



**ARIF HABIB
RUPALI BANK**
the bank for everyone

Annual Report 2006

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The Management Team at Arif Habib Rupali Bank Limited



C O R P O R A T E I N F O R M A T I O N

Board Of Directors

Mr. Arif Habib
Chairman

Mr. Rahim Khanani
President & CEO

Mr. Asadullah Khawaja
Director

Mr. Nasim Beg
Director

Mr. Salim Chamdia
Director

Syed Ajaz Ahmed
Director & Company Secretary

Mr. M. Abdul Hamid Miah
Director

Mrs. Sultana
Director

Audit Committee

Mr. Asadullah Khawaja
Chairman

Mr. Salim Chamdia
Member

Syed Ajaz Ahmed
Member

Executive Committee

Mr. Arif Habib
Chairman

Mr. Rahim Khanani
Member

Mr. Nasim Beg
Member

Risk Management Committee

Mr. Arif Habib
Chairman

Mr. Asadullah Khawaja
Member

Mr. Nasim Beg
Member

Mr. Rahim Khanani
Member

Human Resource (HR) Committee

Mr. Arif Habib
Chairman

Mr. Asadullah Khawaja
Member

Mr. Rahim Khanani
Member

Syed Ajaz Ahmed
Company Secretary

Mr. Muhammad Amin Bhoori
Financial Controller (Officiating CFO)

Auditors

M. Yousuf Adil Salim & Co.
Chartered Accountants

Legal Advisor

Liaquat Merchant Associates

Registered Office

2/1, R.Y. 16, Old Queens Road,
Karachi - 74000.
Tel: 1111 - AHRBL Fax: 2435736
Email: info@arifhabibbank.com

Share Registrar

Technology Trade (Pvt) Ltd.
Dagia House, 241-C, Block - 2,
P.E.C.H.S. Off Shahrah-e-Quiaadeen, Karachi.
Tel: 4391316-7 Fax: 4391318

An aerial photograph of a city, featuring a large stadium with a distinctive blue and white striped roof on the left side. The rest of the city is a dense grid of buildings. A bright sun flare is visible in the upper right quadrant, casting a warm glow over the scene. The word "VISION" is printed in a serif font across the middle of the image.

V I S I O N

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



M I S S I O N

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 community at large.

Reach out and provide financial services to under-served and un-served customer segment.



First Annual Report Since Inception
Dec 09, 2005 to Dec 31, 2006

DIRECTORS'
REPORT

On behalf of the Board of Directors of Arif Habib Rupali Bank Limited (the Bank), we are pleased to present the 1st Annual Report of the Bank, together with the audited financial statements for the period ended December 31, 2006.

Country's Economy

Over the past several years, the Government has consistently pursued market oriented, business friendly policies and created enabling environment for the private sector. This has resulted in average 7.4% real GDP growth over the last three years. During fiscal year 2006, due to a decline in Agriculture and Manufacturing sectors, GDP growth of 6.6% was recorded. However, the services sector performed well and reflected a growth of 8.8% vis-à-vis 8% in the previous year.

While the increasing trade gap and inflation issues are being addressed, the overall outlook is encouraging with more investment in public and private sector infrastructure projects, expected increase in foreign direct investment and home remittances, rising manufacturing capacity and vibrant services sector. The projected 7% growth in the medium term would continue to retain the buoyant environment.

Banking Sector Overview

The all encompassing banking sector restructuring and reform process orchestrated and implemented by the State Bank of Pakistan has resulted in significant improvement in banking industry benefiting all stakeholders. The interest of leading foreign banks in increasing their market presence via organic growth and acquisition has created a new momentum. The local banks have also been strengthened in terms of capital adequacy, size and profitability and capacity building in the form of human resource training and development, information technology, products and services as well as internal controls and risk management.

Opportunities & Challenges

The challenges of the future are manifold; highly competitive environment, pressure on interest spreads, increase in the cost of operation and higher customer expectations. The institutions willing to commit resources and create their niche would emerge as strong players.

The Banking Industry is represented by 39 banks including Conventional Commercial Banks, Specialized Scheduled Banks, Foreign Banks and Islamic Banks. The process of mergers & acquisitions will further consolidate the industry.

The growing interest in Pakistan's Banking industry both by foreign and local investors is based on tremendous opportunities that are available to bridge the demand and supply gap that exists in the country in terms of availability of banking services. This fact is borne by the excerpt which is being produced here from the presentation of Dr. Shamshad Akhtar, Governor, State Bank of Pakistan in Geneva on February 1, 2007 under the title "Pakistan Banking Sector Reforms: Performance and Challenges". The Governor has mentioned

"Quote - The scope for enhancement of banking business is phenomenal as the level of financial exclusion is exceptionally high despite the growth in banking. Today, penetration ratio of financial services is low judged by any measure. Thus far less than 20% of the population has access to financial services given Pakistan's low depositor base and number of borrowers are under 5 million (3% of population). More graphically, there are only 171 deposit accounts per 1000 people and 30 loan accounts per 1000 people. Like wise, only 30% of the adults have bank accounts. Commercial banks barely provided \$1 billion for mortgage markets. The microfinance industry reaches only 770 households and agriculture and SME financing reaches to 300,000 borrowers each. Unquote"

Given the support of the State Bank of Pakistan in providing us an opportunity to expand our delivery channel network across the country, our Board of Directors and the Management in the Bank are convinced that exceptional opportunities are available. We are therefore moving ahead with conviction and optimism.

Bank's Performance

The Bank commenced its operations on August 5, 2006 and by the Grace of Almighty Allah, the performance of the Bank for 149 days of its operations during the fiscal year ended December 31, 2006 is satisfactory. The financial highlights are as follows:

	(Rupees in '000)
Profit for the period after taxation	93,974
Equity	3,093,974
Paid-up-capital	3,000,000
Deposits	2,526,271
Advances (Net of provisions)	1,424,369
Investments	1,730,868
Advances to Deposit Ratio	56.4
No. of Branches	7

Bank's Credit Rating

JCR-VIS Credit Rating Company Limited has assigned an initial rating of 'A' for medium to long-term and 'A-2' for short term with a stable outlook. The rating reflects confidence in the commitment and resourcefulness of the Sponsors, quality of Management and the progress so far made in building the overall infrastructure for a new Bank. JCR-VIS has also noted that the Bank has started operations with a sizeable capital base and the sponsors have further indicated intent to enhance this level by announcing a merger plan of Arif Habib Securities Limited (AHSL) with the Bank.

Statement of Compliance with the Code of Corporate Governance

The Board of Directors of the Bank has a commitment to support the implementation of provisions of the Code of Corporate Governance. The Bank has applied the principles contained in the Code in the following manner:

- The financial statements, prepared by the Management of the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Bank have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no doubts about the Bank continuing as a going concern.
- Transactions undertaken with related parties during the period have been disclosed in the financial statements.
- There are no statutory payments outstanding on account of taxes, duties, levies and charges as of December 31, 2006, except as disclosed in these financial statements.
- The shareholding pattern is being disclosed separately in this report.

Board Meetings

Nine Board Meetings were held during the period ended December 31, 2006. Attendance by each director is as follows:

Name of Directors	Attendance
Mr. Arif Habib	08
Mr. Rahim Khanani	09
Mr. Asadullah Khawaja	08
Mr. Salim Chamdia	07
Mr. Nasim Beg	07
Syed Ajaz Ahmed	09
Mr. M. Abdul Hamid Miah	-
Mr. M. Hafiz Ibrahim	-
Mrs. Sultana	-
Mr. Abul Hasanat - Nominee of Mr. M. Abdul Hamid Miah	06
Mr. Abu Asad - Nominee of Mr. M. Abdul Hamid Miah	01

Risk Management Framework

Based on guidelines issued by the State Bank of Pakistan (SBP), a comprehensive risk management function is being set up in the Bank. An independent Risk Management Division has already been established under the supervision of a competent banker.

