	-	-
Other liabilities		39,447,179	-	-	-	-	-	-	-
On-balance sheet gap		1,475,375,288	285,991,318	122,506,401	559,336,919	90,138,089	10,408,227	10,223,024	9,809,804
Non - financial net assets		92,618,204	(11,653,863)	231,935,896	(273,656,765)	201,008,742	19,900,711	29,141,283	7,065,131
Total net assets		40,419,556	133,037,760	133,037,760	133,037,760	133,037,760	133,037,760	133,037,760	133,037,760
Off-balance sheet financial instruments									
Foreign and local currency forward purchases		167,104,754	81,824,461	54,362,697	8,926,051	21,991,545	-	-	-
Foreign and local currency forward sales		(167,168,508)	(92,419,684)	(55,530,874)	(4,525,573)	(14,692,377)	-	-	-
Foreign Currency Options Purchases		1,317,948	20,466	446,463	851,019	-	-	-	-
Foreign Currency Options Sales		(1,317,948)	(20,466)	(446,463)	(851,019)	-	-	-	-
Cross Currency Swaps- Long Position		3,659,009	-	498,872	340,811	2,240,634	578,692	-	-
Cross Currency Swaps- Short Position		(3,659,009)	-	(498,872)	(340,811)	(2,240,634)	(578,692)	-	-
Interest rate swaps - long position		444,199	-	-	152,750	-	-	-	-
Interest rate swaps - short position		(291,449)	-	-	-	-	-	(291,449)	-
Off-balance sheet gap		88,996	(10,595,223)	(1,168,177)	4,553,228	7,299,168	-	-	-
Total yield / interest risk sensitivity gap		(22,249,086)	230,767,719	(269,103,537)	208,307,910	19,900,711	29,141,283	64,523,927	1,855,071
Cumulative yield / interest risk sensitivity gap		(22,249,086)	208,518,633	(60,584,904)	147,723,006	167,623,717	196,765,000	261,288,927	263,143,998
									277,955,964
									92,707,194
									(185,248,770)



Effective yield / interest rate	Total	Upto one month	Exposed to yield / interest risk						Not exposed to yield / interest risk			
			Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years				
(Rupees in '000)												
2011												
On-balance sheet assets												
Financial assets												
Cash and balances with treasury banks	1.79%	103,399,623	20,526,204	1,714,244	1,398,767	-	216,718	-	-			
Balances with other banks	47.349,505	27,851,043	5,719,592	3,903,276	1,472,681	-	-	-	8,402,913			
Lendings to financial institutions	11.78%	415,581,029	3,586,218	1,310,351	2,630,016	34,054,444	-	-	-			
Investments	11.13%	418,604,147	28,764,677	37,473,593	114,407,418	137,924,700	16,504,763	6,364,716	7,400,487			
Advances	12.16%	457,367,656	56,679,413	193,840,828	129,610,326	30,923,792	13,073,278	8,395,399	5,733,365			
Other assets		32,893,915	-	-	-	-	-	-	32,893,915			
Financial liabilities												
Bills payable		13,894,502	-	-	-	-	-	-	13,894,502			
Borrowings from financial institutions	8.06%	39,473,670	12,850,798	10,007,230	10,071,903	566,973	607,992	940,697	-			
Deposits and other accounts	4.80%	933,631,525	64,347,183	120,344,765	425,118,743	71,751,944	12,280,876	14,395,506	3,176,040			
Sub-ordinated loans	2.40%	5,036,100	-	-	5,036,100	-	-	-	43,794,045			
Other liabilities		36,726,849	-	-	-	-	-	-	44,893,683			
On-balance sheet gap		1,028,762,646	77,197,981	130,351,995	440,226,746	72,318,917	12,888,868	15,330,203	17,480,650			
Non - financial net assets		72,433,229	60,209,574	109,706,613	(188,276,943)	132,056,700	16,905,891	(570,088)	52,970,085			
Total net assets		37,153,759	-	-	-	-	-	-	44,893,683			
Off-balance sheet financial instruments		109,586,988	-	-	-	-	-	-	165,103,518			
Foreign and local currency forward purchases		151,577,433	48,061,498	46,908,970	48,863,185	7,743,781	-	-	-			
Foreign and local currency forward sales		(151,582,034)	(48,004,893)	(46,916,439)	(48,984,506)	(7,676,197)	-	-	-			
Foreign Currency Options Purchases		336,655	31,619	279,825	25,211	-	-	-	-			
Foreign Currency Options Sales		(336,655)	(31,619)	(279,825)	(25,211)	-	-	-	-			
Cross Currency Swaps- Long Position		2,868,771	-	-	-	-	2,868,771	-	-			
Cross Currency Swaps- Short Position		(2,868,771)	-	-	-	-	(2,868,771)	-	-			
Interest rate swaps - long position		482,551	-	-	-	-	152,750	-	329,801			
Interest rate swaps - short position		(329,801)	-	-	-	-	(329,801)	-	-			
Off-balance sheet gap		148,149	56,605	(7,469)	(121,321)	6,584	152,750	-	-			
Total yield / interest risk sensitivity gap		60,266,179	109,699,144	(188,398,264)	132,124,284	17,058,641	(570,088)	40,627,661	(39,836,233)			
Cumulative yield / interest risk sensitivity gap		60,266,179	169,965,323	(18,432,941)	113,691,343	130,749,984	130,179,896	170,807,557	130,971,324			
									102,974,799			
									72,581,378			

41.2 In accordance with BSD Circular Letter No.02 dated January 14, 2013, issued by SBP, the Group is required to report interest rate sensitivity gap of assets and liabilities which are as follows:

Effective yield / interest rate	Total	Exposed to yield / interest risk						Not exposed to yield / interest risk		
		Upto one Month	Over one to three months	Over six to six months	Over one to two years	Over two to three years	Over five to ten years			
(Rupees in '000)										
On-balance sheet assets										
Financial assets										
Cash and balances with treasury banks	1.29%	157,229,517	31,691,239	1,740,557	241,577	-	-	-		
Balances with other banks	47,980,032	31,978,407	4,363,535	2,007,023	509,368	-	-	-		
Lendings to financial institutions	9.19%	24,828,255	23,928,255	900,000	127,847,162	268,855,671	31,680,980	-		
Investments	9.86%	797,094,548	117,109,490	138,833,835	217,81,792	8,622,971	7,678,177	2,592,987		
Advances	11.44%	499,817,906	69,630,063	208,604,370	-	-	10,652,751	13,604,616		
Other assets	41,043,232	-	-	-	-	-	-	11,204,710		
	1,567,993,490	274,337,454	354,442,297	285,730,154	291,146,831	30,308,938	39,364,307	14,866,794		
Financial liabilities										
Bills payable	18,943,207	-	-	-	-	-	-	-		
Borrowings from financial institutions	196,580,548	170,615,571	10,001,104	11,601,418	69,444	168,158	179,672	18,943,207		
Deposits and other accounts	1,214,963,700	109,319,925	100,393,636	89,929,920	90,068,645	480,822,479	10,043,352	-		
Subordinated loans	5,440,654	-	-	5,440,654	-	-	-	2,503,731		
Other liabilities	39,447,179	-	-	-	-	-	-	318,897,430		
	1,475,375,288	279,935,496	110,394,740	106,971,992	90,138,089	480,990,637	10,223,024	9,809,804		
On-balance sheet gap	92,618,202	(5,598,042)	244,047,557	178,758,162	201,008,742	(450,681,699)	29,141,283	64,523,927		
Non - financial net assets	40,419,558							54,828		
Total net assets	133,037,760							379,791,547		
Off-balance sheet financial instruments										
Foreign and local currency forward purchases	167,104,754	81,824,461	54,362,697	8,926,051	21,991,545	-	-	-		
Foreign and local currency forward sales	(167,168,508)	(92,419,684)	(55,530,874)	(4,525,573)	(14,692,377)	-	-	-		
Foreign Currency Options Purchases	1,377,948	20,466	446,463	851,019	-	-	-	-		
Foreign Currency Options Sales	(1,317,948)	(20,466)	(446,463)	(851,019)	-	-	-	-		
Cross Currency Swaps- Long Position	3,659,009	-	498,872	340,811	2,240,634	578,692	-	-		
Cross Currency Swaps- Short Position	(3,659,009)	-	(498,872)	(340,811)	(2,240,634)	(578,692)	-	-		
Interest rate swaps - long position	444,199	-	-	152,750	-	-	291,449	-		
Interest rate swaps - short position	(291,449)	-	-	-	-	-	(291,449)	-		
	88,996	(10,595,223)	(1,168,177)	4,553,228	7,299,168	-	-	-		
Total yield / interest risk sensitivity gap	(16,193,265)	242,879,380	183,311,390	208,307,910	(450,681,699)	29,141,283	64,523,927	1,855,071		
Cumulative yield / interest risk sensitivity gap	(16,193,265)	226,686,115	409,997,505	618,305,415	167,623,716	196,764,999	261,288,926	277,955,963		
								92,707,194		



2011

Effective yield / interest rate	Total	Exposed to yield / interest risk						Not exposed to yield / interest risk		
		Upto one month	Over one to three months	Over six to six months	Over one to two years	Over three to five years	Over five to ten years			
On-balance sheet assets										
Financial assets										
Cash and balances with treasury banks	1.79%	103,399,623	20,526,204	1,714,244	1,398,767	-	216,718	-		
Balances with other banks	47,349,505	27,851,042	5,719,592	3,903,276	1,472,681	-	-	-		
Lending to financial institutions	11.78%	41,581,029	3,586,218	1,310,351	2,630,016	34,054,444	-	-		
Investments	11.13%	418,604,147	28,764,677	37,473,593	114,407,418	16,504,763	6,364,716	14,962,577		
Advances	12.16%	457,367,656	56,679,413	193,840,828	129,610,326	30,923,792	13,073,278	8,184,445		
Other assets		32,893,915	-	-	-	-	-	32,893,915		
Total	1,101,195,875	137,407,554	240,058,608	251,949,803	204,375,617	29,794,759	14,760,115	58,108,311		
Financial liabilities										
Bills payable	13,894,502	-	-	-	-	-	-	13,894,502		
Borrowings from financial institutions	8.06%	39,473,670	12,850,798	10,007,230	566,973	607,992	1,252,037	-		
Deposits and other accounts	93,631,525	59,515,297	110,683,986	52,995,203	71,751,944	398,900,082	14,389,506	44,893,683		
Subordinated loans	5,036,100	-	-	5,036,100	-	-	-	114,482,166		
Other liabilities	36,726,849	-	-	-	-	-	-	36,726,849		
Total	1,028,762,646	72,366,095	120,688,216	68,103,206	72,318,917	399,508,074	15,330,203	17,480,650		
On-balance sheet gap	72,433,229	65,041,459	119,370,392	183,846,597	132,056,700	(369,713,315)	(570,088)	40,627,661		
Non - financial net assets	37,153,759									
Total net assets	109,586,988									

Off-balance sheet financial instruments

Foreign and local currency forward purchases	151,577,433	48,061,498	46,908,970	48,863,185	7,743,781	-	-	-
Foreign and local currency forward sales	(151,582,034)	(48,004,893)	(46,916,439)	(48,984,506)	(7,676,197)	-	-	-
Foreign Currency Options Purchases	336,655	31,619	279,825	25,211	-	-	-	-
Foreign Currency Options Sales	(336,655)	(31,619)	(279,825)	(25,211)	-	-	-	-
Cross Currency Swaps- Long Position	2,868,771	-	-	-	2,868,771	-	-	-
Cross Currency Swaps- Short Position	(2,868,771)	-	-	-	(2,868,771)	-	-	-
Interest rate swaps - long position	482,551	-	-	-	152,750	-	329,801	-
Interest rate swaps - short position	(329,801)	-	-	-	(329,801)	-	-	-
Off-balance sheet gap	148,149	56,605	(7,469)	(121,321)	67,584	152,750	-	-

Total yield / interest risk sensitivity gap

Total yield / interest risk sensitivity gap	65,098,064	119,362,923	183,725,276	132,124,284	(369,560,565)	(570,088)	40,627,661	(39,836,233)
Cumulative yield / interest risk sensitivity gap	65,098,064	184,460,987	368,186,293	500,310,547	130,749,982	130,179,894	170,807,555	130,971,322

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments are based on quoted market prices and unquoted investments are estimated using the break-up value / cost. Fair value of these investments has been disclosed in note 8.

Fair value of fixed term loans, other assets and other liabilities cannot be calculated with sufficient reliability due to 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 Group's accounting policy as stated in note 4.4.

The maturity and repricing profile and effective rates are stated in notes 40 and 41 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.

43. CONCENTRATION OF CREDIT AND DEPOSITS

43.1 Concentration of credit risk

Out of the total financial assets of Rs. 1,567,933.486 million, financial assets which were subject to credit risk amounted to Rs. 1,543,642.921 million. The Group's major credit risk is concentrated in the textile sector.

The following financial assets are guaranteed by the Federal / overseas Governments or SBP / other Central Banks and enterprises owned / controlled by the Government:

	2012 (Rupees in '000)
Guaranteed by the Government of Pakistan (GoP)	
Investments	721,219,396
Advances	17,495,635
Financial assets receivable from GoP	250,144
Mark-up receivable	5,035,382
	<hr/> 744,000,557
Financial assets receivable from enterprises owned / controlled by government	
Advances	91,237,711
Financial assets receivable from State Bank of Pakistan	55,512,539
Financial assets receivable from National Bank of Pakistan	15,691,749
Mark-up receivable	1,328,427
	<hr/> 163,770,426
Guaranteed by Overseas Governments	17,156,968
Financial assets receivable from other central banks	<hr/> 63,672,276
	<hr/> 988,600,227



43.2 Segment by class of business

	2012					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	19,468,110	3.57	3,118,068	0.26	9,384,070	4.35
Agribusiness	30,587,210	5.60	8,447,539	0.70	1,177,448	0.55
Textile	63,009,631	11.54	6,145,156	0.51	10,001,514	4.64
Cement	7,246,217	1.33	528,574	0.04	1,867,508	0.87
Sugar	4,541,841	0.83	985,057	0.08	228,854	0.11
Shoes and leather garments	2,006,137	0.37	1,412,628	0.12	438,351	0.20
Automobile and transportation equipment	13,529,358	2.48	3,934,404	0.32	2,917,870	1.35
Financial	36,606,597	6.71	12,355,608	1.02	25,737,058	11.93
Hotel and Tourism	694,152	0.13	1,509,521	0.12	-	-
Research and Development	-	-	2,590,386	0.21	-	-
Insurance	7,920	-	6,920,406	0.57	2,798	-
Electronics and electrical appliances	15,045,280	2.76	535,400	0.04	9,027,838	4.19
Oil and Gas	15,408,200	2.82	20,406,572	1.68	9,351,427	4.34
Power and energy	36,135,490	6.62	2,081,579	0.17	7,203,956	3.34
Education & medical	1,707,995	0.31	5,209,530	0.43	688,827	0.32
Telecommunication	11,062,237	2.03	5,497,887	0.45	5,636,432	2.61
Printing & publishing	2,242,204	0.41	561,451	0.05	584,433	0.27
Construction	1,580,885	0.29	2,769,333	0.23	905,536	0.42
Mining & quarrying	336,696	0.06	71,838	0.01	6,353	-
Food, tobacco and beverages	10,186,498	1.87	1,743,612	0.14	6,307,186	2.92
Public / Government - note 43.2.1	108,733,346	19.92	224,259,941	18.46	75,137,622	34.84
Whole sale & retail trade	53,406,904	9.79	67,159,702	5.53	7,646,532	3.55
Metal and allied	6,674,683	1.22	893,627	0.07	1,817,383	0.84
Individual	39,794,231	7.29	617,942,138	50.86	434,950	0.20
Farming, cattle and dairy	1,390,679	0.25	833,252	0.07	892,901	0.41
Trust funds and non profit organization	2,633,761	0.48	36,945,855	3.04	216,748	0.10
Others	61,751,850	11.32	180,104,636	14.82	38,035,949	17.65
	545,788,112	100.00	1,214,963,700	100.00	215,649,544	100.00

	2011					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	21,064,671	4.18	3,319,870	0.36	9,593,622	5.41
Agribusiness	30,348,721	6.03	7,350,958	0.79	1,292,469	0.73
Textile	71,676,065	14.24	5,022,534	0.54	13,205,044	7.45
Cement	10,130,466	2.01	451,916	0.05	2,283,061	1.29
Sugar	4,530,544	0.90	701,248	0.08	313,444	0.18
Shoes and leather garments	1,934,341	0.38	911,012	0.10	389,755	0.22
Automobile and transportation equipment	11,983,574	2.38	5,149,247	0.55	3,002,694	1.69
Financial	27,329,151	5.43	10,337,754	1.11	25,572,894	14.43
Hotel and Tourism	1,189,467	0.24	1,243,362	0.13	-	-
Research and Development	-	-	185,383	0.02	-	-
Insurance	340,194	0.07	3,862,571	0.41	3,397	-
Electronics and electrical appliances	15,885,664	3.16	491,998	0.05	2,696,180	1.52
Oil and Gas	13,469,825	2.68	5,848,189	0.63	7,266,085	4.10
Power and energy	39,398,621	7.83	15,627,064	1.67	10,148,442	5.73
Education & medical	1,854,452	0.37	3,776,187	0.40	434,529	0.25
Telecommunication	12,983,403	2.58	2,963,121	0.32	1,221,297	0.69
Printing & publishing	2,866,891	0.57	279,403	0.03	674,086	0.38
Construction	2,634,577	0.52	2,430,194	0.26	1,109,401	0.63
Mining & quarrying	322,946	0.06	37,565	-	6,353	-
Food, tobacco and beverages	10,176,347	2.02	1,396,850	0.15	2,841,426	1.60
Public / Government - note 43.2.1	74,396,242	14.78	143,409,240	15.36	56,247,566	31.74
Whole sale & retail trade	50,034,577	9.94	48,840,891	5.23	7,559,099	4.27
Metal and allied	7,116,190	1.41	863,523	0.09	2,242,329	1.27
Individual	33,269,371	6.61	544,424,315	58.31	989,938	0.56
Farming, cattle and dairy	1,569,502	0.31	475,372	0.05	1,010,665	0.57
Trust funds and non profit organization	1,663,051	0.33	20,896,184	2.24	15,200	0.01
Others	55,284,851	10.97	103,335,574	11.07	27,116,468	15.28
	503,453,704	100.00	933,631,525	100.00	177,235,444	100.00

43.2.1 Public / Government sector

	2012					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	-	-	796,775	0.36	-	-
Agribusiness	53,203,715	48.93	2,015,387	0.90	-	-
Automobile and transportation equipment	9,376,200	8.62	1,802,571	0.80	778,000	1.04
Financial	1,272,738	1.17	10,482,294	4.67	5,214,493	6.94
Insurance	28,671	0.03	11,083,639	4.94	39,204	0.05
Oil and Gas	6,488,699	5.97	58,806,784	26.22	15,448,245	20.56
Power and energy	32,254,161	29.66	11,786,817	5.26	13,640,879	18.15
Education & medical	77,032	0.07	34,019,358	15.17	54,896	0.07
Telecommunication	219,000	0.20	3,911,077	1.74	603,743	0.80
Printing & publishing	-	-	59,062	0.03	-	-
Construction	-	-	43,304	0.02	-	-
Foods, tobacco & beverages	178,520	0.16	-	-	-	-
Metal and allied	1,065,738	0.98	2,588,793	1.15	-	-
Defence	2,751,521	2.53	6,540,664	2.92	38,150,530	50.77
Ports and shipping	-	-	18,414,971	8.21	56,928	0.08
Others	1,817,351	1.67	61,908,445	27.60	1,150,704	1.54
	108,733,346	100.00	224,259,941	100.00	75,137,622	100.00

	2011					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	-	-	243,888	0.17	-	-
Agribusiness	51,392,146	69.08	1,675,356	1.17	-	-
Automobile and transportation equipment	7,968,675	10.71	2,896,057	2.02	940,244	1.67
Financial	1,818,238	2.44	2,536,633	1.77	-	-
Insurance	-	-	7,436,816	5.19	39,204	0.07
Oil and Gas	4,354,553	5.85	33,217,950	23.16	12,556,355	22.32
Power and energy	2,926,718	3.93	6,394,069	4.46	1,859,535	3.31
Education & medical	143,559	0.19	29,114,716	20.30	232,962	0.41
Telecommunication	251,578	0.34	1,075,933	0.75	546,110	0.97
Printing & publishing	-	-	18,454	0.01	-	-
Construction	-	-	36,112	0.03	-	-
Foods, tobacco & beverages	149,651	0.20	182	-	-	-
Metal and allied	1,136,591	1.53	1,521,734	1.06	-	-
Defence	3,148,732	4.23	5,833,653	4.07	37,156,412	66.06
Ports and shipping	-	-	6,223,668	4.34	149,880	0.27
Others	1,105,801	1.50	45,184,019	31.50	2,766,864	4.91
	74,396,242	100.00	143,409,240	100.00	56,247,566	100.00

	2012					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	108,733,346	19.92	224,259,941	18.46	75,137,622	34.84
Private	437,054,766	80.08	990,703,759	81.54	140,511,922	65.16
	545,788,112	100.00	1,214,963,700	100.00	215,649,544	100.00

	2011					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	74,396,242	14.78	143,409,240	15.36	56,247,566	31.74
Private	429,057,462	85.22	790,222,285	84.64	120,987,878	68.26
	503,453,704	100.00	933,631,525	100.00	177,235,444	100.00

43.2.2 Segment by sector

	2012					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	108,733,346	19.92	224,259,941	18.46	75,137,622	34.84
Private	437,054,766	80.08	990,703,759	81.54	140,511,922	65.16
	545,788,112	100.00	1,214,963,700	100.00	215,649,544	100.00

	2011					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	74,396,242	14.78	143,409,240	15.36	56,247,566	31.74
Private	429,057,462	85.22	790,222,285	84.64	120,987,878	68.26
	503,453,704	100.00	933,631,525	100.00	177,235,444	100.00



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

	2012		2011	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
----- (Rupees in '000)-----				
Chemical and pharmaceuticals	698,212	657,978	588,937	565,147
Agribusiness	3,528,254	2,022,877	3,504,294	1,742,441
Textile	17,046,457	13,236,615	20,338,473	17,458,763
Cement	1,987,083	1,021,996	2,264,266	1,091,291
Sugar	415,058	335,353	359,686	323,847
Shoes and leather garments	171,650	156,665	173,363	149,052
Automobile and transportation equipment	1,863,621	1,811,157	1,904,943	1,547,418
Financial	40,000	40,000	1,824,098	1,510,518
Hotel and tourism	226,913	226,913	226,913	211,913
Electronics and electrical appliances	2,881,516	2,708,716	2,800,712	2,646,244
Oil and Gas	2,185,183	798,374	332,454	331,141
Power and energy	1,710,239	1,709,227	1,718,991	1,717,832
Education & medical	529,511	524,968	-	-
Telecommunication	35,845	35,845	261,359	261,359
Printing & publishing	217,892	205,392	204,199	199,266
Construction	3,323,051	1,559,469	1,386,804	997,980
Mining & quarrying	65,462	999	527,214	435,858
Food, tobacco and beverages	366,030	310,429	528,331	481,121
Whole sale & retail trade	6,439,657	5,237,659	5,789,742	5,327,429
Metal and allied	1,058,915	907,076	912,416	894,518
Individual	1,517,840	1,095,430	1,443,106	1,001,621
Farming, cattle and dairy	295,167	124,512	308,288	101,700
Trust funds and non profit organization	2,500	2,500	2,500	2,500
Others	9,630,438	9,004,361	9,147,973	5,308,165
	56,236,494	43,734,511	56,549,062	44,307,124

43.3.1 Segment by sector

Private	55,462,121	42,960,138	54,274,011	42,406,083
Public / Government	774,373	774,373	2,275,051	1,901,041
	56,236,494	43,734,511	56,549,062	44,307,124

44. SEGMENT DETAIL WITH RESPECT TO BUSINESS ACTIVITIES

	2012					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	Total
----- (Rupees in million) -----						
Net interest income - External	(32,293)	31,245	52,174	6,491	143	57,760
Inter segment revenue - net	66,479	(24,462)	(49,679)	-	7,662	-
Non-funded income	5,327	2,528	2,897	4,696	512	15,960
Net interest and non-mark-up income	39,513	9,311	5,392	11,187	8,317	73,720
Total expenses including provision (excluding impairment)	14,896	4,953	201	9,613	9,493	39,156
Impairment against investments	-	130	(224)	-	(233)	(327)
Inter segment administrative cost	6,153	1,231	177	678	(8,239)	-
Total expenses including provision	21,049	6,314	154	10,291	1,021	38,829
Profit before tax	18,464	2,997	5,238	896	7,296	34,891
Segment assets (gross)	140,414	359,738	767,922	294,658	95,864	1,658,596
Segment non-performing loans	8,884	31,660	-	15,467	225	56,236
Segment provision required including general provision	7,971	25,444	348	12,787	1,737	48,287
Segment liabilities including equity	892,734	140,299	170,051	194,683	212,542	1,610,309
Segment return on net liability / asset %	10.79%	11.57%	10.36%	5.15%	5.18%	-
Segment cost of funds (%)	5.71%	8.99%	9.44%	1.43%	0.97%	-
	2011					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	Total
----- (Rupees in million) -----						
Net interest income - External	(21,560)	43,749	28,791	5,181	237	56,398
Inter segment revenue - net	60,122	(35,697)	(28,096)	-	3,671	-
Non-funded income	4,689	2,533	1,735	4,288	1,538	14,783
Net interest and non-mark-up income	43,251	10,585	2,430	9,469	5,446	71,181
Total expenses including provision (excluding impairment)	12,874	6,496	132	7,235	10,038	36,775
Impairment against investments	-	-	69	-	16	85
Inter segment administrative cost	7,409	1,482	213	816	(9,920)	-
Total expenses including provision	20,283	7,978	414	8,051	134	36,860
Profit before tax	22,968	2,607	2,016	1,418	5,312	34,321
Segment assets (gross)	122,896	343,647	420,349	237,327	64,100	1,188,319
Segment non-performing loans	8,875	32,000	-	15,410	264	56,549
Segment provision required including general provision	6,802	27,080	410	11,696	2,777	48,765
Segment liabilities including equity	698,638	105,430	6,549	162,048	166,889	1,139,554
Segment return on net liability / asset %	12.45%	13.01%	10.76%	4.90%	6.29%	-
Segment cost of funds (%)	5.40%	10.40%	9.94%	1.09%	0.87%	-

45. TRUST ACTIVITIES

The Group is not engaged in any significant trust activities. However, Habib Bank Limited acts as security agent for arrangement and distribution of the term finance certificates and also engages in investment portfolio services as custodian on behalf of its customers.



46. GEOGRAPHICAL SEGMENT ANALYSIS

	2012			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
----- (Rupees in '000) -----				
Pakistan	32,220,951	1,330,336,399	77,536,646	153,177,654
Asia Pacific (including South Asia)	843,658	55,468,258	17,490,040	9,141,894
Europe	(1,164,553)	101,382,475	12,046,482	27,092,519
North America	183,715	32,425,638	2,107,370	1,030,673
Middle East	1,486,890	76,720,030	18,007,412	24,516,405
Others	1,320,546	13,975,772	5,849,810	690,399
	<u>34,891,207</u>	<u>1,610,308,572</u>	<u>133,037,760</u>	<u>215,649,544</u>

	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
----- (Rupees in '000) -----				
Pakistan	31,902,447	913,812,330	64,866,384	146,227,059
Asia Pacific (including South Asia)	922,376	52,899,052	14,303,278	6,627,562
Europe	239,128	95,132,480	11,592,600	7,501,315
North America	34,449	4,387,510	1,782,304	869,506
Middle East	498,454	59,319,383	12,812,120	13,194,779
Others	724,544	14,003,450	4,230,302	2,815,223
	<u>34,321,398</u>	<u>1,139,554,205</u>	<u>109,586,988</u>	<u>177,235,444</u>

47. ISLAMIC BANKING BUSINESS (IBB)

In order to meet the guidelines for Shariah compliance in Islamic Banking Institutions (IBI), statement of financial position and profit and loss account of IBB as at December 31, 2012 is given in Annexure V. Further, detailed disclosures are also disclosed in the said annexure to comply instructions issued by SBP to improve transparency and standardization in IBIs profit and loss distribution policies and practices dated November 19, 2012 and BSD Circular Letter No.03 dated January 22, 2013. The Annexure V includes consolidated financial information for Islamic Banking branches and First Habib Bank Modaraba, subsidiary of the Bank.

48. DATE OF AUTHORISATION FOR ISSUE

These consolidated financial statements were authorised for issue in the Board of Directors meeting held on February 12, 2013.

49. GENERAL

- 49.1 These consolidated financial statements have been prepared in accordance with the revised format for financial statements of Banks issued by the SBP through BSD Circular No. 4 and 7 dated February 17, 2006 and April 20, 2010 respectively and related clarifications / modifications.
- 49.2 The comparative figures have been re-arranged and reclassified for comparison purposes, however, there are no material reclassifications to report.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Detail of Domestic Investments Consolidated

For the year ended December 31, 2012

ANNEXURE-I

1. Particulars of investments held in listed companies

1.1 Ordinary shares

	Number of shares held	Paid-up value per share (Rupees)	Total paid-up value -----(Rupees in '000)-----	Cost	Market value	Credit Ratings Short Term
Attock Petroleum Limited	300,000	10	3,000	147,510	153,597	A1+
D G Khan Cement Limited	1,300,000	10	13,000	70,036	70,954	N/A
ENGRO Corporation	575,100	10	5,751	55,947	52,932	A1
Fauji Fertilizer Limited	3,900,000	10	39,000	455,102	456,846	N/A
Hub Power Company Limited	13,254,500	10	132,545	597,664	599,634	A1+
Bank Al Falah Limited	6,950,000	10	69,500	120,096	116,899	A1+
National Refinery Limited	1,083,400	10	10,834	299,254	229,356	A1+
Pakistan State Oil Company Limited	1,600,084	10	16,001	386,219	348,315	A1+
TRG Pakistan Limited	16,017,000	10	160,170	160,170	89,535	N/A
Pak Petroleum Limited	1,200,000	10	12,000	213,096	212,148	N/A
Kot Addu Power Company Limited	4,900,000	10	49,000	222,057	242,011	A1+
Lucky Cement Limited	2,600,000	10	26,000	366,741	394,004	N/A
Nishat Chunian Limited	300,000	10	3,000	7,657	10,512	A2
Nishat Mills Limited	1,700,000	10	17,000	104,145	108,545	A1+
Pak Oilfields Limited	950,000	10	9,500	408,858	415,663	N/A
Fauji Fertilizer Bin Qasim Limited	7,555,500	10	75,555	297,019	291,567	N/A
Agri Tech Limited	5,562,428	10	55,624	194,691	64,914	N/A
Oil & Gas Development Company Limited	270,000	10	2,700	51,064	52,005	A1+
Fatima Fertilizer Company Limited	3,935,000	10	39,350	102,239	103,884	A1
Askari Commercial Bank Limited	200,000	10	2,000	3,509	3,444	A1+
Mari Gas Company Limited	10,000	10	100	1,007	984	N/A
			4,264,081	4,017,747		

1.2 Ordinary shares held by HBL mutual funds

Attock Cement Pakistan Limited	94,000	10	940	9,335	9,382	N/A
Attock Petroleum Limited	194,622	10	1,946	64,002	99,645	A1+
Attock Refinery Limited	250,000	10	2,500	42,474	41,895	A1+
Bank Al Falah Limited	4,050,000	10	40,500	70,903	68,121	A1+
Bank Islami Pakistan Limited	1,014,500	10	10,145	9,521	9,344	A1
BYCO Petroleum	900,000	10	9,000	10,845	13,005	N/A
Cherat Cement Company Limited	295,000	10	2,950	13,966	14,381	N/A
D.G Khan Cement Company Limited	2,995,948	10	29,959	127,594	163,519	N/A
ENGRO Corporation	1,009,400	10	10,094	105,516	92,905	A1
Engro Foods Limited	690,077	10	6,901	43,800	67,724	N/A
Fatima Fertilizer Company Limited	2,812,181	10	28,122	67,977	74,242	A1
Fauji Cement Company Limited	11,750,000	10	117,500	79,282	76,845	N/A
Fauji Fertilizer Bin Qasim Limited	2,232,396	10	22,324	81,092	86,148	N/A
Fauji Fertilizer Company Limited	1,102,232	10	11,022	77,204	129,115	N/A
Habib Bank Limited	1,185,101	10	11,851	156,440	139,617	A1+
Hub Power Company Limited	5,244,045	10	52,440	203,810	237,241	A1+
Jubilee Life Insurance Company Limited	122,500	10	1,225	5,497	11,386	N/A
Karachi Electric Supply Company Limited	3,200,000	10	32,000	20,285	18,432	N/A
Kohat Cement Company Limited	460,000	10	4,600	30,401	32,490	N/A
Kot Addu Power Company Limited	885,720	10	8,857	37,832	43,746	A1+
Lotte Pakistan Limited	562,500	10	5,625	4,166	4,134	N/A
Lucky Cement Limited	1,055,724	10	10,557	132,804	159,984	N/A
Maple Leaf Cement Limited	1,834,500	10	18,345	27,066	26,729	B
Muslim Commercial Bank Limited	230,014	10	2,300	36,444	48,248	A1+
National Refinery Limited	45,000	10	450	9,673	9,527	A1+
National Bank of Pakistan Limited	1,667,927	10	16,679	77,078	82,379	A1+



	Number of shares held	Paid-up value per share (Rupees)	Total paid-up value -----(Rupees in '000)-----	Cost	Market value	Credit Ratings Short Term
NIB Bank Limited	250,000	10	2,500	672	658	A1+
Nishat Chunian Limited	505,000	10	5,050	17,723	17,695	A2
Nishat Chunian Power Limited	2,850,971	10	28,510	37,961	59,899	A2
Nishat Mills Limited	1,853,829	10	18,538	95,132	118,367	A1+
Nishat Power Limited	245,328	10	2,453	3,761	4,784	A2
Oil & Gas Development Company Limited	576,034	10	5,760	84,122	110,950	A1+
Pakistan Oilfields Limited	440,573	10	4,406	118,393	192,768	A1+
Pakistan Petroleum Limited	1,227,170	10	12,272	144,434	216,951	N/A
Pakistan State Oil Company Limited	413,140	10	4,131	90,544	95,935	A1+
Pakistan Telecommunication Limited	2,696,500	10	26,965	47,310	47,324	N/A
Pioneer Cement Limited	276,500	10	2,765	4,916	4,988	N/A
Trakker Pakistan Limited	931,847	10	9,318	9,318	8,424	A2
United Bank Limited	1,354,648	10	13,546	89,164	113,343	A1+
			2,288,457	2,752,269		

1.3 Units

	Number of units held	Paid-up value per unit (Rupees)	Total paid-up value -----(Rupees in '000)-----	Cost	Market value	Credit Ratings Short Term
Mutual Funds						
PICIC Investment Fund	11,104,508	10	111,045	133,994	78,509	N/A
JS - Growth Fund.	11,000,000	10	110,000	87,200	96,030	N/A
PICIC Growth Fund	214,453	10	2,145	6,412	3,517	N/A
National Investment Trust	673,546	10	6,735	11,113	22,395	N/A
			238,719	200,451		

1.4 Term finance certificates (TFC's)

	Number of certificates held	Paid-up value per certificate (Rupees)	Total paid-up value -----(Rupees in '000)-----	Cost	Market value	Credit Ratings Medium to Long Term
United Bank Limited.						
Bank Al Habib Limited	41,525	5,000	207,625	207,251	211,817	AA+
NIB Bank Limited	60,000	5,000	300,000	299,160	335,299	AA+
Faysal Bank Limited	34,950	5,000	174,750	174,373	174,810	AA-
	50,000	5,000	250,000	249,800	255,811	AA
			930,584	977,737		

1.5 TFC's held by HBL mutual funds

United Bank Limited	22,200	5,000	111,000	110,800	113,241	AA+
Faysal Bank Limited	12,758	5,000	63,790	63,624	64,649	AA
NIB Bank Limited	30,600	5,000	153,000	152,819	153,108	AA-
Worldcall Telecom Limited	23,750	5,000	118,750	26,938	-	N/A
NIB Bank Limited	2,400	5,000	12,000	11,656	12,008	AA-
Standard Chartered Bank Limited	8,000	5,000	40,000	40,000	40,440	N/A
			405,837	409,845		

2. Particulars of investment held in unlisted companies

2.1 Ordinary shares	Percentage of holding	Number of Shares held	Paid-up value per share (Rupees)	Break-up value	Based on accounts as at	Name of Chief Executive	Credit Ratings Short Term
				-----(Rupees in '000)-----			
Khushhali Bank Limited	17.60%	30,000,000	10	416,266	31 December, 2011	Mr. Muhammad Ghalib Nishtar	N/A
First Woman Bank Limited	15.46%	23,095,324	10	367,708	31 December, 2011	Mrs. Shafqat Sultana	N/A
Central Depository Company Limited	6.35%	4,124,901	10	106,635	30 June, 2012	Mr. Muhammad Hanif Jakhura	N/A
National Institutional Facilitation Technologies (Pvt) Limited	9.07%	1,478,228	10	75,890	30 June, 2011	Mr. M.M. Khan	N/A
SME Bank Limited	0.83%	1,987,501	10	15,504	31 December, 2011	Mr. Ihsan ul Haq Khan	N/A
National Investment Trust Limited	8.33%	79,200	100	276,274	31 December, 2011	Mr. Wazir Ali Khoja	N/A
Saif Power Limited	8.35%	32,268,354	10	443,049	31 December, 2011	Mr. Omar Saifullah Khan	A1
				1,727,349			

2.2 Preference shares	Number of shares held	Paid-up value per share (Rupees)	Total paid-up value	Cost	Credit Ratings Short Term
			-----(Rupees in '000)-----		
Masood Textile Mills Limited	10,000,000	10	100,000	<u>100,000</u>	N/A

2.3 Term Finance Certificates (TFC's)	Number of certificates held	Paid-up value per certificate (Rupees)	Total paid-up value	Cost	Market value	Credit Ratings Short Term
			-----(Rupees in '000)-----			
Bank Al Habib Limited	28,000	5,000	140,000	139,782	149,333	N/A
Bank Al Falah Limited	40,000	5,000	200,000	199,760	209,085	N/A
Allied Bank Limited	14,277	5,000	71,385	71,214	72,496	N/A
Faysal Bank Limited	15,000	5,000	75,000	74,850	76,010	N/A
Pakistan International Airline	594,976	5,000	2,974,880	2,972,500	-	N/A
Askari Commercial Bank Limited	16,990	5,000	84,950	84,712	85,488	N/A
Worldcall Telecom Limited	96,000	5,000	480,000	205,591	-	N/A
Azgard Nine Limited	9,233	5,000	46,165	46,165	-	N/A
Pakarab Fertilizers Limited	565,080	5,000	2,825,400	1,247,620	1,270,934	N/A
			5,042,194			1,863,346

2.4 TFC's held by HBL mutual funds

ENGRO Corporation	28,000	5,000	140,000	140,000	127,045	N/A
Eden Housing Limited	4,000	5,000	20,000	7,496	5,333	N/A
Orix Leasing Limited	220	5,000	1,100	3,667	3,669	N/A
Bank Al Habib Limited	9,000	5,000	45,000	44,976	51,079	N/A
AL Abbas Sugar Mills Limited	7,000	5,000	35,000	6,986	7,024	N/A
			203,125			194,150

2.5 Units	Number of units held	Paid-up value per unit (Rupees)	Total paid-up value	Cost	Credit Ratings Short Term
			-----(Rupees in '000)-----		
Meezan Cash Fund	301,102	10	3,011	<u>15,100</u>	N/A



3. Particulars of investments held in bonds

	Terms of Redemption			
	Principal	Interest / Profit	Rate of Interest / Profit	Book value (Rupees in '000)
3.1 Bonds (Guaranteed by Government)				
Pakistan International Airline	Repayable in full on maturity	Semi - Annual	6-Month Kibor + 79 BPS	425,000
3.2 Bonds				
Quetta Textile	Repayable in full on maturity	Semi - Annual	6-Month Kibor + 150 BPS	80,000
Engro Fertilizers Limited	Repayable in full on maturity	Semi - Annual	6-Month Kibor + 150 BPS	49,211
GOP Ijarah Sukuk	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	6,049,902
				6,179,113
3.3 Foreign Currency notes and bonds				
Gazprom	Repayable in full on maturity	Annual	8.125%	287,181
Hana Bank	Repayable in full on maturity	Semi - Annual	4.000%	200,808
Woori Bank	Repayable in full on maturity	Semi - Annual	4.750%	307,625
Kookmin Bank	Repayable in full on maturity	Semi - Annual	7.250%	208,794
Export Import Bank	Repayable in full on maturity	Annual	5.250%	150,373
Korea Development Bank	Repayable in full on maturity	Semi - Annual	8.000%	514,116
Standard Chartered PLC	Repayable in full on maturity	Semi - Annual	3.850%	437,466
Sberbank	Repayable in full on maturity	Semi - Annual	5.499%	305,584
Eurasian Development Bank	Repayable in full on maturity	Semi - Annual	7.375%	287,090
CNPC HK Overseas Capital Limited	Repayable in full on maturity	Semi - Annual	3.125%	499,787
GE Capital Sukuk Limited	Repayable in full on maturity	Semi - Annual	3.875%	502,604
1Malaysia Sukuk	Repayable in full on maturity	Semi - Annual	3.928%	508,773
Deutsche Telekom International Finance	Repayable in full on maturity	Annual	3.125%	512,222
HSBC Middle East	Repayable in full on maturity	Semi - Annual	3.000%	478,607
VTB Bank	Repayable in full on maturity	Semi - Annual	6.465%	207,550
Gazprom	Repayable in full on maturity	Semi - Annual	5.092%	518,853
Perusahaan	Repayable in full on maturity	Semi - Annual	8.800%	319,842
Vodafone Group PLC	Repayable in full on maturity	Annual	4.625%	413,871
E.ON International Finance BV	Repayable in full on maturity	Annual	5.125%	327,924
France Telecom	Repayable in full on maturity	Annual	5.000%	692,767
SABIC Capital BV	Repayable in full on maturity	Semi - Annual	3.00%	302,816
HSBC Bank Brasil SA	Repayable in full on maturity	Semi - Annual	4.00%	510,036
Corp Andina de Fomento	Repayable in full on maturity	Semi - Annual	3.75%	205,336
Orix Corp	Repayable in full on maturity	Semi - Annual	4.71%	433,718
Korea National Oil Corp	Repayable in full on maturity	Semi - Annual	4.00%	559,592
Banco Do Brasil	Repayable in full on maturity	Semi - Annual	4.50%	512,163
				10,205,498
3.4 Investment by Islamic Banking Business				
GOP IJARA SUKUK V	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	1,200,000
GOP IJARA SUKUK VI	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	3,850,717
GOP IJARA SUKUK VII	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	2,220,152
GOP IJARA SUKUK VIII	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	4,860,000
GOP IJARA SUKUK IX	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	1,701,305
GOP IJARA SUKUK XI	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	1,000,783
GOP IJARA SUKUK XIII	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	6,681,689
Sitara Energy Limited	Repayable in full on maturity	Semi - Annual	6 Month Kibor + 115 BPS	17,623
Engro Fertilizer Limited	Repayable in full on maturity	Semi - Annual	6 Month Kibor + 150 BPS	143,398
Century Paper & Board Mills Limited	Repayable in full on maturity	Semi - Annual	6 Month Kibor + 135BPS	160,000
Ghani Glass Limited	Repayable in full on maturity	Semi - Annual	3 Month Kibor + 180 BPS	300,000
HSBC Sukuk	Repayable in full on maturity	Semi - Annual	3.57%	202,873
				22,338,540
3.5 Certificates of Investment				
UBL Ameen	Repayable in full on maturity	On Maturity	10.40%	32,000

Detail of Advances Written-Off

ANNEXURE-II

Detail of Advances written-off for the year ended December 31, 2012 (referred on page 184) which also form part of the Audited Consolidated Financial Statements.

