

ANNUAL REPORT 2007



ARIF HABIB BANK LIMITED
(Formerly known as Arif Habib Rupali Bank Ltd.)



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Board of Directors

Mr. Arif Habib

Chairman

Mr. Kamal Uddin Khan

President & CEO

Mr. Salim Chamdia

Executive Director

Mr. Md. Abdul Hamid Miah

Director

Mr. Asadullah Khawaja

Director

Mr. Nasim Beg

Director

Syed Ajaz Ahmed

Director

Audit Committee

Mr. Asadullah Khawaja

Director

Mr. Nasim Beg

Member

Mr. Syed Ajaz Ahmed

Member

Executive Committee

Mr. Arif Habib

Chairman

Mr. Kamal Uddin Khan

Member

Mr. Salim Chamdia

Member

Mr. Nasim Beg

Member

Risk Management Committee

Mr. Arif Habib

Chairman

Mr. Salim Chamdia

Member

Mr. Asadullah Khawaja

Member

Mr. Nasim Beg

Member

Human Resource (HR) Committee

Mr. Arif Habib

Chairman

Mr. Salim Chamdia

Executive Director

Mr. Kamal Uddin Khan

Member

Mr. Asadullah Khawaja

Director

Chief Financial Officer/ Company Secretary

Mr. Muhammad Amin Bhoori

Auditors

M. Yousuf Adil Salim & Co.

Chartered Accountants

Legal Advisor

Liaquat Merchant Associates

Head Office:

Arif Habib Centre 23, M.T. Khan Road

Karachi - 74000, Pakistan

UAN: (021) 111-124-725

Toll Free: 0800-24252

Fax: (021) 243-5736

Registered Office:

2/1, R.Y. 16, Old Queen's Road,

Karachi-74000

Share Registrar:

Technology Trade (Pvt) Ltd.

Dagja House, 241-C, Block 2, P.E.C.H.S,

Off: Shahrah-e-Quaideen, Karachi.

Tel: (021) 439-1316-7

Fax: (021) 439-1318

Entity Rating

Rated by: JCR-VIS

Medium to long term "A"

Short term "A-2"

Outlook "Stable"

E-mail: info@arifhabibbank.com

Website: www.arifhabibbank.com



Group Profile

ARIF HABIB GROUP

Arif Habib is among the largest, most innovative fastest growing Business Groups in Pakistan. This has been made possible by a strong brand franchise built on good track record of first-rate services to clients. In addition to Financial Services ranging from Asset Management, Brokerage Services, Corporate Finance, Private Equity to Commercial Banking, the Group has interest in Fertilizer, Steel, Cement and Real Estate.

The Group takes pride in its orientation towards client service. It believes that its key success factors include continuous investment in staff, systems and capacity building, and its insistence on universal best practices at all times.



Vision



*“We are
committed to be
recognized as the
preferred supplier of
financial services to
the markets we
serve”*





Mission



“Our mission is to differentiate ourselves as an institution built on Trust, Integrity, Good Governance and Commitment to Deliver Value to all stakeholders i.e. customers, creditors, employees, investors and the community at large. Reach out and provide financial services to under-served and un-served customer segment”



Business Approach & Core Values

It is our business objective to be a Universal Bank in terms of providing products and services in all key segments of Banking i.e. Corporate, Wealth Management, Commercial Mid Market/SMEs and Consumer Banking.

Our Branch expansion plan is carved out to have a network of 100 Branches by 2011. The projected Branch network is based on centralized processing centre (factory and boutique concept) with Secure and Real Time IT capability. Hence, the Delivery Channel configuration is dependent upon the potential in each location in terms of Size, Product Delivery Template and Head Count for each Branch.

In terms of Statutory Capital Requirement, we are determined to meet and in fact exceed the Minimum Capital Requirement-MCR benchmark via injection of Capital and retention of Retained Earnings. Mandatory allocation of 20% of after tax profit as Free Reserves until such time our free reserves are equal to MCR will further strengthen our equity base.

Corporate Governance

The Bank is committed to up-holding the highest standards of Corporate Governance, which it regards as a key function in ensuring fairness for all stakeholders and achieving organizational efficiency.

During 2007, the board conducted a thorough review of the Bank's high level policies for Corporate Governance, Internal Audit, Risk Management and Compliance, in accordance with the latest regulations and guidelines issued by the SBP. The Board's adherence to best Corporate Governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness and social responsibility.

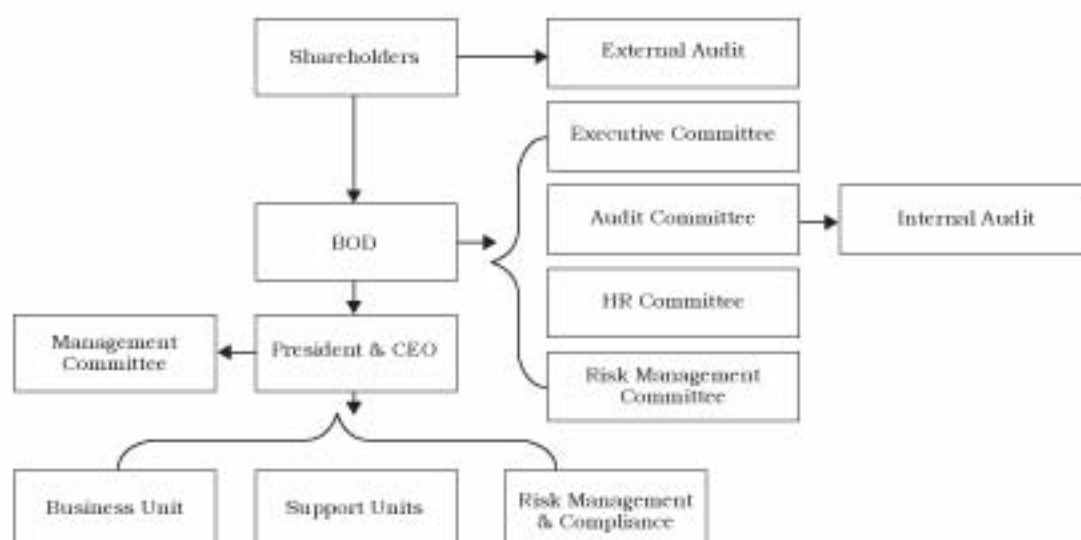
Moreover the Bank's Corporate Governance Policy are designed to lay a solid foundation for management and oversight, promote ethical and responsible decision making, safeguard integrity in financial reporting, make timely and balanced disclosures, respect the rights of shareholders, recognize and manage risk, encourage enhanced performance remunerate fairly and responsibly and recognize the legitimate interest of all shareholders.

Shareholders Rights

Recognizing the importance of shareholder, Arif Habib Bank Limited treats all its shareholders equally and fairly in line with the guidelines of regulatory agencies. All the basic legitimate rights of shareholders are accounted for.

Bank Administration

The Bank is administered by the Board of Directors, Committees of the Board and the Management Team.



Board Responsibilities

The BOD is accountable to the shareholders for setting the broad policy guidelines and strategic directions, and the creation and delivery of strong sustainable financial performance and long term shareholder value. The Chairman is responsible for leading the board ensuring its effectiveness, monitoring the performance and supporting the Executive Management. The Board's role includes the task of monitoring management in such a manner as to ensure that appropriate policies and processes are in place, that they are operating effectively and that the Bank is meeting its plans and budget targets.

Term

Each director is elected for a period of three years renewable at AGM of shareholder of the Bank.

Management Team



Sitting left to right:

Mr. Hasan Jafri
Mr. Khurshid Zafar
Mr. Kamal Uddin Khan
Mr. Salim Chamdia
Mr. Pervez Mobin

- *Technology Division*
- *Corporate & Investment Banking Division*
- *President & CEO*
- *Executive Director*
- *Human Resources Management, Development & Administration*

Standing left to right:

Ms. Sabeen Ibrahim
Mr. Haider Rizvi
Mr. Naveed Ali
Mr. Karim Sultan Ali
Mr. Raza Dyer
Mr. Muhammad Amin Bhoori
Mr. Gulrays Khan
Mr. Aziz Morris
Syed Asif Ali

- *Marketing & Communications Division*
- *Consumer Banking Division*
- *Strategic Planning & Development Division*
- *Corporate & Investment Banking Division*
- *Operations Division*
- *Finance Division*
- *Internal Audit Division*
- *Compliance Division*
- *Credit & Risk Management Division*

Board Of Directors



Sitting left bottom to right bottom:

Mr. Nasim Beg	- Director
Mr. Asadullah Khawaja	- Director
Mr. Kamal Uddin Khan	- President & CEO
Mr. Arif Habib	- Chairman
Mr. Salim Chamdia	- Executive Director
Syed Ajaz Ahmed	- Director
Mr. Muhammad Amin Bhoori	- CFO & Company Secretary
Mr. Md. Abdul Hamid Miah	- Director



Managements Review Of Operations

Business and Branch Network

The Bank is currently operating with twelve branches throughout Pakistan (seven in Karachi, two in Lahore and one each in Islamabad, Faisalabad and Multan). The Bank's strategy is to establish a network of 100 branches during the next three to five years. Several new sites have already been identified at strategic locations. All branches are online, equipped with state of the art technology capable of providing real time banking services to the customers. A professional team has been developed to meet the expectation of demanding clients. This is in line with the Bank's strategy to build an infrastructure of international standard to attract and retain a sizable client base.

The growth in the economy provided us numerous opportunities and we remained selective in pursuing business through which strike a balance between growth and prudent like risk taking and diversification. AHBL performance in 2007 was a result of the pragmatic and well planned efforts of the management to attain present strategic goals aimed at providing quality services to our customers and at the same time enhance the shareholders value. As a result the Bank has achieved the ROA of 1.27% & ROE of 3.65%.

The balance sheet grew by 218.11% in 2007 with total assets reaching Rs. 18.12 billion compared to Rs. 5.69 billion in 2006. Our success in growing the balance sheet is achieved on the back of strong capitalization, improved asset quality and sufficient liquidity. We achieved excellent business in growing the customer deposits by 275% over last year which now stands at Rs. 9.46 billion compared to Rs. 2.53 billion last year.

Despite the high growth level, we continued to ensure that high customer satisfaction and service quality levels are maintained and we are appreciative of the trust and confidence that our customers place in us. We firmly believe that the success of the Bank lies in expanding our way of financial services and seamlessly delivering innovative solutions to meet customer requirements across all the platforms. Accordingly, we work closely with our customers in order to understand their business needs and to address them with high quality tailored financial products so that we are viewed as a strategic partner in the business growth. We are pleased and encouraged to receive a very favorable response to our endeavors from our respective customers.

In all, we believe that the economic outlook for the coming year is bright with the right mix of products and services and our committed management team, we can deliver yet another superior performance in 2008. We will continue to build our infrastructure, leverage the cutting edge technology in plan, introduce products and services, manage risk efficiently and effectively and generate alternative revenue streams. We have ambitious plans for the coming year and we are all ready to make it happen to the benefit of our stakeholders.

Our focus and strategy for the coming years evolve around our customer base and we look to expand our network of branches throughout the country. In 2008, we also plan to capitalize on our group strengths to capture investment banking business.

Finally, we convey our deepest appreciation for our customers and shareholders for their loyalty, trust and confidence they have placed in us and to our staff, for their diligence, commitment, individual contribution and support and who we believe are the back bone of our future success.

Information Technology

We are committed to service excellence, cost efficiencies and sound risk management policies, which are closely integrated with business objectives and AHBL's growth strategy. Furthermore, our planning process considers both current and future needs vis-à-vis emerging best practices and new technology, as we strive to design solutions for accelerated progress.

The core banking application software hPlus is functioning successfully in all the branches. hPlus is proven, integrated banking application capable of generating standard and customized reporting systems. All the branches are real time on line and have fully functional ATMs.

In addition to a host of normal business activities, we are formulating an IT strategy roadmap to reach and end-state vision designed to incorporate leading edge technologies and processes across all IT domains. Our implementation provides the framework and capabilities to better align business and IT, and support long term transformation initiatives for AHBL.

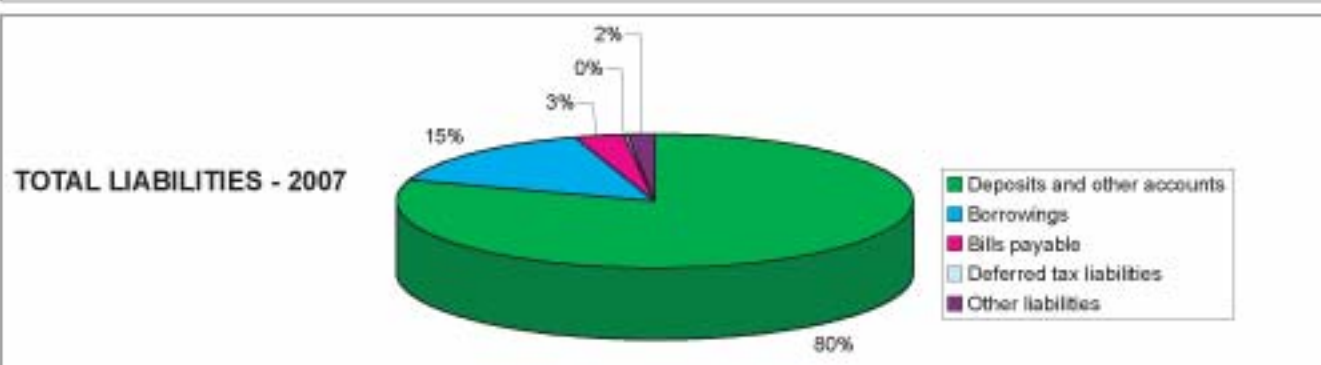
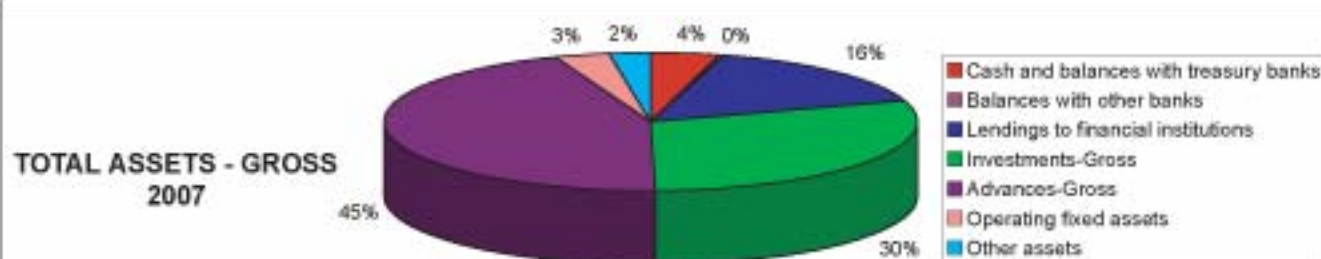


Arif Habib Centre*

* Future head office of Arif Habib Bank Limited (currently under construction)

