



VISION STATEMENT

TO BE A QUALITY FINANCIAL SERVICE PROVIDER
MAINTAINING THE HIGHEST STANDARDS IN
BANKING PRACTICES

MISSION STATEMENT

TO BE A STRONG AND STABLE FINANCIAL INSTITUTION
OFFERING INNOVATIVE PRODUCTS AND
SERVICES WHILE CONTRIBUTING
TOWARDS THE NATIONAL ECONOMIC AND
SOCIAL DEVELOPMENT



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CORPORATE INFORMATION

Board of Directors	Ali Raza D. Habib Abbas D. Habib Anwar Haji Karim Murtaza H. Habib Qumail R. Habib Safar Ali Lakhani Shahid Ghaffar Shameem Ahmed Syed Mazhar Abbas Syed Hasan Ali Bukhari	<i>Chairman</i> <i>Chief Executive & Managing Director</i> <i>Executive Director</i>
Audit Committee	Shameem Ahmed Anwar Haji Karim Syed Mazhar Abbas Syed Hasan Ali Bukhari Safar Ali Lakhani	<i>Chairman</i> <i>Member</i> <i>Member</i> <i>Member</i> <i>Member</i>
Human Resource & Remuneration Committee	Syed Mazhar Abbas Abbas D. Habib Anwar Haji Karim Murtaza H. Habib Syed Hasan Ali Bukhari	<i>Chairman</i> <i>Member</i> <i>Member</i> <i>Member</i> <i>Member</i>
Company Secretary	Mohammad Taqi Lakhani	
Statutory Auditors	KPMG Taseer Hadi & Co. Chartered Accountants	
Legal Advisor	Liaquat Merchant Associates Advocates and Corporate Legal Consultants	
Registered Office	126-C, Old Bahawalpur Road, Multan	
Principal Office	2nd Floor, Mackinnons Building, I.I. Chundrigar Road, Karachi	
Share Registrar	Noble Computer Services (Pvt.) Limited First Floor, House of Habib Building, (Siddiqsons Tower), 3-Jinnah Co-operative Housing Society, Main Shahrah-e-Faisal, Karachi.	
Website	www.bankalhabib.com	



DIRECTORS' REPORT

The Directors are pleased to present the Twenty-fourth Annual Report together with the audited financial statements of the Bank for the year ended December 31, 2014.

The operating results and appropriations, as recommended by the Board, are given below:

	(Rupees in '000)
Profit for the year before tax	9,917,114
Taxation	(3,568,172)
Profit for the year after tax	6,348,942
Unappropriated profit brought forward	5,554,207
Transfer from surplus on revaluation of fixed assets – net of tax	45,947
Other comprehensive income	31,340
	5,631,494
Profit available for appropriations	11,980,436
Appropriations:	
Transfer to Statutory Reserve	(1,269,788)
Cash dividend – 2013	(2,020,772)
Issue of Bonus Shares – 2013	(1,010,386)
	(4,300,946)
Unappropriated profit carried forward	7,679,490
Basic / Diluted earnings per share – after tax	Rs. 5.71

For the year ended December 31, 2014, the Directors propose a cash dividend of 30%.

Performance Review

Alhamdulillah, the performance of your Bank continued to be satisfactory during the year. Deposits rose to Rs. 446,409 million against Rs. 386,161 million a year earlier, while advances increased to Rs. 181,357 million from Rs. 167,579 million. Foreign Trade Business handled by the Bank during the year was Rs. 661,478 million. Profit before tax for the year was Rs. 9,917 million as compared to Rs. 7,513 million last year, while profit after tax was Rs. 6,349 million against Rs. 5,155 million last year.

During the year, the Bank opened 31 branches and 12 sub-branches, bringing our network to 462. Your Bank now has a network of 351 branches (including 17 Islamic Banking Branches and 3 Overseas Branches, one each in Bahrain, Malaysia, and Seychelles), 108 sub-branches, and 3 Representative Offices, one each in Dubai, Istanbul, and Beijing. As before, the Bank will continue to expand its network in Pakistan and abroad.



Board Meetings

During the year, five meetings of the Board were held and the attendance of each Director was as follows:

Name of Director	Meetings Held	Meetings Attended
Mr. Ali Raza D. Habib, Chairman	5	3
Mr. Abbas D. Habib	5	5
Mr. Anwar Haji Karim	5	5
Mr. Murtaza H. Habib	5	5
Mr. Qumail R. Habib	5	5
Mr. Shameem Ahmed	5	4
Mr. S. Mazhar Abbas	5	5
Mr. Safar Ali Lakhani	5	4
Mr. S. Hasan Ali Bukhari*	5	3
Mr. Shahid Ghaffar **	5	2
Mr. Manzoor Ahmed***	5	2
*Mr. S. Hasan Ali Bukhari assumed office as a Director during the year. He attended all three meetings of the Board held after his taking office.		
**Mr. Shahid Ghaffar assumed office as a Director (Nominee of NIT) in place of Mr. Manzoor Ahmed. He attended both meetings of the Board held after his taking office.		
***Mr. Manzoor Ahmed resigned as a Director (Nominee of NIT) during the year. He had attended two out of three meetings of the Board held before his resignation.		

We thank Mr. Imtiaz Alam Hanfi and Mr. Manzoor Ahmed, who resigned as Directors during the year under review, and would like to place on record our appreciation for their valuable guidance and support. We would like to welcome Mr. S. Hasan Ali Bukhari and Mr. Shahid Ghaffar as members of our Board of Directors, and look forward to benefitting from their input and advice.

Committee Meetings

Code of Corporate Governance requires formation of two committees of the Board, viz. Audit Committee and Human Resource & Remuneration Committee. During the year, seven meetings of the Audit Committee and four meetings of the Human Resource & Remuneration Committee (HR&RC) were held, and the attendance of members was as follows:



Audit Committee			Human Resource & Remuneration Committee		
Name of Director	Meetings Held	Meetings Attended	Name of Director	Meetings Held	Meetings Attended
Mr. Shameem Ahmed, Chairman	7	7	Mr. S. Mazhar Abbas, Chairman	4	4
Mr. S. Mazhar Abbas	7	7	Mr. Abbas D. Habib	4	4
Mr. Anwar Haji Karim	7	7	Mr. Anwar Haji Karim	4	4
Mr. S. Hasan Ali Bukhari*	7	2	Mr. Murtaza H. Habib	4	4
Mr. Safar Ali Lakhani**	7	2	Mr. S. Hasan Ali Bukhari*	4	1
Mr. Murtaza H. Habib***	7	5			
*Mr. S. Hasan Ali Bukhari assumed office as a Director during the year. He attended all meetings of the Audit Committee and HR&RC held after his nomination to these Committees.					
**Mr. Safar Ali Lakhani assumed office as a Director during the year. He attended all meetings of the Audit Committee held after his nomination to the Committee.					
***Mr. Murtaza H. Habib ceased to be member of Audit Committee during the year. He attended all meetings of the Audit Committee while he was its member.					

Directors Training Programme

Two Directors completed the directors' training programme in 2014.

Credit Rating

Alhamdollah, Pakistan Credit Rating Agency Limited (PACRA) has maintained the Bank's long term and short term entity ratings at **AA+** (Double A plus) and **A1+** (A One plus), respectively. The ratings of our unsecured, subordinated TFCs have also been maintained at **AA** (Double A). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

Future Outlook

Despite some prevailing adverse circumstances relating to energy shortages, trade deficit, and law and order situation, we are overall optimistic on key aspects of the national economy. The fall in oil prices in the international market, the rise in inward remittances and foreign exchange reserves, and the substantial reduction in inflation, are highly encouraging factors. These have also contributed to the declining trend in interest rates, which will surely provide relief to the business community. But the decline in interest rates may also result in reduced earnings for banks. Thus, the future presents opportunities as well as challenges. We are, however, confident that as in the past the Bank will Inshallah continue to grow and progress.

Auditors

The present auditors KPMG Taseer Hadi & Co., Chartered Accountant, retire and offer themselves for reappointment. As suggested by the Audit Committee, the Board of Directors has recommended their reappointment as auditors of the Bank for the year ending December 31, 2015, at a fee to be mutually agreed.



Risk Management Framework

The Bank always had a risk management framework commensurate with the size of the Bank and the nature of its business. This framework has developed over the years and continues to be refined and improved. Its salient features are summarised below:

- Credit risk is managed through the credit policies approved by the Board; a well-defined credit approval mechanism; use of internal risk ratings; prescribed documentation requirements; post-disbursement administration, review, and monitoring of credit facilities; and continuous assessment of credit worthiness of counterparties. The Bank has also established a mechanism for independent, post-disbursement review of large credit risk exposures. Decisions regarding the credit portfolio are taken mainly by the Central Credit Committee. Credit Risk Management Committee of the Board provides overall guidance in managing the Bank's credit risk.
- Market risk is managed through the market risk policy approved by the Board; approval of counterparty limits and dealer limits; senior management approval for investments; and regular review and monitoring of the investment portfolio by the Bank's Asset Liability Management Committee (ALCO). In addition, the liquidity risk policy provides guidance in managing the liquidity position of the Bank, which is monitored on daily basis by the Treasury and the Middle Office. Risk Management Committee of the Board provides overall guidance in managing the Bank's market and liquidity risks, capital adequacy, and integrated risk management (also known as enterprise risk management).
- Operational risk is managed through the audit policy and the operational risk policy approved by the Board, along with the fraud prevention policy; operational manuals and procedures issued from time to time; a system of internal controls and dual authorisation for important transactions and safe-keeping; a Business Continuity Plan, including a Disaster Recovery Plan for I.T.; and regular audit of the branches. Audit Committee of the Board provides overall guidance in managing the Bank's operational risk.

In order to comply with SBP's guidelines on risk management, the Bank has established a separate Risk Management Division, including a Middle Office that independently monitors and analyses the risks inherent in our Treasury operations. The steps taken by the Division include: sensitivity testing of Government Securities portfolio; computation of portfolio duration and modified duration; analysis of forward foreign exchange gap positions; more detailed reporting of TFCs and equities portfolios; development of improved procedures for trading in equities and settlements; monitoring of off-market foreign exchange rates and foreign exchange earnings; and establishment of a mechanism for independent, post-disbursement review of large credit risk exposures. Assessment of enterprise-wide integrated risk profile of the Bank is carried out, using the Basel Framework, Internal Capital Adequacy Assessment Process, and Stress Testing.

Corporate Social Responsibility (CSR)

Your Bank is fully committed to the concept of Corporate Social Responsibility and fulfills this responsibility by engaging in a wide range of activities which include:

- corporate philanthropy amounting to Rs. 48.8 million by way of donations during the year for social and educational development and welfare of under-privileged people;
- energy conservation, environmental protection, and occupational safety and health by restricting unnecessary lighting, implementing tobacco control law and "No Smoking Zone", and providing a safe and healthy work environment;
- business ethics and anti-corruption measures, requiring all staff members to comply with the Bank's "Code of Conduct";
- consumer protection measures, requiring disclosure of the schedule of charges and terms and conditions that apply to the Bank's products and services;
- amicable staff relations, recognition of merit and performance, and on-going opportunities for learning and growth of staff, both on-the-job and through formal training programmes;



- employment through a transparent procedure, without discrimination on the basis of religion, caste, language, etc., including employment of special persons;
- expansion of the Bank's branch network to rural areas, which helps in rural development;
- contribution to the national exchequer by the Bank by way of direct taxes of about Rs. 2.95 billion paid to the Government of Pakistan; during the year; furthermore, an additional amount of over Rs. 7.5 billion was deducted/collected by the Bank on account of withholding taxes, federal excise duties and sales tax on services, and paid to the Government of Pakistan/Provincial Governments.

Statement on Corporate and Financial Reporting

1. The financial statements, prepared by the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of account have been maintained by the Bank.
3. Appropriate accounting policies have been consistently applied in preparation of the financial statements; changes, if any, have been adequately disclosed and accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards and Islamic Financial Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure therefrom, if any, has been adequately disclosed.
5. The system of internal controls is sound in design and has been effectively implemented and monitored. The Board's endorsement of the management's evaluation related to Internal Control over Financial Reporting, along with endorsement of overall Internal Controls is given on page 11.
6. There are no doubts upon the Bank's ability to continue as a going concern.
7. Key operating and financial data for last six years are summarised below:

	(Rupees in million)					
	2014	2013	2012	2011	2010	2009
Total customer deposits	446,409	386,161	340,393	302,099	249,774	189,280
Total advances	181,357	167,579	147,869	114,872	125,773	105,985
Profit before tax	9,917	7,513	8,878	7,155	5,656	4,512
Profit after tax	6,349	5,155	5,455	4,533	3,602	2,856
Shareholders' Equity	27,555	23,227	21,058	17,723	14,706	12,287
Earnings per share * (Rs)	5.71	4.64	4.91	4.08	3.24	2.57
Cash Dividend (%)	30	20	30	25	20	20
Stock Dividend (%)	—	10	—	15	20	20

*Earnings per share from 2009 to 2013 have been recalculated based on the existing paid-up capital.

8. Value of investments of Provident Fund and Gratuity Fund Schemes based on latest audited financial statements as at December 31, 2013 was as follows:

	(Rupees in '000)
Provident Fund	2,180,838
Gratuity Fund	791,494

9. The pattern of shareholding and additional information regarding pattern of shareholding is given on pages 106, 107 & 108.



10. No trade in the shares of the Bank was carried out by the Directors, CEO, CFO, Head of Internal Audit, and Company Secretary, and their spouses and minor children, except that during the year one Executive purchased 500 shares, another Executive sold 5,000 shares, and spouse of an Executive purchased and sold 30,000 shares. For the purpose of this disclosure, the definition of “Executive” includes Assistant General Managers and above, in addition to officials already mentioned in the listing regulations.

General

We wish to thank our customers for their continued support and confidence, the State Bank of Pakistan for their guidance, and local and foreign correspondents for their cooperation. We also thank all our staff members for their sincere and dedicated services, which enabled the Bank to achieve these satisfactory results.

On behalf of the Board of Directors

Karachi: February 17, 2015

ALI RAZA D. HABIB
Chairman



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED DECEMBER 31, 2014

This statement is being presented to comply with the Code of Corporate Governance (“the Code”) contained in 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 Bank has applied the principles contained in the Code in the following manner:

1. The Bank encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. At present the Board includes:

Category	Names
Independent Directors	Mr. Shameem Ahmed Syed Mazhar Abbas Syed Hasan Ali Bukhari
Executive Directors	Mr. Abbas D.Habib Mr. Qumail R. Habib
Non-Executive Directors	Mr. Ali Raza D. Habib Mr. Anwar Haji Karim Mr. Murtaza H. Habib Mr. Safar Ali Lakhani Mr. Shahid Ghaffar

The independent directors meet the criteria of independence as per Prudential Regulations of the State Bank of Pakistan.

2. The directors have confirmed that none of them is serving as a director in more than seven listed companies, including the Bank, except for the nominee director of National Investment Trust (NIT).
3. All the directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Two casual vacancies occurred on the Board during the year and were filled by the directors within stipulated time.
5. The Bank has prepared a “Code of Conduct” and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and Executive Director, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.



9. The directors of the Bank are well conversant with their duties and responsibilities. Two directors attended training programmes during the year.
10. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The Directors' Report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises five members, who are independent or non-executive directors. Chairman of the Committee is an independent director.
16. Meetings of the Audit Committee were held at least once in every quarter prior to approval of interim and final results of the Bank and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Board has formed a Human Resource & Remuneration Committee. It comprises five members, of whom four are not executive directors, including the Chairman of the Committee.
18. The Bank has an effective internal audit division that is manned by suitably qualified and experienced personnel. The audit team is conversant with the policies and procedures of the Bank.
19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period' prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Bank's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all the other material principles contained in the Code have been complied with.

On behalf of the Board of Directors

Karachi: February 17, 2015

ALI RAZA D. HABIB
Chairman



REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (“the Code”) prepared by the Board of Directors of **Bank AL Habib Limited** (“the Bank”) for the year ended 31 December 2014 to comply with the requirements of Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Bank is listed.

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

As part of our audit of the 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 of Directors’ 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.

The Code requires the Bank to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its 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 and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm’s length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank’s compliance, in all material respects, with the best practices contained in the Code as applicable to the Bank for the year ended 31 December 2014.

Karachi: February 17, 2015

KPMG Taseer Hadi & Co.
Chartered Accountants



STATEMENT ON INTERNAL CONTROLS

The Management of the Bank is responsible for establishing the Internal Control System with the main objectives of ensuring effectiveness and efficiency of operations; reliability of financial reporting; safeguarding of assets; and compliance with applicable laws and regulations. The Internal Control System has evolved over the years, as it is an ongoing process and is included in the Bank's policies, procedures, financial limits, etc., as detailed in various manuals, circulars and instructions issued by the Bank. This system continues to be reviewed, refined and improved from time to time and immediate corrective action is taken to minimise risks which are inherent in banking business and operations.

The Internal Control System is reviewed by the Internal Auditors as well as External Auditors and their findings and recommendations are reported to the management and to the Audit Committee of the Board, and corrective action is taken to address control deficiencies and for improving procedures and systems as they are identified. The Board, acting through the Audit Committee, provides supervision and overall guidance in improving the effectiveness of the Internal Control System.

While the Internal Control System is effectively implemented and monitored, there are inherent limitations in the effectiveness of any system, including the possibility of human error or system failure and circumvention or overriding of controls. Accordingly, even an effective Internal Control System can only provide reasonable but not absolute assurance that the system's objectives will be achieved.

Internal Control over Financial Reporting (ICFR) aims to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the applicable financial reporting standards. During the year, Internal Auditors tested the Bank's ICFR and reported their findings to the management and the Audit Committee of the Board. While no material deficiencies were detected, indicating that ICFR is effectively implemented in the Bank, it may be reiterated that any control system can provide reasonable but not absolute assurance that its objectives will be achieved.

We have endeavored to follow the guidelines issued by State Bank of Pakistan (SBP) on internal controls. During the year, SBP issued further instructions regarding governance and roles and responsibilities relating to ICFR, which are being complied with by the Bank. Evaluation and management of significant risks is an on-going process and we will make further efforts to improve our Internal Control System during 2015.

ASHAR HUSAIN
Chief Financial Officer

M. SALEEM CHASHMAWALA
Head of Internal Audit

Karachi: February 17, 2015

BOARD OF DIRECTORS' REMARKS ON THE MANAGEMENT'S EVALUATION OF INTERNAL CONTROLS

Keeping in view the feedback received by the Board of Directors from the Audit Committee and the management, the Board of Directors endorse management's evaluation of Internal Controls, including Internal Control over Financial Reporting.

On behalf of the Board of Directors

Karachi: February 17, 2015

ALI RAZA D. HABIB
Chairman



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed unconsolidated statement of financial position of **Bank AL Habib Limited** ("the Bank") as at 31 December 2014 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for fourteen branches which have been audited by us and three branches audited by the 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 the approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

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

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
 - i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with the 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 2014 and its true balance of profit, its cash flows and its changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source, under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

The financial statements of the Bank for the year ended 31 December 2013 were audited by another firm of chartered accountants who had expressed an unmodified opinion thereon dated 18 February 2014.

Karachi: February 17, 2015

**KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Taufiq**



**UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014**

	Note	2014 (Rupees in '000)	2013
ASSETS			
Cash and balances with treasury banks	8	34,201,813	32,199,533
Balances with other banks	9	4,345,042	2,662,874
Lendings to financial institutions		–	–
Investments - net	10	331,422,572	239,752,853
Advances - net	11	181,356,817	167,579,360
Operating fixed assets	12	13,898,321	11,795,334
Deferred tax assets - net		–	–
Other assets	13	13,694,264	6,736,964
		578,918,829	460,726,918
LIABILITIES			
Bills payable	14	7,984,808	6,173,102
Borrowings	15	78,455,452	29,480,026
Deposits and other accounts	16	446,409,004	386,160,762
Sub-ordinated loans	17	3,743,700	6,485,900
Liabilities against assets subject to finance lease		–	–
Deferred tax liabilities - net	18	2,780,536	1,651,438
Other liabilities	19	6,916,978	5,493,639
		546,290,478	435,444,867
NET ASSETS		32,628,351	25,282,051
REPRESENTED BY :			
Share capital	20	11,114,254	10,103,868
Reserves		8,760,911	7,569,407
Unappropriated profit		7,679,490	5,554,207
		27,554,655	23,227,482
Surplus on revaluation of assets - net of tax	21	5,073,696	2,054,569
		32,628,351	25,282,051
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes 1 to 46 form an integral part of these unconsolidated financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

SYED MAZHAR ABBAS
Director

SYED HASAN ALI BUKHARI
Director



UNCONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 (Rupees in '000)	2013
Mark-up / return / interest earned	24	44,001,196	37,255,749
Mark-up / return / interest expensed	25	(24,936,885)	(22,994,393)
Net mark-up / return / interest income		19,064,311	14,261,356
Provision against non-performing loans and advances - net	11.6	(552,989)	(479,695)
Provision for diminution in the value of investments		—	—
Bad debts written-off directly		—	(96)
		(552,989)	(479,791)
Net mark-up / return / interest income after provisions		18,511,322	13,781,565
NON MARK-UP / INTEREST INCOME			
Fees, commission and brokerage income		1,950,797	1,894,163
Dividend income		364,618	253,682
Income from dealing in foreign currencies		854,437	675,489
Gain on sale / redemption of securities - net	26	294	538,546
Unrealised gain / (loss) on revaluation of investments classified as held for trading		—	—
Other income	27	637,546	546,088
Total non mark-up / interest income		3,807,692	3,907,968
		22,319,014	17,689,533
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	28	(12,189,767)	(10,008,680)
Other provisions / write-offs	29	(9,249)	(11,076)
Other charges	30	(202,884)	(156,802)
Total non mark-up / interest expenses		(12,401,900)	(10,176,558)
Extra-ordinary / unusual items		—	—
PROFIT BEFORE TAXATION		9,917,114	7,512,975
Taxation – Current		(3,497,316)	(2,450,671)
– Prior years		—	190,885
– Deferred		(70,856)	(98,640)
	31	(3,568,172)	(2,358,426)
PROFIT AFTER TAXATION		6,348,942	5,154,549
		(Rupees)	
Basic and diluted earnings per share	32	5.71	4.64

The annexed notes 1 to 46 form an integral part of these unconsolidated financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
Chief Executive and
Managing Director

SYED MAZHAR ABBAS
Director

SYED HASAN ALI BUKHARI
Director



**UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	2014 (Rupees in '000)	2013
Profit after taxation for the year		6,348,942	5,154,549
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss account</i>			
Exchange differences on translation of net investment in foreign branches		(78,284)	72,171
<i>Items that will never be reclassified to profit or loss subsequently</i>			
Remeasurement of defined benefit plan	35.6	48,215	(97,634)
Related tax charge		(16,875)	34,172
		31,340	(63,462)
Comprehensive income transferred to equity		6,301,998	5,163,258
<i>Components of comprehensive income not reflected in equity</i>			
Surplus / (deficit) on revaluation of available for sale securities		2,796,294	(1,044,980)
Related tax charge		(803,378)	380,786
		1,992,916	(664,194)
Surplus on revaluation of operating fixed assets		1,327,022	—
Related tax charge		(254,864)	—
		1,072,158	—
Total comprehensive income		9,367,072	4,499,064

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*Chief Executive and
Managing Director*

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Director

SYED HASAN ALI BUKHARI
Director



UNCONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 (Rupees in '000)	2013
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		9,917,114	7,512,975
Less: Dividend income		(364,618)	(253,682)
		9,552,496	7,259,293
Adjustments for :			
Depreciation		992,133	885,203
Amortisation		78,006	51,696
Provision against non-performing loans and advances - net		552,989	479,695
Gain on sale of operating fixed assets		(74,655)	(71,859)
Gain on sale / redemption of securities - net		(294)	(538,546)
Charge for compensated absences		35,390	42,673
Provision against off-balance sheet items		9,249	11,076
		1,592,818	859,938
		11,145,314	8,119,231
(Increase) / decrease in operating assets			
Lendings to financial institutions		-	993,981
Advances - net		(14,330,446)	(20,190,387)
Other assets - (excluding advance taxation)		(7,027,117)	(596,820)
		(21,357,563)	(19,793,226)
Increase / (decrease) in operating liabilities			
Bills payable		1,811,706	915,911
Borrowings		48,308,542	(40,142,029)
Deposits		60,248,242	45,767,891
Other liabilities - (excluding provision for taxation)		894,535	(23,165)
		111,263,025	6,518,608
		101,050,776	(5,155,387)
Income tax paid		(2,949,897)	(2,560,982)
Net cash from / (used in) operating activities		98,100,879	(7,716,369)
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in securities		(88,873,004)	9,156,878
Net investments in associates		-	337,910
Dividend received		369,708	248,592
Investments in operating fixed assets		(1,861,998)	(1,538,179)
Sale proceeds from disposal of operating fixed assets		98,158	79,629
Net cash (used in) / from investing activities		(90,267,136)	8,284,830
CASH FLOW FROM FINANCING ACTIVITIES			
Repayments of sub-ordinated loans		(2,742,200)	(3,400)
Dividend paid		(1,995,695)	(2,983,881)
Net cash used in financing activities		(4,737,895)	(2,987,281)
Exchange differences on translation of net investment in foreign branches		(78,284)	72,171
Increase / (decrease) in cash and cash equivalents		3,017,564	(2,346,649)
Cash and cash equivalents at beginning of the year		34,862,407	37,209,056
Cash and cash equivalents at end of the year	33	37,879,971	34,862,407

The annexed notes 1 to 46 form an integral part of these unconsolidated financial statements.