Detail of Disposal of Operating Fixed Assets Consolidated

For the year ended December 31, 2012

ANNEXURE-III

Description	Original cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of buyer
----- Amount in 000 -----						
FURNITURE & FIXTURES						
	1,713	1,713	-	125	Sale	
	2,268	2,268	-	125	Sale	
	2,268	2,268	-	125	Sale	
	1,713	1,713	-	125	Sale	
	7,962	7,962	-	500		
LAND & BUILDING						
	119,858	-	119,858	62,500	Sale	M/S Royal Retailer
	41,948	184	41,764	38,500	Sale	Mount Fuji Textile Pvt Limited
	161,806	184	161,622	101,000		
MOTOR VEHICLES						
	1,080	899	181	815	Auction	Muhammad Haroon Masood
	1,080	899	181	840	Auction	Alwat Khan
	1,080	899	181	830	Auction	Ziauddin
	1,080	899	181	845	Auction	Muhammad Rizwan
	1,080	916	164	780	Auction	Muhammad Imran
	1,080	899	181	895	Auction	Syed Pervez Ali Shah
	1,079	1,079	-	770	Auction	Muhammad Ibraheem
	1,080	899	181	845	Auction	Nazir Ahmed Khan
	1,080	899	181	850	Auction	Muhammad Rizwan
	1,017	1,017	-	535	Auction	S.Muhammad Saeed
	1,799	1,439	360	360	On retirement	R.Zakir Mahmood (Ex-Employee)
	4,950	4,950	-	-	On retirement	R.Zakir Mahmood (Ex-Employee)
	1,384	277	1,107	1,246	Insurance Claim	Jubilee General Insurance
	1,239	578	661	1,004	Insurance Claim	
	1,117	1,117	-	484	Auction	Ahmed Faraz
	1,376	1,376	-	529	Auction	Mumtaz Hussain
	1,227	1,227	-	301	Auction	Abdul Mateen
	23,828	20,269	3,559	11,929		
Assets having cost of less than Rs. 1 million and book value of less than Rs.250,000	433,477	387,054	46,423	67,354		
	627,073	415,469	211,604	180,783		

Detail of Donations in excess of Rs. 100,000

ANNEXURE-IV

Details of donations for the year ended December 31, 2012 (referred on page 189) which also form part of the Audited Consolidated Financial Statements.



Islamic Banking Business and Habib Bank Modaraba

ANNEXURE-V

1. FINANCIAL POSITION OF ISLAMIC BANKING BUSINESS AND FIRST HABIB BANK MODARABA - CONSOLIDATED

The Statement of the financial position of the Bank's Islamic Banking Business and First Habib Bank Modaraba as at December 31, 2012 are as follows:

	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
1.1 ASSETS			
Cash and balances with treasury banks		1,710,846	607,326
Balances with other banks		412,446	16,606
Due from Financial Institution		5,480,000	1,000,000
Investments - net		22,369,313	12,648,185
Islamic financing and related assets	1.2	3,108,988	1,169,382
Operating fixed assets		516	577
Deferred tax assets		34,036	32,107
Other assets		782,906	264,743
		<u>33,899,051</u>	<u>15,738,927</u>
LIABILITIES			
Bills payable		457	43
Due to financial institutions		576,000	2,000,000
Deposit and other accounts			
- Current Accounts		2,697,055	1,115,939
- Saving Accounts		11,417,392	2,802,915
- Term Deposits		7,087,919	2,161,298
- Deposits from financial institutions - remunerative		9,825,657	5,861,255
- Deposits from financial institutions - non -remunerative		8,360	3,187
Due to Head Office		240,544	243,557
Other liabilities		712,582	381,743
		<u>32,565,966</u>	<u>14,569,936</u>
NET ASSETS		<u>1,333,085</u>	<u>1,168,989</u>
REPRESENTED BY			
Islamic Banking Fund / Certificate Capital		647,072	647,072
Reserves		548,519	222,963
Profit Equalization reserve	1.5	-	137
Unappropriated profit		192,915	352,687
		<u>1,388,506</u>	<u>1,222,859</u>
Deficit on revaluation of investments		(55,421)	(53,870)
		<u>1,333,085</u>	<u>1,168,989</u>

The commitment in respect of letters of credit of Islamic Banking business of Habib Bank Limited amounted to Rs. 143.332 million (2011: Rs. 69.376 million).

	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
1.2 Islamic financing and related assets			
Murabaha	1.3	383,099	100,826
Ijarah	1.4	329,832	276,179
Musharaka		1,038,307	19,167
Advance for Murabaha		38,577	196,894
Advance for Ijarah		3,859	39,107
Istisna		326,000	-
Assets/Inventories		327,649	-
		<u>2,447,323</u>	<u>632,173</u>

- 1.3 This represents assets sold under Murabaha agreement.
- 1.4 This represents fixed assets given to customers under Ijarah agreement.
- 1.5 This represents 50% of Profit Equalization Reserve.

	2012 (Rupees in '000)	2011 (Rupees in '000)
2. PROFIT AND LOSS ACCOUNT OF ISLAMIC BANKING BUSINESS AND FIRST HABIB BANK MODARABA		
Profit earned	2,555,806	2,086,280
Profit expensed	1,669,007	1,214,450
Net profit earned	<u>886,799</u>	<u>871,830</u>
Provision against doubtful lease rentals	(2,058)	76
Depreciation on assets given on Ijarah	147,880	111,658
Impairment of assets given on Ijarah	188,094	223,118
(Reversal) / Charge against diminution in value of investments -net	(3,513)	30,511
Net profit after depreciation and provisions	<u>330,403</u>	<u>365,363</u>
	<u>556,396</u>	<u>506,467</u>
Other income		
Fee, commission and brokerage income	22,143	12,468
Dividend income	1,500	1,003
Rent on lockers	4,301	4,056
Income from dealing in foreign currencies	12,320	5,848
Net gain on sale of securities	13,000	425
Others	29,078	18,799
Total other income	<u>82,342</u>	<u>42,599</u>
	<u>638,738</u>	<u>549,066</u>
Other expenses		
Administrative expenses	333,766	240,084
Net profit for the year	<u>304,972</u>	<u>308,982</u>
3. CHARITY FUND		
Opening balance	69	23
Additions during the year	1,775	69
Payments / Utilization	-	(23)
	<u>1,844</u>	<u>69</u>
4. Remuneration to Shariah Advisor / Board	<u>1,440</u>	<u>1,440</u>
5. Mudarib's share in profit is 30% (2011: 30%) and amounts to Rs. 426.936 million (2011: Rs. 449.646) after netting of Hiba to depositors from Mudarib's share amounting to Rs. 155.507 million (2011: Nil)		
6. Following are the types and nature of pools maintained by Islamic Banking Business along with their key features :		

General Pool(s) PKR (Mudaraba)

Generally the deposits parked in general pool are not based on special weightages. The risk of loss is minimal due to the less risky assets parked in General Pool.

Special Pool(s) PKR (Mudaraba)

Separate pool(s) are created where the customers desire to invest in a special class of assets. These pool(s) rates are higher / lower than the general pool depending on the special class of assets. In case of loss in special pool the loss will be born by the Special pool members.



FCY Pool(s) (Mudaraba)

All FCY deposits and Investments are parked in special FCY pool(s) to share the return among the FCY deposit holders. The weightages are also declared separately.

IERS Pool PKR (Musharaka)

IERS pool is required by SBP to facilitate the Islamic Export Refinance under Musharaka Scheme.

- 7.** The following parameters are used for profit distribution in pool :

- Administrative and operating expenses are paid by the mudarib and not charged to pool.
- From January 2012 to November 2012: It was the practice of the bank that the Bank first charge the Mudarib fee and then distribute the profit among equity and depositors.
- From December 2012, as per instructions issued by SBP circular no. IBD-03/2012 to improve transparency and standardization in IBIs profit and loss distribution policies and practices dated November 19, 2012, it is the practice of the bank that the Bank first charge the profit on equity allocated to pool and then charge the Mudarib fee before distribution of profit among depositors.
- 10% of Profit Equalization Reserve charged in first 11 months and 2% for last month

- 8.** Average profit rates earned on the earning assets of Islamic Banking Business during the year is 11.61% (2011: 13.58%) as compared to profit of 8.22% (2011: 9.82%) distributed to the depositors.

9. Segmentation of economic sectors where Mudaraba based deposits are deployed

	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
Chemical and pharmaceuticals		56,659	23,891
Textile		10,152	21,605
Financial - Islamic modes		4,941,923	160,935
Food & beverages		5,409	12,953
Cement		150,387	-
Information Technology		162,760	143,734
Printing & publishing		2,545	3,291
Glass Manufacturing		57,878	-
Public / Government	9.1	20,592,158	8,022,505
Others		537,253	2,004,402
		26,517,124	10,393,316

- 9.1** This represents investments in Government of Pakistan (GoP) Sukuk, balance maintained with National Bank of Pakistan and financing against Ijarah assets.

Domestic Network

Name of Region	Number of Branches
Karachi South	66
Karachi North	76
Hyderabad	55
Sukkur	48
Quetta	37
Multan	95
Bawalpure	54
Sahiwal	76
Faisalabad	93
Lahore	95
Sialkot	71
Gujranwala	65
Gujrat	66
Sargodha	74
Jhelum	74
Islamabad	116
Mardan	88
Peshawar	100
Muzaffarbad	34
Mirpur A.K	51
Islamic Banking	33
Commercial	19
Corporate (Including K.E.P.Z)	12
	1,498

Subsidiaries

Habib Bank Financial Services(Private) Limited
HBLCurrency Exchange (Private) Limited
HBL Asset Management Limited
First Habib Bank Modarba
HBL Stock Fund
HBL Multi Asset Fund
HBL Income Fund

Affiliates

Jubilee General Insurance Company Limited
Jubilee Life Insurance Company Limited
HBL Money Market Fund
HBL Islamic Stock Fund
HBL Islamic Money Market Fund
HBL Pension Equity Sub Fund
HBL Pension Debt Sub Fund
HBL Pension Money Market Sub Fund
HBL Islamic Pension Equity Sub Fund
HBL Islamic Pension Debt Sub Fund
HBL Islamic Pension Money Market Sub Fund



International Franchise

Branches		Subsidiaries		
Country	City	Country	City	
Afghanistan	Kabul	Main Branch Serena Hotel	United Kingdom	Habib Allied International Bank Plc. Whitechapel Road Green Street Edgware Road Southall
Bahrain	Manama Muharraq	Main FCB Branch / OBU	London	
Bangladesh	Dhaka	Gulshan Branch Motijheel Branch Uttara Branch	Manchester Birmingham Glasgow Leicester	
		Chittagong Sylhet		
Belgium	Brussels		London	Habibsons Bank Limited Portman Street
France	Paris	Switzerland	Zurich	
Kenya	Nairobi Mombasa Malindi	Hong Kong		Habib Finance International Limited
Lebanon	Beirut			
Maldives	Male	Affiliates		
Mauritius	Port Louis Curepipe Rose Hill	Nepal		Himalayan Bank Limited
Netherlands	Rotterdam	Kenya		Diamond Trust Bank Kenya Limited
Oman	Ruwi Muttrah Al-Khuwair Nizwa Seeb Sohar Salalah Walja	Kyrgyz Republic		Kyrgyz Investment & Credit Bank
Seychelles	Mahe			
Singapore	Singapore	Representative Offices		
Srilanka	Colombo	Iran	Tehran	
	Lake View	China	Beijing	
Kalmunai				
Turkey	Istanbul			
U.A.E.	Abu Dhabi	Main Branch Shaikh Zayed Road Branch		
	Al Ain			
	Dubai	Deira Bur Dubai Naif Road		
		Sharjah		
U.S.A.	New York City			



Unconsolidated Financial Statements

2012

Directors' Report

On behalf of the Board of Directors, I am pleased to present the Unconsolidated Financial Statements and the Auditors' Report for the year ended December 31, 2012.

Economic and Market Review

The economy witnessed modest recovery despite challenging economic environment, both locally and around the globe. The real GDP grew by 3.7 percent during the FY2012 as compared to 3 percent in the previous year. The economy however, underperformed compared with growth target of 4.2 percent for the FY 2012 primarily due to the severe energy crises, deteriorating law and order and weakening global economy. The agriculture sector recorded a growth of 3.1 percent in FY2012 compared to 2.4 percent in FY 2011. The livestock sub-sector (with a 55.1 percent share in agriculture) remained the main contributor to growth, followed by major crops i.e. cotton, rice and sugarcane. The industrial sector showed growth of 3.4 percent as against 0.7 percent in the previous year. Small Scale Manufacturing contributed about 45% in the industrial growth, while contribution by Large Scale Manufacturing was limited to 26%. The service sector, the largest contributor (over 55 percent) in the GDP, grew by 4 percent in FY2012 as against 4.4 percent in the corresponding period last year.

The inflationary pressure eased significantly as CPI reduced from 13.7 percent from FY 2011 to 11 percent in FY 2012 and further to 6.9 percent as on December 31, 2012. Worker remittances showed robust increase of 17.8% to US\$ 13.2 billion for the FY 2012.

Trade deficit increased to US \$ 15.5 billion for FY 2012 as against US \$ 10.5 billion in the previous year. Rising trade deficit, declining foreign direct investment and lower disbursement of fresh loan put pressure on country's total liquid foreign exchange reserves, which declined from US \$ 18.24 billion to US \$ 15.23 billion as on June 30, 2012. The decline in foreign exchange reserves coupled with appreciation of US Dollar against major world currencies resulted in depreciation to Pak Rupee by 9.1% against US Dollar during FY 2012 as against 0.6 percent in FY 2011.

The State Bank of Pakistan continued its policy of reducing policy rate. During the year under review, the policy rate was first reduced to 10.50% from 12% on August 13, 2012. It was again reduced to 10% on October 8, 2012 and further to 9.5% on December 17, 2012. In all the policy rate was reduced by 250 bps during the year under review.



Financial Performance:

The financials of the Bank are summarized below :-

	2012	2011
	Rupees in million	
Profit after tax	<u>21,564</u>	<u>20,742</u>
Un-appropriated profit bought forward	52,229	44,121
Profit attributable to equity holders of the Bank	21,564	20,742
Transferred from surplus on revaluation of fixed assets- net of tax	245	260
	<u>21,809</u>	<u>21,002</u>
Profit available for appropriation	<u>74,038</u>	<u>65,123</u>
Appropriations:		
Transfer to statutory reserves	(2,156)	(2,074)
Cash dividend	(4,408)	(6,512)
Issued as bonus shares	(1,102)	(1,002)
Half year interim dividend	(4,243)	(3,306)
Total appropriations	<u>(11,909)</u>	<u>(12,894)</u>
Un-appropriated Profit carried forward	<u>62,129</u>	<u>52,229</u>
Basic and Diluted Earnings after tax-Rupees per Share	<u>17.79</u>	<u>17.11</u>

In spite of challenging economic environment, HBL continued to show strong growth in deposit. Total deposits of HBL stood at 1,141 billion as on December 31, 2012 showing an impressive growth of 30% compared to corresponding period last year. The domestic deposit at Rs.1,041 billion witnessed robust growth of 32% which is much above the industry growth of 11%. Retail deposits contributed significantly in increasing the deposits base of HBL. The strong performance by Retail banking helped HBL to cross Rupee One Trillion in domestic deposits, making HBL the first banking company to have achieved this milestone in the history of Pakistan. The CASA stood at 68% as on December 31, 2012 as against 71% in the corresponding period last year. The Capital Adequacy Ratio (CAR) has been maintained at 15.15%.The investment stood at Rs. 777 billion while advances at Rs. 460 billion as on December 31, 2012 as against Rs.400 billion and Rs. 416 billion respectively in the previous year.

Net Interest Income of HBL increased by 2% to Rs. 56 billion as compared to previous year. The non-interest income was up by 2.5% from Rs. 12 billion for the year ended 31 December 2011 to Rs. 12.4 billion for the year ended December 31, 2012.

The profit before tax stood at Rs. 33.6 billion for the year ended December 31, 2012 indicating an increase of 5% over previous year while after tax profit at Rs.21.6 billion indicating an increase of 4% from last year. The earnings per share before and after tax was Rs. 27.74 and Rs. 17.79 respectively for the year ended December 31, 2012 as against Rs. 26.42 and Rs. 17.11 respectively in the corresponding period last year.

The overall improvement in HBL performance is attributable to diversified range of products and services for our valued customers, quality of investment portfolio, diversified advances and stringent cost and internal controls. The management of the Bank is fully committed to provide best possible services and product range to its customers in a challenging local and international economic environment.

During the year HBL Islamic Banking (HBL-IB) showed robust growth. The HBL Islamic Banking deposits increased sharply by 160% to Rs.31 billion as on December 31, 2012 against Rs.12 billion as on December 31, 2011. The exponential growth in HBL-IB deposits was possible due to addition of 11 new branches along with two sub branches, relocation of 11 branches to high potential areas and addition of 33 new windows for Islamic Banking. By December 2012 the HBL-IB comprised of 33 branches, 2 sub-branches and 266 windows making it one of the biggest Islamic Banking network amongst conventional commercial banks. The HBL-IB has developed a strong asset team to target new businesses based on HBL synergies. During the year HBL-IB participated in several syndications and is now well positioned to acquire syndication and structuring mandates at its own.

International Banking (IB) is an integral part of HBL and one of the oldest franchises in the markets we operate in. It has contributed 13% towards Bank total assets, 9% of total deposit and 10% in operating profits. The International Banking witnessed strong growth of 19% in Deposits to Rs. 100 billion in 2012 from Rs.84 billion in 2011. The IB advances grew by 20% to Rs. 75 billion in 2012 from Rs. 62 billion in 2011. The operating profit of IB showed impressive growth of 70% to Rs. 3.9 billion in 2012.

Payment Services activities which covers cash management, cards, branchless banking and alternate delivery channels to customers are one of the fastest growing activities of HBL. In 2012 the cash management processed Rs.751 billion in transaction depicting handsome growth of 42%. The card business is rapidly growing and HBL today has the largest network of ATMs deployed in the Country: during the year 242 ATMS were added taking the total number of ATMs to 750 all over Pakistan. Branchless Banking Pilot Project was launched pan Pakistan in the last quarter of 2012. HBL is committed to provide convenient and efficient banking solutions for its customers. The Bank has entered into an agreement with Union Pay (UP) of China to issue UP cards in Pakistan and global markets where HBL has presence. This alliance will give HBL the ability to advance its financial inclusion plan by providing innovative and affordable product solutions for its customers. HBL also plans to launch a new state of art internet banking platform to include web portal access via smart application.

In order to increase the customer base, enhanced services and improve efficiency 33 new branches were added to the HBL network, increasing the total number of branches to 1540 by 2012. The number of online branches as of December 31, 2012 is 1404. A new web based Home Remittances system was launched during the year to provide enhanced transaction processing and enquiry capability to our customers, correspondent banks and HBL branches.

Other Initiatives

It is the endeavor of HBL to continue to be a key developer of consumer finance products for its customers. To achieve this objective HBL has entered into an agreement with Citibank Pakistan to acquire its Credit Card and Consumer Lending Portfolio in Pakistan. The acquisition of this business will strengthen HBL position in consumer banking particularly Credit Card market.

With a view to further strengthen risk management, the Bank set itself the goal of implementing the Foundation Internal Rating Based (FIRB) approach of Basel II for the management of credit risk. During 2012 the Bank achieved significant milestones in this regard. The implementation of FIRB approach will provide impetus to the Bank in its efforts in organizational realignment, better portfolio and capital management, streamlining and automation of credit processes and, most importantly, risk based strategic planning. The Bank is in the process of development of Internal Credit Risk Rating Models. The rating models are expected to be developed during 2013 as is the



substantial completion of the second and final phase of data collection for the purpose of refinement and validation of these models. Roll out of these models is targeted for 2014.

The Internal Audit function of the Bank is being further strengthened. The Internal Audit is in the process of shifting Internal Audit's Strategy from protecting value to adding-value to the business processes of the organization, adoption of Risk Based Audit Approach to target high-risk areas of the audit universe and continue the shift away from traditional 100% transactional audit. The Internal Audit Function also intends to enhance expertise to assist implementation of Basel II in the areas of credit risks, market risk and operational risk within the time limit as prescribed by State Bank of Pakistan.

The current financial global crises has posed serious challenges to the financial services industry, worldwide. Pakistan is also facing serious economic challenges due to high commodity prices, energy crises, huge losses to public sector enterprises (PSEs), and decline in foreign direct investment and increasing current account deficit. As a result certain businesses in the country have been severely affected leading to cash flow and debt repayment issues. In today's volatile economic environment, managing stressed accounts require specialized and complex relationship skill in legal and business issues to support private sector as engine for growth. A new "Structural Credits Function" has been set up to manage the classified portfolio along with all those complex relationships that require specialized management.

The Bank has also set up a new "Investor Relations and Corporate Representation Function" with a view to maintaining HBL's profile as a Public Listed Company and to monitor performance of HBL's subsidiaries and associates.

Dividend / Bonus

The Board has recommended a final dividend of Rs.4.00 per share for the year ended December 31, 2012. The Board had earlier declared and paid interim dividend @ Rs.3.5 per share, making total dividend for the year to Rs.7.50 per share. In addition to above the Board has also decided to issue Bonus Share at the rate of 10% in proportion of 10 shares for every 100 shares held.

Credit Rating Upgraded

JCR VIS Credit Rating Agency of Pakistan has upgraded the entity ratings of the Bank to "AAA / A-1+" (Triple A/ A-One Plus) from "AA+/A-1+" (Double A Plus / A-One Plus) with 'Stable' outlook. HBL has therefore become the first private sector bank of Pakistan to achieve this landmark.

Awards

HBL was conferred with following awards:

1. "Leading Bank in Home Remittances" Award for the year 2011 by the Pakistan Remittance Initiative
2. "Strongest Bank in Pakistan" by Asian Banker Magazine.

Future Outlook

The reduction in policy rate by 450 bps since 2011, without any reduction in minimum deposit rate on saving accounts will significantly reduce banking sector spreads. Continuing energy crises and slow down in global economy would continue to arrest growth and as a consequence the demand for fresh credit from private sector is likely to be slow in the near future. The banks would, therefore, be forced to invest in low yield government securities and as a result profit margin of the banking sector may be affected.

Changes in Directorship

Mr. R. Zakir Mahmood retired as President & CEO of the Bank after serving for over twelve years on September, 28 2012. He will, however, continue as a Director on the Board of HBL. Mr. Nauman K. Dar has been appointed as President & CEO of HBL. The Board places on record their appreciation for the contribution of Mr. R. Zakir Mahmood and wish the new President and CEO Mr. Nauman K. Dar every success.

Meetings of the Board:

Eleven Board meetings were held during 2012 and were attended by the Directors as follows:

Name	Attendance	
Mr. Sultan Ali Allana	Chairman	11
Mr. Nauman K. Dar*	President and Chief Executive Officer	3
Mr. R. Zakir Mahmood**	Director	11
Mr. Moez Ahamed Jamal	Director	11
Mr. Sajid Zahid	Director	11
Mr. Ahmed Jawad	Director	11
Mr. Mushtaq Malik	Director	11
Mr. Sikandar Mustafa Khan	Director	11

*Appointed as President & CEO w.e.f September 29,2012

**Retired as President & CEO w.e.f September 28,2012

Auditors:

The present auditors, Messrs Ernst & Young Ford Rhodes Sidat Hyder, retire. As per Code of Corporate Governance they are eligible for reappointment. Accordingly, the Board of Directors endorses the recommendation of the Audit Committee for the appointment of Messrs Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, as the auditors of the bank for the financial year 2013.

Statement under Section XVI of the Code of Corporate Governance:

The Board is committed to ensure that requirements of corporate governance set by Securities and Exchange Commission of Pakistan are fully met and the Directors are pleased to report that:

- a) The financial statements prepared by the management of the Bank present a true and fair view of the state of its affairs, operational results, cash flows and changes in equity.
- b) Proper books of accounts of the Bank have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) The Bank has followed international accounting standards (as applicable to Banks in Pakistan) in the preparation of accounts and there is no departure from the said standards.
- e) As a continuous process, efforts have been made to effectively implement the internal control system.



HBL is in the process of adopting an internationally accepted COSO Internal Control – Integrated Framework as part of compliance with SBP Internal Control Guidelines. The Bank has also evaluated its Internal Control over Financial Reporting (ICFR) using the US PCAOB Auditing Standard (AS – 5). A dedicated Management Testing and Reporting Framework for ICFR is being developed as a part of COSO implementation project.

- f) There are no doubts about the Banks' ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance as detailed in the regulations.
- h) Key operating and financial data for the last ten years is presented in the financial statements under the section "Progress since 2002 to 2012 – Unconsolidated".
- i) The Directors, CEO, CFO and Company Secretary have confirmed that neither they nor their spouses are engaged in the business of stock brokerage.
- j) Risk Management, Human Resource and Audit Committees constituted by the Board are functioning efficiently in accordance with their Terms of Reference. The Board has met regularly and held eleven meetings in the year.

The Statement of Internal Control, Statement of Compliance with Review Report and the Auditors' reports are attached to the Financial Statements.

Statement of Corporate Social Responsibility – (CSR)

HBL as a responsible Corporate Citizen is committed in fulfilling its role to serve society in areas such as health, education, low cost housing, disaster mitigation, environment protection, preservation of craft, culture and heritage, arts, poverty alleviation, empowerment of women, rural/socio economic development, entrepreneurial development and strengthening of civil society.

To achieve above objectives the Bank established HBL Foundation in 2009 with the mandate to promote development and well being of the people with the objective of improving their quality of life. The Bank has been consistently donating huge amount to the Fund towards achievement of its objective. A sum of Rs.218 million was donated to the Fund in 2012, whereas total donation by the Bank amounted to Rs. 255 million (including donation to the Foundation) for 2012 for the achieving objectives as set out above.

HBL is an equal opportunity employer based on merit without any discrimination in race, religion and gender. It provides extensive in house training facilities for continuous personal development of its employees.

HBL is extremely active in promoting sports in Pakistan. In this connection the Bank regularly sponsors / co-sponsors several sports events.

Value of Investments in employee retirement benefits fund:

The following is the value of investments of provident, gratuity, pension and benevolent funds maintained by the Bank, based on the latest audited financial statements.

	Rupees in Million
Employee's Provident Fund	8,224
Employee's Pension Fund	3,620
Employee's Gratuity Fund	1,146
Employee's Benevolent Fund – Executive and Officers	997
Employee's Benevolent Fund – Clerical and Non-Clerical	354

Pattern of Shareholding:

The pattern of Shareholding as at December 31, 2012 is annexed to the financial statements.

Training programs attended by Directors:

Details have been provided in Statement of Compliance.

Appreciation and Acknowledgement:

I would like to appreciate the efforts of our Regulators and Government of Pakistan and in particular the Ministry of Finance and the State Bank of Pakistan for developing and strengthening the banking and financial service industry through improved regulatory and governance framework.

I would like to take this opportunity to also thank on behalf of the Board and Management of the Bank, the customers and the shareholders for entrusting their confidence in us and assure them that we remain committed to maintaining high service standards and a strong culture of good corporate governance and compliance in all our endeavors.

On behalf of the Board

Nauman K. Dar

President & Chief Executive Officer

February 12, 2013



Auditors' Report

To the members - Unconsolidated

We have audited the annexed unconsolidated statement of financial position of Habib Bank Limited (the Bank) as at 31 December, 2012 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated cash flow statement, 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 87 branches which have been audited by us and 35 branches audited by auditors abroad and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

2012 and its true balance of the profit, its comprehensive income, 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.

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: February 12, 2013
Karachi



Unconsolidated Statement of Financial Position

As at December 31, 2012

			Note	2012 (Rupees in '000)	2011 (Rupees in '000)
ASSETS					
1,567,935	1,061,044	Cash and balances with treasury banks	5	152,324,425	103,080,076
246,090	360,123	Balances with other banks	6	23,907,534	34,985,809
255,567	428,010	Lendings to financial institutions	7	24,828,255	41,581,029
7,999,874	4,116,734	Investments	8	777,185,323	399,939,469
4,735,688	4,284,742	Advances	9	460,070,634	416,261,389
218,067	176,092	Operating fixed assets	10	21,185,101	17,107,263
59,120	71,614	Deferred tax asset	11	5,743,464	6,957,290
541,385	452,305	Other assets	12	52,595,429	43,941,323
15,623,726	10,950,664			1,517,840,165	1,063,853,648
LIABILITIES					
194,325	143,022	Bills payable	13	18,878,652	13,894,502
1,977,449	347,041	Borrowings	14	192,108,597	33,714,904
11,746,459	9,009,895	Deposits and other accounts	15	1,141,164,975	875,308,597
50,000	50,000	Sub-ordinated loans	16	4,857,485	4,497,285
-	-	Liabilities against assets subject to finance lease		-	-
-	-	Deferred tax liability		-	-
393,435	356,395	Other liabilities	17	38,221,804	34,983,770
14,361,668	9,906,353			1,395,231,513	962,399,058
1,262,058	1,044,311	NET ASSETS		122,608,652	101,454,590
REPRESENTED BY:					
Shareholders' equity					
124,784	113,440	Share capital	18	12,122,748	11,020,680
374,036	310,898	Reserves		36,337,497	30,203,696
639,514	537,610	Unappropriated profit		62,128,562	52,228,646
1,138,334	961,948			110,588,807	93,453,022
123,724	82,363	Surplus on revaluation of assets - net of deferred tax	19	12,019,845	8,001,568
1,262,058	1,044,311			122,608,652	101,454,590
CONTINGENCIES AND COMMITMENTS				20 & 21	

The annexed notes 1 to 49 and annexures I to V form an integral part of these unconsolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Unconsolidated Profit and Loss Account

For the year ended December 31, 2012

2012 (US \$ in '000)	2011 (US \$ in '000)		Note	2012 (Rupees in '000)	2011 (Rupees in '000)
1,177,562	992,771	Mark-up / return / profit / interest earned	22	114,399,790	96,447,370
600,354	427,827	Mark-up / return / profit /interest expensed	23	58,324,168	41,563,287
<u>577,208</u>	<u>564,944</u>	Net mark-up / profit / interest income		<u>56,075,622</u>	<u>54,884,083</u>
57,834	66,270	Provision against non-performing loans and advances	9.4 / 9.6	5,618,514	6,438,120
72	(705)	Charge / (reversal) against off-balance sheet obligations	17.1	7,015	(68,525)
(4,094)	9,023	(Reversal) / charge against diminution in the value of investments	8.7	(397,705)	876,626
-	-	Bad debts written off directly		-	-
53,812	74,588	Net mark-up / profit / interest income after provisions		5,227,824	7,246,221
523,396	490,356			50,847,798	47,637,862
Non mark-up / interest income					
60,274	52,347	Fee, commission and brokerage income		5,855,599	5,085,472
5,305	3,875	Dividend income		515,378	376,450
23,241	35,716	Income from dealing in foreign currencies		2,257,827	3,469,827
9,894	4,382	Gain on sale of securities	24	961,241	425,674
294	(15)	Unrealised gain / (loss) on held for trading securities	8.13	28,583	(1,451)
28,529	28,123	Other income	25	2,771,622	2,732,153
127,537	124,428	Total non mark-up / interest income		12,390,250	12,088,125
650,933	614,784			63,238,048	59,725,987
Non mark-up / interest expense					
294,700	278,694	Administrative expenses	26	28,629,971	27,075,005
2,860	(1,152)	Other provisions / write offs - net	12.1	277,848	(111,873)
188	799	Other charges	27	18,285	77,588
7,060	6,729	Workers welfare fund	28	685,873	653,706
304,808	285,070	Total non mark-up / interest expenses		29,611,977	27,694,426
346,125	329,714	Profit before taxation		33,626,071	32,031,561
Taxation					
124,460	104,190	current	29	12,091,228	10,122,028
4,346	1,813	prior		422,246	176,132
(4,648)	10,207	deferred		(451,568)	991,585
124,158	116,210			12,061,906	11,289,745
221,967	213,504	Profit after taxation		21,564,165	20,741,816
-----Rupees-----					
		Basic and diluted earnings per share	30	17.79	17.11

The annexed notes 1 to 49 and annexures I to V form an integral part of these unconsolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director



Unconsolidated Statement of Comprehensive Income

For the year ended December 31, 2012

2012 (US \$ in '000)	2011 (US \$ in '000)		2012 (Rupees in '000)	2011 (Rupees in '000)
221,968	213,504	Profit for the year	21,564,165	20,741,816
		Other comprehensive income		
40,941	4,711	Effect of translation of net investment in foreign branches	3,977,384	457,701
<u>262,909</u>	<u>218,215</u>	Comprehensive income transferred to equity	<u>25,541,549</u>	<u>21,199,517</u>
		Components of comprehensive income not recognized as income and equity		
17,703	-	Surplus on revaluation of fixed assets	1,719,888	-
(1,986)	-	Deferred tax on revaluation of fixed assets	(192,959)	-
43,336	8,709	Surplus on revaluation of investments	4,210,126	846,081
(15,166)	(3,060)	Deferred tax on revaluation of investments	(1,473,308)	(297,323)
<u>306,796</u>	<u>223,864</u>		<u>29,805,296</u>	<u>21,748,275</u>

The annexed notes 1 to 49 and annexures I to V form an integral part of these unconsolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Unconsolidated Statement of Changes in Equity

For the year ended December 31, 2012

Share Capital	RESERVES				Total	
	Exchange translation reserve	Statutory	Revenue Reserves			
			General	Unappropriated profit		
----- (Rupees in '000) -----						
Balance as at December 31, 2010	10,018,800	7,787,885	13,810,116	6,073,812	44,121,103 81,811,716	
Total comprehensive income for the year						
Profit for the year ended December 31, 2011	-	-	-	-	20,741,816 20,741,816	
- Other comprehensive income						
Effect of translation of net investment in foreign branches	-	457,701	-	-	- 457,701	
	-	457,701	-	-	20,741,816 21,199,517	
Transactions with owners, recorded directly in equity						
Final cash dividend paid at Rs. 6.5 per share for the year ended December 31, 2010	-	-	-	(6,512,220)	(6,512,220)	
Issued as bonus shares	1,001,880	-	-	(1,001,880)	-	
Half year interim cash dividend paid at Rs. 3 per share	-	-	-	(3,306,204)	(3,306,204)	
	1,001,880	-	-	(10,820,304)	(9,818,424)	
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	260,213	260,213	
Transferred to statutory reserves	-	-	2,074,182	-	(2,074,182) -	
Balance as at December 31, 2011	11,020,680	8,245,586	15,884,298	6,073,812	52,228,646 93,453,022	
Total comprehensive income for the year						
Profit for the year ended December 31, 2012	-	-	-	-	21,564,165 21,564,165	
- Other comprehensive income						
Effect of translation of net investment in foreign branches	-	3,977,384	-	-	- 3,977,384	
	-	3,977,384	-	-	21,564,165 25,541,549	
Transactions with owners, recorded directly in equity						
Final cash dividend paid at Rs. 4 per share for the year ended December 31, 2011	-	-	-	(4,408,272)	(4,408,272)	
Half year interim cash dividend paid at Rs. 3.5 per share	-	-	-	(4,242,962)	(4,242,962)	
Issued as bonus shares	1,102,068	-	-	(1,102,068)	-	
	1,102,068	-	-	(9,753,302)	(8,651,234)	
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	245,470	245,470	
Transferred to statutory reserve	-	-	2,156,417	-	(2,156,417) -	
Balance as at December 31, 2012	12,122,748	12,222,970	18,040,715	6,073,812	62,128,562 110,588,807	

The annexed notes 1 to 49 and annexures I to V form an integral part of these unconsolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director



Unconsolidated Cash Flow Statement

For the year ended December 31, 2012

2012 (US \$ in '000)	2011 (US \$ in '000)	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
CASH FLOWS FROM OPERATING ACTIVITIES				
346,125	329,714		Profit before taxation	33,626,071
(5,305)	(3,875)		Dividend income	(515,378)
(9,894)	(4,382)		Gain on sale of securities	(961,241)
(15,199)	(8,257)			(1,476,619)
330,926	321,457			32,149,452
Adjustment for:				
13,874	13,979		Depreciation	1,347,848
806	446		Amortisation	78,344
(4,094)	9,023		(Reversal) / charge against diminution in the value of investments	(397,705)
57,834	66,270		Provision against non-performing loans and advances	5,618,514
(294)	15		Unrealised (gain) / loss on held for trading securities	(28,583)
3,708	2,218		Exchange loss on sub-ordinated loans	360,200
300	(80)		Loss / (gain) on sale of operating fixed assets - net	29,144
(491)	-		Gain on sale of non-banking asset	(47,707)
2,932	(2,498)		Miscellaneous provisions	284,863
74,575	89,373			7,244,918
405,501	410,830			39,394,370
(Increase) / decrease in operating assets				
172,443	(115,715)		Lendings to financial institutions	16,752,774
(274,268)	(32,909)		Investments - held for trading	(26,645,032)
(508,779)	126,599		Advances	(49,427,759)
(90,703)	(71,570)		Other assets	(8,811,806)
(701,307)	(93,595)			(68,131,823)
Increase / (decrease) in operating liabilities				
51,304	42,404		Bills payable	4,984,150
1,630,408	(38,244)		Borrowings	158,393,693
2,736,564	1,587,647		Deposits and other accounts	265,856,378
33,571	103,914		Other liabilities	3,261,430
4,451,847	1,695,721			432,495,651
4,156,041	2,012,956			403,758,198
(130,392)	(124,615)		Income tax paid - net	(12,667,500)
4,025,649	1,888,341		Net cash flows from operating activities	391,090,698
CASH FLOWS FROM INVESTING ACTIVITIES				
(3,551,253)	(1,557,717)		Net investments	(345,003,167)
5,312	3,868		Dividend income received	516,090
(40,687)	(28,721)		Fixed capital expenditure	(3,952,777)
1,436	1,704		Proceeds from sale of fixed assets	139,491
823	-		Proceeds from sale of non-banking asset	80,000
40,941	4,712		Effect of translation of net investment in foreign branches	3,977,384
(3,543,428)	(1,576,154)		Net cash flows used in investing activities	(344,242,979)
CASH FLOWS FROM FINANCING ACTIVITIES				
(89,364)	(100,570)		Dividend paid	(8,681,645)
(89,364)	(100,570)		Net cash flows used in financing activities	(8,681,645)
392,857	211,617		Increase in cash and cash equivalents during the year	38,166,074
1,357,665	1,194,428		Cash and cash equivalents at beginning of the year	131,896,727
63,503	15,122		Effects of exchange rate changes on cash and cash equivalents	6,169,158
1,421,168	1,209,550			138,065,885
1,814,025	1,421,167	31	Cash and cash equivalents at end of the year	176,231,959
				138,065,885

The annexed notes 1 to 49 and annexures I to V form an integral part of these unconsolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Notes to the Unconsolidated Financial Statement

For the year ended December 31, 2012

1. STATUS AND NATURE OF BUSINESS

Habib Bank Limited (the Bank) is incorporated in Pakistan and is engaged in commercial banking, modaraba management and asset management related services in Pakistan and overseas. The Bank's Registered office is at Habib Bank Tower, 4th Floor, Jinnah Avenue, Islamabad and Principal office is at Habib Bank Plaza, I.I.Chundrigar Road, Karachi. The Bank's shares are listed on all three stock exchanges in Pakistan. The Bank operates 1,497 (2011: 1,464) branches inside Pakistan including 33 (2011: 22) Islamic Banking Branches and 43 branches (2011: 42) outside the country including Karachi Export Processing Zone (KEPZ).