Clearly defined Risk Management Policies and Procedures covering all activities of the Bank including Operations, Credit, Treasury, Compliance, Accounting, Audit & Internal Control have been developed and being implemented.

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 Controls

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 Audit & Internal Control Division reporting directly to the Audit Committee of the Board is effectively functioning.
- Compliance Division has been established and 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 is approved by the Board. The review of these policies will be an on-going process.
- 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.

Auditors

The Present Auditors, M/s.M.Yousuf Adil Saleem & Co, Chartered Accountants, retire and offer themselves for re-appointment. On the recommendation of Audit Committee, the Board has agreed to recommend for the re-appointment of M/s. M.Yousuf Adil Saleem & Co, Chartered Accountants, to function as Bank's Auditors for the year ending December 31, 2007.

Future Outlook of the Bank

While aggressive competitive environment is expected in the future, we firmly believe that substantial scope is available in terms of providing financial services to the un-served and under-

served market. The access to financial services in Pakistan is still less compared to the other fastest growing economies. We are therefore committed to make significant strides in organic growth as well as via planned merger of Arif Habib Securities Limited (AHSL) with the Bank.

Merger of Arif Habib Securities Limited (AHSL) with the Bank

The Board of Directors of the Bank and AHSL has approved the planned merger subject to regulatory approvals. The proposed merger will result in substantial increase in the equity of the Bank from Rs.3 billion to over Rs.12 billion. The merger will result in the Bank emerging as one of the top ten leading banks in terms of its equity. AHSL has diversified investments and has positioned itself to avail opportunities in various sectors, AHSL Brokerage and Asset Management Subsidiaries and the Associate Companies engaged in production of Fertilizer are on sound footing and expected to contribute effectively to the profit of the merged entity. The Bank is expected to yield return in the medium term. Other strategic investments are expected to become profitable in the short term.

Overall, the merger will be a significant source of financial strength for the Bank in terms of equity base as well as earning stream of the merged entity from its subsidiaries and strategic investments. The merger will provide enhanced capacity to the Bank to make substantial investment in its infrastructure with the ultimate objective of raising the benchmark for customer service.

Branch Network

In a short period of five months of the Bank's existence, it has established seven branches; four in Karachi and one each in Lahore, Multan and Islamabad. This network will be further expanded across the country in 2007 and beyond.

Information Technology

The Bank has been successful in implementing *hPlus* Core Banking Application Software across the network of its branches. All branches are real time online. Each branch will have fully functional ATMs and the Bank is also planning to have off-site ATMs at strategic locations. The technology initiative currently under implementation would enable the Bank to service its customers via SMS, Web and IVR as well.

Acknowledgement

On behalf of the Board and the Management, we would like to express our sincere appreciation to the State Bank of Pakistan for their guidance and support.

We sincerely appreciate our customers for their patronage and business and employees of the Bank for their commitment and hard work.

On Behalf of the Board of Directors

Rahim Khanani
President & CEO

Arif Habib
Chairman

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 seven 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. No casual vacancy occurred in the Board during the year.
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 CFO, Company Secretary and Head Audit and Internal Controls, including their 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.
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

Rahim Khanani
President & CEO

Karachi
February 24, 2007

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For and on behalf of the Board

Rahim Khanani
President & CEO

Karachi
February 24, 2007

A u d i t o r s ' R e v i e w R e p o r t

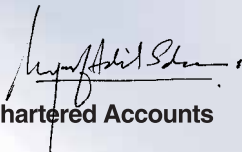
To the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

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 Rupali Bank Limited to comply with the Regulation 0-1 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 and 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 period from December 09, 2005 to December 31, 2006.



Chartered Accounts

Karachi
Date: 24 FEB 2007

Deloitte

M. Yousf Adil Saleem & Co.
Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Sharea Faisal,
Karachi-75350
Pakistan

UAN: +92 (0) 21 111-55-2626
Fax: +92 (0) 21 - 454 1314
Web: www.deloitte.com

A u d i t o r s ' R e p o r t To the Members

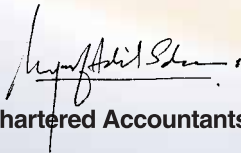
We have audited the annexed balance sheet of **ARIF HABIB RUPALI BANK LIMITED** (the Bank) as on December 31, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statement') for the period from December 09, 2005 to December 31, 2006, in which are incorporated the unaudited certified returns from 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 statement in conformity with approved accounting standards and the requirements of the banking companies ordinance, 1962 (L VII of 1962), and the companies ordinance, 1984 (XL VII of 1984). Our responsibility is to express an opinion on this statement 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 disclosure in the financial statement. 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;
- (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 (L VII of 1962), and the Companies Ordinance, 1984 (XL VII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies, with which we concur;

- (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 expenditure 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, 2006 and its true balance of the profit, its cash flows and changes in equity for the period from December 09, 2005 to December 31, 2006; 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

Dated: 24 Feb 2007

Balance Sheet

as at December 31, 2006

	Note	Rupees in '000'
ASSETS		
Cash and balances with treasury banks	7	228,374
Balances with other banks	8	645,650
Lendings to financial institutions	9	1,079,286
Investments	10	1,730,868
Advances	11	1,424,369
Operating fixed assets	12	385,074
Deferred tax assets		-
Other assets	13	202,758
		5,696,379
LIABILITIES		
Bills payable	14	3,899
Borrowings		-
Deposits and other accounts	15	2,526,271
Sub-ordinated loans		-
Liabilities against assets subject to finance lease		-
Deferred tax liabilities	16	105
Other liabilities	17	93,328
		2,623,603
		3,072,776
NET ASSETS		
REPRESENTED BY		
Share capital	18	3,000,000
Reserves		18,795
Unappropriated profit		75,179
		3,093,974
Deficit on revaluation of assets - net	19	(21,198)
		3,072,776
CONTINGENCIES AND COMMITMENTS		
	20	

The annexed notes 1 to 37 form an integral part of these financial statements.



President / Chief Executive



Director



Director



Director

Profit & Loss Account

for the period from Dec 09, 2005 to Dec 31, 2006

	Note	Rupees in '000'
Mark-up/Return/Interest earned	21	142,802
Mark-up/Return/Interest expensed	22	(23,309)
Net Mark-up/ Interest income		<u>119,493</u>
Provision against non-performing loans and advances	11	24
Provision for diminution in the value of investments		-
Bad debts written off directly		-
		<u>24</u>
Net Mark-up/Interest Income after provisions		<u>119,469</u>
 NON MARK-UP/INTEREST INCOME		
Fee, Commission and Brokerage Income		468
Dividend Income		-
Loss from dealing in foreign currencies		(76)
Gain on sale of securities	23	20,482
Unrealized Gain/(Loss) on revaluation of investments classified as held for trading		-
Other Income	24	340
Total non-markup/interest Income		<u>21,214</u>
		<u>140,683</u>
 NON MARK-UP/INTEREST EXPENSES		
Administrative expenses	25	90,441
Other provisions/write-offs		-
Other charges	26	213
Total non-markup/interest expenses		<u>90,654</u>
		<u>50,029</u>
Extra ordinary/unusual items		-
PROFIT BEFORE TAXATION		<u>50,029</u>
Taxation – Current	27	(820)
– Prior years		-
– Deferred		44,765
		<u>43,945</u>
PROFIT AFTER TAXATION		<u>93,974</u>
Unappropriated Profit/(Loss) brought forward		-
Profit available for appropriation		<u>93,974</u>
 Basic Earnings per share (Rupee)	 28	 <u>1.10</u>
Diluted Earnings per share (Rupee)	28	<u>1.10</u>

The annexed notes 1 to 37 form an integral part of these financial statements.