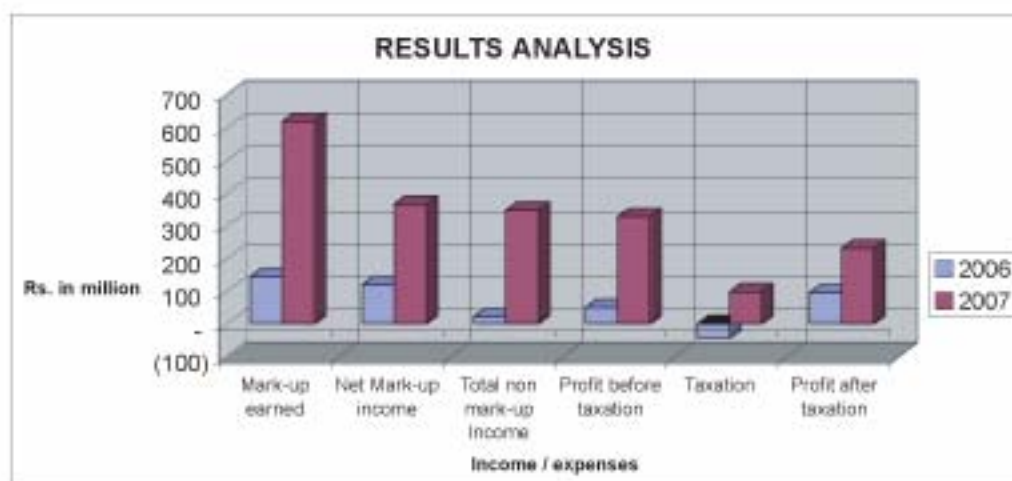
Key Operating And Financial Data

	2006	2007
	Rupees in 'mn'	
Assets		
Cash and balances with treasury banks	228.374	753.845
Balances with other banks	645.650	52.551
Lendings to financial institutions	1,079.286	2,855.582
Investments - Gross	1,752.655	5,441.370
Advances - Gross	1,564.608	8,157.709
Operating fixed assets	385.074	597.515
Deferred tax assets	--	--
Other assets - Gross	227.130	447.992
Total assets - Gross	5,882.777	18,306.564
Provision against non-performing advances	(140.239)	(128.461)
Surplus/Deficit on revaluation of investments	(21.787)	(32.945)
Provision held against other assets	(24.372)	(24.372)
Total assets - net of provisions	5,696.379	18,120.786
Liabilities		
Deposits and other accounts	2,526.271	9,464.785
Borrowings	--	1,748.603
Bills payable	3.899	384.179
Deferred tax liabilities	0.105	39.867
Other liabilities	93.328	181.776
Net Assets / Liabilities	3,072.776	6,301.576
Represented By		
Equity		
Share capital	3,000.000	4,500.000
Share premium	--	1,500.000
Statutory reserves	18.795	64.828
General reserves	--	66.567
Unappropriated profit	75.179	192.744
Total Equity	3,093.974	6,324.139
Deficit on revaluation of assets - net	(21.198)	(22.563)



Key Operating And Financial Data

	2006	2007
	Rupees in 'mn'	
Results Of Operations		
Mark-up/Return/Interest earned	142.802	617.854
Mark-up/Return/Interest expensed	23.309	252.338
Net Mark-up/ Interest income	119.493	365.516
Total Non-Markup/Interest Income	21.214	345.904
Non-Markup / Interest Expenses	90.654	384.502
Profit before provisions	50.053	326.918
Provision against non performing loans and advances	0.024	--
Profit before taxation	50.029	326.918
Taxation	(43.945)	96.753
Profit after taxation	93.974	230.165
Financial Ratios		
	2006	2007
Return on equity (ROE)	3.06%	3.65%
Return on assets (ROA)	1.65%	1.27%
Profit before tax ratio	35.03%	52.91%
Gross spread ratio	83.68%	59.16%
Advances to deposits ratio- Gross	61.93%	86.19%
Advance to deposit ratio - Net	56.38%	84.83%
Income to expenses ratio (times)	1	2
Cost to revenue ratio	43.45%	64.76%
Debt to equity ratio	81.65%	177.31%
Total assets to shareholders' funds (times)	2	3
NPL ratio	8.96%	1.57%
Capital adequacy ratio	56.22%	45.03%
Share Information		
Weighted average number of shares outstanding	85.10	351.78
Earnings per share (EPS) (Rs)	1.10	0.65
Market value of shares (Rupees in 'mn)	--	15,570
Price earning ratio (PE)	--	67.65
Book value per share (Rs)	10.24	14.00
Non-Financial Information		
Non-performing loans (NPL) (Rupees in 'mn)	140.215	128.461
Number of employees	192	319
Number of branches	7	12



Director's Report

On behalf of the Board of Directors of Arif Habib Bank Limited (the Bank), we are pleased to present the financial statements for the year ended December 31, 2007.

Country's Economy

The Economy during the year showed resilience to adverse political conditions. However, some negative effects on current financial year's economic target are visible particularly in the areas of trade deficit, budget deficit and inflation due to hike in international commodity prices and Government's inability to fully pass on the effect to the consumers. It is expected that after the general elections, the new Government may be able to take corrective measures to bring the discipline in the economy.

Banking Sector Overview

The banking sector earned healthy returns during the financial year ended 2007 despite turbulent political environment.

State Bank of Pakistan has opted for a tight monetary policy stance to check the inflationary trends over the periods. During the year, the SBP raised the Statutory Liquidity Requirement (SLR), Cash Reserve Requirement (CRR) and discount rates for commercial banks. The SBP, through its tight monetary policy, aimed at curbing strong domestic demand, which was one of the main driving forces fueling inflation, by curtailing the lending ability of the commercial banks to the private sector. Notwithstanding the tight monetary policy the SBP continued to strike a balance between promoting growth and controlling inflation on the one hand and maintaining a stable exchange rate environment on the other. Tight monetary policy stance is likely to continue until inflationary pressures are significantly eased off.

Opportunities and Challenges

The banking industry represents 45 conventional commercial, specialized scheduled, foreign and Islamic banks which market various alike products; thus create a strong competition. Tackling the competition owing to various takeovers and mergers in banking sector, higher customer expectations, introduction of several banking products, increase in interest rates owing to tight monetary policy, and increase in costs of operations because of growth stage of the Bank among the peer group are the few challenges in front.

Availability of low cost resources and their utilization for optimum returns by effective management and available gap in the market are amongst the opportunities available to the Bank to earn healthy return on the resources.

Financial Highlights

Financial Highlights of the Bank for the year ended December 31, 2007 are as follows:

	2007	For the Period from December 09, 2005 to December 31, 2006
Rupees in '000'		
Profit for the year before taxation	326,918	50,029
Equity	6,324,139	3,093,974
Paid-up-capital	4,500,000	3,000,000
Deposits	9,464,785	2,526,271
Advances (Net of provisions)	8,029,248	1,424,369
Investments	5,408,425	1,730,868
Advances to Deposit Ratio	84.83%	56.4%
Earnings per share	0.65	1.10
No. of Branches	12	7

The Bank continued its growth momentum during the year. The Bank posted an earning before tax of Rs. 326.9 million; an increase of 553%, whereas profit after tax was Rs. 230.165 million during the year showing an increase of 144.92%. Equity of the Bank has increased to Rs. 6.324 billion; an increase of 104%, while the deposits and advances increased by 275% and 464% to Rs. 9,465 million and Rs. 8,029 million respectively during the current year as compared to the period ended December 31, 2006.

Appropriations

Following are the appropriations out of profit available for the appropriation at the year end:

	2007	For the Period from December 09, 2005 to December 31, 2006
Rupees in '000'		
Unappropriated profit brought forward	75,179	--
Profit for the period after taxation	230,165	93,974
Unappropriated profit available for appropriation	305,344	93,974

Director's Report

	2007	For the Period from December 09, 2005 to December 31, 2006
	Rupees in '000'	
APPROPRIATIONS:		
• Transfer to statutory reserve	46,033	18,795
• Transfer to general reserve	66,567	--
Unappropriated profit carried forward	<u>192,744</u>	<u>75,179</u>

The Board decided to pass over the dividend/bonus as the Bank is in the process of developing its base and is in growth stage.

Share Capital and Listing

During the year under reference, the Bank issued 50% right shares to its existing shareholders at a premium of Rs. 10/-each which increased its equity to Rs 6 billion. This will help in meeting the Minimum Capital Requirement for the Bank until end of 2009.

To get the Bank's shares listed on the stock exchange, Arif Habib Securities Limited (AHSL - the holding company) dis-invested its holding by distributing 30 million shares as specie dividend to its shareholders. Furthermore, subsequent to the balance sheet date, AHSL offered 119,748,500 ordinary shares in the equity of the Bank through a Public Offer for Sale. As a result AHSL's holding has been diluted from 89.11% to 59.6%. The issue was oversubscribed by 5.6 times. Allotment of shares was made to 224,675 successful investors.

Credit Rating

JCR-VIS Credit Rating Company Limited has assigned the Bank's credit ratings of 'A' for medium to long-term and 'A-2' for short term with a stable outlook.

Future Outlook

The Bank has developed a strategic plan for long term sustainable growth which will maximize the shareholders' value. The focus of the Bank is on capacity building by creating an efficient team of banking professionals, putting in place a strong infrastructure by using modern technology and making available more products for clients' ease. The commitment of your Board towards developing

the Bank as a front runner in its peer group can be evidenced from the injection of fresh capital through a right issue during the year and investing heavily in human resource, its network and systems development. Your Board has a full confidence in its management team to implement its vision and mission with utmost commitment.

The Bank intends to leverage on the group's strengths in the capital market to benefit from corporate and investment banking, private banking and wealth management services. Later on, the Bank plans to build capacity for traditional banking in the areas of Small and Medium Enterprises and Retail Banking services.

We will continue to build on our strengths & expertise in the financial services industry, leverage optimal mix of Technology to attain operating cost-efficiencies, achieve product & service differentiation, while at the same time growing our footprint through expansion of our branch network across Pakistan.

Events after the Balance Sheet Date

The public offer for the ordinary shares of Arif Habib Bank Limited was made from December 29, 2007 to January 02, 2008 at an offer price of PKR 21 per share (inclusive of a premium of PKR 11 per share) by Arif Habib Securities Limited. The amount offered was PKR 1,254 billion against which the Offerer received total subscription amount of PKR 7,057 billion (5.6 times). The overwhelming public response triggered the full exercise of the Green Shoe Option of 60 million shares. This raised the total issue of 119,748,500 million shares to the public. Applications for 500, 1,000, and 1,500 shares were all allotted in full to the respective applicants, whereas balloting was done in the category of 2,000 shares. The shares of the bank are now formally listed on Karachi Stock Exchange with effect from February 11, 2008.

The Board of Directors has approved appropriation of Rs.183,433,000/- to General Reserve for the year ended December 31, 2007. These financial statements do not reflect this appropriation.

Pattern of Shareholding

The pattern of shareholding is attached with this report.

Director's Report

Corporate and Financial Reporting Framework

The Directors feel pleasure to give following statement in respect of Code of Corporate Governance:

- The financial statements, together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984. These statements present fairly the Company's state of affairs, result of its operations, cash flows and changes in equity.
- Proper books of accounts of the company have been maintained.
- Appropriate accounting policies have been consistently applied.
- The International Financial Reporting Standards, as applicable in Pakistan have been followed in preparation of financial statements and any departure having material impact therefrom has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There is no significant doubt about the company's ability to continue as going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data is available in the annual report.
- All the statutory liabilities, if any, have been adequately disclosed in the financial statements.

Board Meetings

The number of Board meetings held during the year ended December 31, 2007 were nine (9) and attendance therein by the directors is as below:

S.no.	NAME	Meetings Attended
1	Arif Habib	9
2	Kamal uddin Khan (President & CEO)	5
3	Salim Chamdia	9
4	Md. Abdul Hamid Miah	-
5	Asadullah Khawaja	9
6	Nasim Beg	6
7	Syed Ajaz Ahmed	9
8	Mrs. Sultana (Resigned)	-
9	Rahim Khanani (Resigned)	3

Risk Management Framework

Based on the guidelines issued by the State Bank of Pakistan (SBP), a comprehensive Risk Management framework has been put in place in the Bank for management of such risks. Clearly defined risk

management policies and procedures covering all activities of the Bank including general banking, trade finance, credit evaluation, credit management, treasury operations, administration, human resources management, compliance functions, risk management, accounting, audit and control are in place. The basic principles employed in formulation of the above policies and procedures involves identification, measurement, monitoring and controlling risks to ensure that:

- The Bank's risk exposure is within the limits established by Board of Directors.
- Risk taking decisions are in line with the business strategy and objectives of the Bank.
- The expected payoffs compensate the risks taken by the Bank.
- Risk taking decisions are explicit and clear.
- Sufficient capital is available as buffer to mitigate risk.

In complying with the SBP Guidelines on Risk Management issued in August 2003, the Board of Directors of the Bank approved the implementation of Questionnaire on Institutional Risk Assessment Framework (IRAF).

Statement on Internal Control

Management of the Bank is responsible for establishing and maintaining a sound system of internal controls to ensure operating efficiency, compliance and reliability of financial reporting.

The following specific initiatives have been adopted:

- An independent Internal Audit Division reporting directly to Audit committee of the Board of Directors is effectively functioning
- Compliance Division is working to ensure adherence to Laws, Regulations and Code of Ethics with strong emphasis on KYC & AML.
- The statement of Ethics and Business Practices has been signed and adopted by the Directors and Employees of the Bank.
- A portfolio of Policies which were approved by the Board, are continuously updated based on the needs and requirements.
- Management responds to the recommendations made by the Auditors for improvements in the internal control system.
- A number of Board and Management Committees are functioning to ensure adequate communication and control.

Director's Report

Auditors

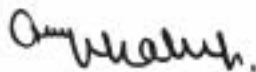
The present auditors M/S Yousuf Adil Saleem & Company, Chartered Accountants retire and offer themselves for reappointment. On the recommendation of Audit Committee the Board has agreed to recommend for the re appointment of M/S Yousuf Adil Saleem & Company, Chartered Accountants as Bank's auditors for the year ending December 31, 2008.

Acknowledgment

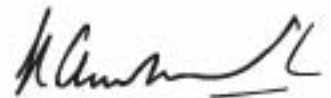
On behalf of the Board and the Management, we would like to express our sincere appreciation to the State Bank of Pakistan, Government of Pakistan and other regulatory bodies for their contribution towards the economic growth of the country and specially for their guidance and support.

We sincerely appreciate our shareholders for their trust and confidence, our customers for their patronage and our employees of the Bank for their commitment and hard work.

On Behalf of the Board of Directors



Arif Habib
Chairman of the Board



Kamal Uddin Khan
President & CEO

February 16, 2008



Statement Of Compliance With The Code Of Corporate Governance

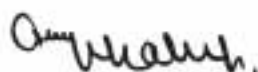
This statement is being presented to comply with the Prudential Regulation No. XXIX, responsibilities of Board of Directors, issued vide BSD Circular No. 15 dated June 13, 2002.

1. The Bank encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes 5 independent non-executive Directors.
2. The Directors have confirmed that none of them is serving as a Director in more than ten listed companies, including this Bank.
3. All the Resident Directors of the Bank are registered 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. Casual vacancies that occurred in the Board on 15 June 2007 and 15 December 2007 were filled up by the Directors on the same day.
5. The Bank has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the Directors and employees of the Bank.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies 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 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 the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. One orientation course was arranged during the year.
10. The appointment of Company Secretary including his remuneration and terms and conditions of employment has been duly approved by the Board.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
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 audit committee is continued and it comprises 3 members, of whom all are non-executive Directors including the Chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

Statement Of Compliance With The Code Of Corporate Governance

17. The Board has set-up an effective internal audit function.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, 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 Institute of Chartered Accountants of Pakistan.
19. 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.
20. We confirm that all other material principles contained in the Code have been substantially complied with.