2. BASIS OF PRESENTATION

- These unconsolidated financial statements represents separate financial statements of Habib Bank Limited. The unconsolidated financial statements of the Bank are being issued separately.
- In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.
- The US Dollar amounts shown in the unconsolidated financial statements are stated solely for information convenience. The statement of unconsolidated financial position, profit and loss account, statement of comprehensive income and cash flow statement for the year ended December 31, 2012 and 2011 and have been converted using the exchange rate of Rs. 97.1497 per US Dollar.

2.1 Basis of measurement

These unconsolidated financial statements have been prepared under the historical cost convention except that certain classes of fixed assets are stated at revalued amounts less accumulated depreciation, trading and available for sale investments, derivative financial instruments and forward foreign exchange contracts are measured at fair value.

The unconsolidated financial statements are presented in Pakistan Rupees, which is Bank's functional currency. The amounts are rounded to nearest thousand.

2.2 Use of estimates and judgments

The preparation of unconsolidated financial statements in conformity with the approved accounting standards as applicable in Pakistan 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 (refer 4.3)
- ii) Valuation and impairment of available for sale equity investments and associates (refer 4.12)
- iii) Provision against non performing advances (refer 4.4)
- iv) Fixed assets, depreciation and amortisation (refer 4.5)
- v) Fair value of derivatives (refer 4.17)
- vi) Defined benefits plans and other benefits (refer 4.8)

2.2.1 Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

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 and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan 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 SBP and Securities and Exchange Commission of Pakistan (SECP). Whenever the requirements of Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the directives issued by SBP and SECP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the said directives shall prevail.

The SBP, vide its BSD Circular Letter No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments Recognition and Measurement and International Accounting Standard 40, Investment Property for banking companies till further instructions. Further, SECP has deferred applicability of IFRS - 7, 'Financial Instruments: Disclosures' on banks through S.R.O 411(1)/2008 dated April 28, 2008. 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 prescribed by the SBP through various circulars.

3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2013:

- Amendments to IAS 1 'Presentation of Financial Statements: Financial statement presentation' regarding other comprehensive income (effective for annual periods beginning on or after 1 July 2012). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Bank's financial position.
- Amendments to IAS 19 - Employee Benefits (Revised): For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognized in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income / expense. All other changes in the net defined benefit asset / liability are recognized in other comprehensive income with no subsequent recycling to profit and loss. Had the change been taken in current year, profit before taxation would have been higher by Rs. 1.18 billion and comprehensive income would have been lower by Rs. 1.18 billion.
- Amendments in IAS 28 Investments in Associates: As a consequence of the new IFRS 11 Joint Arrangements, IAS 28 Investments in Associates, has been renamed as IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment results in no impact on the Bank's financial position as it is already accounting joint ventures through equity method. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.
- Amendments in IAS 32 Financial Instruments: Presentation Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014). These amendments clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. It is clarified that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event. Further clarifying offsetting criteria to settlement systems, the IAS 32 requires the reporting entity to intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion. These amendments are likely to affect presentation of assets and liabilities in the Bank's financial position.

- Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

	IASB Effective date (annual periods beginning Standard on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2015
IFRS 10 – Consolidated Financial Statements	January 01, 2013
IFRS 11 – Joint arrangements	January 01, 2013
IFRS 12 – Disclosure of Interest in Other Entities	January 01, 2013
IFRS 13 – Fair Value Measurement	January 01, 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury and other banks in current and deposit accounts.

4.2 Lendings / borrowings (reverse repo / repo)

Where securities are sold subject to a commitment to re-purchase them at a pre-determined price, they remain on the statement of financial position and a liability is recorded in respect of the consideration received in "borrowings". Conversely, securities purchased under analogous commitments to resell are not recognized on the statement of financial position and the consideration paid is recorded in "lendings to financial institutions".

The difference between the sale and purchase price is recognized as mark-up / return expensed or earned on time proportion basis as the case may be.

4.3 Investments

The Bank classifies its investment portfolio into the following categories:

Held-for-trading

These are securities, which are either acquired for generating a profit from short-term fluctuations 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 maturity that the Bank has the positive intent 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.

Investments, including those referred to in para above, are accounted for as follows:

- Quoted securities are carried at fair value.
- Unquoted equity securities are valued at lower of cost and break-up value. Break-up value of unquoted equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.
- Securities classified as held-to-maturity are carried at amortised cost less impairment loss if any.



All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the Bank commits to purchase or sell the investments.

Investments other than those categorised as held for trading include transaction costs associated with the investments. In case of investments classified as held for trading, transaction costs are expensed in the profit and loss account.

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulation issued by the SBP.

Any unrealized surplus / deficit arising on revaluation of investments classified as 'held-for-trading' is taken to the profit and loss account and unrealized surplus / deficit arising on revaluation of investments classified as 'available-for-sale' is taken directly to surplus / deficit on revaluation of securities in the statement of financial position.

Investment in subsidiaries / associates / joint venture

Investments in subsidiaries, associates and joint ventures are recorded at cost less impairment if any.

4.4 Advances

Advances are stated net of provision against non-performing advances. Provision against non-performing advances of Pakistan operations and domestic subsidiaries, including general provision is made in accordance with the requirements of the prudential regulations issued by the SBP. Provision against non-performing advances of overseas branches and subsidiary companies are made as per the requirements of the respective regulatory regimes. Advances are written off when there are no realistic prospects of recovery in accordance with the requirements of the prudential regulations issued by the SBP or the requirements of respective regulatory regimes.

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 leases. A receivable is recognized at an amount equal to the present value of the lease payments including any guaranteed residual value. Net investment in finance lease is included in advances to customers.

Ijarah

Assets given on Ijarah, after taking into account the estimated residual value, are stated at cost less accumulated depreciation using straight line method over the life of the asset. Impairment evaluation of loss on sale expected from the unilateral commitment given by the customer to purchase the asset at the expiry of the Ijarah term and the Bank's policy to accept the offer is carried out by comparing the Written Down Value to the Net Present Value of the expected cash flows at the date of statement of financial position. Impairment losses evaluated, are booked in the Profit and Loss Account as and when occurred. The residual value of the Ijarah asset is the estimated amount that Bank could obtain from disposal of assets as defined in para 6 of IAS 16 - Property, plant and equipment. This has been estimated on the basis that all assets given on Ijarah have an economic life of ten years and if the assets were depreciated over this life the written down value at end of Ijarah term would represent the residual value.

These Ijarah are shown under advances and further analysis is provided in annexure V of these unconsolidated financial statements.

4.5 Operating fixed assets and depreciation

4.5.1 Tangible

Fixed assets and capital work-in-progress, are stated at cost, except for land and buildings which are carried at revalued amount less accumulated depreciation, where applicable, and accumulated impairment losses (if any).

Cost of fixed assets of foreign branches include exchange differences arising on translation at year-end rates. Land and buildings are revalued by independent professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. Surplus arising on revaluation is credited to the 'surplus on revaluation of fixed assets' account (net of deferred tax). Under the provision of the Companies Ordinance, 1984, deficit arising on revaluation of fixed assets is adjusted against the balance in the above surplus account.

Surplus on revaluation of fixed assets to the extent of the incremental depreciation charged on the related assets is transferred by the Bank to un-appropriated profits (net of deferred tax).

All operating assets are being depreciated over their expected useful lives using the straight-line method from the date the assets are available for use.

Depreciation is calculated so as to write-off the assets over their expected useful lives at the rates specified in note 10.3 to these unconsolidated financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each date of statement of financial position.

Depreciation on addition and deletion of tangible assets during the year is charged in proportion to the period of use.

Normal repairs and maintenance are charged to the profit and loss account as and when incurred. However, renewals are capitalized.

Gains or losses arising on the disposal of fixed assets are included in income currently. Surplus on revaluation of fixed assets (net of deferred tax) realized on disposal and incremental depreciation during the year is transferred directly to un-appropriated profit.

4.5.2 Intangible

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method over their estimated useful lives. Amortization is charged at the rate stated in note 10.2. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful life and amortization method are reviewed and adjusted, if appropriate at each date of statement of financial position. Intangible assets having an indefinite useful life are stated at acquisition cost less impairment, if any.

4.6 Borrowings / deposits

- a) Borrowings / deposits are recorded at the proceeds received.
- b) The cost of borrowings / deposits is recognized as an expense in the period in which this is incurred.

4.7 Sub-Ordinated Debt

Sub-ordinated debt is initially recorded at the amount of proceeds received. Mark-up accrued on sub-ordinated debt is charged to the profit and loss account.

4.8 Employee benefits

The Bank operates the following schemes for its employees:

i) Approved Pension Fund (Defined benefit scheme)

For those who opted for pension scheme introduced in 1977, the Bank operates a pension scheme to its executives / officers and clerical employees. However, for the executives / officers this benefit is based on the salary and services as at March 31, 2005. The Provident Fund and Gratuity benefit were offered to such executives / officers in respect of the future service after that date. During the year, the Bank has shifted the gross pension calculation basis to the last drawn basic salary at the time of retirement. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.



ii) Approved Gratuity Fund (Defined benefit scheme)

For those who did not opt for pension scheme introduced in 1977 and opted for Gratuity scheme instead and for the new employees hired on or after 01.01.2002, the Bank operates approved gratuity scheme. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

iii) Provident Fund (Defined contributory scheme)

Under this scheme, both employees and the Bank contributes to the fund.

iv) Benevolent Fund (Defined contributory scheme)

The Bank operates funded benevolent schemes for its executives / officers and clerical employees. Under this scheme, the employees of the Bank are entitled to receive defined grants / facilities during their service and after retirement. The benevolent fund plan covers all the employees of the Bank. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

v) Post Retirement Medical Benefits

The Bank also provides post retirement medical benefits to its officers/executives and clerical employees retiring before December 31, 2005. The employees under officers and executives cadre are entitled to receive lump sum payments in lieu of post retirement medical facilities as a full and final settlement, effective January 01, 2006 onwards. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

vi) Compensated Absences

The Bank also makes provision in the financial statements for its liabilities towards compensated absences. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

vii) Other Post Retirement Benefits

The scheme offers a maximum of six months' benefits to executives retiring after completing 25 years of service. However in case of death of an executive, the house rent benefit is paid for one year. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

Actuarial gain / loss

Actuarial gain / loss arise out of differences between actuarial assumptions and actual experience are recognized immediately in profit and loss.

4.9 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to Pakistani rupees at the exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of statement of financial position. The fair value of forward cover taken from the SBP for foreign currency deposits is added / deducted from value of foreign currency deposits. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

Foreign operations

The assets and liabilities of foreign operations are translated to Pakistani rupees at exchange rates prevailing at the date of statement of financial position. The income and expense of foreign operations are translated at average rate of exchange for the year.

Translation gains and losses

Translation gains and losses are included in the profit and loss account, except those arising on the translation of net investment in foreign operations i.e., foreign branches which are taken to equity under "Exchange Translation Reserve" and are recognized in profit or loss account on disposal.

Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of statement of financial position.

4.10 Revenue recognition

Advances and investments

Income on advances is recognized on a time proportion basis as per terms of contract. Debt security investments are recognized on a time proportion basis that takes into account effective yield on the asset. Where debt securities are purchased at a premium or discount, those premiums / discounts are amortized through the profit and loss account over the remaining maturity, using the effective yield method.

Interest or mark-up / profit recoverable on classified advances and investments is recognized on receipt basis. Interest / mark-up / profit on rescheduled / restructured advances and investments is recognized as permitted by the regulations of SBP or overseas regulatory authorities of countries where the branches / companies operate, except where in the opinion of the management it would not be prudent to do so.

Dividend income from investments is recognized when the right to receive is established.

Lease financing

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. Repossessed vehicles on account of loan default are recorded in memorandum account.

Unrealized lease income is suspended on classified leases, in accordance with the requirements of the Prudential Regulations of the SBP. Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognized as income on receipt basis.

Murabaha

Murabaha transactions are reflected as receivable at the invoiced amount. However, the profit on that sale revenue not due for payment is deferred by recording a credit to the "Deferred Murabaha Income" account.

Letters of credit and guarantees

Commission on letters of credit and guarantees etc. is recognized on time proportion basis.

Customer Loyalty Programmes

The revenue from award credits for loyalty points earned on use of various products of the Bank is measured by reference to their fair value and is recognised when award credits are redeemed.

Fee, Commission and Brokerage Income

Fee, Commission and Brokerage income is recognized on accrual basis

4.11 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 items recognized directly in equity.

Current

Current taxation is the tax payable on taxable income earned from local as well as foreign operations for the year using tax rates enacted at the date of statement of financial position and, any adjustments to tax payable relating to prior years.



Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences between the amounts attributed to the assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognized on differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

4.12 Impairment

i) Available for sale equity securities

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

ii) Impairment in associates and subsidiaries

The Bank considers that the decline in the recoverable value of the investment in associates and subsidiaries below their cost may be evidence of impairment. Recoverable value is calculated as the higher of fair value less costs to sell and value in use. An impairment loss is recognized when the recoverable amount falls below the carrying value and is charged to the profit and loss account. Subsequent reversal of impairment loss, upto the cost of the investment in associates and subsidiaries, is credited to the profit and loss account.

iii) Impairment in non-financial assets

The carrying amount of the Bank's assets (other than deferred tax asset) are reviewed at each date of statement of financial position to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account except for an impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the revaluation surplus. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

4.13 Provision for guarantee claim

Provision for guarantee claim is recognized when intimated and reasonable certainty exists that the Bank will settle the obligation. Expected recoveries are recognized by debiting customer's account. Charge to profit and loss account is stated net of expected recoveries.

4.14 Other provisions

Other provisions are recognized when the Bank has a legal or constructive obligation as a result of past events and it is probable that 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 date of statement of financial position and are adjusted to reflect the current best estimate.

4.15 Off setting

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

4.16 Financial Assets and Liabilities

Financial instruments carried on the statement of financial position include cash and bank balances, lending to financial institutions, investments, advances, certain receivables, bills payable, borrowings, deposits, sub-ordinated loans and certain other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the relevant policy notes.

4.17 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value using valuation techniques. All the derivative financial instruments are carried as an asset when the fair value is positive and liability when the fair value is negative. Any change in the fair value of derivative financial instruments is taken directly to the profit and loss account.

4.18 Dividend distribution

Declarations of dividend to holders of the equity instruments of the Bank are recognised as liability in the period in which it is approved.

4.19 Earnings per share

The Bank presents basic and diluted earnings per share (EPS). Basic and diluted earnings per share is calculated by dividing profit for the year attributable to equityholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

4.20 Share issuance cost

Share issuance cost directly attributable to issuance of shares, is recognized as deduction from the share premium account.

4.21 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

- *Retail Banking*

Consists of retail lending, deposits and banking services to private individuals and small businesses including credit cards.

- *Corporate / Commercial Banking*

Consists of lendings for project finance, trade finance, corporate and commercial customers and investment banking, includes advices and placements to corporate mergers and acquisitions, underwriting, privatizations and securitization.

- *Treasury*

Involves the businesses of proprietary trading, fixed income, equity and foreign exchanges.

- *International Banking Group*

It represents Bank's operations in 25 countries and is considered a separate segment for monitoring purposes.

- *Head Office*

This includes balances held at Head Office level for regulatory requirements or other operational reasons and business segments not shown separately. This also includes some non performing loans not managed by other business segments, statutory liquidity and shareholders equity related balances and their associated cost / income.



Geographical segments

The Bank operates in following geographic regions:

- Pakistan
- Asia Pacific (including South Asia)
- Europe
- North America
- Middle East
- Others

	Note	2012 (Rupees in '000)	2011
5. CASH AND BALANCES WITH TREASURY BANKS			
In hand including National Prize Bonds			
Local currency	20,759,209	14,734,633	
Foreign currency	3,241,284	2,112,234	
	<hr/>	<hr/>	<hr/>
		24,000,493	16,846,867
With State Bank of Pakistan in			
Local currency current account	33,564,976	32,539,366	
Foreign currency current account	4,996,232	3,369,553	
Foreign currency deposit account	14,953,636	10,138,523	
		<hr/>	<hr/>
	5.2 {	53,514,844	46,047,442
With other Central Banks in	5.1 / 5.3		
Foreign currency current account	45,393,834	15,163,289	
Foreign currency deposit account	13,723,505	10,347,857	
		<hr/>	<hr/>
	5.1 / 5.4 {	59,117,339	25,511,146
With National Bank of Pakistan in			
Local currency current account	15,691,749	14,674,621	
		<hr/>	<hr/>
		152,324,425	103,080,076

- 5.1 The above balances include remunerative accounts amounting to Rs. 62,144.813 million (2011: 25,575.353 million).
- 5.2 This represents current accounts maintained for Cash Reserve Requirement of SBP.
- 5.3 This represents deposit accounts maintained for Special Cash Reserve Requirement of SBP and US Dollar Settlement account maintained with the SBP. This carries mark-up at the annual rate of 0% (2011: 0%).
- 5.4 Balances held with the Central Banks of respective countries in accordance with the requirements of the local statutory / regulatory requirements. Since, the Bank operates in different countries, these carry varied mark-up rates as given by the Central Banks of respective countries.

6. BALANCES WITH OTHER BANKS	Note	2012		2011	
		(Rupees in '000)			
In Pakistan					
On current account		288,510		730,091	
On deposit account		402,282		-	
		<hr/>		<hr/>	
		690,792		730,091	
Outside Pakistan	6.1				
On current account		5,605,490		2,394,040	
On deposit account		17,611,252		31,861,678	
		<hr/>		<hr/>	
		23,216,742		34,255,718	
		<hr/>		<hr/>	
		23,907,534		34,985,809	

- 6.1** This includes remunerative current account balance amounting to Rs. 743.075 million (2011: Rs. 32.866 million). Since, the Bank operates in different countries, these carry varied mark-up rates as given by the external banks of respective countries.

7. LENDINGS TO FINANCIAL INSTITUTIONS	Note	2012		2011	
		(Rupees in '000)			
7.1 In local currency					
Call money lendings	7.2.1	6,780,000		1,450,000	
Repurchase agreement lendings (reverse repo)	7.2	<hr/>	18,048,255	<hr/>	40,131,029
		<hr/>	24,828,255	<hr/>	41,581,029

7.2 Securities held as collateral against lendings to financial institutions	Note	2012						2011											
		Held by bank			Further given as collateral			Total			Held by bank			Further given as collateral			Total		
		(Rupees in '000)																	
Market treasury bills	7.2.1	15,763,590	-	15,763,590	38,058,870	-	38,058,870	Held by bank	2,284,665	2,284,665	2,072,159	-	2,072,159	Further given as collateral	<hr/>	18,048,255	<hr/>	40,131,029	<hr/>
Pakistan investment bonds		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	Total	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>						

- 7.2.1** Market value of securities held as collateral against lendings to financial institutions as at December 31, 2012 amounted to Rs. 18,095.918 million (2011: Rs. 40,253.648 million). These carry mark-up rates ranging from 7.0% to 9.75% per annum (2011: 12.15% to 13.10% per annum) and 6.5% to 9.5% per annum (2011: 11.25% to 13.40% per annum) for call money lendings and repurchase agreement lendings respectively.



8. INVESTMENTS	Note	2012			2011		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
----- (Rupees in '000) -----							
8.1 Investments by type							
Held for Trading securities (HTF)							
Federal Government Securities							
- Pakistan Investment Bonds		2,203,724	-	2,203,724	395,470	-	395,470
- Market Treasury Bills		28,676,723	-	28,676,723	2,870,862	-	2,870,862
Fully paid-up ordinary shares							
- Listed companies		31,195	-	31,195	-	-	-
Overseas Government Securities							
Debentures and Corporate Debt Instruments / Units							
- Unlisted securities		-	-	-	1,349,186	-	1,349,186
		31,260,550	-	31,260,550	4,615,518	-	4,615,518
Held-to-maturity securities (HTM)	8.4						
Federal Government Securities							
- Pakistan Investment Bonds	8.8 / 8.10	43,217,624	-	43,217,624	44,077,760	-	44,077,760
Debentures and Corporate Debt Instruments / Units							
- Listed securities		210,064	-	210,064	-	-	-
- Unlisted securities		4,003,414	-	4,003,414	4,192,815	-	4,192,815
Overseas Government securities							
		12,198,340	-	12,198,340	8,726,933	-	8,726,933
		59,629,442	-	59,629,442	56,997,508	-	56,997,508
Available-for-sale Securities (AFS)							
Federal Government Securities							
- Market Treasury Bills	8.8 / 8.10	405,856,222	157,998,809	563,855,031	265,930,965	-	265,930,965
- Pakistan Investment Bonds		46,136,502	-	46,136,502	26,335,105	-	26,335,105
- Government of Pakistan Guaranteed Bonds		425,000	-	425,000	425,000	-	425,000
- Government of Pakistan Bonds / Sukuk / (US Dollar / Euro)		31,599,959	-	31,599,959	16,095,202	-	16,095,202
Overseas Government Securities							
Fully paid-up ordinary shares							
- Listed companies		2,482,359	-	2,482,359	758,133	-	758,133
- Unlisted companies		4,229,365	-	4,229,365	2,505,080	-	2,505,080
		769,510	-	769,510	761,038	-	761,038
Debentures and Corporate Debt Instruments / Units							
- Listed securities		11,446,544	-	11,446,544	6,264,741	-	6,264,741
- Unlisted securities		12,665,068	-	12,665,068	11,688,877	-	11,688,877
NITUnits		11,113	-	11,113	11,113	-	11,113
Preference shares		100,000	-	100,000	200,000	-	200,000
		515,721,642	157,998,809	673,720,451	330,975,254	-	330,975,254
Investment in Subsidiary Companies	8.5	5,690,591	-	5,690,591	5,690,591	-	5,690,591
Investment in Associates and Joint Venture	8.6	4,592,905	-	4,592,905	4,132,079	-	4,132,079
Investment at cost		616,895,130	157,998,809	774,893,939	402,410,950	-	402,410,950
Provision for diminution / impairment in the value of investments including associates	8.7	(1,473,880)	-	(1,473,880)	(1,996,585)	-	(1,996,585)
Net investment		615,421,250	157,998,809	773,420,059	400,414,365	-	400,414,365
Surplus / (deficit) on revaluation of held for trading securities	8.13	28,583	-	28,583	(1,451)	-	(1,451)
Surplus / (deficit) on revaluation of available for sale securities	19.2	3,736,681	-	3,736,681	(473,445)	-	(473,445)
Total investments at market value		619,186,514	157,998,809	777,185,323	399,939,469	-	399,939,469

8.2 Investments by segments

Note 2012 2011
(Rupees in '000)

Federal Government Securities			
- Market treasury bills		592,531,754	268,801,827
- Pakistan investment bonds		91,557,850	70,808,336
- Government of Pakistan guaranteed bonds		425,000	425,000
- Government of Pakistan bonds / Sukuk / (US Dollar / Euro)		31,599,959	16,095,202
Overseas Government Securities		15,029,607	9,485,066
Fully paid-up Ordinary Shares			
- Listed companies		4,260,560	2,505,080
- Unlisted companies		769,510	761,038
Debentures and Corporate Debt Instruments / Units			
- Listed securities		11,656,608	6,264,741
- Unlisted securities	8.3	16,668,482	17,230,877
NIT units		11,113	11,113
Preference shares		100,000	200,000
Investment in subsidiary companies	8.5	5,690,591	5,690,591
Investment in associates and joint venture company	8.6	4,592,905	4,132,079
		<u>774,893,939</u>	<u>402,410,950</u>
Provision for diminution / impairment in the value of investments including associates	8.7	(1,473,880)	(1,996,585)
Net investment		<u>773,420,059</u>	<u>400,414,365</u>
Surplus / (deficit) on revaluation of held for trading securities	8.13	28,583	(1,451)
Surplus / (deficit) on revaluation of available for sale securities	19.2	3,736,681	(473,445)
		<u>777,185,323</u>	<u>399,939,469</u>

8.3 This includes investment in the Variable Rate Subordinated Loan Notes issued by Habib Allied International Bank Plc, UK (Subsidiary) amounting to Rs. 5,148.804 million (US \$ 53 million) (2011: Rs. 3,868.065)(US \$ 43 million) . These notes are perpetual and are repayable either at the option of the Bank or five years after receipt of repayment notice from the note holder. The Financial Services Authority (FSA) approval is required prior to repayment. Interest is payable on a six monthly basis at 6 month LIBOR + 5.5% to 5.75%.

8.4 The market value of investment classified as held-to-maturity (HTM) and investment in listed associates and joint venture is as follows:

	December 31, 2012		December 31, 2011	
	Book value	Market value	Book value	Market value
	(Rupees in '000)			

- Investment classified as held-to-maturity	59,611,817	61,533,198	56,997,508	56,040,383
- Investment in listed associates and joint venture	3,556,674	9,972,507	3,095,848	4,857,766

8.5 Investment in subsidiaries

2012 2011
(Rupees in '000)

Habib Allied International Bank Plc - Holding 90.5% (2011: 90.5%)	2,139,834	2,139,834
Habib Finance International Limited, Hong Kong - wholly owned	686,488	686,488
Habib Bank Financial Services (Private) Limited - wholly owned	32,500	32,500
HBL Currency Exchange (Private) Limited - wholly owned	400,000	400,000
HBL Asset Management Limited - wholly owned	100,000	100,000
HBL Income Fund 56.19% (2011: 58.71%) - listed	739,586	739,586
HBL Multi Asset Fund 89.96% (2011: 93.21%) - listed	248,181	248,181
HBL Stock Fund 81.08% (2011: 82.47%) - listed	<u>1,344,002</u>	<u>1,344,002</u>
	<u>5,690,591</u>	<u>5,690,591</u>



8.6 Investment in associates and joint venture company	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
Himalayan Bank Limited, Nepal - Holding 20% (2011: 20%) - Listed		7,197	7,197
Diamond Trust Bank Limited, Kenya - Holding 11.68% (2011: 11.21%) - Listed		1,555,452	1,234,431
Kyrgyz Investment and Credit Bank, Kyrgyz Republic - Holding 18% (2011: 18%) - Unlisted		256,231	256,231
Jubilee General Insurance Company Limited - Holding 16.24% (2011: 14.27%) - Listed		1,525,621	1,385,816
Jubilee Life Insurance Company Limited - Holding 17.95% (2011: 17.95%) - Listed		468,404	468,404
HBL Money Market Fund - Holding 1.51% (2011: 1.55%) - Listed		100,000	100,000
HBL Islamic Money Market Fund - Holding 73.14% (2011: 64.08%) - Listed		250,000	250,000
HBL Islamic Stock Fund - Holding 97.65% (2011: 96.14%) - Listed		250,000	250,000
HBL Pension Equity Sub Fund - Holding 92.53% (2011: 99.28%) - Unlisted		30,000	30,000
HBL Pension Debt Sub Fund - Holding 44.5% (2011: 96.34%) - Unlisted	8.6.1.1	30,000	30,000
HBL Pension Money Market Sub Fund - Holding 39.55% (2011: 97.26%) - Unlisted		30,000	30,000
HBL Islamic Pension Equity Sub Fund - Holding 83.44% (2011: 99.93%) - Unlisted		30,000	30,000
HBL Islamic Pension Debt Sub Fund - Holding 65.25% (2011: 99.93%) - Unlisted		30,000	30,000
HBL Islamic Pension Money Market Sub Fund - Holding 61.47% (2011: 99.97%) - Unlisted		30,000	30,000
		4,592,905	4,132,079

8.6.1 The Bank has significant influence in Diamond Trust Bank Limited, Kyrgyz Investment and Credit Bank, Jubilee General Insurance Company Limited and Jubilee Life Insurance Company Limited because of Aga Khan Fund for Economic Development's (parent of Bank) holding in these entities.

8.6.1.1 The Bank has subscribed for units of these funds. Currently, the holding of the Bank is high due to initial investments which are expected to go down with sale of units. Accordingly, these investments have been accounted for as investment in associates under IAS 28.

8.6.2 The investments have been tested for impairment under the policy of the Bank as given in note 4.12 and provision has been made where required and disclosed in note 8.7.

8.6.3 Summary of financial information of associates and joint venture company

Based on the financial statements as on	2012				
	Assets	Liabilities	Equity	Revenue	Profit
	(Rupees in '000)				
Diamond Trust Bank Limited, Kenya	September 30, 2012	146,682,771	126,868,021	19,814,750	13,721,613
Himalayan Bank Limited, Nepal	October 16, 2012	62,117,775	56,421,320	5,696,454	1,168,732
Kyrgyz Investment and Credit Bank	December 31, 2011	16,408,390	12,777,420	3,630,970	1,438,107
Jubilee Life Insurance Co. Ltd.	September 30, 2012	21,001,275	19,408,222	1,593,053	107,922
Jubilee General Insurance Co. Ltd.	September 30, 2012	10,860,248	7,030,003	3,830,245	2,828,804
HBL Money Market Fund	December 31, 2012	8,835,789	52,299	8,783,490	1,042,378
HBL Islamic Stock Fund	December 31, 2012	375,442	8,925	366,517	81,347
HBL Islamic Money Market Fund	December 31, 2012	414,391	3,305	411,086	44,249
HBL Pension Equity Sub Fund	December 31, 2012	46,635	310	46,325	4,265
HBL Pension Debt Sub Fund	December 31, 2012	74,793	414	74,379	5,976
HBL Pension Money Market Sub Fund	December 31, 2012	83,241	320	82,921	5,801
HBL Islamic Pension Equity Sub Fund	December 31, 2012	52,476	408	52,068	5,745
HBL Islamic Pension Debt Sub Fund	December 31, 2012	50,515	334	50,181	4,245
HBL Islamic Pension Money Market Sub Fund	December 31, 2012	53,328	233	53,095	4,144

2011

	Based on the financial statements as on	----- (Rupees in '000) -----				
		Assets	Liabilities	Equity	Revenue	Profit
Diamond Trust Bank Limited, Kenya	September 30, 2011	113,703,197	100,574,944	13,128,253	6,621,275	2,150,182
Himalayan Bank Limited, Nepal	October 16, 2011	55,744,110	50,972,421	4,771,689	1,323,860	192,760
Kyrgyz Investment and Credit Bank	December 31, 2010	10,701,739	8,523,794	2,177,945	959,402	158,962
Jubilee Life Insurance Company Limited	September 30, 2011	14,455,998	13,182,256	1,273,742	350,947	217,937
Jubilee General Insurance Company Limited	September 30, 2011	9,387,618	6,114,093	3,273,525	2,068,685	527,845
HBL Money Market Fund	December 31, 2011	7,772,880	28,290	7,744,590	753,741	677,416
HBL Islamic Stock Fund	December 31, 2011	280,280	6,635	273,645	21,119	11,588
HBL Islamic Money Market Fund	December 31, 2011	427,923	2,388	425,535	31,038	26,486
HBL Pension Equity Sub Fund	December 31, 2011	30,055	124	29,931	199	106
HBL Pension Debt Sub Fund	December 31, 2011	31,443	126	31,317	272	177
HBL Pension Money Market Sub Fund	December 31, 2011	31,146	126	31,020	271	176
HBL Islamic Pension Equity Sub Fund	December 31, 2011	29,744	125	29,619	255	162
HBL Islamic Pension Debt Sub Fund	December 31, 2011	30,347	126	30,221	294	200
HBL Islamic Pension Money Market Sub Fund	December 31, 2011	30,335	126	30,209	293	199

8.6.3.1 The Bank has made further investment in the following associates during the year, consequently, shareholding has increased to:

	December 31, 2012	December 31, 2011
	Shareholding %	
Jubilee General Insurance Company Limited, Pakistan	16.24%	14.27%
Diamond Trust Bank Limited, Kenya	11.68%	11.21%

8.7	Particulars of provision held against diminution in value of investments	Note	2012 (Rupees in '000)
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The balances disclosed in note 8.1 are stated net of specific provision held.

The analysis of total provision held is as follows:

Opening balance	1,996,585	3,870,384
Charge for the year	-	139,767
Reversal	(189,908)	-
Impairment charge on listed securities	129,770	736,859
Impairment reversal on listed securities	(337,567)	-
Total (reversal) / charge - net	(397,705)	876,626
Write offs	(125,000)	(2,755,439)
Exchange adjustment	-	5,014
Closing balance	8.7.1 1,473,880	1,996,585

8.7.1 Particulars of provision in respect of type and segment

Held to Maturity securities (HTM)

- Debentures and Corporate Debt Instruments	17,623	41,136
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Available-for-sale Securities (AFS)

- Fully paid-up ordinary shares	358,556	533,549
- Listed companies	57,982	51,240
- Unlisted companies	295,374	440,772
- Debentures and Corporate Debt Instruments	-	100,000
- Preference shares	171,084	256,627
- Units	573,261	573,261

Associates

1,473,880	1,996,585
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- 8.8** Investments held for maintaining the liquidity requirements of the SBP amounted to Rs. 151.245 million as at December 31, 2012 (2011: Rs. 111.394 million).
- 8.9** Investments include Rs. 543.114 million as at December 31, 2012 (2011: Rs. 519.958 million) pledged with SBP and National Bank of Pakistan against TT/DD discounting facilities and demand loan facilities.
- 8.10** Investments include Rs. 9.992 million as at December 31, 2012 (2011: Rs. 9.567 million) pledged with the Controller of Military Accounts in lieu of Regimental Fund Accounts being maintained at various branches of the Bank.
- 8.11** Investments include strategic investments amounting to Rs. 6,669.633 million as at December 31, 2012 (2011: Rs. 6,208.819 million) under BPD circular letter No. 16 of 2006 dated August 1, 2006.
- 8.12** Information relating to investments including credit ratings in shares of listed and unlisted companies, redeemable capital and bonds, required to be disclosed as part of the financial statements by the SBP, is given in Annexure "I" and is an integral part of these financial statements.

