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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Arif Habib
Chairman
Mr. Husain Lawai
President & CEO
Mr. Md. Abdul Hamid Miah
Director
Mr. Asadullah Khawaja
Director
Mr. Nasim Beg
Director
Mr. Mohammad Khan Hoti
Director
Mirza Mahmood Ahmad
Director (Subject to clearance from SBP)

AUDIT COMMITTEE

Mr. Asadullah Khawaja
Chairman
Mr. Nasim Beg
Member
Mr. Arif Habib
Member

RISK MANAGEMENT COMMITTEE

Mr. Arif Habib
Chairman
Mr. Husain Lawai
Member
Mr. Asadullah Khawaja
Member
Mr. Nasim Beg
Member

HUMAN RESOURCE (HR) COMMITTEE

Mr. Arif Habib
Chairman
Mr. Husain Lawai
Member
Mr. Asadullah Khawaja
Member

CFO AND COMPANY SECRETARY

Mr. Muhammad Amin Bhoori

AUDITORS

M. Yousuf Adil Salim & Co.
Chartered Accountants

LEGAL ADVISORS

Liaquat Merchant Associates

HEAD OFFICE

Arif Habib Center, 23, M.T. Khan Road
Karachi – 74000, Pakistan
UAN: (021) 111-124-725
Fax: (021) 2435736

REGISTERED OFFICE

2/1, R.Y.16, Old Queens Road,
Karachi – 74000

SHARE REGISTRAR

Technology Trade (Pvt) Ltd.
Dagia House, 241-C, Block 2,
PECHS, off Shahrah-e-Quaideen,
Karachi – 74000, Pakistan
Tel: (021) 34391316-7
Fax: (021) 34391318

ENTITY RATINGS

Rated by: JCR-VIS
Medium to long term "A"
Short term "A-2"

E-mail: info@arifhabibbank.com

Website: www.arifhabibbank.com

Toll free: 0800 24252

VISION

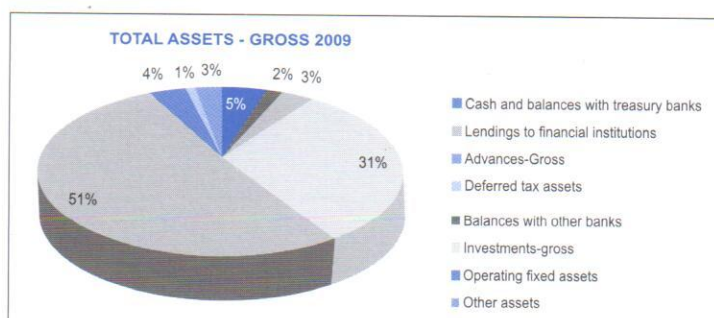
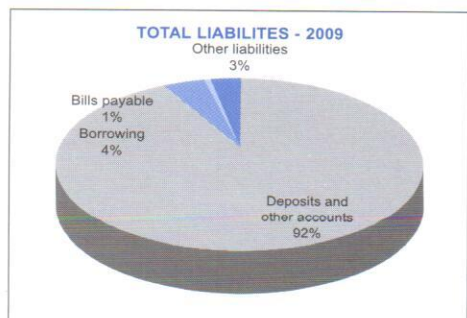
“We are committed to be recognized as the preferred supplier of financial services to the markets we serve”