For and on behalf of the Board



Arif Habib
Chairman of the Board



Kamal Uddin Khan
President & CEO

February 16, 2008

Auditors' Review Report To The Members On Statement Of Compliance With Best Practices Of Code Of Corporate Governance

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

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2007.



Chartered Accountants

Karachi

Date: February 16, 2008

Auditors' Report To The Members

We have audited the annexed balance sheet of **Arif Habib Bank Limited** (the bank) as at December 31, 2007 and the related profit and loss account, cash flow statement and 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 one branch which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing 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 60% of the total loans and advances of the bank, we report that:

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

(b) in our opinion:

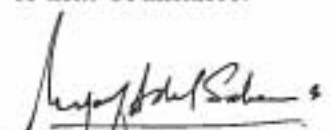
i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

ii) the expenditure incurred during the period was for the purpose of the bank's business; and

iii) the business conducted, investments made and the expenditures incurred during the period 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 balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the 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 December 31, 2007 and its true balance of profit, cash flows and changes in equity for the year then ended; and

(d) in our opinion, zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.



Chartered Accountants

Karachi


Date: February 16, 2008

Balance Sheet

As At December 31, 2007

	Note	2007 Rupees in '000'	2006
Assets			
Cash and balances with treasury banks	7	753,845	228,374
Balances with other banks	8	52,551	645,650
Lendings to financial institutions	9	2,855,582	1,079,286
Investments	10	5,408,425	1,730,868
Advances	11	8,029,248	1,424,369
Operating fixed assets	12	597,515	385,074
Deferred tax assets		--	--
Other assets	13	423,620	202,758
		<u>18,120,786</u>	<u>5,696,379</u>
Liabilities			
Bills payable	14	384,179	3,899
Borrowings	15	1,748,603	--
Deposits and other accounts	16	9,464,785	2,526,271
Sub-ordinated loans		--	--
Liabilities against assets subject to finance lease		--	--
Deferred tax liabilities	17	39,867	105
Other liabilities	18	181,776	93,328
		<u>11,819,210</u>	<u>2,623,603</u>
Net Assets		<u>6,301,576</u>	<u>3,072,776</u>
Represented By			
Share capital	19	4,500,000	3,000,000
Reserves		1,631,395	18,795
Unappropriated profit		192,744	75,179
		<u>6,324,139</u>	<u>3,093,974</u>
Deficit on revaluation of assets - net	20	(22,563)	(21,198)
		<u>6,301,576</u>	<u>3,072,776</u>
Contingencies And Commitments	21		

The annexed notes 1 to 42 form an integral part of these accounts.



President & Chief Executive



Director



Director



Director

Profit And Loss Account

For The Year Ended December 31, 2007

	Note	December 31, 2007	From December 09, 2005 to December 31, 2006
Rupees in '000'			
Mark-up/Return/Interest earned	22	617,854	142,802
Mark-up/Return/Interest expensed	23	(252,338)	(23,309)
Net Mark-up/ Interest income		365,516	119,493
Provision against non-performing loans and advances	11	--	24
Provision for diminution in the value of investments		--	--
Bad debts written off directly		--	--
		--	24
Net Mark-up/ Interest Income after provisions		365,516	119,469
Non Mark-up/interest Income			
Fee, Commission and Brokerage Income		6,975	468
Dividend Income		35,118	--
Gain/(Loss) from dealing in foreign currencies		1,706	(76)
Gain on sale of securities - net	24	295,672	20,482
Unrealized gain / (loss) on revaluation of investments classified as held for trading		(6,797)	--
Other Income	25	13,230	340
Total Non-Markup/Interest Income		345,904	21,214
		711,420	140,683
Non Mark-up/interest Expenses			
Administrative expenses	26	383,529	90,441
Other provisions / write-offs		--	--
Other charges	27	973	213
Total non-markup/interest expenses		384,502	90,654
		326,918	50,029
Extra ordinary/unusual items		--	--
Profit Before Taxation		326,918	50,029
Taxation - Current	28	(11,982)	(820)
- Prior years		(42,013)	--
- Deferred		(42,758)	44,765
		(96,753)	43,945
Profit After Taxation		230,165	93,974
Unappropriated Profit brought forward		75,179	--
Profit available for appropriation		305,344	93,974
Basic Earnings per share (Rupee)	29	0.65	1.10
Diluted Earnings per share (Rupee)	29	0.65	1.10

The annexed notes 1 to 42 form an integral part of these accounts.


President & Chief Executive


Director


Director


Director

Cash Flow Statement

For The Year Ended December 31, 2007

	2007	2006
	----- Rupees in '000' -----	
A. Cash Flows From Operating Activities		
Profit before taxation	326,918	50,029
Dividend income	(35,118)	--
	<u>291,800</u>	<u>50,029</u>
Depreciation	34,383	5,996
Amortization	11,209	3,664
Unrealized Loss on revaluation of Investment Held for Trading	6,797	--
Provision for non-performing advances	--	24
Gain on sale of fixed assets	(847)	(54)
Provision for gratuity	4,092	690
	<u>55,634</u>	<u>10,320</u>
	<u>347,434</u>	<u>60,349</u>
Increase in operating assets		
Lendings to financial institutions	(1,776,296)	(1,079,286)
Held for trading securities	(68,749)	--
Advances	(6,604,879)	(1,420,183)
Others assets	(252,605)	(158,293)
	<u>(8,702,529)</u>	<u>(2,657,762)</u>
Increase / (decrease) in operating liabilities		
Bills payable	380,280	(5,097)
Borrowings from financial institutions	1,748,603	(170,000)
Deposits and other accounts	6,938,514	2,425,565
Other liabilities	77,734	31,261
	<u>9,145,131</u>	<u>2,281,729</u>
	<u>790,036</u>	<u>(315,684)</u>
Income tax paid	(21,040)	(27,153)
Net cash flow from / (used in) operating activities	<u>768,996</u>	<u>(342,837)</u>
B. Cash Flows From Investing Activities		
Net investments in available for sale securities	(3,619,966)	(1,454,559)
Dividend income	32,158	--
Investments in operating fixed assets	(270,108)	(198,298)
Cash flow on acquisition	--	83,869
Sale proceeds from disposal of property and equipment	21,292	849
Net cash flow used in investing activities	<u>(3,836,624)</u>	<u>(1,568,139)</u>
C. Cash Flows From Financing Activities		
Issue of share capital	1,500,000	2,785,000
Advance against issue of right shares	--	--
Share premium on issue of share capital	1,500,000	--
Cash flow from financing activities	<u>3,000,000</u>	<u>2,785,000</u>
(Decrease) / increase in cash and cash equivalents	(67,628)	874,024
Cash and cash equivalents at beginning of the period	874,024	--
Cash and cash equivalents at end of the period	<u>806,396</u>	<u>874,024</u>

The annexed notes 1 to 42 form an integral part of these accounts.



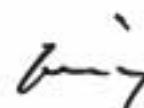
President & Chief Executive



Director



Director



Director

Statement Of Changes In Equity

For The Year Ended December 31, 2007

	Share capital	Capital Reserves		Revenue reserves		Total
		Share premium	Statutory reserve	General reserve	Unappropriated profit	
Rupees in '000'						
Issue of share capital	3,000,000	--	--	--	--	3,000,000
Profit for the period	--	--	--	--	93,974	93,974
Transfer to statutory reserve	--	--	18,795	--	(18,795)	--
Balance as at December 31, 2006	3,000,000	--	18,795	--	75,179	3,093,974
Issue of share capital	1,500,000	1,500,000	--	--	--	3,000,000
Profit for the period	--	--	--	--	230,165	230,165
Transfer to statutory reserve	--	--	46,033	--	(46,033)	--
Transfer to general reserve	--	--	--	66,567	(66,567)	--
Balance as at December 31, 2007	4,500,000	1,500,000	64,828	66,567	192,744	6,324,139

The annexed notes 1 to 42 form an integral part of these accounts.


President & Chief Executive


Director


Director


Director

Notes To The Financial Statements

For The Year Ended December 31, 2007

1. Status And Nature Of Business

Arif Habib Bank Limited "the Bank" was incorporated in Pakistan as a public limited company on December 09, 2005 under the Companies Ordinance, 1984. Its registered office is situated at 2/1 R.Y. 16, Old Queens Road, Karachi in the province of Sindh. The Bank has obtained certificate of commencement of business from Securities and Exchange Commission of Pakistan on April 10, 2006.

The Bank is principally engaged in the business of banking company, through its 12 branches (2006: 7 branches), as defined in the Banking Companies Ordinance, 1962. The medium to long term rating of the Bank rated by JCR-VIS, credit rating company, is A with a positive outlook. Short term rating of the Bank is A2. With effect from December 24, 2007 the Bank is provisionally listed on the Karachi Stock Exchange.

2. Basis Of Presentation

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

3. Statement Of Compliance

3.1 These financial statements are prepared applying accounting policies which are in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Banking Companies Ordinance, 1962, directives issued by State Bank of Pakistan and the Companies Ordinance, 1984. Approved accounting standards comprise of such International Financial Reporting Standards as are notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the requirements of the said directives take precedence.

3.2 The State Bank of Pakistan as per BSD Circular Letter No.10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" and International Accounting Standard 40, "Investment Property" for Banking Companies. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

3.3 Interpretations to published approved accounting standards that are not yet effective The following interpretations of approved accounting standards, has been issued but not yet effective, are either not relevant to Bank's operations or are not expected to have significant impact on the Bank's financial statements other than increased disclosures in certain cases: -

IFRIC 11 - Group and treasury share transactions	Effective from accounting period beginning on or after March 1, 2007.
IFRIC 12 - Services concession arrangements	Effective from accounting period beginning on or after January 1, 2008.
IFRIC 13 - Customer loyalty programmes	Effective from accounting period beginning on or after July 1, 2008.
IFRIC 14 - IAS 19 - The limits on a defined benefit asset, minimum funding requirements and their interaction.	Effective from accounting period beginning on or after July 1, 2008.

Notes To The Financial Statements

For The Year Ended December 31, 2007

4. Basis Of Measurement

These financial statements have been prepared under the historical cost convention, except for the measurement of certain financial instruments at fair value and staff retirement benefits (Gratuity) stated at present value.

5. Summary Of Significant Accounting Policies

5.1 Revenue recognition

Mark-up / return / interest on advances, bank deposits and return on investments is recognized on accrual basis except on non-performing advances and investments which is recognized on receipt basis, in accordance with Prudential Regulations issued by the SBP.

Fee and commission income is recognized on accrual basis.

Dividend income is recorded when the right to receive dividend is established.

5.2 Investments

Investments are classified as securities held-to-maturity, held-for-trading and available-for-sale.

Held-to-maturity

These are securities with fixed or determinable payments and fixed maturity and the Bank has the positive intent and ability to hold upto maturity.

Held-for-trading

These securities are either acquired for generating a profit from short-term fluctuations in prices or securities included in portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

Available-for-sale

These are investments, other than those in subsidiaries and associates, that do not fall under the held for trading or held to maturity categories.

Initial measurement

Investments in securities are recognized on a trade-date basis and are initially measured at cost.

Subsequent measurement

Held-to-maturity

These are measured at amortized cost using effective interest rate method, less any impairment loss recognized to reflect irrecoverable amount.

Held-for-trading

These are measured at subsequent reporting dates at fair value. Gains and losses on remeasurement are included in the net profit and loss for the year.

Available for sale

Quoted securities classified as available for sale investments are measured at subsequent reporting dates at fair value and surplus / deficit arising thereon is kept in a separate account shown in the balance sheet below equity. The surplus / deficit arising on these securities is taken to the profit and loss account when actually realized upon disposal.

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

Gain or loss on sale of investments is included in profit and loss account for the year.

Notes To The Financial Statements

For The Year Ended December 31, 2007

5.3 Sale and repurchase agreement transactions

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. Securities purchased under agreement to resale (reverse repo) are not recognized in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions and in case of continuous funding system shown under advances. The difference between sale and repurchase price is treated as markup / return expensed or earned as the case may be.

5.4 Advances

Advances are stated net of provisions. Provisions comprises of:-

- Specific provision
- General provision

Specific provision

The Bank maintains specific provisions for doubtful debts at a level that can reasonably be anticipated keeping in view, the requirements of the Prudential Regulations issued by the SBP.

General provision

The Bank maintains general provision at the rate of 5% against unsecured consumer portfolio and at the rate of 1.5% against secured consumer portfolio in accordance with the Prudential Regulations issued by the SBP.

5.5 Operating fixed assets and depreciation

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, if any.

Depreciation is charged to income applying the straight line method over the estimated useful lives while taking into account any residual value, at the rates given in Note 12.2 to the financial statements. In respect of additions and deletions to assets during the year, depreciation is charged from the month of acquisition and up to the month preceding the deletion.

Normal repairs and maintenance are charged to profit and loss account for the year as and when incurred. Major repairs and improvements are capitalized and assets so replaced, if any, are retired.

Gains and losses on disposal of property and equipment, if any, are taken to profit and loss account for the year.

Capital work in progress

These are stated at cost.

Intangible assets

Intangible assets, other than Goodwill, are stated at cost less accumulated amortization and accumulated impairment loss, if any. Amortization is carried out on the straight line method at the rates given in note 12.3 to the financial statements. In respect of additions and deletions to assets during the year, amortization is charged from the month of acquisition and up to the month preceding the deletion.

5.6 Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually at balance sheet date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Bank's cash-generating units expected to benefit from the synergies of the combination. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Notes To The Financial Statements

For The Year Ended December 31, 2007

5.7 Deferred Costs

Pre-operating / preliminary expenses are included in deferred costs and these will be amortized over a maximum period of five years on straight line basis from the date of commencement of business.

5.8 Impairment of assets excluding goodwill

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

Where an impairment loss reverses subsequently, the carrying amount of the assets is increased to revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the assets in prior years. A reversal of an impairment loss is recognized as income immediately.

5.9 Staff retirement benefits

Defined Contribution Plan

The Bank operates defined contribution provident fund for all employees. Equal monthly contributions are made both by the Bank and the employees to the fund at the rate of 8.33% of basic salary.

Defined Benefit Plan

The Bank operates an unfunded gratuity scheme covering all employees who have attained the minimum qualifying period of five years. Provision is made in accordance with the actuarial recommendations and charged to income currently. Actuarial valuation is carried out periodically using "Projected Unit Credit Method".

Actuarial gain / loss is recognised using 10% corridor approach. Corridor is defined as greater of 10% of present value of defined benefit obligation and plan assets.

5.10 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration the tax credits and rebates available, if any.

Deferred

Deferred tax is recognized using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The Bank records deferred tax assets / liabilities using the tax rates, enacted or substantially enacted at the balance sheet date expected to be applicable at the time of its reversal.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Bank recognizes deferred tax asset / liability on (deficit) / surplus on revaluation of securities in accordance with the requirements of the International Accounting Standard (IAS) 12 "Income Taxes". The related deferred tax asset / liability is adjusted against the related (deficit) / surplus.

5.11 Provisions and contingent assets and liabilities

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

Notes To The Financial Statements

For The Year Ended December 31, 2007

Contingent assets are not recognised, and are also not disclosed unless an inflow of economic benefits is probable and contingent liabilities are not recognised, and are disclosed unless the probability of an outflow of resources embodying economic benefits is remote.

5.12 Foreign currencies

Assets and liabilities in foreign currencies are translated into Rupees at the rates of exchange approximating those prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts other than those relating to foreign currency deposits are valued at the rates applicable to the respective maturities of the relevant foreign bills purchased and forward foreign exchange contracts.