President / Chief Executive



Director



Director



Director

Cash Flow Statement

for the period from Dec 09, 2005 to Dec 31, 2006

Rupees in '000'

A. CASH FLOWS FROM OPERATING ACTIVITIES

Profit before taxation	50,029
Adjustments:	
Depreciation	5,996
Amortization	3,664
Provision for non-performing advances	24
Gain on sale of fixed assets	(54)
Provision for gratuity	690
	<u>10,320</u>
	60,349
Operating assets	
Lendings to financial institutions	(1,079,286)
Advances	(1,420,183)
Others assets	(158,293)
	<u>(2,657,762)</u>
Operating liabilities	
Bills Payable	(5,097)
Borrowings	(170,000)
Deposits and other accounts	2,425,565
Other liabilities	31,261
	<u>2,281,729</u>
	(315,684)
Income tax paid	(27,153)
Net cash flow used in operating activities	<u>(342,837)</u>

B. CASH FLOWS FROM INVESTING ACTIVITIES

Net investments in available-for-sale securities	(1,454,559)
Investments in operating fixed assets	(198,298)
Cash flow on acquisition	83,869
Sale proceeds of property and equipment disposed-off	849
Net cash flow used in investing activities	<u>(1,568,139)</u>

C. CASH FLOWS FROM FINANCING ACTIVITIES

Issue of share capital	2,785,000
Cash flow from financing activities	<u>2,785,000</u>
Cash and cash equivalents at end of the period	<u>874,024</u>

The annexed notes 1 to 37 form an integral part of these financial statements.



President / Chief Executive



Director



Director



Director

Statement of Changes in Equity

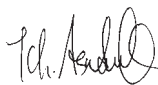
for the period from Dec 09, 2005 to Dec 31, 2006

	Share capital	Statutory reserve Rupees in '000'	Unappropriated profit	Total
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	<u>3,000,000</u>	<u>18,795</u>	<u>75,179</u>	<u>3,093,974</u>

The annexed notes 1 to 37 form an integral part of these financial statements.



President / Chief Executive



Director



Director



Director

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

1. STATUS AND NATURE OF BUSINESS

Arif Habib Rupali 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.

During the period, the State Bank of Pakistan sanctioned a scheme of amalgamation under section 48 of the Banking Companies Ordinance, 1962 on July 07, 2006 by virtue of which Rupali Bank Limited - Pakistan Branch (here-in-after referred as "RBL") was amalgamated with the Bank on August 04, 2006. This scheme of amalgamation had been approved by the shareholders of the Bank in an extraordinary general meeting held on May 17, 2006. The Bank obtained Certificate of Commencement of Business from SBP effective from August 05, 2006. According to the scheme all the properties, assets and liabilities and all the rights and obligations of RBL as at August 04, 2006 stood amalgamated with the Bank. The Bank has issued the shares in respect of the net assets value of Rs. 215.000 million including the goodwill. The amalgamation has been accounted for by recording all the assets and liabilities of RBL as at August 04, 2006 at fair values using purchase method of accounting.

The detail of net assets acquired in amalgamation, and the goodwill arising, is as follows:-

	Rupees in '000'
Assets	
Cash and balances with treasury banks	34,906
Balances with other banks	48,963
Investments	298,096
Advances	4,210
Operating fixed assets	132,773
Other assets	21,797
	540,745
Liabilities	
Bills payable	8,996
Borrowings	170,000
Deposits and other accounts	100,706
Deferred tax liabilities	45,460
Other liabilities	61,377
	386,539
Contingent liability (refer note 20.4)	-
Net assets acquired	154,206
Goodwill	60,794
Consideration paid, issue of shares	215,000
Cash inflow arising on acquisition:	
Cash and cash equivalents acquired	83,869

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

The Bank is principally engaged in the business of banking company, through its 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 A-2.

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

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 and the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting 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.

The State Bank of Pakistan as per BSD Circular 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 of the format prescribed by the State Bank of Pakistan and valued in accordance with the requirements of various circulars issued by the SBP.

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.

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Revenue recognition

Mark-up / interest on advances 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, other than investment in associates, 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 period.

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

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.

Investment in associates

Investments in associates are valued using equity method of accounting.

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

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 comprise 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.

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

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 period, 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 period 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 period.

Capital work in progress

These are stated at cost.

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.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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.

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

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 asset 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 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".

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.

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

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 deferred tax asset/liability is adjusted against the related surplus.

5.11 Provisions

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.

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 period.

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 Off setting

Financial assets and financial liabilities are off set and the net amount is reported in the financial statements when there is a legally 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.

5.15 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

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

balance sheet include cash and bank balances, lendings to financial institutions, investments, advances, certain receivables and financial liabilities including borrowings from financial institutions, deposits, bills payable and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

5.16 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 judgements 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.

6.2 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plan and the sources of estimation are disclosed in note 31 to the financial statements.

6.3 Useful life of property and equipment

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

6.4 Goodwill

The key assumption concerning cash flow projection relating to impairment of goodwill and basis of allocation are disclosed in note 12.3 to the financial statement.

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

	Note	Rupees in '000'
7. CASH AND BALANCES WITH TREASURY BANKS		
In hand		
Local currency		13,595
Foreign currency		1,489
With State Bank of Pakistan in		
Local currency current account	7.1	208,792
Foreign currency current account	7.2	1,247
Foreign currency deposit account		
- Non remunerative	7.3	792
- Remunerative	7.4	2,459
		<u>228,374</u>

7.1 The current account is maintained under 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% cash reserve at nil return, required to be maintained with the SBP on deposits held under the new foreign currency account scheme.

7.4 This represents the 18% cash reserve required to be maintained with the SBP on deposits held under the new foreign currency account scheme, at the rate of return ranging from 4.32% to 4.39% per annum on monthly basis.

8. BALANCES WITH OTHER BANKS

In Pakistan		
On current account		3,236
On deposit account	8.1	600,000
Outside Pakistan		
On current account		42,414
		<u>645,650</u>

8.1 This represents the short term placements carrying interest rate ranging from 11.15% to 12.25% per annum maturing within one month.

9. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	9.1	830,000
Repurchase agreement lendings	9.2	49,286
Certificates of investment	9.3	200,000
		<u>1,079,286</u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

- 9.1** These represent call lendings to the financial institutions carrying mark-up rates ranging from 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 rate ranging from 4% to 9% per annum and having maturity up to one month.
- 9.3** These represent certificates of investment from non banking financial institutions carrying mark-up rates ranging from 10.85% to 11.95% per annum and having maturity up to three months.