MISSION

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

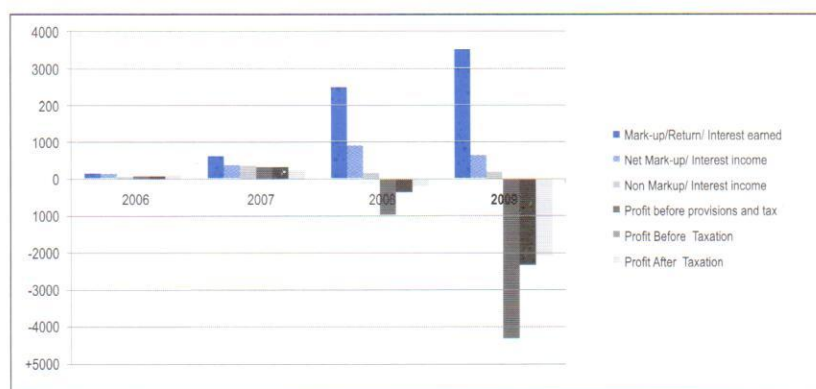
KEY OPERATING AND FINANCIAL DATA

DECEMBER 31	Rupees in Million			
	2006	2007	2008	2009
ASSETS				
Cash and balances with treasury banks	228	754	1,350	1,924
Balances with other banks	646	53	66	725
Lendings to financial institutions	1,079	2,856	200	1,434
Investments-Gross	1,753	5,441	5,576	12,690
Advances-Gross	1,565	8,158	16,510	21,072
Operating fixed assets	385	598	928	1,571
Deferred tax assets	-	-	361	381
Other assets	227	448	1,070	1,190
Total Assets- Gross	5,883	18,307	26,060	40,985
Provision against non performing advances	(140)	(128)	(752)	(2,568)
Surplus / (Deficit) on revaluation of investments	(22)	(33)	(481)	(244)
Provision held against other assets	(24)	(24)	(24)	-
TOTAL ASSETS - NET OF PROVISIONS	5,696	18,121	24,803	38,173
LIABILITIES				
Deposits and other accounts	2,526	9,465	16,616	31,307
Borrowings	-	1,749	1,870	1,555
Bills payable	4	384	76	213
Sub-ordinated loans	-	-	-	-
Deferred tax liabilities	0	40	-	-
Other liabilities	93	182	420	1,043
NET ASSETS	3,073	6,302	5,820	4,054
REPRESENTED BY				
EQUITY				
Share capital	3,000	4,500	5,000	5,000
Share premium	-	1,500	1,000	1,000
Statutory reserves	19	65	65	65
General reserves	-	67	250	-
Unappropriated profit/Accumulated (loss)	75	193	(182)	(1,999)
Total Equity	3,094	6,325	6,133	4,066
Deficit on revaluation of assets - net	(21)	(23)	(313)	(12)



KEY OPERATING AND FINANCIAL DATA

DECEMBER 31	Rupees in Million			
	2006	2007	2008	2009
RESULTS OF OPERATIONS				
Mark-up/Return/Interest earned	143	618	2,472	3,514
Mark-up/Return/Interest expensed	23	252	1,586	2,878
Net Mark-up/ Interest income	119	366	886	637
Net Markup/Interest Income after provisions	119	366	263	(1,404)
Non Markup / Interest Income	21	346	167	196
Non Markup / Interest Expenses	91	385	777	1,077
Profit before provisions and tax	50	327	(970)	(4,326)
Provision against non performing loans and advances	0	-	(623)	(1,817)
PROFIT BEFORE TAXATION	50	327	(347)	(2,286)
Taxation	(44)	97	(156)	(219)
PROFIT AFTER TAXATION	94	230	(191)	(2,067)



DECEMBER 31	Ratios (in % or times)			
	2006	2007	2008	2009
FINANCIAL RATIOS				
Return on equity (ROE)	3.06%	3.65%	-3.29%	-50.98%
Return on assets (ROA)	1.65%	1.27%	-0.77%	-5.41%
Profit before tax ratio	35.03%	52.91%	-14.05%	-65.04%
Gross spread ratio	83.68%	59.16%	35.85%	18.11%
Return on capital employed (ROCE)	3.06%	3.65%	-3.29%	-50.98%
Advances to deposits ratio- Gross	61.93%	86.19%	99.36%	67.31%
Advance to deposit ratio - Net	67.48%	87.55%	94.84%	59.10%
Income to expenses ratio (times)	1.25	1.51	1.52	1.74
Cost to revenue ratio	43.45%	64.76%	70.36%	95.28%
Debt to equity ratio	81.65%	177.31%	301.44%	808.23%
Total assets to shareholders' funds (times)	2	3	4	9
NPL ratio	8.96%	1.57%	16.31%	23.81%
Capital adequacy ratio	56.22%	45.03%	20.85%	12.38%