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Director

SYED HASAN ALI BUKHARI
Director



UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Share Capital	Statutory Reserve	Foreign Currency Translation Reserve	Revenue Reserves		Unappro- priated Profit	Total
				Special Reserve	General Reserve		
	(Rupees in '000)						
Balance as at 01 January 2013	10,103,868	5,630,172	167,874	126,500	540,000	4,489,642	21,058,056
Total comprehensive income for the year ended 31 December 2013:							
Profit after tax	-	-	-	-	-	5,154,549	5,154,549
Other comprehensive income	-	-	72,171	-	-	(63,462)	8,709
	-	-	72,171	-	-	5,091,087	5,163,258
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	37,328	37,328
Transfer to statutory reserve	-	1,032,690	-	-	-	(1,032,690)	-
Transaction with owners, recorded directly in equity:							
Cash dividend (Rs. 3 per share)	-	-	-	-	-	(3,031,160)	(3,031,160)
Balance as at 31 December 2013	10,103,868	6,662,862	240,045	126,500	540,000	5,554,207	23,227,482
Total comprehensive income for the year ended 31 December 2014:							
Profit after tax	-	-	-	-	-	6,348,942	6,348,942
Other comprehensive income	-	-	(78,284)	-	-	31,340	(46,944)
	-	-	(78,284)	-	-	6,380,282	6,301,998
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	45,947	45,947
Transfer to statutory reserve	-	1,269,788	-	-	-	(1,269,788)	-
Transactions with owners, recorded directly in equity:							
Cash divided (Rs. 2 per share)	-	-	-	-	-	(2,020,772)	(2,020,772)
Issue of bonus shares in the ratio of 10 shares for 100 shares held	1,010,386	-	-	-	-	(1,010,386)	-
Balance as at 31 December 2014	11,114,254	7,932,650	161,761	126,500	540,000	7,679,490	27,554,655

The annexed notes 1 to 46 form an integral part of these unconsolidated financial statements.

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Director

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Director



NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. STATUS AND NATURE OF BUSINESS

Bank AL Habib Limited (the Bank) is a banking company incorporated in Pakistan on 15 October 1991 as a public limited company under the Companies Ordinance, 1984 having its registered office at 126-C, Old Bahawalpur Road, Multan with principal place of business in Karachi. Its shares are listed on all the Stock Exchanges in Pakistan. It is a scheduled bank principally engaged in the business of commercial banking with a network of 351 branches (2013: 320 branches), 108 sub-branches (2013: 96 sub-branches) and 03 representative offices (2013: 03 representative offices). The branch network of the Bank includes 03 overseas branches (2013: 01 overseas branch) and 17 Islamic Banking branches (2013: 17 Islamic Banking branches).

2. BASIS OF PRESENTATION

- 2.1 These unconsolidated financial statements have been prepared in conformity with the format of financial statements prescribed by the State Bank of Pakistan (SBP) vide BSD Circular No. 04, dated 17 February 2006.
- 2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing includes purchase of goods by banks from customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchase and resale arising under these arrangements are not reflected in these unconsolidated financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon. However, murabaha financing arrangements undertaken by the Islamic Banking branches are accounted for as a purchase and sale transaction of the underlying goods in these unconsolidated financial statements in accordance with the accounting policies of the Bank.
- 2.3 The financial results of the Islamic Banking branches have been consolidated in these unconsolidated financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial information of the Islamic Banking branches is disclosed in note 43.
- 2.4 These are separate financial statements of the Bank in which investments in subsidiaries and associates are reported on the basis of direct equity interest and are not consolidated or accounted for by using equity method of accounting.

3. STATEMENT OF COMPLIANCE

- 3.1 These unconsolidated financial statements of the Bank have been prepared, in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and regulations / directives issued by the Securities and Exchange Commission of Pakistan (SECP) and SBP. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or regulations / directives issued by SECP and SBP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said regulations / directives shall prevail.
- 3.2 SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for banking companies till further instructions. Further, according to the notification of SECP dated 28 April 2008, IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these unconsolidated financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by SBP.



4. BASIS OF MEASUREMENT

These unconsolidated financial statements have been prepared under the historical cost convention except for certain investments, land and buildings and derivative financial instruments which are revalued as referred to in notes 5.4, 5.6 and 5.15 below.

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 The accounting policies adopted in the preparation of these unconsolidated financial statements are consistent with those of the previous financial year.

5.2 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash and balances with treasury banks and balances with other banks less overdrawn nostros accounts.

5.3 Repurchase / resale agreements

The Bank enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase obligation

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repo agreement.

Purchase under resale obligation

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

5.4 Investments

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

Held for trading

These are investments acquired principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin or are securities included in a portfolio in which a pattern of short - term trading exists.

Held to maturity

These are investments with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity.

Available for sale

These are investments which do not fall under the held for trading and held to maturity categories.

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

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

Surplus / (deficit) arising on revaluation of quoted securities which are classified as available for sale investments is taken to a separate account which is shown in the statement of financial position below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realised upon disposal or in case of impairment of securities. The unrealised surplus / (deficit) arising on revaluation of quoted securities which are classified as held for trading is taken to the profit and loss account.

Provision for diminution in the values of securities (except for debt securities) is made after considering impairment, if any, in their value and is taken to profit and loss account. Impairment is booked when there is an objective evidence of significant or prolonged decline in the value of such securities. Provision for impairment against debt securities is made in accordance with the requirements of the Prudential Regulations of SBP. In case of unquoted equity securities, the breakup value of the security should be considered to determine impairment amount.

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

5.5 **Advances**

Loans and advances

These are stated net of provisions for non-performing advances. Provision for non-performing advances is determined in accordance with the requirements of the Prudential Regulations and is charged to the profit and loss account. The Bank also maintains general provision in addition to the requirements of the Prudential Regulations on the basis of the management's risk assessment. Advances are written off when there are no realistic prospects of recovery.

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 recognised at an amount equal to the present value of the lease payments including any guaranteed residual value.

Ijarah finance

In accordance with the requirements of IFAS 2 'Ijarah', assets leased out under ijarah arrangements on or after 01 January 2009 are stated at cost less depreciation and impairment, if any and included under "Advances". Such assets are depreciated over the terms of Ijarah contracts. Ijarah arrangements executed before the above referred date are accounted for as finance lease.

Murabaha

Funds disbursed under murabaha arrangements for purchase of goods are recorded as advance for murabaha. On culmination of murabaha i.e. sale of goods to customers, murabaha receivables are recorded at the sale price net of deferred income. Goods purchased but remaining unsold at the reporting date are recorded as inventories.



5.6 Operating fixed assets

Tangible operating assets - owned

Land is measured at cost at the time of initial recognition and is subsequently carried at revalued amount. Buildings are initially measured at cost and upon revaluation, are carried at revalued amount less accumulated depreciation and impairment, if any. All other operating fixed assets are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged to profit and loss account on straight line basis so as to charge the assets over their expected useful lives at the rates specified in note 12.2. The depreciation charge is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed annually and adjusted, if appropriate. Depreciation is charged on prorata basis, i.e., full month charge in the month of purchase and no charge in the month of disposal.

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. The surplus arising on revaluation of fixed assets is credited to the "surplus on revaluation of assets" account shown below equity. The Bank has adopted the following accounting treatment of depreciation on revalued assets, keeping in view the requirements of the Companies Ordinance, 1984 and SECP's SRO 45(1)/2003 dated 13 January 2003:

- depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year is taken to the profit and loss account; and
- an amount equal to incremental depreciation for the year net of deferred taxation is transferred from surplus on revaluation of assets to unappropriated profit through statement of changes in equity to record realisation of surplus to the extent of the incremental depreciation charge for the year.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposal of fixed assets are included in income currently, except that the related surplus on revaluation of land and buildings (net of deferred tax) is transferred directly to unappropriated profit.

Tangible operating assets - leased

Leases where the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance lease are accounted for by recording the assets and related liability. These are stated at lower of fair value and the present value of minimum lease payments at the inception of lease less accumulated depreciation. Financial charges are allocated over the period of lease term so as to provide a constant periodic rate of financial charge on the outstanding liability. Depreciation is charged on the basis similar to the owned assets.

Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and impairment, if any. Amortisation is based on straight line method by taking into consideration the estimated useful life of assets at the rates specified in note 12.3. Intangible assets are amortised on prorata basis i.e. full month amortisation in the month of purchase and no amortisation in the month of disposal.



Capital work in progress

Capital work in progress is stated at cost less impairment, if any.

Impairment

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the fixed assets are written down to their recoverable amounts.

The resulting impairment loss is taken to profit and loss account except for impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of assets.

5.7 Employees' benefits

Defined benefit plan

The Bank operates an approved gratuity fund for all its confirmed employees, which is administered by the Trustees. The Bank's costs and contributions are determined based on actuarial valuation carried out at each year end using Projected Unit Credit Actuarial Method. All actuarial gains and losses are recognised in 'other comprehensive income' as they occur and are not reclassified to profit or loss in subsequent periods.

Defined contribution plan

The Bank operates an approved provident fund scheme for all its regular permanent employees, administered by the Trustees. Equal monthly contributions are made both by the Bank and its employees to the fund at the rate of 10% of the basic salary in accordance with the terms of the scheme.

Compensated absences

The Bank accounts for all accumulating compensated absences when employees render service that increases their entitlement to future compensated absences. The liability is determined based on actuarial valuation carried out using the Projected Unit Credit Method.

5.8 Provisions against liabilities

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

5.9 Provisions against off-balance sheet obligations

The Bank, in the ordinary course of business, issues letters of credit, acceptances, guarantees, bid bonds, performance bonds etc. The commission against such contracts is recognised in the profit and loss account under "fees, commission and brokerage income" over the period of contracts. The Bank's liability under such contracts is measured at the higher of the amount representing unearned commission income at the reporting date and the best estimate of the amount expected to settle any financial obligation arising under such contracts.

5.10 Subordinated loans

Subordinated loans are initially recorded at the amount of proceeds received. Mark-up accrued on subordinated loans is recognised separately as part of other liabilities and is charged to the profit and loss account over the period on an accrual basis.



5.11 Revenue recognition

- (a) Mark-up / interest / return on advances and investments is recognised on accrual basis, except in case of advances classified under the Prudential Regulations on which mark-up is recognised on receipt basis. Mark-up / interest / return on rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of SBP.
- (b) Financing method is used in accounting for income from lease financing. Under this method, the unrealised lease income 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. Gain / loss on termination of lease contracts, front end fee and other lease income are recognised as income on receipt basis.
- (c) The rentals from ijarah are recognised as income over the term of the contract net of depreciation expense relating to the ijarah assets.
- (d) Income from murabaha is accounted for on a time proportionate basis over the period of murabaha transaction.
- (e) Dividend income is recognised when the right to receive is established.
- (f) Gain or loss on sale of investments are recognised in profit and loss account in the year in which they arise.
- (g) Fee, commission and brokerage income are recognised as services are performed.

5.12 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss account except to the extent that it relates to the items recognised directly in equity or surplus on revaluation of assets, in which case it is recognised in equity or surplus on revaluation of assets.

Current

Provision for current tax is based on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date and any adjustments to the tax payable in respect of previous years. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities.

Deferred

Deferred tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, except in respect of taxable temporary differences associated with investment in foreign operations, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable temporary differences will be available to allow all or part of the deferred income tax asset to be utilised.



Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

5.13 Currency translation

Functional and presentation currency

These financial statements are presented in Pak Rupees which is the Bank's functional currency and presentation currency.

Transactions and balances in foreign currencies

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

Foreign operations

The assets and liabilities of foreign operations are translated to Pak Rupees at exchange rates prevailing at the reporting date. The income and expense of foreign operations are translated at rate of exchange prevailing during the year. Exchange gain or loss on such translation is taken to equity through statement of other comprehensive income under "foreign currency translation reserve".

Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities.

5.14 Financial instruments

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

5.15 Derivative financial instruments

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

5.16 Off-setting

Financial assets and financial liabilities are only off - set and the net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognised amount and the Bank intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

5.17 Dividends and appropriations to reserves

Dividends and appropriations to reserves are recognised in the year in which these are approved, except appropriations required by the law which are recorded in the period to which they pertain.



5.18 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments. The segment reporting format has been determined and prepared in conformity with the format of financial statements and guidelines, prescribed by SBP vide BSD Circular No.04, dated, 17 February 2006. The Bank's primary format of reporting is based on business segments.

5.18.1 Business segments

Retail banking

It consists of retail lending, deposits and banking services to private individuals and small businesses. The retail banking activities include provision of banking and other financial services, such as current and savings accounts, credit cards, consumer banking products etc., to individual customers, small merchants and SMEs.

Commercial banking

Commercial banking represents provision of banking services including treasury and international trade related activities to large corporate customers, multinational companies, government and semi government departments and institutions and SMEs treated as corporate under the Prudential Regulations.

5.18.2 Geographical segments

The Bank operates in four geographic regions, being:

- Pakistan
- Middle East
- Asia Pacific
- Africa

5.19 Earnings per share

The Bank presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period / year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no convertible dilutive potential ordinary shares in issue at 31 December 2014.

5.20 Clients' assets

The Bank provides services that result in the holding of assets on behalf of its clients. Such assets are not reported in the financial statements, as they are not the assets of the Bank.

6. ACCOUNTING JUDGMENTS AND ESTIMATES

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



Note

Classification of investments and provision for diminution in the value of investments	5.4 & 10
Provision against non - performing advances	5.5 & 11
Useful lives of assets and methods of depreciation and amortisation	5.6 & 12
Employees' benefits	5.7,19 & 35
Provisions against off - balance sheet obligations	5.9 & 19
Current and deferred taxation	5.12 & 18

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

The following standards, amendments and interpretations of Approved Accounting Standards will be effective for accounting periods on or after 01 January 2015:

- Amendments to IAS 19 “Employee Benefits” Employee contributions – a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria.
- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are ‘highly correlated’, or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Bank’s unconsolidated financial statements.
- IFRS 10 ‘Consolidated Financial Statements’ – (effective for annual periods beginning on or after 1 January 2015) replaces the part of IAS 27 ‘Consolidated and Separate Financial Statements. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called ‘Separate Financial Statements’ and will deal with only separate financial statements. Certain further amendments have been made to IFRS 10, IFRS 12 and IAS 28 clarifying the requirements relating to accounting for investment entities and would be effective for annual periods beginning on or after 1 January 2016.
- IFRS 11 ‘Joint Arrangements’ (effective for annual periods beginning on or after 1 January 2015) replaces IAS 31 ‘Interests in Joint Ventures’. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31 and are now ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named ‘Investment in Associates and Joint Ventures’. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after 1 January 2016. The adoption of this standard is not like to have an impact on Bank’s unconsolidated financial statements.



- IFRS 12 'Disclosure of Interest in Other Entities' (effective for annual periods beginning on or after 1 January 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, into one place. The adoption of this standard is not like to have an impact on Bank's unconsolidated financial statements.
- IFRS 13 'Fair Value Measurement' effective for annual periods beginning on or after 1 January 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The adoption of this standard is not like to have an impact on Bank's unconsolidated financial statements.
- Amendment to IAS 27 'Separate Financial Statement' (effective for annual periods beginning on or after 1 January 2016). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) [effective for annual periods beginning on or after 1 January 2016]. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
- Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards:
 - IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'.
 - IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination.
 - IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria.
 - Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognising that the restatement of accumulated depreciation (amortisation) is not always proportionate to the change in the gross carrying amount of the asset.
- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.
- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property.
- Annual Improvements 2012-2014 cycles (amendments are effective for annual periods beginning on or after 1 January 2016). The new cycle of improvements contain amendments to the following standards:



- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. IFRS 5 is amended to clarify that if an entity changes the method of disposal of an asset (or disposal group) i.e. reclassifies an asset from held for distribution to owners to held for sale or vice versa without any time lag, then such change in classification is considered as continuation of the original plan of disposal and if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held for distribution, then it ceases held for distribution accounting in the same way as it would cease held for sale accounting.
- IFRS 7 'Financial Instruments- Disclosures'. IFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. IFRS 7 is also amended to clarify that additional disclosures required by 'Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS7)' are not specifically required for inclusion in condensed interim financial statements for all interim periods.
- IAS 19 'Employee Benefits'. IAS 19 is amended to clarify that high quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.
- IAS 34 'Interim Financial Reporting'. IAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.

	Note	2014 (Rupees in '000)	2013
8. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		7,299,888	5,654,696
Foreign currencies		915,477	1,921,134
National prize bonds		32,709	28,242
		8,248,074	7,604,072
In transit			
Local currency		12,500	27,120
Foreign currencies		239,827	55,105
		252,327	82,225
With SBP in:			
Local currency current accounts	8.1	15,325,359	14,459,173
Local currency current account-Islamic Banking	8.1	342,928	238,361
Foreign currency deposit accounts			
Cash reserve account	8.1	1,592,657	1,679,927
Cash reserve / special cash reserve account -Islamic Banking		24,317	16,220
Special cash reserve account	8.1	4,777,971	5,039,782
Local US Dollar collection account	8.2	19,588	16,488
		22,082,820	21,449,951
With National Bank of Pakistan (NBP) in:			
Local currency current accounts		3,618,592	3,063,285
		34,201,813	32,199,533



8.1 These deposits and reserves are maintained by the Bank to comply with the statutory requirements.

8.2 This represents US Dollar collection account maintained with SBP.

	Note	2014 (Rupees in '000)	2013
9. BALANCES WITH OTHER BANKS			
In Pakistan			
Current accounts		1,088,902	893,649
Deposit accounts	9.1	600,000	–
Savings accounts	9.2	996,298	4,177
		2,685,200	897,826
Outside Pakistan			
Current accounts		1,027,760	1,588,427
Deposit accounts	9.3	632,082	176,621
		1,659,842	1,765,048
		4,345,042	2,662,874

9.1 These carry expected profit rates of 8% to 8.50% (2013: Nil%) per annum.

9.2 These carry expected profit rates of 5% to 7.39% (2013: 5%) per annum.

9.3 These carry interest rates upto 0.05% to 0.35% (2013: 0.05% to 0.35%) per annum.



10. INVESTMENTS

		2014			2013		
10.1	Investments by type	Held by Bank	Given as Collateral	Total	Held by Bank	Given as Collateral	Total
		(Rupees in '000)					
	Available for Sale Securities						
	Market Treasury Bills	101,974,927	56,253,740	158,228,667	101,159,729	10,933,027	112,092,756
	Pakistan Investment Bonds	36,503,076	-	36,503,076	12,412,522	-	12,412,522
	Foreign Currency Bonds	2,289,589	-	2,289,589	1,782,395	-	1,782,395
	Sukuk Bonds	4,833,911	-	4,833,911	3,300,425	-	3,300,425
	Fully paid-up ordinary shares - Listed	3,062,421	-	3,062,421	2,528,063	-	2,528,063
	Fully paid-up ordinary shares - Unlisted	39,570	-	39,570	39,570	-	39,570
	Term finance certificates - Listed	321,695	-	321,695	544,625	-	544,625
	Term finance certificates - Unlisted	2,832,620	-	2,832,620	2,532,720	-	2,532,720
	Units of mutual funds	1,551,763	-	1,551,763	1,175,000	-	1,175,000
		153,409,572	56,253,740	209,663,312	125,475,049	10,933,027	136,408,076
	Held to Maturity Securities						
	Market Treasury Bills	-	-	-	83,858,220	-	83,858,220
	Pakistan Investment Bonds	115,678,511	-	115,678,511	17,654,496	-	17,654,496
	Sukuk Bonds	701,047	-	701,047	211,342	-	211,342
	Term finance certificates - Listed	86,826	-	86,826	95,177	-	95,177
	Foreign Currency Bonds	970,913	-	970,913	-	-	-
		117,437,297	-	117,437,297	101,819,235	-	101,819,235
	Associates						
	Habib Sugar Mills Limited	180,977	-	180,977	180,977	-	180,977
	Habib Asset Management Limited	60,000	-	60,000	60,000	-	60,000
	First Habib Income Fund	250,000	-	250,000	250,000	-	250,000
	First Habib Stock Fund	50,000	-	50,000	50,000	-	50,000
	First Habib Cash Fund	300,000	-	300,000	300,000	-	300,000
	First Habib Islamic Balanced Fund	25,000	-	25,000	25,000	-	25,000
		865,977	-	865,977	865,977	-	865,977
	Subsidiaries						
	AL Habib Capital Markets (Pvt.) Ltd.	200,000	-	200,000	200,000	-	200,000
	AL Habib Credit & Finance (Hong Kong) Limited	127	-	127	-	-	-
		200,127	-	200,127	200,000	-	200,000
	Investments at cost	271,912,973	56,253,740	328,166,713	228,360,261	10,933,027	239,293,288
	Less: Provision for diminution in the value of investments	(5,700)	-	(5,700)	(5,700)	-	(5,700)
	Investments (net of provisions)	271,907,273	56,253,740	328,161,013	228,354,561	10,933,027	239,287,588
	Surplus / (deficit) on revaluation of available for sale investments - net	3,191,316	70,243	3,261,559	474,019	(8,754)	465,265
	Total Investments	275,098,589	56,323,983	331,422,572	228,828,580	10,924,273	239,752,853

10.2 The aggregate market value of held to maturity securities as at 31 December 2014 amounted to Rs. 125,053 million (2013: Rs. 101,709 million).



	Note	2014 (Rupees in '000)	2013
10.3 Investments by segment			
<i>Federal Government Securities</i>			
Market Treasury Bills	10.6	158,228,667	195,950,976
Pakistan Investment Bonds	10.7	152,181,587	30,067,018
Foreign Currency Bonds	10.10	2,755,580	1,459,509
Sukuk Bonds	10.8	3,219,971	1,000,000
		316,385,805	228,477,503
<i>Fully paid-up ordinary shares</i>			
Listed companies	10.5.5	3,062,421	2,528,063
Unlisted companies	10.11	39,570	39,570
		3,101,991	2,567,633
<i>Term finance certificates, sukuks and bonds</i>			
<i>Term Finance Certificates</i>			
Term finance certificates - Listed		408,521	639,802
Term finance certificates - Unlisted		2,832,620	2,532,720
	10.9	3,241,141	3,172,522
Sukuk Bonds	10.8	2,314,987	2,511,767
Foreign Currency Bonds	10.10	504,922	322,886
		6,061,050	6,007,175
<i>Others</i>			
Units of mutual funds	10.5.9	1,551,763	1,175,000
Associates	10.12	865,977	865,977
Subsidiaries	10.13	200,127	200,000
		2,617,867	2,240,977
Investments at cost		328,166,713	239,293,288
Less: Provision for diminution in the value of investments	10.4	(5,700)	(5,700)
Investments (net of provisions)		328,161,013	239,287,588
Surplus on revaluation of available for sale securities - net	21.2	3,261,559	465,265
Total Investments		331,422,572	239,752,853



	Note	2014 (Rupees in '000)	2013
10.4 Particulars of provision for diminution in the value of investments			
Available for sale investments:	10.4.1	5,700	5,700
10.4.1 Particulars of provision in respect of type and segment			
Available for sale investments:			
Unlisted company		5,700	5,700

10.5 Quality of available for sale securities

Name of security	Face value Rs. / USD	2014 2013 Rating*		2014 2013 Cost		2014 2013 Carrying value	
		(Rupees in '000)					
10.5.1 Market Treasury Bills	-	Unrated	Unrated	158,228,667	112,092,756	158,462,190	111,850,735
10.5.2 Pakistan Investment Bonds	-	Unrated	Unrated	36,503,076	12,412,522	38,443,902	12,727,568
10.5.3 Foreign Currency Bonds							
Government of Pakistan Bonds	USD 100	B-	B-	945,547	945,156	1,024,596	1,028,969
Government of Pakistan Bonds	USD 100	B-	B-	586,509	514,353	613,176	542,241
Government of Pakistan Bonds	USD 100	B-	-	252,611	-	256,453	-
Government of Sri Lanka Bonds	USD 100	B+	B+	100,606	107,852	100,726	109,450
Bank of Ceylon	USD 100	B+	BB-	203,811	215,034	210,050	212,275
Bank of Ceylon	USD 100	B+	BB-	200,505	-	201,959	-
				2,289,589	1,782,395	2,406,960	1,892,935

10.5.4 Sukuk Bonds

2014	2013	Name of Security							
No. of certificates									
170,000	170,000	Engro Foods Limited	Rs.5,000	A+	A+	850,000	850,000	850,000	850,000
-	10,000	Government of Pakistan Ijarah Sukuk VIII	Rs. 100,000	-	Unrated	-	1,000,000	-	1,005,400
10,000	-	Government of Pakistan Ijarah Sukuk XII	Rs. 5,000	Unrated	-	1,013,454	-	1,002,100	-
120,000	-	Government of Pakistan Ijarah Sukuk XV	Rs. 5,000	Unrated	-	1,200,000	-	1,178,400	-
50,000	-	Government of Pakistan Sukuk	USD 100	B-	-	503,754	-	496,558	-
1,087,849	1,087,849	Liberty Power Tech Limited	Rs.1,000	A+	A+	891,703	950,425	891,703	950,425
150,000	150,000	WAPDA Second Sukuk Company Limited	Rs.5,000	Unrated	Unrated	375,000	500,000	375,000	500,000
						4,833,911	3,300,425	4,793,761	3,305,825