Exchange gains and losses are included in profit and loss account for the year.

5.13 Cash and cash equivalents

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

5.14 Related party transactions

Transactions between the Bank and its related parties are carried out on an arm's length basis. The relevant rates are determined in accordance with the "Comparable Uncontrolled Price Method".

5.15 Off setting

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

5.16 Financial instruments

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

5.17 Derivative financial instruments

Derivative financial instruments are recognized at their fair value on the date on which a derivative contract is entered into. These instruments are marked to market and changes in fair values are taken to the profit and loss account. Fair values are obtained from quoted market prices in active markets.

6. Critical Accounting Judgments And Key Sources Of Estimation Uncertainty

In the process of applying the Bank's accounting policies, which are described in note 5, management has made the following judgments and estimated uncertainty that have the significant effect on the amounts recognized in the financial statements:-

6.1 Provision against non-performing advances

Apart from the provision determined on the basis of time based criteria given in Prudential Regulations the management also applies the subjective criteria of classification and accordingly the classification of an advance is downgraded on the basis of evaluation of credit worthiness of borrower, its cash flows, operations in account and adequacy of security in order to ensure accurate measurement of the provision.

Notes To The Financial Statements

For The Year Ended December 31, 2007

6.2 Retirement Benefits

The key actuarial assumptions concerning the valuation of defined benefit plan and the sources of estimation are disclosed in note 32 to the financial statements.

6.3 Useful life of property and equipment

Estimates of useful life of the property and equipment and intangible assets are based on management's best estimate.

6.4 Goodwill

The key assumption concerning cash flow projection of each cash generating unit relating to impairment testing of goodwill and basis of its allocation are disclosed in note 12.4 to the financial statement.

	Note	2007 Rupees in '000'	2006
7. Cash And Balances With Treasury Banks			
In hand			
Local currency		85,907	13,595
Foreign currencies		9,815	1,489
With State Bank of Pakistan in			
Local currency current account	7.1	642,956	208,792
Foreign currency current account	7.2	1,221	1,247
Foreign currency deposit account			
- Non remunerative	7.3	3,410	792
- Remunerative	7.4	10,536	2,459
		<u>753,845</u>	<u>228,374</u>

7.1 The current account is maintained as per the requirements of Section 22 of the Banking Companies Ordinance, 1962.

7.2 This represents the US dollar clearing account maintained with SBP.

7.3 This represents the 7% special cash reserve required to be maintained with the SBP on deposits held under the new foreign currency account scheme.

7.4 This represents the 18% special cash reserve required to be maintained with the SBP on deposits held under the new foreign currency account scheme at the rate ranging from 3.71% to 4.72% (2006 : 4.32% to 4.39%) per annum on monthly basis.

8. Balances With Other Banks

In Pakistan			
On current accounts		27,679	3,236
On deposit accounts	8.1	--	600,000
Outside Pakistan			
On current accounts		24,872	42,414
		<u>52,551</u>	<u>645,650</u>

8.1 These represented short term placements carried interest rate ranging from 11.15% to 12.25% per annum.

9. Lendings To Financial Institutions

Call money lendings	9.1	1,200,000	830,000
Repurchase agreement lendings (Reverse Repo)	9.2	1,655,582	49,286
Certificates of investment	9.3	--	200,000
		<u>2,855,582</u>	<u>1,079,286</u>

Notes To The Financial Statements

For The Year Ended December 31, 2007

- 9.1** These represent call money lendings to the financial institutions carrying mark-up ranging from 9.5% to 12.0% (2006 : 5% to 12.25%) per annum and having maturity up to one month.
- 9.2** These represent short term lendings to the financial institutions against government securities carrying mark-up ranging from 9.90% to 9.95% (2006 : 4% to 9%) per annum and having maturity up to one week.
- 9.3** These represented certificates of investment from non banking financial institutions carried mark-up ranging from 10.85% to 11.95% per annum.

	Note	2007 Rupees in '000'	2006 Rupees in '000'
9.4 Particulars of lendings			
In local currency		2,855,582	1,079,286
In foreign currencies		--	--
		2,855,582	1,079,286

9.5 Securities held as collateral against lendings to Financial Institutions

	2007			2006		
	Held by Bank	Further given as Collateral	Total Rupees in '000'	Held by Bank	Further given as Collateral	Total
Market Treasury Bills	99,206	1,556,376	1,655,582	49,286	--	49,286
	99,206	1,556,376	1,655,582	49,286	--	49,286

10. Investments

10.1 Investments by types:

Held-for-trading

Listed companies shares	7,890	55,859	63,749	--	--	--
Mutual funds units / certificates	5,000	--	5,000	--	--	--
	7,890	55,859	63,749	--	--	--

Available - for - sale securities

Market Treasury Bills	2,445,570	192,860	2,638,430	384,651	--	384,651
Pakistan Investment Bonds	446,042	--	446,042	203,196	--	203,196
Listed companies shares	158,271	146,458	304,729	364,013	--	364,013
Mutual funds units / certificates	1,080,000	--	1,080,000	650,795	--	650,795
Unlisted Term Finance Certificates	903,420	--	903,420	150,000	--	150,000
	5,033,303	339,318	5,372,621	1,752,655	--	1,752,655
Investment at cost	5,046,193	395,177	5,441,370	1,752,655	--	1,752,655

Provision for diminution in value of investments

	--	--	--	--	--	--
--	----	----	----	----	----	----

Investments - net of provisions 5,046,193 395,177 5,441,370 1,752,655 -- 1,752,655

Deficit on revaluation

of securities - Held for trading	(642)	(6,155)	(6,797)	--	--	--
- Available for sale	(17,426)	(8,722)	(26,148)	(21,787)	--	(21,787)

Total investments at market value 5,028,125 380,300 5,408,425 1,730,868 -- 1,730,868

Notes To The Financial Statements

For The Year Ended December 31, 2007

	Note	2007 Rupees in '000'	2006
10.2 Investments by segments:			
Federal Government Securities:			
- Market Treasury Bills	10.3	2,638,430	384,651
- Pakistan Investment Bonds	10.3	446,042	203,196
Fully Paid up Ordinary Shares / Units / Certificate:			
- Listed companies	10.4	368,478	364,013
- Mutual funds	10.5	1,085,000	650,795
Term Finance Certificates - Unlisted	10.6	903,420	150,000
Total investment at cost		<u>5,441,370</u>	<u>1,752,655</u>
Provision for diminution in value of investments		--	--
Investments - net of provisions		<u>5,441,370</u>	<u>1,752,655</u>
Deficit on revaluation of securities - Available for sale	20	(26,148)	(21,787)
Deficit on revaluation of securities - Held for trading	10.8	(6,797)	--
Total investments at market value		<u>5,408,425</u>	<u>1,730,868</u>

10.3 Market Treasury Bills and Pakistan Investment Bonds are held with SBP and are eligible for rediscounting. Market Treasury Bills embody effective yield ranging from 9.0% to 9.4% (2006 : 8.10% to 8.82%) maturing within 12 months and Pakistan Investment Bonds carry markup ranging from 8% to 11% (2006 : 8% to 11%) per annum on semi-annual basis maturing within 4 to 10 years. Certain government securities are kept with SBP to meet statutory liquidity requirement calculated on the basis of demand and time liabilities.

10.4 Particulars of investment in ordinary shares - listed

Investee	Number of shares held		Paid-up value per share	Total nominal value	
	2007	2006		2007	2006
	Rupees in '000'				
Askari Commercial Bank Limited	1,500,000	--	10	15,000	--
Bank Al Falah Limited	--	40,000	10	--	400
D.G. Khan Cement Limited	--	66,000	10	--	660
Engro Chemical Pakistan Limited	--	60,000	10	--	600
Fauji Fertilizer Bin Qasim Limited	500,000	232,500	10	5,000	2,325
Fauji Fertilizer Company Limited	1,000,000	59,800	10	10,000	598
Faysal Bank Limited	--	167,200	10	--	1,672
MCB Bank Limited	--	60,000	10	--	600
National Bank of Pakistan	--	193,900	10	--	1,939
Oil & Gas Development Company Limited	--	347,700	10	--	3,477
Packages Limited	12,400	--	10	124	--
Pakistan Oilfield Limited	--	222,900	10	--	2,229
Pakistan Petroleum Limited	--	294,800	10	--	2,948
Pakistan State Oil Limited	--	47,800	10	--	478
Pak Suzuki Motors Limited	154,800	--	10	1,548	--
The Bank of Punjab	--	285,000	10	--	2,850
World Call Telecom Limited	--	1,056,000	10	--	10,560

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For The Year Ended December 31, 2007

10.5 Particulars of investment in mutual funds

Investee	Number of shares held		Paid-up value per share	Total nominal value	
	2007	2006		2007	2006
				Rupees in '000'	
AMZ Plus Income Fund	1,889,359	953,405	100	188,936	95,340
Askari Income Fund	2,846,300	--	100	284,630	--
Dawood Money Market Fund	1,898,380	--	100	189,838	--
HBL Multi Asset Fund	500,000	--	10	5,000	--
KASB Balance Fund	100,000	--	50	5,000	--
KASB Liquid Fund	--	242,319	100	--	24,232
Pakistan Capital Market Fund	--	882,743	10	--	8,827
Pakistan Capital Protected Fund - I	3,000,000	--	10	30,000	--
Pakistan Income Fund	3,810,250	7,632,931	50	190,513	381,647
Pakistan Premier Fund	--	5,000,000	10	--	50,000
Pakistan Strategic Allocation Fund	--	5,000,000	10	--	50,000
Reliance Income Fund	1,910,614	200,000	50	95,531	10,000

10.6 Particulars of investment in unlisted Term Finance Certificates

Particulars	Name of Chief Executive	Number of Certificates held	Paid-up value per Certificate	Total nominal value Rupees in '000'
Term Finance Certificates				
Engro Chemical Pakistan Limited	Mr. Asad Umer	33,684	5,000	168,420
Pak Arab Fertilizer Limited	Mr. Fawad Ahmad Mukhtar	47,000	5,000	235,000
Pak American Fertilizer (Pvt.) Limited (formerly Dominion Fertilizer (Pvt.) Limited)	Mr. Ahmed Jauded Bilal	500	1,000,000	500,000

10.7 Quality of Available for Sale Securities

Securities	2007			2006			2007	2006
	Short Term Rating	Long Term Rating	Rating by	Short Term Rating	Long Term Rating	Rating by	Rupees in '000'	
Market Treasury Bills	Unrated	Unrated	--	Unrated	Unrated	--	2,631,342	384,256
Pakistan Investment Bonds	Unrated	Unrated	--	Unrated	Unrated	--	442,887	201,908
Pak American Fertilizer (Pvt) Ltd. (Formerly Dominion Fertilizer (Pvt.) Ltd. (TPCs))	Unrated	Unrated	--	Unrated	Unrated	--	500,000	150,000
AMZ Plus Income Fund	Unrated	A(f)	JCR-VIS	Unrated	A(f)	JCR-VIS	200,002	101,359
Askari Commercial Bank Limited	AI+	AA	PACRA	--	--	--	149,625	--
Askari Income Fund	Unrated	A(f)	PACRA	--	--	--	300,598	--
Bank Al Falah Limited	--	--	--	AI+	Unrated	PACRA	--	1,672
Dawood Money Market Fund	Unrated	5-Star	PACRA	--	--	--	200,000	--
D.G. Khan Cement Limited	--	--	--	Unrated	Unrated	--	--	4,155
Engro Chemical Pakistan Limited	--	--	--	AI+	AA	PACRA	--	10,140
Engro Chemical Pakistan Limited (TPCs)	Unrated	AA	PACRA	--	--	--	168,420	--

Notes To The Financial Statements

For The Year Ended December 31, 2007

	2007			2006			2007	2006
	Short Term Rating	Long Term Rating	Rating by	Short Term Rating	Long Term Rating	Rating by	Rupees in '000'	
Fauji Fertilizer Bin Qasim Limited	--	--	--	Unrated	Unrated	--	--	6,626
Fauji Fertilizer Company Limited	Unrated	Unrated	--	Unrated	Unrated	--	118,750	6,312
Paysal Bank Limited	--	--	--	A1+	Unrated	PACRA	--	10,116
HBL Multi Asset Fund	Unrated	Unrated	--	--	--	--	50,235	--
KASB Liquid Fund	--	--	--	Unrated	Unrated	--	--	25,506
MCB Bank Limited	--	--	--	A1+	Unrated	PACRA	--	14,766
National Bank of Pakistan Oil & Gas Development Company Limited	--	--	--	A1+	AAA	JCR-VIS	--	43,482
Pak Arab Fertilizer Limited (TFCs)	Unrated	AA	JCR-VIS	--	--	--	235,000	--
Pakistan Capital Market Fund	--	--	--	5-Star	Unrated	PACRA	--	10,107
Pakistan Income Fund	Unrated	4-Star	PACRA	4-Star	Unrated	PACRA	200,000	402,255
Pakistan Oilfield Limited	--	--	--	Unrated	Unrated	--	--	77,959
Pakistan Petroleum Limited	--	--	--	Unrated	Unrated	--	--	68,394
Pakistan Premier Fund	--	--	--	5-Star	Unrated	PACRA	--	65,000
Pakistan State Oil Limited	--	--	--	A1+	Unrated	PACRA	--	14,053
Pakistan Strategic Allocation Fund	--	--	--	5-Star	Unrated	PACRA	--	42,500
Pakistan Capital Protected Fund-1	Unrated	Unrated	--	--	--	--	30,000	--
Pak Suzuki Motors Limited	Unrated	Unrated	--	--	--	--	19,614	--
Reliance Income Fund	Unrated	Unrated	--	4-Star	Unrated	PACRA	100,000	10,212
The Bank of Punjab	--	--	--	A1+	Unrated	PACRA	--	28,856
World Call Telecom Limited	--	--	--	A1	Unrated	PACRA	--	11,352
							5,346,473	1,730,868

10.8 Unrealized gain / (loss) on investments classified as held for trading - net

	2007		2006	
	Unrealized gain/(loss)	Cost	Unrealized gain/(loss)	Cost
Rupees in '000'				
Fauji Fertilizer Bin Qasim Limited	(1,758)	22,783	--	--
KASB Liquid Fund	--	5,000	--	--
Packages Limited	(223)	4,734	--	--
Pak Suzuki Motors Limited	(4,816)	36,232	--	--
	(6,797)	68,749	--	--

10.9 Shares pledged with National Clearing Company of Pakistan Limited against Continuous Funding System (CFS) margin

	2007		2006	
	Number of shares	Amount Rupees in '000'	Number of shares	Amount Rupees in '000'
Fauji Fertilizer Company Limited	1,000,000	122,519	--	--
Fauji Fertilizer Bin Qasim Limited	500,000	22,783	--	--
Pak Suzuki Motors Limited	146,500	57,015	--	--

Notes To The Financial Statements

For The Year Ended December 31, 2007

	Note	2007 Rupees in '000'	2006 Rupees in '000'
11. Advances			
Loans, cash credits, running finances, etc.			
In Pakistan		7,625,888	533,997
Outside Pakistan		--	--
		<u>7,625,888</u>	<u>533,997</u>
Financing in respect of Continuous funding system (CFS)	11.2	501,846	1,030,611
Bills discounted and purchased (excluding Treasury Bills)			
Payable in Pakistan		29,975	--
Payable outside Pakistan		--	--
		<u>29,975</u>	<u>--</u>
Advances - Gross		8,157,709	1,564,608
Provision against non-performing advances	11.4	(128,461)	(140,239)
Advances - net of provision		<u>8,029,248</u>	<u>1,424,369</u>

11.1 Particulars of advances

11.1.1 In local currency	8,157,709	1,564,608
In foreign currencies	--	--
	<u>8,157,709</u>	<u>1,564,608</u>
11.1.2 Short Term	7,890,159	1,555,042
Long Term	267,550	9,566
	<u>8,157,709</u>	<u>1,564,608</u>

11.2 This represents secured financing in respect of purchase of shares from CFS market. These carry markup ranging from 11.50% to 14.25% (2006 : 11.28% to 19.29%) per annum.