Rupees in '000'

9.4 Particulars of lendings

In local currency	1,079,286
In foreign currencies	-
	<u>1,079,286</u>

9.5 Securities held as collateral against lendings to financial institutions

	Held by Bank	Further given as Collateral	Total
	Rupees in '000'		
Market Treasury Bills	49,286	-	49,286
	<u>49,286</u>	<u>-</u>	<u>49,286</u>

10. INVESTMENTS

	Held by Bank	given as Collateral	Total
	Rupees in '000'		

10.1 Investments by types:

Available-for-sale securities			
- Market Treasury Bills	384,651	-	384,651
- Pakistan Investment Bonds	203,196	-	203,196
- Listed Companies Shares	364,013	-	364,013
- Mutual Funds Units / Certificates	650,795	-	650,795
- Unlisted Term Finance Certificates	150,000	-	150,000
Investments at cost	<u>1,752,655</u>	<u>-</u>	<u>1,752,655</u>
Deficit on revaluation of Available-for-sale securities	(21,787)	-	(21,787)
Total investments at market value	<u>1,730,868</u>	<u>-</u>	<u>1,730,868</u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

	Note	Rupees in '000'
10.2 Investments by segments:		
Federal Government Securities:		
- Market Treasury Bills	10.3	384,651
- Pakistan Investment Bonds	10.3	203,196
Fully Paid up Ordinary Shares / units / certificate :		
- Listed companies	10.4	364,013
- Mutual funds	10.5	650,795
Term Finance Certificates - Unlisted	10.6	150,000
Total investments at cost		<u>1,752,655</u>
Deficit on revaluation of Available-for-sale securities		<u>(21,787)</u>
Total investments at market value		<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 8.10% to 8.82% maturing within 6 to 12 months and Pakistan Investment Bonds carry markup ranging from 8% to 11% per annum on semi-annual basis maturing within 6 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 investments in ordinary shares - listed

Investee	Number of shares held	Paid-up value per share	Total nominal value Rupees in '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	232,500	10	2,325
Fauji Fertilizer Company Limited	59,800	10	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
Pakistan Oilfield Limited	222,900	10	2,229
Pakistan Petroleum Limited	294,800	10	2,948
Pakistan State Oil Limited	47,800	10	478
The Bank of Punjab	285,000	10	2,850
World Call Telecom Limited	1,056,000	10	10,560

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

10.5 Particulars of investments in mutual funds

Investee	Number of units / Certificates held	Paid-up value per unit / Certificate	Total nominal value Rupees in '000'
AMZ Plus Income Fund	953,405	100	95,340
KASB Liquid Fund	242,319	100	24,232
Pakistan Capital Market Fund	882,743	10	8,827
Pakistan Income Fund	7,632,931	50	381,647
Pakistan Premier Fund	5,000,000	10	50,000
Pakistan Strategic Allocation Fund	5,000,000	10	50,000
Reliance Income Fund	200,000	50	10,000

10.6 Particulars of investments in unlisted Term Finance Certificate - Dominon Fertilizer (Pvt) Limited

Name of Chief Executive	Number of Certificates held	Paid-up value per Certificate	Total nominal value Rupees in '000'
Mr. Ahmed Jauded Bilal	150	1,000,000	150,000

10.7 Quality of Available-for-Sale Securities

Securities

	Rating	Rupees in '000'
Market Treasury Bills	Unrated	384,256
Pakistan Investment Bonds	Unrated	201,908
* Dominion Fertilizer (Pvt.) Limited (TFCs)	-	150,000
AMZ Plus Income Fund	A(f)	101,359
Bank Al Falah Limited	A1+	1,672
* D.G. Khan Cement Limited	-	4,155
Engro Chemical Pakistan Limited	A1+	10,140
* Fauji Fertilizer Bin Qasim Limited	-	6,626
* Fauji Fertilizer Company Limited	-	6,312
Faysal Bank Limited	A1+	10,116
* KASB Liquid Fund	-	25,506
MCB Bank Limited	A1+	14,766
National Bank of Pakistan	A1+	43,483
* Oil & Gas Development Company Limited	-	39,881
Pakistan Capital Market Fund	5-Star	10,107

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

Securities	Rating	Rupees in '000'
Pakistan Income Fund	4-Star	402,255
* Pakistan Oilfield Limited	-	77,959
* Pakistan Petroleum Limited	-	68,394
Pakistan Premier Fund	5-Star	65,000
Pakistan State Oil Limited	A1+	14,053
Pakistan Strategic Allocation Fund	5-Star	42,500
Reliance Income Fund	4-Star	10,212
The Bank of Punjab	A1+	28,856
World Call Telecom Limited	A1	11,352
		<u>1,730,868</u>

*The rating is not available.

	Note	Rupees in '000'
11. ADVANCES		
Loans, cash credits, running finances, etc.		
In Pakistan		533,997
Outside Pakistan		-
		<u>533,997</u>
Financing in respect of		
Continuous funding system (CFS)	11.2	1,030,611
Net investment		
In Pakistan		-
Outside Pakistan		-
		-
Bills discounted and purchased		
Payable in Pakistan		-
Payable outside Pakistan		-
		-
Advances		1,564,608
Provision for non-performing advances	11.3	(140,239)
Advances - net of provision		<u>1,424,369</u>
11.1 Particulars of advances		
11.1.1 In local currency		1,564,608
In foreign currencies		-
		<u>1,564,608</u>
11.1.2 Short Term		1,555,042
Long Term		9,566
		<u>1,564,608</u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

11.2 This represents secured financing in respect of purchase of shares from CFS market. These carry markup at the rates ranging from 11.28% to 19.29% per annum.

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

Category of Classification	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>

	Specific	General	Total
	Rupees in '000'		

11.4 Particulars of provision against non-performing advances

Opening balance	-	-	-
Addition by amalgamation	140,215	-	140,215
Charge for the period	-	24	24
Amounts written off	-	-	-
Reversals	-	-	-
Closing balance	<u>140,215</u>	<u>24</u>	<u>140,239</u>

11.4.1 Particulars of provisions against non-performing advances

In local currency	140,215	24	140,239
In foreign currencies	-	-	-
	<u>140,215</u>	<u>24</u>	<u>140,239</u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

	Note	Rupees in '000'
11.5 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 period		-
Loans granted during the period		12,225
Repayments		953
		11,272
Balance at end of period		
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 period		-
Loans granted during the period		453,571
Repayments		73,521
		380,050
Balance at end of period		
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
Balance at beginning of period		-
Loans granted during the period		-
Repayments		-
		-
		391,322
12. OPERATING FIXED ASSETS		
Capital work-in-progress	12.1	73,383
Property and equipment	12.2	250,897
Intangible assets - Goodwill	12.3	60,794
		385,074
12.1 Capital work-in-progress		
Civil works		24,155
Advances to suppliers and contractors		6,899
Computer software		42,329
		73,383

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

12.2 Property and equipment

Category of Classification	COST			DEPRECIATION		Book value	Rate of Depreciation % age
	Additions / (Deletions)	Addition by amalgamation	Balance as at December 31, 2006	Depreciation for the period	Balance as at December 31, 2006		
	Rupees in '000'						
Building	64,301	132,108	196,409	2,984	2,984	193,425	5%
Furniture and fixture	2,917	166	3,083	70	70	3,013	10%
Electrical, office and computer equipments	31,467	499	31,966	1,715	1,715	30,251	20%
Vehicles	27,825 (900)	1	26,926	2,823 (105)	2,718	24,208	20%
	126,510 (900)	132,774	258,384	7,592 (105)	7,487	250,897	

Rupees in '000'

12.2.1 Allocation of depreciation

Preliminary expenses	1,595
Administrative expenses	5,997
	<u>7,592</u>

12.2.2 The fair value of property and equipment, as per management estimate, is not materially different from their carrying amount.

12.2.3 Included in cost of vehicles are fully depreciated items still in use having cost of Rs. 1.445 million.

12.2.4 Detail of disposal of property and equipment during the period

Description	Cost	Accumulated depreciation	Book Value	Sale Proceeds	Mode of disposals	Particular of buyer
Vehicles	900	105	795	849	Insurance claim	Universal Insurance Company Limited

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

	Note	Rupees in '000'
12.3 Goodwill		
Acquisition during the period		60,794
Impairment during the period		-
Net Book Value		<u>60,794</u>

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. 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		29,339
Income / Mark-up accrued in foreign currency		13
Advances, deposits, advance rent and other prepayments		81,891
Advance taxation - net of provision		26,333
Advance against subscription of shares	13.1	50,000
Deferred cost	13.2	38,454
Others		1,100
		<u>227,130</u>
Less: Provision held against other assets	13.3	<u>(24,372)</u>
Other Assets - Net		<u>202,758</u>

13.1 These represent application money for subscription of share of Arif Habib Limited, an associated company, under IPO which has been rejected in balloting held on December 30, 2006.