10.5.5 Fully paid-up ordinary shares - Listed

2014	2013	Name of security	Face value	2014	2013	2014	2013	2014	2013
No. of shares			Rs.	Rating*		Cost		Carrying value	
(Rupees in '000)									
727,100	661,000	Allied Bank Limited	Rs.10	AA+	AA+	42,503	42,503	82,584	59,490
147,190	115,690	Attock Petroleum Limited	Rs.10	Unrated	Unrated	64,850	47,653	79,421	57,809
3,154,500	3,154,500	Fauji Fertilizer Bin Qasim Limited	Rs.10	Unrated	Unrated	126,318	126,318	142,615	138,199
3,224,800	3,224,800	Fauji Fertilizer Company Limited	Rs.10	Unrated	Unrated	364,507	364,507	377,656	361,048
294,000	389,000	First Habib Modarba	Rs.5	AA+	AA+	2,607	3,449	2,690	3,376
10,102,415	10,102,415	Habib Metropolitan Bank Limited	Rs.10	AA+	AA+	197,587	197,587	376,820	253,267
7,627,500	7,627,500	Hub Power Company Limited	Rs.10	AA+	AA+	466,114	466,114	597,691	463,142
52,862	52,862	International Industries Limited	Rs.10	Unrated	Unrated	357	357	3,295	2,451
5,623,556	5,623,556	International Steels Limited	Rs.10	Unrated	Unrated	89,228	89,228	143,120	96,838
3,960,000	3,960,000	Kot Addu Power Company Limited	Rs.10	AA+	AA+	242,202	242,202	312,602	244,530
1,594,500	1,594,500	Lalpir Power Limited	Rs.10	AA	AA	37,626	37,626	47,676	31,730
396,110	127,400	MCB Bank Limited	Rs.10	AAA	AAA	99,902	34,079	121,071	35,821
119,067	119,067	Meezan Bank Limited	Rs.10	AA	AA-	3,028	3,028	5,596	4,689
3,096,000	3,096,000	Nishat Chunian Power Limited	Rs.10	A+	A+	99,828	99,828	153,407	107,679
17,500	17,500	Packages Limited	Rs.10	AA	AA	1,429	1,429	11,870	4,771
4,407,500	4,407,500	Pakgen Power Limited	Rs.10	AA	AA	108,544	108,544	119,135	95,687
587,075	305,075	Pakistan Oilfields Limited	Rs.10	Unrated	Unrated	297,555	148,116	222,713	151,839
1,406,941	740,741	Pakistan Petroleum Limited	Rs.10	Unrated	Unrated	297,841	150,003	248,353	158,489
914,500	595,000	Pakistan State Oil Company Limited	Rs.10	AA+	AA+	295,077	195,527	327,309	197,671
22,500	18,000	Shell Pakistan Limited	Rs.10	Unrated	Unrated	2,189	2,189	5,825	3,428
11,580,450	8,440,450	Soneri Bank Limited	Rs.10	AA-	AA-	108,098	64,709	142,787	92,255
3,183,000	2,693,000	Standard Chartered Bank (Pakistan) Limited	Rs.10	AAA	AAA	61,701	49,737	75,119	67,056
575,000	575,000	United Bank Limited	Rs.10	AA+	AA+	53,330	53,330	101,608	76,216
						3,062,421	2,528,063	3,700,963	2,707,481

10.5.6 Fully paid-up ordinary shares - Unlisted

2014	2013	Name of security	Face value	2014	2013	2014	2013	2014	2013
No. of shares / certificates			Rs.	Rating*		Cost		Carrying value	
3,000,000	3,000,000	Khushhali Bank Limited	Rs.10	A	A	30,000	30,000	30,000	30,000
		Pakistan Export Finance Guarantee							
569,958	569,958	Agency Limited	Rs.10	Unrated	Unrated	5,700	5,700	-	-
24	24	S.W.I.F.T	-	Unrated	Unrated	3,870	3,870	3,870	3,870
						39,570	39,570	33,870	33,870

10.5.7 Term finance certificates - Listed

2014	2013	Name of security	Face value	2014	2013	2014	2013	2014	2013
No. of certificates			Rs.	Rating*		Cost		Carrying value	
-	6,000	Allied Bank Limited	Rs.5,000	-	AA	-	14,964	-	15,131
33,800	33,800	Allied Bank Limited - II	Rs.5,000	AA	AA	168,662	168,730	165,515	170,248
30,625	30,625	Bank Alfalah Limited - V	Rs.5,000	AA-	AA-	153,033	153,094	152,201	156,446
-	40,000	Engro Fertilizers Limited - III	Rs.5,000	-	A	-	199,520	-	199,500
-	5,000	United Bank Limited - III	Rs.5,000	-	AA	-	8,317	-	8,439
						321,695	544,625	317,716	549,764



		Face value	2014	2013	2014	2013	2014	2013				
		Rs.	Rating*		Cost		Carrying value					
			(Rupees in '000)									
10.5.8	Term finance certificates - Unlisted											
			<u>2014</u>	<u>2013</u>	<u>Name of security</u>							
			<u>No. of certificates</u>									
			150	150	Askari Bank Limited - IV	Rs.1,000,000	AA-	AA-	149,820	149,880	149,820	149,880
			60,000	-	Askari Bank Limited - V	Rs.5,000	AA-	-	300,000	-	300,000	-
			20,000	20,000	Bank Alfalah Limited - IV	Rs.5,000	AA-	AA-	99,800	99,840	99,800	99,840
			56,600	56,600	Standard Chartered Bank							
			400,000	40,000	(Pakistan) Limited	Rs.5,000	AAA	AAA	283,000	283,000	283,000	283,000
					WAPDA	Rs.5,000	AAA	AAA	2,000,000	2,000,000	2,000,000	2,000,000
									2,832,620	2,532,720	2,832,620	2,532,720
10.5.9	Units of mutual funds											
			<u>2014</u>	<u>2013</u>	<u>Name of Security</u>							
			<u>No. of units</u>									
			64,217,346	59,779,954	NIT Government Bond Fund	Rs.10	AA-	AA	600,000	600,000	698,948	622,500
			21,076,617	19,689,110	NIT Income Fund	Rs.10	A+	A+	200,000	200,000	232,623	208,114
			15,044,628	8,206,331	NIT Unit Trust	Rs.10	4 Star	3 Star	750,000	350,000	993,397	408,183
			20,523	279,322	PIML Income Fund (Formerly Primus Cash Fund)	Rs.100	A+	AAA	1,763	25,000	2,221	27,946
									1,551,763	1,175,000	1,927,189	1,266,743
									209,663,312	136,408,076	212,919,171	136,867,641

* Rating in case of ordinary shares of listed and unlisted companies represents the rating of investee companies, in all other cases, rating represents the rating of underlying instruments.

10.6 Market Treasury Bills

These securities have a maturity period of one year (2013: three months to one year), with yield ranging between 9.48% to 9.99% (2013: 8.97% to 9.91%) per annum.

10.7 Pakistan Investment Bonds

These securities have a maturity period of 3, 5, 7 and 10 years (2013: 3, 5, 7 and 10 years) with interest rates ranging between 9.60% to 12% (2013: 9.60% to 12%) per annum. These include securities costing Rs. 5 million (2013: Rs. 5 million) pledged with the Controller of Military Accounts, Karachi as a security deposit for extending banking facilities on account of regimental funds vis-a-vis private fund accounts.



10.8 Sukuk Bonds

<u>2014</u>	<u>2013</u>	<u>Redeemable</u> <u>value per</u> <u>certificate</u>	<u>Maturity</u> <u>Date</u>	<u>Name of Security</u>	<u>Rate</u>	<u>2014</u>	<u>2013</u>
<u>No. of certificates</u>		<u>(Rupees)</u>				<u>(Rupees in '000)</u>	
Federal Government Securities							
Available for sale							
-	10,000	-	May-14	Government of Pakistan Ijara Sukuk VIII	Weighted average 6 months T-Bills rate	-	1,000,000
10,000	-	101,345	Nov-15	Government of Pakistan Ijarah Sukuk XII	Weighted average 6 months T-Bills rate	1,013,454	-
120,000	-	10,000	Jun-17	Government of Pakistan Ijarah Sukuk XV	Weighted average 6 months T-Bills rate	1,200,000	-
50,000	-	10,075	Dec-19	Government of Pakistan Sukuk	6.750% per annum	503,754	-
						2,717,208	1,000,000
Held to maturity							
50,000	-	10,055	Dec-19	Government of Pakistan Sukuk	6.750% per annum	502,763	-
						3,219,971	1,000,000
Others							
Available for sale							
170,000	170,000	5,000	Jan-17	Engro Foods Limited	6 months' KIBOR plus 69 bps	850,000	850,000
1,124,278	1,124,278	793	Mar-21	Liberty Power Tech Limited	3 months' KIBOR plus 300 bps	891,703	950,425
150,000	150,000	2,500	Jul-17	WAPDA Second Sukuk Company Limited	6 months' KIBOR less 25 bps	375,000	500,000
						2,116,703	2,300,425
Held to maturity							
250,000	250,000	793	Mar-21	Liberty Power Tech Limited	3 month's KIBOR plus 300 bps	198,284	211,342
						2,314,987	2,511,767
						5,534,958	3,511,767

10.8.1 These Sukuk Bonds have face value of Rs. 5,000 per certificate except for Liberty Power Tech Limited's Sukuk Bonds which has face value of Rs. 1,000 per certificate and Government of Pakistan Ijarah Sukuk Bonds which have face value of Rs. 100,000 per certificate.

10.9 Term Finance Certificates

<u>2014</u>	<u>2013</u>	<u>Redeemable</u> <u>value per</u> <u>certificate</u>	<u>Maturity</u> <u>Date</u>	<u>Name of Security</u>	<u>Rate</u>	<u>2014</u>	<u>2013</u>
<u>No. of certificates</u>		<u>(Rupees)</u>				<u>(Rupees in '000)</u>	
Listed - Available for sale							
-	6,000	-	Dec-14	Allied Bank Limited*	6 months' KIBOR plus 190 bps	-	14,964
33,800	33,800	4,990	Aug-19	Allied Bank Limited - II*	6 months' KIBOR plus 85 bps	168,662	168,730
30,625	30,625	4,997	Feb-21	Bank Alfalah Limited - V*	6 months' KIBOR plus 125 bps	153,033	153,094
-	40,000	-	Nov-15	Engro Fertilizers Limited - III	6 months' KIBOR plus 155 bps	-	199,520
-	5,000	-	Sep-14	United Bank Limited-III*	6 months' KIBOR plus 170 bps	-	8,317
						321,695	544,625



<u>2014</u>	<u>2013</u>	<u>Redeemable value per certificate</u>	<u>Maturity Date</u>	<u>Name of Security</u>	<u>Rate</u>	<u>2014</u>	<u>2013</u>
<u>No. of certificates</u>		<u>(Rupees)</u>				<u>(Rupees in '000)</u>	
Unlisted - Available for sale							
150	150	998,800	Dec-21	Askari Bank Limited - IV*	6 months' KIBOR plus 175 bps	149,820	149,880
60,000	-	5,000	Sep-24	Askari Bank Limited - V*	6 months' KIBOR plus 120 bps	300,000	-
20,000	20,000	4,990	Dec-17	Bank Alfalah Limited - IV*	15.00% per annum	99,800	99,840
56,600	56,600	5,000	Jun-22	Standard Chartered Bank (Pakistan) Limited*	6 months' KIBOR plus 75 bps	283,000	283,000
400,000	400,000	5,000	Sep-21	WAPDA	6 months' KIBOR plus 100 bps	2,000,000	2,000,000
						2,832,620	2,532,720
Listed - Held to maturity							
17,400	17,400	4,990	Aug-19	Allied Bank Limited - II*	6 months' KIBOR plus 85 bps	86,826	86,860
-	5,000	-	Sep-14	United Bank Limited - III*	6 months' KIBOR plus 170 bps	-	8,317
						86,826	95,177
						3,241,141	3,172,522

*These Term Finance Certificates are subordinated.

10.9.1 These Term Finance Certificates have face value of Rs. 5,000 per certificate except for Askari Bank Limited-IV which have face value of Rs 100,000 per certificate.

10.10 Foreign Currency Bonds

<u>2014</u>	<u>2013</u>	<u>Redeemable value per certificate</u>	<u>Maturity Date</u>	<u>Name of Security</u>	<u>Rate</u>	<u>2014</u>	<u>2013</u>
<u>No of certificates of US \$ 100 each</u>		<u>(Rupees)</u>				<u>(Rupees in '000)</u>	
Federal Government Securities							
Available for sale							
100,000	100,000	9,455	Jun-17	Government of Pakistan Bonds	6.875% p.a.	945,547	945,156
59,770	52,270	9,813	Mar-16	Government of Pakistan Bonds	7.125% p.a.	586,509	514,353
25,000	-	10,104	Apr-19	Government of Pakistan Bonds	7.250% p.a.	252,611	-
						1,784,667	1,459,509
Held to maturity							
95,000	-	10,220	Apr-19	Government of Pakistan Bonds	7.250% p.a.	970,913	-
						2,755,580	1,459,509
Others							
Available for sale							
10,000	10,000	10,061	Jan-15	Government of Srilanka Bonds	7.400% p.a.	100,606	107,852
20,000	20,000	10,191	May-17	Bank of Ceylon	6.875% p.a.	203,811	215,034
20,000	-	10,025	Apr-18	Bank of Ceylon	5.325% p.a.	200,505	-
						504,922	322,886
						3,260,502	1,782,395



10.11 Ordinary shares of unlisted companies

<u>2014</u>	<u>2013</u>	<u>Name of companies</u>		<u>2014</u>	<u>2013</u>
No. of ordinary shares/units			Note	(Rupees in '000)	
3,000,000	3,000,000	Khushhali Bank Limited Par value per share: Rs. 10 Break-up value per share: Rs. 16.12 (2013: Rs. 14.50) based on audited financial statements for the year ended 31 December 2013 Chief Executive: Mr. Ghalib Nishtar		30,000	30,000
569,958	569,958	Pakistan Export Finance Guarantee Agency Limited Par value per share: Rs. 10 Break-up value per share: Rs. 0.16 (2013: Rs. 1.16) based on audited financial statements for the year ended 31 December 2011 Chief Executive: Mr. S. M. Zaeem		5,700	5,700
24	24	Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T) allocated shares based on the financial contribution from network based serviced by the Bank.		3,870	3,870
				39,570	39,570

10.12 Associates

<u>2014</u>	<u>2013</u>	<u>Name of companies</u>			
No. of ordinary shares / units					
9,366,312	9,366,312	Habib Sugar Mills Limited % of holding: 6.24% (2013: 6.24%) Par value per share: Rs. 5 Market value: Rs. 424.481 million (2013: Rs. 273.309 million) Chief Executive: Mr. Raeesul Hasan	10.12.2	180,977	180,977
6,900,000	6,000,000	Habib Asset Management Limited % of holding: 30% (2013: 30%) Par value per share: Rs. 10 Break-up value per share: Rs. 12.20 (2013: Rs. 11.56) based on audited financial statements for the year ended 30 June 2014 Chief Executive: Mr. Imran Azim	10.12.3	60,000	60,000
2,696,602	2,595,171	First Habib Income Fund Average cost per unit: Rs. 92.71 (2013: Rs. 96.33) Net asset value: Rs. 105.59 (2013: Rs. 100.08) Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim		250,000	250,000



	<u>2014</u>	<u>2013</u>	<u>Name of companies</u>	<u>2014</u>	<u>2013</u>	
	<u>No. of ordinary shares / units</u>			<u>(Rupees in '000)</u>		
	500,000	500,000	First Habib Stock Fund Average cost per unit: Rs. 100 (2013: Rs. 100) Net Asset Value: Rs. 111.75 (2013: Rs. 113.33) Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim	50,000	50,000	
	3,254,839	3,126,169	First Habib Cash Fund Average cost per unit: Rs. 92.17 (2013: Rs. 99.96) Net Asset Value: Rs. 104.45 (2013: Rs. 100.10) Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim	300,000	300,000	
	252,322	252,322	First Habib Islamic Balanced Fund Average cost per unit: Rs. 99.08 (2013: Rs. 99.08) Net Asset Value: Rs. 105.96 (2013: Rs. 107.54) Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim	25,000	25,000	
				<u>865,977</u>	<u>865,977</u>	
10.12.1	The above associates are incorporated in Pakistan.					
	Associates - Key Information					
	(Based on latest audited financial statements)					
	Habib Sugar Mills Limited	Habib Asset Management Limited	First Habib Income Fund	First Habib Stock Fund	First Habib Cash Fund	First Habib Islamic Balanced Fund
	(Rupees in '000)					
Assets	6,980,891	252,135	526,453	174,840	3,737,672	336,955
Liabilities	1,531,639	8,079	18,041	27,212	32,265	4,078
Total income	9,050,916	83,013	60,599	40,309	406,101	51,900
Profit before taxation	922,091	33,241	43,482	31,434	335,300	37,878
Profit after taxation	797,091	27,814	43,482	31,434	335,300	37,878
10.12.2	Due to common directorship in Habib Sugar Mills Limited, the Bank considers the investee company as an associate.					
10.12.3	Includes Rs. 24.750 million (2013: Rs. 24.750 million) invested in Habib Asset Management Limited categorised as strategic investment in accordance with SBP's guidelines contained in BPD Circular Letter No. 16 of 2006 dated 01 August 2006.					
10.13	Subsidiaries					
	20,000,000	20,000,000	AL Habib Capital Markets (Private) Limited % of holding: 66.67% (2013: 66.67%) Par value per share: Rs. 10 Break up value per share: Rs. 11.25 (2013: Rs. 11.15) based on audited financial statements for the year ended 30 June 2014 Chief Executive: Mr. Aftab Q. Munshi	200,000	200,000	
	10,000	–	AL Habib Credit & Finance (Hong Kong) Limited % of holding: 100% (2013: NIL) Par value per share: HK \$ 1	127	–	
				<u>200,127</u>	<u>200,000</u>	



11. ADVANCES	Note	2014 (Rupees in '000)	2013
Loans, cash credits, running finances, etc.			
– In Pakistan		154,858,191	139,648,282
– Outside Pakistan		10,192,449	7,812,380
		165,050,640	147,460,662
Net investment in finance lease			
– In Pakistan	11.2	2,471,578	985,898
– Outside Pakistan		–	–
		2,471,578	985,898
Ijarah financing under IFAS 2	11.3	488,315	202,296
Murabaha	11.4	2,074,925	4,723,489
Bills discounted and purchased (excluding market treasury bills)			
– Payable in Pakistan		3,524,136	2,044,993
– Payable outside Pakistan		14,363,222	18,245,217
		17,887,358	20,290,210
Advances - gross		187,972,816	173,662,555
Provision against non-performing loans and advances			
– Specific provision	11.5	(4,032,817)	(3,543,124)
– General provision against small enterprises and consumer advances (as per SBP regulations)	11.6.1	(83,182)	(40,071)
– General provision	11.6.2	(2,500,000)	(2,500,000)
		(6,615,999)	(6,083,195)
Advances - net of provisions		181,356,817	167,579,360



	2014 (Rupees in '000)	2013
11.1 Particulars of advances - gross		
11.1.1 In local currency	144,818,934	140,689,762
In foreign currencies	43,153,882	32,972,793
	187,972,816	173,662,555
11.1.2 Short term (for upto one year)	156,434,442	144,876,739
Long term (for over one year)	31,538,374	28,785,816
	187,972,816	173,662,555

11.2 Net investment in finance lease

	2014				2013			
	Not later than one year	Later than one and less than five years	Over five years	Total (Rupees in '000)	Not later than one year	Later than one and less than five years	Over five years	Total
Lease rentals receivable	970,367	1,424,582	-	2,394,949	384,903	586,330	-	971,233
Residual value	31,247	420,855	-	452,102	32,664	137,556	-	170,220
Minimum lease payments	1,001,614	1,845,437	-	2,847,051	417,567	723,886	-	1,141,453
Financial charges for future periods	(193,986)	(181,487)	-	(375,473)	(77,690)	(77,865)	-	(155,555)
Present value of minimum lease payments	807,628	1,663,950	-	2,471,578	339,877	646,021	-	985,898

11.3 Ijarah financing under IFAS 2

	2014								
	Cost			Accumulated Depreciation			Book Value		Rate of depreciation %
	As at 01 Jan.	Additions / (deletions)	As at 31 Dec.	As at 01 Jan.	Charge / (deletions)	As at 31 Dec.	As at 31 Dec.		
(Rupees in '000)									
Equipment	375,302	277,696 (20,005)	632,993	196,810	158,794 (16,942)	338,662	294,331	33.33	
Vehicles	35,039	201,634 (5,814)	230,859	11,235	29,874 (4,234)	36,875	193,984		
	410,341	479,330 (25,819)	863,852	208,045	188,668 (21,176)	375,537	488,315		
2013									
Equipment	432,787	7,250 (64,735)	375,302	141,824	113,265 (58,279)	196,810	178,492	33.33	
Vehicles	27,603	21,904 (14,468)	35,039	11,393	10,055 (10,213)	11,235	23,804		
	460,390	29,154 (79,203)	410,341	153,217	123,320 (68,492)	208,045	202,296		



11.3.1 Future ijarah payments receivable

2014
(Rupees in '000)

2013

Not later than one year	208,254	138,626
Later than one year and not later than five years	300,953	70,087
	<u>509,207</u>	<u>208,713</u>

11.4 Murabaha - gross	2,164,480	5,000,909
Less: Deferred murabaha income	(34,321)	(87,853)
Profit receivable shown in other assets	(55,234)	(189,567)
	<u>2,074,925</u>	<u>4,723,489</u>

11.5 Advances include Rs. 5,024.778 million (2013: Rs 3,699.903 million) which have been placed under non-performing status as detailed below:

Category of classification	2014								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Other assets especially mentioned	210	-	210	-	-	-	-	-	-
Substandard	74,246	-	74,246	18,405	-	18,405	18,405	-	18,405
Doubtful	746,226	753,623	1,499,849	373,113	222,574	595,687	373,113	222,574	595,687
Loss	3,041,824	408,649	3,450,473	3,010,076	408,649	3,418,725	3,010,076	408,649	3,418,725
	<u>3,862,506</u>	<u>1,162,272</u>	<u>5,024,778</u>	<u>3,401,594</u>	<u>631,223</u>	<u>4,032,817</u>	<u>3,401,594</u>	<u>631,223</u>	<u>4,032,817</u>
	2013								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Other assets especially mentioned	16,121	-	16,121	-	-	-	-	-	-
Substandard	56,807	-	56,807	14,208	-	14,208	14,208	-	14,208
Doubtful	98,528	-	98,528	49,264	-	49,264	49,264	-	49,264
Loss	3,099,517	428,930	3,528,447	3,050,722	428,930	3,479,652	3,050,722	428,930	3,479,652
	<u>3,270,973</u>	<u>428,930</u>	<u>3,699,903</u>	<u>3,114,194</u>	<u>428,930</u>	<u>3,543,124</u>	<u>3,114,194</u>	<u>428,930</u>	<u>3,543,124</u>

11.5.1 For the purposes of determining provision against non-performing advances, the Bank has not taken into account the Forced Sales Value of pledged stock and mortgaged properties held as collateral against non-performing advances.



11.6 Particulars of provision against non-performing loans and advances

Note	2014			2013		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	3,543,124	2,540,071	6,083,195	3,062,933	2,531,059	5,593,992
Charge for the year						
– Specific provision	777,214	–	777,214	860,762	–	860,762
– General provision for small enterprises and consumer portfolio	–	43,111	43,111	–	9,012	9,012
– General provision for loans and advances	–	–	–	–	–	–
Reversals	(267,336)	–	(267,336)	(390,079)	–	(390,079)
	509,878	43,111	552,989	470,683	9,012	479,695
Exchange adjustment	(19,705)	–	(19,705)	9,540	–	9,540
Amount written-off	(480)	–	(480)	(32)	–	(32)
Closing balance	4,032,817	2,583,182	6,615,999	3,543,124	2,540,071	6,083,195

11.6.1 General provision represents provision amounting to Rs. 60.521 million (2013: Rs. 40.071 million) against consumer finance portfolio and Rs. 22.661 million (2013: Nil) against advances to small enterprises as required by the Prudential Regulations issued by SBP.

11.6.2 In line with its prudent policies, the Bank also makes general provision against its loans and advances portfolio. This general provision is in addition to the requirements of the Prudential Regulations and as of 31 December 2014 amounts to Rs. 2,500 million (2013: Rs.2,500 million).