11.3 Advances include Rs.128.461 million (2006: Rs. 140.215 million) which have been placed under non-performing status as detailed below:

Category of Classification	2007								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	-----Rupees in '000'-----								
Substandard	--	--	--	--	--	--	--	--	--
Doubtful	--	--	--	--	--	--	--	--	--
Loss	128,461	--	128,461	128,461	--	128,461	128,461	--	128,461
	<u>128,461</u>	<u>--</u>	<u>128,461</u>	<u>128,461</u>	<u>--</u>	<u>128,461</u>	<u>128,461</u>	<u>--</u>	<u>128,461</u>

Category of Classification	2006								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	-----Rupees in '000'-----								
Substandard	--	--	--	--	--	--	--	--	--
Doubtful	--	--	--	--	--	--	--	--	--
Loss	140,215	--	140,215	140,215	--	140,215	140,215	--	140,215
	<u>140,215</u>	<u>--</u>	<u>140,215</u>	<u>140,215</u>	<u>--</u>	<u>140,215</u>	<u>140,215</u>	<u>--</u>	<u>140,215</u>

Notes To The Financial Statements

For The Year Ended December 31, 2007

	2007			2006		
	Specific	General	Total	Specific	General	Total
	-----Rupees in '000'-----					
11.4 Particulars of provision against non-performing advances						
Opening balance	140,215	24	140,239	-	-	-
Addition by amalgamation	--	--	-	140,215	-	140,215
Charge for the period	--	--	-	-	24	24
Amounts written off	(1,971)	--	(1,971)	-	-	-
Reversals	(9,783)	(24)	(9,807)	-	-	-
Closing balance	128,461	--	128,461	140,215	24	140,239

11.4.1 Particulars of provisions against non-performing advances

In local currency	128,461	--	128,461	140,215	24	140,239
In foreign currencies	--	--	-	-	-	-
	128,461	--	128,461	140,215	24	140,239

	Note	2007 Rupees in '000'	2006 Rupees in '000'
11.5 Particulars of write offs			
11.5.1 Against provisions	11.4	1,971	--
Directly charged to profit & loss account		--	--
		1,971	--
11.5.2 Write offs of Rs.500,000/- and above		--	--
Write offs of below Rs.500,000/-		1,971	--
		1,971	--

11.6 Particulars of loans and advances to Directors, Associated Companies, etc.

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

Balance at beginning of year	11,272	--
Loans granted during the year / period	90,699	12,225
Repayments	(18,719)	(953)
Balance at end of year / period	83,252	11,272

Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members

Balance at beginning of year	--	--
Loans granted during the year	859,074	--
Repayments	(49,428)	--
Balance at end of year	809,646	--

Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties

Balance at beginning of year	380,050	--
Loans granted during the year / period	610,951	453,571
Repayments	(509,726)	(73,521)
Balance at end of year / period	481,275	380,050
	1,374,173	391,322

Notes To The Financial Statements

For The Year Ended December 31, 2007

	Note	2007 Rupees in '000'	2006
12. Operating Fixed Assets			
Capital work-in-progress	12.1	111,351	73,383
Property and equipment	12.2	343,049	250,897
Intangible assets			
Computer software	12.3	82,321	--
Goodwill	12.4	60,794	60,794
		<u>597,515</u>	<u>385,074</u>
12.1 Capital work-in-progress			
Civil works		91,157	24,155
Advances to suppliers and contractors		20,194	6,899
Computer software		--	42,329
		<u>111,351</u>	<u>73,383</u>
12.2 Property and equipment			

Category of Classification	Cost			Depreciation			Net Book value at December 31, 2007	Rate of Depreciation %
	At January 01, 2007	Additions/ (Deletions)	At December 31 2007	Accumulated at January 01, 2007	For the year/period (on deletion)	Accumulated at December 31, 2007		
	Rupees in '000'							
Building	196,409	27,930	224,339	2,984	10,441	13,425	210,914	5%
Furniture and fixtures	3,083	10,853	13,936	70	900	970	12,966	10%
Electrical, office and computer equipment	31,966	95,052 (39)	126,979	1,715	16,430 (2)	18,143	108,836	20%
Vehicles	26,926	13,145 (26,352)	13,719	2,718	6,612 (5,944)	3,386	10,333	20%
2007	258,384	146,980 (26,391)	378,973	7,487	34,383 (5,946)	35,924	343,049	
2006	--	259,284 (900)	258,384	--	7,592 (105)	7,487	250,897	

12.2.1 Detail of disposal of property and equipment during the year

Description	Cost	Accumulated depreciation	Book Value	Sale Proceeds	Mode of disposal	Particular of buyer
	Rupees in '000'					
Electrical, office and computer equipments	39	2	37	39	Replacement of asset	Gemco, Karachi
Vehicle	856	84	772	772	Terms of employment	Abbas Sheikh, Karachi
Vehicle	866	58	808	809	Terms of employment	Adil Qadeer, Karachi
Vehicle	1,026	167	859	858	Terms of employment	Ahmed Javiad Malik, Lahore
Vehicle	925	200	725	798	By negotiation	Arif Habib Investment Management Limited, Karachi
Vehicle	1,069	339	730	730	Terms of employment	Asif Qasim, Karachi
Vehicle	900	285	615	615	Terms of employment	Asif Zafar, Karachi
Vehicle	861	169	692	692	Terms of employment	Aziz Moris, Karachi
Vehicle	950	190	760	792	Terms of employment	Delera D Dubesh, Karachi
Vehicle	900	270	630	630	Terms of employment	Ghazzanfer Ahsan, Karachi
Vehicle	1,010	200	810	809	Terms of employment	Gulraya Khan, Karachi
Vehicle	864	142	722	722	Terms of employment	Kamran Ashraf, Multan
Vehicle	866	58	808	809	Terms of employment	Khurram, Karachi
Vehicle	1,007	100	907	907	Terms of employment	Majid Waqar, Karachi
Vehicle	1,375	204	1,171	1,171	Terms of employment	Mohd Amin Khan, Lahore
Vehicle	861	158	703	703	Terms of employment	Moid uz zafar, Karachi
* Vehicle	-	-	-	360	Terms of employment	Muhammad Abul Hassanat, Karachi
* Vehicle	-	-	-	360	Terms of employment	Syed Abu Asad, Karachi
Vehicle	900	285	615	615	Terms of employment	Muhammad Amin Bhoori, Karachi
Vehicle	900	285	615	615	Terms of employment	Naveed Ali, Karachi
Vehicle	1,544	257	1,287	1,287	Terms of employment	Pervez Mobin, Karachi
Vehicle	1,319	528	791	813	Terms of employment	Karim Sultan Ali, Karachi
Vehicle	948	269	679	679	Terms of employment	Raza Dyer, Karachi
Vehicle	900	270	630	630	Terms of employment	Shahid Sumar, Karachi
Vehicle	1,372	254	1,118	1,118	Terms of employment	Syed Asif Ali, Karachi
Vehicle	1,415	307	1,108	1,108	Terms of employment	Syed Hassan Jaffery, Karachi
Vehicle	947	347	600	600	Terms of employment	Tasneem Beg, Karachi
Vehicle	900	270	630	630	Terms of employment	Tehsin Khan, Karachi
Vehicle	871	248	623	621	Terms of employment	Zahid Hussain, Lahore
	26,391	5,946	20,445	21,292		

* These vehicles were transferred from the Rupali Bank Limited - Pakistan branch at value of Re. 1/-

Notes To The Financial Statements

For The Year Ended December 31, 2007

12.3 Computer Software

Category of Classification	Cost			Amortization			Net Book value at December 31, 2007	Rate of Amortization %
	At January 01, 2007	Additions/ (Deletions)	At December 31 2007	Accumulated at January 01, 2007	For the year (on deletion)	Accumulated at December 31, 2007		
	Rupees in '000'							
Computer software	--	85,160	85,160	--	2,839	2,839	82,321	20%
2007	--	85,160	85,160	--	2,839	2,839	82,321	
2006	--	--	--	--	--	--	--	

12.4 Goodwill

	Note	2007	2006
		Rupees in '000'	
12.4.1	Opening balance	60,794	--
	Acquisition during the period	--	60,794
	Impairment during the year / period	--	--
	Closing balance	<u>60,794</u>	<u>60,794</u>
12.4.2	Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions used for value in use calculations are those regarding the discount rate and expected changes in market share during the period. Management estimate value in use using risk free rate of return on the treasury bills offered by the SBP i.e. 9.08% (2006 : 8.75%). Further management assess how the CGU's relative position to its competitors might change over the budget period. The bank prepares cash flow forecasts for the following five years based on an estimated market share.		

13. Other Assets

Income / Mark-up accrued in local currency		162,069	29,339
Income / Mark-up accrued in foreign currency		49	13
Advances, deposits, advance rent and other prepayments		92,727	81,891
Advance taxation - net of provision		--	26,333
Dividend receivable		3,648	688
Receivable from brokers		4,245	--
Receivable from mutual funds against redemption		54,445	--
Advance against subscription of Term Finance Certificates		100,000	--
Advance against subscription of shares		--	50,000
Deferred costs	13.1	30,084	38,454
Others		725	412
		<u>447,992</u>	<u>227,130</u>
Provision held against other assets	13.2	(24,372)	(24,372)
Other Assets - Net of provisions		<u>423,620</u>	<u>202,758</u>

13.1 Deferred costs - net

Opening balance		38,454	--
Incurred during the period		--	41,851
Amortized during the year / period		(8,370)	(3,397)
Closing balance		<u>30,084</u>	<u>38,454</u>

13.2 Provision held against other assets

Opening balance		24,372	--
Arising on amalgamation		--	24,372
Charge for the year		--	--
Reversals		--	--
Amount Written off		--	--
Closing balance		<u>24,372</u>	<u>24,372</u>

Notes To The Financial Statements

For The Year Ended December 31, 2007

	Note	2007 Rupees in '000'	2006
14. Bills Payable			
In Pakistan		384,179	3,899
Outside Pakistan		--	--
		384,179	3,899
15. Borrowings			
In Pakistan		1,748,603	--
Outside Pakistan		--	--
		1,748,603	--
15.1 Particulars of borrowings with respect to Currencies			
In local currency		1,748,603	--
In foreign currencies		--	--
		1,748,603	--
15.2 Details of borrowings secured/Unsecured			
Secured			
Borrowings from State Bank of Pakistan		--	--
Repurchase agreement borrowings	15.3	1,748,603	--
Borrowings from subsidiary companies, managed modarabas and associated undertakings		--	--
Borrowings from directors (including chief executive) of the bank		--	--
Others		--	--
		1,748,603	--
Unsecured			
Call borrowings		--	--
Overdrawn nostro accounts		--	--
Others		--	--
		--	--
		1,748,603	--
15.3 These borrowings are subject to markup at the rate of 10% per annum maturing within one month. Market Treasury Bills amounting to Rs. 1,749.24 million have been given as collateral against these borrowings.			
16. Deposits And Other Accounts			
Customers			
Fixed deposits		2,927,375	766,732
Savings deposits		3,756,073	832,474
Current accounts - Remunerative		--	--
Current accounts - Non-remunerative		2,757,846	903,193
Margin accounts		10,821	490
		9,452,115	2,502,889
Financial Institutions			
Remunerative deposits		--	--
Non-remunerative deposits		12,670	23,382
		12,670	23,382
		9,464,785	2,526,271
16.1 Particulars of deposits			
In local currency		9,403,460	2,498,761
In foreign currencies		61,325	27,510
		9,464,785	2,526,271

Notes To The Financial Statements

For The Year Ended December 31, 2007

	Note	2007 Rupees in '000'	2006
17. Deferred Tax Liabilities			
Deferred credits arising due to			
Depreciation on fixed assets		81,420	11,493
Deferred cost		1,629	--
Goodwill		2,996	4,256
		<u>86,045</u>	<u>15,749</u>
Deferred debits arising in respect of			
Deficit on revaluation of			
Pakistan Investment Bonds		(1,104)	(451)
Treasury bills		(2,481)	(138)
Disallowed provision against non performing loans		(40,919)	--
Provision for gratuity		(1,674)	(242)
Tax loss for the period		--	(14,813)
		<u>(46,178)</u>	<u>(15,644)</u>
		<u>39,867</u>	<u>105</u>
18. Other Liabilities			
Mark-up / Return / Interest payable in local currency		63,313	9,258
Payable to Bangladesh Bank		41,389	41,389
Payable to Rupali Bank - Bangladesh		16,292	16,292
Payable to brokers		3,151	13,598
Payable to vendors		22,681	--
Accrued expenses		15,456	7,951
Current taxation - provisions less payments		6,622	--
Loss on forward exchange contracts		11	--
Payable to defined benefit plan		4,782	690
Withholding tax payable		2,475	2,146
Others		5,604	2,004
		<u>181,776</u>	<u>93,328</u>
19. Share Capital			
19.1 Authorized Capital			
Number of Shares			
		2007	2006
		<u>600,000,000</u>	<u>600,000,000</u>
	Ordinary shares of Rs.10/- each	<u>6,000,000</u>	<u>6,000,000</u>
19.2 Issued, subscribed and paid-up			
Number of Shares			
		2007	2006
		428,500,000	278,500,000
	Ordinary shares of Rs.10/- each	428,500,000	278,500,000
	Fully paid in cash	4,285,000	2,785,000
	Issued for consideration other than cash	215,000	215,000
		<u>4,500,000</u>	<u>3,000,000</u>
		<u>450,000,000</u>	<u>300,000,000</u>
19.3 Reconciliation of number of ordinary shares of Rs 10 each.			
At the beginning of the year		300,000,000	--
Add: Issued during the year for cash		150,000,000	300,000,000
At the end of the year		<u>450,000,000</u>	<u>300,000,000</u>
19.4 The holding company Arif Habib Securities Limited (AHSL) and associated undertaking Rupali Bank Bangladesh held 387,082,292 (86.02%) and 29,500,000 (6.56%) (2006 : 267,334,000 [89.11%] and 29,500,000 [9.83%]) ordinary shares respectively. During the year the AHSL distributed 30,000,000 (6.67%) ordinary shares in the equity of the Bank as specie dividend to its shareholders. Further, subsequent to the balance sheet date the AHSL disinvested 119,748,500 (26.61%) ordinary shares in the equity of the Bank through public offer for sale.			