SHARE INFORMATION

Weighted average number of shares outstanding	85.10	351.78	459.59	500.00
Earning / (Loss) per share (Rupee)	1.1	0.65	(0.38)	(4.14)
Market value of shares	-	13,500	2,765	3,350
Price earning ratio (PE)	-	58.65	(14.45)	(1.69)
Book value per share	10.24	14.00	11.64	8.11

NON FINANCIAL INFORMATION

Non performing loans (NPL) (Rs. in mn)	140	128	2,694	5017
Number of employees	192	319	541	618
Number of branches	7	12	33	40

DIRECTORS' REPORT

On behalf of the Board of Directors of Arif Habib Bank Limited (AHBL), we are pleased to present the financial statements for the year ended December 31, 2009.

Economic Overview

While the global economy continued to struggle under the recessionary pressures of the last two years, and a turnaround remained elusive, Pakistan's economy continued to face the challenges of (a) deteriorating law and order (b) severe power shortages (c) lower local and foreign direct investment and (d) pressures on Pakistan Rupee Exchange Rate. Continued deficit financing and shortages of essential commodities resulted in a high rate of inflation. Even though the CPI dropped ostensibly to 8.9 % in October 2009 (the lowest level in the preceding 26 months), this was more due to the high base effect of 12 months ago rather than a major change in the fundamentals of the economy, even though State Bank of Pakistan's (SBP) tight monetary policy did help to dampen the demand side. Nevertheless, as the index went past the high base effect, it rebounded to 13.68% in January 2010, showing that the low CPI in October 2009 was more of a blimp than a significant change in the underlying inflation - which is very much with us, for the time being.

The high inflation resulted in the devaluation of the Pak Rupee, which, coupled with higher import tariffs, discouraged the import of non-essential items. Large scale manufacturing suffered because of the power shortages, high cost of inputs and low overseas demand for our products. This further reduced the need for imports (of machinery, spares and other consumables). All these developments resulted in a narrowing of the Trade Deficit from US\$ 8.22 billion in the first six months of FY 09 (ended 31st December 2008) to US\$ 5.71 billion during the corresponding period of FY10. Concurrently, the current account deficit reduced from US\$ 7.85 billion in FY 09 to US\$ 1.76 billion in FY 10 over the same period, with an increase in the Home Remittances from US\$ 3.64 billion to US\$ 4.53 billion playing an important role in this improvement.

However, gains in the current account deficit may not be sustained to the same extent during the second half of FY 10 because of an expected increase in imports due to an anticipated revival in domestic manufacturing and rising international commodity prices, coupled with a reduction in some key exports - such as basmati rice and cement.

Despite some significant gains on the macroeconomic stability front in the wake of a very challenging economic and security environment, a lot more needs to be done to ensure steady progress and sustainable recovery. Meanwhile, as a result of the SDR allocation and monetary flows under the Stand-by Arrangements (SBA) with the International Monetary Fund (IMF), Pakistan's Foreign Exchange Reserves depict a very healthy position. This liquidity has encouraged foreign portfolio investors to take advantage of the attractive valuations prevailing at present in the Pakistan Stock Markets, and accordingly foreign portfolio investment in the country has evidenced a modest increase.

The GDP growth for FY 10 is expected to register a modest recovery to around 3% as compared to 2% in FY 09.

Banking Sector Overview

The impact of the global economic down turn, and the negative growth in the domestic manufacturing sector, coupled with the disastrous after-effects of the freezing of the Stock Markets for 4 months, from August to December 2008, resulted in a surge in the Non Performing Loans (NPLs) and a drastic decline in the value of the banks' investments in the equity market. Consequently, the overall profitability of most banks went down significantly in 2009, as compared to the previous year, with several of small banks expected to post losses for the year.

Several of the banks in our peer Group have been confronted with the challenge of meeting the requirement of Minimum Paid-up Capital (net of losses) of Rs 6 billion by year-end 2009. The downturn in the economy over the last two years and the resultant losses on account of NPLs and diminution in the value of the investments, have left these banks perilously short on equity. One of the feasible ways for such banks to meet this challenge is to merge with other similar banks and beef up the combined Paid-up Capital to the required level - which is being encouraged by the SBP, and which some banks, including your Bank, are already implementing.