13.2 Deferred cost - Net

Deferred cost incurred during the period	13.2.1	41,851
Amortized during the period		<u>(3,397)</u>
		<u>38,454</u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

Rupees in '000'

13.2.1 Deferred cost incurred

Pre-incorporation (upto December 08, 2005)

Legal and professional charges	35
Others	16
	51

Post-incorporation (from December 09, 2005 to August 04, 2006)

Salaries and allowances	23,073
Rent, taxes, insurance, electricity	2,242
Legal and professional	14,920
Communications	324
Repair and maintenance	2,850
Stationary and printing	329
Advertisement and publicity	406
Auditors' remuneration	125
Depreciation	1,595
Others	839
	46,703
	46,754

Less : Mark up/return earned
Other deposits with financial institutions
Others

4,860
43
(4,903)
41,851

13.3 Provision against other assets

Opening balance	-
Acquisition by amalgamation	24,372
Charge for the period	-
Reversals	-
Amount Written off	-
	24,372
Closing balance	24,372

14. BILLS PAYABLE

In Pakistan	3,899
Outside Pakistan	-
	3,899

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

	Rupees in '000'
15. DEPOSITS AND OTHER ACCOUNTS	
Customers	
Fixed deposits	766,732
Savings deposits	832,474
Current accounts - Remunerative	-
Current accounts - Non-remunerative	903,193
Margin accounts	490
	<u>2,502,889</u>
Financial Institutions	
Remunerative deposits	-
Non-remunerative deposits	23,382
	<u>23,382</u>
	<u>2,526,271</u>
15.1 Particulars of deposits	
In local currency	2,498,761
In foreign currencies	27,510
	<u>2,526,271</u>
16. DEFERRED TAX LIABILITIES	
Deferred credits arising due to	
Depreciation on fixed assets	11,493
Goodwill	4,256
	<u>15,749</u>
Deferred debits arising in respect of	
Deficit on revaluation of	
Pakistan Investment Bonds	(451)
Treasury bills	(138)
Provision for gratuity	(242)
Tax loss for the period	(14,813)
	<u>(15,644)</u>
	<u>105</u>
17. OTHER LIABILITIES	
Mark-up/Return/Interest payable in local currency	9,258
Payable to Rupali Bank - Bangladesh	57,899
Payable to brokers	13,598
Accrued expenses	7,951
Payable to defined benefit plan	690
Withholding tax payable	2,146
Others	1,786
	<u>93,328</u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

Rupees in '000'

18. SHARE CAPITAL

18.1 Authorized capital

<u>600,000,000</u>	Ordinary shares of Rs.10/- each	<u>6,000,000</u>
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18.2 Issued, subscribed and paid-up

	Ordinary shares of Rs.10/- each	
<u>278,500,000</u>	Fully paid in cash	<u>2,785,000</u>
<u>21,500,000</u>	Issued for consideration other than cash	<u>215,000</u>
<u>300,000,000</u>		<u>3,000,000</u>

18.3 The holding company Arif Habib Securities Limited and associated undertaking Rupali Bank Bangladesh holds 267,334,000 and 29,500,000 ordinary shares respectively.

19. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET

Available-for-sale securities

Market treasury bills	(395)
Pakistan Investment Bonds	(1,288)
Listed companies shares	(26,248)
Mutual funds units	6,144
Total deficit on revaluation on securities	(21,787)
Related deferred tax asset	589
	<u>(21,198)</u>

20. CONTINGENCIES AND COMMITMENTS

20.1 Direct credit substitutes

-

20.2 Transaction-related contingent liabilities / commitments guarantees given in favour of

Government	-
Banking companies and other financial institutions	-
Others	-

20.3 Trade-related contingent liabilities

Letter of credits	-
Acceptances	-

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

	Rupees in '000'
20.4 Other contingencies - Claims against Bank not acknowledge as debt	83,903
20.5 Commitments in respect of forward lending	
Forward call lending	-
Forward repurchase agreement lending	49,286
Commitments to extend credit	-
20.6 Commitments in respect of future contracts	
Purchase	3,501
Sale	26,736
20.7 Commitments for the acquisition of operating fixed assets	
Civil works	14,168
Acquisition of computer software	38,876
20.8 Underwriting commitments	50,000
20.9 In the year 2005, Deputy Commissioner of Income Tax completed assessment for tax year 2003 of Rupali Bank Limited - Pakistan Branch (RBL) and created an additional tax demand of Rs.42.241 million on account of disallowance of provision made by RBL against the non performing advances amounting to Rs.89.12 million. The order of Commissioner of Income Tax was set aside by the Commissioner of Income Tax (Appeals) vide its Order Nos. 65, 66 dated June 22, 2005 for reconsideration by the Deputy Commissioner of Income Tax, in the light of orders passed by higher forum in this context. RBL, as well as the tax department, have filed (Appeals) with Income Tax Appellate Tribunal against the order of Commissioner of Income Tax Appeals which is pending. No provision has been made in this respect in these financial statements as in the opinion of Tax Consultants, the case is likely to be decided in favour of RBL based on precedence.	
21. MARK-UP/RETURN/INTEREST EARNED	
a) On loans and advances to: Customers	4,781
Financial Institutions	113,620
b) On investments in: Held for Trading Securities	-
Available-for-sale Securities	17,842
Held-to-maturity Securities	190
c) On deposits with financial institutions	-
d) On securities purchased under resale agreements	6,369
	<u>142,802</u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

	Note	Rupees in '000'
22. MARK-UP/RETURN/INTEREST EXPENSED		
Deposits		16,441
Securities sold under repurchase agreements		6,868
		<u>23,309</u>
23. GAIN/(LOSS) ON SALE OF SECURITIES		
Federal Govt. Securities		
Market Treasury Bills		160
Pakistan Investment Bonds		(145)
Shares and mutual fund units / certificates		20,467
		<u>20,482</u>
24. OTHER INCOME		
Net profit on sale of property and equipment		54
Others		286
		<u>340</u>
25. ADMINISTRATIVE EXPENSES		
Salaries, allowances, etc.		40,815
Charge for defined benefit plan		690
Non-executive directors' fees, allowances and other expenses		180
Brokerage and commission		13,648
Rent, taxes, insurance, electricity, etc.		9,083
Legal and professional charges		2,533
Fees and subscription		2,903
Repairs and maintenance		646
Communications		2,145
Stationery and printing		1,345
Advertisement and publicity		697
Traveling and conveyance		2,117
Education and training		1,249
Auditors' remuneration	25.1	387
Depreciation	12.2	5,997
Amortization		3,664
Donation		-
Others		2,342
		<u>90,441</u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

		Rupees in '000'
25.1 Auditors' remuneration		
Audit fee		250
Tax services		100
Certifications		25
Out-of-pocket expenses		12
		<u>387</u>
26. OTHER CHARGES		
Penalties imposed by State Bank of Pakistan		80
Bank charges		133
		<u>213</u>
27. RELATIONSHIP BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT		
<p>The relationship between tax expense and accounting profit has not been presented in these financial statements as the total income of the company attracts minimum tax under section 113 of the Income Tax Ordinance, 2001.</p>		
28. BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE		
Profit for the period	Rs. in '000'	<u>93,974</u>
Weighted average number of ordinary shares	No. of Shares	<u>85,101,032</u>
Basic and diluted earnings per share		<u>Re.1.10</u>
		Rupees in '000'
29. CASH AND CASH EQUIVALENTS		
Cash and Balance with Treasury Banks		228,374
Balance with other banks		645,650
		<u>874,024</u>
30. STAFF STRENGTH		
Permanent		128
Contractual basis		22
Bank's own staff strength at the end of the period		150
Outsourced		42
Total Staff Strength		<u>192</u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

31. DEFINED BENEFIT PLAN

31.1 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.