	Note	2012 (Rupees '000)	2011 (Rupees '000)
8.13 Unrealized gain / (loss) on revaluation of held for trading securities			
Market Treasury Bills		16,298	1,503
Pakistan Investment Bonds		11,699	(2,954)
Shares		(1,447)	-
Overseas Government Securities		2,033	-
		28,583	(1,451)

9. ADVANCES

Loans, cash credits, running finances, etc.			
In Pakistan		385,628,553	361,151,387
Outside Pakistan		67,238,996	60,225,576
		452,867,549	421,376,963
Net investment in finance lease - in Pakistan	9.1.3	4,591,123	3,715,662
Bills discounted and purchased (excluding Government treasury bills):			
Payable in Pakistan		12,122,572	10,420,082
Payable outside Pakistan		32,180,550	24,451,110
		44,303,122	34,871,192
Provision against non-performing advances	9.4	(41,691,160)	(43,702,428)
		460,070,634	416,261,389
Fully provided non-performing advances classified as loss for more than five years			
In Pakistan		18,622,245	13,640,851
Provision		(18,622,245)	(13,640,851)
		-	-

9.1 Particulars of advances

9.1.1 In local currency		365,643,551	333,739,450
In foreign currency including foreign currency financing by domestic branches amounting to Rs. 19,631.886 million (2011: Rs. 20,045.548 million)			
		94,427,083	82,521,939
		460,070,634	416,261,389
9.1.2 Short term (for upto one year)		315,849,032	218,566,908
Long term (for over one year)		144,221,602	197,694,481
		460,070,634	416,261,389

9.1.3 Net investment in finance lease

	2012				2011			
	Not later than one year	Later than one and less than five years	More than five years	Total	Not later than one year	Later than one and less than five years	More than five years	Total
----- (Rupees in '000) -----								
Lease rentals receivable	22,966	4,926,753	1,083,631	6,033,350	27,212	3,833,610	1,059,103	4,919,925
Residual value	31	6,605	1,452	8,088	215	30,006	8,392	38,613
Gross investment in finance lease	22,997	4,933,358	1,085,083	6,041,438	27,427	3,863,616	1,067,495	4,958,538
Unearned finance income	(1,474)	(1,132,010)	(316,831)	(1,450,315)	(1,991)	(927,568)	(313,317)	(1,242,876)
Net investment in finance lease	21,523	3,801,348	768,252	4,591,123	25,436	2,936,048	754,178	3,715,662

9.2 Advances include Rs. 50,667.052 million (2011: Rs. 51,313.511 million) which have been placed under non-performing status, other than those accounts classified as loss and fully provided for more than five years which have been placed in separate category as referred to in note 9.6 as detailed below:

Category of classification	Note	2012								
		Non-performing advances			Provision required and held			Net non-performing advances		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
----- (Rupees in '000) -----										
Specific provision										
Other assets especially mentioned		610,771	-	610,771		-	-	610,771	-	610,771
Substandard		5,609,462	1,063,854	6,673,316	1,360,027	198,284	1,558,311	4,249,435	865,570	5,115,005
Doubtful		4,315,131	1,867,471	6,182,602	2,102,214	791,318	2,893,532	2,212,917	1,076,153	3,289,070
Loss		30,083,005	7,117,358	37,200,363	28,156,285	6,997,177	35,153,462	1,926,720	120,181	2,046,901
General provision	9.2.2									
		-	-	-	1,532,092	553,763	2,085,855	-	-	-
		40,618,369	10,048,683	50,667,052	33,150,618	8,540,542	41,691,160	8,999,843	2,061,904	11,061,747

Category of classification	2011									
	Non-performing advances			Provision required and held			Net non-performing advances			
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total	
----- (Rupees in '000) -----										
Specific provision										
Other assets especially mentioned		1,112,720	-	1,112,720		-	-	1,112,720	-	1,112,720
Substandard		5,362,602	331,675	5,694,277	1,265,232	58,503	1,323,735	4,097,370	273,172	4,370,542
Doubtful		3,963,781	2,289,098	6,252,879	1,981,890	1,705,549	3,687,439	1,981,891	583,549	2,565,440
Loss		30,557,708	7,695,926	38,253,634	29,834,144	7,273,500	37,107,644	723,564	422,426	1,145,990
General provision										
		-	-	-	1,277,090	306,520	1,583,610	-	-	-
		40,996,811	10,316,699	51,313,510	34,358,356	9,344,072	43,702,428	7,915,545	1,279,147	9,194,692

9.2.1 Classification of overseas non-performing advances and provision there against and general provisioning of overseas have been made in accordance with the accounting policy as referred in note 4.4.

9.2.2 This includes general provision for agri loans amounting to Rs. 775 million which has been maintained by the Bank on prudent basis as the Bank is in process of analyzing the impact of flood effected portfolio on account by account level.

9.3 The Bank monitors non-performing advances classified as loss for more than five years and fully provided as a separate category as shown in note 9.6. This category is not included in note 9.2 and in analytical break-up of other notes.



9.4 Particulars of provision against non-performing advances

Note	2012			2011		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	42,118,818	1,583,610	43,702,428	37,038,350	1,380,868	38,419,218
Exchange adjustment / other movement	60,798	36,773	97,571	746,210	8,679	754,889
Charge for the year	6,863,545	489,473	7,353,018	7,461,210	208,320	7,669,530
Reversals	(787,681)	(24,001)	(811,682)	(401,036)	(14,257)	(415,293)
Net charge against non-performing loans	6,075,864	465,472	6,541,336	7,060,174	194,063	7,254,237
Write offs	9.7	(2,656,791)	-	(753,595)	-	(753,595)
Transferred to over 5 years category	9.6	(5,993,384)	-	(1,972,321)	-	(1,972,321)
Closing balance	<u>39,605,305</u>	<u>2,085,855</u>	<u>41,691,160</u>	<u>42,118,818</u>	<u>1,583,610</u>	<u>43,702,428</u>
n local currency	31,618,526	1,532,092	33,150,618	33,081,266	1,277,090	34,358,356
n foreign currency	7,986,779	553,763	8,540,542	9,037,552	306,520	9,344,072
	<u>39,605,305</u>	<u>2,085,855</u>	<u>41,691,160</u>	<u>42,118,818</u>	<u>1,583,610</u>	<u>43,702,428</u>

9.5 Forced sale value (FSV) against non-performing advances

In accordance with BSD Circular No. 2 dated January 27, 2009 and BSD Circular No.10 dated October 20, 2009 issued by the SBP, the Bank has 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 as at December 31, 2012 would have been higher by Rs. 1,707.585 million and profit before taxation for the year ended December 31, 2012 would have been lower by approximately Rs 1,019.859 million (after taking into account the effect of discounting of FSV taken in previous year). Increase in retained earnings net of tax amounting to Rs. 1,109.930 million would not be available for the distribution of cash and stock dividend to share holders.

9.6	Particulars of provision against fully provided non-performing advances classified as loss for more than five years	Note	2012		2011
			(Rupees in '000)		
Opening balance			13,640,851	12,527,683	
Transferred to interest suspense			(18,617)	-	
Reversal			(922,822)	(816,117)	
Transferred during the year	9.4		5,993,384	1,972,321	
Write offs	9.7		(70,551)	(43,036)	
			<u>18,622,245</u>	<u>13,640,851</u>	
9.7	Particulars of write-offs				
9.7.1	Against provisions		<u>2,727,342</u>	<u>796,631</u>	
9.7.2	Analysis of write-offs				
Rs. 500,000 and above in Pakistan (Note 9.8)			115,275	53,038	
Below Rs. 500, 000 in Pakistan and overseas			2,612,067	743,593	
			<u>2,727,342</u>	<u>796,631</u>	

9.8 Details of advances write-off of Rs 500,000 and above

The statement required under sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 in respect of written-off advances or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2012 is given in Annexure II.

9.9 Particulars of advances to directors, associated companies, etc	2012			2011		
	Balance outstanding	Maximum total amount of advances including temporary advances outstanding **	Limit sanctioned during the year	Balance outstanding	Maximum total amount of advances including temporary advances outstanding **	Limit sanctioned during the year
----- (Rupees in '000) -----						
Debts due by directors or executives of the Bank or any of them either severally or jointly with any other persons	-	-	-	-	-	-
- in respect of directors	-	-	-	-	-	-
- in respect of executives * (other than key management personnel)	1,516,400	1,549,100	443,704	1,231,700	1,265,700	476,312
- in respect of key management personnel / companies in which key management personnel are interested	371,200	382,000	64,257	383,208	392,308	46,450
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	571,668	1,063,827	100,000	1,060,273	1,088,593	391,500
Debts due by Subsidiary company	33,969	56,384	-	70,858	102,324	-

The disclosure of the year-end balance, limit/ amount sanctioned and the highest amount outstanding during the year is considered the most meaningful information to represent the amount of the transactions and the amount of outstanding balances during the year.

* These represent staff advances given by the Bank to its executives as per their terms of employment

** Maximum amount has been arrived at by reference to month end balance

10. OPERATING FIXED ASSETS	Note	2012 (Rupees in '000)		2011	
Capital work-in-progress	10.1	1,713,276		803,132	
Intangible assets	10.2	240,030		126,445	
Tangible fixed assets	10.3	19,231,795		16,177,686	
		<u>21,185,101</u>		<u>17,107,263</u>	
10.1 Capital work-in-progress					
Civil works		948,078		586,317	
Others		765,198		216,815	
		<u>1,713,276</u>		<u>803,132</u>	



10.2 Intangible assets

Description	2012				
	COST	AMORTISATION	Book value	Rate of Amortisation	As at December 31, 2012
As at January 1, (deletions) during the Year	Additions / (deletions) during the Year	As at January 1, 2012	Charge for Amortisation (Amortisation on deletions)	As at December 31, 2012	As at December 31, 2012
----- Rupees in '000 -----					
Computer Software	1,550,696 (523)	191,962 1,742,135	1,424,251 (490)	78,344 1,502,105	240,030 33.33

Description	2011				
	COST	AMORTISATION	Book value	Rate of Amortisation	As at December 31, 2011
As at January 1, (deletions) during the Year	Additions / (deletions) during the Year	As at January 1, 2011	Charge for Amortisation (Amortisation on deletions)	As at December 31, 2011	As at December 31, 2011
----- Rupees in '000 -----					
Computer Software	1,418,523 (1,302)	133,475 1,550,696	1,382,316	43,237 (1,302)	126,445 33.33

10.3 Tangible fixed assets

Description	COST / REVALUATION				DEPRECIATION				Book value as at December 31, 2012	Rate of depreciation % 2012
	As at January 1, 2012	Additions/ (deletions) / adjustments during the year	Surplus/ (deficit) on revaluation during the year	As at December 31, 2012	As at January 1, 2012	Charge for the year/ (depreciation on deletions) / adjustments	Surplus/ (deficit) on revaluation during the year			
2012										
Land	9,388,643	559,767 (156,864) (1,526)	1,168,572 (250,767)	10,958,592 5,421,708	-	-	-	-	-	10,958,592
Building	4,995,869	582,132 (4,943) 99,417	-	638,658	135,278 (184) 35,578	(348,917)	460,413	4,961,295	1.67	
Machinery	610,109	46,637 (15,275)	(93,781)	547,690	463,527 (15,275)	124,900 (546,948)	26,204	521,486	10	
Leasehold improvements	2,238,641	344,867 (4,107)	-	2,579,401	1,434,870 (2,358)	346,848	-	1,779,360	800,041	20
Furniture and fixtures	6,870,729	1,202,409 (276,877) 134,325	-	7,930,586	5,525,017 (274,340)	698,544 111,861	-	6,061,082	1,869,504	20-33
Vehicles	390,163	28,080 (33,839) 6,971	-	391,375	254,396 (31,146) 4,970	42,278 (895,865)	-	270,498	120,877	10
	24,494,154	2,763,892 (491,905) 239,187		824,024	27,829,352	8,316,468	1,347,848 (323,303) 152,409	(895,865)	8,597,557	19,231,795



2011

Description	COST / REVALUATION			DEPRECIATION		
	As at January 1, 2011	Additions/ (deletions)/ adjustments during the year	Surplus/ (deficit) on revaluation during the year	As at December 31, 2011	As at January 1, 2011	Charge for the year/ (depreciation on deletions)/ adjustments
Rupees in '000						
Land	8,468,476	1,059,068 (139,860)	-	9,388,643	-	-
Building	4,692,701	296,114 (9,026) 16,080	-	4,995,869	477,885	154,630 (516) 6,659
Machinery	571,484	38,625	-	610,109	274,991	188,536
Leasehold improvements	2,006,689	231,952	-	2,238,641	1,102,465	332,405
Furniture and fixtures	6,588,555	648,919 (388,121) 21,376	-	6,870,729	5,258,962	625,039 (379,611) 20,627
Vehicles	394,874	33,448 (37,714) (445)	-	390,163	234,321	57,384 (36,788) (521)
	22,722,779	2,308,126 (574,721) 37,970	-	24,494,154	7,348,624	1,357,994 (416,915) 26,765
						8,316,468
						16,177,686

10.4 With effect from July 01, 2012, estimated useful life of building and vehicles has been revised from 40 years to 60 years and 5 years to 10 years respectively to make it more reflective of consumption pattern of these assets. The effect of these changes on depreciation expense in current and next year as follows:

	December 31, 2012	December 31, 2013
Building	17,500	36,352
Vehicle		

Rupees in '000 -----

Decrease in Depreciation expense

10.5 Habib Bank Limited's (HBL) domestic properties were revalued by independent professional valuers as on June 30, 2012. These properties were revalued by Iqbal A. Nanjee & Co., professional valuers on the basis of market value. The revaluation has resulted in increasing the surplus on revaluation of fixed assets by Rs. 1,695.912 million. HBL property of Lebanon branch was revalued as on November 23, 2012 by Banking Control Commission of Lebanon resulted in a surplus of Rs. 15.721 million. HBL property of KEPZ branch was revalued on July 27, 2012 by J & M Associates, licensed valuer, on market value basis resulted in a surplus of Rs. 8.255 million. These revaluations have resulted in a cumulative surplus of Rs. 1,719.888 million. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

	Domestic	Lebanon	KEPZ
	----- (Rupees in '000) -----		
Land	9,446,155	-	232
Building	4,081,358	17,843	2,177
Machinery	70,588	-	-

The movement in surplus on revaluation of properties is given in note 19.1 to these unconsolidated financial statements.

10.6 Details of disposal of fixed assets

The information relating to disposal of fixed assets in aggregate having book value exceeding Rs. 250,000 or cost exceeding Rs. 1 million (whichever is lower), are required to be disclosed as part of the financial statements by the SBP is given in Annexure III and is an integral part of these financial statements.

10.7 At December 31, 2012 carrying value of properties and equipment retired from active service and held for disposal purposes amounted to Rs. 3.824 million (2011: Rs. 142.998 million). The cost / valuation of fully depreciated properties and equipment that are still in the Bank's use, as at the above date, amounted to Rs. 5,116.025 million (2011: Rs. 4,450.289 million).

11. DEFERRED TAX ASSET	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
Deductible temporary differences on			
- provision against investments		292,295	384,490
- provision against doubtful debts & Off-balance sheet		6,396,134	6,144,996
- liabilities written back under sec. 34(5) of the ITO		1,329,866	972,499
- provision against others		117,016	117,316
- revaluation of investments	19.2	(1,307,803)	165,505
		6,827,508	7,784,806
Taxable temporary differences on			
- fixed assets		(1,084,044)	(827,516)
Net deferred tax asset recognised by the Bank		5,743,464	6,957,290



11.1 Movement in temporary differences during the year

	Balance as at January 1, 2011	Recognised in profit or loss	Recognised in equity	Balance as at December 31, 2011	Recognised in profit or loss	Recognised in equity	Balance as at December 31, 2012
	(Rupees in '000)						
Deductible temporary differences on							
- provision against investments	1,068,345	(683,855)	-	384,490	(92,195)	-	292,295
- provision against doubtful debts & Off-balance sheet	6,957,566	(812,570)	-	6,144,996	251,138	-	6,396,134
- liabilities written back under sec. 34(5) of the ITO	200,970	(83,654)	-	972,499	357,367	-	1,329,866
- provision against others	1,035,295	(62,796)	-	117,316	(300)	-	117,016
- on revaluation of investments	462,828	-	(297,323)	165,505	-	(1,473,308)	(1,307,803)
Taxable temporary differences on							
- fixed assets	(889,678)	62,162	-	(827,516)	(64,442)	(192,086)	(1,084,044)
	<u>8,835,326</u>	<u>(1,580,713)</u>	<u>(297,323)</u>	<u>6,957,290</u>	<u>451,568</u>	<u>(1,665,394)</u>	<u>5,743,464</u>

12. OTHER ASSETS

	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
Income / mark-up / profit accrued in local currency		13,916,480	14,721,391
Income / mark-up / profit accrued in foreign currency		1,024,173	808,174
Advances, deposits, advance rent and other prepayments		1,796,426	963,633
Advances against murabaha		366,226	196,894
Advance taxation (payments less provisions)		10,572,213	10,418,187
Receivable from defined benefit plans		-	63,080
Stationery and stamps on hand		42,467	41,637
Accrued income		371,021	161,954
Due from Government of Pakistan / SBP		2,547,755	1,622,525
Unrealised gain on forward foreign exchange contract/ derivative instruments		587,819	1,154,950
Non-banking assets acquired in satisfaction of claims [market value Rs. 3,093.330 million (2011: Rs. 2,008.437 million)]		2,573,070	2,239,003
Receivable from National Saving Centre / Clearing in transit		18,890,141	11,300,092
Claim against fraud and forgeries		202,973	73,743
Others		235,027	460,546
Provision held against other assets	12.1	53,125,791 (530,362)	44,225,809 (284,486)
Other Assets - net		<u>52,595,429</u>	<u>43,941,323</u>

12.1 Provision against other assets

Opening balance	284,486	421,742
Charge for the year	281,768	51,406
Reversal	(3,920)	(163,279)
Net charge / (reversal)	277,848	(111,873)
Write off	(36,946)	(29,501)
Exchange adjustment	4,974	4,118
Closing balance	530,362	284,486

13. BILLS PAYABLE

In Pakistan	18,363,545	13,087,411
Outside Pakistan	515,107	807,091
	<u>18,878,652</u>	<u>13,894,502</u>

14. BORROWINGS

Note 2012 2011
(Rupees in '000)

In Pakistan	182,420,105	27,761,453
Outside Pakistan	9,688,492	5,953,451
	<u>192,108,597</u>	<u>33,714,904</u>

14.1 Particulars of borrowings

In local currency	182,420,105	27,761,453
In foreign currency	9,688,492	5,953,451
	<u>192,108,597</u>	<u>33,714,904</u>

14.2 Details of borrowings

Secured

Borrowings from State Bank of Pakistan under:

- Export refinance scheme	16,845,030	18,182,197
- Long term financing facility - locally manufactured and imported plant & machinery	5,074,278	4,204,722
- Long term finance - export oriented projects	974,062	1,774,534
- Refinance facility for modernization of SMEs	12,649	-
- Financing facility for Storage of Agricultural Produce	15,277	-

Repurchase agreement borrowings

14.4	157,998,809	-
	<u>180,920,105</u>	<u>24,161,453</u>

Unsecured

In Pakistan

- Interbank call money borrowing

Outside Pakistan

- Overdrawn nostro accounts

- Borrowings of overseas branches

14.5	1,500,000	3,600,000
14.6	1,186,682	708,353
	8,501,810	5,245,098
	9,688,492	5,953,451
	<u>11,188,492</u>	<u>9,553,451</u>
	<u>192,108,597</u>	<u>33,714,904</u>

14.3 Borrowings from SBP under the export and export oriented projects refinance schemes of SBP are secured by the Bank's cash and security balances held by SBP. These carry annual mark-up rates ranging from 7.2% to 9.8% (2011: 9.7% to 11%).

14.4 These carry annual mark-up rates ranging from 8.8% to 9.2%.

14.5 These carry annual mark-up rates ranging from 8.0% to 9.0% (2011: 9.7% to 13.05%).

14.6 Since, the Bank operates in different countries, these carry varied mark-up rates as given by the external banks of respective countries.

15. DEPOSITS AND OTHER ACCOUNTS

2012 2011
(Rupees in '000)

Customers

Current accounts - non-remunerative	281,887,233	222,815,278
Current accounts - remunerative	1,446,233	1,694,058
Savings chequing account	485,129,429	388,468,078
Fixed deposits	354,430,663	245,987,658
	<u>1,122,893,558</u>	<u>858,965,072</u>

Financial institutions

Current accounts - non-remunerative	4,086,107	5,052,260
Savings chequing account	4,490,688	2,815,116
Fixed deposits	9,694,622	8,476,149
	<u>18,271,417</u>	<u>16,343,525</u>
	<u>1,141,164,975</u>	<u>875,308,597</u>



15.1 Particulars of deposits

	2012 (Rupees in '000)	2011 (Rupees in '000)
In local currency	939,452,816	720,626,687
In foreign currencies {including foreign currency deposits of domestic branches of Rs.101,599.466 million (2011: Rs. 70,334.543 million)}	<u>201,712,159</u>	<u>154,681,910</u>
	<u>1,141,164,975</u>	<u>875,308,597</u>

16. SUB-ORDINATED LOAN

The Bank has obtained loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million (2011: US \$ 50 million) equivalent to Rs. 4,857.485 million (2011: Rs. 4,497.285 million). The principal amount is repayable in four equal half yearly installments commencing from June 2013 to December 2014. Interest is payable on bi - annual basis commencing from December 2007 at LIBOR + 1.75%. The loan is unsecured and subordinated as to payment of principal and interest to all other indebtedness of the Bank (including deposits). The loan may not be prepaid or repaid before maturity without the prior written approval of the SBP. The Bank is not exposed to significant exchange risk as the loan forms part of the Bank's foreign currency net open position.

17. OTHER LIABILITIES

	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
Mark-up / return / profit payable in local currency		18,127,380	15,140,777
Mark-up / return / profit payable in foreign currency		832,323	577,420
Security deposits		395,762	277,710
Accrued expenses		5,163,175	6,621,833
Unrealised loss on forward foreign exchange contracts / derivative instruments		380,774	870,377
Unclaimed dividends		109,756	45,545
Dividend payable		21,194	51,605
Provision for employees' compensated absences	33.2.8	1,355,387	1,720,577
Provision for post retirement medical benefits	33.2.3	2,235,674	2,399,600
Provision against off-balance sheet obligations	17.1	1,083,490	1,152,456
Branch adjustment account		1,936,719	1,663,072
Provision for staff retirement benefits		666,909	611,156
Payable to defined benefit plan		1,089,600	44,863
Provision for workers welfare fund		1,850,951	1,165,078
Unearned income		172,871	126,342
Qarza-e-Hasna Fund		344,585	346,913
Duties and taxes payable		1,020,963	785,654
Insurance payable		146,565	106,361
Reward points payable		57,946	40,352
Liability against trading of securities		-	266,772
Payable to HBL foundation		557,189	355,079
Others		<u>672,591</u>	<u>614,228</u>
		<u>38,221,804</u>	<u>34,983,770</u>

17.1 Provision against off-balance sheet obligations

Opening balance	1,152,456	1,215,804
Charge for the year	133,485	-
Reversal	(126,470)	(68,525)
Net charge / (reversal)	7,015	(68,525)
Write off	-	(8,186)
Other movement	(93,071)	-
Exchange adjustment	17,090	13,363
Closing balance	<u>1,083,490</u>	<u>1,152,456</u>

18. SHARE CAPITAL

18.1 Authorised Capital

2012 Number of shares in '000	2011 Number of shares in '000		2012 (Rupees in '000)	2011 (Rupees in '000)
<u>3,000,000</u>	<u>1,380,000</u>	Ordinary shares of Rs. 10 each	<u>30,000,000</u>	<u>13,800,000</u>

18.2 Issued, subscribed and paid-up capital

2012 Number of shares in '000	2011 Number of shares in '000		2012 (Rupees in '000)	2011 (Rupees in '000)
		Ordinary shares of Rs. 10 each		
690,000	690,000	Fully paid in cash	6,900,000	6,900,000
<u>522,275</u>	<u>412,068</u>	Issued as bonus shares	<u>5,222,748</u>	<u>4,120,680</u>
<u>1,212,275</u>	<u>1,102,068</u>		<u>12,122,748</u>	<u>11,020,680</u>

18.3 Exchange translation reserve

This comprises all foreign currency differences arising from the translation of financial statements of foreign operations.

18.4 Statutory reserves

Every banking company incorporated in Pakistan is required to transfer 20% of their profits to a statutory reserve until the reserve equals share capital, thereafter 10% of the profits of the holding company are to be transferred to this reserve.

18.5 Dividends

The following cash dividends and bonus shares were declared and paid / issued by the Bank:

	2012 (Rupees in '000)	2011 (Rupees in '000)
Cash dividend: Rs. 7 per share (2011: Rs. 6.5 per share)	<u>7,714,476</u>	<u>6,512,220</u>
Bonus share: 1 shares for every 10 shares held (2011: 1 share for every 10 shares held)	<u>1,102,068</u>	<u>1,001,880</u>
Half year interim cash dividend: Rs. 3.5 per share	<u>4,242,962</u>	

After December 31, 2012 the following dividends were proposed by the Directors for 2012. The dividends have not been accounted for and, there are no income tax consequences.

Cash dividend: Rs. 4 per share

4,849,099

Bonus share: 1 share for every 10 shares held

1,212,275

19. SURPLUS ON REVALUATION OF ASSETS - net of deferred tax

Note 2012 2011
(Rupees in '000)

Surplus arising on revaluation of:

- fixed assets	19.1	<u>9,590,967</u>	<u>8,309,508</u>
- investments	19.2	<u>2,428,878</u>	<u>(307,940)</u>
		<u>12,019,845</u>	<u>8,001,568</u>



19.1 Surplus on revaluation of fixed assets

	2012 (Rupees in '000)	2011
Surplus on revaluation of fixed assets as at January 1	9,093,164	9,420,908
Surplus on revaluation of bank's properties recognised during the year	1,719,888	-
Surplus realised on disposal of revalued properties during the year - net of deferred tax	(155,285)	(139,331)
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax	(90,185)	(120,882)
Related deferred tax liability of incremental depreciation charged during the year	(48,577)	(65,090)
Related deferred tax liability on disposal of revalued properties	(873)	(2,441)
 Surplus on revaluation of fixed assets as at December 31	 10,518,132	 9,093,164
Less: related deferred tax liability on: - revaluation as at January 1	783,656	851,187
- revaluation of bank's properties recognized during the year	192,959	-
- surplus realised on disposal of revalued properties during the year	(873)	(2,441)
- incremental depreciation charged during the year transferred to profit and loss account	(48,577)	(65,090)
 	 927,165	 783,656
	 9,590,967	 8,309,508

19.2 Surplus / (deficit) on revaluation of investments

Market Treasury Bills	1,863,369	611,825
Pakistan Investment Bonds	1,490,249	(197,281)
Government of Pakistan Sukuk and US Dollar / Euro Bonds	(95,595)	(834,680)
Listed Securities	212,728	(143,341)
NIT Units	11,283	6,359
Other Investments	254,647	83,673
 Related deferred tax (liability) / asset	 3,736,681	 (473,445)
	 (1,307,803)	 165,505
	 2,428,878	 (307,940)

20. CONTINGENCIES AND COMMITMENTS

20.1 Direct credit substitutes - financial guarantees

Guarantees in favour of:		
- Government	306,856	354,078
- Financial institutions	295,000	318,596
- Others	35,371,437	22,307,830
	 35,973,293	 22,980,504

20.2 Transaction-related contingent liabilities

Guarantees in favour of:		
- Government	535,006	1,604,813
- Financial institutions	3,610,133	636,292
- Others	39,724,102	31,814,519
	 43,869,241	 34,055,624

20.3 Trade-related commitments

Credit cash	75,837,119	70,202,498
Credit documentary acceptances	18,535,338	21,899,930
Credit acceptances	34,790,322	23,115,049
	 129,162,779	 115,217,477

20.4 Other contingencies

Claims against the Bank not acknowledged as debts	33,445,873	84,516,467
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20.5 Commitments in respect of forward lending

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 significant penalty or expense if the facility is unilaterally withdrawn.

	2012	2011
	(Rupees in '000)	
Purchase	161,434,192	130,739,964
Sale	161,344,507	130,737,821

The above commitments have maturities falling within one year.

Commitments in respect of foreign currency options

Purchase	1,317,948	336,655
Sale	1,317,948	336,655

Commitments in respect of Cross Currency Swaps

Purchase	3,659,009	2,868,771
Sale	3,659,009	2,868,771

Commitments in respect of foreign and local currency interest rate swaps

Purchase	444,199	482,551
Sale	291,449	329,801

20.7 Commitments for acquisition of operating fixed assets / intangibles

663,125 512,471

20.8 HBL has entered into contract with Citi Bank N.A, Pakistan to acquire its consumer portfolio with expected transaction value of Rs. 2 billion. The transaction has been approved by the Competition Commission of Pakistan, however approval from SBP is awaited.

20.9 The income tax returns of the Bank have been submitted upto and including the Bank's financial year 2011. The tax authorities have concluded the audit of years 2002 through 2011.

While amending the assessment under section 122(5A) of the Income Tax Ordinance, 2001 for the tax year 2006, the tax authorities have disallowed double income tax relief relating to Azad Jammu & Kashmir (AJK) branches. The exposure of the Bank on this issue at the period end is Rs. 2,923 million.

Management's view is that the settlement reached, after deliberations by the technical committee formed by the Prime Minister and Chairman AJ&K Council, relates to the long outstanding issue of basis of computation of income in AJK. The foreign tax credit claimed by the Bank is in accordance with accounting practice and the law.

Appeal against this issue is pending at appellate stage; however, the management is confident that the eventual outcome of this issue will be in the favour of the Bank.

With reference to allowability of provision as per rule 8(A) of the seventh schedule, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognized deferred tax asset on such provision amounting to Rs. 2.542 billion.

21. DERIVATIVE INSTRUMENTS

Derivatives are a type of financial contract, the value of which is determined by reference to one or more underlying assets or indices. The major categories of such contracts include forwards, futures, swaps and options. Derivatives also include structured financial products that have one or more characteristics of forwards, futures, swaps and options.

The Bank as an Authorized Derivative Dealer (ADD) is an active participant in the Pakistan derivatives market. Although the ADD license covers only the transactions mentioned below (permitted under the Financial Derivatives Business Regulations issued by the SBP), the Bank offers a wide variety of derivatives products to satisfy customers' needs, specific approval for which is sought from the SBP on a transaction by transaction basis:

- (a) Foreign Currency Options
- (b) Forward Rate Agreements
- (c) Interest Rate Swaps
- (d) Cross Currency Swaps

These transactions cover the aspects of both market making and hedging.

The authority for approving policies lies with the Board of Directors (BoD) and the Board Risk Management Committee (BRMC). The Market Risk Committee (MRC) has been assigned the responsibility of ensuring meticulous compliance with these policies.

With regard to derivatives, the MRC is authorized to:

- Review the derivatives business with reference to market risk exposure and assign various limits in accordance with the risk appetite of the Bank.
- Review the Derivatives Business Policy and recommend approval to the BRMC / BoD.
- Review and approve derivatives product programs.
- Authorize changes in procedures and processes regarding derivatives and structured products.

Overall responsibility for derivatives trading activity lies with the Treasury and Capital Markets Group (TCM).

Measurement & monitoring of market and credit risk exposure and limits and its reporting to the senior management and the BoD is done by Market & Treasury Risk (MTR), which also coordinates with the business regarding approvals for derivatives risk limits. Treasury Operations records derivatives activity in the Bank's books, and handles its reporting to the SBP.

21.1. Product Analysis

Counterparties	2012					
	Interest Rate Swaps		FX Options		Cross Currency Swaps	
	No. of Contracts	No. of Principal* (Rupees in '000)	No. of Contracts	No. of Principal * (Rupees in '000)	No. of Contracts	No. of Principal * (Rupees in '000)
With Banks for Hedging Market Making	- 1	291,449	- 49	1,317,948	- 4	3,659,009
With other entities for Hedging Market Making	- 2	444,199	- 49	1,317,948	- 4	3,659,009
Total Hedging Market Making	- 3	735,648	- 98	2,635,896	- 8	7,318,018

Counterparties	2011					
	Interest Rate Swaps		FX Options		Cross Currency Swaps	
	No. of Contracts	No. of Principal* (Rupees in '000)	No. of Contracts	No. of Principal * (Rupees in '000)	No. of Contracts	No. of Principal * (Rupees in '000)
With Banks for Hedging Market Making	- 1	329,801	- 8	336,655	- 3	2,868,771
With other entities for Hedging Market Making	- 2	482,551	- 8	336,655	- 3	2,868,771
Total Hedging Market Making	- 3	812,352	- 16	673,310	- 6	5,737,542

* At the exchange rate prevailing at the end of the reporting year.

21.2. Maturity Analysis

Remaining Maturity	No. of Contracts	Notional Principal	2012		
			Mark to Market		
			Negative	Positive	Net
----- (Rupees in '000) -----					
Upto 1 Month	2	40,932	(56)	56	-
1 to 3 Months	34	1,890,874	(14,858)	15,076	218
3 Months to 6 Months	67	2,536,207	(19,786)	18,299	(1,487)
6 Months to 1 Years	2	4,481,268	(297)	1,794	1,497
1 to 2 Years	2	1,157,383	(2,862)	5,737	2,875
3 to 5 Years	2	582,898	(14,935)	15,442	507
	109	10,689,562	(52,794)	56,404	3,610

Remaining Maturity	No. of Contracts	Notional Principal	2011		
			Mark to Market		
			Negative	Positive	Net
----- (Rupees in '000) -----					
Upto 1 Month	2	63,239	(679)	679	-
1 to 3 Months	12	559,649	(2,753)	2,753	-
3 Months to 6 Months	2	50,422	(202)	202	-
1 to 2 Years	7	5,890,293	(29,420)	37,271	7,851
3 to 5 Years	2	659,602	(15,309)	15,999	690
	25	7,223,205	(48,363)	56,904	8,541



22. MARK-UP / RETURN / PROFIT EARNED

On loans and advances to

	2012	2011 (Rupees in '000)
- Customers	50,990,895	53,948,102
- Financial institutions	314,565	335,189

On investments

- Available for sale	52,802,827	36,450,895
- Held for Trading	1,452,756	522,999
- Held to maturity	5,648,183	1,555,366

On deposits with financial institutions

On lendings to financial institutions

1,112,044

706,163

2,078,520

2,928,656

114,399,790

96,447,370

23. MARK-UP / RETURN / PROFIT EXPENDED

Deposits	50,671,594	37,528,486
Securities sold under repurchase agreement borrowings	4,903,995	789,508
Other short term borrowings	2,330,984	2,709,435
Long term borrowings	417,595	535,858

58,324,168

41,563,287

24. GAIN ON SALE OF SECURITIES –NET

Federal Government Securities

- Market treasury bills	585,362	300,689
- Pakistan investment bonds	115,490	(91,109)
- Other securities	122,830	2,015

Listed shares

137,559

214,079

961,241

425,674

25. OTHER INCOME

Incidental charges	2,149,866	2,078,525
Rent on lockers	339,294	334,714
(Loss) / gain on sale of operating fixed assets - net	(29,144)	7,746
Gain on sale of non-banking asset	47,707	-
Rent on property	104,354	100,052
Bad debts recovered	32,277	34,472
Miscellaneous earnings	127,268	176,644
	<u>2,771,622</u>	<u>2,732,153</u>

26. ADMINISTRATIVE EXPENSES	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
Salaries, allowances, etc.		15,035,670	14,062,091
Charge for defined benefit / contribution plan and other benefits		1,333,512	1,586,161
Non-executive directors' fees		19,800	13,700
Brokerage and commission		40,435	20,872
Rent, taxes, insurance, electricity, etc.		2,991,928	2,601,691
Legal and professional charges		919,941	1,599,031
Communications		646,091	552,710
Repairs and maintenance		1,323,579	1,142,460
Stationery and printing		610,493	516,629
Auditors' remuneration	26.1	88,075	69,940
Advertisement and publicity		1,144,546	995,642
Amortization	10.2	78,344	43,237
Depreciation	10.3	1,347,848	1,357,994
Entertainment		145,048	116,014
Travelling		390,201	333,095
Conveyance		125,905	107,837
Training		202,532	126,449
Security charges		872,574	761,933
Remittance charges		132,051	164,623
Donations	26.3	254,886	253,028
Documentation and processing charges		524,288	409,788
Others		402,224	240,080
		<u>28,629,971</u>	<u>27,075,005</u>

26.1 Auditors' remuneration

Audit fee	3,959	3,682
Fee for interim review	3,600	3,350
Fee for audit of local branches of the Bank	9,209	8,159
Special certifications / examinations and sundry advisory services	1,791	1,652
Out of pocket expenses	2,938	3,202
Overseas branches	21,497	20,045
	66,578	49,895
	<u>88,075</u>	<u>69,940</u>

26.2 The Bank operates a short term employee benefit scheme which includes cash award / special bonus for all employees. Under this scheme, the bonus for all Executives, including the Chief Executive Officer is determined on the basis of employees' evaluation and the Bank's performance during the year. The aggregate amount determined for the eligible employees in respect of the above scheme relating to all Executives and for the Key Management Personnel of the Bank amounted to Rs.1,173.519 million (2011: Rs. 601.053 million) and Rs. 933.804 million (2011: Rs. 418.043 million) respectively.

26.3 Details of the donations in excess of Rs. 100,000 and above are given in Annexure IV.

26.4 Benazir Employees' Stock Option Scheme

On August 14, 2009, the Government of Pakistan (GoP) launched Benazir Employees' Stock Option Scheme ["the Scheme"] for employees of certain State Owned Enterprises (SOEs) and non-State Owned Enterprises.

The Scheme, needs to be accounted for by the covered entities, including the Bank, under the provision of amended International Financial Reporting Standard 2 - Share Based Payments (IFRS 2). However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the SECP has granted exemption to such entities from the application of IFRS 2 to the Scheme.

Had the exemption not been granted the staff costs of the Bank for the period would have been higher by Rs. 1,502 million, profit before taxation would have been lower by Rs. 1,502 million (earnings per share would have been lower by Rs. 1.24 per share) and, as the Scheme is fully funded by GoP, there would have been no impact on retained earnings / equity of the Bank.



	2012 (Rupees in '000)	2011 (Rupees in '000)
Penalties imposed by State Bank of Pakistan	<u>18,285</u>	<u>77,588</u>

28. WORKERS WELFARE FUND

The Worker's Welfare Ordinance, 1971 has been amended vide Finance Act, 2008 by virtue of which the Bank is now liable to pay WWF @ 2% of profit before tax as per accounts or declared income as per income tax return, whichever is higher.

	2012 (Rupees in '000)	2011 (Rupees in '000)
For Pakistan - for the year		
current	11,011,992	9,256,457
deferred	(451,568)	991,585
For Pakistan - prior year	422,246	(412,996)
current	-	589,128
deferred	-	-
For Overseas - for the year	1,079,236	865,571
current	-	-
deferred	-	-
	<u>12,061,906</u>	<u>11,289,745</u>

For the purpose of taxation overseas include the Bank's branches in Azad Jammu & Kashmir region.

29.1 Relationship between tax expense and accounting profit

Accounting profit for the current year	<u>33,626,071</u>	<u>32,031,561</u>
Tax on income @ 35% (2011: 35%)	11,769,125	11,211,046
- Reduced rate income	(135,865)	464,540
- Penalty imposed by SBP	6,400	27,155
- Prior year charge	422,246	(412,996)
Tax charge for the current year	<u>12,061,906</u>	<u>11,289,745</u>

30. BASIC AND DILUTED EARNINGS PER SHARE

Profit for the year attributable to equity holders of the Bank	<u>20,851,454</u>	<u>20,741,816</u>
(Number)		
Weighted average number of ordinary shares	<u>1,212,274,800</u>	<u>1,212,274,800</u>
(Rupees)		
Basic and diluted earnings per share	<u>17.20</u>	<u>17.11</u>

31. CASH AND CASH EQUIVALENTS

Note	2012 (Rupees in '000)	2011
5	152,024,425	103,080,076
6	24,205,252	34,985,809
	176,229,677	138,065,885

32. STAFF STRENGTH

	(Number)
Permanent	13,799
Others	18
Total staff strength	13,817
	13,476
	19
	13,495

33. DEFINED BENEFIT PLANS AND OTHER BENEFITS

33.1 Principal actuarial assumptions

The latest actuarial valuation for pension and gratuity schemes was carried out as at December 31, 2012 using the Projected Unit Credit Actuarial Cost method and assuming that no indexation of pension will take place. The following significant assumptions were used for the valuation of these schemes:

	2012	2011
-----Per annum-----		
Valuation discount rate	12%	13%
Expected rate of increase in salary level	11%	11%
Expected rate of return on funds invested	12%	13%

33.2 Pension, gratuity and benevolent fund schemes

33.2.1 Fair value of plan assets and present value of defined benefits obligations of these schemes as at December 31, 2012 are as follows:

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2012	2011	2012	2011	2012	2011	2012	2011
----- (Rupees in '000) -----								
Fair value of plan assets	5,030,128	4,014,786	204,657	329,342	1,587,950	1,478,094	-	-
Present value of defined benefit obligation	(6,132,451)	(3,951,706)	(302,753)	(374,205)	(1,175,073)	(1,469,644)	(2,182,363)	(2,455,614)
(Deficit) / surplus	(1,102,323)	63,080	(98,096)	(44,863)	412,877	8,450	(2,182,363)	(2,455,614)
Unrecognized past service cost	110,969	-	(150)	-	(51,044)	87,294	(53,311)	56,014
Asset / (provision) recognized in the balance sheet	(991,354)	63,080	(98,246)	(44,863)	361,833	95,744	(2,235,674)	(2,399,600)

33.2.1.1 The surplus on benevolent fund has not been accounted for as this is a contributory scheme with contribution both from the employees and the Bank.