Financial Highlights & Operations

Financial Highlights of the Bank for the year ended December 31, 2009 are as follows:

	2009	2008
	(Rupees in '000)	
Loss for the year before taxation	(2,285,586)	(347,274)
Equity	4,065,941	6,132,731
Paid-up-capital	5,000,000	5,000,000
Deposits	31,307,488	16,616,466
Advances (Net of provisions)	18,503,815	15,758,678
Investments	12,446,033	5,094,613
Advances to Deposits Ratio	59.10%	94.84%
Loss per share (Rupee)	(4.13)	(0.38)
No. of Branches	40	33

DIRECTORS' REPORT

The Bank faced unprecedented challenges during the year, which started with an acute liquidity position and a badly infected credit portfolio - mainly on account of the collapse of the stock markets during the second half of 2008. The first priority was to ensure sufficient liquidity to meet the Statutory Liquidity Requirement (SLR) and any unexpected withdrawals of large deposits. Diversifying the deposit base so as to reduce the chances of sudden large withdrawals, was a key element of the strategy. This was tackled at the highest levels of the management, and substantial hot deposits were replaced by more stable deposits from the Pension Funds, Provident Funds, Corporate Bodies and high networth individuals. At the same time, the bank and file were geared up to mobilizing the low-cost Current and Savings Accounts (CASA) to build up a core of low-cost deposits. The management achieved both tasks successfully, and presently your bank enjoys one of the best liquidity ratios in the industry with the SLR eligible securities being about 200% more than the requirement.

The deposit mobilization drive was also a success and total deposits increased by 88% to Rs 31.3 bn (billion) while the CASA deposits increased from Rs 4.4 bn to Rs 13.7 bn during the year, i.e. an increase of 211%. At the same time the average monthly cost of deposits reduced from 13.47% in December 2008 to 9.96% in December 2009.

To maintain a high level of liquidity - very essential in these troubled times, the Bank had to sacrifice its profitability by investing most of its newly generated deposits in readily encashable securities which grew by 219% to Rs11.7 bn. As a result of very prudent policies of the Bank, the increase in advances (net of provisions) was only 17%, with the major emphasis being on tackling the legacy portfolio of Non Performing Loans.

The Bank incurred a loss before tax of Rs. 2,286 million as compared to a loss before tax of Rs. 347 million during last year. The major factors which caused this loss were:

- additional provisions for classified advances, amounting to Rs 1,817 million,
- reversal of related markup on classified accounts amounting to Rs 450 million, and
- impairment loss of Rs. 224 million which includes Rs 50 million being provision on Sukuk Bonds under Prudential Regulations, and Rs 174 million under SBP's BSD Circular No. 4 dated February 13, 2009 which permitted banks to avail of the relaxation allowed vide the Securities and Exchange Commission of Pakistan (SECP) notification No.150(I)/2009 dated February 13, 2009, allowing losses from the impairment in the value of investments as at 31-12-08 to be passed directly to the equity, and then to be re-routed through the Profit & Loss Account during 2009.

Due to above reasons, the Bank's equity decreased to Rs. 4.066 billion as at 31-12-09 as against last year's equity of Rs. 6.133 billion.(i.e. a decrease of 33.70%).

Appropriations

Following are the proposed appropriations out of profit/(loss) for the year 2009:

	2009	2008
	(Rupees in '000)	
Accumulated (loss)/Un-appropriated profit brought forward	(182,097)	192,744
Loss for the year after taxation	(2,066,790)	(191,408)
Un-appropriated (loss)/profit available for appropriation	(2,248,887)	1,336

APPROPRIATIONS:

• Transfer to statutory reserve	-	-
• Transfer (from)/to general reserve	(250,000)	183,433
Un-appropriated loss carried forward	(1,998,887)	(182,097)