11.6.3 Particulars of provision against non-performing loans and advances

	2014			2013		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	3,401,594	2,583,182	5,984,776	3,114,194	2,540,071	5,654,265
In foreign currency	631,223	–	631,223	428,930	–	428,930
	4,032,817	2,583,182	6,615,999	3,543,124	2,540,071	6,083,195

11.7 Particulars of write-offs:

	2014	2013
	(Rupees in '000)	
11.7.1 Against provision	480	32
Directly charged to profit and loss account	–	96
	480	128
11.7.2 Write-offs of Rs. 500,000 and above	–	–
Write-offs of below Rs. 500,000	480	128
	480	128



11.7.3 In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended 31 December 2014 is given in Annexure 1.

11.8 Particulars of Loans and Advances to Directors, Associated Companies, Subsidiaries etc.	Note	2014 (Rupees in '000)	2013
(i) Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons			
Balance at beginning of the year		1,998,328	1,680,084
Loans granted during the year		879,739	827,190
Repayments		(561,555)	(508,946)
Balance at end of the year		<u>2,316,512</u>	<u>1,998,328</u>
(ii) Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members			
Balance at beginning of the year		1,282,655	1,615,380
Loans granted during the year		24,168,997	20,955,131
Repayments		(23,934,169)	(21,287,856)
Balance at end of the year		<u>1,517,483</u>	<u>1,282,655</u>
(iii) Debts due by subsidiary companies, controlled firms and other related parties			
Balance at beginning of the year		19,720	7,166
Loans granted during the year		8,833,507	9,123,600
Repayments		(8,853,227)	(9,111,046)
Balance at end of the year		<u>–</u>	<u>19,720</u>
12. OPERATING FIXED ASSETS			
Capital work-in-progress	12.1	298,001	290,962
Property and equipment	12.2	13,502,575	11,467,207
Intangible assets	12.3	97,745	37,165
		<u>13,898,321</u>	<u>11,795,334</u>
12.1 Capital work-in-progress			
Civil works		48,554	195,439
Advance payment towards suppliers, contractors and property		215,577	78,054
Consultants' fee and other charges		33,870	17,469
		<u>298,001</u>	<u>290,962</u>



12.2 Property and equipment

2014

	Cost / Revalued Amount				Accumulated Depreciation			Book Value		Rate of depreciation %
	As at 01 January 2014	Revaluation surplus	Additions / (deletions)	Reversal of accumulated depreciation	As at 31 December 2014	As at 01 January 2014	Charge / (deletions) accumulated depreciation	As at 31 December 2014	As at 31 December 2014	
<i>Owned</i>										
Leasehold land	3,424,233	598,839	121,487 (8,533)	-	4,136,026	-	-	-	4,136,026	-
Buildings on leasehold land	5,415,149	728,183	419,540	(463,503)	6,099,369	395,844	175,653	(463,503)	5,991,375	2.22 - 10
Improvements to leasehold buildings	1,043,817	-	207,859 (4,165)	-	1,247,511	175,090	54,234 (700)	-	228,624	5
Furniture and fixtures	495,599	-	65,995 (11,956)	-	549,638	255,507	45,374 (10,187)	-	290,694	10
Electrical, office and computer equipments	3,562,847	-	578,511 (131,996)	-	4,009,362	2,404,829	461,604 (131,121)	-	2,735,312	20
Vehicles	1,318,503	-	330,590 (112,817)	-	1,536,276	561,671	255,268 (103,956)	-	712,983	20
	15,260,148	1,327,022	1,723,982 (269,467)	(463,503)	17,578,182	3,792,941	992,133 (245,964)	(463,503)	4,075,607	13,502,575



2013

	Cost / Revalued Amount			Accumulated Depreciation			Book Value		Rate of depreciation %
	As at 01 January 2013	Additions / (deletions) / adjustments* 31 December 2013	As at 31 December 2013	As at 01 January 2013	Charge / (deletions) / adjustments* 31 December 2013	As at 31 December 2013	As at 31 December 2013	As at 31 December 2013	
(Rupees in '000)									
<i>Owned</i>									
Leasehold land	3,255,886	168,347	3,424,233	-	-	-	3,424,233	-	-
Buildings on leasehold land	5,146,655	267,616	5,415,149	238,305	157,527	395,844	5,019,305	2.22 - 10	
Improvements to leasehold buildings	806,614	238,081	1,043,817	129,104	46,011	175,090	868,727	5	
Furniture and fixtures	440,528	60,890	495,599	219,239	41,661	255,507	240,092	10	
Electrical, office and computer equipments	3,136,969	472,252	3,562,847	2,012,879	436,678	2,404,829	1,158,018	20	
Vehicles	1,004,763	417,106	1,318,503	456,013	203,326	561,671	756,832	20	
		(103,366)		(97,668)					
		-		-					
	13,791,415	1,624,292	15,260,148	3,055,540	885,203	3,792,941	11,467,207		
		(155,559)		(147,789)					
		-		(13)					



12.2.1 Details of disposal of fixed assets during the year:

Particulars	Cost	Book value (Rupees in '000)	Sale price	Mode of disposal	Particulars of purchaser
Items having book value in aggregate more than Rs. 250,000 or cost more than Rs. 1,000,000					
Leasehold land	8,533	8,533	3,212	Surrender	Government of Pakistan
Improvements to leasehold buildings	4,165	3,465	–	Write off	–
Furniture and fixtures	7,895	314	680	Auction	Karachi Auction Mart, Karachi.
Furniture and fixtures	4,036	1,449	370	Auction	M/s. Quick Disposal, Karachi.
Electrical, office and computer equipments	27,050	240	1,910	Auction	Karachi Auction Mart, Karachi.
Electrical, office and computer equipments	4,948	2	3,250	Auction	M/s. KASB Modarba, Karachi.
Electrical, office and computer equipments	3,273	1	1,265	Auction	M/s. Raja Power, Karachi.
Electrical, office and computer equipments	28,110	245	1,388	Auction	M/s. Quick Disposal, Karachi.
Electrical, office and computer equipments	5,031	2	3,005	Auction	Mr. Rajab Ali, Karachi.
Electrical, office and computer equipments	8,359	71	1,186	Auction	M/s. Rafiq Ali M. Trading, Karachi.
Electrical, office and computer equipments	53,703	194	1,750	Auction	M/s. Edwards & Robertson, Karachi.
Vehicles	10,566	7,531	10,066	Insurance claim	Habib Insurance Company Limited (a related party), Karachi.
Vehicles	8,969	1	5,161	Auction	Mr. Abdul Samad Khan, Karachi.
Vehicles	1,998	–	1,202	Auction	Mr. Muhammad Nadeem Ch., Karachi.
Vehicles	1,942	–	1,449	Auction	Mr. Zahid Qadri, Karachi.
Vehicles	1,414	–	1,014	Auction	Mr. Huzaifa Arif, Karachi.
Vehicles	1,093	–	865	Auction	Mr. Iftikhar Ahmed, Karachi.
Vehicles	1,837	50	1,101	Auction	Mr. Javed Muhammad Khan, Karachi.
Vehicles	9,803	51	6,766	Auction	Mr. Khalid Anwar, Karachi.
Vehicles	2,573	–	1,403	Auction	Mr. Mohsin Ahmed Khan, Karachi.
Vehicles	2,132	–	1,876	Auction	Mr. Muhammad Faizan Javaid, Karachi.
Vehicles	6,531	143	4,243	Auction	Mr. Muhammad Islam Khan, Karachi.
Vehicles	3,716	–	2,421	Auction	Mr. Muhammad Kaleem Iqbal, Karachi.
Vehicles	1,066	–	927	Auction	Mr. Najmus Saqib, Karachi.
Vehicles	2,761	–	1,951	Auction	Mr. Numeri Abrar, Karachi.
Vehicles	7,059	194	4,375	Auction	Mr. Wasim Mirza, Karachi.
Vehicles	14,867	104	8,718	Auction	Mrs. Fouzia Nadeem, Karachi.
Vehicles	1,232	493	594	Auction	Syed Adil Ali, Karachi.
Vehicles	5,146	1	4,631	Auction	Syed Hassan Ali Warsi, Karachi.
Vehicles	2,598	–	1,500	Auction	Syed Muhammad Taufique, Karachi.
Vehicles	4,002	1	2,448	Auction	Syed Riaz Ahmed, Karachi.
Items having book value in aggregate less than Rs. 250,000 or cost less than Rs. 1,000,000					
Furniture and fixtures	25	6	–		
Electrical, office and computer equipments	1,522	120	500		
Vehicles	21,512	292	16,931		
	<u>269,467</u>	<u>23,503</u>	<u>98,158</u>		



12.2.2 In accordance with the Bank's accounting policy, the leasehold land and buildings have been revalued during the year. The revaluation was carried out by independent valuer, M/s. Iqbal A. Nanjee & Co. on the basis of professional assessment of present market values and resulted in a net surplus of Rs. 1,327.022 million over the book value of the respective properties. Had there been no revaluation, the net book value of leasehold land and buildings would have amounted to:

	2014 (Rupees in '000)
Leasehold land	2,915,512
Buildings on leasehold land	3,639,227
	<u>6,554,739</u>

Had the Bank not made the above referred change in accounting estimate, profit before tax would have been increased by Rs. 10.735 million and the carrying value of operating fixed assets would have been increased by the same amount.

12.2.3 As at 31 December 2014, the gross carrying amount of fully depreciated assets still in use amounted to Rs. 1,749.819 million (2013: Rs. 1,506.926 million).

12.3 Intangible assets

	2014							
	Cost		Accumulated Amortisation			Book Value		Rate of Amortisation %
	As at 01 January 2014	Additions	As at 31 December 2014	As at 01 January 2014	Charge	As at 31 December 2014	As at 31 December 2014	
	(Rupees in '000)							
Computer software	<u>280,888</u>	<u>130,977</u>	<u>411,865</u>	<u>243,723</u>	<u>70,397</u>	<u>314,120</u>	<u>97,745</u>	50
	2013							
	As at 01 January 2013	Additions	As at 31 December 2013	As at 01 January 2013	Charge	As at 31 December 2013	As at 31 December 2013	Rate of Amortisation %
	(Rupees in '000)							
Computer software	<u>253,715</u>	<u>27,173</u>	<u>280,888</u>	<u>199,637</u>	<u>44,086</u>	<u>243,723</u>	<u>37,165</u>	50

12.3.1 As at 31 December 2014, the gross carrying amount of fully amortised intangible assets still in use amounted to Rs.255.016 million (2013: Rs. 191.528 million).

	Note	2014 (Rupees in '000)	2013
13. OTHER ASSETS			
Mark-up / return / interest accrued in local currency		11,696,735	4,778,857
Mark-up / return / interest accrued in foreign currencies		164,716	137,232
Advances, deposits and prepayments		1,011,253	1,157,059
Advances, taxation (payments less provisions)		-	57,119
Unrealised gain on forward foreign exchange contracts		112,121	182,835
Stationery and stamps on hand		93,749	154,405
Receivable from SBP on encashment of Government Securities	13.1	108,699	9,633
Non-refundable deposits		73,891	81,500
ATM settlement account		174,558	115,175
Non-banking assets acquired in satisfaction of claims	13.2	164,836	-
Others		93,706	63,149
		<u>13,694,264</u>	<u>6,736,964</u>



- 13.1** Represent deposits paid in relation to acquisition of some of the Bank's properties. These are being written-off over the periods ranging from 10 to 20 years (being estimated useful lives of related properties).
- 13.2** The market value of non-banking assets acquired in satisfaction of claims is Rs.165.44 million (2013: Nil).

	Note	2014 (Rupees in '000)	2013
14. BILLS PAYABLE			
In Pakistan		<u>7,984,808</u>	<u>6,173,102</u>
15. BORROWINGS			
In Pakistan		<u>77,788,568</u>	29,480,026
Outside Pakistan		<u>666,884</u>	–
		<u>78,455,452</u>	<u>29,480,026</u>
15.1 Particulars of borrowings with respect to currencies			
In local currency		<u>77,788,568</u>	29,480,026
In foreign currencies		<u>666,884</u>	–
		<u>78,455,452</u>	<u>29,480,026</u>
15.2 Details of borrowings			
Secured			
Borrowings from SBP			
Export refinance scheme	15.3	<u>17,800,781</u>	15,065,898
Long term financing for export oriented projects	15.4	<u>46,739</u>	156,637
Long term financing for imported and locally manufactured plant and machinery	15.5	<u>3,567,350</u>	3,225,277
Financing facility for storage of agricultural produce	15.6	<u>58,126</u>	120,727
		<u>21,472,996</u>	18,568,539
Repurchase agreement borrowings	15.7	<u>56,315,572</u>	10,911,487
		<u>77,788,568</u>	29,480,026
Unsecured			
Overdrawn nostros		<u>666,884</u>	–
		<u>78,455,452</u>	<u>29,480,026</u>



- 15.3** These carry mark-up rate of 6.50% (2013: 8.40%) per annum, payable quarterly at the time of partial payment or upon maturity of loan, whichever is earlier.
- 15.4** These carry mark-up rates ranging from 4% to 5% (2013: 4% to 5%) per annum having maturity periods upto 1 to 2 years.
- 15.5** These carry mark-up rates of 9% (2013: 8.40% to 8.80%) per annum having maturity periods upto ten years.
- 15.6** These carries mark-up rate of 5.50% (2013: 5.50%) having maturity period upto 1 to 2 years.
- 15.7** These repurchase agreement borrowings are secured against market treasury bills, which carry mark-up rate of 9.45% to 10% (2013: 9.85% to 10%) per annum, having maturity periods upto one month.

	Note	2014 (Rupees in '000)	2013
16. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		104,806,779	82,536,366
Savings deposits		130,915,789	124,273,324
Current accounts - Remunerative		54,094,573	41,157,487
Current accounts - Non-remunerative		146,835,524	124,061,833
		436,652,665	372,029,010
Financial institutions			
Remunerative deposits		8,936,216	13,448,880
Non-remunerative deposits		820,123	682,872
		9,756,339	14,131,752
		446,409,004	386,160,762
16.1 Particulars of deposits			
In local currency		397,421,618	339,427,211
In foreign currencies		48,987,386	46,733,551
		446,409,004	386,160,762
17. SUB-ORDINATED LOANS - unsecured			
Term Finance Certificates (TFCs) - II - (Quoted)	17.1	747,900	1,496,100
Term Finance Certificates (TFCs) - III - (Unquoted)	17.2	–	1,992,800
Term Finance Certificates (TFCs) - IV - (Unquoted)	17.3	2,995,800	2,997,000
		3,743,700	6,485,900



17.1 Term Finance Certificates - II (Quoted)

Total issue	Rupees 1,500 million
Rating	AA
Rate	Payable six monthly at average six months' KIBOR plus 1.95% without any floor and cap
Redemption	6-84th month: 0.28%; 90th and 96th month: 49.86% each
Tenor	8 years
Maturity	February 2015

17.2 During the year, the Bank exercised the Call Option of Term Finance Certificates-III in accordance with the Trust Deed and Terms and Conditions for the TFC issue, after completing the regulatory requirements. Accordingly, the said TFCs were redeemed in full on 15 September 2014.

17.3 Term Finance Certificates - IV (Unquoted)

Total issue	Rupees 3,000 million
Rating	AA
Rate	Payable six monthly at 15.00% p.a. for first 5 years and 15.50% p.a. for next 5 years
Redemption	6th - 108th month: 0.36%; 114th and 120th month: 49.82% each
Tenor	10 years
Maturity	June 2021

	Note	2014 (Rupees in '000)	2013
18. DEFERRED TAX LIABILITIES			
Taxable temporary differences arising in respect of:			
Accelerated depreciation		956,156	941,429
Surplus on revaluation of fixed assets	21.1	826,092	595,969
Surplus on revaluation of investments	21.2	936,986	133,608
		2,719,234	1,671,006
Deductible temporary differences arising in respect of:			
Provision against non-performing loans and advances		(16,558)	(18,998)
Remeasurment of defined benefit plan		78,430	-
Provision against diminution in the value of investments		(570)	(570)
		61,302	(19,568)
		2,780,536	1,651,438



18.1 Reconciliation of deferred tax

	Balance as at 01 January 2014	Recognised in profit and loss account (Rupees in '000)	Recognised in surplus on revaluation of assets	Balance as at 31 December 2014
Taxable temporary differences arising in respect of:				
Accelerated depreciation	941,429	14,727	–	956,156
Surplus on revaluation of fixed assets	595,969	(24,741)	254,864	826,092
Surplus on revaluation of investments	133,608	–	803,378	936,986
	1,671,006	(10,014)	1,058,242	2,719,234
Deductible temporary differences arising in respect of:				
Provision against non-performing loans and advances	(18,998)	2,440	–	(16,558)
Remeasurment of defined benefit plan	–	78,430	–	78,430
Provision against diminution in the value of investments	(570)	–	–	(570)
	(19,568)	80,870	–	61,302
	1,651,438	70,856	1,058,242	2,780,536
	Balance as at 01 January 2013	Recognised in profit and loss account (Rupees in '000)	Recognised in deficit on revaluation of assets	Balance as at 31 December 2013
Taxable temporary differences arising in respect of:				
Accelerated depreciation	927,356	14,073	–	941,429
Surplus on revaluation of fixed assets	616,069	(20,100)	–	595,969
Surplus on revaluation of investments	514,394	–	(380,786)	133,608
	2,057,819	(6,027)	(380,786)	1,671,006
Deductible temporary differences arising in respect of:				
Provision against non-performing loans and advances	(123,665)	104,667	–	(18,998)
Remeasurment of defined benefit plan	–	–	–	–
Provision against diminution in the value of investments	(570)	–	–	(570)
	(124,235)	104,667	–	(19,568)
	1,933,584	98,640	(380,786)	1,651,438



	Note	2014 (Rupees in '000)	2013
19. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		2,299,578	2,131,645
Mark-up / return / interest payable in foreign currencies		59,901	29,026
Provision for compensated absences	19.1	312,972	277,896
Taxation (Provision less payments)		507,175	–
Unclaimed dividends		185,750	160,673
Branch adjustment account		256,389	159,204
Special exporters' accounts in foreign currencies		70,256	84,557
Unearned commission income		89,968	58,343
Security deposits against leases / ijarah		529,645	206,582
Other security deposits		261,732	253,617
Workers' welfare fund		811,804	610,042
Accrued expenses		243,309	229,444
Payable to defined benefit plan	35.4	224,085	272,300
Provision against off-balance sheet items	19.2	105,507	96,258
Payable to SBP / NBP		430,519	423,195
Payable to supplier against murabaha		97,092	71,210
Charity payable		2,625	4,147
Others		428,671	425,500
		6,916,978	5,493,639
19.1	Provision for compensated absences has been determined on the basis of independent actuarial valuation. The significant assumptions used for actuarial valuation were as follows:		
		2014	2013
		(% per annum)	
Discount rate		11.75%	13.00%
Expected rate of increase in salary in future years		10.75%	12.00%
19.2		2014	2013
Provision against off-balance sheet items		(Rupees in '000)	
Opening balance		96,258	85,182
Charge for the year		9,249	21,940
Reversals		–	(10,864)
Closing balance		105,507	96,258
20. SHARE CAPITAL			
		2014	2013
		(Number of shares)	
Authorised Capital			
1,500,000,000	1,200,000,000	Ordinary shares of Rs.10/- each	15,000,000
			12,000,000
Issued, subscribed and paid-up capital			
30,000,000	30,000,000	Issued for cash	300,000
1,081,425,416	980,386,742	Issued as bonus shares	10,814,254
1,111,425,416	1,010,386,742		10,103,868
20.1	As of statement of financial position date 196,826,601 (2013: 173,878,718) ordinary shares of Rs. 10/- each were held by the related parties.		



	Note	2014 (Rupees in '000)	2013
21. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX			
Operating fixed assets	21.1	2,749,123	1,722,912
Available for sale investments	21.2	2,324,573	331,657
		5,073,696	2,054,569
21.1 Operating fixed assets			
Balance at the beginning of the year		2,318,881	2,376,309
Adjustment on revaluation of the Bank's properties during the year		1,327,022	-
Transfer to unappropriated profit in respect of incremental depreciation charged during the year		(70,688)	(57,428)
		3,575,215	2,318,881
Related deferred tax liability on:			
Balance at the beginning of the year		595,969	616,069
Adjustment of Bank's properties during the year		254,864	-
Transfer to unappropriated profit in respect of incremental depreciation charged during the year		(24,741)	(20,100)
		(826,092)	(595,969)
		2,749,123	1,722,912
21.2 Available for sale investments			
Federal Government securities		2,243,759	190,125
Fully paid-up ordinary shares		638,541	179,418
Term finance certificates, sukuks bonds and foreign currency bonds		3,833	3,979
Units of mutual funds		375,426	91,743
		3,261,559	465,265
Related deferred tax liability		(936,986)	(133,608)
		2,324,573	331,657
22. CONTINGENCIES AND COMMITMENTS			
22.1 Direct credit substitutes			
Financial guarantees issued favouring			
- Financial institutions		212,894	297,527
- Others		5,877,756	5,172,990
		6,090,650	5,470,517
22.2 Transaction-related contingent liabilities			
Guarantees issued favouring			
- Government		13,616,945	9,550,088
- Financial institutions		366,643	238,651
- Others		7,156,310	4,877,272
		21,139,898	14,666,011
22.3 Trade-related contingent liabilities			
Letters of credit		68,164,714	70,207,859
Acceptances		9,974,513	6,895,498
Bankers liability rediscount		1,465,595	-
		79,604,822	77,103,357



	2014	2013
	(Rupees in '000)	
22.4 Commitments in respect of forward lending		
Commitments to extend credit (excluding commitments that are unilaterally cancellable)	<u>4,582,095</u>	<u>1,130,970</u>
22.5 Commitments in respect of forward exchange contracts		
Purchase	<u>35,574,870</u>	<u>23,468,276</u>
Sale	<u>33,584,498</u>	<u>20,363,924</u>
The maturities of above contracts are spread over the periods upto two years.		
22.6 Commitments for the acquisition of operating fixed assets	<u>362,472</u>	<u>144,931</u>
23. DERIVATIVE FINANCIAL INSTRUMENTS		
<p>The Bank deals in derivative financial instruments namely forward foreign exchange contracts and foreign currency swaps with the principal view of hedging the risks arising from its trade business. As per the Bank's policy, these contracts are reported on their fair value at the statement of financial position date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Unrealised gains and losses on these contracts are recorded in the statement of financial position under "other assets / other liabilities". These products are offered to the Bank's customers to protect from unfavourable movements in foreign currencies. The Bank hedges such exposures in the inter-bank foreign exchange market.</p>		
	2014	2013
	(Rupees in '000)	
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to:		
Customers	15,090,903	13,206,116
Financial institutions	<u>288,104</u>	<u>238,918</u>
	<u>15,379,007</u>	<u>13,445,034</u>
On investments:		
Available for sale securities	<u>16,446,465</u>	<u>17,816,864</u>
Held to maturity securities	<u>11,964,172</u>	<u>5,816,162</u>
	<u>28,410,637</u>	<u>23,633,026</u>
On deposits with financial institutions	83,688	62,723
On securities purchased under resale agreements	127,051	113,047
On call money lendings	<u>813</u>	<u>1,919</u>
	<u>44,001,196</u>	<u>37,255,749</u>
25. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	20,778,047	18,093,546
Sub-ordinated loans	812,680	929,644
Repurchase agreement borrowings	1,611,068	2,243,930
Borrowings from SBP	1,384,760	1,418,627
Other borrowings	<u>350,330</u>	<u>308,646</u>
	<u>24,936,885</u>	<u>22,994,393</u>



	Note	2014 (Rupees in '000)	2013
26. GAIN ON SALE / REDEMPTION OF SECURITIES - NET			
Listed shares		(8)	231,453
Government securities		(3,468)	546
Mutual funds		3,770	306,547
		294	538,546
27. OTHER INCOME			
Gain on sale of operating fixed assets		74,655	71,859
Recovery of expenses from customers	27.1	178,256	161,023
Lockers rent		1,284	3,411
Rent on property		2,100	3,260
Cheque book issuance / cheque return charges		255,783	211,048
Banking charges		63,856	55,865
Others		61,612	39,622
		637,546	546,088
27.1	Includes courier, SWIFT, postage and other charges recovered from customers.		
28. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		5,352,377	4,446,592
Charge for defined benefit plan	35.6	167,033	120,978
Contribution to defined contribution plan		221,068	183,827
Charge for employees compensated absences		35,390	42,673
Non-executive directors' fee, allowances and other expenses		4,700	3,675
Rent, taxes, insurance, electricity, etc.		1,902,698	1,570,510
Legal and professional charges		111,128	89,589
Communications		227,212	239,710
Repairs and maintenance		836,132	542,091
Security charges		573,960	511,230
Stationery and printing		359,626	372,989
Advertisement and publicity		132,655	110,859
Donations	28.1	48,800	21,750
Auditors' remuneration	28.2	2,975	2,885
Depreciation	12.2	992,133	885,203
Amortisation		78,006	51,696
Travelling and conveyance		106,382	75,585
Vehicle running expenses		414,896	201,330
Commission and brokerage		53,018	84,736
Subscriptions and publications		64,299	50,430
Clearing charges (NIFT)		73,360	66,127
Staff training		18,099	22,750
Entertainment and staff refreshment		127,485	106,124
Cleaning charges		55,232	43,180
Charitable expenses		31,351	27,377
CNIC verification charges		31,545	17,232
Others		168,207	117,552
		12,189,767	10,008,680