33.2.2 The following amounts have been charged / (credited) to the profit and loss account in respect of the above-referred schemes:

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2012	2011	2012	2011	2012	2011	2012	2011
----- (Rupees in '000) -----								
Current service cost	35,236	40,660	11,315	10,984	19,529	18,915	27,756	21,460
Mark-up cost	572,317	472,479	40,197	44,436	160,808	176,042	303,459	281,158
Expected return on plan assets	(566,390)	(456,547)	(34,365)	(38,153)	(191,317)	(166,562)	-	-
Actuarial loss / (gain) recognized	906,897	(242,228)	41,687	(20,730)	59,010	(112,051)	173,538	71,705
Past service cost	(93,626)	-	(5,451)	-	(237,790)	26,459	(426,049)	25,953
Contributions - employees	-	-	-	-	(38,164)	-	-	-
Charge / (reversal) for the year	854,434	(185,636)	53,383	(3,463)	(227,924)	(57,197)	78,704	400,276

Charge for the year is included in administrative expenses (note 26 to the financial statements) under 'Charge for defined benefit plans and other benefits' account head. A sensitivity analysis to estimate the impact of increase in



33.2.3 Movement in amounts (receivable from) / payable to defined benefit plans

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)								
Opening balance	(63,080)	122,556	44,863	48,326	(95,744)	(14,273)	2,399,600	2,162,309
Charge / (credit) for the year	854,434	(185,636)	53,383	(3,463)	(227,924)	(57,197)	78,704	400,276
Contributions during the year	(1,100,000)	-	-	-	(38,164)	(24,274)	-	-
Benefits payable	1,300,000	-	-	-	-	-	(242,630)	(162,985)
Closing balance	991,354	(63,080)	98,246	44,863	(361,832)	(95,744)	2,235,674	2,399,600

33.2.4 The significant portion of the assets comprises of debt securities.

33.2.5 Movement of present value of defined benefit obligation

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)								
Opening balance	(3,951,706)	(3,752,486)	(374,205)	(363,236)	(1,469,644)	(1,405,002)	(2,455,614)	(2,244,246)
Current service cost	(35,236)	(40,660)	(11,315)	(10,984)	(19,529)	(18,915)	(27,756)	(21,460)
Mark-up cost	(572,317)	(472,479)	(40,197)	(44,436)	(160,808)	(176,042)	(303,459)	(281,158)
Benefits paid	415,881	236,064	129,999	42,843	89,182	101,666	242,630	162,985
Past Service Cost	(1,317,343)	-	5,601	-	376,129	-	535,374	-
Actuarial (loss) / gain	(671,730)	77,855	(12,636)	1,608	9,597	28,649	(173,538)	(71,735)
Closing balance	(6,132,451)	(3,951,706)	(302,753)	(374,205)	(1,175,073)	(1,469,644)	(2,182,363)	(2,455,614)

33.2.6 Movement of fair value of plan assets

	Pension		Gratuity		Benevolent		
	2012	2011	2012	2011	2012	2011	
(Rupees in '000)							
Opening balance	4,014,786	3,629,930	329,342	314,910	1,453,820	1,281,248	
Return on plan assets	566,390	456,547	34,365	38,153	191,317	166,562	
Employer contribution	1,100,000	-	-	-	38,164	24,274	
Employee contributions	-	-	-	-	227,924	-	
Benefits paid	(415,881)	(236,064)	(129,999)	(42,843)	(89,182)	(101,666)	
Actuarial (loss) / gain on plan assets	(235,167)	164,373	(29,051)	19,122	(68,607)	83,402	
Closing balance	5,030,128	4,014,786	204,657	329,342	1,753,436	1,453,820	

33.2.7 Actual return on plan assets

	Pension		Gratuity		Benevolent		
	2012	2011	2012	2011	2012	2011	
(Rupees in '000)							
Expected return on plan assets	566,390	456,547	34,365	38,153	191,317	166,562	
Actuarial (loss) / gain on plan assets	(235,167)	164,373	(29,051)	19,122	(68,607)	83,402	
Actual return on plan assets	331,223	620,920	5,314	57,275	122,710	249,964	

33.2.8 Other benefits - Employee compensated absences

The liability of the Bank in respect of employee compensated absences as at December 31, 2012, amounted to Rs. 1,355.387 million (2011: Rs. 1,720.577 million). Provision for this balance is held by Bank.

The reversal for the year amounting to Rs. 295.982 million (2011 charge: Rs. 191.602 million) is included in administrative expenses (note 26 to these financial statements) under 'Charge for defined benefit plans and other benefits' account head.

33.2.9 Components of plan assets as a percentage of total plan assets

	2012			2011		
	Pension fund	Gratuity fund	Benevolent fund	Pension fund	Gratuity fund	Benevolent fund
Government securities	91.11%	99.08%	99.44%	97.93%	89.27%	99.44%
Ordinary shares of listed companies	8.26%	-	-	1.61%	-	-
Others (including bank balances)	0.63%	0.92%	0.56%	0.46%	10.73%	0.56%

As per actuarial recommendations, the expected return on plan assets was assumed at 12% per annum on Pension Fund assets, Gratuity Fund assets and Benevolent Fund assets. The expected return on plan assets was determined by considering the expected returns available on the underlying assets.

33.2.10 Expected contributions to be paid to the funds in the next financial year

The Bank contributes to the pension and gratuity funds according to the actuary's advice. Contribution to the benevolent fund is made by the Bank as per the rates set out in the benevolent fund scheme.

Based on actuarial advice, the management estimates that the charge / (reversal) in respect of defined benefit plans for the year ended December 31, 2012, subject to the provisions of the Trust Deeds, would be as follows:

	2013				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical benefit	Employee compensated absences
----- (Rupees in '000) -----					
Expected charge / (reversal) for the year	291,217	19,934	(57,996)	260,339	157,332

33.2.11 Five year data on surplus / (deficit) of the plans and experience adjustments

	2012	2011	2010	2009	2008
----- (Rupees in '000) -----					
Pension Fund					
Present value of defined benefit obligations	(6,132,451)	(3,951,706)	(3,752,490)	(3,823,669)	(3,958,503)
Fair value of plan assets	5,030,128	4,014,787	3,629,930	11,308,988	10,235,607
(Deficit) / surplus	(1,102,323)	63,081	(122,560)	7,485,319	6,277,104
Experience adjustments on plan liabilities [loss / (gain)]	671,730	(77,855)	(351,250)	130,299	(1,133,269)
Experience adjustments on plan assets [loss / (gain)]	235,166	(164,373)	433,160	(492,159)	294,093
Gratuity Fund					
Present value of defined benefit obligations	(302,753)	(374,205)	(363,236)	(335,598)	(357,163)
Fair value of plan assets	204,657	329,342	314,910	770,148	651,072
(Deficit) / surplus	(98,096)	(44,863)	(48,326)	434,550	293,909
Experience adjustments on plan liabilities [loss / (gain)]	12,636	(1,608)	10,321	(14,581)	54,269
Experience adjustments on plan assets [loss / (gain)]	29,051	(19,122)	21,601	(51,792)	11,542
Benevolent Fund					
Present value of defined benefit obligations	(1,175,073)	(1,469,644)	(1,405,002)	(1,432,930)	(1,249,439)
Fair value of plan assets	1,587,950	1,478,094	1,281,248	1,170,236	1,276,397
Surplus / (deficit)	412,877	8,450	(123,754)	(262,694)	26,958
Experience adjustments on plan liabilities [loss / (gain)]	(9,597)	(28,649)	(136,963)	(273,358)	(242,864)
Experience adjustments on plan assets [loss / (gain)]	68,607	(83,402)	(6,668)	43,186	36,686
Post retirement medical benefit					
Present value of defined benefit obligations	(2,182,363)	(2,455,614)	(2,244,246)	(2,180,320)	(2,422,945)
Experience adjustments on plan liabilities [loss / (gain)]	173,538	71,735	(80,259)	(242,351)	(213,334)



34. DEFINED CONTRIBUTION PLAN

34.1 Provident Fund

For employees hired on or after January 1, 2002 and for those who did not opt for the Bank's Pension scheme introduced in 1977, the Bank operates an approved Provident Fund under which both the Bank and employees contribute at following rates:

6% of the Basic Salary	For Executives & Officers
12% of the Basic Salary	For Clerical Staff
For Contractual Employees as per their Service Contracts.	

The staff who are covered by the Bank's Pension plan now also eligible for Provident fund benefits effective from April 04, 2005 by contributing 6% of the basic pay. Bank also makes equal contributions for these employees.

Payments are made to the employees on retirement, death, resignation and discharge as specified in the rules of the Fund.

The total assets of the Fund were Rs. 10,538.559 million as at December 31, 2011 (2010: Rs. 9,343.967 million) as per latest available audited financial statements.

35. REMUNERATION OF DIRECTORS AND EXECUTIVES

	President		Directors		Executives	
	2012	2011	2012	2011	2012	2011
	(Rupees in '000)					
Remuneration / fee of non executives directors	-	-	26,147	20,973	-	-
Managerial remuneration (including allowances)	31,711	21,720	-	-	4,536,047	3,593,406
Contribution to provident and benevolent fund	1,271	1,224	-	-	122,000	98,269
Medical	221	204	-	-	232,840	181,292
House-rent, maintenance, furnishing, others	3,358	1,940	-	-	-	-
Utilities	516	353	-	-	-	-
Conveyance	791	325	-	-	-	-
	37,868	25,766	26,147	20,973	4,890,887	3,872,967
Number of persons	2	1	6	6	2,666	2,168

The Chief Executive Officer and certain Executives are provided with free club memberships and the Chairman / Chief Executive Officer are also provided with free use of the Bank's maintained cars in accordance with their entitlement.

In addition to the above, all executives, including Chief Executive Officer of the Bank are also entitled to certain short term employee benefits which are disclosed in note 26.2 to these financial statements.

36. RELATED PARTY TRANSACTIONS

Aga Khan Fund for Economic Development (AKFED), S.A, Switzerland holds 51% shares of the Bank. The Bank has related party relationship with its subsidiaries, associated undertakings, joint venture company (refer note 8.5 and 8.6), associates of AKFED Group entities, employee benefit schemes (refer note 4.8) of the Bank / related party, and members of the Key Management Personnel of the Bank / related party, including both Executive and Non-Executive Directors.

Banking transactions with the related parties are executed on arm's length basis i.e. substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk (i.e. under the comparable uncontrolled price method) other than those under terms of employment. Details of advances to related parties are given in note 9.9 to these unconsolidated financial statements.

Contributions to and accruals in respect of staff retirement and other benefit schemes are made in accordance with the actuarial valuation / terms of the contribution plan.

Details of transactions with related parties and balances with them as at the year-end were as follows:

	2012					
	Individual and companies related through					
	Key Management Personnel	Parent Group Entities	Subsidiary companies	Associates	Joint venture	Other related party
-----Rs. in 000-----						
Balance Sheet						
Deposits	115	3,989,868	812,286	7,040,968	59,556	2,963,637
Borrowings	-	726,107	278,539	-	-	-
Investments	-	-	10,839,525	4,585,708	7,197	-
Markup / Other Receivable	-	32,904	9,103	220,000	-	-
Mark-up / Other Payable	-	113,770	1,120	28,884	-	1,223,959
Placements / Lendings	-	1,330,363	7,212,257	-	-	-
Overdrawn Nostro	-	656,893	-	292,891	738	-
Impairment provision	-	-	-	573,261	-	-
Profit and Loss						
Interest / Other Income	12,400	222,984	131,836	1,249,676	-	-
Interest / Other Expense	-	328,573	19,708	687,887	-	171,878
Dividend income	-	-	-	158,791	71,585	-
Others						
Other contingencies	-	361,835	-	-	-	127,318
Securities Held as custodian	-	4,852,220	898,100	18,035,000	-	12,378,000
Other transactions	80,250	199	-	2,427	-	-

	2011					
	Individual and companies related through					
	Key Management Personnel	Parent Group Entities	Subsidiary companies	Associates	Joint venture	Other related party
-----Rs. in 000-----						
Balance Sheet						
Deposits	-	2,977,032	554,076	4,105,211	27,833	635,603
Borrowings	-	-	323,289	-	-	-
Investments	-	-	9,558,656	4,124,882	7,197	-
Markup / Other Receivable	-	57,541	9,515	115,149	-	63,080
Mark-up / Other Payable	-	167,418	1,810	24,430	-	85,513
Placements / Lendings	-	362,928	12,668,849	-	6,489	-
Overdrawn Nostro	-	622,334	52,858	486,045	-	-
Impairment provision	-	-	-	573,261	-	-
Profit and Loss						
Interest / Other Income	19,000	241,445	308,712	836,571	-	-
Interest / Other Expense	-	159,960	23,043	444,500	-	127,729
Dividend income	-	-	-	61,556	44,850	-
Others						
Other contingencies	-	103,044	-	-	-	-
Securities Held as custodian	92,730	3,715,550	945,000	15,003,000	-	14,129,800
Acceptance	-	-	24,215	-	-	-

- 36.1** The donations given in note 26 of these unconsolidated financial statements include donations to HBL Foundation. The Foundation was established by the Board of Directors of HBL to promote development and advance the welfare and well being of the people with the object of improving their quality of life. Liability to the fund is shown in note 17.



36.2 Key Management Personnel

Key Management Personnel comprises Members of Management Forum, Regional Management, Country Managers and Senior Executives:

	2012 (Rupees in '000)	2011 (Rupees in '000)
Managerial remuneration (including allowances)	1,117,531	903,892
Contribution to provident and benevolent fund	22,586	19,333
Medical	36,408	29,225
	<u>1,176,525</u>	<u>952,450</u>
Number of persons	<u>159</u>	<u>147</u>

In addition, Key Management Personnel are paid short-term employee benefits which are disclosed in note 26.2.

37. RISK MANAGEMENT FRAMEWORK

Risk taking is central to banking activity. Success in any venture in general and the banking business in particular is dependent on how well an institution manages its risk. The main goal is to minimize risk and be proactive in efficiently identifying, assessing, measuring (as far as possible), monitoring and controlling risks to an organisation's strategic advantage.

As HBL plans to continue diversifying its business and ensuring sustained growth and profitability amidst increasing competitiveness and challenges in the banking industry and works to implement the comprehensive risk management, capital adequacy and internal control standards enforced by the SBP. To this end, the Bank has a well defined Risk Management Framework comprising of an effective risk management strategy, risk management structure and a policy framework.

Risk Management Structure

The Bank's risk management approach is underpinned by an appropriate risk management structure. This structure is represented by various lines of defence in order to ensure that the risks are managed effectively on an entity level:

Supervisory Level	Board of Directors	Board Risk Management Committee and Board Audit Committee
	Management	ALCO, Management Risk Committee, Credit Policy Committee, Operational Risk Management Committee etc.
Risk Initiation - Operating Units/ Risk Owners		All Business and Support Groups i.e., Corporate, Investment Banking, Commercial, Retail, Treasury, IT, HR, etc.
Risk Control		Risk Management Group, Compliance
Risk Assurance		Internal Audit and Business Risk Review

Board of Directors (BoD)

The Board provides strategic direction for effective risk management and has the ultimate responsibility for managing all material risks that the Bank is/ may be exposed to, and for ensuring that the required human resources, culture, practices and systems are in place to address such risks. In discharging these responsibilities for overall risk management, the Board has established the Board Risk Management Committee.

Board Risk Management Committee (BRMC)

BRMC is a Board level oversight committee and is the highest risk related policy making and oversight body for all types of risks faced by the Bank, notably credit, market, liquidity and operational risks. It comprises of four directors of the Board (majority being non-executive) including the Chairman of the Board. The Committee is supported by the Chief Risk Officer (CRO) and other executives as required. BRMC assists the Board in determining the strategic direction of the Bank by providing them the risk perspective.

Asset & Liability Committee (ALCO)

ALCO is the focal point for defining and leading the entire asset liability management process within the Bank. In this regard, ALCO also has responsibility for oversight of all market and liquidity risks. It is chaired by the President/CEO and has representation from all business groups, CRO, Chief Financial Officer (CFO), and Head of Market Risk.

Management Risk Committee (MRC)

Management Risk Committee is a senior management body headed by the CRO that mainly covers risks on integrated basis from an overall perspective of strategy, policy/ framework development, assessment/ measurement tools, MIS framework and Basel II implementation, whereas routine aspects in relation to such risks are managed by designated risk departments. In addition, the Bank has other senior management committees i.e., CPC, ALCO and ORMC to manage more specifically the credit, market and liquidity and operational risks respectively.

Credit Policy Committee (CPC)

Credit Policy Committee, at the functional level, has the responsibility to translate the decisions about strategy into framework, policies and standards for the origination, approval, disbursement, monitoring and reporting of credits and also to participate with the business line management in setting up the Bank's target portfolio profile and limits and in monitoring alignment with the risk strategies, appetite and limits etc. approved by the competent authorities. The CPC is chaired by the CRO with the members comprising of at least one Senior Credit Officer from Corporate Banking, Investment Banking, Commercial and Retail Lending and at least one representative each from the Credit Policy and Credit Administration Divisions within RMG. The risk management function is independent of business group / divisions.

Operational Risk Management Committee (ORMC)

Operational Risk Management Committee is a senior management body responsible for operational risk management within the Bank both from the strategic as well as tactical perspectives. The Committee has representation from Risk Management Group, Operations, Global Compliance Group and Finance, being headed by the CRO as its Chairman.

Risk Management Group (RMG)

For effective implementation of the risk management framework, a dedicated function i.e. Risk Management Group operates within the Bank, independent from the other business units, support functions as well as the Internal Audit function. RMG is responsible to perform the functions pertaining to development and oversight of risk strategy, policy, framework, methodology and MIS. The Group is headed by a designated Group Executive i.e. CRO reporting to the President but with an independent reporting line to BRMC so as to enable reporting of all material risk issues and matters, particularly in relation to exceptional circumstances where there may be a conflict/ disagreement with the President.

RMG has designated separate personnel/departments to cater to the following significant areas with each of them reporting to the CRO:

- Credit Policy
- Credit Approvals
- Credit Administration
- Portfolio Management
- Consumer Risk Management
- Market & Liquidity Risk Management

The Operational Risk Management Division (ORMD) operates within Global Compliance Group (GCG) independent from the other business units, support functions as well as the Internal Audit function. The Head ORMD is one of the members of the Operational Risk Committee which is chaired by the CRO. In this manner, issues and matters concerning operational risk are independently communicated to CRO so as to enable knowledge of the Bank-wide risks. The key issues are reported to BRMC through the forum of the Operational Risk Committee and/ or MRC, where applicable. In addition, the Head ORMD has a dotted reporting relationship with the CRO.

Business Risk Review (BRR)

BRR working under Internal Audit provide independent assessment to the Board and the senior management of the Bank's risk management framework that includes policies, procedures, methodologies, reporting, and systems.



Credit Risk Management

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with the agreed contract terms. Credit risk makes up the largest part of the Bank's risk exposures. The Bank's credit process is guided by centrally established credit policies, rules and guidelines continuing a close-to-the market approach with an aim to maintain a well-diversified portfolio of credit risk, which produces a reliable and consistent return.

Credit risk policies are established by the Credit Policy Committee/ CRO and approved by the Board through the Board Risk Management Committee. The Bank has a system of checks and balances in place around the extension of credit that are:

- An independent risk management function.
- Approval rules based on three-initial system and co-guarantor approach.
- An independent audit and risk review function.

The Credit Risk Strategy reflects Bank's tolerance for risk i.e. credit risk appetite and the level of expected profitability. This, as a minimum, reflects Bank's strategy to grant credit based on various products, economic sectors, client segments etc., target markets giving due consideration to risks specific to each target market.

Salient features of our credit approval process are delineated below:

- Every extension of credit to any counterparty requires approval by the personnel having credit approval authorities.
- All Business groups must apply consistent standards in arriving at their credit decisions.
- Every material change to a credit facility requires approval at the appropriate/ pre-defined level.
- Credit approval authority is assigned to individuals according to their qualifications and experience.

Certain groups of exposures/ facilities are managed under product programs, which are approved by various levels of approving authorities as defined in the Credit Policy Manual. Each product program contains detailed credit criteria, regulatory, compliance and documentation requirements.

The Bank uses internal risk rating system to supplement the credit risk measurement procedure for all Corporate and Commercial, and most of the Retail exposures. All in all, over 90% of all exposures are rated. All obligor risk ratings are validated and approved by authorized personnel belonging to both the business units and risk management function. The Bank is currently involved with external consultants to introduce more effective internal risk rating framework that will be aligned with the Foundation Internal Ratings Based (FIRB) approach of the Basel II accord.

Stress testing on the credit portfolio is performed according to the guidelines issued by SBP at defined frequency. The scope of stress testing is being expended to include scenarios in addition to those defined in the SBP guidelines.

The disbursement, administration and monitoring of credit facilities are managed by Credit Administration Departments (CAD) linked to various business units and operates under the CRO as part of the Risk Management Group. CAD is also responsible for collateral/ documents management.

The Bank monitors its credit portfolio on continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problem advances is a tenet of the Bank's credit culture and is intended to ensure that greater attention is paid to such exposure. The Bank has an established Remedial Assets function to focus on expediting recoveries from problem credits. The function negotiates with problem borrowers and recommends restructuring and/ or rescheduling of stuck up loans to the senior management. Cases where the possibilities of economically viable means of recovery are exhausted, legal proceedings are initiated. The Bank follows the guidelines of SBP or the Regulators under which it is operating in other countries for classification/ provisioning/ write-off of problem advances.

Country Risk

The Bank has in place a comprehensive Country Risk Policy. Limits are established for Cross Border Transfer Risk (CBTR) based on the ratings assigned by the internationally recognized rating agencies. The limit utilization is controlled at Head office level and country risk exposures are reported to BRMC at defined frequency. CBTR arises from exposure to counterparties in Countries other than the country where exposure is located. The Bank defines transfer risk as arising where an otherwise solvent and willing debtor is unable to meet its obligation due to the imposition of governmental or regulatory controls restricting its ability to perform under its obligation towards its foreign liabilities.

Market Risk Management

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and equity prices. It emanates from the trading activities mainly carried out by Treasury and investments/ structural positions housed in banking book.

Market risk at the Bank level is managed by the RMG under the supervision of ALCO supported by the Treasury Middle Office (TMO). The Bank carries a limited amount of market risk the bulk of which is located in the banking book stemming from the mismatches in structural assets and liabilities positions.

Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship. Substantial part of the Bank's assets and liabilities are subject to floating rates hence are re-priced simultaneously. However, the Bank is exposed to interest rate risk as a result of mismatches on a relatively small part of its assets and liabilities. The major portion related to this risk is reflected in the banking book owing to the retail activities and investments qualifying for statutory reserve requirements. The overall potential impact of the mismatches on the earnings in short term and economic value of the portfolio in the long term is not material and is being managed with in the tolerance limits approved by the Board. The Bank uses simulation and duration gap models to measure and monitor the interest rate sensitivity on the potential earnings and the Bank's economic value of equity.

Foreign Exchange Risk

The Bank's assets are typically funded in the same currency as that of the business transacted to eliminate foreign exchange exposure. However, the Bank is obliged to maintain a reasonable open position in various currencies resulting from the sizeable trade related transactions handled across the Bank. Foreign exchange risks are controlled and monitored through the limits approved by ALCO within the overall limit advised by SBP. The regulatory limit for foreign exchange is relatively small compared to the size of the Bank; hence, the risk generated through foreign exchange activities is insignificant.

End-of-the-day positions are marked to market daily according to the guidelines of SBP and sensitivity is conducted in line with the internal market risk policy of the Bank. The intra- day positions are managed by treasury through stop loss/ dealers limits.

Liquidity Risk Management

Liquidity risk is the risk that the Bank will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets, or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management. The Bank follows a comprehensive liquidity risk management policy duly approved by ALCO and the Board. The policy stipulates maintenance of various ratios, funding preferences, and evaluation of Bank's liquidity under normal and crisis situation (stress testing). To comply with the policy, the Bank has also conducted a behavioral study on its demand deposits to evaluate their stickiness, which may not reflect in their maturity profile. Such evaluation forms part of the liquidity management process to realistically project the reliance on such funding sources. As a result of close monitoring and strict policy towards reliance on core deposit, the Bank has been able to avoid concentration/ reliance on volatile deposit in its books. A comprehensive contingency plan to deal with crisis situation is also in place.

Operational Risk Management (ORM)

In line with the approved Operational Risk Management Policy, Bank has instituted an Operational Risk Management Division (ORMD). Operational Risk Management Policy and a detailed ORM Framework has been prepared and implemented. Operational Risk Coordinators (ORCs) have been assigned from more than 20 departments of the Bank being responsible for implementation of the ORM Framework in coordination with ORMD. The Bank has been granted permission/certification by SBP to move to the more advanced approach i.e, Alternative Standardised Approach (ASA) under Basel II with a capital floor i.e., operational risk charge under ASA should not fall below a certain percentage of operational risk capital charge calculated under BIA for initial 3 years . Capital floors are 90% for 2012, 80% for 2013 and 70% for 2014. HBL is the first Pakistani bank to achieve this milestone.

The Bank's ORM framework and practices address all the significant areas of ORM within the Bank including Risk Control Self Assessment (RCSA), Key Risk Indicators, Operational Loss Data Management, Operational Risk Reporting, Capital Calculation etc. Detailed RCSA exercises are conducted at regular intervals across the Bank, the results of which are continually evaluated against the losses. Operational loss data collection and evaluation has been underway since 2009. The Bank has also established Key Risk Indicators (KRI) and is monitoring them at regular intervals. Operational risk reports are regularly submitted to the senior management.

Derivatives risk management

There are a number of risks undertaken by the Bank, which need to be monitored and assessed.

Credit Risk

Credit risk refers to the risk of non-performance or default by a party (a customer, guarantor, trade counterparty, third party, etc.), resulting in an adverse impact on the Bank's profitability. Credit risk associated with derivatives transactions is categorized into settlement risk and pre-settlement risk. The credit limit proposals for derivatives transactions are reviewed by the MTR Head who recommends appropriate limits to the Credit Committee for approval. The credit exposure of each counterparty is estimated and monitored by Treasury Middle Office on a daily basis.

Market Risk

The Bank, as a policy, hedges back-to-back all Options transactions. In addition, the Bank does not carry any exchange risk on its Cross Currency Swaps portfolio as it hedges the exposure in the interbank market. To manage the interest rate risk of Interest Rate Derivatives, the Bank has implemented various limits which are monitored and reported by Treasury Middle Office on a daily basis.

Liquidity Risk

Derivatives transactions, usually being non-funded in nature, do not carry a specific funding liquidity risk. The liquidity risk arises from the fact that in Pakistan interest rate derivatives generally have a uni-directional demand, and no perfect hedge is available. The Bank mitigates its risk by limiting the portfolio in terms of tenor, notional and sensitivity limits, and can also hedge its risk by taking on and off balance sheet positions in the interbank market, where available.

Operational Risk

The staff involved in the process of trading, settlement and risk management of derivatives are carefully trained to deal with the complexities involved in the process. Adequate systems and controls are in place to carry out derivatives transactions smoothly. Each transaction is processed in accordance with the product program or transaction memo, which contains detailed accounting and operational aspects of the transaction to further mitigate operational risk. In addition, the Treasury Middle Office and the Compliance and Control Department are assigned the responsibility of monitoring any deviation from policies and procedures. The Bank's Audit and Inspection Group also reviews this function, which covers regular review of systems, transactional processes, accounting practices and end-user roles and responsibilities.

The Bank uses a derivatives system which provides an end-to-end valuation solution, supports the routine transactional process and provides analytical tools to measure various risk exposures, carry out stress tests and sensitivity analysis. Treasury Middle Office produces various reports for higher management (BoD, BRMC, MRC, etc) on a periodic basis. These reports provide details of the derivatives business profile containing outstanding positions, profitability, risk exposures and the status of compliance with limits.

Risk Management alignment with Basel II project

The Bank is one of the few financial institutions in Pakistan planning to adopt the Foundation Internal Ratings Based (FIRB) Approach for credit risk and Internal Models Approach (IMA) for Market Risk (Alternate Standardized Approach for operational risk has already been adopted) under the Basel II Framework and consequently enhancing the quality of risk management processes, methodologies, systems and reporting. In order to undertake the Basel II initiatives in a systematic manner and in full compliance with the related requirements, the Bank has sought the services of an international firm. Bank's Basel II Program includes a number of aspects involving organizational alignments, enhancements in the existing policies, procedures, processes and controls, development of new risk frameworks, existing system upgrades, selection and deployment of various risk applications, development of advanced risk management tools and methodologies and introduction of improved risk reporting MIS. A lot of effort has already gone into aligning Bank's risk management structure, policies, procedures and systems with the requirements of Basel II while the remaining initiatives are currently being undertaken in an integrated manner with plans for completion in due course.

The Bank also realizes the criticality of quality human resource and is already in the process of augmenting the skill set by necessary induction and training measures to enable undertaking of planned initiatives and consistently implementing the new risk management framework in line with Basel II. Once completed, the Bank expects to achieve a number of significant business benefits from its Basel II program with more robust risk management and internal control environment in line with international best practices.

Bank is currently engaged in the deployment of a comprehensive suite of advanced systems for Loan Origination, Credit Administration/ Collateral Management, and Internal Risk Ratings as part of FIRB related initiatives for credit risk.

38. CAPITAL ADEQUACY

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

38.1 Regulatory Capital Base

	2012 (Rupees in '000)	2011 (Rupees in '000)
Tier 1 Capital		
1.1 Fully Paid-up capital	12,122,748	11,020,680
1.2 General Reserves as disclosed on the Balance Sheet	24,114,527	21,958,110
1.3 Un-appropriated/ un-remitted profits (net of accumulated losses, if any)	62,128,562	52,228,646
	98,365,837	85,207,436
Deductions:		
1.4 Book value of intangibles	679,027	277,468
1.5 Shortfall in provisions required against classified assets irrespective of any relaxation allowed.	2,758,267	-
1.6 50% Investments in equity and other regulatory capital of majority owned Securities or other financial subsidiaries not consolidated in the balance sheet	4,253,813	3,613,443
	7,691,107	3,890,911
Total eligible Tier 1 capital	90,674,730	81,316,525
Supplementary Capital		
Tier 2 Capital		
2.1 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets	1,310,855	808,610
2.2 Revaluation Reserves up to 45%	6,414,666	3,878,874
2.3 Foreign Exchange Translation Reserves	12,222,970	8,245,586
2.4 Subordinated debt -upto maximum of 50% of Total eligible Tier 1 capital	485,749	1,798,914
Total tier 2 Capital	20,434,240	14,731,984
Deductions:		
2.5 50% Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	4,253,813	3,613,443
Total eligible Tier 2 Capital	16,180,427	11,118,541
Total Eligible Capital (1+2)	106,855,157	92,435,066



38.2 Risk-Weighted Exposures

Note	Capital Requirements		Risk Weighted Assets	
	2012	2011	2012	2011
	(Rupees in '000)			
Credit Risk				
On-balance sheet				
Other sovereigns, GOP, PG, SBP other than PKR	4,581,782	3,202,463	45,817,820	32,024,628
PSE's	611,759	454,272	6,117,592	4,542,715
Banks	1,663,124	1,419,212	16,631,244	14,192,116
Corporates	22,889,336	22,840,701	228,893,361	228,407,009
Retail Portfolio	4,424,599	4,521,976	44,245,989	45,219,761
Secured by residential property	271,415	231,560	2,714,153	2,315,598
Past due loans	1,034,368	917,806	10,343,682	9,178,057
Listed Equity investments	706,339	437,955	7,063,387	4,379,553
Unlisted equity investments	354,689	629,290	3,546,891	6,292,902
Investments in fixed assets	2,050,607	1,682,980	20,506,074	16,829,795
Other assets	1,138,813	1,227,854	11,388,131	12,278,541
	39,726,831	37,566,068	397,268,324	375,660,676
Off-balance sheet				
Non-market related	9,628,409	6,692,856	96,284,086	66,928,556
Market related	106,811	185,309	1,068,107	1,853,089
	9,735,220	6,878,165	97,352,193	68,781,645
Market Risk				
Interest Rate Risk	3,779,118	2,090,860	47,238,975	26,135,744
Equity Position Risk	640,962	297,342	8,012,025	3,716,772
Foreign Exchange Risk	3,872,293	2,998,376	48,403,662	37,479,697
	8,292,373	5,386,578	103,654,662	67,332,213
Operational Risk (Restricted to 90% of Basic Indicator Approach)	8,588,908	7,864,214	107,361,353	98,302,680
	66,343,332	57,695,024	705,636,532	610,077,214
Capital adequacy ratio				
Total eligible regulatory capital held	38.1	106,855,157	92,435,066	
Total risk weighted assets	38.2	705,636,532	610,077,214	
Capital adequacy ratio		15.14%	15.15%	

38.3 Types of Exposures and ECAI's used

Exposures	JCR-VIS	PACRA	MOODYs	STANDARD & POOR	ECA SCORES
PSE's	✓	✓			
Banks	✓	✓	✓		
Corporates	✓	✓			
Sovereigns and GOP other than PKR			✓	✓	✓

38.4 Credit Exposures subject to Standardised approach

Exposures	Rating Category	2012		2011	
		Amount Outstanding	Deduction CRM	Net exposure	Amount Outstanding
		(Rupees in '000)			
Cash and cash equivalent		24,000,493	-	24,000,493	16,846,867
Claims on GOP in PKR		278,529,336	159,982,937	118,546,399	131,197,556
Claims on SBP arising out of statutory obligations		19,923,432	-	19,923,432	13,466,775
Claims on other sovereigns and GOP other than PKR	1	33,023,508	-	33,023,508	3,621,086
Claims on other sovereigns and GOP other than PKR	2	3,163,492	-	3,163,492	1,610,563
Claims on other sovereigns and GOP other than PKR	3	22,341,299	-	22,341,299	13,437,524
Claims on other sovereigns and GOP other than PKR	4,5	19,361,348	-	19,361,348	15,709,295
Claims on other sovereigns and GOP other than PKR	6	9,305,121	-	9,305,121	5,791,362
Claims on other sovereigns and GOP other than PKR	Unrated	695,834	-	695,834	594,553
PSE	1	4,731,671	-	4,731,671	11,083,506
PSF	Unrated	143,480,819	73,975,276	69,505,543	102,420,433
Banks	1	41,372,361	-	41,372,361	27,628,967
Banks	2,3	4,719,999	253,175	4,466,824	3,656,586
Banks	Unrated	17,515,563	2,356,216	15,159,347	12,325,836
Bank - three months or less	1,2,3	43,643,972	31,203,173	12,440,799	68,158,020
Bank - three months or less	Unrated	10,733,158	-	10,733,158	45,024,313
Corporate	1	45,907,769	12,092,178	33,815,591	56,050,128
Corporate	2	10,176,734	30,791	10,145,943	24,990,592
Corporate	3,4	1,690,144	75	1,690,069	579,925
Corporate	5,6	46,165	-	46,165	-
Corporate	Unrated	355,181,364	10,420,874	344,760,490	303,112,702
Retail		65,504,256	5,548,568	59,955,688	65,744,862
Residential mortgage		7,754,723	-	7,754,723	6,615,995
Past due loans		11,061,747	-	11,061,747	9,194,692
Listed equity and regulatory capital instruments		7,063,387	-	7,063,387	4,379,553
Unlisted equity		2,364,594	-	2,364,594	4,195,268
Fixed assets		20,506,074	-	20,506,074	16,829,795
Other assets		11,388,132	-	11,388,132	12,278,541
		1,215,186,495	295,863,263	919,323,234	944,385,867
					126,178,759
					818,207,108

38.5 Capital management

The Bank's lead regulator SBP sets and monitors capital requirements for the Bank as a whole. In addition the Bank's branches outside Pakistan are also required to follow capital requirements applicable in respective countries.

In implementing current capital requirements, SBP requires the Bank to maintain a prescribed ratio of 10% total capital to total risk-weighted assets. The Bank calculates requirements for market risk in its trading portfolios based upon the methodology provided by SBP which takes account of specific and general market risk, capital charge for interest rate risk and equity price risk using the maturity method.

The Bank's regulatory capital is analysed into three tiers:

- Tier I capital, which includes ordinary share capital, capital and other reserves except exchange translation reserve, minority interest, and retained profit.
- Tier II capital includes revaluation surplus, exchange translation reserve, subordinated debt and impairment allowances not kept against identified debts. The revaluation surplus is allowable as tier II capital upto 45% of the reserve. Subordinated debt is limited to 50% of Tier I capital.
- Tier III supplementary capital consists of short term subordinated debt solely for the purpose of meeting a proportion of the Capital requirements for market risks. The Bank currently does not have any Tier III capital.

Total of Tier II and III capital is limited to Tier I capital.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

On and off-balance sheet assets in the banking book are broken down to various asset classes for calculation of credit risk. Ratings for assets are applied using various ECAI's and aligned with appropriate risk buckets. Collaterals if any, are used as an outflow adjustment. Risk weights notified, are applied at net adjusted exposure. Collaterals used include: Government of Pakistan guarantees for advances and investments in PSE / GoP, deposits / margins, lien on deposits, saving certificates and lending of securities (repo & reverse repo).

39. CURRENCY RISK

	2012			
	Assets	Liabilities	Off-balance sheet items	Net currency exposure
----- (Rupees in '000) -----				

Pakistan Rupee	1,222,119,730	1,131,298,108	(16,616,633)	74,204,989
United States Dollar	150,655,776	140,560,267	2,806,423	12,901,932
Great Britain Pound	7,384,978	10,863,091	5,569,069	2,090,956
UAE Dirham	38,251,685	32,277,341	2,132,838	8,107,182
Japanese Yen	106,131	1,949	(98,030)	6,152
Euro	11,471,065	14,845,234	6,543,361	3,169,192
Other Currencies	87,850,800	65,385,523	(337,028)	22,128,249
	1,517,840,165	1,395,231,513	-	122,608,652

	2011			
	Assets	Liabilities	Off-balance sheet items	Net currency exposure
----- (Rupees in '000) -----				

Pakistan Rupee	835,712,127	759,279,311	(12,457,927)	63,974,889
United States Dollar	94,068,108	94,413,216	5,358,116	5,013,008
Great Britain Pound	8,461,781	10,015,894	3,718,889	2,164,776
UAE Dirham	31,118,683	26,630,772	3,901,969	8,389,880
Japanese Yen	132,229	1,055	(121,716)	9,458
Euro	15,898,121	12,984,618	(230,545)	2,682,958
Other Currencies	78,462,599	59,074,192	(168,786)	19,219,621
	1,063,853,648	962,399,058	-	101,454,590



40. MATURITIES OF ASSETS AND LIABILITIES

40.1 In accordance with BSD Circular Letter No.03 of 2011, issued by SBP, the Bank is required to report assets and liabilities with stated maturities as per their remaining maturities, whereas, assets and liabilities which do not have any contractual maturities should be reported as per their 'expected maturities' calculated on the basis of an objective and systematic behavioural study approved by ALCO committee.