31.2 Principal actuarial assumptions

The actuarial valuation is carried out periodically. The actuarial valuation was carried out for the period ended December 31, 2006 using "Projected Unit Credit Method". The main assumptions used for actuarial valuation are as follows: -

	Per Annum	Source of Assumptions
Discount rate	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.
Expected rate of increase in salaries	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.

31.3 Reconciliation of payable to defined benefit plan

	Rupees in '000'
Present value of defined benefit obligations	1,163
Fair value of plan assets	-
Net actuarial gains or losses not recognized	(130)
Past service cost not yet recognized	(343)
Any amount not recognized as an asset	-
	<u>690</u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

Rupees in '000'

31.4 Movement in payable to defined benefit plan

Opening balance	-
Charge for the period	690
Benefit paid	-
Closing balance	<u>690</u>

31.5 Charge for defined benefit plan

Current service cost	618
Interest cost	17
Expected return on plan assets	-
Actuarial gains and losses	-
Past service cost	55
Amortization of transitional obligations	-
	<u>690</u>

The expected future charge for defined benefit plan is Rs. 3.7 million according to actuarial recommendation.

32. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive	Directors	Executives
	Rupees in '000'		
Fees	-	180	-
Managerial remuneration	2,197	-	11,233
Charge for defined benefit plan	-	-	461
Rent and house maintenance	989	-	5,055
Utilities	220	-	1,123
Medical	220	-	1,343
Conveyance	41	-	1,923
Bonus	359	-	1,573
	<u>4,026</u>	<u>180</u>	<u>22,711</u>
Number of person(s)	<u>1</u>	<u>2</u>	<u>31</u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

	Book value	Fair value
	Rupees in '000'	
33. FAIR VALUE OF FINANCIAL INSTRUMENTS		
33.1 On-balance sheet financial instruments		
Assets		
Cash balances with treasury banks	228,374	228,374
Balances with other banks	645,650	645,650
Lending to financial institutions	1,079,286	1,079,286
Investments	1,730,868	1,730,868
Advances	1,424,369	1,424,369
Other assets	122,884	122,884
	<u>5,231,431</u>	<u>5,231,431</u>
Liabilities		
Bills payable	3,899	3,899
Deposits and other accounts	2,526,271	2,526,271
Other liabilities	93,328	93,328
	<u>2,623,498</u>	<u>2,623,498</u>
33.2 Off-balance sheet financial instruments		
Forward purchase of equity instruments	<u>3,501</u>	<u>3,501</u>
Forward agreements for borrowing	<u>-</u>	<u>-</u>
Forward sale of equity instruments	<u>26,736</u>	<u>26,736</u>
Forward agreements for lending	<u>-</u>	<u>-</u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

34. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services	Assets Management	Retail Brokerage	Others
	Rupees in '000'								
Current Period									
Total income	250	95,966	374	67,022	402	-	-	-	-
Total expenses	3,199	51,348	40,282	20,799	118	-	-	-	-
Net income (loss)	(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	-	-	(164,610)	-	-	-	-	-	-
Segment provision required	-	-	-	-	-	-	-	-	-
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%	0.00%	0.00%	0.00%	0.00%
Segment Cost of funds (%)	1059.27%	1.33%	8.01%	1.39%	24.28%	0.00%	0.00%	0.00%	0.00%

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.

Rupees in '000'

35. RELATED PARTY TRANSACTIONS

Arif Habib Limited - an associated company

Brokerage Services

Brokerage expenses paid - CFS	<u><u>10,499</u></u>
Brokerage expenses paid - Equity	<u><u>1,483</u></u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

Rupees in '000'

Financing

Balance at the beginning of the period	-
Sanctioned / granted during the period	453,571
Payment received during the period	73,521
Balance at the end of the period	380,050
Mark up charged during the period	4,221
Share Subscription money	50,000

Mutual Fund of Arif Habib Investment Management Company Investments - group company

Pakistan Capital Market Fund	10,000
Pakistan Income Fund	400,000
Pakistan Strategic Allocation Fund	45,296
Pakistan Premier Fund	60,499
	515,795
Capital gain earned during the period	6,372

Deposits - associated persons / companies

Balance at the beginning of the period	-
Deposits during the period	2,257,790
Withdrawal during the period	1,734,553
Balance at the end of the period	523,237
Mark up charged during the period	7,875
Mark up paid	4,868
Mark up payable	3,489

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

Rupees in '000'

36. CAPITAL ADEQUACY

Regulatory capital base

Tier I capital		
Shareholders capital		3,000,000
Reserves		18,795
Unappropriated profit		75,179
		3,093,974
Less: adjustments		82,581
Total Tier I capital		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)	3,011,417

Book Value	Risk Adjusted Value
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Risk-weighted exposures

Credit risk

Balance sheet items:-		
Cash and other liquid assets	874,024	129,130
Money at call	1,079,286	975,857
Investments	1,730,868	150,000
Loans and advances	1,424,369	1,410,265
Fixed assets	385,074	324,279
Other assets	202,758	170,898
	5,696,379	3,160,429

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

	Rupees in '000'	
Off Balance Sheet Items		
Loan repayment guarantees	-	-
Purchase and resale agreements	-	-
Performance bonds etc	-	-
Revolving underwriting commitments	50,000	25,000
Stand by letters of credit	-	-
Outstanding foreign exchange contracts		
- Purchase	-	-
- Sale	-	-
	50,000	25,000
Credit risk-weighted exposures		3,185,429
Market risk		
General market risk		1,125,856
Specific market risk		1,045,044
Market risk-weighted exposures		2,170,900
Total risk-weighted exposures	(b)	5,356,329
Capital adequacy ratio [(a) / (b) x 100]		56.22%

37. 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.

As the Bank has recently started its operations, comprehensive risk management function is being set up in the Bank. 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 have been developed and are presently being vetted by the consultant. Business continuity plan is under preparation. The basic principles employed in formulation of the above policies and procedures which 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.

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

- Risk taking decisions are explicit and clear.
- Sufficient capital as buffer is available to mitigate risk.

The management structure of the Bank is 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. Some of the modules of the systems have yet to be installed. *hPLUS™* is a fully functional, well proven, single integrated banking application, and is also capable of generating numerous standard and customized MIS reports.

37.1 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 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 is 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.

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

- 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.

37.1.1 Segmental information

Segmental information is presented in respect of the class of business and geographical distribution of advances, deposits, contingencies and commitments.

37.1.1.1 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%	4,765	0.20%	-	0.00%
Mining and quarrying	-	0.00%	1	0.00%	-	0.00%
Textile	115,673	7.39%	107	0.00%	-	0.00%
Chemical and pharmaceuticals	24,196	1.55%	-	0.00%	7,640	2.87%
Cement	-	0.00%	284	0.01%	-	0.00%
Sugar	-	0.00%	-	0.00%	-	0.00%
Footwear and leather garments	-	0.00%	-	0.00%	-	0.00%
Automobile and transportation equipment	458	0.03%	2,384	0.09%	-	0.00%
Electronics and electrical appliances	-	0.00%	13	0.00%	-	0.00%
Construction	-	0.00%	21,036	0.83%	14,168	5.32%
Power (electricity), gas, water, sanitary	-	0.00%	161,717	6.40%	-	0.00%
Wholesale and retail trade	994	0.06%	-	0.00%	-	0.00%
Exports/Imports	1,972	0.13%	47,344	1.88%	-	0.00%
Transport, storage and communication	-	0.00%	18,967	0.75%	-	0.00%
Financial	1,410,661	90.09%	1,673,577	66.25%	129,523	48.60%
Insurance	-	0.00%	-	0.00%	-	0.00%
Services	-	0.00%	45,534	1.80%	115,014	43.16%
Individuals	11,750	0.75%	465,093	18.41%	-	0.00%
Others	-	0.00%	85,449	3.38%	125	0.05%
	<u>1,565,704</u>	<u>100.00%</u>	<u>2,526,271</u>	<u>100.00%</u>	<u>266,470</u>	<u>100.00%</u>