DIRECTORS' REPORT

Minimum Paid up Capital and Mergers

According to the State Bank of Pakistan (SBP) BSD Circular No. 7 of 2009 dated April 15, 2009 the Minimum Capital Requirement (MCR) for banks had to be Rs 6 billion (free of losses) as of December 31, 2009. The paid up capital of the Bank was Rs. 5 billion and it had reserves and accumulated losses of Rs. 1 billion and Rs. 2.0 billion respectively at the Balance Sheet date. Keeping in view the said requirements, the Board of Directors of the Bank has approached the SBP and requested for extension in the deadline prescribed for meeting the MCR on the basis of following grounds:

- Suroor Investments Limited (SIL), a company incorporated in Mauritius, has entered into a Share Purchase Agreement (SPA) with Arif Habib Securities Limited (AHSL) on June 30, 2009 for acquisition of 297,034,854 ordinary shares of the Bank beneficially owned by AHSL. Payment of Rs. 2.6 billion (Rs 9 per share) to AHSL was completed on December 24, 2009, in terms of the SPA. However, transfer of these shares will be completed after fulfillment of certain regulatory requirements.
- SIL has also entered into similar Share Purchase Agreements (SPAs) with majority shareholders of MyBank Limited (MYBL) and Atlas Bank Limited (ATBL). After the transactions have been completed, these banks will be merged with Arif Habib Bank Limited (AHBL). According to the available financials for the three banks, the capital base of the merged entity will be sufficient to meet the minimum capital requirement (MCR) of Rs. 6 billion as at December 31, 2009 as stipulated in above mentioned circular.

On the basis of above mentioned grounds, the management has obtained extension from the SBP for meeting the MCR by March 31, 2010, or completion of the merger process, whichever occurs earlier.

Credit Rating

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

Business and Branch Network

As at December 31, 2009 the Bank was operating with 40 branches across the country. We feel pleasure in informing you that the Bank has now presence in all the Provinces of the country and Azad Jammu & Kashmir. During the year under review, the Bank's business activities have been expanded to interior Sindh and Baluchistan by opening branches in Hyderabad, Sukkur, Mirpur Khas and Quetta.

The Bank has further improved its outreach by installing ATM machines at selected PSO petrol pumps in Karachi, Lahore, Islamabad and Faisalabad. This initiative has greatly facilitated our customers, and will also enable us to win over new customers.

As a part of its overall strategy of diversifying and expanding its business base, the Bank quadrupled its Foreign Exchange, Trade Finance and Guarantee business during the year, and has entered into arrangements with various reputable Exchange Companies for enhancing the home remittances business.

After achieving VISA Certification for the VISA DEBIT card, the Bank has soft launched the co-branded card to its employees and existing customers, as a prelude to a formal launch in April 2010. This will enable AHBL's VISA DEBIT card- holders to access over 1 million plus ATM machines and 12 million VISA merchants' point of sale terminals worldwide.

With a view to providing a wide range of products and services to our customers, the Bank has rolled out the "Bancassurance Program". This facility is another meaningful extension of the management's vision of introducing innovative products. Initially, the facility is available through selected branches in Karachi, it will be expanded to branches in Lahore and Islamabad in the near future. Another product with the title of "etop-up" was also launched during the year. This innovative service allows all AHBL account holders to recharge their respective prepaid mobile phone balances by a direct debit to their deposit accounts via SMS or the Call Center, any time during the day or night, 7 days a week.

Recently the Bank has been granted permission by SBP to enter into Personal Loans under their Consumer Finance regulations. This has given your bank a new avenue to not only diversify our loans portfolio but also to ensure attractive returns. However, given the state of economy at present, initially, the bank plans to venture into this business through good corporate deals and well secured personal loans in order to minimize the chances of NPLs.

Future Outlook

In line with the management's vision of making this Bank a front runner amongst its peer Banks, the proposed mergers as stated earlier will bring synergies and access to a wider range of markets and customers. This will also reinforce the Bank's commitment to long term growth and support its strategic plan to become one of the leading banks in Pakistan.

DIRECTORS' REPORT

Presently, the Bank's earnings have been depressed because of the substantial NPLs and impairment losses on its investments; but this is a passing phenomena which is being tackled very vigorously by the management. We are confident that these issues and problems will be behind us by the end of 2010, and the Bank will emerge from these trying times much sounder and stronger than before.