	2012					
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years
Assets						
Cash and balances with treasury banks	152,324,425	62,844,370	12,528,160	13,842,674	7,082,095	1,230,227
Balances with other banks	23,907,534	16,300,314	4,200,885	3,406,335	-	-
Lendings to financial institutions	24,828,255	23,928,255	900,000	-	-	-
Investments	777,185,323	427,689,022	22,873,553	25,869,314	46,388,609	24,743,470
Advances	460,070,634	41,935,297	43,152,517	52,340,942	32,667,160	20,594,773
Operating fixed assets	21,185,101	-	-	-	-	-
Deferred tax asset	5,743,464	4,4461	-	-	-	-
Other assets	52,595,429	12,794,664	10,066,321	7,796,005	4,817,396	1,254,595
	1,517,840,165	585,536,383	93,721,436	103,255,270	90,955,260	47,823,065
Liabilities						
Bills payable	18,878,652	3,950,241	6,121,182	8,807,229	-	-
Borrowings from financial institutions	192,108,597	171,176,046	8,049,078	11,024,749	69,444	168,158
Deposits and other accounts - note 40.2	1,141,164,975	117,503,614	117,375,878	115,552,395	155,843,428	24,956,487
Sub-ordinated loans	4,857,485	-	-	-	4,857,485	18,209
Other liabilities	38,221,804	37,500,754	378,287	161,722	35,482	109,141
	1,395,231,513	330,130,655	131,924,425	135,546,095	155,948,354	30,000,339
Net gap	122,608,652	255,405,728	(38,202,989)	(32,290,825)	(64,993,094)	17,822,726
Share capital	12,122,748					
Reserves	36,337,497					
Unappropriated profit	62,128,562					
Surplus on revaluation of assets - net of tax	12,019,845					
	122,608,652					

	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
	Rupees in '000 -----									
Assets										
Cash and balances with treasury banks	103,080,076	28,482,198	15,102,723	19,320,791	3,650,924	935,434	807,311	1,141,456	16,911,469	16,727,770
Balances with other banks	34,985,809	23,422,698	6,296,560	3,793,870	1,472,681	-	-	-	-	-
Lendings to financial institutions	4,158,1029	3,586,218	1,310,351	2,630,016	34,054,444	-	-	-	-	-
Investments	399,939,469	167,942,371	13,506,013	13,800,949	22,970,490	23,317,400	15,876,529	52,922,969	38,429,570	51,173,178
Advances	416,261,389	30,446,587	36,500,284	44,604,700	18,113,120	25,753,524	23,627,906	180,697,290	52,653,736	3,864,242
Deferred tax asset	6,957,290	-	-	-	-	1,391,928	1,391,928	2,783,856	1,389,578	-
Operating fixed assets	17,107,263	-	-	-	-	-	-	-	-	17,107,263
Other assets	43,941,323	15,566,612	9,531,133	7,242,301	9,613,509	-	-	63,081	-	1,924,087
	<u>1,063,853,648</u>	<u>269,446,683</u>	<u>82,247,664</u>	<u>91,392,628</u>	<u>89,875,168</u>	<u>51,398,287</u>	<u>41,703,674</u>	<u>237,608,652</u>	<u>109,384,353</u>	<u>90,796,540</u>
Liabilities										
Bills payable	13,894,502	4,597,253	3,718,899	5,578,350	-	584,249	903,963	1,203,145	3,052,016	-
Borrowings from financial institutions	33,714,904	10,097,432	7,607,680	9,700,467	565,952	19,820,683	21,537,109	30,523,819	226,428,907	221,528,545
Deposits and other accounts	875,308,597	80,847,137	98,766,329	71,577,204	104,278,864	-	4,491,285	-	-	-
Sub-ordinated loans	4,497,285	-	-	-	3,352,295	702,662	519,865	2,592,079	-	-
Other liabilities	34,982,770	17,668,995	9,628,009	113,210,817	119,720,917	90,208,316	105,547,478	20,924,797	27,458,222	34,319,043
	<u>962,399,058</u>	<u>113,210,817</u>	<u>9,628,009</u>	<u>113,210,817</u>	<u>119,720,917</u>	<u>90,208,316</u>	<u>105,547,478</u>	<u>20,924,797</u>	<u>27,458,222</u>	<u>34,319,043</u>
	<u>101,454,590</u>	<u>156,235,866</u>	<u>(37,473,253)</u>	<u>1,184,312</u>	<u>(15,672,310)</u>	<u>30,473,490</u>	<u>14,245,452</u>	<u>203,289,609</u>	<u>(120,096,570)</u>	<u>(130,732,005)</u>
Net gap										
Share capital	11,020,680									
Reserves	30,203,696									
Unappropriated profit	52,228,646									
Surplus on revaluation of assets - net of tax	8,001,568									
	<u>101,454,590</u>									

40.2 Expected maturity dates do not differ significantly from the contract dates except for the maturity of Rs. 722.938 billion (2011: Rs. 577.132 billion) of deposits representing retail deposit accounts considered by the Bank as stable core source of funding of its operations.

40.3 In accordance with BSD Circular Letter No.02 dated January 14, 2013, issued by SBP, the Bank is required to report maturity gaps between of assets and liabilities on contractual basis which are as follows:



	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
2012										
Rupees in '000										
Assets										
Cash and balances with treasury banks	152,324,425	150,342,291	1,740,557	241,577	-	509,368	-	-	-	-
Balances with other banks	23,907,534	20,849,621	1,988,925	559,620	-	-	-	-	-	-
Lendings to financial institutions	24,828,255	4,890,000	590,000	19,348,255	-	-	-	-	-	-
Investments	777,185,323	139,549,040	126,584,794	119,580,190	264,443,903	17,664,251	26,637,169	58,732,062	3,794,999	20,398,915
Advances	460,070,634	176,259,221	56,281,451	61,971,239	21,337,121	18,561,768	11,153,894	64,155,471	43,489,380	6,861,089
Operating fixed assets	21,185,101	108,385	216,770	325,155	650,310	1,300,620	1,300,761	1,662,192	941,341	14,679,567
Deferred tax asset	5,743,464	5,743,464	-	-	-	-	-	-	-	-
Other assets	52,595,429	40,349,291	2,294,508	3,441,762	6,509,868	-	-	-	-	-
	1,517,840,165	537,891,313	189,697,005	205,467,798	293,450,570	37,526,639	39,091,824	124,549,725	48,225,720	41,939,571
Liabilities										
Bills payable	18,878,652	18,878,652	-	-	-	-	-	-	-	-
Borrowings from financial institutions	192,108,597	10,383,925	770,362	174,872,386	237,218	183,231	280,804	450,219	2,970,723	1,959,729
Deposits and other accounts	1,141,164,975	820,026,718	98,545,410	87,306,699	99,352,522	10,388,710	10,075,604	9,389,746	6,043,738	54,828
Sub-ordinated loans	4,857,485	-	37,883,210	1,214,371	1,214,371	2,428,743	-	-	-	-
Other liabilities	38,221,804	-	-	338,594	-	-	-	-	-	-
	139,5231,513	887,172,505	99,315,772	263,393,456	101,143,705	12,980,684	10,356,408	9,839,965	9,014,461	2,074,557
Net gap										
Share capital	12,122,748									
Reserves	36,337,497									
Unappropriated profit	62,128,562									
Surplus on revaluation of assets - net of tax	12,019,845									
	122,608,652	(349,281,192)	90,381,233	(57,925,658)	192,306,865	24,545,955	287,35,416	114,709,760	39,211,259	39,925,014

	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
	2011 Rupees in '000									
Assets										
Cash and balances with treasury banks	103,080,076	96,971,080	4,493,511	1,398,767	-	216,718	-	-	-	-
Balances with other banks	24,985,809	27,395,734	6,008,129	109,265	1,472,681	-	-	-	-	-
Lendings to financial institutions	41,581,029	40,239,605	1,341,424	-	-	-	-	-	-	-
Investments	399,939,469	15,866,871	23,679,415	103,644,374	142,699,067	20,827,937	12,772,091	49,095,266	8,562,188	22,792,260
Advances	416,261,389	117,144,159	36,926,563	44,9865,598	19,391,958	28,311,200	26,185,582	87,345,260	31,839,449	24,130,620
Deferred tax asset	6,957,290	-	-	-	-	-	-	-	-	-
Operating fixed assets	17,107,263	73,655	147,310	220,966	441,931	883,863	883,962	1,113,199	685,825	12,656,552
Other assets	43,941,323	31,213,196	1,984,909	2,977,363	7,765,835	-	-	-	-	-
	<u>1,063,853,648</u>	<u>335,861,590</u>	<u>74,581,261</u>	<u>153,337,333</u>	<u>171,771,492</u>	<u>50,239,718</u>	<u>39,841,635</u>	<u>137,553,725</u>	<u>41,087,462</u>	<u>59,579,432</u>
Liabilities										
Bills payable	[33,894,502]	[13,894,502]	[7,607,680]	[9,700,467]	[565,952]	[584,249]	[903,963]	[1,203,145]	-	-
Borrowings from financial institutions	33,714,904	10,097,432	86,060,339	50,436,425	61,131,468	8,630,783	10,438,337	7,839,583	3,052,016	195,466
Deposits and other accounts	875,308,597	645,285,419	-	-	35,517	-	4,497,285	-	5,284,777	-
Sub-ordinated loans	4,497,285	-	34,629,253	-	-	-	-	-	-	-
Other liabilities	34,983,770	-	-	-	-	-	-	-	-	-
	<u>962,399,058</u>	<u>703,906,606</u>	<u>93,668,019</u>	<u>60,136,892</u>	<u>62,057,937</u>	<u>9,215,032</u>	<u>15,839,585</u>	<u>9,042,728</u>	<u>8,336,793</u>	<u>195,466</u>
Net gap	<u>101,454,590</u>	<u>(368,045,016)</u>	<u>(19,086,758)</u>	<u>93,200,441</u>	<u>109,713,555</u>	<u>41,024,686</u>	<u>24,002,050</u>	<u>128,510,997</u>	<u>32,750,669</u>	<u>59,383,966</u>
Share capital	11,020,680	30,203,696	52,228,646	-	-	-	-	-	-	-
Reserves			8,001,568							
Unappropriated profit										
Surplus on revaluation of assets - net of tax										
			<u>101,454,590</u>							

4.0.4 The Bank has assets and liabilities that have contractual or non-contractual maturities. The Bank conducts empirical and statistical studies to assess the expected maturity of assets and liabilities with non-contractual maturities. The behavioral maturities of Demand deposits are determined on the basis of an empirical study conducted by the Bank, based on the past five years of data. The attrition rate of deposits is determined based on historically observed monthly data of all Current and Saving Deposit accounts. The parameters used to determine the stickiness of deposits in the study are accounts with balances above a minimum level and monthly change in account balances.

Overdraft facilities are a part of the loan portfolio that roll-over periodically and are constantly a part of the balance sheet. The core or stable part of this asset category can be considered to have a behavioral maturity of a longer tenor. Although, contractually such facilities are short-term, they are generally rolled over periodically; such as working capital financing for commercial borrowers. Hence these assets need to be analyzed as having a core portion which is stable and constantly appears on the balance sheet and a non-core portion that is relatively volatile. Statistical analysis is used to ascertain the change in maturity profiling over time based on the cyclical changes in the outstanding amount against Overdraft facilities.

41. YIELD / INTEREST RATE RISK

41.1 Interest rate risk management

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. In accordance with BSD circular letter no. 03 of 2011, issued by SBP, the Bank is required to report interest rate sensitivity gap of assets and liabilities on the basis of an objective and systematic behavioral study approved by ALCO committee.



Effective yield / Interest rate	Total	Upto one month	Exposure to yield / interest risk							Rupees in '000			
			Over one to three months		Over three to six months		Over six months to one year		Over one to two years				
			Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over three to five years	Over five to ten years	Over ten years				
On-balance sheet assets													
Financial Assets													
Cash and balances with treasury banks	1,37%	152,324,425	31,691,239	1,740,057	241,577	-	-	-	-	118,651,052			
Balances with other banks		23,907,534	11,364,021	2,995,257	2,135,992	-	-	-	-	7,412,264			
Lendings to financial institutions	9.19%	24,828,255	23,928,255	900,000	-	-	-	-	-	-			
Investments	10.04%	777,185,323	115,836,696	135,879,567	127,847,162	267,194,110	13,237,448	28,604,141	62,145,099	13,604,616			
Advances	11.69%	460,070,634	33,880,662	205,747,624	155,631,392	20,899,578	8,490,446	7,590,094	10,624,140	1,262,486			
Other assets		40,226,790	-	-	-	-	-	-	-	9,616,997			
		1,478,542,961	216,700,873	347,263,005	285,856,123	288,093,688	21,747,894	36,194,235	72,769,239	8,856,105			
Financial Liabilities													
Bills payable		18,878,652	168,672,315	8,049,078	11,024,749	69,444	168,158	10,042,729	420,057	18,878,652			
Borrowings from financial institutions	8.61%	192,108,557	1,141,164,975	108,703,857	541,150,040	90,042,729	10,043,352	6,043,738	1,021,393	2,503,731			
Deposits and other accounts	5.24%	4,857,485	-	-	4,857,485	-	-	-	54,828	287,984,897			
Sub-ordinated loans	2.42%	36,370,853	-	-	-	-	-	-	-	36,370,853			
Other liabilities		1,393,380,562	246,184,033	116,752,935	557,022,274	90,112,173	10,408,227	10,223,024	9,809,804	7,065,131			
		85,162,399	(29,483,166)	230,510,070	(271,176,151)	197,981,515	11,339,667	25,971,211	62,959,435	54,828			
On-balance sheet gap		37,446,253								345,738,133			
Non - financial net assets													
Total Net assets		122,608,652								14,812,274			
										(159,543,436)			
Off-balance sheet financial instruments													
Foreign and local currency forward purchases		161,434,192	79,968,168	52,945,085	6,548,990	21,971,950	-	-	-	-			
Foreign and local currency forward sales		(161,344,507)	(90,563,751)	(54,119,845)	(1,988,109)	(14,672,802)	-	-	-	-			
Foreign Currency Options Purchases		1,317,949	20,466	4,46,463	851,020	-	-	-	-	-			
Foreign Currency Options Sales		(1,317,949)	(20,466)	(446,463)	(851,020)	-	-	-	-	-			
Cross Currency Swaps- Long Position		3,659,009	-	498,872	340,811	2,240,634	578,692	-	-	-			
Cross Currency Swaps- Short Position		(3,659,009)	-	(498,872)	(340,811)	(2,240,634)	(578,692)	-	-	-			
Interest rate swaps - long position		444,199	-	152,750	-	-	-	291,449	-	-			
Interest rate swaps - short position		(291,449)	-	-	-	-	(291,449)	-	-	-			
Off-balance sheet gap		242,435	(10,595,583)	(1,174,760)	4,713,631	7,299,148	-	-	-	-			
Total Yield / interest risk sensitivity Gap		(40,078,743)	229,335,310	(266,462,521)	205,280,663	11,339,667	25,971,211	62,959,435	1,790,974	14,812,274			
Cumulative Yield / Interest Risk Sensitivity Gap		(40,078,743)	189,256,567	(77,205,954)	128,074,709	139,414,376	165,385,587	228,345,022	230,135,996	244,948,270			
										85,404,834			

				2011							
				Exposed to yield / interest risk							
				Over one month	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
											Rupees in '000
Effective yield / interest rate	Total	Upto one month	Over one to three months	Over one to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years	Not exposed to yield / interest risk
On-balance sheet assets											
Financial Assets											
Cash and balances with treasury banks	2.28%	103,080,076	20,526,204	1,714,244	1,398,767	-	216,718	-	-	-	79,224,143
Balances with other banks	34,985,809	21,886,967	4,577,021	3,925,009	1,472,681	-	-	-	-	-	3,124,131
Lending\$ to financial institutions	41,581,029	3,586,218	1,310,351	2,630,016	34,054,444	-	-	-	-	-	-
Investments	11.78%	399,939,469	17,676,179	28,828,811	116,072,569	138,883,344	14,600,939	3,628,942	48,343,892	7,480,942	15,325,589
Advances	11.66%	416,261,369	29,816,615	189,443,847	127,852,746	26,826,531	12,559,309	8,037,780	8,063,160	5,746,064	1,875,809
Other assets	13.14%	32,098,948	-	-	-	-	-	-	-	-	5,939,528
	1,027,946,720	93,492,182	225,874,274	251,879,108	201,237,000	27,476,966	11,666,722	56,407,052	13,227,006	17,201,398	129,485,012
Financial Liabilities											
Bills payable	8.65%	13,894,502	-	-	-	-	-	-	-	-	13,894,502
Borrowings from financial institutions	5.08%	33,714,904	10,097,432	7,607,680	9,700,467	565,952	584,249	903,963	1,203,145	-	-
Deposits and other accounts	2.40%	875,308,597	51,190,497	91,524,294	4,22,848,434	70,362,558	12,118,829	14,389,506	16,228,613	3,052,016	49,794,045
Sub-ordinated loans		4,497,285	-	-	4,497,285	-	-	-	-	-	101,958,138
Other liabilities		33,818,692	-	-	-	-	-	-	-	-	33,818,692
	961,233,980	61,287,929	99,131,974	437,046,186	70,928,510	12,703,078	15,293,469	17,431,758	52,846,061	44,893,683	149,671,332
On-balance sheet gap	66,712,740	32,204,253	126,742,300	(185,167,079)	130,308,490	14,773,888	(3,626,747)	38,975,294	(39,619,055)	(27,632,285)	(20,186,320)
Non - financial net assets											
Total Net assets	34,741,850										
	101,454,590										
Off-balance sheet financial instruments											
Foreign and local currency forward purchases	130,739,964	48,061,498	46,908,970	29,197,279	6,572,217	-	-	-	-	-	-
Foreign and local currency forward sales	(10,737,820)	(48,056,815)	(46,885,070)	(29,080,836)	(6,505,099)	-	-	-	-	-	-
Foreign Currency Options Purchases	336,655	31,619	27,825	25,211	-	-	-	-	-	-	-
Foreign Currency Options Sales	(336,655)	(31,619)	(27,9825)	(25,211)	-	-	-	-	-	-	-
Cross Currency Swaps- Long Position	2,868,771	-	-	-	-	2,868,771	-	-	-	-	-
Cross Currency Swaps- Short Position	(2,868,771)	-	-	-	-	(2,868,771)	-	-	-	-	-
Interest rate swaps - long position	482,551	-	-	-	-	152,750	-	329,801	-	-	-
Interest rate swaps - short position	(329,801)	-	-	-	-	(329,801)	-	(329,801)	-	-	-
	154,894	4,683	23,900	(93,557)	67,118	152,750	-	-	-	-	-
Total yield / interest risk sensitivity Gap	32,208,936	126,766,200	(185,260,636)	130,375,608	14,926,638	(3,626,747)	38,975,294	(39,619,055)	(27,692,285)	(20,186,320)	
Cumulative Yield / Interest Risk Sensitivity Gap	32,208,936	158,975,136	(26,285,500)	104,090,108	119,016,746	115,389,999	154,365,293	114,746,238	87,053,953	66,867,633	



41.2 In accordance with BSD Circular Letter No.02 dated January 14, 2013, issued by SBP, the Group is required to report interest rate sensitivity gap of assets and liabilities which are as follows:

Effective yield / interest rate	Total	2012						Not exposed to yield / interest risk		
		Exposed to yield / interest risk		Over six months to one year		Over one to two years				
		Over one month	Over three to six months	Over three to six months	Over one to two years	Over five to ten years	Overten years			
Rupees in '000										
On-balance sheet assets										
Financial Assets										
Cash and balances with treasury banks	1.37%	152,324,425	31,691,239	1,740,557	241,577	-	-	-		
Balances with other banks	23.90%	7,534	11,364,021	2,995,257	2,135,992	-	-	-		
Lendings to financial institutions	24.828,255	23,928,255	900,000	-	-	-	-	-		
Investments	77,185,323	115,879,696	135,879,567	127,847,162	267,194,110	13,257,448	28,604,141	62,145,099		
Advances	46,070,634	33,880,662	205,747,624	155,631,392	20,899,578	8,490,446	7,590,094	10,624,140		
Other assets	40,226,790	-	-	-	-	-	-	-		
Total	1,478,542,961	216,700,873	347,263,005	285,856,123	288,093,688	21,747,894	36,194,235	72,769,239		
Financial Liabilities	18,878,652	-	-	-	-	-	-	-		
Bills payable	192,108,597	168,672,315	8,049,078	11,024,749	69,444	168,158	179,672	420,057		
Borrowings from financial institutions	1,141,164,975	71,373,995	96,532,196	88,735,113	90,042,729	480,822,479	9,389,747	1,021,393		
Deposits and other accounts	5,24%	-	-	4,837,485	-	-	-	6,043,733		
Sub-ordinated loans	2,42%	-	-	36,370,853	-	-	-	-		
Other liabilities	1,393,380,562	240,046,310	104,641,274	104,617,347	90,112,173	480,990,637	10,223,024	9,809,804		
On-balance sheet gap	85,162,399	(23,345,437)	242,621,731	181,238,776	197,981,515	(459,242,743)	25,971,211	62,959,435		
Non - financial net assets	33,446,253	-	-	-	-	-	-	-		
Total Net assets	122,608,652	-	-	-	-	-	-	-		
Off-balance sheet financial instruments										
Foreign and local currency forward purchases	161,434,192	79,968,168	52,945,085	6,548,990	21,971,950	-	-	-		
Foreign and local currency forward sales	(161,344,507)	(90,563,510)	(54,119,845)	(1,988,109)	(14,672,802)	-	-	-		
Foreign Currency Options Purchases	1,317,949	20,466	446,463	(851,020)	-	-	-	-		
Foreign Currency Options Sales	(1,317,949)	(20,466)	(446,463)	498,872	2,240,634	578,692	-	-		
Cross Currency Swaps- Long Position	3,659,009	-	(498,872)	(340,811)	(2,240,634)	(578,692)	-	-		
Cross Currency Swaps- Short Position	(3,659,009)	-	-	152,750	-	-	291,449	-		
Interest rate swaps - long position	444,199	-	-	-	-	-	(291,449)	-		
Interest rate swaps - short position	(291,449)	-	-	-	-	-	-	-		
Off-balance sheet gap	242,435	(10,595,583)	(1,174,760)	4,713,631	7,299,148	-	-	-		
Total yield / interest risk sensitivity Gap	(33,941,020)	241,446,971	185,952,406	205,280,663	(459,242,743)	25,971,211	62,959,435	1,790,959		
Cumulative yield / Interest Risk Sensitivity Gap	(33,941,020)	207,505,951	393,458,357	598,739,020	139,496,277	165,467,488	228,426,923	14,812,274		
								(159,625,322)		
								(159,625,322)		
								85,404,834		

2011

Effective yield / interest rate	Total	Upto one month	Exposed to yield / interest risk						Not exposed to yield / interest risk			
			Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over three to five years	Over five to ten years				
On-balance sheet assets												
Financial Assets												
Cash and balances with treasury banks	2.28%	103,080,076	20,526,204	1,714,244	1,398,767	-	216,718	-	-			
Balances with other banks	34,985,967	21,886,967	4,577,021	3,925,009	1,472,681	-	-	-	79,224,143			
Lendings to financial institutions	41,581,029	3,586,218	1,310,351	2,630,016	34,054,444	-	-	-	3,124,131			
Investments	399,939,469	17,676,179	28,828,811	116,027,569	138,883,344	14,600,939	3,628,942	48,343,892	-			
Advances	416,261,389	29,816,615	189,443,847	127,852,746	26,826,531	12,659,309	8,037,780	8,063,160	15,325,589			
Other assets	32,098,948								9,098,262			
Total	1,027,946,720	93,492,183	225,874,274	251,879,108	201,237,000	27,476,966	11,666,722	56,407,052	13,227,006			
Financial Liabilities												
Bills payable	13,894,502	-	-	-	-	-	-	-	13,894,502			
Borrowings from financial institutions	33,714,904	10,097,432	7,607,580	9,700,467	565,952	903,963	1,203,145	3,052,016	-			
Deposits and other accounts	875,308,597	46,358,611	81,860,515	50,724,834	70,362,558	14,389,506	16,228,613	49,794,045	-			
Sub-ordinated loans	4,497,285	-	-	4,497,285	-	-	-	-	101,958,137			
Other liabilities	33,818,692	-	-	-	-	-	-	-	33,818,692			
Total	961,233,980	56,456,043	89,468,195	64,922,646	70,928,510	399,322,284	15,293,469	17,431,758	52,846,061			
On-balance sheet gap	66,712,740	37,036,140	136,406,079	186,556,461	130,308,490	(371,845,318)	(3,626,747)	38,975,294	44,893,683			
Non - financial net assets												
Total Net assets	34,741,850											
Total	101,454,590											
Off-balance sheet financial instruments												
Foreign and local currency forward purchases	130,739,964	48,061,498	46,908,970	29,197,279	6,572,217	-	-	-	-			
Foreign and local currency forward sales	(130,737,820)	(48,056,815)	(46,885,070)	(29,290,836)	(6,505,099)	-	-	-	-			
Foreign Currency Options Purchases	336,655	31,619	279,825	25,211	-	-	-	-	-			
Foreign Currency Options Sales	(336,655)	(31,619)	(279,825)	(25,211)	-	-	-	-	-			
Cross Currency Swaps- Long Position	2,868,771	-	-	-	-	2,868,771	-	-	-			
Cross Currency Swaps- Short Position	(2,868,771)	-	-	-	-	(2,868,771)	-	-	-			
Interest rate swaps - long position	482,551	-	-	-	-	152,750	-	329,801	-			
Interest rate swaps - short position	(329,801)	-	-	-	-	(329,801)	-	-	-			
Off-balance sheet gap	154,834	4,683	23,900	(93,557)	67,118	152,750	-	-	-			
Total yield / interest risk sensitivity Gap	37,040,823	136,429,979	186,862,904	130,375,608	(371,692,568)	(3,626,747)	38,975,294	(39,619,055)	(27,692,285)			
Cumulative Yield / Interest Risk Sensitivity Gap	37,040,823	173,470,802	360,333,706	490,709,314	119,016,746	115,389,999	154,365,293	114,746,238	87,053,953			



42. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments are based on quoted market prices and unquoted investments including investments in subsidiaries, joint venture and associates are estimated using the best available market based information. Fair value of these investments has been disclosed in note 8.

Fair value of fixed term loans, other assets and other liabilities cannot be calculated with sufficient reliability due to 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 4.4.

The maturity and repricing profile and effective rates are stated in notes 40 and 41 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.

43. CONCENTRATION OF CREDIT AND DEPOSITS

43.1 Concentration of credit risk

Out of the total financial assets of Rs. 1,478,542.961 million, financial assets which were subject to credit risk amounted to Rs. 1,454,542.468 million. The Bank's major credit risk is concentrated in the textile sector.

The following financial assets are guaranteed by the Federal / overseas Governments or SBP / other Central Banks and enterprises owned / controlled by the Government:

Guaranteed by the Government of Pakistan (GOP)	2012 (Rupees in '000)
Investments	719,372,586
Advances	17,495,635
Financial assets receivable from GOP	250,144
Mark-up receivable	<u>5,035,382</u>
	742,153,747

Financial assets receivable from enterprises owned / controlled by Government

Advances	90,131,333
Financial assets receivable from State Bank of Pakistan	55,512,539
Financial assets receivable from National Bank of Pakistan	15,691,749
Mark-up receivable	1,328,427
	<u>162,664,048</u>
Guaranteed by Overseas Governments	15,029,607
Financial assets receivable from other central banks	<u>59,117,338</u>
	<u>978,964,740</u>

43.2 Segment by class of business

	2012					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	19,344,760	3.86	3,107,859	0.27	9,384,070	4.49
Agribusiness	30,587,210	6.10	8,440,157	0.74	1,177,448	0.56
Textile	62,540,933	12.46	4,238,836	0.37	10,001,514	4.79
Cement	7,246,217	1.44	528,574	0.05	1,867,508	0.89
Sugar	4,496,961	0.90	985,057	0.09	228,854	0.11
Shoes and leather garments	1,991,243	0.40	1,412,628	0.12	438,351	0.21
Automobile and transportation equipment	11,152,649	2.22	2,271,381	0.20	2,917,869	1.40
Financial	23,919,702	4.77	10,444,256	0.92	25,737,058	12.31
Hotel & Tourism	694,152	0.14	1,509,521	0.13	-	-
Research & Development	-	-	2,590,386	0.23	-	-
Insurance	7,920	-	6,397,374	0.56	2,798	-
Electronics and electrical appliances	15,044,966	3.00	534,143	0.05	9,027,838	4.32
Oil and Gas	15,408,200	3.07	20,406,572	1.79	9,351,427	4.47
Power and energy	36,130,566	7.20	2,081,579	0.18	7,203,956	3.45
Education & Medical	1,707,995	0.34	5,209,530	0.46	688,827	0.33
Telecommunication	11,062,237	2.20	5,497,887	0.48	5,636,432	2.70
Printing & publishing	2,242,204	0.45	561,451	0.05	584,433	0.28
Construction	1,580,885	0.32	2,769,333	0.24	905,536	0.43
Mining & quarrying	336,696	0.07	71,838	0.01	6,353	-
Food, tobacco and beverages	8,229,468	1.64	1,616,074	0.14	6,307,186	3.02
Public / Government - note 43.2.1	107,626,968	21.45	223,196,603	19.56	75,137,622	35.95
Whole sale & retail trade	51,345,680	10.23	64,771,103	5.68	7,586,970	3.63
Metal and allied	6,614,309	1.32	893,627	0.08	1,817,383	0.87
Individual	33,098,458	6.60	580,619,768	50.88	434,950	0.21
Farming, cattle and dairy	1,390,679	0.28	833,252	0.07	892,901	0.43
Trust funds and non profit organization	2,633,761	0.52	36,945,855	3.24	216,748	0.10
Others	45,326,975	9.02	153,230,331	13.42	31,451,282	15.05
	501,761,794	100.00	1,141,164,975	100.00	209,005,314	100.00

	2011					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	20,924,482	4.55	3,315,296	0.38	9,593,622	5.57
Agribusiness	30,348,721	6.60	7,350,958	0.84	1,292,469	0.75
Textile	71,248,680	15.49	4,537,365	0.52	13,205,044	7.67
Cement	10,130,466	2.20	451,916	0.05	2,283,061	1.33
Sugar	4,490,155	0.98	701,248	0.08	313,444	0.18
Shoes and leather garments	1,916,323	0.42	911,012	0.10	389,755	0.23
Automobile and transportation equipment	9,762,079	2.12	4,426,899	0.51	3,002,694	1.74
Financial	15,068,154	3.28	8,888,562	1.02	25,572,894	14.85
Hotel and tourism	1,189,467	0.26	1,243,362	0.14	-	-
Research and development	-	-	185,383	0.02	-	-
Insurance	340,194	0.07	3,080,894	0.35	3,397	-
Electronics and electrical appliances	15,885,664	3.45	491,028	0.06	2,696,180	1.57
Oil and Gas	13,456,078	2.93	15,627,064	1.79	7,266,085	4.22
Power and energy	39,398,621	8.57	5,182,815	0.59	10,148,442	5.89
Education & Medical	1,854,452	0.40	3,776,187	0.43	434,529	0.25
Telecommunication	12,983,403	2.82	2,963,121	0.34	1,221,297	0.71
Printing & publishing	2,866,891	0.62	279,403	0.03	674,086	0.39
Construction	2,634,577	0.57	2,430,194	0.28	1,109,401	0.64
Mining & quarrying	322,946	0.07	37,565	-	6,353	-
Food, tobacco and beverages	8,245,482	1.79	1,367,879	0.16	2,841,426	1.65
Public / Government - note 43.2.1	73,370,040	15.95	142,319,232	16.26	56,247,564	32.65
Whole sale & retail trade	47,979,688	10.43	48,840,891	5.58	7,559,099	4.39
Metal and allied	7,069,126	1.54	863,523	0.10	2,242,329	1.30
Individual	25,305,598	5.50	530,561,008	60.61	989,938	0.57
Farming, cattle and dairy	1,569,502	0.34	475,372	0.05	1,010,665	0.59
Trust funds and non profit organization	1,663,051	0.36	20,896,184	2.39	15,200	0.01
Others	39,939,977	8.69	64,104,236	7.32	22,134,631	12.85
	459,963,817	100.00	875,308,597	100.00	172,253,605	100.00



43.2.1 Public / Government sector

	2012					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	-	-	796,775	0.36	-	-
Agribusiness	53,203,715	49.43	2,015,387	0.90	-	-
Automobile and transportation equipment	9,376,200	8.71	1,802,571	0.81	778,000	1.04
Financial	166,360	0.15	10,482,294	4.70	5,214,493	6.94
Insurance	28,671	0.03	11,083,639	4.97	39,204	0.05
Oil and Gas	6,488,699	6.03	58,806,784	26.35	15,448,245	20.56
Power and energy	32,254,161	29.97	11,786,817	5.28	13,640,879	18.15
Education & medical	77,032	0.07	34,019,358	15.24	54,896	0.07
Telecommunication	219,000	0.20	3,911,077	1.75	603,743	0.80
Printing & publishing	-	-	59,062	0.03	-	-
Construction	-	-	43,304	0.02	-	-
Foods, tobacco & beverages	178,520	0.17	-	-	-	-
Metal and allied	1,065,738	0.99	2,588,793	1.16	-	-
Defence	2,751,521	2.56	6,540,664	2.93	38,150,530	50.77
Ports and shipping	-	-	18,414,971	8.25	56,928	0.08
Others	1,817,351	1.69	60,845,107	27.25	1,150,704	1.54
	107,626,968	100.00	223,196,603	100.00	75,137,622	100.00

	2011					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	-	-	243,888	0.17	-	-
Agribusiness	51,392,146	70.05	1,675,356	1.18	-	-
Automobile and transportation equipment	7,968,675	10.86	2,896,057	2.03	940,243	1.67
Financial	792,036	1.08	2,536,633	1.78	-	-
Insurance	-	-	7,436,816	5.23	39,204	0.07
Oil and Gas	4,354,553	5.94	33,217,949	27.83	12,556,355	22.32
Power and energy	2,926,718	3.99	6,394,069	4.49	1,859,535	3.31
Education & medical	143,559	0.20	29,114,716	20.46	232,962	0.41
Telecommunication	251,578	0.34	1,075,933	0.76	546,110	0.97
Printing & publishing	-	-	18,454	0.01	-	-
Construction	-	-	36,112	0.03	-	-
Foods, tobacco & beverages	149,651	0.20	182	-	-	-
Metal and allied	1,136,591	1.55	1,521,734	1.07	-	-
Defence	3,148,732	4.29	5,833,653	4.10	37,156,412	66.06
Ports and shipping	-	-	6,223,668	4.37	149,880	0.27
Others	1,105,801	1.51	44,094,012	30.98	2,766,863	4.92
	73,370,040	100.00	142,319,232	100.00	56,247,564	100.00

43.2.2 Segment by sector

	2012					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	107,626,968	21.45	223,196,603	19.56	75,137,622	35.95
Private	394,134,826	78.55	917,968,372	80.44	133,867,691	64.05
	501,761,794	100.00	1,141,164,975	100.00	209,005,313	100.00

	2011					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	73,370,040	15.95	142,319,232	16.26	56,247,564	32.65
Private	386,593,777	84.05	732,989,365	83.74	116,006,041	67.35
	459,963,817	100.00	875,308,597	100.00	172,253,605	100.00

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

	2012		2011	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
-----(Rupees in '000)-----				
Chemical and Pharmaceuticals	698,212	657,978	588,937	565,147
Agribusiness	3,528,254	2,124,467	3,504,294	1,742,441
Textile	16,749,928	13,588,115	20,233,500	17,355,176
Cement	1,987,083	1,021,996	2,264,266	1,091,291
Sugar	415,058	335,353	359,686	323,847
Shoes and leather garments	171,650	156,665	173,363	149,052
Automobile and transportation equipment	1,863,621	1,833,807	1,904,943	1,547,418
Financial	40,000	40,000	797,896	484,315
Hotel and tourism	226,913	226,913	226,913	211,913
Electronics and electrical appliances	2,881,516	2,708,716	2,800,712	2,646,244
Oil and Gas	2,185,183	798,374	332,454	331,141
Power and energy	1,710,239	1,709,227	1,718,991	1,717,832
Education & medical	529,511	524,968	-	-
Telecommunication	35,845	35,845	261,359	261,359
Printing & publishing	217,892	205,392	204,199	199,266
Construction	316,007	310,160	1,386,804	997,980
Mining & quarrying	65,462	999	527,214	435,858
Food, tobacco and beverages	337,130	294,722	527,828	480,587
Whole sale & retail trade	6,439,657	5,283,529	5,640,597	5,178,179
Metal and allied	1,058,915	952,066	912,416	894,518
Individual	1,038,473	950,929	946,563	893,919
Farming, cattle and dairy	295,167	124,512	308,288	101,700
Trust funds and non profit organization	2,500	2,500	2,500	2,500
Others	7,872,836	6,631,802	5,689,787	4,507,135
	50,667,052	40,519,035	51,313,510	42,118,818

43.3.1 Segment by sector

Private	49,892,679	39,744,662	50,064,661	41,243,979
Public / Government	774,373	774,373	1,248,849	874,839
	50,667,052	40,519,035	51,313,510	42,118,818



44. SEGMENT DETAIL WITH RESPECT TO BUSINESS ACTIVITIES

	2012					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head office / support services	Total
----- Rupees in million -----						
Net interest income - External	(32,293)	31,245	52,174	5,154	(204)	56,076
Inter segment revenue - net	66,479	(24,462)	(49,679)	-	7,662	-
Non-funded income	5,327	2,528	2,897	2,144	(506)	12,390
Net interest and non-mark-up income	39,513	9,311	5,392	7,298	6,952	68,466
Total expenses including provision (excluding impairment)	14,896	4,953	201	5,831	9,167	35,048
Impairment against investments	-	130	(224)	-	(114)	(208)
Inter segment administrative cost	6,153	1,231	177	678	(8,239)	-
Total expenses including provision	21,049	6,314	154	6,509	814	34,840
Profit / (loss) before tax	18,464	2,997	5,238	789	6,138	33,626
Segment assets (gross)	140,414	359,738	772,075	189,586	99,723	1,561,536
Segment non-performing loans	8,884	31,660	-	10,049	74	50,667
Segment provision required including general provision	7,971	25,444	348	8,597	1,336	43,696
Segment liabilities including equity	892,734	140,299	170,051	112,555	202,201	1,517,840
Segment return on net liability / asset (%)	10.79%	11.57%	10.36%	5.00%	4.41%	-
Segment cost of funds (%)	5.71%	8.99%	9.44%	1.77%	0.99%	-
	2011					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head office / support services	Total
----- Rupees in million -----						
Net interest income - External	(21,560)	43,749	28,791	4,054	(150)	54,884
Inter segment revenue - net	60,121	(35,697)	(28,095)	-	3,671	-
Non-funded income	4,689	2,533	1,735	2,104	1,027	12,088
Net interest and non-mark-up income	43,250	10,585	2,431	6,158	4,548	66,972
Total expenses including provision (excluding impairment)	12,874	6,534	132	4,719	9,805	34,064
Impairment against investments	-	(38)	69	822	24	877
Inter segment administrative cost	7,409	1,482	213	816	(9,920)	-
Total expenses including provision	20,283	7,978	414	6,357	(91)	34,941
Net income before tax	22,967	2,607	2,017	(199)	4,639	32,032
Segment assets (gross)	122,897	343,647	420,349	140,831	82,113	1,109,837
Segment non-performing loans	3,803	27,288	-	10,317	9,906	51,314
Segment provision required including general provision	6,802	27,080	410	9,881	1,810	45,983
Segment liabilities including equity	698,638	105,430	6,549	81,057	172,180	1,063,854
Segment return on net liability / asset (%)	12.45%	13.01%	10.76%	4.09%	5.69%	-
Segment cost of funds (%)	5.40%	10.40%	9.94%	0.81%	0.89%	-

45. TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities. However, Habib Bank Limited acts as security agent for arrangement and distribution of the term finance certificates and also engages in investment portfolio services as custodian on behalf of its customers.