	2014	2013
	(Rupees in '000)	
28.1		
The details of donations in excess of Rupees One hundred thousand are given below:		
Al-Sayyeda Benevolent Trust	1,500	1,500
GCU Endowment Fund Trust*	1,000	1,000
Habib Education Trust	17,500	1,500
Habib Medical Trust	1,500	1,500
Habib Poor Fund	1,500	1,500
Institute of Management Sciences, Bahauddin Zakariya University, Multan	1,000	1,000
Patients' Aid Foundation	15,000	7,500
Pakistan Bridge Federation	–	250
Rahmatbai Habib Food and Clothing Trust	1,500	1,500
Rahmatbai Habib Widows and Orphans Trust	1,500	1,500
Shaukat Khanum Memorial Cancer Hospital & Research Centre	1,000	–
Sindh Institute of Urology and Transplantation (SIUT), Karachi	2,500	–
The Citizens Foundation	3,300	3,000
	<u>48,800</u>	<u>21,750</u>
* Mr. Shameem Ahmed, Director of Bank AL Habib Limited, is member of Executive Committee of GCU Endowment Fund Trust, GC University, Lahore.		
28.2		
Auditors' remuneration		
Audit fee	1,950	1,950
Half yearly review	600	600
Special certifications	50	–
Provident fund and gratuity fund	75	75
Out of pocket expenses	300	260
	<u>2,975</u>	<u>2,885</u>
29.		
OTHER PROVISIONS / WRITE-OFFS		
Provision against off-balance sheet items	<u>9,249</u>	<u>11,076</u>
30.		
OTHER CHARGES		
Workers' welfare fund	201,772	153,326
Penalties imposed by SBP	1,112	3,476
	<u>202,884</u>	<u>156,802</u>
31.		
TAXATION		
For the year		
Current	3,497,316	2,450,671
Prior years	–	(190,885)
Deferred	70,856	98,640
	<u>3,568,172</u>	<u>2,358,426</u>



		2014 (Rupees in '000)	2013
31.1 Relationship between tax expense and accounting profit			
Profit before taxation		9,917,114	7,512,975
Tax at the applicable rate of 35% (2013: 35%)		3,470,990	2,629,541
Tax effects of:			
Expenses that are not deductible in determining taxable income		189,182	67,979
Tax effect of prior year provisions		–	(190,885)
Dividend income taxed at reduced rate		(91,154)	(63,023)
Capital gain taxed at reduced rate		(846)	(92,887)
Others		–	7,701
		<u>3,568,172</u>	<u>2,358,426</u>
32. BASIC AND DILUTED EARNINGS PER SHARE			
Profit after taxation		6,348,942	5,154,549
		(Number)	
Weighted average number of ordinary shares		1,111,425,416	1,111,425,416
		(Rupees)	
Basic and diluted earnings per share		5.71	4.64
		2014	2013
		(Rupees in '000)	
33. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	8	34,201,813	32,199,533
Balances with other banks	9	4,345,042	2,662,874
Overdrawn nostros	15	(666,884)	–
		<u>37,879,971</u>	<u>34,862,407</u>
		(Numbers)	
34. STAFF STRENGTH			
Permanent		6,172	5,401
Temporary / on contractual basis		249	227
Bank's own staff at end of the year		6,421	5,628
Outsourced		1,679	1,557
Total staff strength		<u>8,100</u>	<u>7,185</u>



35. DEFINED BENEFIT PLAN

35.1 General description

The Bank operates an approved gratuity fund for all its confirmed employees, which is administered by the Trustees. The benefits under the gratuity scheme are payable on retirement at the age of 60 years or on earlier cessation of service as under:

Number of years of eligible service completed:	Amount of gratuity payable:
Less than 5 years	Nil
5 years or more but less than 10 years	1/3rd of basic salary for each year served
10 years or more but less than 15 years	2/3rd of basic salary for each year served
15 years or more	Full basic salary for each year served

35.2 Principal actuarial assumptions

The latest actuarial valuation of the scheme was carried out on 31 December 2014 and the significant assumptions used for actuarial valuation were as follows:

	2014	2013
35.3 Significant Actuarial Assumptions		
Financial Assumptions		
Discount Rate	11.75%	13%
Salary Increase Rate	10.75%	12%
Demographic Assumptions		
Mortality rates (for death in service)	SLIC (2001-05)	LIC (1975-79)
Rates of employee turnover	Light	Moderate
	2014	2013
	(Rupees in '000)	
35.4 Statement of Financial Position		
Present value of defined benefit obligation	1,327,761	1,103,850
Fair value of plan assets	(1,103,676)	(831,550)
Deficit	<u>224,085</u>	<u>272,300</u>
35.5 Movement in Net defined benefit liability		
Balance accrued as at the beginning of the year	272,300	174,666
Net periodic benefit cost for the year ended	167,033	120,978
Employer's contribution during the year	(167,033)	(120,978)
Amount of remeasurements (gain) / losses recognised in Other Comprehensive Income during the year	(48,215)	97,634
Balance accrued as at the end of the year	<u>224,085</u>	<u>272,300</u>



	2014	2013
	(Rupees in '000)	
35.6 Defined Benefit Cost for the Year		
Cost recognised in Profit and Loss Account for the year		
Service cost		
Current service cost	133,733	101,204
Net Interest cost		
Interest cost on defined benefit obligation	149,723	107,240
Interest Income on plan assets	(116,423)	(87,466)
Net Interest cost	33,300	19,774
Cost recognised in Profit and Loss for the year	167,033	120,978
Remeasurements recognised in Other Comprehensive Income during the year		
Actuarial (gain) / loss on obligation	(27,300)	49,415
Actuarial (gain) / loss on assets	(20,915)	48,219
Remeasurement (gain) / loss recognised in Other Comprehensive Income	(48,215)	97,634
Total defined benefit cost recognised in Profit and Loss Account and Other Comprehensive Income	118,818	218,612
35.7 Movements in the present value of defined benefit obligation		
Present value of defined benefit obligation at the beginning of year	1,103,850	883,141
Service cost	133,733	101,204
Interest cost on defined benefit obligation	149,723	107,240
Actual benefits paid during the year	(32,245)	(37,149)
Actual (gain) / loss on obligation	(27,300)	49,414
Present value of defined benefit obligation at the end of year	1,327,761	1,103,850
35.8 Movement in the fair value of plan assets		
Fair value of plan assets at the beginning of year	831,550	708,474
Interest income on plan assets	116,423	87,466
Actual contribution by employer	167,033	120,978
Actual benefits paid during the year	(32,245)	(37,149)
Return on plan assets over interest income gain / (loss)	20,915	(48,219)
Fair value of plan assets at the end of year	1,103,676	831,550
35.9 Actual return on plan assets	149,805	78,025



	2015 (Rupees in '000)
35.10 Charge and contribution for the year ending 31 December 2015	
<i>Service cost</i>	
Current service cost	159,496
<i>Net interest cost</i>	
Interest cost on defined benefit obligation	148,029
Interest Income on plan assets	(136,135)
Net Interest cost	11,894
Cost to be recognised in Profit and loss account for the year 2015	171,390
35.11 Analysis of Present value of defined benefit obligation	2014 (Rupees in '000)
<i>Vested / Non-Vested</i>	
Vested Benefits	1,218,396
Non-Vested benefits	109,365
Total	1,327,761
<i>Type of Benefits</i>	
Accumulated Benefit Obligation	386,725
Amounts attributed to future salary increases	941,036
Total	1,327,761
35.12 Remeasurements recognised in Other Comprehensive Income during the year	
<i>Actuarial gain on obligation</i>	
Gain due to change in financial assumptions	9,502
Gain due to change in experience adjustments	17,798
Total actuarial gain on obligation	27,300
<i>Net return on plan assets over interest income</i>	
Actual return on plan assets	149,805
Opening difference in fair value of plan assets (after audit)	(12,468)
Interest income on plan assets	(116,422)
Net return on plan assets over interest income	20,915
Remeasurements gain recognised in Other Comprehensive Income during the year	48,215



2014
(Rupees in '000)

35.13 Disaggregation of fair value of plan assets

Cash and Cash equivalents (after adjusting current liabilities)	43,797
<i>Unquoted investments</i>	
Pakistan Investment Bonds	859,879
SBP - Treasury Bills	200,000
	1,059,879
Total fair value of plan assets	1,103,676

35.14 Maturity profile of the defined benefit obligation

Distribution of timing of benefit payments	
Within the next 12 months (next annual reporting period)	58,415
Between 2 and 5 years	236,781
Between 5 and 10 years	865,717
	1,160,913

35.15 Sensitivity Analysis on significant actuarial assumptions :

Actuarial Liability

The Weighted average duration of the PBO is 13.60 years

Discount Rate + 1%	1,612,985
Discount Rate - 1%	1,526,994
Long Term Salary Increases + 1%	1,533,873
Long Term Salary Increases - 1%	1,155,007



36. DEFINED CONTRIBUTION PLAN

The general description of the plan is included in note 5.7.

37. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors*		Executives	
	2014	2013	2014	2013	2014	2013
	(Rupees in '000)					
Fee **	–	–	4,700	3,675	–	–
Managerial remuneration	16,000	14,846	10,400	9,482	1,425,856	1,126,137
Charge for defined benefit plan	1,333	9,494	867	7,344	174,240	107,366
Contribution to defined contribution plan	1,600	1,485	1,040	948	104,978	84,028
Rent and house maintenance	6,400	5,938	4,160	3,793	489,119	396,930
Utilities	3,488	3,631	1,066	978	122,280	99,232
Medical	30	2	18	79	40,694	32,932
Bonus	4,000	2,282	2,600	1,427	300,764	163,074
Others	–	–	–	–	38,547	28,653
	32,851	37,678	24,851	27,726	2,696,478	2,038,352
Number of person(s)	1	1	11***	10	1,207	967

Executives, including the Chief Executive and Executive Director, are provided with Bank's maintained cars in accordance with the terms of their employment and are entitled to medical and life insurance benefits in accordance with the policy of the Bank. In addition, the Chief Executive and Executive Director are also provided with drivers, club memberships, security arrangements and payment of travel bills in accordance with their terms of employment.

* Directors include one executive director (2013: 01)

** This represents fee paid to non-executive directors for attending Board of Directors and its committees' meetings.

*** This includes two Directors who resigned during the year as well as two Directors who were appointed in their places.



38. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2014		2013	
	Book value	Fair value (Rupees in '000)	Book value	Fair value
On-balance sheet financial instruments				
Assets				
Cash and balances with treasury banks	34,201,813	34,201,813	32,199,533	32,199,533
Balances with other banks	4,345,042	4,345,042	2,662,874	2,662,874
Lendings to financial institutions	-	-	-	-
Investments - net	331,422,572	339,431,369	239,752,853	239,812,778
Advances - net	181,356,817	181,356,817	167,579,360	167,579,360
Other assets	12,350,536	12,350,536	5,286,881	5,286,881
	<u>563,676,780</u>	<u>571,685,577</u>	<u>447,481,501</u>	<u>447,541,426</u>
Liabilities				
Bills payable	7,984,808	7,984,808	6,173,102	6,173,102
Borrowings	78,455,452	78,455,452	29,480,026	29,480,026
Deposits and other accounts	446,409,004	446,409,004	386,160,762	386,160,762
Sub-ordinated loans	3,743,700	3,743,700	6,485,900	6,485,900
Other liabilities	4,833,166	4,833,166	4,291,896	4,291,896
	<u>541,426,130</u>	<u>541,426,130</u>	<u>432,591,686</u>	<u>432,591,686</u>
Off-balance sheet financial instruments				
Commitment to extend credit	4,582,095	4,582,095	1,130,970	1,130,970
Forward purchase of foreign exchange contracts	35,574,870	35,135,311	23,468,276	23,245,731
Forward sale of foreign exchange contracts	33,584,498	34,136,179	20,363,924	20,769,304

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Fair value of financial instruments is based on:

Federal Government Securities	PKRV rates (Reuters page)
Listed securities	Market prices
Mutual funds	Net asset values
Unlisted equity investments	Break - up value as per latest available audited financial statements.

Fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non - availability of relevant active market for similar assets and liabilities. The provision for impairment of debt securities and loans and advances has been calculated in accordance with the Bank's accounting policies as stated in note 5.4 and 5.5.



39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2014			Total
	Retail Banking	Commercial Banking	Inter Segment Elimination	
	(Rupees in '000)			
Total income	24,369,362	42,538,117	(19,098,591)	47,808,888
Total expenses	(20,267,249)	(36,723,116)	19,098,591	(37,891,774)
Net income	4,102,113	5,815,001	–	9,917,114
Segment assets (net of provisions)	427,239,886	554,283,153	(402,604,210)	578,918,829
Segment non performing loans	37,439	4,987,339	–	5,024,778
Segment provision required	35,835	3,996,982	–	4,032,817
Segment liabilities	425,480,100	523,414,588	(402,604,210)	546,290,478
Segment return on net assets (ROA) (%)*	5.70%	7.67%		
Segment cost of funds (%)*	4.76%	7.02%		
	2013			
	Retail Banking	Commercial Banking	Inter Segment Elimination	Total
	(Rupees in '000)			
Total income	19,638,527	37,267,140	(15,741,950)	41,163,717
Total expenses	(16,522,874)	(32,869,818)	15,741,950	(33,650,742)
Net income	3,115,653	4,397,322	–	7,512,975
Segment assets (net of provisions)	357,232,136	443,842,985	(340,348,203)	460,726,918
Segment non performing loans	42,776	3,657,127	–	3,699,903
Segment provision required	42,092	3,501,032	–	3,543,124
Segment liabilities	355,612,242	420,180,828	(340,348,203)	435,444,867
Segment return on net assets (ROA) (%)*	5.50%	8.40%		
Segment cost of funds (%)*	4.65%	7.82%		

*These percentages have been computed based on closing assets / liabilities figures.

40. RELATED PARTY TRANSACTIONS

Related parties of the Bank comprise subsidiaries, associates (including entities having directors in common with the Bank), retirement benefit funds, major share holders, directors and key management personnel and their close family members. Transactions with related parties of the Bank are carried out on an arm's length basis in terms of the policy as approved by the Board of Directors. The transactions with employees of the Bank are carried out in accordance with the terms of their employment.



Transactions with related parties, other than those disclosed in note 12.2.1 and 20.1, are summarised as follows:

	2014					Total
	Subsidiaries	Associates	Non Executive Directors	Key Management Personnel	Retirement Benefit Funds	
	(Rupees in '000)					
Deposits						
At beginning of the year	61,957	1,813,814	142,104	368,941	174,811	2,561,627
Placements during the year	880,090	108,541,729	1,005,151	2,097,406	8,091,171	120,615,547
Withdrawals during the year	(843,989)	(107,318,266)	(961,646)	(2,064,452)	(8,216,541)	(119,404,894)
At end of the year	98,058	3,037,277	185,609	401,895	49,441	3,772,280
Advances						
At beginning of the year	19,720	1,282,655	126	37,822	-	1,340,323
Given during the year	8,833,507	24,168,997	4,636	74,665	-	33,081,805
Repaid during the year	(8,853,227)	(23,934,169)	(4,468)	(59,527)	-	(32,851,391)
At end of the year	-	1,517,483	294	52,960	-	1,570,737
Investments						
At beginning of the year	200,000	865,977	-	-	-	1,065,977
Investment made during the year	127	-	-	-	-	127
Investments redeemed during the year	-	-	-	-	-	-
At end of the year	200,127	865,977	-	-	-	1,066,104
Contingencies and commitments	-	730,920	-	-	-	730,920
Forward purchase contracts	-	174,758	-	-	-	174,758
Forward sale contracts	-	-	-	-	-	-
Other receivable	10,089	-	-	-	-	10,089
Other payable	130	-	-	-	-	130
Unrealised loss on forward contracts	-	(2,117)	-	-	-	(2,117)
Purchase of fixed assets	-	-	-	-	-	-
Sale / redemption of securities	140,944	49,054	-	-	2,969,668	3,159,666
Purchase of securities	127	-	-	-	-	127
Mark-up earned	365	128,478	-	2,631	-	131,474
Mark-up expensed	3,719	207,292	11,450	33,514	16,580	272,555
Bank charges and commission	4	4,244	26	171	-	4,445
Gain / (loss) on sale of securities	-	80	-	-	(2,865)	(2,785)
Salaries and allowances	-	-	-	256,043	-	256,043
Bonus	-	-	-	36,102	-	36,102
Contribution to defined contribution plan	-	-	-	12,709	-	12,709
Contribution to defined benefit plan	-	-	-	17,675	-	17,675
Staff provident fund	-	-	-	-	221,068	221,068
Staff gratuity fund	-	-	-	-	167,033	167,033
Directors' fee	-	-	4,400	-	-	4,400
Insurance claim received	-	12,266	-	-	-	12,266
Insurance premium paid	-	112,337	-	-	-	112,337
Dividend income	-	39,191	-	-	-	39,191
Rental paid	-	1,118	-	-	-	1,118
Rental income	2,100	-	-	-	-	2,100
Commission expensed	94	-	-	-	-	94
Other expensed	103	12,221	-	-	-	12,324
Other income	534	180	-	-	130	844



2013

	Subsidiaries	Associates	Non Executive Directors	Key Management Personnel	Retirement Benefit Funds	Total
	(Rupees in '000)					
Deposits						
At beginning of the year	6,320	1,691,582	146,594	294,767	151,603	2,290,866
Placements during the year	1,950,871	76,167,530	767,897	1,186,282	4,538,194	84,610,774
Withdrawals during the year	(1,895,234)	(76,045,298)	(772,387)	(1,112,108)	(4,514,986)	(84,340,013)
At end of the year	61,957	1,813,814	142,104	368,941	174,811	2,561,627
Advances						
At beginning of the year	7,166	1,615,380	351	28,605	-	1,651,502
Given during the year	9,123,600	20,955,131	3,025	45,862	-	30,127,618
Repaid during the year	(9,111,046)	(21,287,856)	(3,250)	(36,645)	-	(30,438,797)
At end of the year	19,720	1,282,655	126	37,822	-	1,340,323
Investments						
At beginning of the year	200,000	1,139,727	-	-	-	1,339,727
Investment made during the year	-	647,501	-	-	-	647,501
Investments redeemed during the year	-	(921,251)	-	-	-	(921,251)
At end of the year	200,000	865,977	-	-	-	1,065,977
Contingencies and commitments	-	721,649	-	-	-	721,649
Forward purchase contracts	-	-	-	-	-	-
Forward sale contracts	-	238,943	-	-	-	238,943
Other receivable	-	-	-	-	-	-
Other payable	-	-	-	-	-	-
Unrealised gain on forward contracts	-	5,548	-	-	-	5,548
Purchase of fixed assets	-	1,430	-	-	-	1,430
Sale / redemption of securities	-	1,042,566	-	-	2,074,617	3,117,183
Purchase of securities	-	647,501	-	-	-	647,501
Mark-up earned	1,013	135,635	5	1,910	-	138,563
Mark-up expensed	578	90,984	8,363	26,751	22,500	149,176
Bank charges and commission	3	4,671	13	102	-	4,789
Gain on sale of securities	-	64,706	-	-	-	64,706
Salaries and allowances	-	-	-	198,553	-	198,553
Bonus	-	-	-	18,247	-	18,247
Contribution to defined contribution plan	-	-	-	9,098	-	9,098
Contribution to defined benefit plan	-	-	-	25,874	-	25,874
Staff provident fund	-	-	-	-	183,827	183,827
Staff gratuity fund	-	-	-	-	120,978	120,978
Directors' fee	-	-	3,400	-	-	3,400
Insurance claim received	-	11,717	-	-	-	11,717
Insurance premium paid	-	135,670	-	-	-	135,670
Dividend income	-	46,815	-	-	-	46,815
Rental paid	-	769	-	-	-	769
Rental income	3,260	-	-	-	-	3,260
Commission expensed	1,053	-	-	-	-	1,053
Other expensed	778	2,125	-	-	-	2,903
Other income	540	-	-	-	-	540



41. CAPITAL ASSESSMENT AND ADEQUACY

41.1 Capital adequacy

As per requirements of SBP, the Bank is required to comply with the capital adequacy framework which comprises the following capital standards :

i) Minimum Capital Requirement (MCR):

The MCR standard sets the paid-up capital that the Bank is required to hold at all times.

As of the statement of financial position date, the Bank's paid-up capital stands at Rs.11.114 billion as against the required MCR of Rs. 10 billion.

ii) Capital Adequacy Ratio:

The Capital Adequacy Ratio (CAR) assesses the capital requirement based on the risks faced by the banks. The banks are required to comply with the CAR as specified by the State Bank of Pakistan on standalone as well as consolidated basis.

During the year 2013, SBP issued revised instructions on the computation of CAR based on Basel III Capital Reform as issued by the Basel Committee on Banking Supervision. These instructions became effective from 31 December 2013 with full implementation intended by 31 December 2019. These instructions also specify the transitional arrangements from 2013 to 2019.

Accordingly, the Bank has assessed and reported its Capital Adequacy Ratio in the financial statements on the basis of Basel III requirements as prescribed by SBP.

The CAR on the basis of above framework works out to be as follows:

	2014
Required CAR	<u>10%</u>
CAR on stand-alone basis	<u>14.89%</u>
CAR on consolidated basis	<u>14.97%</u>

It is the Bank's policy that the level of capital maintained by it should be such that it maximises the return to shareholders while providing sufficient buffer to absorb risks, including those from any unexpected events. Therefore, the Bank carefully monitors its capital adequacy ratio with a view to ensuring that growth in risk assets is accompanied by commensurate growth in capital, and endeavours to maintain the capital adequacy ratio at a level sufficiently higher than the minimum regulatory requirement. Stress testing of capital adequacy is carried out periodically.

Based on its experience over the years, the Bank expects to be able to raise the required capital internally through its operations as well as in the capital markets.

The Bank has a risk management framework commensurate with its size and the nature of its business. The Board of Directors has approved risk management policies covering key areas of activities, including a Risk Tolerance Statement, for the guidance of management and staff of the Bank.

The Bank calculates capital requirement as per Basel III regulatory framework, using the following approaches:

Credit Risk	Standardised Approach
Market Risk	Standardised Approach
Operational Risk	Basic Indicator Approach



41.2 Scope of application

The Basel III Framework for capital adequacy is applicable to the Bank both at the consolidated level (including subsidiaries) and also on stand-alone basis. Bank AL Habib Limited is the only bank in the Group to which Basel III capital adequacy framework applies. The Bank has ownership in the following subsidiaries, where the Bank holds more than 50% of voting shares as at December 31, 2014:

Name	Type of entity	Country of incorporation
AL Habib Capital Markets (Private) Limited	Financial	Pakistan
AL Habib Credit & Finance (Hong Kong) Limited	Financial	Hong Kong

The assets, liabilities, income, expenses and cash flows of above subsidiaries are included in the consolidated financial statements and also consolidated for regulatory capital adequacy purposes.

41.3 Capital structure

The Bank's Tier 1 capital comprises paid-up capital, statutory reserve, special reserve, general reserve, and unappropriated profit and is adjusted for deductions in respect of intangible assets, shortfall in provision against classified assets, deficit on revaluation of investments, deferred tax asset, direct or indirect investment in own shares and is adjusted for reciprocal cross holdings in Tier 1 instruments.

The Bank's Tier 2 capital includes subordinated loans, general provisions, revaluation reserves, and exchange translation reserve and is adjusted for reciprocal cross holdings in Tier 2 instruments.