37.1.1.2 Segment by sector

Public/ Government	-	0.00%	339,582	13.44%	-	0.00%
Private	<u>1,565,704</u>	<u>100.00%</u>	<u>2,186,689</u>	<u>86.56%</u>	<u>266,470</u>	<u>100.00%</u>
	<u>1,565,704</u>	<u>100.00%</u>	<u>2,526,271</u>	<u>100.00%</u>	<u>266,470</u>	<u>100.00%</u>

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

	Classified Advances	Specific Provisions Held
	Rupees in '000'	
37.1.1.3 Details of non-performing advances and specific provisions by class of business segment		
Agriculture, forestry, hunting and fishing	-	-
Mining and quarrying	-	-
Textile	114,759	114,759
Chemical and pharmaceuticals	24,196	24,196
Cement	-	-
Sugar	-	-
Footwear and leather garments	-	-
Automobile and transportation equipment	278	278
Electronics and electrical appliances	-	-
Construction	-	-
Power (electricity), gas, water, sanitary	-	-
Wholesale and retail trade	-	-
Exports/Imports	-	-
Transport, storage and communication	-	-
Financial	-	-
Insurance	-	-
Services	-	-
Individuals	24	24
Others	982	982
	<u>140,239</u>	<u>140,239</u>

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

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

37.1.1.5 Geographical Segment Analysis

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000'			
Pakistan	93,974	5,696,379	3,072,776	266,470
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>93,974</u>	<u>5,696,379</u>	<u>3,072,776</u>	<u>266,470</u>

Total assets employed include intra group items of Rs. 1,805.860 million.

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

37.2 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 process of developing Value at Risk (VAR) and stress testing models for management of such risks.

37.2.1 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. 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 Divisions 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).

37.2.2 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.

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

- 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.

	Assets	Liabilities	Off-balance sheet Items	Net foreign currency exposure
	Rupees in '000'			
Pakistan rupee	5,649,454	2,596,094	227,594	2,825,766
United States dollar	43,880	27,509	38,876	(22,505)
Great Britain pound	-	-	-	-
Deutsche mark	-	-	-	-
Japanese yen	3,045	-	-	3,045
Euro	-	-	-	-
Other currencies				
	<u>5,696,379</u>	<u>2,623,603</u>	<u>266,470</u>	<u>2,806,306</u>

37.2.3 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. The 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. The 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.

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

37.2.4 Mismatch of interest rate sensitive assets and liabilities

Effective Yield/Interest rate	Exposed to Yield/ Interest risk										Non-interest bearing financial instruments	
	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'												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.25%	228,374	3,251	-	-	-	-	-	-	-	-	225,123
Balances with other banks	11.83% to 11.85%	645,650	-	600,000	-	-	-	-	-	-	-	45,650
Lending to financial institutions	11.4% to 11.5%	1,079,286	879,286	200,000	-	-	-	-	-	-	-	-
Investments	8.20% to 12.75%	1,730,868	-	-	290,815	99,691	25,000	25,000	50,000	245,658	-	994,704
Advances	5.0% to 16.0%	1,424,369	1,272,676	546	449	918	1,745	1,263	1,904	1,743	2,910	140,215
Other assets		202,758	-	-	-	-	-	-	-	-	-	202,758
		5,311,305	2,155,213	800,546	291,264	100,609	26,745	26,263	51,904	247,401	2,910	1,608,450
Liabilities												
Bills payable		3,899	-	-	-	-	-	-	-	-	-	3,899
Deposits and other accounts	4.25% to 10%	2,526,271	1,187,964	33,396	363,600	14,736	-	-	-	-	-	926,575
Other liabilities		93,328	-	-	-	-	-	-	-	-	-	93,328
		2,623,498	1,187,964	33,396	363,600	14,736	-	-	-	-	-	1,023,802
On-balance sheet gap		2,687,807	967,249	767,150	(72,336)	85,873	26,745	26,263	51,904	247,401	2,910	584,648
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		-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap		2,687,807	967,249	767,150	(72,336)	85,873	26,745	26,263	51,904	247,401	2,910	584,648
Cumulative Yield/Interest Risk Sensitivity Gap		2,687,807	967,249	767,150	(72,336)	85,873	26,745	26,263	51,904	247,401	2,910	584,648

37.3 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 Banks cost of funds (ii) adversely effecting ability to raise funds and (iii) resorting to sale of assets.

The Bank is in the process of establishing an effective liquidity risk management, which will have a role each for the Asset and Liability Committee (ALCO), Risk Management Division, Treasury and the Finance Divisions.

Notes to the Financial Statements

for the period from Dec 09, 2005 to Dec 31, 2006

37.3.1 Maturities of assets and liabilities

	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	228,374	228,374	-	-	-	-	-	-	-	-
Balances with other banks	645,650	445,650	200,000	-	-	-	-	-	-	-
Lending to financial institutions	1,079,286	879,286	200,000	-	-	-	-	-	-	-
Investments	1,730,868	994,704	-	290,815	99,691	25,000	25,000	50,000	245,658	-
Advances	1,424,369	1,412,891	546	449	918	1,745	1,263	1,904	1,743	2,910
Other assets	202,758	202,758	-	-	-	-	-	-	-	-
Operating fixed assets	385,074	-	-	-	-	-	-	157,908	3,029	224,137
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
	5,696,379	4,163,663	400,546	291,264	100,609	26,745	26,263	209,812	250,430	227,047
Liabilities										
Bills payable	3,899	3,899	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	2,526,271	2,114,539	33,396	363,600	14,736	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	93,328	93,328	-	-	-	-	-	-	-	-
Deferred tax liabilities	105	-	-	-	105	-	-	-	-	-
	2,623,603	2,211,766	33,396	363,600	14,841	-	-	-	-	-
Net assets	3,072,776	1,951,897	367,150	(72,336)	85,768	26,745	26,263	209,812	250,430	227,047
Share capital	3,000,000									
Reserves	18,795									
Unappropriated profit	75,179									
Surplus/(Deficit) on revaluation of assets	(21,198)									
	<u>3,072,776</u>									

37.4 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 for all other areas have been formulated, Business Continuity Plans however are being developed.

37.5 Date of authorization

These financial statements were authorized for issue on February 24, 2007 by the Board of Directors of the Bank.