Notes To The Financial Statements

For The Year Ended December 31, 2007

	Note	2007 Rupees in '000'	2006
20. Deficit On Revaluation Of Assets - Net			
Federal Government Securities			
Market Treasury Bills		(7,087)	(395)
Pakistan Investment Bonds		(3,156)	(1,288)
Fully paid-up shares / units / certificates:			
Listed companies shares		(16,956)	(26,248)
Mutual funds units		1,051	6,144
Total deficit on revaluation of securities		(26,148)	(21,787)
Related deferred tax asset		3,585	589
		<u>(22,563)</u>	<u>(21,198)</u>
21. Contingencies And Commitments			
21.1 Direct credit substitutes		--	--
21.2 Transaction-related contingent liabilities / commitments guarantees given in favour of			
Government		7,024	--
Banking companies and other financial institutions		--	--
Others		1,925	--
		<u>8,949</u>	--
21.3 Trade-related Contingent Liabilities			
Letter of credits		581,088	--
Acceptances		7,640	--
		<u>588,728</u>	--
21.4 Other contingencies - Claims against bank not acknowledge as debt		83,903	83,903
21.5 Commitments in respect of forward lending			
Forward call lending		--	--
Forward repurchase agreement lending		1,655,582	49,286
Commitments to extend credit		--	--
		<u>1,655,582</u>	<u>49,286</u>
21.6 Commitments in respect of forward exchange / future contracts			
Purchase		30,990	3,501
Sale		--	26,736
		<u>30,990</u>	<u>30,237</u>
21.7 Commitments for the acquisition of operating fixed assets			
Civil works		19,210	14,168
Acquisition of computer software		--	38,876
		<u>19,210</u>	<u>53,044</u>
21.8 Underwriting Commitments		--	50,000

Notes To The Financial Statements

For The Year Ended December 31, 2007

	Note	2007	From December 09, 2005 to December 31, 2006
		Rupees in '000'	
22. Mark-up / Return / Interest Earned			
On Loans and advances to: Customers		249,547	4,781
Financial Institutions		104,025	113,620
On Investments in: Held for Trading Securities		--	--
Available for sale Securities		241,437	17,842
Held to Maturity Securities		--	190
On Deposits with financial institutions		11,087	--
On Securities purchased under resale agreements		11,758	6,369
		<u>617,854</u>	<u>142,802</u>
23. Mark-up / Return / Interest Expensed			
Deposits and other accounts		226,864	16,441
Securities sold under repurchase agreements		25,474	6,868
		<u>252,338</u>	<u>23,309</u>
24. Gain On Sale Of Securities - Net			
Federal Govt. Securities			
Market Treasury Bills		(10)	160
Pakistan Investment Bonds		1,473	(145)
Shares and mutual fund units / certificates		294,209	20,467
		<u>295,672</u>	<u>20,482</u>
25. Other Income			
Bad debts recovered		9,807	--
Net profit on disposal of property and equipment		847	54
Others		2,576	286
		<u>13,230</u>	<u>340</u>
26. Administrative Expenses			
Salaries, allowances, etc.		178,402	40,815
Charge for defined benefit plan	32.4	4,092	690
Contribution to defined contribution plan		2,937	--
Non-executive directors' fees, allowances and other expenses		270	180
Brokerage and commission		17,876	13,648
Rent, taxes, insurance, electricity, etc.		46,876	9,083
Legal and professional charges		4,126	2,533
Fees and subscription		13,105	2,903
Repairs and maintenance		6,737	646
Communications		10,804	2,145
Stationery and printing		5,209	1,345
Advertisement and publicity		19,475	697
Traveling and conveyance		13,815	2,117
Education and training		1,005	1,249
Entertainment		3,223	613
Security services and charges		4,748	533
Auditors' remuneration	26.1	800	387
Depreciation	12.2	34,383	5,997
Amortization	12.3 & 13.1	11,209	3,664
Donation		--	--
Others		4,437	1,196
		<u>383,529</u>	<u>90,441</u>

Notes To The Financial Statements

For The Year Ended December 31, 2007

	Note	2007	From December 09, 2005 to December 31, 2006
		Rupees in '000'	
26.1 Auditors' remuneration			
Audit fee		500	250
Tax services		195	100
Certifications		105	25
Out-of-pocket expenses		--	12
		<u>800</u>	<u>387</u>
27. Other Charges			
Penalties imposed by State Bank of Pakistan		320	80
Bank charges		653	133
		<u>973</u>	<u>213</u>
28. Taxation			
28.1 For the year / period			
Current		11,982	820
Deferred		83,677	(44,765)
		<u>95,659</u>	<u>(43,945)</u>
For the prior period			
Current		42,013	--
Deferred		(40,919)	--
		<u>1,094</u>	<u>--</u>
		<u>96,753</u>	<u>(43,945)</u>
28.2 Relationship between tax expense and accounting profit			
Profit before tax		326,918	--
Tax at the applicable rate of 35%		114,421	--
Effect of:			
Income exempt from tax		(102,973)	--
Prior year tax provision		42,013	--
Other differences		43,292	--
Tax expense for the year		<u>96,753</u>	<u>--</u>
28.3 In the year 2006, the relationship between tax expense and accounting profit had not been presented as the total income of the Bank attracts minimum tax under section 113 of the Income Tax Ordinance, 2001.			
		2007	2006
29. Basic And Diluted Earnings / (Loss) Per Share			
Profit for the year / period	<i>Rs. in '000'</i>	<u>230,165</u>	<u>93,974</u>
Weighted average number of ordinary shares	<i>No. of Shares</i>	<u>351,780,822</u>	<u>85,101,032</u>
Basic and diluted earnings per share	<i>Rupee.</i>	<u>0.65</u>	<u>1.10</u>
	Note	2007	2006
		Rupees in '000'	
30. Cash And Cash Equivalents			
Cash and Balance with Treasury Banks		753,845	228,374
Balance with other banks		52,551	645,650
		<u>806,396</u>	<u>874,024</u>

Notes To The Financial Statements

For The Year Ended December 31, 2007

	2007	2006
	Number	
31. Staff Strength		
Permanent	222	128
Contractual basis	97	22
Bank's own staff strength at the end of the year / period	<u>319</u>	<u>150</u>
Outsourced	--	42
Total Staff Strength	<u><u>319</u></u>	<u><u>192</u></u>

32. Defined Benefit Plan

32.1 The benefits under the unfunded gratuity scheme are payable to permanent and contractual basis employees on retirement at the age of 60 years or earlier cessation of services in lump sum. The benefit is equal to one month's last drawn basic salary of each year of confirmed services, subject to a minimum of five years of service. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognised actuarial gains and losses at the end of previous reporting year exceeds 10% of the higher of the defined benefit obligation, and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees covered under the defined benefit plan.

32.2 Principal actuarial assumptions

The actuarial valuation is carried out periodically. The actuarial valuation was carried out for the period ended December 31, 2007 using "Projected Unit Credit Method". The main assumptions used for actuarial valuation are as follows: -

	Per Annum	Source of Assumptions
<i>Discount rate</i>	10%	Yield at the balance sheet date on high quality corporate bonds. In absence of deep market of such bonds, the market yields on Government Bonds should be used.
<i>Expected rate of increase in salaries</i>	10%	Estimates of future salary increase, take account of inflation, seniority, promotions and other relevant factors, such as supply and demand in the employment market.

	Note	2007 Rupees in '000'	2006
32.3 Reconciliation of payable to defined benefit plan			
Present value of defined benefit obligations		5,561	1,163
Fair value of plan assets		--	--
Net actuarial gains or losses not recognized		(608)	(130)
Past service cost not yet recognized		(171)	(343)
Any amount not recognized as an asset		--	--
		<u>4,782</u>	<u>690</u>
32.4 Movement in payable to defined benefit plan			
Opening balance		690	--
Charge for the period		4,092	690
Benefit paid		--	--
Closing balance		<u>4,782</u>	<u>690</u>
32.5 Charge for defined benefit plan			
Current service cost		3,803	618
Interest cost		116	17
Expected return on plan assets		--	--
Actuarial gains and losses		1	--
Past service cost		172	55
		<u>4,092</u>	<u>690</u>

Notes To The Financial Statements

For The Year Ended December 31, 2007

	Note	2007 Rupees in '000'	2006
Present value of defined benefit obligation		4,092	690
Surplus in the fund		4,092	690
Experience adjustment arising on defined benefit obligation		5,561	1,163

The expected future charge for defined benefit plan is 6.73 million (2006:Rs. 3.7 million) according to actuarial recommendation.

33. Defined Contribution Plan

The Bank has established a provident fund scheme administered by the Board of Trustees for all permanent employees. Equal monthly contributions are made both by the Bank and employees to the fund @ 8.33% of basic salary.

Amount of contribution from the Bank	2,937	--
Amount of contribution from the employees	2,937	--
	5,874	--

34. Compensation Of Directors And Executives

	President/Chief Executive		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	-----'Rupees in '000'-----					
Fees	--	--	270	180	--	--
Managerial remuneration	4,318	2,197	--	--	54,412	11,233
Charge for defined benefit plan	393	--	--	--	--	461
Charge for defined contribution plan	260	--	--	--	4,108	--
Rent and house maintenance	1,889	989	--	--	23,776	5,055
Utilities	420	220	--	--	5,283	1,123
Medical	420	220	--	--	5,283	1,343
Conveyance	323	41	--	--	7,694	1,923
Car allowance	--	--	--	--	2,055	--
Bonus	920	359	--	--	8,798	1,573
	8,943	4,026	270	180	111,409	22,711
Number of person(s)	2*	1	2	2	85	31

* During the year Mr. Rahim Khanani resigned and was replaced with Mr. Kamal Uddin Khan as President and Chief Executive Officer.

	2007		2006	
	Book Value	Fair Value	Book Value	Fair Value
	-----'Rupees in '000'-----			

35. Fair Value Of Financial Instruments

35.1 On-balance sheet financial instruments

Assets

Cash balances with treasury banks	753,845	753,845	228,374	228,374
Balances with other banks	52,551	52,551	645,650	645,650
Lending to financial institutions	2,855,582	2,855,582	1,079,286	1,079,286
Investments	5,408,425	5,408,425	1,730,868	1,730,868
Advances	8,029,248	8,029,248	1,424,369	1,424,369
Other assets	345,717	345,717	122,884	122,884
	17,445,368	17,445,368	5,231,431	5,231,431

Notes To The Financial Statements

For The Year Ended December 31, 2007

	2007		2006	
	Book Value	Fair Value	Book Value	Fair Value
	-----'Rupees in '000'-----			
Liabilities				
Bills payable	384,179	384,179	3,899	3,899
Borrowings from financial institutions	1,748,603	1,748,603	--	--
Deposits and other accounts	9,464,785	9,464,785	2,526,271	2,526,271
Other liabilities	172,679	172,679	93,328	91,182
	<u>11,770,246</u>	<u>11,770,246</u>	<u>2,623,498</u>	<u>2,621,352</u>

35.2 Off-balance sheet financial instruments

Forward purchase of equity instruments	--	--	3,501	3,501
Forward agreements for borrowing	--	--	--	--
Forward sale of equity instruments	--	--	26,736	26,736
Forward agreements for lending	--	--	--	--

36. Segment Details With Respect To Business Activities

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

2007	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services	Assets Management	Retail Brokerage	Others
	-----'Rupees in '000'-----								
Total income	--	643,109	244,276	73,805	2,568	--	--	--	--
Total expenses	15,240	192,787	405,902	22,372	539	--	--	--	--
Net income before tax	(15,240)	450,322	(161,626)	51,433	2,029	--	--	--	--
Segment assets (Gross)	--	9,479,929	8,263,036	529,763	891	--	--	--	--
Segment non performing loans	--	--	128,461	--	--	--	--	--	--
Segment provision	--	--	152,833	--	--	--	--	--	--
Segment assets (Net)	--	9,479,929	8,110,203	529,763	891	--	--	--	--
Segment liabilities	--	1,862,099	9,569,502	3,003	384,606	--	--	--	--
Segment return on net assets (ROA)(%)	--	4.75%	(1.99)%	9.71%	227.72%	--	--	--	--
Segment cost of funds (%)	--	2.03%	5.00%	4.22%	60.49%	--	--	--	--

2006	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services	Assets Management	Retail Brokerage	Others
	-----'Rupees in '000'-----								
Total income	250	95,966	374	67,022	402	--	--	--	--
Total expenses	3,199	51,348	40,282	20,799	118	--	--	--	--
Net income before tax	(2,949)	44,618	(39,908)	46,223	284	--	--	--	--
Segment assets (Gross)	302	3,856,590	502,964	1,496,939	486	--	--	--	--
Segment non performing loans	--	--	(164,510)	--	--	--	--	--	--
Segment provision	--	--	--	--	--	--	--	--	--
Segment assets (Net)	302	3,856,590	502,964	1,496,939	486	--	--	--	--
Segment liabilities	174	81,866	2,535,800	47,677	4,185	--	--	--	--
Segment return on net assets (ROA)(%)	(976.49)%	1.16%	(7.93)%	3.09%	58.44%	--	--	--	--
Segment cost of funds (%)	1059.27%	1.33%	8.01%	1.39%	24.28%	--	--	--	--

For the purpose of segmental reporting unallocated items of income and expenses have been allocated to the above segments in proportion to the segment's revenue.

Notes To The Financial Statements

For The Year Ended December 31, 2007

37. Non-Adjusting Events After the Balance Sheet Date

The Board of Directors have approved appropriation of Rs. 183,433,000/- to General Reserve for the year ended December 31, 2007. These financial statements do not reflect this appropriation.

38. Related Party Transactions

38.1 Associated companies

Brokerage Services

	2007	2006
	Rupees in '000'	
Brokerage expenses paid - CFS	9,331	10,499
Brokerage expenses paid - Equity securities	<u>6,540</u>	<u>1,483</u>

Financing

Balance at the beginning of the year	380,050	--
Sanctioned / granted during the year / period	1,470,025	453,571
Payment received during the year / period	(559,154)	(73,521)
Balance at the end of the year / period	<u>1,290,921</u>	<u>380,050</u>

Mark up earned during the year / period

Note	2007	2006
	Rupees in '000'	
	39,775	4,221

Other receivable
Share Subscription money
Other payable

Note	2007	2006
	Rupees in '000'	
	123	--
	--	50,000
	<u>3,250</u>	<u>--</u>

Rent expense during the year

Note	2007	2006
	Rupees in '000'	
	<u>3,250</u>	<u>--</u>

38.2 Key Management Personnel

Advances

Balance at the beginning of the period	3,611	--
Sanctioned / granted during the year / period	13,751	5,090
Payment received during the year / period	(3,125)	(158)
Balance at the end of the year / period	<u>14,237</u>	<u>4,932</u>

Mark up charged during the period

	<u>276</u>	<u>65</u>
--	------------	-----------

38.3 Mutual Fund of Arif Habib Investment Management Company

Investments - group company

Pakistan Capital Market Fund	--	10,000
Pakistan Income fund	200,000	400,000
	<u>200,000</u>	<u>410,000</u>

Notes To The Financial Statements

For The Year Ended December 31, 2007

	2007	From December 09, 2005 to December 31, 2006
Note	Rupees in '000'	
Capital gain earned during the year / period	26,410	6,372
Note	2007	2006
	Rupees in '000'	
38.4 Deposits		
- Associated persons / companies		
Balance at the beginning of the year	523,237	--
Deposits during the year / period	34,059,685	2,257,790
Withdrawal during the year / period	(33,971,775)	(1,734,553)
Balance at the end of the year / period	611,147	523,237
Mark up payable	5,911	3,491
Note	2007	From December 09, 2005 to December 31, 2006
	Rupees in '000'	
Mark up expensed during the year / period	28,474	7,875
Mark up paid	26,054	4,868
38.5 Defined Contribution Plan		
Contribution paid to provident fund	2,937	--
39. Capital Adequacy		
Regulatory Capital Base		
Tier I Capital		
Shareholders Capital	4,500,000	3,000,000
Reserves	1,631,395	18,795
Unappropriated profit	192,744	75,179
	6,324,139	3,093,974
Less: Adjustments	86,942	82,581
Total Tier I Capital	6,237,197	3,011,393
Tier II Capital		
Subordinated Debt (upto 50% of total Tier I Capital)	--	--
General Provisions subject to 1.25% of Total Risk Weighted Assets	--	24
Revaluation Reserve (upto 50%)	--	--
Total Tier II Capital	--	24
Eligible Tier III Capital	--	--
Total Regulatory Capital	(a) 6,237,197	3,011,417