2014 2013
(Restated)
(Rupees in '000)

41.3.1 Common Equity Tier 1 capital (CET1): Instruments and reserves

Fully Paid-up Capital	11,114,254	10,103,868
Balance in Share Premium Account	-	-
Reserve for issue of Bonus Shares	-	-
Discount on Issue of shares	-	-
General / Statutory Reserves	8,599,150	7,329,362
Gains / (losses) on derivatives held as Cash Flow Hedge	-	-
Unappropriated/unremitted profits / (losses)	7,679,490	5,554,207
Minority interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
CET 1 before Regulatory Adjustments	27,392,894	22,987,437
Total regulatory adjustments applied to CET1 (Note 41.3.2)	(503,993)	(422,639)
Common Equity Tier 1	(a) 26,888,901	22,564,798
Additional Tier 1 (AT 1) Capital		
Qualifying Additional Tier-1 capital instruments plus any related share premium		
of which: Classified as equity	-	-
of which: Classified as liabilities	-	-
Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)		
of which: instrument issued by subsidiaries subject to phase out	-	-
AT1 before regulatory adjustments	-	-
Total regulatory adjustments applied to AT1 capital (Note 41.3.3)	-	-
Additional Tier 1 capital after regulatory adjustments	-	-
Additional Tier 1 capital recognised for capital adequacy	(b) -	-
Tier 1 Capital (CET1 + admissible AT1)	(c=a+b) 26,888,901	22,564,798



	2014	2013 (Restated)
	(Rupees in '000)	
Tier 2 Capital		
Qualifying Tier 2 capital instruments under Basel III plus any related share premium	-	-
Tier 2 capital instruments subject to phaseout arrangement issued under pre-Basel 3 rules	2,393,760	3,724,217
Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)	-	-
General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	2,583,182	2,168,423
Revaluation Reserves (net of taxes)	5,073,696	2,054,569
of which: Revaluation reserves on fixed assets	2,749,123	1,722,912
of which: Unrealised gains/(losses) on AFS	2,324,573	331,657
Foreign Exchange Translation Reserves	161,761	240,045
Undisclosed / Other Reserves (if any)	-	-
T2 before regulatory adjustments	10,212,399	8,187,254
Total regulatory adjustment applied to T2 capital (Note 41.3.4)	(504,342)	(695,160)
Tier 2 capital (T2) after regulatory adjustments	9,708,057	7,492,094
Tier 2 capital recognised for capital adequacy	9,708,057	7,492,094
Portion of Additional Tier 1 capital recognised in Tier 2 capital	-	-
Total Tier 2 capital admissible for capital adequacy	(d) 9,708,057	7,492,094
TOTAL CAPITAL (T1 + admissible T2)	(e=c+d) 36,596,958	30,056,892
Total Risk Weighted Assets (RWA) (Note 41.6)	(f) 245,757,561	209,708,458
Capital Ratios and buffers (in percentage of risk weighted assets)		
CET1 to total RWA	(a/f) 10.94%	10.76%
Tier-1 capital to total RWA	(c/f) 10.94%	10.76%
Total capital to total RWA	(e/f) 14.89%	14.33%
Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		
of which: capital conservation buffer requirement	-	-
of which: countercyclical buffer requirement	-	-
of which: D-SIB or G-SIB buffer requirement	-	-
CET1 available to meet buffers (as a percentage of risk weighted assets)	-	-
National minimum capital requirements prescribed by SBP		
CET1 minimum ratio	5.50%	5.00%
Tier 1 minimum ratio	7.00%	6.50%
Total capital minimum ratio	10.00%	10.00%



2014
2013
(Restated)
(Rupees in '000)

41.3.2 Common Equity Tier 1 capital: Regulatory adjustments

Goodwill (net of related deferred tax liability)	—	—
All other intangibles (net of any associated deferred tax liability)	(97,745)	(37,165)
Shortfall in provisions against classified assets	—	—
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	—	—
Defined-benefit pension fund net assets	—	—
Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	(406,248)	(385,474)
Cash flow hedge reserve	—	—
Investment in own shares/ CET1 instruments	—	—
Securitisation gain on sale	—	—
Capital shortfall of regulated subsidiaries	—	—
Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	—	—
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	—	—
Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	—	—
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	—	—
Amount exceeding 15% threshold	—	—
of which: significant investments in the common stocks of financial entities	—	—
of which: deferred tax assets arising from temporary differences	—	—
National specific regulatory adjustments applied to CET1 capital	—	—
investments in TFCs of other banks exceeding the prescribed limit	—	—
Any other deduction specified by SBP	—	—
Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions	—	—
Total regulatory adjustments applied to CET1	(503,993)	(422,639)

41.3.3 Additional Tier-1 & Tier-1 Capital: regulatory adjustments

Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]	—	—
Investment in own AT1 capital instruments	—	—
Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities	—	—
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	—	—
Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—
Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional Tier-1 capital	—	—
Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions	—	—
Total regulatory adjustment applied to AT1 capital	—	—



2014
2013
(Restated)
(Rupees in '000)

41.3.4 Tier 2 Capital: regulatory adjustments

Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-BaseI III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	-
Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	(504,342)	(695,160)
Investment in own Tier 2 capital instrument	-	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
Total regulatory adjustment applied to T2 capital	(504,342)	(695,160)

41.3.5 Risk Weighted Assets subject to pre-BaseI III treatment

Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-BaseI III Treatment)		
of which: Deferred tax assets	-	-
of which: Defined-benefit pension fund net assets	-	-
of which: Recognised portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	-	-
of which: Recognised portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	-	-

Amounts below the thresholds for deduction (before risk weighting)

Non-significant investments in the capital of other financial entities	-	-
Significant investments in the common stock of financial entities	-	-
Deferred tax assets arising from temporary differences (net of related tax liability)	-	-

Applicable caps on the inclusion of provisions in Tier 2

Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	2,583,182	2,540,071
Cap on inclusion of provisions in Tier 2 under standardised approach	2,583,182	2,168,423
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-



2014	2014
As per published financial statements	Under regulatory scope for capital adequacy

(Rupees in '000)

41.4 Capital Structure Reconciliation

41.4.1 Reconciliation of accounting and regulatory scope of consolidation

Assets

Cash and balances with treasury banks	34,201,813	34,201,813
Balances with other banks	4,345,042	4,345,042
Lendings to financial institutions	-	-
Investments	331,422,572	331,422,572
Advances	181,356,817	181,356,817
Operating fixed assets	13,898,321	13,898,321
Deferred tax assets	-	-
Other assets	13,694,264	13,694,264
Total assets	578,918,829	578,918,829

Liabilities & Equity

Bills payable	7,984,808	7,984,808
Borrowings	78,455,452	78,455,452
Deposits and other accounts	446,409,004	446,409,004
Sub-ordinated loans	3,743,700	3,743,700
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	2,780,536	2,780,536
Other liabilities	6,916,978	6,916,978
Total liabilities	546,290,478	546,290,478

Share capital/Head office capital account	11,114,254	11,114,254
Reserves	8,760,911	8,760,911
Unappropriated/Unremitted profits/(losses)	7,679,490	7,679,490
Minority Interest	-	-
Surplus on revaluation of assets	5,073,696	5,073,696
Total equity	32,628,351	32,628,351

Total liabilities & equity	578,918,829	578,918,829
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	2014	2014
Reference	As per published financial statements	Under regulatory scope for capital adequacy

(Rupees in '000)

41.4.2 Reconciliation for balance sheet items that require capital adjustments

Assets

Cash and balances with treasury banks	34,201,813	34,201,813
Balances with other banks	4,345,042	4,345,042
Lendings to financial institutions	—	—
Investments	331,422,572	331,422,572
of which: Non-significant capital investments in capital instruments of banking, financial and insurance entities exceeding 10% threshold	(a) —	—
of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold	(b) —	—
of which: Mutual Funds exceeding regulatory threshold	(c) —	—
of which: reciprocal crossholding of capital instrument of CET1	(d) 406,248	406,248
of which: reciprocal crossholding of capital instrument of T2	(e) 504,342	504,342
Advances	181,356,817	181,356,817
Shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	(f) —	—
General provisions reflected in Tier 2 capital	(g) 2,583,182	2,583,182
Fixed Assets	13,898,321	13,898,321
of which: Intangibles	(h) 97,745	97,745
Deferred Tax Assets	—	—
of which: DTAs that rely on future profitability excluding those arising from temporary differences	(i) —	—
of which: DTAs arising from temporary differences exceeding regulatory threshold	(j) —	—
Other assets	13,694,264	13,694,264
of which: Goodwill	(k) —	—
of which: Defined-benefit pension fund net assets	(l) —	—
Total assets	578,918,829	578,918,829

Liabilities & Equity

Bills payable	7,984,808	7,984,808
Borrowings	78,455,452	78,455,452
Deposits and other accounts	446,409,004	446,409,004
Sub-ordinated loans	3,743,700	3,743,700
of which: eligible for inclusion in AT1	(m) —	—
of which: eligible for inclusion in Tier 2	(n) —	—
Liabilities against assets subject to finance lease	—	—
Deferred tax liabilities	2,780,536	2,780,536
of which: DTLs related to goodwill	(o) —	—
of which: DTLs related to intangible assets	(p) —	—
of which: DTLs related to defined pension fund net assets	(q) —	—
of which: other deferred tax liabilities	(r) —	—
Other liabilities	6,916,978	6,916,978
Total liabilities	546,290,478	546,290,478



		2014	2014
Reference		As per published financial statements	Under regulatory scope for capital adequacy
(Rupees in '000)			
Share capital		11,114,254	11,114,254
of which: amount eligible for CET1	(s)	11,114,254	11,114,254
of which: amount eligible for AT1	(t)	-	-
Reserves		8,760,911	8,760,911
of which: portion eligible for inclusion in CET1	(u)	8,599,150	8,599,150
of which: portion eligible for inclusion in Tier 2	(v)	161,761	161,761
Unappropriated profits / (losses)	(w)	7,679,490	7,679,490
Minority Interest		-	-
of which: portion eligible for inclusion in CET1	(x)	-	-
of which: portion eligible for inclusion in AT1	(y)	-	-
of which: portion eligible for inclusion in Tier 2	(z)	-	-
Surplus on revaluation of assets		5,073,696	5,073,696
of which: Revaluation reserves on Properties	(aa) {	2,749,123	2,749,123
of which: Unrealised Gains/(Losses) on AFS		2,324,573	2,324,573
In case of Deficit on revaluation (deduction from CET1)	(ab)	-	-
Total Equity		32,628,351	32,628,351
Total liabilities & equity		578,918,829	578,918,829



41.4.3 Reconciliation of computation of capital with balance sheet of the Bank

	Source based on reference number from Note 41.4.2	2014 Component of regulatory capital reported by bank (Rupees in '000)
Common Equity Tier 1 capital (CET1): Instruments and reserves		
Fully Paid-up Capital / Capital deposited with SBP		11,114,254
Balance in Share Premium Account	(s)	-
Reserve for issue of Bonus Shares		-
General / Statutory Reserves	(u)	8,599,150
Gains / (Losses) on derivatives held as Cash Flow Hedge		-
Unappropriated/unremitted profits / (losses)	(w)	7,679,490
Minority interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	(x)	-
CET 1 before Regulatory Adjustments		27,392,894
Common Equity Tier 1 capital: Regulatory adjustments		
Goodwill (net of related deferred tax liability)	(k)-(o)	-
All other intangibles (net of any associated deferred tax liability)	(h)-(p)	(97,745)
Shortfall of provisions against classified assets	(f)	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(i-r) * x %	-
Defined-benefit pension fund net assets	(l-q) * x %	-
Reciprocal cross holdings in CET1 capital instruments	(d)	(406,248)
Cash flow hedge reserve		-
Investment in own shares/ CET1 instruments		-
Securitisation gain on sale		-
Capital shortfall of regulated subsidiaries		-
Deficit on account of revaluation from bank's holdings of properties/ AFS	(ab)	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(a) - (ac) - (ae)	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	(b) - (ad) - (af)	-
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	(i)	-
Amount exceeding 15% threshold		-
of which: significant investments in the common stocks of financial entities		-
of which: deferred tax assets arising from temporary differences		-
National specific regulatory adjustments applied to CET1 capital		-
of which: Investment in TFCs of other banks exceeding the prescribed limit		-
of which: Any other deduction specified by SBP		-
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions		-
Total regulatory adjustments applied to CET1		(503,993)
Common Equity Tier 1		26,888,901



	Source based on reference number from Note 41.4.2	2014 Component of regulatory capital reported by bank (Rupees in '000)
Additional Tier 1 (AT 1) Capital		
Qualifying Additional Tier-1 instruments plus any related share premium		-
of which: Classified as equity	(t)	-
of which: Classified as liabilities	(m)	-
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)		-
of which: instrument issued by subsidiaries subject to phase out	(y)	-
AT1 before regulatory adjustments		
Additional Tier 1 Capital: regulatory adjustments		
Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)		-
Investment in own AT1 capital instruments		-
Reciprocal cross holdings in Additional Tier 1 capital instruments		-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(ac)	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(ad)	-
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital		-
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		-
Total of Regulatory Adjustment applied to AT1 capital		-
Additional Tier 1 capital		-
Additional Tier 1 capital recognised for capital adequacy		-
Tier 1 Capital (CET1 + admissible AT1)		26,888,901
Tier 2 Capital		
Qualifying Tier 2 capital instruments under Basel III plus any related share premium		-
Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	(n)	2,393,760
Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	(z)	-
of which: instruments issued by subsidiaries subject to phase out		-
General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	(g)	2,583,182
Revaluation Reserves eligible for Tier 2		5,073,696
of which: portion pertaining to Property	portion of (aa) {	2,749,123
of which: portion pertaining to AFS securities		2,324,573
Foreign Exchange Translation Reserves	(v)	161,761
Undisclosed/Other Reserves (if any)		-
T2 before regulatory adjustments		10,212,399



	Source based on reference number from Note 41.4.2	2014 Component of regulatory capital reported by bank (Rupees in '000)
Tier 2 Capital: regulatory adjustments		
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction		-
Reciprocal cross holdings in Tier 2 instruments		(504,342)
Investment in own Tier 2 capital instrument		-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(ae)	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(af)	-
Amount of Regulatory Adjustment applied to T2 capital		(504,342)
Tier 2 capital (T2)		9,708,057
Tier 2 capital recognised for capital adequacy		9,708,057
Excess Additional Tier 1 capital recognised in Tier 2 capital		-
Total Tier 2 capital admissible for capital adequacy		9,708,057
TOTAL CAPITAL (T1 + admissible T2)		36,596,958



41.5 Main Features of Regulatory Capital Instruments

	Main Features	Common Shares	Instrument 1	Instrument 2
1	Issuer	Bank AL Habib Limited	Bank AL Habib Limited	Bank AL Habib Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	BAHL	BAHL TFC2	BAHL TFC4
3	Governing law(s) of the instrument (Regulatory Authorities) Regulatory treatment	SBP & SECP	SBP & SECP	SBP & SECP
4	Transitional Basel III rules	CET-1	Tier 2	Tier 2
5	Post-transitional Basel III rules	CET-1	Ineligible	Ineligible
6	Eligible at solo/group/group & solo	Group & Standalone	Group & Standalone	Group & Standalone
7	Instrument type	Ordinary Shares	Subordinated Debt	Subordinated Debt
8	Amount recognised in regulatory capital (Currency in PKR thousands, as of reporting date)	11,114,254	-	2,393,760
9	Par value of instrument	Rs. 10	Rs. 5,000	Rs. 5,000
10	Accounting classification	Shareholders' Equity	Liability-Subordinated Loans	Liability-Subordinated Loans
11	Original date of issuance	January, 1992	7-Feb-2007	30-Jun-2011
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	N/A	7-Feb-2015	30-Jun-2021
14	Issuer call subject to prior supervisory approval	No	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	30-Jun-2016
16	Subsequent call dates, if applicable	N/A	N/A	On each coupon payment date after 60 months from the date of issue
	Coupons / dividends			
17	Fixed or floating dividend / coupon	N/A	Floating	Fixed
18	Coupon rate and any related index / benchmark	N/A	6 Months Kibor plus 1.95%	15.00% p.a for years 1 to 5 and 15.50% p.a for years 6 to 10
19	Existence of a dividend stopper	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No	Yes
22	Noncumulative or cumulative	Non-Cumulative Shares	Non-Cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-Convertible	Non-Convertible	Non-Convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down feature	N/A	No	No
31	If write-down, write-down trigger (s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated Loans	All TFCs are subordinate to all other debts including deposits	All TFCs are subordinate to all other debts including deposits
36	Non-compliant transitioned features	No	Yes	Yes
37	If yes, specify non-compliant features	N/A	No loss absorbency	No loss absorbency



	Capital Requirements		Risk Weighted Assets	
	2014	2013 (Restated)	2014	2013 (Restated)
(Rupees in '000)				
41.6 Credit Risk				
On-Balance sheet				
Portfolios subject to standardised approach (Comprehensive)				
Sovereign	633,898	271,667	6,338,981	2,716,669
Public sector enterprises	400,836	50,535	4,008,362	505,352
Banks	422,701	472,699	4,227,010	4,726,986
Corporate	12,416,861	11,353,601	124,168,612	113,536,014
Retail	796,238	603,020	7,962,380	6,030,203
Residential mortgages	78,319	68,714	783,194	687,136
Past due loans	87,167	23,766	871,672	237,664
Equity portfolio	595,303	394,497	5,953,031	3,944,972
Operating fixed assets	1,380,058	1,175,817	13,800,578	11,758,169
Other assets	177,048	233,351	1,770,480	2,333,513
	16,988,429	14,647,667	169,884,300	146,476,678
Off-Balance sheet				
Non-market related				
Direct Credit Substitutes / Acceptances / Standby LCs	1,534,465	1,127,434	15,344,650	11,274,340
Transaction Related Contingent Liabilities	662,803	484,799	6,628,025	4,847,993
Trade Related Contingent Liabilities	1,055,911	1,181,960	10,559,106	11,819,600
Other Commitments	498,067	127,590	4,980,665	1,275,901
	3,751,246	2,921,783	37,512,446	29,217,834
Market related				
Outstanding Foreign Exchange Contracts	69,751	52,539	697,514	525,390
	3,820,997	2,974,322	38,209,960	29,743,224
Market Risk				
Capital Requirement for portfolios subject to Standardised Approach				
Interest rate risk				
General market risk	59,305	33,784	741,309	422,300
Specific market risk	3,733	2,404	46,663	30,050
Foreign exchange risk	13,296	13,546	166,203	169,325
	76,334	49,734	954,175	621,675
Operational Risk				
Capital Requirement for operational risks	2,936,730	2,630,364	36,709,126	32,866,881
	23,822,490	20,302,087	245,757,561	209,708,458
Capital Adequacy Ratios				
	Required		Actual	
	2014	2013	2014	2013
CET1 to total RWA	5.50%	5.00%	10.94%	10.76%
Tier-1 capital to total RWA	7.00%	6.50%	10.94%	10.76%
Total capital to total RWA	10.00%	10.00%	14.89%	14.33%



42. RISK MANAGEMENT

The Bank has a risk management framework commensurate with its size and the nature of its business. The Board of Directors has approved risk management policies covering key areas of activities for the guidance of management and committees of the Board, management committees, and Divisions / Departments of the Bank.

This section presents information about the Bank's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments.

42.1 Credit risk

Credit risk is the risk of loss arising from failure by a client or counterparty to meet its contractual obligation. It emanates from loans and advances, commitments to lend, contingent liabilities such as letters of credit and guarantees, and other similar transactions both on and off balance sheet. These exclude investments and treasury-related exposures, which are covered under market risk.

It is the Bank's policy that all credit exposures shall be adequately collateralised, except when specially exempted by SBP as in case of personal loans and credit cards, and those at overseas branch where the accepted local banking practice is followed.

The objective of credit risk management is to keep credit risk exposure within permissible level, relevant to the Bank's risk capital, to maintain the soundness of assets and to ensure returns commensurate with risk.

Credit risk of the Bank is managed through the credit policy approved by the Board, a well defined credit approval mechanism, prescribed documentation requirement, post disbursement administration, review and monitoring of all credit facilities; and continuous assessment of credit worthiness of counterparties. Decisions regarding the credit portfolio are taken mainly by the Central Credit Committee. Credit Risk Management Committee of the Board provides overall guidance in managing the Bank's credit risk.

Counterparty exposure limits are approved in line with the Prudential Regulations and the Bank's own policies, by taking into account both qualitative and quantitative criteria. There is an established system for continuous monitoring of credit exposures and follow-up of any past due loans with the respective business units. All past due loans, including trade bills, are reviewed on fortnightly basis and pursued for recovery. Any non-performing loans are classified and provided for as per Prudential Regulations. The Bank has also established a mechanism for independent post-disbursement review of large credit risk exposures.

Credit facilities, both fund based and non-fund based, extended to large customer groups and industrial sectors are regularly monitored. The Bank has concentration of credit in textile which is the largest sector of Pakistan's economy. Concentration risk is managed by diversification within sub-sectors like spinning, weaving and composites, credit worthiness of counterparties, and adequate collateralisation of exposures.

Credit administration function has been placed under a centralised set-up. Its main focus is on compliance with terms of sanction of credit facilities and the Bank's internal policies and procedures, scrutiny of documentation, monitoring of collateral, and maintenance of borrowers' limits, mark-up rates, and security details.

The Bank has implemented its own internal risk rating system for the credit portfolio, as per guidelines of SBP. Credit ratings by external rating agencies, if available, are also considered.

The Bank lends primarily against the cash flow of the business with recourse to the assets being financed as primary security. Collaterals in the form of liquid securities, tangible securities, and other acceptable securities are obtained to hedge the risk, as deemed appropriate. Main types of collaterals taken by the Bank include charge on stock-in-trade, receivables, machinery, mortgage of properties, pledge of goods, shares and other marketable securities, government securities, government guarantees, bank guarantees and cash margins and bank deposits.

Specific provisions on credit portfolio are determined in accordance with the Prudential Regulations. General provision on the consumer portfolio is also determined as per Prudential Regulations. The Bank maintains additional general provision in line with its prudent policies. Particulars of provisions against advances are given in note 11.6.

The Bank uses the Standardised Approach to calculate capital charge for credit risk as per Basel regulatory framework, with comprehensive approach for credit risk mitigation.



Stress testing for credit risk is carried out regularly to estimate the impact of increase in non-performing loans and downward shift in these categories.

42.1.1 Credit risk: Disclosures on portfolio subject to Standardised Approach - Basel Specific

The Bank uses the ratings issued by The Pakistan Credit Rating Agency Limited (PACRA) and JCR-VIS Credit Rating Company Limited (JCR-VIS) for its local currency exposures and ratings issued by Moody's, S&P, and Fitch for its foreign currency exposures. These External Credit Assessments Institutions (ECAIs) have been approved by SBP.

For foreign currency claims on sovereigns, the Bank also uses risk scores of Export Credit Agencies (ECAs).

Types of exposures	JCR-VIS (local currency)	PACRA (local currency)	Moody's, S&P, and Fitch (foreign currency)	ECA Score (foreign currency)
Corporates	✓	✓	–	–
Banks	✓	✓	✓	–
Sovereigns	–	–	✓	✓
Small and Medium Enterprises	–	–	–	–
Securitisations	–	–	–	–
Others (public sector enterprises)	✓	✓	–	–

The Bank has not transferred public issue ratings onto comparable assets in the banking book in its calculations. ECAI ratings and ECA scores are aligned with risk buckets as determined by SBP.

Credit exposures subject to Standardised Approach

Risk buckets	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation (CRM) deduction (Rupees in '000)	Net amount
0%	379,627,021	18,792,055	360,834,966
20%	19,948,560	3,394,695	16,553,865
35%	2,237,698	–	2,237,698
50%	44,253,815	26,152,168	18,101,647
75%	20,287,302	7,272,130	13,015,172
100%	203,902,406	44,062,254	159,840,152
115%	17,977,598	2,421,737	15,555,861
150%	4,073,911	–	4,073,911
250%	260,127	–	260,127
	<u>692,568,438</u>	<u>102,095,039</u>	<u>590,473,399</u>

42.1.2 Credit risk: Disclosures on CRM for Standardised Approach – Basel Specific

Eligible collaterals used by the Bank for credit risk mitigation are cash margins and cash deposits, government securities, financial guarantees, listed shares, and other listed, quoted or rated securities. The Bank requires perfection of collaterals by marking lien on cash margins and deposits, pledging of shares and other securities and verifying the authenticity of guarantees received. Shares and securities including marketable government securities are taken at market value and other government securities are taken at encashment value. Appropriate hair - cuts are applied as per Basel regulatory framework. Among the mitigants used by the Bank, there is concentration in cash margins, cash deposits, and sovereign guarantees.