46. GEOGRAPHICAL SEGMENT ANALYSIS

	2012			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
----- (Rupees in '000) -----				
Pakistan	31,065,278	1,326,974,656	74,367,220	164,574,331
Asia Pacific (including South Asia)	250,925	54,284,193	15,446,505	7,688,393
Europe	51,332	11,090,555	8,179,332	10,505,110
North America	183,715	32,425,638	2,107,370	1,030,673
Middle East	1,486,890	77,214,497	18,007,412	24,516,405
Others	587,931	15,850,626	4,500,813	690,399
	<u>33,626,071</u>	<u>1,517,840,165</u>	<u>122,608,652</u>	<u>209,005,311</u>
	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
----- (Rupees in '000) -----				
Pakistan	31,310,298	921,095,008	63,701,906	146,297,924
Asia Pacific (including South Asia)	487,128	51,791,966	12,793,722	5,624,505
Europe	55,122	10,125,051	6,914,593	5,224,485
North America	34,449	4,387,510	1,782,304	869,506
Middle East	498,454	63,479,119	12,812,120	12,745,782
Others	318,690	12,974,994	3,449,945	1,491,403
Impairment loss on Bank PHB	(672,580)	-	-	-
	<u>32,031,561</u>	<u>1,063,853,648</u>	<u>101,454,590</u>	<u>172,253,605</u>

47. ISLAMIC BANKING BUSINESS (IBB)

In order to meet the guidelines for Shariah Compliance in Islamic Banking Institutions (IBI), statement of financial position and profit and loss account of IBB as at December 31, 2012 is given in annexure V. Further, detailed disclosures are also given in the said annexure to comply instructions issued by SBP to improve transparency and standardization in IBIs profit and loss distribution policies and practices dated November 19, 2012 and BSD circular letter No. 3 dated January 22, 2013.

48. DATE OF AUTHORISATION FOR ISSUE

These unconsolidated financial statements were authorised for issue in the Board of Directors meeting held on February 12, 2013.

49. GENERAL

- 49.1** These unconsolidated financial statements have been prepared in accordance with the revised format for financial statements of Banks issued by the SBP through BSD Circulars No. 4 and 7 dated February 17, 2006 and April 20, 2010 respectively and related clarifications / modifications.
- 49.2** The comparative figures have been re-arranged and re-classified for comparison purposes, however, there are no material re-classification to report.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director



Detail of Domestic Investments Unconsolidated

For the year ended December 31, 2012

ANNEXURE-I

1. Particulars of investments held in listed companies

1.1 Ordinary shares

	Number of shares held	Paid-up value per share (Rupees)	Total paid-up value	Cost	Market value	Credit Ratings Short Term
			-----(Rupees in '000)-----			
Attock Petroleum Limited	300,000	10	3,000	147,510	153,597	A1+
D G Khan Cement Limited	1,300,000	10	13,000	70,036	70,954	N/A
ENGRo Corporation	575,100	10	5,751	55,947	52,932	A1
Fauji Fertilizer Limited	3,900,000	10	39,000	455,102	456,846	N/A
Hub Power Company Limited	13,254,500	10	132,545	597,664	599,634	A1+
Bank Al Falah Limited	6,950,000	10	69,500	120,096	116,899	A1+
National Refinery Limited	1,083,400	10	10,834	299,254	229,356	A1+
Pakistan State Oil Company Limited	1,600,084	10	16,001	386,219	348,315	A1+
TRG Pakistan Limited	16,017,000	10	160,170	160,170	89,535	N/A
Pak Petroleum Limited	1,200,000	10	12,000	213,096	212,148	N/A
Kot Addu Power Company Limited	4,900,000	10	49,000	222,057	242,011	A1+
Lucky Cement Limited	2,600,000	10	26,000	366,741	394,004	N/A
Nishat Chunian Limited	300,000	10	3,000	7,657	10,512	A2
Nishat Mills Limited	1,700,000	10	17,000	104,145	108,545	A1+
Pak Oilfields Limited	950,000	10	9,500	408,858	415,663	N/A
Fauji Fertilizer Bin Qasim Limited	7,555,500	10	75,555	297,019	291,567	N/A
Agri Tech Limited	5,562,428	10	55,624	194,691	64,914	N/A
Oil & Gas Development Company Limited	270,000	10	2,700	51,064	52,005	A1+
Fatima Fertilizer Company Limited	3,935,000	10	39,350	102,239	103,884	A1
Askari Commercial Bank Limited	200,000	10	2,000	3,509	3,444	A1+
Mari Gas Company Limited	10,000	10	100	1,007	984	N/A
			<u>4,264,081</u>	<u>4,017,747</u>		

1.2 Units

	Number of units held	Paid-up value per unit (Rupees)	Total paid-up value	Cost	Market value	Credit Ratings Short Term
			-----(Rupees in '000)-----			
Mutual Funds						
PICIC Investment Fund	11,104,508	10	111,045	133,994	78,509	N/A
JS - Growth Fund.	11,000,000	10	110,000	87,200	96,030	N/A
PICIC Growth Fund	214,453	10	2,145	6,412	3,517	N/A
National Investment Trust	673,546	10	6,735	11,113	22,395	N/A
			<u>238,719</u>	<u>200,451</u>		

1.3 Term Finance Certificates

	Number of Certificates held	Paid-up value per certificate (Rupees)	Total paid-up value	Cost	Market value	Credit Ratings Medium to Long Term
			-----(Rupees in '000)-----			
United Bank Limited	41,525	5,000	207,625	207,251	211,817	AA+
Bank Al Habib Limited	60,000	5,000	300,000	299,160	335,299	AA+
NIB Bank Limited	34,950	5,000	174,750	174,373	174,810	AA-
Faysal Bank Limited	50,000	5,000	250,000	249,800	255,811	AA
			<u>930,584</u>	<u>977,737</u>		

2. Particulars of investment held in unlisted companies

2.1 Ordinary shares	Percentage of holding	Number of Shares	Paid-up value per share (Rupees)	Break-up value	Based on accounts as at -----(Rupees in '000)-----	Name of Chief Executive	Credit Ratings Short Term
Khushhal Bank Limited	17.60%	30,000,000	10	416,266	31 December, 2011	Mr. Muhammad Ghalib Nishtar	N/A
First Woman Bank Limited	15.46%	23,095,324	10	367,708	31 December, 2011	Mrs. Shafqat Sultana	N/A
Central Depository Company Limited	6.35%	4,124,901	10	106,635	30 June, 2012	Mr. Muhammad Hanif Jakhura	N/A
National Institutional Facilitation Technologies (Pvt) Limited	9.07%	1,478,228	10	75,890	30 June, 2011	Mr. M. M. Khan	N/A
SME Bank Limited	0.83%	1,987,501	10	15,504	31 December, 2011	Mr. Ihsan ul Haq Khan	N/A
National Investment Trust Limited	8.33%	79,200	100	276,274	30 June, 2012	Mr. Wazir Ali Khoja	N/A
Saif Power Limited	8.35%	32,268,354	10	443,049	31 December, 2011	Mr. Omar Saifullah Khan	A1
1,727,348							
2.2 Preference shares	Number of shares held	Paid-up value per share (Rupees)	Total paid-up value -----(Rupees in '000)-----	Cost		Credit Ratings Short Term	
Masood Textile Mills Limited	10,000,000	10	100,000	<u>100,000</u>		N/A	
2.3 Term Finance Certificates	Number of certificates held	Paid-up value per certificate (Rupees)	Total paid-up value -----(Rupees in '000)-----	Cost	Market value	Credit Ratings Short Term	
Bank Al Habib Limited	28,000	5,000	140,000	139,782	149,333	N/A	
Bank Al Falah Limited	40,000	5,000	200,000	199,760	209,085	N/A	
Allied Bank Limited	14,277	5,000	71,385	71,214	72,496	N/A	
Faysal Bank Limited	15,000	5,000	75,000	74,850	76,010	N/A	
Pakistan International Airline	594,976	5,000	2,974,880	2,972,500	-	N/A	
Askari Commercial Bank Limited	16,990	5,000	84,950	84,712	85,488	N/A	
Worldcall Telecom Limited	96,000	5,000	480,000	205,591	-	N/A	
Azgard Nine Limited	9,233	5,000	46,165	46,165	-	N/A	
Pakarab Fertilizers Limited	565,080	5,000	2,825,400	1,247,620	1,270,934	N/A	
5,042,194						1,863,346	

3. Particulars of investments held in bonds

3.1 Bonds (Guaranteed by Government)	Terms of Redemption			Book value (Rupees in '000)
	Principal	Interest / Profit	Rate of Interest / Profit	
Pakistan International Airline	Repayable in full on maturity	Semi - Annual	6-Month Kibor + 79 BPS	<u>425,000</u> 425,000
3.2 Bonds				
Quetta Textile GOP Ijarah Sukuk	Repayable in full on maturity Repayable in full on maturity	Semi - Annual Semi - Annual	6-Month Kibor + 150 BPS 6 Month TBILLS	<u>80,000</u> <u>5,999,902</u> 6,079,902



	Terms of Redemption			
	Principal	Interest / Profit	Rate of Interest / Profit	Book value (Rupees in '000)
Gazprom	Repayable in full on maturity	Annual	8.125%	287,181
Hana Bank	Repayable in full on maturity	Semi - Annual	4.000%	200,808
Woori Bank	Repayable in full on maturity	Semi - Annual	4.750%	307,625
Kookmin Bank	Repayable in full on maturity	Semi - Annual	7.250%	208,794
Export Import Bank	Repayable in full on maturity	Annual	5.250%	150,373
Korea Development Bank	Repayable in full on maturity	Semi - Annual	8.000%	514,116
Standard Chartered PLC	Repayable in full on maturity	Semi - Annual	3.850%	437,466
Sberbank	Repayable in full on maturity	Semi - Annual	5.499%	305,584
Eurasian Development Bank	Repayable in full on maturity	Semi - Annual	7.375%	287,090
CNPC HK Overseas Capital Limited	Repayable in full on maturity	Semi - Annual	3.125%	499,787
GE Capital Sukuk Limited	Repayable in full on maturity	Semi - Annual	3.875%	502,604
1Malaysia Sukuk	Repayable in full on maturity	Semi - Annual	3.928%	508,773
Deutsche Telekom International Finance	Repayable in full on maturity	Annual	3.125%	512,222
HSBC Middle East	Repayable in full on maturity	Semi - Annual	3.000%	478,607
VTB Bank	Repayable in full on maturity	Semi - Annual	6.465%	207,550
Gazprom	Repayable in full on maturity	Semi - Annual	5.092%	518,853
Perusahaan	Repayable in full on maturity	Semi - Annual	8.800%	319,842
Vodafone Group PLC	Repayable in full on maturity	Annual	4.625%	413,871
E.ON International Finance BV	Repayable in full on maturity	Annual	5.125%	327,924
France Telecom	Repayable in full on maturity	Annual	5.000%	692,767
SABIC Capital BV	Repayable in full on maturity	Semi - Annual	3.00%	302,816
HSBC Bank Brasil SA	Repayable in full on maturity	Semi - Annual	4.00%	510,036
Corp Andina de Fomento	Repayable in full on maturity	Semi - Annual	3.75%	205,336
Orix Corp	Repayable in full on maturity	Semi - Annual	4.71%	433,718
Korea National Oil Corp	Repayable in full on maturity	Semi - Annual	4.00%	559,592
Banco Do Brasil	Repayable in full on maturity	Semi - Annual	4.50%	512,163
				10,205,498

3.4 Investment by Islamic Banking Branch

GOP IJARA SUKUK V	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	1,200,000
GOP IJARA SUKUK VI	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	3,850,717
GOP IJARA SUKUK VII	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	2,220,152
GOP IJARA SUKUK VIII	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	4,860,000
GOP IJARA SUKUK IX	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	1,701,305
GOP IJARA SUKUK XI	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	1,000,783
GOP IJARA SUKUK XIII	Repayable in full on maturity	Semi - Annual	6 Month TBILLS	6,681,689
Sitara Energy Limited	Repayable in full on maturity	Semi - Annual	6 Month Kibor + 115 BPS	17,623
Engro Fertilizer Limited	Repayable in full on maturity	Semi - Annual	6 Month Kibor + 150 BPS	143,398
Century Paper & Board Mills Limited	Repayable in full on maturity	Semi - Annual	6 Month Kibor + 135BPS	160,000
Ghani Glass Limited	Repayable in full on maturity	Semi - Annual	3 Month Kibor + 180 BPS	300,000
HSBC Sukuk	Repayable in full on maturity	Semi - Annual	3.57%	202,873
				22,338,540

Amount Written - Off During The Year 2012
Statement Showing Written-Off Advances of
Thousand Rupees or above provided during the

ANNEXURE-II
Written - Off During The Year 2012
Showing Written-Off Advances or any other Financial Relief of Five Hundred
rupees or above provided during the year December 31, 2012



S. No.	Name & Address of the Borrower	Name of Individuals / Proprietors / Partners / Directors (with CNIC/NIC No.)	Father's / Husband Name	Outstanding Liabilities at beginning of the year				Principal Write-off	Mark-up & Other Charges Write-off	Other Financial Relief Provided	Total
				Principal	Mark-up	Other charges	Total				
(Rupees in Million)											
10	S.M.ZAMAN FLAT. NO.6,FIRST FLOOR KARIM TARACE BLOCK-7,F.B.AREA, KARACHI.	42101-1205336-5	WAHEED-UZ-ZAMAN	0.814	-	-	0.814	0.814	-	-	0.814
11	MEHMOOD INDUSTRIES PLOT. NO.11,SECTOR-12-B,NORTH KARACHI INDUSTRIAL AREA, KARACHI.	AJAZ MAHMOOD 42201-9084691-3	MAHMOOD ALAM	24.678	0.756	-	25.434	7.677	-	11.898	0.756
12	GALAXY CORPORATION PLOT.NO.11,SECTOR-12-B,NORTH KARACHI INDUSTRIAL AREA, KARACHI.	AJAZ MAHMOOD 42201-9084691-3	MAHMOOD ALAM	6.000	0.520	-	6.520	-	-	2.321	0.520
13	BANTVA TRADING CORPORATION M.R.7/3 ADAMJEE DAWOOD ROAD, KARACHI.	NASEEM GUL 42201-2566259-0	GUL MUHAMMAD	0.870	-	-	0.870	0.870	-	1.217	-
14	ZUCHINI INDUSTRIES PAKISTAN(PVT)LTD. 23-K,M NEAR BUBHTIAN CHOWK (1-KM OFF)RAIWIND ROAD,LAHORE.	KHALIQ MIRZA 420003-765964-7 NASREEN MIRZA 420007-642435-2	MIRZA MUHAMMAD SHAFI KHALIQ MIRZA	66.800	-	-	66.800	0.454	-	79.434	-
15	MIAN ISRAR AHMED CONTRACTOR VILLAGE SHAHABAD,PO.GANDIGAR, DISTT UPPER DIR.	MIAN ISRAR AHMED 15701-1176172-5	MIAN MUHAMMAD ARIF	0.654	-	-	0.654	0.654	-	0.195	-
16	GHULAM SALEH CLOTH & CEMENT MERCHANT VILLAGE & P.O.SHRINGAL,DISTT. UPPER DIR.	GHULAM SALEH 15701-1238859-7	KHAIR MUHAMMAD KHAN	0.767	-	-	0.767	0.767	-	0.213	-
17	USMAN FILLING STATION RAHIMABAD,PO.SAMAR BAGH, DIR LOWER.	SUBHAN ALI 15301-195583-7	MUHAMMAD ALI	1.989	-	-	1.989	0.497	-	0.144	-
18	GRAN BADSHAH PETROLEUM VILLAGE GULABAD,PO.CHAKDARA, DISTT. LOWER DIR.	MAHMOOD BADSHAH GRAN BADSHAH 42301-2111563-1 SULTAN BADSHAH 42301-4990942-9	GRAN BADSHAH	1.422	-	-	1.422	1.422	-	0.633	-
19	CEPAK CONSTRUCTORS (PVT) LIMITED GUL PLAZA MAIN ROAD CHAKDARA, DISTT. LOWER DIR.	HAMAYUN KHAN 15302-1006610-5 MUHAMMAD IQBAL 15302-0895799-7 NISAR HAYAT KHAN 15302-0949337-9	AMIR BADSHAH AMIR BADSHAH AMIR BADSHAH	1.908	-	-	1.908	1.908	-	0.753	-

S. No.	Name & Address of the Borrower	Name of Individuals / Proprietors / Partners / Directors (with CNIC/NIC No.)	Father's / Husband Name	Outstanding Liabilities at beginning of the year				Principal Write-off	Other Financial Relief Provided	Total
				Principal	Mark-up	Other charges	Total			
20	WAQAS DIESEL AGENCY HOSPITAL ROAD BARAWAL BANDI, DISTT. UPPER DIR.	KIFAYAT ULLAH 15702-2520290-3	KACH JAMADAR	1.392	-	-	1.392	1.392	0.413	-
21	BANGASH TRADERS CHOWK FAWARA,JINNAH ROAD, RAWALPINDI.	SHAHNAWAZ KHAN BANGASH 211-62-213456	GHULAM HUSSAIN KHAN	0.128	-	-	0.128	0.128	0.600	-
22	RAJPUT ASSOCIATES TANDO HYDER,HYDERABAD	ZAHOOR AHMED KHAN 502-37-166705	YAOQOOB ALI	0.400	0.658	-	1.058	-	-	0.728
23	MUHAMMAD AZAM ZIA HOUSE NO 2161,BLOCK 35, SAMANABAD, FAISALABAD.	33100-6878801-5	MUHAMMAD ANWAR ZIA	0.474	0.095	-	0.569	0.474	0.062	0.095
24	ANILINE TRADERS R-301 DECENT HOUSE,GULISTANE-E- JAUHAR, KARACHI.	MASROOR AHMED ANSARI 42201-0772098-7	ABU ZAHID ANSARI	1.629	-	-	1.629	0.901	-	2.401
25	MUSHTAQE AHMED A-175, DRIGH COLONY,KARACHI.	518-85-386923	ABDUL MAJEED KHAN	0.305	0.023	-	0.328	0.305	-	1.261
26	FIRESTOP AIDS (PVT) LTD 6-B,FIRST FLOOR,DINAR CHAMBERS ,WEST WHARF ROAD,KARACHI.	MIRZA ALEEM AGHA 42301-7637681-1 NAIMA ALEEM AGHA 42301-3803528-8 SALMAN AGHA 42301-4521127-9	MIRZA AHMED AGHA - MIRZA ALEEM AGHA - MIRZA SHAHNAWAZ AGHA	-	1.433	-	1.433	-	-	1.063
27	IDREES TEXTILE MILLS LTD(ITEM) ISMAIL CENTRE 1ST FLOOR G-6-C, CENTRAL COMMERCIAL AREA, BAHDURABAD, KARACHI.	S.M.IDREES ALLAH WALA 42201-0504412-7 MANSOOR IDREES ALLAH WALA 42201-0406508-7 IMRAN IDREES ALLAH WALA 42201-0518458-5 KAMRAN IDREES ALLAH WALA 42201-0726239-1 NAEEM IDREES ALLAH WALA 42201-0617389-9 SABA KAMRAN 42201-0617261-0 MUHAMMAD ISRAIL 42201-9182297-9	MUHAMMAD ISMAIL ALLAH WALA S.M.IDREES ALLAH WALA S.M.IDREES ALLAH WALA S.M.IDREES ALLAH WALA LATE SHAHADAT HUSSAIN	9,000	-	-	9,000	-	2,350	2,350



S. No.	Name & Address of the Borrower	Name of Individuals / Proprietors / Partners / Directors (with CNIC/NIC No.)	Father's / Husband Name	Outstanding Liabilities at beginning of the year				(Rupees in Million)			Principal Write-off	Other Financial Relief Provided	Total
				Principal	Mark-up	Other charges	Total	0.395	0.395	-	0.150		
28	GRAF KNITS & WOVEN PLOT NO:42 SECTOR-15,KORANGI INDUSTRIAL AREA,KARACHI.	EJAZ HANIF 42301-7223192-7	MUHAMMAD HANIF	0.395	-	-	-	0.395	0.395	-	0.150	-	0.545
29	AL HAMID TRAVELS 1-2 LAKSON SQUARE BUILDING,NO. 2,SARWAR SHAHEED ROAD,KARACHI.	HAMID HUSSAIN KHAN 42101-4987925-9	AHMED HUSSAIN KHAN	13.675	2.696	-	16.371	-	-	-	6.300	-	6.300
		RAIZ HUSSAIN KHAN 42101-2628509-5	AHMED HUSSAIN KHAN										
		ARSHAD HUSSAIN KHAN 42101-2537154-5	AHMED HUSSAIN KHAN										
30	AL-SADIO INDUSTRIES (PVT) LTD FIRST FLOOR 26 NAZ CHAMBERS, SHAHR-E-LIAQUAT,KARACHI.	S.JAWED IQBAL 502-45-362140 S.TEHSIN JAWED 502-69-362142 S.PERVEZ IQBAL 502-46-038937 S.SHAHID PERVEZ 451-53-250508 YASMIN PERVEZ	MIAN MUHAMMAD SADIQ 7.185	1.474	-	8.659	-	-	8.671	-	18.671	-	18.671
31	RESEARCH COLLECTION SERVICES (PVT) LTD HOUSE 1/2, STREET 23, PH-V, KH-E- TANZEEM DHAKA,KARACHI.	IKRAM-UL-MAJEED SEHGAL 42301-9383149-7 SHAHNAZ SEHGAL 42301-8800153-0 G.N.QADR SAADULLAH ABDUL HAMID QADRI BADRUDDIN NIZAMI		56.447	-	-	56.447	56.447	-	85.789	-	142.236	
32	UNITED ENTERPRISES 7,NIZAMI MARKET, M. A. JINNAH ROAD,KARACHI.	ABDUL SATTAR KADER BUX		0.278	-	-	0.278	0.278	-	1.143	-	1.421	
33	ZAHID GUL MORTGAGE PROPERTY:FLAT # A-5-805, 8TH FLOOR SEA CASTLE, PLOT NO COM-7 BLOCK 04, KDA SCHEME # 5 KEHKASHAN CLIFTON, KARACHI.	42101-1763286-7	DAVID MASHI	4.894	3.560	0.230	8.684	2.224	-	3.790	-	6.014	
34	FAIZ RASOOL KHEWAT # 433 KHAUTOONI # 1072, KHASRA # 2347/1 SITUATED AT MOUZA MIAN MEER TEHSIL CANTT LAHORE.	31301-3141281-3	MUHAMMAD RASOOL	6.529	3.000	0.307	9.836	1.718	-	3.307	-	5.025	

S. No.	Name & Address of the Borrower	Name of Individuals / Proprietors / Partners / Directors (with CNIC/NIC No.)	Father's / Husband Name	Outstanding Liabilities at beginning of the year				Principal Write-off	Mark-up & Other Charges	Other Financial Relief Provided	Total	
				Principal	Mark-up	Other charges	Total					
35	NAILA JABEEN 327, BLOCK-H, M.A.JOHAR TOWN LAHORE.	35202-2745162-6	MUHAMMAD IBRAHIM	6,479	2,882	0.446	9,807	1,296	-	3,328	-	4,624
36	ISMAT AMIR HOUSE NO. N-74 MOLLAHA SHERMAN KHEL TEHSIL & DISTT. MIANWALI	38302-1131426-2	JAVED IQBAL KHAN	2,001	1,433	-	3,433	2,001	-	1,433	-	3,434
37	MUHAMMAD HUSSAIN CHAK OLD BHADAL P/O.HAVELI LAKHA TEHSIL DEPALPUR DISTT.OKARA	35301-1920219-3	HAIJ SAID MUHAMMAD	1,500	0.731	-	2,231	1,500	-	0.731	-	2,231
38	A. SATTAR MOZA GARHI TEHSIL TANDIANWALA DISTT. FAISALABAD	33106-4496124-9	AMIR U DIN	1,000	0.471	-	1,471	1,000	-	0.471	-	1,471
39	GHULAM MUSTAFA MOZA ADHIAN TEHSIL MURIDKAY DISTRICT SHEIKHPURA	35202-4254392-7	JALAL DIN	0.899	0.534	-	1,434	0.899	-	0.534	-	1,433
40	REHMAN CHAK NO.425/E.B TEHSIL BUREWALA DISTT.VEHARI	36601-479357-5	CH. SAKANDAR	0.787	0.406	-	1,193	0.787	-	0.406	-	1,193
41	RIAZ AHMAD MOUZA KALASAN HAMEED P/O. BASIRPUR TEHSIL DEPALPUR DISTT. OKARA	35301-2008558-9	GHULAM HAMID	0.655	0.504	-	1,159	0.655	-	0.504	-	1,159
42	MUHAMMAD MUZAFAR ALI GARH MAHARAJA CITY	33203-13462440-3	MUHAMMAD NAWAZISH ALI KHAN	0.635	0.506	-	1,141	0.635	-	0.506	-	1,141
43	MUHAMMAD ILYAS CHAK NO.217/E.B TEHSIL BUREWALA DISTT.VEHARI	36601-6031394-3	PEHLIWAN	0.700	0.317	-	1,017	0.700	-	0.317	-	1,017
44	M. RAFIQUE CHAK NO.66 DINA NATH P/O. SAME TEHSIL PATTOKI DISTT. KASUR	35103-1324395-7	SHER MUHAMMAD	0.500	0.483	-	0.983	0.500	-	0.483	-	0.983
45	ABDUL GHANI CHAK NO.88/6-R P/O. SAME TEHSIL & DISTT. SAHINWAL	36502-1373125-9	GHULAM QADAR	0.628	0.279	-	0.907	0.628	-	0.279	-	0.907
46	M. ASLAM CHAK NO.234/B TEHSIL CHINJOT DISTT. CHINJOT	33201-1711225-7	MOHNEY KHAN	0.590	0.312	-	0.902	0.590	-	0.312	-	0.902



S. No.	Name & Address of the Borrower	Name of Individuals / Proprietors / Partners / Directors (with CNIC/NIC No.)	Father's / Husband Name	Outstanding Liabilities at beginning of the year				Principal Write-off	Mark-up & Other Charges Write-off.	Other Financial Relief Provided	Un-Debited Reversal	Total
				Principal	Mark-up	Other charges	Total					
47	M.SIDDIQUE CHAK # 137/10-R TEHSIL JAHANIA DISTT. KHANEWAL	36101-1612842-1	NAWAB DIN	0.500	0.395	-	0.895	0.500	-	0.395	-	0.895
48	M. MALIK CHAK NO 339 B TEHSIL GOJRA DISTT. TOBA TAK SINGH	33301-9457019-9	FAZAL DIN	0.500	0.329	-	0.829	0.500	-	0.329	-	0.829
49	M. ASHRAF VILL. & P.O. BARA GUA, TEHSIL SOHAWA, DISTT. JHELUM	37303-0552289-1	ATTAA MUHAMMAD	0.554	0.247	-	0.801	0.554	-	0.247	-	0.801
50	FAQEER MUHAMMAD CHAK NO 48 GB MALOOWAL TEHSIL SAMMUNDRI DISTT FAISALABAD	33105-7797805-1	SARDAR MUHAMMAD	0.500	0.270	-	0.770	0.500	-	0.270	-	0.770
51	MIAN MUHAMMAD ASHRAF CHAK HUSSAIN SHAH, TEHSIL, MINCHINABAD, DISTT. BAHAWAL NAGAR	31105-6482337-1	MIAN SHAH MUHAMMAD	0.673	0.070	-	0.744	0.673	-	0.070	-	0.743
52	ABDUL MALIK CHAH MANGAT WALA MOUZA BOOTAY WALA P/O GULZARPUR TEHSIL & DISTT MULTAN	36302-6903367-9	M.SIDDIQUE	0.544	0.169	-	0.713	0.544	-	0.169	-	0.713
53	MUHAMMAD NAWAZ VILLAGE BAREN P/O FAROOQA TEHSIL SAHIWAL DISTT. SARCODHA	38402-5733048-5	PATHANA	0.617	0.005	-	0.622	0.617	-	0.005	-	0.622
				385,618	41,409	1,150	428,177	115,275	-	269,342	3,205	387,822

Detail of Disposal of Operating Fixed Assets Unconsolidated

For the year ended December 31, 2012

ANNEXURE-III

Description	Original cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of buyer
----- Amount in 000 -----						
FURNITURE & FIXTURES						
	1,713	1,713	-	125	Sale	
	2,268	2,268	-	125	Sale	
	2,268	2,268	-	125	Sale	
	1,713	1,713	-	125	Sale	
	7,962	7,962	-	500		
LAND & BUILDING						
	119,858	-	119,858	62,500	Sale	M/S Royal Retailer
	41,948	184	41,764	38,500	Sale	Mount Fuji Textile Pvt Limited
	161,806	184	161,622	101,000		
MOTOR VEHICLES						
	1,080	899	181	815	Auction	Muhammad Haroon Masood
	1,080	899	181	840	Auction	Alwat Khan
	1,080	899	181	830	Auction	Ziauddin
	1,080	899	181	845	Auction	Muhammad Rizwan
	1,080	916	164	780	Auction	Muhammad Imran
	1,080	899	181	895	Auction	Syed Pervez Ali Shah
	1,079	1,079	-	770	Auction	Muhammad Ibraheem
	1,080	899	181	845	Auction	Nazir Ahmed Khan
	1,080	899	181	850	Auction	Muhammad Rizwan
	1,017	1,017	-	535	Auction	S.Muhammad Saeed
	1,799	1,439	360	360	On retirement	R.Zakir Mahmood (Ex-Employee)
	4,950	4,950	-	-	On retirement	R.Zakir Mahmood (Ex-Employee)
	1,384	277	1,107	1,246	Insurance Claim	Jubilee General Insurance
	1,239	578	661	1,004	Insurance Claim	
	1,117	1,117	-	484	Auction	Ahmed Faraz
	1,376	1,376	-	529	Auction	Mumtaz Hussain
	1,227	1,227	-	301	Auction	Abdul Mateen
	23,828	20,269	3,559	11,929		
Assets having cost of less than Rs. 1 million and book value of less than Rs.250,000	298,832	295,378	3,454	26,062		
	492,428	323,793	168,635	139,491		



Detail of Donations in excess of Rs. 100,000

For the year ended December 31, 2012

ANNEXURE-IV

2012 2011
(Rupees in '000)

HBL Foundation	217,623	225,251
R-CHITECT	5,600	-
Badar Expo Solutions	4,262	-
HBL Officers Welfare Association	4,200	-
Sports Enterprise	4,000	-
University of Sindh Jamshoro	1,600	-
Management Association of Pakistan	1,250	-
Sindh High Court Bar Association	1,000	-
The Patients' Behbud Society for Aga Khan University Hospital	1,000	-
Subh-e-Nau	1,000	1,000
Karachi Boat Club	750	-
Omni Racing Team Pakistan	600	400
Pakistan Business Council	525	-
Eyecue Production	500	-
Memon Professional Forum	500	500
School of Leadership (Pvt) Limited	425	250
Marketing Association of Pakistan	400	-
Lahore University of Management Sciences	400	-
Centre Stage Productions	395	-
Center for Islamic Economics	350	-
Mandivalla Entertainment	305	-
SMART Society for Music & Repertory Theatre	300	-
Taimur Ali Malik - Sufi Polo Cup 2012	300	-
PAF Golf Culb, Islamabad	300	-
The Citizen's Foundation	300	-
M.A Group	300	-
The Kidney Centre	300	-
Publicity Channel	250	-
Waheed Mirza Benefit Cricket Festival Tournament	250	-
St. Joseph's College For Women	236	-
Karwan-e-Hayat - welfare organization	220	200
Pakistan Air Force	200	200
Institute of Business Administration	200	-
Karachi Chamber of Commerce	200	-
Pak Army MZU Multan	200	-
Balochistan University	200	-
Pakistan Association of Photo Journalist	200	-
Bahauddin Zakariya University, Multan	200	-
LUSH	160	-
Ripah International University	150	-
Nixor College	150	-
The Mama Parsi Girls Secondary School	150	-
Sargodha Spirit Trust Public School-Rashidabad	150	-
The Ambassador of Argentina Republic, Islamabad	135	-

	2012	2011
	(Rupees in '000)	
Indus Valley School of Arts and Architecture	-	10,721
National Database and Registration Authority (NADRA)	-	1,200
District Municipal Corporation, Karachi-Central	-	1,000
Aga Khan Cultural Service Pakistan	-	870
Salamat School System (Pvt) Ltd.	-	750
Institute of Chartered Accountants of Pakistan	-	700
Aga Khan Youth & Sports Board for Pakistan	-	672
Pakistan Advertisers Society (PAS)	-	564
Pakistan Hockey Federation	-	500
FireBolt 63 Private Limited	-	484
Petroleum Institute of Pakistan	-	400
Publicans Alumni Trust	-	300
Century Publications (Pvt.) Ltd	-	250
Institutes Fund AHQ Islamabad	-	250
Layton Rahmatulla Benevolent trust (LRBT)	-	240
MindShare	-	222
All Pakistan Music Conference	-	200
BLINCK - Training, Mentoring & Consultancy	-	200
Karachi Polo Team	-	200
Millennium Media	-	200
Network of Organization working for People with Disabilities	-	200
Rite Printers	-	200
Sketch Printers	-	200
Special Olympics Pakistan	-	200
Thalassaemia Society of Pakistan	-	200
The Weldon BBS	-	200
Aga Khan Hospital & Medical College Foundation	-	200
Electroline	-	175
Pakistan welfare Association	-	150
Sada Welfare Foundation	-	150
Blue Chip Magazine	-	143
Atlas	-	134
Ziauddin University	-	125
The Citizens Foundation	-	120
Entertainment 360	-	106
	251,736	250,227

Donations were not made to any donee in which HBL, Directors or their spouses had any personal interest at the time of donation.



Islamic Banking Business

Shariah Advisors Report

ANNEXURE-V

"All Praises for ALLAH SUBHANAHO WATA'ALA, Who is the creator & Lord of All Worlds. May Allah reveal all blessing and prayers on His Messenger Hazarat Muhammad Sal' Lalah-o-Alaihl Wasalam, his companions and all Muslims."

It is the responsibility of the Bank's management to ensure that the all Islamic Banking operations are work in accordance with the rulings and principles of Islamic Shariah. Our responsibility is to express an independent opinion based on our review.

We have carried out a review to check the compliance of the operations of Islamic banking of HBL for the year ended 31 December 2012. In the process, we have reviewed transactions and processes at the branches to assure that they are compatible to the principles of Islamic Shariah and also fatwas, specific guidelines issued by the Bank's Shariah Advisor and by State Bank of Pakistan (SBP). Our review included examination of the branches' transactions i.e. Murabaha, Ijarah, Diminishing Musharaka & Istisna documentation and procedures on a test basis. We also reviewed the operations of depository products, the allocation of funds, determination of weightages, profit ratio and distribution of profit. We planned and carried out our review in order to obtain all information and explanations deemed necessary by us for the purpose of obtaining reasonable assurance that the operations are in compliance to rulings and principles of Islamic Shariah.

We believe that our review provides a reasonable basis of our opinion.

In our opinion:

1. The operations during the year 2012 were in compliance with the principles of Shariah guidelines issued by Shariah Advisor and the State Bank of Pakistan.
2. The distribution of profit and loss to the investment accounts is in compliance with the principles of Shariah guidelines issued by Shariah Advisor and instructions for Profit and Loss distribution and Pool management issued by State Bank of Pakistan.

Charity:

During the year, charity amounting to Rs. 1,775,256 was credited to the charity account.

May Allah guide us and make us successful in this world and hereafter.

Muhammad Yahya Asim

Shariah Advisor

HBL Islamic Banking

Karachi: February 12, 2013.

1. FINANCIAL POSITION OF ISLAMIC BANKING BUSINESS

1.1 The Statement of the financial position of the Bank's Islamic Banking Business as at December 31, 2012 are as follows:

	Note	2012 (Rupees in '000)	2011
ASSETS			
Cash and balances with treasury banks		1,710,844	607,317
Balances with other banks		402,282	-
Due from Financial Institution		5,480,000	1,000,000
Investments - net		22,223,692	12,434,310
Islamic financing and related assets	1.2	2,447,323	632,173
Deferred tax assets		34,036	32,107
Other assets		745,727	228,930
		<u>33,043,904</u>	<u>14,934,837</u>
LIABILITIES			
Bills payable		457	43
Due to financial institutions		576,000	2,000,000
Deposit and other accounts			
- Current Accounts		2,697,055	1,115,939
- Saving Accounts		11,417,392	2,802,915
- Term Deposits		7,087,919	2,161,298
- Deposits from financial institutions - remunerative		9,825,657	5,861,255
- Deposits from financial institutions - non -remunerative		8,360	3,187
Due to Head Office		240,544	243,557
Other liabilities		544,192	245,694
		<u>32,397,576</u>	<u>14,433,888</u>
NET ASSETS		<u>646,328</u>	<u>500,948</u>
REPRESENTED BY			
Islamic Banking Fund		250,000	250,000
Reserves		310,438	136,552
Profit Equalization reserve	1.5	-	137
Unappropriated profit		149,099	173,886
Deficit on revaluation of investments		709,537	560,575
		<u>(63,209)</u>	<u>(59,627)</u>
		<u>646,328</u>	<u>500,948</u>

The commitment in respect of letters of credit of Islamic Banking business of Habib Bank Limited amounted to Rs. 143.332 million (2011: Rs. 69.376 million).

1.2 Islamic financing and related assets

Murabaha	1.3	383,099	100,826
Ijarah	1.4	329,832	276,179
Musharaka		1,038,307	19,167
Advance for Murabaha		38,577	196,894
Advance for Ijarah		3,859	39,107
Istisna		326,000	-
Assets/Inventories		327,649	-
		<u>2,447,323</u>	<u>632,173</u>



- 1.3 This represents assets sold under Murabaha agreement.
- 1.4 This represents fixed assets given to customers under Ijarah agreement.
- 1.5 This represents 50% of Profit Equalization Reserve.

2012 2011
(Rupees in '000)

2. PROFIT AND LOSS ACCOUNT OF ISLAMIC BANKING BUSINESS

Profit earned	2,278,531	1,802,411
Profit expensed	1,668,901	1,214,450
Net profit earned	609,630	587,961
Depreciation on assets given on Ijarah	55,546	42,467
Impairment of assets given on Ijarah	83,744	91,043
(Reversal) / Charge against diminution in value of investments -net	(3,513)	21,136
Net profit after depreciation and provisions	135,777	154,646
	473,853	433,315
Other income		
Fee, commission and brokerage income	22,143	12,468
Rent on lockers	4,301	4,056
Income from dealing in foreign currencies	12,320	5,848
Net gain on sale of securities	13,000	425
Others	14,853	8,387
Total other income	66,617	31,184
	540,470	464,499
Other expenses		
Administrative expenses	311,088	196,982
Net profit for the year	229,382	267,517

3. CHARITY FUND

Opening balance	69	23
Additions during the year	1,775	69
Payments / Utilization	-	(23)
Closing balance	1,844	69

4. Remuneration to Shariah Advisor / Board

1,440 1,440

5. Mudarib's share in profit is 30% (2011: 30%) and amounts to Rs. 426.936 million (2011: Rs. 449.646) after netting off Hiba to depositors from Mudarib's share amounting to Rs. 155.507 million (2011: Nil)
6. Following are the types and nature of pools maintained by Islamic Banking Business alongwith their key features :

General Pool(s) (Mudaraba)

Generally the deposits parked in general pool are not based on special weightages. The risk of loss is minimal due to the less risky assets parked in General Pool.