Notes To The Financial Statements

For The Year Ended December 31, 2007

	2007		2006	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
Risk-Weighted Exposures				
Credit Risk				
Balance Sheet Items:-				
Cash and other liquid assets	806,396	10,510	874,024	129,130
Money at call	2,855,582	1,211,117	1,079,286	975,857
Investments	5,408,425	903,420	1,730,868	150,000
Loans and advances	8,029,248	7,293,430	1,424,369	1,410,265
Fixed assets	597,515	536,721	385,074	324,279
Other assets	423,620	417,574	202,758	170,898
	<u>18,120,786</u>	<u>10,372,772</u>	<u>5,696,379</u>	<u>3,160,429</u>
Off Balance Sheet items				
Loan repayment guarantees	8,949	2,161	--	--
Purchase and resale Agreements	--	--	--	--
Performance bonds etc	7,640	7,640	--	--
Revolving underwriting commitments	--	--	50,000	25,000
Stand by letters of credit	581,088	290,544	--	--
Outstanding foreign exchange contracts				
-Purchase	30,990	186	--	--
-Sale	--	--	--	--
	<u>628,667</u>	<u>300,531</u>	<u>50,000</u>	<u>25,000</u>
Credit risk-weighted exposures		<u>10,673,303</u>		<u>3,185,429</u>
Market Risk				
General market risk		1,748,263		1,125,856
Specific market risk		1,430,775		1,045,044
Market risk-weighted exposures		3,179,038		2,170,900
Total risk-weighted exposures	(b)	<u>13,852,341</u>		<u>5,356,329</u>
Capital Adequacy Ratio [(a) / (b) x 100]		<u>45.03%</u>		<u>56.22%</u>

40. Risk Management

The acceptance and management of financial risk is inherent to banking business activities. The Bank is exposed to numerous risks in pursuit of its business objectives. The core risks are credit, market and liquidity risks. These risks arise directly through the Bank's commercial activities whilst operational and compliance / legal / regulatory risks are normal consequences of any business undertaking. We believe a sound Risk Management Framework will enable our managers and employees to take risks prudently and reduce/mitigate risks where appropriate.

Clearly defined risk management policies and procedures covering all activities of the Bank including general banking, trade finance, credit evaluation, credit management, treasury operations, administration and human resources management, compliance functions, risk management, accounting, audit and control are in place. The basic principles employed in formulation of the above policies and procedures involves identification, measurement, monitoring and controlling risks to ensure that:

- The Bank's risk exposure is within the limits established by Board of Directors.
- Risk taking decisions are in line with the business strategy and objectives of the Bank.
- The expected payoffs compensate the risks taken by the Bank.
- Risk taking decisions are explicit and clear.
- Sufficient capital as buffer is available to mitigate risk.

Notes To The Financial Statements

For The Year Ended December 31, 2007

A clear management structure has been put in place in the Bank, which clustered around three distinct groups namely, the Business Group, the Support Group and the Risk Management Group. The Business Group is responsible for generation and management of the business and act as the front office of the Bank. The Support Group provides various services necessary for maintaining operations of the Bank on a sustainable basis. The Risk Management Group is responsible for management of the risk inherent in the Bank's operations. The Risk Management Group comprises of (i) Credit Division, (ii) Compliance Division and the (iii) Risk Management Division. Whilst the activities of the Credit Division are focused on independent risk management of the Bank's credit activities, the Compliance Division is dedicated to ensure compliance of all internal and external policies and regulations. The Risk Management Division is responsible for managing all other risks emanating from various activities of the Bank. In addition to this, the management has established various committees for periodic risk review.

The Bank has acquired and installed a state of the art, hPLUS™, core banking software. hPLUS™ is a fully functional, well proven, single integrated banking application and is also capable of generating numerous standard and customized MIS reports.

40.1 Credit Risk Management

Credit risk is the risk that one party to financial instrument fails to discharge an obligation and cause other party to incur a financial loss. The following objectives govern the credit policy of the Bank:

- The Bank complies with the requirements of Prudential Regulations prescribed by SBP.
- Facilities provided by the Bank will be well diversified into such industrial/trading sectors as well as financing to different consumer products to achieve a strong market position and adequate return on capital.
- Return commensurate with the risk.
- Lending decision is based on a full appreciation for the risks inherent in the transaction and within the approved limits by the Board of Directors.
- Risk is related correctly and risk changes are identified promptly and remedial action taken.
- The Bank follows a multi tiered approach in management of credit risk. Ultimate responsibility of the credit risk management rests with the Board of Directors. The Risk Management Committee has been established which among other functions is responsible for implementation of credit risk.
- The Bank is developing various methodologies for monitoring of the credit portfolio. This includes stress testing for individual credits and the overall credit portfolio under adverse changes in the conditions/environment in which the borrowers operate.
- Also the Bank has instituted an effective system for monitoring servicing of its credit portfolio and management of the distressed assets.

40.1.1 Segmental information

Segmental Information is presented in respect of the class of business and geographical distribution of Advances, Deposits, Contingencies and Commitments.

Notes To The Financial Statements

For The Year Ended December 31, 2007

40.1.1.1 Segments by class of business

	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	--	0.00%	89	0.00%	--	0.00%
Textile	220,253	2.70%	21,963	0.23%	108,420	4.54%
Chemical and Pharmaceuticals	214,650	2.63%	20,652	0.22%	467,235	19.57%
Cement	295,940	3.63%	533	0.01%	12,143	0.51%
Sugar	--	0.00%	190	0.00%	--	0.00%
Footwear and Leather garments	--	0.00%	171	0.00%	--	0.00%
Automobile and transportation equipment	10,337	0.13%	1,868	0.02%	--	0.00%
Electronic and electrical appliances	--	0.00%	--	0.00%	1,645	0.07%
Construction	117,348	1.44%	197,680	2.09%	19,210	0.80%
Power (electricity), Gas, Water, Sanitary	--	0.00%	6,440	0.07%	--	0.00%
Wholesale and Retail Trade	19,968	0.24%	3,180	0.03%	--	0.00%
Exports/Imports	--	0.00%	8,322	0.09%	--	0.00%
Transport, Storage and Communication	--	0.00%	2,840	0.03%	84,183	3.53%
Financial	5,470,353	67.06%	3,492,824	36.90%	30,990	1.30%
Services	1,111	0.01%	146,986	1.55%	--	0.00%
Individuals	1,752,641	21.48%	1,668,417	17.63%	--	0.00%
Others	55,108	0.68%	3,892,630	41.13%	1,663,535	69.68%
	<u>8,157,709</u>	<u>100.00%</u>	<u>9,464,785</u>	<u>100.00%</u>	<u>2,387,361</u>	<u>100.00%</u>

40.1.1.2 Segment by sector

Public/ Government	1,000,000	12.26%	28,651	0.30%	--	0.00%
Private	7,157,709	87.74%	9,436,134	99.70%	2,387,361	100.00%
	<u>8,157,709</u>	<u>100.00%</u>	<u>9,464,785</u>	<u>100.00%</u>	<u>2,387,361</u>	<u>100.00%</u>

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

	2007		2006	
	Classified	Specific Provisions	Classified	Specific Provisions
	Advances	Held	Advances	Held
	Rupees in '000'		Rupees in '000'	
Textile	108,534	108,534	114,759	114,759
Chemical and Pharmaceuticals	19,030	19,030	24,196	24,196
Automobile and transportation equipment	278	278	278	278
Individuals	--	--	24	24
Others	619	619	982	982
	<u>128,461</u>	<u>128,461</u>	<u>140,239</u>	<u>140,239</u>

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

Public/ Government	--	--	--	--
Private	128,461	128,461	140,239	140,239
	<u>128,461</u>	<u>128,461</u>	<u>140,239</u>	<u>140,239</u>

Notes To The Financial Statements

For The Year Ended December 31, 2007

40.1.1.5 Geographical Segment Analysis

	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in '000'-----			
Pakistan	326,918	18,120,786	6,301,576	2,387,361
Asia Pacific (including South Asia)	--	--	--	--
Europe	--	--	--	--
United States of America and Canada	--	--	--	--
Middle East	--	--	--	--
Others	--	--	--	--
	<u>326,918</u>	<u>18,120,786</u>	<u>6,301,576</u>	<u>2,387,361</u>

Total assets employed include intra group items of Rs. 1,490.92 million (2006: Rs. 1805.86 million)

40.2 Market Risk

Market Risk is the risk that the value of on and off-balance sheet positions of the Bank will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices and/or credit spreads resulting in a loss to earnings and capital.

The Bank is primarily exposed to interest rate risk which is reflected in the level of future income and expense produced by these positions versus levels that would be generated by current levels of interest rates. Other risks include exposures to interest rates and foreign exchange rates, as well as mortgage, equity market, commodity and issuer credit risk factors. The Bank is in the process of developing Value at Risk (VAR) and stress testing models for management of such risks.

40.2.1 Interest Rate Risk

Interest Rate risk is the potential impact on a bank's earnings and asset values with variation in interest rates. Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. These positions include loans, debt securities, certain trading-related assets and liabilities, deposits and borrowings. The Bank's overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect Net Interest Income. Interest rate risk is measured as the potential volatility in our Net Interest Income caused by changes in market interest rates. The Bank seeks to mitigate interest rate risk in a variety of ways including taking offsetting positions and other Asset and Liability Management process. Whilst the Treasury and the Risk Management Division of the Bank monitor and manage the interest rate risk on a daily basis, the overall interest rate risk position and strategies are reviewed on an ongoing basis with Asset and Liability Committee (ALCO).

40.2.2 Foreign Exchange Risk

The Bank has set the following objectives for managing the inherent risk on foreign currency exposures:

- Maximize profitability with minimum risk by keeping the exposure at desirable levels in view of strict compliance of regulatory/ international standards and the Bank's internal guidelines.
- Manage appropriate maturity mismatch gaps.
- Identify warning and stress zones for mismatch gaps.
- Usage of different tools to manage the inherent risk of product and market, such as compliance of credit limit, monitoring of foreign exchange exposure limit, review of mark to market portfolio and safe settlement, etc.

Foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in foreign currencies. The potential for loss arises from the process of revaluing foreign currency positions in rupee terms. The Bank's foreign exchange risk is presently limited to future cash flows in foreign currencies arising from foreign exchange transactions and translation of net open position in foreign currencies. Whilst we seek to mitigate foreign exchange through currency swaps and forward contracts, the Bank however remains exposed to such risk to the extent of net open position and net interest income from assets and liabilities denominated in foreign currencies.

Notes To The Financial Statements

For The Year Ended December 31, 2007

	Assets	Liabilities	Off-balance Sheet Items	Net Foreign Currency Exposure
	-----Rupees in '000'-----			
Pakistan rupee	18,070,883	11,757,688	(1,777,928)	4,535,267
United States dollar	33,458	56,983	(387,123)	(410,648)
Great Britain pound	3,644	602	(10,288)	(7,246)
Deutsche mark	--	--	--	--
Japanese yen	6,823	--	(44,861)	(38,039)
Euro	4,813	3,937	(96,083)	(95,207)
Other currencies	1,165	--	(71,078)	(69,913)
	<u>18,120,786</u>	<u>11,819,210</u>	<u>(2,387,361)</u>	<u>3,914,215</u>

40.2.3 Equity Position Risk

Equity market risk is risk to earnings on capital that results from adverse changes in the value of equity related portfolios. Equity market risk arises from exposure to securities that represent an ownership interest in a company. The Bank is exposed to the equity market risk on its equity trading portfolio only. Apart from on balance sheet exposure, some off balance sheet equity exposure also comes from the future contracts. Bank is in the process of instituting measures to mitigate the risk associated with the trading equity portfolio through swap, future contract and active trading on stop loss basis. Bank seek to mitigate the risk associated with the trading equity portfolio through swap, future contract and active trading on stop loss basis. The strategic equity portfolio however remains exposed to market variations.

40.2.4 Mismatch of Interest Rate Sensitive Assets and Liabilities

Effective Yield/Interest rate	Exposure to Yield/Interest risk										Revised/Recurring
	Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
	-----Rupees in '000'-----										
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	3.71% to 4.72%	753,943	10,336	--	--	--	--	--	--	--	743,309
Reserves with other banks		32,331	--	--	--	--	--	--	--	--	32,331
Lending to financial institutions	4.29% to 12%	2,822,782	2,822,782	--	--	--	--	--	--	--	2,822,782
Investments	6.49% to 11.74%	3,408,425	99,545	786,613	1,222,466	522,718	--	--	--	--	1,630,776
Advances	5.09% to 16.0%	8,029,248	7,028,429	32,339	3,249	61,183	11,863	76,331	598,292	732,025	20,822
Other assets		345,717	--	--	--	--	--	--	--	--	345,717
		<u>17,445,969</u>	<u>10,129,192</u>	<u>819,951</u>	<u>1,226,013</u>	<u>583,901</u>	<u>11,863</u>	<u>76,331</u>	<u>696,494</u>	<u>736,025</u>	<u>19,993</u>
Liabilities											
Bills payable		264,179	--	--	--	--	--	--	--	--	264,179
Borrowings	10%	1,748,613	1,748,613	--	--	--	--	--	--	--	1,748,613
Deposits and other accounts	1.72% to 11.29%	9,464,785	5,960,790	266,894	423,585	20,160	--	--	280	--	2,770,516
Other liabilities		172,679	--	--	--	--	--	--	--	--	172,679
		<u>11,770,246</u>	<u>7,709,383</u>	<u>266,894</u>	<u>423,585</u>	<u>20,160</u>	<u>--</u>	<u>--</u>	<u>280</u>	<u>--</u>	<u>3,327,374</u>
On-balance sheet gap		<u>5,675,122</u>	<u>2,419,709</u>	<u>552,957</u>	<u>802,428</u>	<u>562,741</u>	<u>11,863</u>	<u>76,331</u>	<u>696,294</u>	<u>736,025</u>	<u>19,993</u>
Off-balance sheet financial instruments											
Forward lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.)		--	--	--	--	--	--	--	--	--	--
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)		--	--	--	--	--	--	--	--	--	--
Off-balance sheet gap		<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Yield/Interest Risk Sensitivity Gap		<u>5,675,122</u>	<u>2,419,709</u>	<u>552,957</u>	<u>802,428</u>	<u>562,741</u>	<u>11,863</u>	<u>76,331</u>	<u>696,294</u>	<u>736,025</u>	<u>19,993</u>
Cumulative Yield/Interest Risk Sensitivity Gap		<u>5,675,122</u>	<u>2,419,709</u>	<u>3,444,196</u>	<u>4,246,626</u>	<u>4,810,369</u>	<u>4,822,232</u>	<u>4,898,565</u>	<u>5,594,779</u>	<u>6,330,804</u>	<u>6,409,321</u>

40.3 Liquidity Risk

Liquidity risk is the risk caused, among others by the inability of the bank to settle liabilities at due date. The Liquidity Risk Policy is formulated keeping in view State Bank's guidelines on risk management and best market practice. In case of any conflict between any provision of this policy and any regulation for the time being in force, the regulation in force will prevail.