42.1.3 Segment by class of business

2014

	Gross Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Agriculture / agri business	4,069,347	2.16	1,066,899	0.24	1,530,837	1.43
Automobiles and transportation equipment	967,027	0.51	1,373,112	0.31	6,073,012	5.69
Cement	466,995	0.25	293,865	0.07	1,114,047	1.04
Chemicals / pharmaceuticals	3,310,146	1.76	1,436,443	0.32	2,898,134	2.71
Commerce and trade	12,927,855	6.88	21,986,638	4.93	11,444,779	10.71
Electronics and electrical appliances	761,377	0.41	698,151	0.16	980,085	0.92
Fertilizers	2,542,613	1.35	5,486,411	1.23	753,813	0.71
Financial	2,200,683	1.17	9,756,339	2.19	9,113,733	8.53
Food and allied	30,980,355	16.48	3,716,977	0.83	2,893,386	2.71
Ghee and edible oil	9,554,825	5.08	1,067,997	0.24	4,929,807	4.61
Individuals	5,931,452	3.16	305,690,244	68.48	8,778	0.01
Iron and steel	11,196,411	5.96	830,412	0.19	8,164,987	7.64
Oil refinery / marketing	3,608,421	1.92	21,820,829	4.89	11,738,514	10.99
Paper and board	2,158,615	1.15	226,931	0.05	662,861	0.62
Plastic products	2,404,197	1.28	348,395	0.07	3,108,171	2.91
Production and transmission of energy	7,930,767	4.22	4,291,215	0.96	4,252,274	3.98
Real estate / construction	1,134,853	0.60	6,179,808	1.38	4,028,983	3.77
Services (other than financial)	1,395,975	0.74	11,420,621	2.56	1,366,727	1.28
Shoes and leather garments	1,430,703	0.76	1,105,858	0.25	527,256	0.49
Sugar	6,085,499	3.24	2,514,596	0.56	363,537	0.34
Surgical equipments and metal products	1,007,046	0.54	1,142,069	0.25	1,019,162	0.95
Textile						
Spinning	25,999,120	13.83	1,544,087	0.35	6,127,999	5.74
Weaving	11,163,257	5.94	976,726	0.22	5,494,499	5.14
Composite	21,074,133	11.21	2,218,383	0.49	5,347,167	5.01
Ready made garments	6,607,279	3.52	1,384,527	0.31	3,133,534	2.93
	64,843,789	34.50	6,123,723	1.37	20,103,199	18.82
Others	11,063,865	5.88	37,831,471	8.47	9,759,288	9.14
	<u>187,972,816</u>	<u>100.00</u>	<u>446,409,004</u>	<u>100.00</u>	<u>106,835,370</u>	<u>100.00</u>



2013

	Gross Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Agriculture / agri business	3,369,732	1.94	779,247	0.20	2,159,391	2.22
Automobiles and transportation equipment	633,370	0.36	1,474,348	0.38	2,511,656	2.58
Cement	242,437	0.14	68,984	0.02	908,183	0.93
Chemicals / pharmaceuticals	3,197,661	1.84	2,132,190	0.55	2,595,773	2.67
Commerce and trade	12,287,970	7.08	17,054,478	4.42	12,083,703	12.43
Electronics and electrical appliances	893,044	0.51	539,135	0.14	1,169,347	1.20
Fertilizers	–	–	3,177,932	0.82	100,298	0.10
Financial	3,496,710	2.01	14,131,752	3.66	13,905,286	14.30
Food and allied	26,046,335	15.00	3,045,928	0.79	2,727,433	2.80
Ghee and edible oil	5,588,241	3.22	1,035,950	0.27	5,431,248	5.59
Individuals	4,272,674	2.46	271,728,509	70.37	11,699	0.01
Iron and steel	8,515,451	4.90	860,449	0.22	3,289,616	3.38
Oil refinery / marketing	437,547	0.25	16,209,588	4.20	4,856,770	4.99
Paper and board	2,106,048	1.21	104,635	0.03	838,057	0.86
Plastic products	3,654,070	2.10	397,213	0.10	3,479,424	3.58
Production and transmission of energy	8,667,112	4.99	2,402,463	0.62	1,819,731	1.87
Real estate / construction	1,266,357	0.73	2,974,402	0.77	3,041,855	3.13
Services (other than financial)	1,518,124	0.87	10,204,001	2.64	1,496,818	1.54
Shoes and leather garments	1,497,637	0.86	867,611	0.22	312,047	0.32
Sugar	5,518,898	3.18	1,085,943	0.28	425,998	0.44
Surgical equipments and metal products	857,007	0.49	538,855	0.14	906,211	0.93
Textile						
Spinning	29,237,736	16.84	1,659,050	0.43	10,127,901	10.42
Weaving	11,746,000	6.76	776,016	0.20	4,616,472	4.75
Composite	23,570,275	13.57	1,752,223	0.45	5,183,115	5.33
Ready made garments	4,796,906	2.76	1,298,900	0.34	3,216,443	3.31
	69,350,917	39.93	5,486,189	1.42	23,143,931	23.81
Others	10,245,213	5.93	29,860,960	7.74	10,025,410	10.32
	<u>173,662,555</u>	<u>100.00</u>	<u>386,160,762</u>	<u>100.00</u>	<u>97,239,885</u>	<u>100.00</u>



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

	2014		2013	
	Classified Advances	Specific Provision held (Rupees in '000)	Classified Advances	Specific Provision held
Agriculture / agri business	95,883	83,677	90,277	74,156
Automobiles and transportation equipment	7,015	7,015	7,196	7,196
Commerce and trade	619,660	559,520	492,139	474,421
Electronics and electrical appliances	4,058	4,058	4,058	4,058
Financial	101,949	70,957	101,949	70,832
Ghee and edible oil	3,138	3,138	3,838	2,516
Individuals	42,544	40,929	48,370	47,520
Iron and steel	753,623	222,574	—	—
Oil refinery / marketing	3,983	3,983	11,948	11,948
Plastic products	61,003	61,003	91,400	91,400
Real estate / construction	256,504	256,504	263,006	260,867
Services (other than financial)	—	—	207	207
Shoes and leather garments	572	572	1,715	1,715
Textile				
Spinning	795,214	781,646	809,456	792,873
Weaving	881,829	540,807	267,028	244,037
Composite	971,108	969,739	992,173	950,564
Ready - made garments	415,317	415,317	492,462	492,462
	3,063,468	2,707,509	2,561,119	2,479,936
Others	11,378	11,378	22,681	16,352
	5,024,778	4,032,817	3,699,903	3,543,124

42.1.5 Segment by sector

	2014					
	Gross Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Public / Government	34,203,270	18.20	40,763,122	9.13	17,348,123	16.24
Private	153,769,546	81.80	405,645,882	90.87	89,487,247	83.76
	187,972,816	100.00	446,409,004	100.00	106,835,370	100.00
	2013					
	Gross Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Public / Government	28,422,641	16.37	29,004,153	7.51	10,208,682	10.50
Private	145,239,914	83.63	357,156,609	92.49	87,031,203	89.50
	173,662,555	100.00	386,160,762	100.00	97,239,885	100.00



42.1.6 Details of non-performing advances and specific provisions by sector

	2014		2013	
	Classified Advances	Specific Provision held (Rupees in '000)	Classified Advances	Specific Provision held
Public / Government	–	–	–	–
Private	5,024,778	4,032,817	3,699,903	3,543,124
	5,024,778	4,032,817	3,699,903	3,543,124

42.1.7 Geographical segment analysis

	2014			
	Profit before taxation	Total assets employed (Rupees in '000)	Net assets employed	Contingencies and Commitments
Pakistan	9,615,048	560,664,971	30,388,269	104,109,281
Middle East	364,991	16,416,728	1,605,870	2,726,089
Asia Pacific	(39,158)	1,218,721	458,234	–
Africa	(23,767)	618,409	175,978	–
	9,917,114	578,918,829	32,628,351	106,835,370
	2013			
	Profit before taxation	Total assets employed (Rupees in '000)	Net assets employed	Contingencies and Commitments
Pakistan	7,125,238	447,704,183	23,854,100	94,802,805
Middle East	387,737	13,022,735	1,427,951	2,437,080
Asia Pacific	–	–	–	–
Africa	–	–	–	–
	7,512,975	460,726,918	25,282,051	97,239,885

42.2 Market risk

Market risk is the risk of loss arising from movements in market rates or prices, such as interest rates, foreign exchange rates, and equity prices.

The Bank takes positions in securities for the purpose of investment and not to run a trading book. As regards foreign exchange positions, the purpose is to serve the needs of clients. The Bank does not engage in trading or market making activities.



Market risk is managed through the market risk policy approved by the Board, approval of counterparty and dealer limits, specific senior management approval for each investment and regular review and monitoring of the investment portfolio by the Asset Liability Management Committee (ALCO). A key element of the Bank's market risk management is to balance safety, liquidity, and income in that order of priority. Another key element is separation of functions and reporting lines for the Treasury Division which undertakes dealing activities within the limits and parameters set by ALCO, Settlements Department which confirms and settles the aforesaid deals and Middle Office which independently monitors and analyses the risks inherent in treasury operations. Risk Management Committee of the Board provides overall guidance in managing the Bank's market risk.

Dealing activities of the Bank include investment in government securities, term finance certificates, sukuks / bonds, shares and mutual funds, money market transactions and foreign exchange transactions catering to the needs of its customers. All such activities are carried out within the prescribed limits. Any excess over limits noted by the Settlements Department and / or the Middle Office is reported to senior management and ALCO. Stress testing is performed as per guidelines of SBP as well as Bank's internal policy.

The Bank uses the Standardised Approach to calculate capital charge for market risk as per Basel regulatory framework. Details of capital charge for market risk are given in note 41.4.

42.2.1 Interest rate / yield risk

Interest rate risk is the risk of loss from adverse movements in interest rates. ALCO monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Bank arising from fluctuation in the market interest rates and mismatching or gaps in the amount of financial assets and financial liabilities in different maturity time bands.

The Bank's interest rate exposure is calculated by categorising its interest sensitive assets and liabilities into various time bands based on the earlier of their contractual repricing or maturity dates.

Interest rate risk exposures of the Bank are controlled through dealer limits, counter-party exposure limits and (when necessary) type-of-instrument limits. Duration and modified duration of various types of debt securities as well as their entire portfolio are also calculated, and the impact of adverse change in interest rates on the market value of the securities is estimated. Stress testing for interest rate risk is carried out regularly to estimate the impact of adverse changes in the interest rates.

Interest rate / yield risk in the banking book – Basel Specific

The Bank holds financial assets and financial liabilities with different maturities or repricing dates and linked to different benchmark rates, thus creating exposure to unexpected changes in the level of interest rates. Interest rate risk in the banking book refers to the risk associated with interest-bearing financial instruments that are not held in the trading book of the Bank.

Repricing gap analysis presents the Bank's interest sensitive assets (ISA) and interest sensitive liabilities (ISL), categorised into various time bands based on the earlier of their contractual repricing or maturity dates (or settlement dates for off-balance sheet instruments). Deposits with no fixed maturity dates (for example, saving deposits and treasurer's call deposits) are included in the lowest, one-month time band, but these are not expected to be payable within a one-month period. The difference between ISA and ISL for each time band signifies the gap in that time band, and provides a workable framework for determining the impact on net interest income.

The Bank reviews the repricing gap analysis periodically to monitor and manage interest rate risk in the banking book.

42.2.2 Mismatch of interest rate sensitive assets and liabilities

2014

Effective Yield / Interest Rate	Total	Exposed to Yield / Interest rate risk							Non interest bearing financial instruments	
		Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years		Over 5 years to 10 years
On - balance sheet financial instruments										
Assets										
-	34,201,813	4,810,823	-	-	-	-	-	-	-	29,390,990
2.88%	4,345,042	2,700,464	-	-	-	-	-	-	-	1,644,578
-	-	-	-	-	-	-	-	-	-	-
11.00%	331,422,572	1,073,351	20,233,407	90,639,043	55,830,272	47,645,949	19,465,619	53,407,190	36,399,615	6,728,126
9.53%	181,356,817	125,899,931	30,001,389	14,971,466	2,165,460	1,568,215	1,576,731	2,157,374	1,136,072	-
-	12,350,536	-	-	-	-	-	-	-	-	12,350,536
-	563,676,780	134,484,569	50,234,796	105,610,509	57,995,732	49,214,164	21,042,350	55,564,564	37,535,687	1,880,179
Liabilities										
-	7,984,808	-	-	-	-	-	-	-	-	7,984,808
8.72%	78,455,452	74,863,888	77,136	94,415	229,366	558,798	348,352	1,391,061	890,592	1,894
7.37%	446,409,004	224,183,256	17,876,659	16,902,339	28,355,801	3,892,001	4,782,226	2,761,074	-	147,655,648
14.42%	3,743,700	-	747,900	600	600	2,994,600	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	4,833,166	-	-	-	-	-	-	-	-	4,833,166
-	541,426,130	299,047,094	18,701,695	16,997,354	28,585,767	7,445,399	5,130,578	4,152,135	890,592	160,475,516
-	22,250,650	(164,562,525)	31,533,101	88,613,155	29,409,965	41,768,765	15,911,772	51,412,429	36,645,095	1,880,179
Off - balance sheet financial instruments										
-	35,574,870	10,534,044	8,784,248	8,667,756	7,311,120	277,702	-	-	-	-
-	(33,584,498)	(15,025,873)	(6,592,659)	(11,952,760)	(13,206)	-	-	-	-	-
-	4,582,095	1,268,375	880,360	1,933,360	500,000	-	-	-	-	-
-	6,572,467	(3,223,454)	3,071,949	(1,351,644)	7,797,914	277,702	-	-	-	-
-	28,823,117	(167,785,979)	34,605,050	87,261,511	37,207,879	42,046,467	15,911,772	51,412,429	36,645,095	1,880,179
Cumulative interest / yield risk sensitivity gap										
-	(167,785,979)	(133,180,929)	(45,919,418)	(8,711,539)	33,334,928	49,246,700	100,659,129	137,304,224	139,184,403	-

2013

On-balance sheet financial instruments	Effective Yield / Interest Rate	Exposed to Yield / Interest rate risk										Non interest bearing financial instruments	
		Total	Rupees in '000										
			Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years		
Assets													
Cash and balances with treasury banks	-	5,065,117	-	-	-	-	-	-	-	-	-	-	27,134,416
Balances with other banks	0.02%	899,418	-	-	-	-	-	-	-	-	-	-	1,763,456
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments - net	9.92%	51,023,189	80,810,465	70,370,331	1,409,788	2,276,323	6,913,689	6,410,598	15,464,398	5,074,072	-	-	-
Advances - net	9.02%	167,579,360	118,331,878	14,596,945	1,334,970	1,182,946	1,066,963	1,012,054	1,551,632	1,661,283	-	-	-
Other assets	-	5,286,881	-	-	-	-	-	-	-	-	-	-	5,286,881
		447,481,501	175,319,602	84,967,276	2,744,758	3,459,269	7,980,652	7,422,652	17,016,030	1,661,283	1,661,283	39,258,825	
Liabilities													
Bills payable	-	6,173,102	-	-	-	-	-	-	-	-	-	-	6,173,102
Borrowings	8.97%	29,480,026	26,014,227	78,091	190,922	505,985	583,279	667,039	1,306,715	-	-	-	-
Deposits and other accounts	7.11%	386,160,762	21,619,763	13,386,437	20,967,687	3,721,707	2,900,547	2,132,171	-	-	-	-	124,744,705
Sub-ordinated loans	14.24%	6,485,900	-	1,993,000	600	1,200	2,994,600	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	4,291,896	-	-	-	-	-	-	-	-	-	-	4,291,896
		432,591,686	222,701,972	23,250,031	21,159,209	4,228,892	6,478,426	2,799,210	1,306,715	-	-	-	135,209,703
On-balance sheet gap		14,889,815	(47,382,370)	84,401,123	69,509,748	(18,414,451)	(769,623)	1,502,226	4,623,442	15,709,315	1,661,283	(95,950,878)	
Off-balance sheet financial instruments													
Forward purchase of foreign exchange contracts		23,468,276	16,333,648	3,581,869	1,021,767	-	-	-	-	-	-	-	-
Forward sale of foreign exchange contracts		(20,363,924)	(10,632,601)	(4,709,716)	(21,596)	-	-	-	-	-	-	-	-
Forward commitments to extend credit		1,130,970	545,790	223,190	361,990	-	-	-	-	-	-	-	-
Off-balance sheet gap		4,235,322	6,246,837	(904,657)	1,000,171	-	-	-	-	-	-	-	-
Total interest / yield risk sensitivity gap		19,125,137	(41,135,533)	83,496,466	67,402,719	(17,414,280)	(769,623)	1,502,226	4,623,442	15,709,315	1,661,283		
Cumulative interest / yield risk sensitivity gap		(41,135,533)	42,360,933	109,763,652	92,349,372	91,579,749	93,081,975	97,705,417	113,414,732	115,076,015			



42.2.3 Foreign exchange risk

Foreign exchange risk is the risk of loss from adverse changes in currency exchange rates. The Bank's foreign exchange exposure comprises forward contracts, purchase of foreign bills, foreign currency loans and investments, foreign currency cash in hand, balances with banks abroad, foreign currency deposits and foreign currency placements with SBP and other banks. Focus of the Bank's foreign exchange activities is on catering to the needs of its customers, both in spot and forward markets.

Foreign exchange risk exposures of the Bank are controlled through dealer limits, open foreign exchange position limits, counterparty exposure limits, and country limits. The Bank manages its foreign exchange exposure by matching foreign currency assets and liabilities within strict limits. The net open position in any single currency and the overall foreign exchange exposure are both managed within the statutory limits as prescribed by SBP as well as the internal limits set by the Bank itself. Stress testing for foreign exchange risk is carried out regularly to estimate the impact of adverse changes in foreign exchange rates.

	2014			
	Assets	Liabilities	Off-balance sheet items	Net currency exposure
	(Rupees in '000)			
Pakistan Rupee	528,544,018	496,188,083	(1,990,371)	30,365,564
United States Dollar	47,613,038	39,218,122	(6,516,659)	1,878,257
Great Britain Pound	973,959	6,988,949	6,129,289	114,299
Japanese Yen	22,521	6,688	(15,973)	(140)
Euro	1,389,311	3,250,171	1,902,253	41,393
Other currencies	375,982	638,465	491,461	228,978
	<u>578,918,829</u>	<u>546,290,478</u>	-	<u>32,628,351</u>
	2013			
	Assets	Liabilities	Off-balance sheet items	Net currency exposure
	(Rupees in '000)			
Pakistan Rupee	415,649,012	388,472,753	(3,103,429)	24,072,830
United States Dollar	42,473,592	37,968,071	(3,270,077)	1,235,444
Great Britain Pound	762,922	5,789,941	5,033,460	6,441
Japanese Yen	39,243	4,288	(49,851)	(14,896)
Euro	1,445,134	2,596,707	1,120,142	(31,431)
Other currencies	357,015	613,107	269,755	13,663
	<u>460,726,918</u>	<u>435,444,867</u>	-	<u>25,282,051</u>



42.3 Liquidity risk

Liquidity risk is the risk of loss to a bank arising from its inability to meet obligations as they fall due or to fund growth in assets, without incurring unacceptable losses.

Liquidity risk is managed through the liquidity risk policy approved by the Board, careful monitoring of daily liquidity position by the Treasury Division and the Middle Office and regular review and monitoring of the liquidity position by ALCO. Risk Management Committee of the Board provides overall guidance in managing the Bank's liquidity risk.

Key elements of the Bank's liquidity risk management are as follows:

- To maintain a comfortable margin of excess liquidity in the form of cash and readily marketable assets to meet the Bank's funding requirements at any time.
- To keep a strong focus on mobilisation of low-cost core deposits from customers.
- To maintain a realistic balance between the behavioural maturity profiles of assets and liabilities.
- To maintain excellent credit rating (as borrowing costs and ability to raise funds are directly affected by credit rating).
- To have a written contingency funding plan to address any hypothetical situations when access to normal sources of funding is constrained.

The Bank's liquidity risk management addresses the goal of protecting solvency and the ability to withstand stressful events in the market place. Stress testing for liquidity risk is carried out regularly to estimate the impact of decline in liquidity on the ratio of liquid assets to deposits plus borrowings.

42.3.1

Maturities of assets and liabilities - based on expected maturities as determined by ALCO

For assets and liabilities that have a contractual maturity, the expected maturity is considered to be the same as contractual maturity. Assets and Liabilities that do not have a contractual maturity have been categorised on the basis of expected maturities as determined by ALCO. In case of saving and current accounts, their historical net withdrawal pattern over the next one year was reviewed, based on year-end balances for the last three years. Thereafter, taking a conservative view, ALCO categorised these deposits in various maturity bands. Other assets and liabilities have been categorised on the basis of assumptions / judgments that are believed to be reasonable.

2014

	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	34,201,813	-	-	-	-	-	-	-	-	-
Balances with other banks	4,345,042	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments - net	331,422,572	17,671,865	88,066,626	63,398,172	48,610,382	21,567,638	54,617,848	38,168,798	474,975	
Advances - net	181,356,817	44,638,774	42,216,327	14,061,946	8,177,109	7,172,775	10,823,653	3,379,453	1,985,384	
Operating fixed assets	13,898,321	173,889	347,520	534,696	914,801	4,050,316	793,636	946,924	5,820,415	
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	
Other assets	13,694,264	12,322,677	732,223	183,828	175,871	85,050	35,958	46,246	70,779	
	578,918,829	94,528,463	67,621,608	130,814,301	78,170,685	57,787,342	32,832,361	66,271,095	42,541,421	8,351,553
Liabilities										
Bills payable	7,984,808	-	-	-	-	-	-	-	-	-
Borrowings	78,455,452	57,530,290	12,411,666	5,095,326	229,366	568,798	348,352	1,391,061	890,593	-
Deposits and other accounts	446,409,004	65,344,376	51,931,607	50,957,287	62,410,748	65,190,906	66,081,131	67,465,475	17,027,474	-
Sub-ordinated loans	3,743,700	-	747,900	600	600	1,200	1,200	2,400	2,989,800	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities - net	2,780,536	(794)	33,412	89,657	335,247	215,771	912,051	246,776	323,384	625,032
Other liabilities	6,916,978	4,921,254	52,241	52,509	738,153	4,729	29,940	460,420	-	657,732
	546,290,478	135,779,934	65,176,826	56,195,379	63,714,114	65,971,404	67,372,674	69,566,132	21,231,251	1,282,764
Net assets	32,628,351	(41,251,471)	2,444,782	74,618,922	14,456,571	(8,184,062)	(34,540,313)	(3,295,037)	21,310,170	7,068,789
Share capital	11,114,254									
Reserves	8,760,911									
Unappropriated profit	7,679,490									
Surplus on revaluation of assets - net of tax	5,073,696									
	<u>32,628,351</u>									

2013

	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	32,199,533	-	-	-	-	-	-	-	-	-
Balances with other banks	2,662,874	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments - net	239,752,853	48,578,088	78,397,126	69,764,035	6,161,631	3,125,059	7,900,709	7,754,428	17,596,930	474,847
Advances - net	167,579,360	42,366,193	38,428,577	36,242,534	21,758,240	8,379,311	7,610,177	7,543,056	3,579,168	1,674,104
Operating fixed assets	11,795,334	278,332	202,943	297,754	449,446	3,000,334	575,003	719,149	848,042	5,424,331
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	6,736,964	5,174,178	778,220	190,245	261,851	112,482	52,091	44,217	46,724	76,956
	460,726,918	131,259,198	117,804,866	106,494,568	28,631,168	14,617,186	16,137,980	16,060,850	22,070,864	7,650,238
Liabilities										
Bills payable	6,173,102	6,173,102	-	-	-	-	-	-	-	-
Borrowings	29,480,026	11,432,378	9,592,572	5,201,136	190,922	505,985	583,279	667,039	1,306,715	-
Deposits and other accounts	386,160,762	53,301,138	51,412,131	43,178,805	50,760,055	57,347,969	56,526,810	58,737,670	14,896,184	-
Sub-ordinated loans	6,485,900	-	700	1,000	749,300	750,700	996,400	996,800	2,991,000	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities - net	1,651,438	(12,979)	23,382	(32,233)	145,185	697,601	105,805	91,856	48,299	584,522
Other liabilities	5,493,639	3,680,081	97,460	30,012	655,744	28,758	4,730	164,429	-	832,425
	435,444,867	74,573,720	61,126,245	48,378,720	52,501,206	59,331,013	58,217,024	60,657,794	19,242,198	1,416,947
Net assets	25,282,051	56,685,478	56,678,621	58,115,848	(23,870,038)	(44,713,827)	(42,079,044)	(44,596,944)	2,828,666	6,233,291
Share capital										
Share capital	10,103,868									
Reserves	7,589,407									
Unappropriated profit	5,554,207									
Surplus on revaluation of assets - net of tax	2,054,569									
	<u>25,282,051</u>									

42.3.2 Maturities of assets and liabilities - based on contractual maturities

The following maturity profile is based on contractual maturities for assets and liabilities that have a contractual maturity. Assets and liabilities that do not have a contractual maturity have been categorised in the shortest maturity band.

2014

	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	34,201,813	-	-	-	-	-	-	-	-	-
Balances with other banks	4,345,042	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments - net	331,422,572	17,656,725	87,928,986	57,055,808	48,339,562	21,434,459	54,032,275	37,152,891	-	-
Advances - net	181,356,817	44,638,774	42,216,327	14,061,946	8,177,109	7,172,775	10,823,653	3,379,453	1,985,384	-
Operating fixed assets	13,898,321	6,880,534	259,272	485,392	810,129	640,289	783,636	946,924	2,904,903	-
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	13,694,264	12,481,929	158,528	128,996	85,050	41,632	35,958	46,245	-	-
	578,918,829	110,369,958	67,451,289	130,563,113	71,732,142	57,411,850	29,289,155	65,685,522	41,525,513	4,890,287
Liabilities										
Bills payable	7,984,808	7,984,808	-	-	-	-	-	-	-	-
Borrowings	78,455,452	57,530,290	12,411,666	5,095,326	229,366	558,798	348,352	1,391,061	890,593	-
Deposits and other accounts	446,409,004	371,838,903	17,876,659	16,902,339	28,355,801	3,892,001	4,782,226	2,761,075	-	-
Sub-ordinated loans	3,743,700	-	747,900	600	600	1,200	1,200	2,400	2,989,800	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities - net	2,780,536	1,838,536	24,979	36,782	65,863	102,181	76,952	41,825	(32,184)	625,602
Other liabilities	6,916,978	6,282,040	48,641	12,351	514,068	4,729	29,940	25,209	-	-
	546,290,478	445,474,577	31,109,845	22,047,398	29,165,698	4,558,909	5,238,670	4,221,570	3,848,209	625,602
Net assets	32,628,351	(335,104,619)	36,341,444	108,515,715	42,566,444	52,852,941	24,050,485	61,463,952	37,677,304	4,264,685
Share capital	11,114,254									
Reserves	8,760,911									
Unappropriated profit	7,679,490									
Surplus on revaluation of assets - net of tax	5,073,696									
	32,628,351									



2013

	Total	(Rupees in '000)										
		Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years		
Assets												
Cash and balances with treasury banks	32,199,533	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	2,662,874	-	-	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments - net	239,752,853	53,870,624	78,406,031	69,967,390	1,548,373	3,082,970	7,813,875	7,634,561	17,419,029	-	-	-
Advances - net	167,579,360	42,366,193	38,426,577	36,242,534	21,758,240	8,379,311	7,610,177	7,543,056	3,579,168	1,674,104	-	-
Operating fixed assets	11,795,334	5,493,397	153,356	224,984	420,731	738,899	575,003	719,149	848,042	2,621,773	-	-
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	6,736,964	5,393,272	752,371	145,750	184,649	112,482	52,091	44,217	46,724	5,408	-	-
	460,726,918	141,985,893	117,738,335	106,580,658	23,911,993	12,323,662	16,051,146	15,940,983	21,892,963	4,301,285	-	-
Liabilities												
Bills payable	6,173,102	6,173,102	-	-	-	-	-	-	-	-	-	-
Borrowings	29,480,026	11,432,378	9,592,572	5,201,136	190,922	505,985	583,279	667,039	1,306,715	-	-	-
Deposits and other accounts	386,160,762	321,432,450	21,619,763	13,386,437	20,967,687	3,721,707	2,900,547	2,132,171	-	-	-	-
Sub-ordinated loans	6,485,900	-	700	1,000	749,300	750,700	996,400	996,800	2,991,000	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities - net	1,651,438	722,873	23,138	33,900	64,518	110,567	75,413	49,903	(13,966)	585,092	-	-
Other liabilities	5,493,639	4,712,846	97,460	24,593	619,490	28,758	4,730	5,762	-	-	-	-
	435,444,867	344,473,649	31,333,633	18,647,066	22,591,917	5,117,717	4,560,369	3,851,675	4,283,749	585,092	-	-
Net assets	25,282,051	(202,487,756)	86,404,702	87,933,592	1,320,076	7,205,945	11,490,777	12,089,308	17,609,214	3,716,193	-	-
Share capital												
Share capital	10,103,868											
Reserves	7,569,407											
Unappropriated profit	5,554,207											
Surplus on revaluation of assets - net of tax	2,054,569											
	25,282,051											



42.4 Equity position risk in the banking book – Basel Specific

The Bank's policy is to take equity positions for investment purposes and not to run a trading book for buying and selling of equities. Equity holdings include direct investment in shares and in equity-based mutual funds, both closed-end and open-end. Policies covering their valuation and accounting are disclosed in note 5.4.