President / Chief Executive



Director



Director



Director

Categories of Shareholders

as on December 31, 2006

Category	Shareheld	
	Number	% age
Associated Companies, Undertakings & Related Parties		
Arif Habib Securities Limited	267,334,042	89.11%
Directors, CEO & their Spouses and Minor Children		
Mr. Arif Habib	1	0.00%
Mr. Nasim Beg	1,000,001	0.33%
Mr. Salim Chamdia	1	0.00%
Mr. Asadullah Khawaja	50,001	0.02%
Mr. M. Abdul Hamid Miah	1	0.00%
Mrs. Sultana	1	0.00%
Mr. Rahim Khanani	15,001	0.01%
Company Secretary		
Syed Ajaz Ahmed	15,001	0.01%
Financial Controller (Officiating CFO)		
Mr. Muhammed Amin Bhoori	5,000	0.00%
Executives	1,352,000	0.46%
Public Limited 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	-	0.00%
Shareholders holding ten percent or more voting interest in the Bank	-	0.00%
Foreign Shareholders		
Rupali Bank Limited	29,500,000	9.83%
Individuals	728,950	0.23%
Others	-	0.00%
Total	300,000,000	100.00%

Categories of Shareholders

as on December 31, 2006

Category	Number of Shareholder	Shareheld	
		Number	% age
Associated Companies, Undertakings & Related Parties			
Arif Habib Securities Limited	1	267,334,042	89.11%
Directors, CEO & their Spouses and Minor Children			
	7	1,065,007	0.36%
Foreign Shareholders			
Rupali Bank Limited	1	29,500,000	9.83%
Individuals			
	88	2,100,951	0.70%
Others			
		-	0.00%
Total	97	300,000,000	100.00%

Pattern of Shareholding

as at December 31, 2006

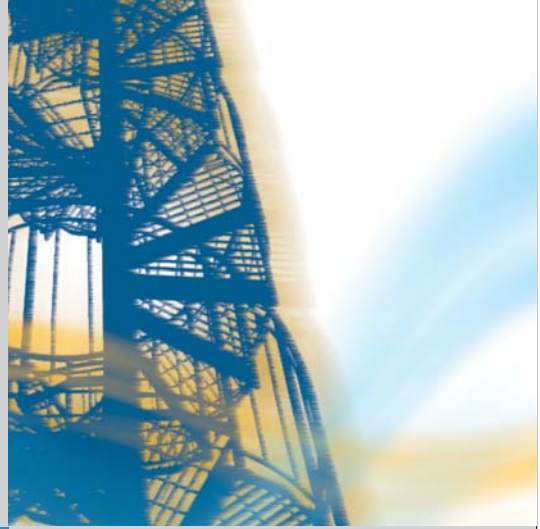
Number of Shareholder	Shareholding		Total Shareheld
	From	To	
4	1	100	4
14	101	1,000	12,500
28	1,001	5,000	111,000
15	5,001	10,000	152,000
7	10,001	15,000	96,450
12	15,001	20,000	230,002
1	20,001	25,000	25,000
1	25,001	30,000	30,000
-	30,001	35,000	-
1	35,001	40,000	40,000
4	45,001	50,000	150,000
1	50,001	55,000	50,001
-	55,001	60,000	-
-	60,001	65,000	-
-	65,001	70,000	-
1	70,001	75,000	74,000
-	75,001	100,000	-
4	100,001	500,000	675,001
2	500,001	1,000,000	1,520,000
-	1,000,001	5,000,000	-
-	5,000,001	10,000,000	-
2	10,000,001	500,000,000	296,834,042
97			300,000,000

ARIF HABIB CENTRE*



* Future Head Office of
ARIF HABIB RUPALI BANK LIMITED
(Currently under-construction)

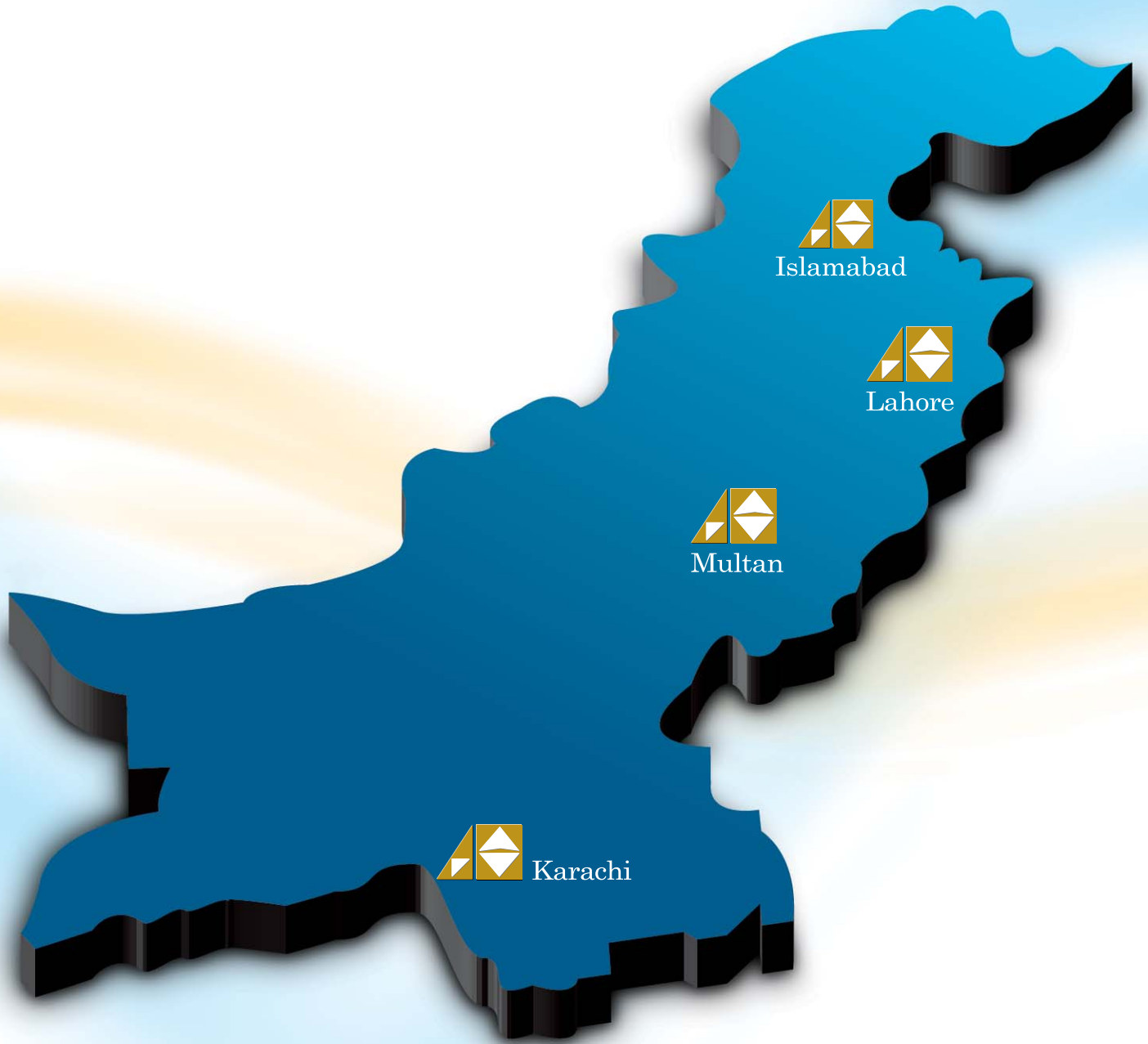




BRANCH NETWORK

BRANCH	CONTACT NO.	ADDRESS
KARACHI		
I.I Chundrigar	021-2466410 2466500	Uni Towers, I.I. Chundrigar Road, Karachi.
Boat Basin	021-5824163 5824171	Ground Floor, Plot no. FL-4, Hanging Garden, Block-5, Clifton, Karachi.
Gulistan-e-Jauhar	021-4030527-36	Shop no. G1-010, Ruffi Shopping Mall, Plot no. 118/9, C-1, Block 18, Scheme no. 36, Gulistan-e-Jauhar, Karachi.
Atrium Mall	021-5641000-9	Shop no. 6 & 21 Ground Floor, Plot no. 249, Atrium Mall, Staff lines, Zaibunnisa Street, Saddar, Karachi.
LAHORE		
Lahore	042-5022068-71	163, Block Y, Phase III, DHA, Lahore Cantt.
ISLAMABAD		
Islamabad	051-2279167-70	Plot no. 6B, F-6, Super Market, Islamabad.
MULTAN		
Multan	061-4587119,4573729	Plot no. 66-A & 66-B/9, Abdali Road, Multan.

B R A N C H E S



Islamabad

Lahore

Multan

Karachi



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