Objectives of our liquidity management is to ensure that the Bank is able to honour all its financial commitments on an ongoing basis without (i) effecting the Bank's cost of funds (ii) adversely effecting ability to raise funds and (iii) resorting to sale of assets.

Asset and Liability Committee (ALCO), Risk Management Division, Treasury and the Finance Division each have a role in management of liquidity risk.

Notes To The Financial Statements

For The Year Ended December 31, 2007

40.3.1 Maturities of Assets and Liabilities

As at December 31, 2007

	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000										
Assets										
Cash and balances with treasury banks	753,845	753,845	--	--	--	--	--	--	--	--
Balances with other banks	52,551	52,551	--	--	--	--	--	--	--	--
Lending to financial institutions	2,855,582	2,855,582	--	--	--	--	--	--	--	--
Investments	3,408,425	1,530,321	786,613	1,222,466	522,718	--	--	394,292	732,015	--
Advances	8,029,248	7,659,638	33,245	4,909	63,905	77,303	81,484	44,237	44,534	19,593
Other assets	423,620	423,620	--	--	--	--	--	--	--	--
Operating fixed assets	597,515	71,840	8,090	13,552	27,103	54,207	52,657	111,990	37,915	199,261
Deferred tax assets	--	--	--	--	--	--	--	--	--	--
	18,120,786	13,347,397	828,548	1,240,927	613,726	131,510	134,141	750,519	854,464	219,254
Liabilities										
Bills payable	384,179	384,179	--	--	--	--	--	--	--	--
Borrowings	1,748,603	1,748,603	--	--	--	--	--	--	--	--
Deposits and other accounts	9,464,785	8,731,296	289,464	423,585	20,160	--	--	280	--	--
Sub-ordinated loans	--	--	--	--	--	--	--	--	--	--
Liabilities against assets subject to finance lease	--	--	--	--	--	--	--	--	--	--
Other liabilities	181,776	172,679	--	--	--	--	--	--	--	--
Deferred tax liabilities	39,867	--	--	--	--	39,867	--	280	--	--
	11,819,210	11,036,757	289,464	423,585	20,160	39,867	--	280	--	--
Net assets	6,301,576	2,310,640	539,084	817,342	593,566	91,643	134,141	750,239	854,464	219,254
Share capital	4,500,000									
Reserves	1,631,395									
Unappropriated profit	192,744									
Deficit on revaluation of assets - net	(22,263)									
	6,301,576									

40.4 Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, including system conversions and integration, and external events. Operational risk exists in all products and business activities because of the nature, volume and complexity of the operations.

The Bank seeks to manage the operational risk from two perspectives, firstly by way of ensuring compliance of standard operating procedures including defined processes for prevention and detection of any fraud and forgery, and work place safety and security, secondly through contingency planning to ensure continuity of business. Whilst policies and procedures covering all activities in Bank are now in place.

41. Date Of Authorization For Issue

These financial statements were authorized for issue on **February 16, 2008** by the Board of Directors of the Bank.

42. General

Figures have been rounded off to the nearest thousand rupee.


President & Chief Executive


Director


Director


Director

Annexure

During the Year Ended December 31, 2007

Statement Showing Written-off Loans or any other Financial Relief of Five Hundred Thousand Rupees or Above Provided

S. No.	Name and address of the borrower	Name of individuals /partners/ directors (with NIC No.)	Father's/ Husband's name	Outstanding Liabilities at beginning of 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	
Rupees in '000												
----- NIL -----												
Total:				--	--	--	--	--	--	--	--	--

Categories Of Shareholders

as on December 31, 2007

Categories of Shareholders	Shares Held	
	Number	% age
Associated Companies, Undertakings & Related Parties		
Arif Habib Securities Limited	387,082,292	86.02
Rupali Bank Limited	29,500,000	6.56
Directors		
Mr. Arif Habib	16,500,010	3.67
Mr. Salim Chamdia	1	0.00
Mr. Nasim Beg	1,003,400	0.22
Mr. Asadullah Khawaja	75,067	0.02
Mr. Md. Abdul Hamid Miah	1	0.00
Syed Ajaz Ahmed	15,001	0.00
CFO & Company Secretary		
Mr. Muhammad Amin Bhoori	7,500.00	0.00
Executives	1,688,001	0.38
Public Listed Companies	--	0.00
National Investment Trust & Investment Corporation of Pakistan	--	0.00
Banks, Development Financial Institutions, Non Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds	1,999,162	0.44
Foreign Shareholders	969,124	0.21
Individuals	9,462,326	2.10
Others	1,698,115	0.38
Total	450,000,000	100.00

Categories of Shareholders	Number of Shareholders	Shares Held	
		Number	% age
Associated Companies, Undertakings & Related Parties			
Arif Habib Securities Limited	1	387,082,292	86.02
Rupali Bank Limited	1	29,500,000	6.56
Directors			
	6	17,593,480	3.91
Banks, Development Financial Institutions, Non Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds			
	31	1,999,162	0.44
Foreign Shareholders			
	9	969,124	0.21
Individuals			
	8,695	11,157,827	2.48
Others			
	180	1,698,115	0.38
Total	8,923	450,000,000	100.00

Pattern Of Shareholding

as on December 31, 2007

No. Of Shareholders	Shareholding		Total Shares Held
	From	To	
5,412	1	100	272,644
2,320	101	500	598,019
486	501	1,000	369,462
469	1,001	5,000	1,085,954
98	5,001	10,000	749,208
23	10,001	15,000	302,817
29	15,001	20,000	526,534
10	20,001	25,000	230,179
8	25,001	30,000	222,700
7	30,001	35,000	221,204
3	35,001	40,000	111,520
3	40,001	45,000	128,100
3	45,001	50,000	148,510
3	50,001	55,000	163,325
4	55,001	60,000	232,880
3	60,001	65,000	184,163
4	65,001	70,000	273,380
3	70,001	75,000	223,500
3	75,001	80,000	226,551
1	80,001	83,500	83,500
1	83,501	90,000	88,350
3	90,001	95,000	282,255
2	95,001	100,000	194,327
1	100,001	110,000	109,200
1	110,001	120,000	117,500
1	120,001	135,000	132,210
2	135,001	140,000	271,580
4	140,001	150,000	600,000
2	150,001	155,000	306,250
1	155,001	175,000	175,000
1	175,001	210,000	205,500
1	210,001	235,000	230,980
1	235,001	250,000	247,360
1	250,001	275,000	275,000
1	275,001	335,000	332,286
1	335,001	340,000	338,150
1	340,001	510,000	507,600
1	510,001	650,000	650,000
1	650,001	1,500,000	1,000,001
1	1,500,001	4,500,000	4,500,000
1	4,500,001	17,000,000	16,500,009
1	17,000,001	30,000,000	29,500,000
1	30,000,001	450,000,000	387,082,292
8,923		TOTAL	450,000,000



Notice Of The Second Annual General Meeting Of The Bank

Notice is hereby given that the second Annual General Meeting of the shareholders of Arif Habib Bank Limited ("AHBL"), will be held on Saturday, March 22, 2008 at 11:00 a.m. at Beach Luxury Hotel, Karachi to transact the following business:

Normal Business:

1. To confirm the minutes of Extra Ordinary General Meeting of the Bank held on November 17, 2007.
2. To receive, consider and adopt the audited financial statements of the Bank for the year ended 31 December 2007 alongwith Directors' and Auditors' Report thereon and Statement of Compliance with the Code of Corporate Governance.
3. To appoint External Auditors of the Bank for the year ending 31 December 2008 till the conclusion of next Annual General Meeting and fix their remuneration. (Present Auditors', M/s. M.Yousuf Adil Saleem & Co., Chartered Accountants being eligible, offer themselves for re-appointment).

Special Business:

4. To consider and pass the following resolution as special resolution approving the transmission of quarterly accounts through website in compliance with Section 245 of the Companies Ordinance, 1984 and Securities and Exchange Commission of Pakistan (SECP) circular No. 19 of 2004 dated April 14, 2004 provided it meets all other conditions.

"Resolved that the Bank may place its quarterly accounts on its website instead of sending the same to members by post, as allowed by the Securities and Exchange Commission of Pakistan (SECP) vide its circular No. 19 of 2004 dated April 14, 2004."

A statement under section 160(1)(b) of the Companies Ordinance, 1984 pertaining to the Special Business referred to above is annexed to this Notice of Meeting.

Other Business:

5. To transact any other business with the permission of the chair.

By order of the Board

Karachi:
29 February 2008

Muhammad Amin Bhoori
CFO & Company Secretary



Notice Of The Second Annual General Meeting Of The Bank

Notes:

1. The Register of Members of the Bank will remain closed from 15 March 2008 to 21 March 2008 (both days inclusive).
2. A member entitled to attend and vote at this meeting may appoint another member as his / her proxy to attend and vote on his / her behalf. The instrument appointing a Proxy and the power of attorney or other authority under which it is signed or a notarially certified copy of the power of attorney must be valid and received at the Share Registrar of the Bank, M/s.Technology Trade (Pvt.) Ltd., Dagia House, 241-C, Block-2, P.E.C.H.S, Off: Shahrāh-e-Quaideen, Karachi duly stamped, signed and witnessed not later than 48 hours before the meeting.
3. Shareholders whose shares are deposited with Central Depository Company of Pakistan Limited (CDC) are requested to bring their computerized National Identity Card (CNIC) alongwith their CDC Account Number for verification. In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signatures of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.
4. Members are requested to notify any change in their addresses immediately.
5. Members are requested to submit copy of their CNICs with our Share Registrar M/s.Technology Trade (Pvt.) Ltd.

STATEMENT UNDER SECTION 160(1)(b) OF THE COMPANIES ORDINANCE, 1984

1. Placement of Quarterly Accounts on Website.

The Securities and Exchange Commission of Pakistan (SECP) vide its circular No. 19 of 2004 dated April 14, 2004 has allowed listed companies to place the quarterly accounts on their websites instead of sending the same to each shareholder by post. This would ensure prompt disclosure of information to the shareholders, besides saving of costs associated with printing and dispatch of the accounts by post.

The Bank maintains a website (www.arifhabibbank.com) and latest accounts may be placed there for information of the shareholders and the general public. Prior permission of the Securities and Exchange Commission of Pakistan would be sought for transmitting the quarterly accounts through Bank website after the approval of the shareholders. The Bank, however will make available printed copies of accounts to the shareholders on demand at their registered address, free of charge, within one week of receiving such request.

The Directors of the Bank have no interest in the special business and / or special resolution that would need further disclosure.

Form Of Proxy

2nd Annual General Meeting

The Company Secretary
Arif Habib Bank Limited
2/1, R.Y. 16, Old Queens Road
Karachi.

I/We _____ of _____ being a member(s) of Arif Habib Bank Limited holding _____ ordinary shares as per CDC A/c. No _____ hereby appoint Mr./Mrs./Miss _____ of (full address) _____

or failing him/her Mr./Mrs./Miss _____ of (full address) _____

(being member of the Bank) as my/our Proxy to attend, act and vote for me/us and on my/our behalf at the 2nd Annual General Meeting of the Bank will be held on 22 March 2008 and /or any adjournment thereof.

Signed this _____ day of _____ 2008.

Witnesses:

1. Name : _____
Address : _____
CNIC No. : _____
Signature : _____

Signature on
Rs. 5/-
Revenue
Stamp

2. Name : _____
Address : _____
CNIC No. : _____
Signature : _____

Notes:

- (i) A member entitled to attend and vote at the meeting may appoint another member as his / her proxy who shall have such rights as respects attending, speaking and voting at the meeting as are available to a member.
- (ii) The account holders, sub-account holders, proxy or nominee shall authenticate his/her identity by showing his/her original computerized national identity card (CNIC) or original passport and bring his/her folio number at the time of attending the meeting.
- (iii) In the case of corporate entity Board of Directors' resolution/power of attorney with specimen signature of the nominee shall also be produced (unless provided earlier) at the time of meeting.
- (iv) In order to be effective, the proxy forms must be received at the office of our registrar M/s. Technology Trade (Pvt.) Ltd., Dagia House, 241-C, Block-2, P.E.C.H.S, Off: Shahrah-e-Quaideen, Karachi not later than 48 hours before the meeting duly signed and stamped and witnessed by two persons with their names, addresses and NIC numbers mentioned on the form.
- (v) In the case of individuals attested copies of CNIC or passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- (vi) In the case of proxy by a corporate entity, Board of Directors resolution/power of attorney with specimen signature and attested copies of the CNIC or passport of the proxy shall be submitted alongwith proxy form.





No. of Branches:

Karachi: 7 Branches

Lahore: 2 Branches

Islamabad: 1 Branch

Multan: 1 Branch

Faisalabad: 1 Branch

BRANCH NETWORK

Karachi:

<i>I.I Chundrigar</i>	Tel: 021-2466410 021-2466412 021-2466413 Fax: 021-2466500	Uni Towers, I.I Chundrigar Road, Karachi.
<i>Boat Basin</i>	Tel: 021-5824171 Fax: 021-5824163	Ground Floor, Plot No. FL-4, Hanging Gardens, Block 5, Clifton, Karachi.
<i>Gulistan-e-Jauhar</i>	Tel: 021-4030527-8 021-4030530 021-4030536 Fax: 021-4030529	Shop No. G1-010, Ruffi Shopping Mall, Plot No. 118/9, C-1, Block 18, Scheme No. 36, Gulistan-e-Jauhar, Karachi.
<i>Atrium Mall</i>	Tel: 021-5641000-3 021-5641007 Fax: 021-5641008	Shop No. 6 & 21, Ground Floor, Plot No. 249, Atrium Mall, Staff Lines, Zaibunisa Street, Saddar, Karachi.
<i>Karachi Stock Exchange Branch</i>	Tel: 021-2462844-9 021-2462829-30 Fax: 021-2462843 021-2462843	Room # 60-63, 1st Floor, Karachi Stock Exchange Building, Karachi.
<i>Cloth Market</i>	Tel: 021-2443651 021-2443591 021-2443671 021-2443451 Fax: 021-2443821	26th, Cochinwala Market, Laxmidas Street, Karachi.
<i>Korangi Industrial Area</i>	Tel: 021-5114282 Fax: 021-5114345	33/1, Sector 15, Korangi Industrial Area, Karachi.

Lahore

<i>Defence</i>	Tel: 042-5749069-71 Fax: 042-5749070	163, Block Y, Phase III, DHA, Lahore Cantt.
<i>Lahore Stock Exchange</i>	Tel: 042-6280853-8 Fax: 042-6280851	Office # 5, 19th Awan-e-Iqbal Road, Lahore Stock Exchange Building, Lahore.

Islamabad

<i>Super Market</i>	Tel: 051-2279167-70 Fax: 051-2279166	Plot No. 6B, F-6, Super Market, Islamabad.
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Multan

<i>Abdali Road</i>	Tel: 061-4571704 061-4572519 061-4573729 Fax: 061-4516762	Plot No. 66-A & 66-B/9, Abdali Road, Multan.
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Faisalabad

<i>Yarn Market</i>	Tel: 041-2619685 041-2619746 041-2645504 Fax: 041-2619684	Property # 7, Yarn Market Ghunta Ghar, Faisalabad.
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ARIF HABIB BANK LIMITED

(Formerly known as Arif Habib Rural Bank Ltd.)

HEAD OFFICE:

Arif Habib Centre 23, M.T. Khan Road,
Karachi - 74000, Pakistan

UAN: (021) 111-124-725

Toll Free: 0800-24252

Website: www.arifhabibbank.com

E-mail: info@arifhabibbank.com