Equity position risk

Equity position risk is the risk of loss from adverse movements in equity prices. The Bank's policy is to take equity positions for investment purposes and not to run a trading book for buying and selling of shares.

Equity position risk of the Bank is controlled through equity portfolio limits, sector limits, scrip limits, and future contracts limits. Direct investment in equities and mutual funds is managed within the statutory limits as prescribed by SBP as well as the internal limits set by the Bank itself. Stress testing for equity price risk is carried out regularly to estimate the impact of decline in stock prices.

42.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks.

Operational risk is managed through the operational risk policy and audit policy approved by the Board, along with the policies on prevention of frauds and forgeries and compliance with "Know Your Customer" / "Customer Due Diligence" and "Anti Money Laundering / Combating Financing of Terrorism" requirements; operational manuals and procedures issued from time to time; a system of internal controls and dual authorisation for important transactions and safe-keeping; a Business Continuity Plan, including a Disaster Recovery Plan for I.T., to prevent interruption of business services in the event of a major incident or disaster; an I.T. Security Policy to ensure security and integrity of I.T. systems; and regular audit of the branches. Audit Committee of the Board provides overall guidance in managing the Bank's operational risk.

The Bank's operational risk management framework, as laid down in the operational risk policy, permits the overall risk management approach to evolve in the light of organisational learning and the future needs of the Bank.

The Bank places a high priority on conducting all business dealings with integrity and fairness, as laid down in the Code of Conduct, which is required to be complied with by all employees.

Internal controls are an essential feature of risk reduction in operational risk management and the Bank continues to improve its internal controls.

Operational risk disclosures – Basel Specific

The Bank uses Basic Indicator Approach to calculate capital charge for operational risk as per Basel regulatory framework. This approach is considered to be most suitable in view of the business model of the Bank which relies on an extensive network of branches to offer one-stop, full-service banking to its clients. The Bank has developed and implemented an Operational Loss Database. Operational loss and "near miss" events are reviewed and appropriate corrective actions taken on an ongoing basis, including measures to improve security and control procedures.



43. ISLAMIC BANKING BUSINESS

43.1 The Bank is operating 17 (2013: 17) Islamic banking branches in Pakistan. The statement of financial position and profit and loss account of these branches as at 31 December 2014 and for the year are as follows:

43.1.1 STATEMENT OF FINANCIAL POSITION

	Note	2014 (Rupees in '000)	2013
ASSETS			
Cash and balance with treasury banks		484,073	363,446
Balances with and due from financial institutions		1,638,371	35,677
Investments		2,798,926	1,493,818
Islamic financing and related assets	43.1.1.1	7,974,727	10,647,906
Operating fixed assets		62,860	62,567
Other assets		214,790	359,340
		13,173,747	12,962,754
LIABILITIES			
Bills payable		142,421	112,276
Due to financial institutions		1,336,648	1,643,761
Deposits and other accounts		9,859,014	8,617,703
– Current accounts		3,267,028	2,198,218
– Saving accounts		2,085,041	1,420,729
– Term deposits		4,449,048	3,380,965
– Others		40,532	11,348
– Deposits from financial institutions - remunerative		16,439	1,605,680
– Deposits from financial institutions - non-remunerative		926	763
Due to Head Office		–	990,000
Other liabilities		462,701	293,351
		(11,800,784)	(11,657,091)
NET ASSETS		1,372,963	1,305,663
REPRESENTED BY:			
Islamic banking fund		1,100,000	1,000,000
Unremitted profit		305,917	301,343
		1,405,917	1,301,343
(Deficit) / surplus on revaluation of assets		(32,954)	4,320
		1,372,963	1,305,663



43.1.1.1 Islamic financing and related assets

	2014	2013
	(Rupees in '000)	
Murabaha	1,988,650	4,684,555
Net book value of assets / investment in ijarah under IFAS 2	488,316	202,296
Diminishing musharika	3,106,668	3,056,660
Export refinance murabaha	86,274	38,934
Export refinance istisna	1,257,788	1,517,077
Istisna	667,453	651,646
Gross financings	<u>7,595,149</u>	<u>10,151,168</u>
Less: general provisioning against consumer financing	(688)	(523)
Net financing	<u>7,594,461</u>	<u>10,150,645</u>
Advance against murabaha	360,910	449,831
Advance against ijarah	19,356	47,430
Islamic financing and related assets - net off provision	<u><u>7,974,727</u></u>	<u><u>10,647,906</u></u>

43.1.1.2 Islamic mode of financing

Financings / inventory / receivables	7,595,149	10,151,168
Advances	380,266	497,261
Less: general provision against consumer financing	(688)	(523)
	<u><u>7,974,727</u></u>	<u><u>10,647,906</u></u>

43.2 PROFIT AND LOSS ACCOUNT

Profit / return on financing and placements earned	1,111,230	1,046,170
Profit / return on deposits and other dues expensed	(561,964)	(568,622)
	<u>549,266</u>	<u>477,548</u>
Provision against non performing loans and advances	(164)	(292)
Net spread earned	<u>549,102</u>	<u>477,256</u>
OTHER INCOME		
Fee, commission and brokerage income	37,169	27,776
Income from dealing in foreign currencies	9,232	8,795
Other income	10,792	8,796
	<u>57,193</u>	<u>45,367</u>
	<u>606,295</u>	<u>522,623</u>
OTHER EXPENSES		
Administrative expenses	(300,378)	(221,280)
PROFIT BEFORE TAXATION	<u><u>305,917</u></u>	<u><u>301,343</u></u>



	2014 (Rupees in '000)	2013
43.3 Remuneration to Shariah Advisor / Board	<u>2,250</u>	<u>1,890</u>
43.4 CHARITY FUND		
Opening balance	4,144	9,779
Additions during the year	2,621	4,144
Payments / utilisation during the year		
Health	(2,500)	(6,804)
Social welfare	(1,644)	(2,975)
	<u>(4,144)</u>	<u>(9,779)</u>
Closing balance	<u>2,621</u>	<u>4,144</u>

43.5 PROFIT AND LOSS DISTRIBUTION AND POOL MANAGEMENT

43.5.1 The number and nature of pools maintained by the Islamic Banking Branches along with their key features and risk & reward characteristics:

We have a single pool mechanism with the depositors. The pool operates on Mudarba basis. Since we are operating in a single pool structure the risk and reward are proportionately shared by the depositor.

Parameters associated with risk and rewards:

Following are the key considerations attached with risk and reward of the pool:

- Period, return, safety, security and liquidity of investment.
- Maturities of funds obtained from Principal Office, Islamic Banking Institutions and Shariah compliant organisations as regulated in Pakistan.
- Element of risk attached to various types of investments.
- SBP rules & Shariah clearance.

43.5.2 Avenues / sectors of economy / business where Mudaraba based deposits have been deployed:

The Mudarba based funds have been deployed in the following avenues / sectors / business :

- Chemical & Pharmaceuticals
- Agribusiness
- Textile
- Sugar
- Shoes & Leather garments
- Investment in Sukuk
- Production and transmission of energy
- Food and allied except sugar
- Wheat
- Individuals
- Others (Domestic wholes sale, plastic product etc.)



43.5.3 Parameters used for allocation of profit, charging expenses and provisions etc. along with a brief description of their major components:

The Bank's Islamic Banking Division (IBD) is currently accepting Pak Rupees Term Deposits and Saving Deposits under Modaraba arrangements, wherein the Bank is Mudarib and depositors are Rab-UI-Maal. The Bank also commingles its funds with those of depositors.

The funds so generated are invested by the Bank in Shariah compliant modes of financing such as Murabaha, Ijarah, Istisna, Diminishing Musharaka and Ijarah Sukuk.

The Bank calculates the profit of the pool after every quarter. Profit is distributed at the Net income level. Net income is calculated after deducting costs and expenses such as cost of Murabaha, cost of Takaful, Depreciation and loss of investments, directly incurred in deriving that Income.

The Net income / loss is being allocated between the Bank's equity and the depositors' fund in proportion to their respective share in pool.

The Bank's profit sharing ratio during the year was 50% (2013: 50%) of Net Income and the depositors' profit sharing ratio was 50% (2013: 50%) of Net Income.

After the allocation of Income between the equity holder and depositors the profit is distributed among the account holders on the basis of predetermined weightages, announced by the Bank at the beginning of the quarter based on their respective category / tiers. In case of loss, Rab-UI-Maal has to bear the loss in the ratio of its investment.

In case of provisioning, the general and specific provisions created against non - performing financing and diminution in the value of investments as under prudential regulations and other SBP directives shall be borne by the IBIs as Mudarib. However, write-offs of financings and loss on sale of investments shall be charged to the pool along with other direct expenses.

43.5.4 Mudarib share (in amount and percentage of Distributable Income)

	2014	2013
	(Rupees in million)	
Distributable Income	739	698
Mudarib Share	368	349
Mudarib Share (%)	50%	50%

43.5.5 Amount and percentage of Mudarib share transferred to the depositors through Hiba

Mudarib Share	368	349
Hiba	110	104
Hiba percentage of Mudarib Share	30%	30%

43.5.6 Profit rate earned vs. profit rate distributed to the depositors during the year

Profit Rate Earned	10.24%	10.35%
Profit Rate Distributed	5.29%	5.57%



44. SUBSEQUENT EVENT

Subsequent to the year end, the Board of Directors proposed a final cash dividend of Rs. 3 (2013: Rs. 2) per share and issue of bonus shares of in the ratio of NIL (2013:10) shares for every 100 shares held.

45. GENERAL

45.1 Comparative information has been re-classified, re-arranged or additionally incorporated in these unconsolidated financial statements, wherever necessary to facilitate comparative and to conform with changes in presentation in the current year.

45.2 Figures have been rounded off to the nearest thousand rupees.

46. DATE OF AUTHORISATION

These unconsolidated financial statements were authorised for issue in the Board of Directors' meeting held on February 17, 2015.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

SYED MAZHAR ABBAS
Director

SYED HASAN ALI BUKHARI
Director



Annexure-1

**Statement showing written-off loans or any other financial relief
of five hundred thousand rupees or above provided
during the year ended 31 December 2014**

(Rupees in '000)

S. No.	Name and address of the borrowers	Name of individuals / partners / directors (with CNIC No.)	Father's / Husband's Name	Outstanding Liabilities at beginning of year				Principal written-off	Interest / Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Interest / Mark-up	Others	Total				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1.	Whito International (Pvt) Ltd 87-Ahmed Block, New Garden Town, Lahore	Mr. Muhammad Faryad Malik (CNIC: 34601-4949170-5) Mrs. Khatoon Faryad (CNIC: 34601-2772028-4)	Mr. Malik Abdul Majeed Mr. Muhammad Faryad Malik	-	1,401	-	1,401	-	853	-	853
2.	Muhammad Shafi Room No. 309, Cotton Exchange Building I.I. Chundrigar Road, Karachi.	Mr. Muhammad Shafi (CNIC: 42201-0603648-9)	Mr. Jamal Ud Din	-	1,478	-	1,478	-	1,478	-	1,478
3.	Rasheed Y. Chinoy Uzma Arcade, 2nd Floor, Main Clifton Road, Karachi.	Mr. Rasheed Yousuf Chinoy (CNIC: 42000-9065661-9)	Mr. Yousuf Noor Muhammad Chinoy	-	918	-	918	-	918	-	918
4.	Inter Continental Furnishing Co. KPT Gate No. 11, T.P.X Yard, Off Mouvi Tamizuddin Khan Road, Karachi.	Mr. Rasheed Yousuf Chinoy (CNIC: 42000-9065661-9)	Mr. Yousuf Noor Muhammad Chinoy	859	771	-	1,630	-	786	-	786
5.	Continental Furnishing Co. (Pvt.) Limited KPT Gate No. 11, T.P.X Yard, Off Mouvi Tamizuddin Khan Road, Karachi.	Mr. Rasheed Yousuf Chinoy (CNIC: 42000-9065661-9) Mr. Saeed Yousuf Chinoy (CNIC: 42301-1127151-7)	Mr. Yousuf Noor Muhammad Chinoy Mr. Yousuf Noor Muhammad Chinoy	-	881	-	881	-	881	-	881
6.	Switch Securities (Pvt) Ltd 179-B, Abu Bakar Block, New Garden Town, Lahore.	Mr. Ali Raza Jaffery (CNIC: 35202-2679170-1) Mr. Sami Ullah Butt (CNIC: 35200-1572395-9) Mr. Abdul Maalik Khan (CNIC: 35202-2931016-3)	Mr. Muhammad Razi Jaffery Mr. Fateh Muhammad Mr. Abdul Qadeer Khan	-	87,633	-	87,633	-	87,633	-	87,633
7.	First Pakistan Securities Ltd 179-B, Abu Bakar Block, New Garden Town, Lahore.	Mr. Sami Ullah Butt (CNIC: 35200-1572395-9) Mr. Abdul Maalik Khan (CNIC: 35202-2931016-3) Mr. Azeem-ul-Hassan (CNIC: 35201-0622729-5)	Mr. Fateh Muhammad Mr. Abdul Qadeer Khan Mr. Bakhtiar-ul-Hassan	-	16,435	-	16,435	-	16,435	-	16,435
8.	Salman Impex Suite # 1007, Jilani Tower M.W. Tower, M.A. Jinnah Road, Karachi.	Mr. Salman (CNIC: 42301-1771152-7)	Mr. Muhammad Jaffer	2,230	1,639	-	3,869	480	1,639	-	2,119
9.	Abdul Rehman Pasha 60-P, Block 2, P.E.C.H.S, Karachi.	Mr. Abdul Rehman (CNIC: 42201-3223326-3)	Mr. Habib Ullah	27,481	10,347	-	37,828	-	4,828	-	4,828
			Total	30,570	121,503	-	152,073	480	115,451	-	115,931

Note: 1 The amount of principal written off was against the specific provision held by the Bank.

Note: 2 Interest / mark-up written off was against suspended mark-up.



Report of Shariah Advisor

We have examined, on test check basis, each class of transaction, the relevant documentation and procedures adopted by Islamic Banking Branches / Division of Bank AL Habib Limited (IBB-BAHL), and we hereby report, for the year ended December 31, 2014, that in our opinion;

- (a) The affairs of IBB-BAHL have been carried out in accordance with rules and principles of Shariah, SBP regulations and guidelines related to Shariah compliance and other rules as well as with specific fatawa and rulings issued by the Shariah Advisor from time to time;
- (b) The allocation of funds, weightages, profit sharing ratios, profits and charging of losses, if any, relating to PLS accounts conform to the basis vetted by the Shariah Advisor in accordance with Shariah rules and principles and;
- (c) Any earnings that have been realised from sources or by means prohibited by Shariah rules and principles have been credited to charity account.

Karachi: February 17, 2015

ISMATULLAH
Shariah Advisor
Islamic Banking Division



Notice of Annual General Meeting

Notice is hereby given that the Twenty-fourth Annual General Meeting of Bank AL Habib Limited will be held at the Registered Office of the Bank located at 126-C, Old Bahawalpur Road, Multan, on Wednesday, March 18, 2015 at 10:30 a.m. to transact the following business:

1. To receive and adopt the Audited Annual Accounts and Consolidated Accounts of the Bank for the year ended December 31, 2014 together with the Reports of Directors and Auditors thereon.
2. To consider and approve payment of cash dividend @ 30%, i.e., Rs. 3 per share of Rs.10/- each for the year ended December 31, 2014 as recommended by the Board of Directors.
3. To appoint auditors for the year 2015 and to fix their remuneration. KPMG Taseer Hadi & Co. Chartered Accountants, being eligible offer themselves for re-appointment.
4. To consider any other business of the Bank with the permission of the Chair.

Special Business

5. To consider and approve the remuneration payable to Directors for attending Board Meeting and Sub-Committee Meeting of Board.

For Item No.5, a statement under Section 160(1)(b) of the Companies Ordinance, 1984 is annexed.

By order of the Board

MOHAMMAD TAQI LAKHANI
Company Secretary

Karachi: February 25, 2015

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy (except for a corporation) must be a member of the Bank. Proxy form, in order to be effective, must be received at the Registered Office of the Bank located at 126-C, Old Bahawalpur Road, Multan, duly stamped and signed not less than 48 hours before the meeting.
2. The CDC account / sub account holders are requested to bring with them their Computerized National Identity Cards along with participant(s) ID Number and their account numbers at the time of attending the Annual General Meeting in order to facilitate identification of the respective shareholders. In case of a corporate entity, the Board of Directors' Resolution/Power of Attorney with specimen signatures be produced at the time of meeting.
3. The share transfer book of the Bank will remain closed from March 9, 2015 to March 18, 2015 (both days inclusive). Transfers received in order at the office of our Share Registrar, Noble Computer Services (Pvt.) Limited, 1st Floor, House of Habib Building (Siddiqsons Tower), 3-Jinnah Cooperative Housing Society, Main Sharah-e-Faisal, Karachi, by the close of business on March 6, 2015 will be treated in time for payment of dividend (subject to approval of the members). Members are also requested to promptly communicate any change in their address to our above-mentioned Share Registrar.
4. Securities & Exchange Commission of Pakistan (SECP) vide its S.R.O. 779 (I)/2011 dated August 18, 2011 has directed all listed companies to ensure that Dividend Warrants should bear the Computerised National Identity Card (CNIC) Numbers of the registered members. Members who have not yet provided attested copies of their valid CNICs/NTNs (in case of corporate entities) are requested to send the same directly to the aforesaid Share Registrar of the Bank at the earliest.



5. The Government of Pakistan through Finance Act, 2014 has made certain amendments in Section 150 of the Income Tax ordinance, 2001 whereby different rates are prescribed for deduction of withholding tax on the amount of dividend paid by the companies/banks. These tax rates are as follows:

- (a) For filers of income tax returns 10%
- (b) For non-filers of income tax returns 15%

To enable the Bank to make tax deduction on the amount of cash dividend @ 10% instead of 15% all shareholders whose names are not entered into the Active Tax-payers List (ATL) provided on the website of FBR, despite the fact that they are filers, are advised to make sure that their names are entered into ATL before the date of payment of the cash dividend, otherwise tax on their cash dividend will be deducted @15% instead of 10%.

6. Audited Financial Statements through e-mail:

SECP through its Notification SRO 787 (I)/2014 dated September 8, 2014 has allowed the circulation of Audited Financial Statements along with Notice of Annual General Meeting to the members through e-mail. Therefore, all members of the Bank who wish to receive soft copy of Annual Report are requested to send their e-mail addresses. The consent form for electronic transmission could be downloaded from the Bank's website: [www. bankalhabib.com](http://www.bankalhabib.com).

7. **Consent for video conference facility**

For this AGM, under following conditions, Members can also avail video conference facility at Karachi.

If the Bank receives consent from members holding in aggregate 10 % or more share holding residing at a geographical location, to participate in the meeting through video conference at least 10 days prior to date of meeting, the Bank will arrange video conference facility in that city subject to availability of such facility in that city.

The Bank will intimate members regarding venue of video conference facility 5 days before the date of general meeting along with complete information necessary to enable them to access such facility.

In this regard, members who wish to participate through video conference facility at Karachi should send a duly signed request as per following format to the registered address of the Bank at least 10 days before the date of general meeting.

I/We, _____ of _____ being a member of
Bank AL Habib LIMITED, holder of _____ ordinary share(s) as per register Folio
No./ CDC Sub-Account No.: _____ hereby opt for video conference facility at Karachi.

Signature of Member



Statement Under Section 160(1)(b) of the Companies Ordinance, 1984

The statement is annexed to the Notice of the 24th Annual General Meeting of Bank AL Habib Limited at which certain special business is to be transacted. The purpose of this statement is to set forth the material facts concerning such special business.

Item No. 5 of the Agenda

It is proposed that the remuneration payable to Directors for attending Board Meeting and Sub-Committee Meeting of the Board be increased from Rs. 50,000/- to Rs.75,000/- per meeting and to pass the following resolution as a Special Resolution:

“RESOLVED that the remuneration payable to Directors for attending Board Meeting and Sub-Committee Meeting of the Board be and is hereby increased from Rs. 50,000/- (Rupees Fifty Thousand) to Rs. 75,000/- (Rupees Seventy Five Thousand).

“FURTHER RESOLVED that the figure “Rs. 50,000” (Rupees Fifty Thousand) appearing in Article 106 of Articles of Association be and is hereby substituted by the figure “Rs. 75,000” (Rupees Seventy Five Thousand).”



Pattern of Shareholding as at December 31, 2014

Number of Shareholders	Size of Shareholding				Total Shares Held
399	From	1	To	100	14,336
710	From	101	To	500	204,344
543	From	501	To	1,000	420,744
2,105	From	1,001	To	5,000	5,580,907
605	From	5,001	To	10,000	4,471,101
380	From	10,001	To	15,000	4,691,345
1,328	From	15,001	To	20,000	24,300,977
108	From	20,001	To	25,000	2,435,080
71	From	25,001	To	30,000	1,953,630
67	From	30,001	To	35,000	2,171,411
102	From	35,001	To	40,000	3,780,107
60	From	40,001	To	50,000	2,718,819
72	From	50,001	To	60,000	3,985,328
97	From	60,001	To	80,000	6,847,934
72	From	80,001	To	100,000	6,458,758
81	From	100,001	To	150,000	9,786,592
75	From	150,001	To	200,000	13,058,337
37	From	200,001	To	250,000	8,293,670
29	From	250,001	To	300,000	7,988,963
23	From	300,001	To	350,000	7,587,583
98	From	350,001	To	600,000	43,834,338
50	From	600,001	To	1,000,000	40,076,172
158	From	1,000,001	To	100,000,000	910,764,940
7,270					1,111,425,416

Categories of Shareholders	Number of Shareholders	Number of Shares Held	Percentage
Individuals	6,999	626,510,740	56.37%
Investment Companies	3	24,335	0.00%
Insurance Companies	12	102,022,662	9.18%
Joint Stock Companies	101	79,348,002	7.14%
Financial Institutions	17	52,620,103	4.73%
Modaraba Companies	1	12	0.00%
Mutual Funds	22	97,764,265	8.80%
Foreign Companies	17	46,488,148	4.18%
Pension Funds	24	15,216,472	1.37%
Others	74	91,430,677	8.23%
TOTAL	7,270	1,111,425,416	100.00%



Pattern of Shareholding as at December 31, 2014 Additional Information

Shareholders' Category	Number of Shareholders	Number of Shares Held
Associated Companies		
Habib Insurance Co., Ltd.	1	3,998,000
Habib Sugar Mills Ltd.	1	18,486,691
Mutual Funds		
Atlas Income Fund - MT	1	1,500
JS Global Capital Ltd - MF	1	1,500
Tri-Star Mutual Fund Limited	1	1,940
Safeway Mutual Fund	1	5,001
CDC Trustee NAFA Savings Plus Fund - MT	1	20,500
NAFA Income Opportunity Fund	1	21,000
KASB Asset Allocation Fund	1	22,500
PIML Strategic Multi Asset Fund	1	25,000
JS-KSE 30 Index Fund	1	27,601
NIT Equity Market Opportunity Fund	1	48,489
First Capital Mutual Fund	1	100,300
Crosby Dragon Fund	1	119,412
AKD Index Tracker Fund	1	154,147
Pakistan Stock Market Fund	1	155,818
Pakistan Strategic Allocation Fund	1	234,614
ABL Stock Fund	1	368,450
NAFA Multi Asset Fund	1	504,400
NAFA Asset Allocation Fund	1	1,040,150
NAFA Stock Fund	1	1,868,650
Atlas Stock Mkt Fund	1	2,190,000
UBL Stock Advantage Fund	1	5,097,500
National Investment (Unit) Trust National Bank of Pakistan, Trustee Department	1	85,755,829
Directors		
Ali Raza D. Habib	1	10,406,595
Qumail R. Habib	1	15,978,656
Anwar Haji Karim	1	12,349,159
Shahid Ghaffar (NIT Nominee)	1	1,100
Murtaza H. Habib	1	13,698,691
Syed Mazhar Abbas	1	18,474
Syed Hasan Ali Bukhari	1	15,092
Shameem Ahmed	1	2,112
Safar Ali Lakhani	1	116,840



Shareholders' Category	Number of Shareholders	Number of Shares Held
Chief Executive Officer		
Abbas D. Habib	1	41,524,108
Directors' Spouses and Minor Children		
Mrs. Razia A. Raza Habib W/o Mr. Ali Raza D. Habib	1	4,630,917
Mrs. Niamet Fatima W/o Mr. Abbas D. Habib	1	4,818,197
Qasim Abbas Habib S/o Mr. Abbas D. Habib (Joint A/c)	1	926,149
Executives	59	4,386,737
Joint Stock Companies and Corporations	100	60,861,311
Banks, Development Financial Institutions, Non-Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds	55	92,450,430
Shareholders holding five percent or more voting rights		
State Life Insurance Corporation National Investment (Unit) Trust (included in the list above under Mutual Funds)	1	73,435,154
Individuals	6,927	517,637,913
Others (Including foreign companies)	91	137,918,825
	7,270	1,111,425,416