Special Pool(s) PKR (Mudaraba)

Separate pool(s) are created where the customers desire to invest in a special class of assets. These pool(s) rates are higher / lower than the general pool depending on the special class of assets. In case of loss in special pool the loss will be born by the Special pool members.

FCY Pool(s) (Mudaraba)

All FCY deposits and Investments are parked in special FCY pool(s) to share the return among the FCY deposit holders. The weightages are also declared separately.

IERS Pool PKR (Musharaka)

IERS pool is required by SBP to facilitate the Islamic Export Refinance under Musharaka Scheme.

7. The following parameters are used for profit distribution in pool :

- Administrative and operating expenses are paid by the Mudarib and not charged to pool.
- From January 2012 to November 2012: It was the practice of the bank that the Bank first charge the Mudarib fee and then distribute the profit among equity and depositors.
- From December 2012, as per instructions issued by SBP circular no. IBD-03/2012 to improve transparency and standardization in IBIs profit and loss distribution policies and practices dated November 19, 2012, it is the practice of the bank that the Bank first charge the profit on equity allocated to the pool and then charge the Mudarib fee before distribution of profit among depositors.
- 10% Profit Equalization Reserve charged in first 11 months and 2% for last month

8. Average profit rates earned on the earning assets of Islamic Banking Business during the year is 11.61% (2011: 13.58%) as compared to profit of 8.22% (2011: 9.82%) distributed to the depositors.

9. **Segmentation of economic sectors where Mudaraba based deposits are deployed**

	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
Chemical and pharmaceuticals		56,659	23,891
Textile		10,152	21,605
Financial – Islamic Modes		4,941,923	160,935
Food & beverages		5,409	12,953
Cement		150,387	-
Information Technology		162,760	143,734
Printing & publishing		2,545	3,291
Glass Manufacturing		57,878	-
Public / Government	9.1	20,592,158	8,022,505
Others		537,253	2,004,402
		26,517,124	10,393,316

- 9.1 This represents investments in Government of Pakistan (GoP) Sukuk, balance maintained with National Bank of Pakistan and financing against Ijarah assets.



Pattern of Shareholding

As at December 31, 2012

No. of Shareholders		Shareholding	Shares held	Percentage
	From	To		
17,329	1	100	382,200	0.0315
83,305	101	500	15,247,691	1.2578
3,759	501	1,000	2,558,239	0.2110
1,869	1,001	5,000	3,486,267	0.2876
187	5,001	10,000	1,311,394	0.1082
51	10,001	15,000	612,953	0.0506
42	15,001	20,000	713,849	0.0589
19	20,001	25,000	420,008	0.0346
11	25,001	30,000	306,668	0.0253
7	30,001	35,000	229,682	0.0189
9	35,001	40,000	344,613	0.0284
5	40,001	45,000	214,039	0.0177
6	45,001	50,000	285,003	0.0235
6	50,001	55,000	321,105	0.0265
6	60,001	65,000	376,379	0.0310
1	65,001	70,000	70,000	0.0058
3	70,001	75,000	213,638	0.0176
1	75,001	80,000	77,791	0.0064
5	80,001	85,000	409,841	0.0338
5	85,001	90,000	434,745	0.0359
1	90,001	95,000	91,845	0.0076
1	95,001	100,000	100,000	0.0082
1	100,001	105,000	100,030	0.0083
1	105,001	110,000	105,610	0.0087
1	110,001	115,000	111,937	0.0092
1	115,001	120,000	120,000	0.0099
2	130,001	135,000	263,106	0.0217
3	135,001	140,000	413,341	0.0341
1	140,001	145,000	142,400	0.0117
1	155,001	160,000	155,932	0.0129
2	160,001	165,000	322,493	0.0266
1	165,001	170,000	167,528	0.0138
1	170,001	175,000	171,620	0.0142
2	175,001	180,000	354,011	0.0292
1	180,001	185,000	182,623	0.0151
2	190,001	195,000	386,166	0.0319
1	210,001	215,000	211,400	0.0174
2	215,001	220,000	438,000	0.0361
1	285,001	290,000	285,128	0.0235
2	295,001	300,000	595,383	0.0491
1	300,001	305,000	300,958	0.0248
1	305,001	310,000	308,834	0.0255
1	315,001	320,000	319,500	0.0264
2	320,001	325,000	647,628	0.0534
1	335,001	340,000	335,836	0.0277
1	360,001	365,000	362,303	0.0299
1	365,001	370,000	366,459	0.0302
1	380,001	385,000	382,849	0.0316
1	400,001	405,000	400,264	0.0330
1	460,001	465,000	462,825	0.0382
1	525,001	530,000	525,204	0.0433
1	550,001	555,000	551,206	0.0455
1	620,001	625,000	621,093	0.0512
1	795,001	800,000	799,892	0.0660
1	890,001	895,000	891,390	0.0735
1	945,001	950,000	950,000	0.0784
1	1,020,001	1,025,000	1,021,703	0.0843
1	1,045,001	1,050,000	1,047,957	0.0864
1	1,095,001	1,100,000	1,100,000	0.0907
1	1,150,001	1,155,000	1,153,816	0.0952
1	1,370,001	1,375,000	1,371,620	0.1131
1	1,690,001	1,695,000	1,690,997	0.1395
2	1,950,001	1,955,000	3,902,177	0.3219
1	2,695,001	2,700,000	2,698,149	0.2226
1	2,780,001	2,785,000	2,784,071	0.2297
1	5,420,001	5,425,000	5,420,551	0.4471
1	11,360,001	11,365,000	11,364,084	0.9374
1	27,955,001	27,960,000	27,958,090	2.3062
1	491,540,001	491,545,000	491,540,538	40.5470
1	618,260,001	618,265,000	618,260,148	51.0000

106,686

1,212,274,800

100.000

Category of Shareholding

As at December 31, 2012

Particulars	Share Holders	Share Holding	Percentage
Associated Companies, Undertakings & Related Parties			
HBL Stock Fund	1	1,047,957	0.0864
HBL Multi - Asset Fund	1	137,144	0.0113
Jubilee General Insurance Company Limited	1	1,153,816	0.0952
Jubilee Life Insurance Company Limited	1	1,021,703	0.0843
National Investment Trust	1	1,951,238	0.1610
Directors, Chief Executive Officer and their Spouse and minor Children			
Nauman K. Dar	C.E.O	1	71,504*
R. Zakir Mahmood	Director	1	285,302**
Executives / Employees		1,676	875,978
Public Sector Companies & Corporations		1	174
Banks, DFI & NBFI		11	9,426,439
Insurance Companies		14	2,119,553
Modarabas & Mutual Funds		11	6,905,250
General Public			
Local		104,067	2.2563
Foreign		726	804,985
Others		148	31,790,969
Government of Pakistan		3	11,367,394
Foreign Companies		20	5,497,807
Holding 10% and Above			
State Bank of Pakistan		1	492,203,799
Aga Khan Fund for Economic Development		1	618,260,148
		106,686	1,212,274,800
			100.0000

* 71,330 shares issued under Staff Retention Incentive Scheme

** 285,128 shares issued under Staff Retention Incentive Scheme



Notice of Annual General Meeting

Notice is hereby given that 71st Annual General Meeting of Habib Bank Limited will be held on Friday, March 22, 2013 at 9.00 a.m. at Serena Hotel, Islamabad to transact the following business:

Ordinary Business:

1. To receive, consider and adopt the Audited Accounts (consolidated and unconsolidated) of the Bank for the year ended December 31, 2012, together with the Reports of the Directors and Auditors thereon.
2. To appoint Auditors for the term ending at the conclusion of the next Annual General Meeting and to fix their remuneration with increase of 7.5% of remuneration paid for year 2012. The retiring Auditors Ernst & Young, Ford Rhodes Sidat Hyder, Chartered Accountants, being eligible, have offered themselves for re-appointment.
3. To approve payment of a Final Cash Dividend of Rs. 4/- per share, i.e. 40%, to those who are Shareholders as at close of business on March 15, 2013, in addition to the 35% Interim Cash Dividend (i.e. Rs. 3.5 per share) already paid, as recommended by the Directors.

Special Business:

4. That the following Resolution be passed by the Shareholders at the Annual General Meeting as a Special Resolution as required under Section 208 of the Companies Ordinance, 1984, with or without modification in respect of investment in Subsidiaries and Associates:

"Having reviewed the information and update provided by the Company the Shareholders reconfirm and approve the investments to be made by Habib Bank Limited as follows:

- (i) to acquire additional shareholding of 14.32% in Diamond Trust Bank Kenya Limited at or around the prevailing market price or issue price as the case may be, as a result of which the total shareholding of Habib Bank Limited in Diamond Trust Bank Kenya Limited shall stand increased upto 26%.
- (ii) to acquire additional shareholding of 8% in Kyrgyz Investment and Credit Bank Limited at a maximum cost of upto US\$ 5 million, as a result of which the total shareholding of Habib Bank Limited in Kyrgyz Investment and Credit Bank Limited shall stand increased upto 26%.
- (iii) to invest upto GBP 50 million to enhance the capital of Habib Allied International Bank Plc., UK enabling it to strengthen and grow its franchise in the international markets.
- (iv) to acquire additional shareholding of 8.26% in Jubilee General Insurance Company Limited at or around the prevailing market price or issue price as the case may be, as a result of which the total shareholding of Habib Bank Limited in Jubilee General Insurance Company Limited shall stand increased upto 24.5%.
- (v) to acquire additional shareholding of 6.55% in Jubilee Life Insurance Company Limited at or around the prevailing market price or issue price as the case may be, as a result of which the total shareholding of Habib Bank Limited in Jubilee Life Insurance Company Limited shall stand increased upto 24.5%.

All investments will be subject to approval of the State Bank of Pakistan and other regulatory approvals being taken as required in Pakistan and overseas.

5. To authorise the issuance of Bonus Shares in proportion of 10 shares for every 100 shares held, that is at the rate of 10%, to those Shareholders whose names appear in the Register of Members at close of business on March 15, 2013 and to approve the disposal of fractional shares created out of the issuance of bonus shares.

Accordingly, it is proposed to consider and pass the following Resolution as an Ordinary Resolution:

RESOLVED THAT:

- (i) Ordinary Shares of Rs. 10 each be issued as Bonus Shares and that the said shares be allotted as fully paid Ordinary Shares to the Members of the Bank whose names appear on the Register of Members as at the close of the business on March 15, 2013 in the proportion of 10 Bonus Shares for every 100 Shares held, that is, at the rate of 10%, and that such Bonus Shares shall rank pari passu as regards dividends and in all other respects with the existing Ordinary Shares of the Bank.
- (ii) In the event of any Member becoming entitled to a fraction of a share, the Directors be and are hereby authorised to consolidate all such fractions and sell the shares so constituted on the Stock Market and to pay the proceeds thereof to the Members entitled to the fraction in proportion to their respective entitlements and to add the value of such fractional entitlements to the dividend amount payable to each such Member.
- (iii) For the purpose of giving effect to the foregoing, the Directors be and are hereby authorised to do and cause to be done all acts, deeds and things that may be necessary and to settle any question or difficulties that may arise in regard to the allotment and the distribution of the said Bonus Shares and in regard to fractional entitlements and the sale of the consolidated shares and the distribution of the sale proceeds of the consolidated shares to those entitled to fractional entitlements, as they think fit.

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 attached.

Copies of the Minutes of the AGM dated March 24, 2012 are available for the inspection of Shareholders as required under Section 173 of the Companies Ordinance, 1984.

Any Other Business:

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

By the Order of the Board

February 25, 2013
Karachi

Nausheen Ahmad
Company Secretary

**Notes:**

1. The Register of Members and the Share Transfer Books will be closed from March 16, 2013 to March 22, 2013 (both days inclusive) for the purposes of the Annual General Meeting.
2. Only those persons whose names appear in the Register of Members of the Company as at March 15, 2013 are entitled to attend and participate in and vote at the Annual General Meeting.
3. A Member entitled to attend and vote at the Meeting may appoint another Member as per his/her proxy to attend and vote for him/her provided that a corporation may appoint as its proxy a person who is not a Member but is duly authorised by the corporation. Proxies must be received at the Registered Office of the Company not less than 48 hours before the time of the holding of the Meeting.
4. Members are requested to notify immediately changes if any in their registered address to our Shares Registrar, M/s. THK Associates (Pvt) Limited, Ground Floor, State Life Building No.3, Dr. Ziauddin Ahmed Road, Karachi-75530.
5. CDC Account Holders will further have to follow the under mentioned guidelines as laid down in Circular 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

A. For Attending the Meeting:

- (i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original Computerized National Identity Card (CNIC) or original passport at the time of attending the Meeting.
- (ii) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

B. For Appointing Proxies:

- (i) In case of individuals, the account holder or sub-account holder and /or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.
- (ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
- (iii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- (iv) The proxy shall produce his original CNIC or original passport at the time of the Meeting.
- (v) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

Statement of Material Facts

Under Section 160(1)(b) of the Companies Ordinance, 1984

Agenda Item - 4 - Investment in Subsidiaries and Associates:

With a view to expand its services, diversify income stream and to reach critical mass in areas and locations with growth potential, HBL as a strategy has been diversifying and expanding its presence in the financial sector in the domestic and international markets through investment in various Associates and Subsidiaries. Approvals for equity investment in Associates and Subsidiaries were earlier obtained through Special Resolutions during the period 2007 to 2011 and an update of the same is provided in Part A.

The Bank intends to continue to consolidate its strategic investments in various Associates and Subsidiaries. In this connection the Bank seeks renewed approval for investment in certain Associates and Subsidiaries as per the requirement of law and also seeks approval for some fresh investments. The details in respect of renewals and fresh investments are mentioned in Part B:

A. **Update on investments approved by the Shareholders as required under Companies (Investment in Associated Companies or Associated Undertakings) Regulations 2012:**

(i) **Urumqi City Commercial Bank, China**

1	Total Investment approved	Approved by the Shareholders (in EOGM dated December 26, 2007) to invest up to 20% shareholding.
2	Amount of investment made to date	Nil
3	Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and	Viable commercial arrangement could not materialise.
4	Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company.	Not Applicable.

(ii) **Diamond Trust Bank Kenya Limited (DTBK)**

1	Total Investment approved	Approved by the Shareholders (in EOGM dated December 26, 2007) to invest up to 26% shareholding.
2	Amount of investment made to date	US\$ 21,693,503 (equivalent Kshs 1.54 billion) representing 11.68% shareholding in DTBK.
3	Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and	This is a listed entity and investment is dependant on availability of shares at a reasonable price.
4	Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company.	Financial position of the company is given in table below.

US\$ million

	2007	2008	2009	2010	2011
Revenue	36.95	46.92	66.82	96.36	112.67
Operating expense	19.03	23.67	36.41	45.60	53.95
Operating profit	16.89	20.79	26.57	43.83	51.78
Customer deposits	456.88	575.74	696.56	822.32	1,012.20
Customer loans and advances	363.92	435.59	547.37	636.77	839.29
Investments / balances with banks	33.99	00.04	19.09	265.96	281.02
Equity	79.31	75.51	92.26	111.04	136.47

(iii) Diamond Trust Bank Tanzania Limited (DTBT)

1	Total Investment approved	Approved by the Shareholders (in EOGM dated December 26, 2007) to invest up to 26% shareholding.
2	Amount of investment made to date	Nil
3	Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and	Shares did not become available at a reasonable price.
4	Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company.	Not Applicable

(iv) Diamond Trust Bank Uganda Limited (DTBU)

1	Total Investment approved	Approved by the Shareholders (in EOGM dated December 26, 2007) to invest up to 26% shareholding.
2	Amount of investment made to date	Nil
3	Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and	Shares did not become available at a reasonable price.
4	Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company.	Not Applicable

(v) Kyrgyz Investment and Credit Bank Limited (KICB)

1	Total Investment approved	Approved by the Shareholders (in EOGM dated December 26, 2007) to invest up to 26% shareholding.
2	Amount of investment made to date	US\$ 3.65 million representing 18% shareholding in KICB.
3	Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and	Shares did not become available at a reasonable price.

4	Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company.	Financial position of the company is given in table below.
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US\$ in million

	2007	2008	2009	2010	2011
Revenue	6.321	8.949	9.608	10.481	14.291
Operating expense	2.993	5.306	5.609	6.338	7.717
Operating profit	3.345	3.616	3.553	2.060	6.678
Customer deposits	29.026	40.992	46.828	71.312	99.474
Customer loans and advances	48.989	56.905	57.963	64.240	88.229
Investments / balances with banks	0.606	5.144	0.156	3.046	12.903
Equity	15.961	19.202	22.378	24.214	37.375

(vi) Habib Allied International Bank, Plc, UK (HBL-UK)

1	Total Investment approved:	Up to GBP 20 million approved in EOGM dated December 26, 2007
2	Amount of investment made to date	GBP 2.8 million in pipeline subject to regulatory consent for remittance.
3	Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and	HBL-UK's capital raising plan was delayed against the earlier expectation. HBL-UK is currently in process of capital raising for growth following acquisition of Habibsons, UK.
4	Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company.	Financial position of the company is given in table below.

GBP in million

	2007	2008	2009	2010	2011
Revenue	10.2	12.5	15.0	10.9	14.5
Operating expenses	6.3	7.0	7.4	7.4	11.9
Operating profit	3.9	5.5	7.4	3.5	2.6
Customer deposits	167.0	208.9	197.0	193.6	422.4
Customer loans and advances	108.5	117.2	125.1	122.0	199.4
Investments / balances with banks	192.1	235.6	240.4	257.4	413.0
Equity	38.8	41.3	44.9	49.2	49.4



(vii) Jubilee General Insurance Company Limited (JGIC)
(formerly New Jubilee Insurance Company Limited)

1	Total Investment approved	24.50%
2	Amount of investment made to date	Rs. 1,540,738,840 representing 16.42% shareholding in JGIC.
3	Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and	Due to unavailability of sizeable lots of shares in the Stock Market.
4	Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company.	Financial position of the Company is given in table below.

Rs. in million

	2007	2008	2009	2010	2011
Revenue	2,608.718	1,918.728	2,976.099	3,081.131	3,534.106
Operating expense	2,033.677	2,097.881	2,204.201	2,534.449	2,641.195
Operating profit	575.041	(179.153)	771.898	546.682	892.911
Investments / balances with banks	3,712.714	3,224.194	3,930.943	4,830.384	6,049.439
Equity	2,411.663	2,061.314	2,621.006	2,903.875	3,542.869

(viii) Jubilee Life Insurance Company Limited (JLIC)
(formerly New Jubilee Life Insurance Company Limited)

1	Total Investment approved	24.50%
2	Amount of investment made to date	Rs. 468,404,000 representing 17.95% shareholding in JLIC.
3	Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and	Due to unavailability of sizeable lots of shares in the Stock Market.
4	Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company.	Financial position of the Company is given in table below.

Rs. in million

	2007	2008	2009	2010	2011
Revenue	50.452	34.311	5.741	34.328	97.619
Operating expense	6.424	150.916	(55.003)	17.060	45.263
Operating profit	44.028	(116.605)	60.744	17.268	52.356
Investments / balances with banks	5,590.132	5,289.509	7,702.591	10,757.779	15,230.351
Equity	481.228	416.562	546.505	1,149.873	1,430.398

(ix) HBL Asset Management Limited (Funds)

1	Total Investment approved	Rs. 2,250 million
2	Amount of investment made to date	Rs. 1,130 million
3	Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and	The approval pertains to the Bank's investment in new Funds, to be launched by HBL AML, as sponsor, to fulfil the requirement of Seed Capital. The management plans to launch more Funds in the year 2013 and onwards subject to market conditions and demand.
4	Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company.	The annualised rate of return of Funds launched by the Company is given in the table below:

Table of Annualised rate of return:

Fund Return

For the period From 2009 to 2012

Year Ended June 30,	HBL Income Fund		HBL Stock Fund		HBL Multi Asset Fund		HBL Money Market Fund		HBL Islamic Money Market Fund		HBL Islamic Stock Fund	
	Return	NAV	Return	NAV	Return	NAV	Return	NAV	Return	NAV	Return	NAV
2009	4.03%	96.4553	-17.80%	76.1799	-13.22%	80.9415	N/A	N/A	N/A	N/A	N/A	N/A
2010	13.28%	100.9384	19.52%	91.0462	19.17%	96.4616	N/A	N/A	N/A	N/A	N/A	N/A
2011	12.90%	101.7643	28.19%	103.9008	23.55%	99.4110	11.54%	103.0504	10.46%	101.4612	2.50%	102.5007
2012	12.29%	103.3148	11.00%	104.0655	12.67%	94.8236	11.50%	102.8926	10.31%	103.0235	16.52%	117.6287
Half year ended December 31, 2012												
	7.64%	102.1500	16.63%	109.7115	15.69%	98.131	10.04%	101.2091	9.23%	100.9583	16.81%	125.7089
Year Ended June 30,	HBL Pension Fund						HBL Islamic Pension Fund					
	Equity		Debt		Money Market		Equity		Debt		Money Market	
	Return	NAV	Return	NAV	Return	NAV	Return	NAV	Return	NAV	Return	NAV
2009	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2012	35.17%	122.4358	9.77%	104.7196	9.29%	104.9036	32.43%	119.9318	9.38%	104.0739	8.80%	104.635
Half year ended December 31, 2012	16.75%	142.9446	10.53%	110.2809	8.47%	109.3848	20.58%	144.6113	9.79%	109.2107	8.34%	109.0361

B. The Bank provides the information required under the Companies (Investment in Associated Companies or Associated Undertakings) Regulations 2012.

Special Resolution:

- (i) to acquire additional shareholding of 14.32% in Diamond Trust Bank Kenya Limited at or around the prevailing market price or issue price as the case may be, as a result of which the total shareholding of Habib Bank Limited in Diamond Trust Bank Kenya Limited shall stand increased upto 26%.
- (ii) to acquire additional shareholding of 8% in Kyrgyz Investment and Credit Bank Limited at a maximum cost of upto US\$ 5 million, as a result of which the total shareholding of Habib Bank Limited in Kyrgyz Investment and Credit Bank Limited shall stand increased upto 26%.
- (iii) to invest upto GBP 50 million to enhance the capital of Habib Allied International Bank Plc., UK enabling it to strengthen and grow its franchise in the international markets.
- (iv) to acquire additional shareholding of 8.26% in Jubilee General Insurance Company Limited at or around the prevailing market price or issue price as the case may be, as a result of which the total shareholding of Habib Bank Limited in Jubilee General Insurance Company Limited shall stand increased upto 24.5%.
- (v) to acquire additional shareholding of 6.55% in Jubilee Life Insurance Company Limited at or around the prevailing market price or issue price as the case may be, as a result of which the total shareholding of Habib Bank Limited in Jubilee Life Insurance Company Limited shall stand increased upto 24.5%.

All investments will be subject to approval of the State Bank of Pakistan and other regulatory approvals being taken as required in Pakistan and overseas.

(i) Diamond Trust Bank Kenya Limited (DTBK)

1	Name of associated company or associated undertaking alongwith criteria based on which the associated relationship is established	Common Director / AKFED shareholding of 17.32%. (as of December 31, 2011) and HBL shareholding is 11.68% (as of December 31, 2012).
2	Purpose, benefits and period of investments	This is a strategic investment which will enable HBL to strengthen its foothold in the emerging markets of Africa. HBL intends to achieve the threshold of 26% in upto 5 years.
3	Maximum amount of investment	HBL intends to acquire additional shareholding of 14.32%. The estimated cost of acquiring 31,519,004 shares is US\$ 43 million based on average share price of US\$ 1.35.
4	Maximum price at which securities will be acquired	At or around the prevailing market price or issue price as the case may be. This is a listed company.
5	Maximum number of securities to be acquired	31,519,004 shares to be acquired to achieve additional shareholding of 14.32%. If there are any rights or bonus shares issues, this number would change.

6	Number of securities and percentage thereof held before and after the proposed investment	Before: Number of securities : 25,708,238 HBL Shareholding : 11.68% After: Number of securities : 57,227,242 HBL Shareholding : 26% If there are any rights or bonus shares issues, this number would change.
7	In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired.	US\$ 1.35 per share
8	In case of investment in unlisted securities, fair market value of such securities determined in term of regulation 6 (1)	Not Applicable
9	Break-up value of securities intended to be acquired on the basis of latest audited financial statements	US\$ 0.79 per share based on Audited Accounts as of December 31, 2011.
10	Earning per share of the associated company or associated undertaking for the last three years.	Year : US\$ 2009 : 0.07 2010 : 0.14 2011 : 0.16
11	Source of fund from which securities will be acquired	Bank's own sources. Capital Adequacy Ratio of HBL (Holding Company) as of December 31, 2012 is 15.14% which can support an acquisition of this nature.
12	Where the securities are intended to be acquired using borrowed funds 1. Justification for investment through borrowings and 2. Detail of guarantees and assets pledged for obtaining such funds	Not Applicable
13	Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment	Not Applicable
14	Direct or indirect interest of Directors, Sponsors, Majority Shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration	Common Director as Independent Director. No personal interest of HBL Directors. AKFED has 17.32% shareholding in DTBK.
15	Any other important details necessary for the members to understand the transaction	Not Applicable

16	<p>In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information required, namely</p> <ul style="list-style-type: none"> I. Description of the project and its history since conceptualization; II. Starting and expected date of completion of work; III. Time by which such project shall become commercially operational; and IV. Expected time by which the project shall start paying return on investment 	Not Applicable
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(ii) Kyrgyz Investment and Credit Bank Limited (KICB)

1	<p>Name of associated company or associated undertaking alongwith criteria based on which the associated relationship is established</p>	<p>HBL shareholding is 18% (as of December 31, 2012) and AKFED shareholding is 21%. (as of December 31, 2011).</p>
2	<p>Purpose, benefits and period of investments</p>	<p>This is a strategic investment, which will enable HBL to grow in the Central Asian markets. HBL intends to achieve the threshold of 26% in upto 5 years.</p>
3	<p>Maximum amount of investment</p>	<p>HBL intends to acquire additional shareholding of 8% at a maximum cost of upto US\$ 5 million.</p>
4	<p>Maximum price at which securities will be acquired</p>	<p>At issue price in case of rights issue or at a negotiated price in other than rights issue.</p>
5	<p>Maximum number of securities to be acquired</p>	<p>14,000 shares to be acquired to achieve additional shareholding of 8%. If there are any rights or bonus shares issues, this number would change.</p>
6	<p>Number of securities and percentage thereof held before and after the proposed investment</p>	<p>Before: Number of securities : 31,500 HBL Shareholding : 18%</p> <p>After: Number of securities : 45,500 HBL Shareholding : 26%</p> <p>If there are any rights or bonus shares issues, this number would change.</p>
7	<p>In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired.</p>	Not Applicable
8	<p>In case of investment in unlisted securities, fair market value of such securities determined in term of regulation 6 (1)</p>	<p>As these are right shares to be offered under the Republic of Kyrgyz laws, the fair market value in terms of regulation 6(1) cannot be determined at this stage.</p>

9	Break-up value of securities intended to be acquired on the basis of latest audited financial statements	US\$ 213.57 per share based on Audited Accounts as of December 31, 2011.
10	Earning per share of the associated company or associated undertaking for the last three years.	Year : US\$ 2009 : 31.76 2010 : 18.36 2011 : 34.06
11	Source of fund from which securities will be acquired	Bank's own sources. Capital Adequacy Ratio of HBL (Holding Company) as of December 31, 2012 is 15.14 % which can support an acquisition of this nature.
12	Where the securities are intended to be acquired using borrowed funds 1. Justification for investment through borrowings and 2. Detail of guarantees and assets pledged for obtaining such funds	Not Applicable
13	Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment	Not Applicable
14	Direct or indirect interest of Directors, Sponsors, Majority Shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration	No personal interest of HBL Directors. AKFED has 21 % shareholding in KICB.
15	Any other important details necessary for the members to understand the transaction	Not Applicable
16	In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information required, namely I. Description of the project and its history since conceptualization; II. Starting and expected date of completion of work; III. Time by which such project shall become commercially operational; and IV. Expected time by which the project shall start paying return on investment	Not Applicable

(iii) Habib Allied International Bank, Plc, UK (HBL-UK)

1	Name of associated company or associated undertaking alongwith criteria based on which the associated relationship is established	HBL shareholding is 90.5% (as of December 31, 2012).
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2	Purpose, benefits and period of investments	This investment will provide a platform to HBL - UK to further grow and strengthen operations in the UK and other international markets in which it has a presence or intends to have a presence in the future. The proposed investment will be made over a period of 5 years.
3	Maximum amount of investment	HBL intends to invest upto GBP 50 million.
4	Maximum price at which securities will be acquired	As the right shares will be issued from time to time in different tranches as per UK laws, so maximum price at which securities will be acquired cannot be determined at this stage.
5	Maximum number of securities to be acquired	HBL will invest in right shares offered. The number of shares cannot be determined at this stage. Further HBL intends to acquire unsubscribed right shares or any available owner's shares within the approved limit of GBP 50 million subject to requisite regulatory approval.
6	Number of securities and percentage thereof held before and after the proposed investment	Before: Number of securities : 22,625,000 HBL Shareholding : 90.5% After: Cannot be determined at this stage in view of the position explained at 5 above.
7	In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired.	Not Applicable
8	In case of investment in unlisted securities, fair market value of such securities determined in term of regulation 6 (1)	As these are right shares to be offered under UK Laws, the fair market value in terms of regulation 6(1) cannot be determined at this stage.
9	Break-up value of securities intended to be acquired on the basis of latest audited financial statements	GBP 1.975 per share based on Audited Accounts as of December 31, 2011.
10	Earning per share of the associated company or associated undertaking for the last three years.	Year : GBP 2009 : 0.143 2010 : 0.131 2011 : 0.006
11	Source of fund from which securities will be acquired	Bank's own sources. Capital Adequacy Ratio of HBL (Holding Company) as of December 31, 2012 is 15.14 % which can support an acquisition of this nature.
12	Where the securities are intended to be acquired using borrowed funds	Not Applicable
	1. Justification for investment through borrowings and	
	2. Detail of guarantees and assets pledged for obtaining such funds	

13	Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment	Not Applicable
14	Direct or indirect interest of Directors, Sponsors, Majority Shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration	Common Director as nominee of HBL. No personal interest of HBL Directors in HBL-UK.
15	Any other important details necessary for the members to understand the transaction	Not Applicable
16	In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information required, namely <ol style="list-style-type: none"> I. Description of the project and its history since conceptualization; II. Starting and expected date of completion of work; III. Time by which such project shall become commercially operational; and IV. Expected time by which the project shall start paying return on investment 	Not Applicable

(iv) **Jubilee General Insurance Company Limited (JGIC)**
 (formerly New Jubilee Insurance Company Limited):

1	Name of associated company or associated undertaking alongwith criteria based on which the associated relationship is established	Common Director / AKFED shareholding of 14.05% (as of December 31, 2011) and HBL shareholding is 16.24% (as of December 31, 2012).
2	Purpose, benefits and period of investments	<ul style="list-style-type: none"> • to expand services to customers through product offerings. • Getting benefit of expansion of insurance business in Pakistan • to build bancassurance business. <p>This investment should be completed in 2 to 3 years.</p>
3	Maximum amount of investment	HBL intends to acquire additional shareholding in JGIC of 8.26%. The estimated cost of acquiring 9,799,161 shares is Rs. 670 million based on average share price of Rs. 68.3.
4	Maximum price at which securities will be acquired	At or around the prevailing market price or issue price as the case may be. This is a listed company.
5	Maximum number of securities to be acquired	9,799,161 shares to be acquired to achieve additional shareholding of 8.26%. If there are any rights or bonus shares issues, this number would change.



6	Number of securities and percentage thereof held before and after the proposed investment	Before: Number of securities : 19,266,148 Shareholding : 16.24% After: Number of securities : 29,065,309 Shareholding : 24.50% If there are any rights or bonus shares issues, this number would change.
7	In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired.	Rs.68.3 per share
8	In case of investment in unlisted securities, fair market value of such securities determined in term of regulation 6 (1)	Not applicable
9	Break-up value of securities intended to be acquired on the basis of latest audited financial statements	Rs. 35.82 per share based on Audited Accounts as of December 31, 2011.
10	Earning per share of the associated company or associated undertaking for the last three years.	Year : Rs. 2009 : Rs. 9.96 2010 : Rs. 4.55 2011 : Rs. 8.06
11	Source of fund from which securities will be acquired	Bank's own sources. Capital Adequacy Ratio of HBL (Holding Company) as of December 31, 2012 is 15.14 % which can support an acquisition of this nature.
12	Where the securities are intended to be acquired using borrowed funds 1. Justification for investment through borrowings and 2. Detail of guarantees and assets pledged for obtaining such funds	Not Applicable
13	Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment	Not Applicable
14	Direct or indirect interest of Directors, Sponsors, Majority Shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration	Common Director as nominee of HBL. No personal interest of HBL Directors. AKFED has 14.05 % shareholding in JGIC.
15	Any other important details necessary for the members to understand the transaction.	Not Applicable

16	<p>In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information required, namely</p> <ul style="list-style-type: none"> I. Description of the project and its history since conceptualization; II. Starting and expected date of completion of work; III. Time by which such project shall become commercially operational; and IV. Expected time by which the project shall start paying return on investment 	Not Applicable
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(v) **Jubilee Life Insurance Company Limited (JLIC)**
(formerly New Jubilee Insurance Company Limited)

1	Name of associated company or associated undertaking alongwith criteria based on which the associated relationship is established	Common Director / AKFED shareholding of 57.87% (As of December 31, 2011) and HBL shareholding is 17.95% (as of December 31, 2012).
2	Purpose, benefits and period of investments	<ul style="list-style-type: none"> • To expand services to customers through product offerings. • Getting benefit of expansion of life insurance business in Pakistan • to build bancassurance business <p>This investment should be completed in 2 to 3 years.</p>
3	Maximum amount of investment	HBL intends to acquire additional shareholding in JLIC of 6.55%. The estimated cost of acquiring 4,106,978 shares is Rs. 362 million based on the average share price of Rs. 88.
4	Maximum price at which securities will be acquired	At or around prevailing market price or issue price as the case may be. This is a listed company.
5	Maximum number of securities to be acquired	4,106,978 shares to be acquired to achieve additional shareholding of 6.55%. If there are any rights or bonus shares issues, this number would change.
6	Number of securities and percentage thereof held before and after the proposed investment	<p>Before:</p> <p>Number of securities : 11,255,000 HBL Shareholding : 17.95%</p> <p>After:</p> <p>Number of securities : 15,361,978 HBL Shareholding : 24.50%</p> <p>If there are any rights or bonus shares issues, this number would change.</p>



7	In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired.	Rs.88 per share
8	In case of investment in unlisted securities, fair market value of such securities determined in term of regulation 6 (1)	Not applicable
9	Break-up value of securities intended to be acquired on the basis of latest audited financial statements	Rs. 22.81 per share based on Audited Accounts as of December 31, 2011.
10	Earning per share of the associated company or associated undertaking for the last three years.	Year : Rs. 2009 : Rs.2.07 2010 : Rs.2.34 2011 : Rs.5.97
11	Source of fund from which securities will be acquired	Bank's own sources. Capital Adequacy Ratio of HBL (Holding Company) as of December 31, 2012 is 15.14 % which can support an acquisition of this nature.
12	Where the securities are intended to be acquired using borrowed funds 1. Justification for investment through borrowings and 2. Detail of guarantees and assets pledged for obtaining such funds	Not Applicable
13	Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment	Not Applicable
14	Direct or indirect interest of Directors, Sponsors, Majority Shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration	Common Director as nominee of HBL. No personal interest of HBL Directors. AKFED has 57.87% shareholding in JLIC.
15	Any other important details necessary for the members to understand the transaction	Not Applicable

16	<p>In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information required, namely</p> <ul style="list-style-type: none"> I. Description of the project and its history since conceptualization; II. Starting and expected date of completion of work; III. Time by which such project shall become commercially operational; and IV. Expected time by which the project shall start paying return on investment 	Not Applicable
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Agenda Item – 5 – Issue of Bonus Shares

In the opinion of the Board of Directors, the Financial results of the Bank justifies the issuance of Bonus Shares in the ratio of 10 ordinary shares for every 100 ordinary shares held, that is, at the rate of 10%, to those Shareholders whose names appear in the Register of Members at the close of business on March 15, 2013. A Certificate of Free Reserves has been issued by the Auditors.

The Directors of the Company are not directly or indirectly, personally interested in this business except to the extent of their shareholding in the Company.

Accordingly, it is proposed to consider and pass the following resolution as an ordinary resolution:

RESOLVED THAT:

1. Ordinary Shares of Rs. 10 each be issued as Bonus Shares and that the said shares be allotted as fully paid Ordinary Shares to the Members of the Bank whose names appear on the Register of Members as at the close of the business on March 15, 2013 in the proportion of 10 Bonus Shares for every 100 Shares held, that is, at the rate of 10%, and that such Bonus Shares shall rank pari passu as regards dividends and in all other respects with the existing Ordinary Shares of the Bank.
2. In the event of any Member becoming entitled to a fraction of a share, the Directors be and are hereby authorised to consolidate all such fractions and sell the shares so constituted on the Stock Market and to pay the proceeds thereof to the Members entitled to the fraction in proportion to their respective entitlements and to add the value of such fractional entitlements to the dividend amount payable to each such Member.
3. For the purpose of giving effect to the foregoing, the Directors be and are hereby authorised to do and cause to be done all acts, deeds and things that may be necessary and to settle any question or difficulties that may arise in regard to the allotment and the distribution of the said Bonus Shares and in regard to fractional entitlements and the sale of the consolidated shares and the distribution of the sale proceeds of the consolidated shares to those entitled to fractional entitlements, as they think fit.

The Shareholders are further informed that the aforesaid particulars will be attached to the Shareholder's resolution proposed to be passed at the Annual General Meeting of Habib Bank Limited to be held on Friday, March 22, 2013 at 9:00 am at Serena Hotel, Islamabad.

Admission Slip



The Annual General Meeting of Habib Bank Limited will be held on Friday, March 22, 2013 at 9.00 a.m. at the Serena Hotel, Islamabad.

Kindly bring this slip duly signed by you for attending the Meeting.

Company Secretary

Name _____

Shareholder No. _____

Signature

Note:

- i) The signature of the shareholder must tally with the specimen signature on the Company's record.
- ii) Shareholders are requested to hand over duly completed admission slips at the counter before entering the meeting premises.

CDC Account Holders / Proxies / Corporate Entities:

- a) The CDC Account Holder / Proxy shall authenticate his identity by showing his / her original Computerized National Identity Card (CNIC) or original passport at the time of attending the Meeting.
- b) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of the Meeting (unless it has been provided earlier).

This Admission Slip is Not Transferable.

Form of Proxy



I/We _____
 of _____
 being member(s) of Habib Bank Limited holding _____
 ordinary shares hereby appoint _____
 of _____ or failing him/her _____
 of _____ who is / are also member(s) of Habib Bank Limited as my / our proxy in my / our absence
 to attend and vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held on
 Friday, March 22, 2013 and at any adjournment thereof.

As witness my / our hand / seal this _____ day of _____ 2013

Signed by the said _____

In the presence of 1. _____

2. _____

Folio / CDC Account No.

Signature on
Revenue Stamp of
Appropriate Value

This signature should agree with the
specimen registered with the Company.

Important:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company, 4th Floor, Habib Bank Tower, Jinnah Avenue, Islamabad, not less than 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he himself is a member of the Company, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

For CDC Account Holders / Corporate Entities:

In addition to the above the following requirements have to be met:

- i) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
- ii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- iii) The proxy shall produce his original CNIC or original passport at the time of the meeting.
- iv) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

AFFIX
CORRECT
POSTAGE

Habib Bank Limited
Registered Office
4th Floor, Habib Bank Tower,
Jinnah Avenue, Blue Area,
Islamabad, Pakistan.

111-111-425 www.hbl.com