The Bank will continue to maintain a liquid position which may depress earnings in the short-run; but will benefit in the long run by giving it the reputation of a sound bank which can weather the storms of economic turbulence at the worst of times. The management of the bank expects a modest turnaround in the economic environment by the 2nd half of 2010, the benefits from which will also flow to our Bank, in addition to the benefits of synergies and economies of scale expected from the completion of the merger exercise.

We also plan to become leaders in the introduction of innovative products and services, using the latest technologies and a highly committed and motivated workforce.

Loss per Share

Basic and diluted loss per share has been disclosed in note No. 29.

Pattern of shareholding

The pattern of shareholding is attached with this report.

Corporate and Financial reporting framework

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

- The financial statements, together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1934. These statements present fairly the Company's state of affairs, results of its operations, cash flows and changes in equity.
- Proper books of accounts of the company have been maintained.
- Appropriate accounting policies have been consistently applied.
- The International Financial Reporting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure therefrom having a material impact on the financials, has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There is no significant doubt about the company's ability to continue as a going concern.
- There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- Key operating and financial data is available in the annual report.
- All the statutory liabilities, if any, have been adequately disclosed in the financial statements.

Board Meetings

The number of Board meetings held during the year ended December 31, 2009 were seven (7) and attendance therein by the Directors was as below:

S.NO.	NAME	MEETINGS ATTENDED
1	Arif Habib	7
2	Husain Lawai (President & CEO)	6
3	Kalim ur Rahman (Acting President & CEO)*	1
4	Asadullah Khawaja	7
5	Nasim Beg	6
6	Md. Abdul Hamid Miah	4
7	Mirza Mahmood Ahmad**	0
8	Mohammad Khan Hoti	2
9	Salim Chamdia (Resigned)	2

*Mr. Kalim ur Rahman attended the meeting in place of Mr. Husain Lawai who was not in Pakistan at the time of the meeting.

** Mirza Mahmood Ahmad has not attended any of the Board meetings during the year pending clearance from SBP under Fit and Proper Test. Once clearance is received from SBP, he will be eligible to attend the Board meetings.

DIRECTORS' REPORT

Risk Management

We have in place a Risk Management framework for identifying and managing various types of risks; but it needs to be strengthened through greater use of technology and some additional manpower. An integrated approach to risk management is under process. The basic principles employed in the formulation of the risk management policies and procedures have been defined in the Bank's Risk Management Policy and involve identification, measurement, monitoring and controlling of various types of risks to ensure that:

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

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

Statement on internal control

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

The following specific initiatives have been adopted:

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

Auditors

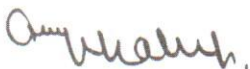
The present auditors M/S Yousuf Adil Saleem & Company, Chartered Accountants retire and offer themselves for reappointment. On the recommendation of the Audit Committee, the Board has agreed to recommend the reappointment of M/S Yousuf Adil Saleem & Company, Chartered Accountants as Bank's auditors for the year ending December 31, 2010.

Acknowledgment

On behalf of the Board and the Management, we would like to express our sincere gratitude to the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan, and other regulatory bodies for their continued guidance and support.

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

On Behalf of the Board of Directors



Arif Habib
Chairman of the Board



Husain Lawai
President & CEO

March 03, 2010

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The Statement is being presented to comply with Code of Corporate Governance contained in Prudential Regulation No. G-1, responsibilities of the Board of Directors advised vide SBP BSD Circular No. 15 dated June 13, 2002 and the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Bank has adopted the Code of Corporate Governance and applied the principles contained in the Code in the following manner:

1. The Bank encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. At present, the Board has two sponsor directors, two executive directors and three independent / non-executive directors. Out of three independent / non-executive directors, SBP clearance of one independent / non-executive director is still pending, therefore, the following provisions of the code are not applicable to him.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the resident directors of the Bank are registered as tax payers 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 stock exchange has been declared as a defaulter by that stock exchange.
4. Two casual vacancies occurred in the Board of Directors one of which was filled up within 30 days after obtaining prior approval from the State Bank of Pakistan as per its directives. SBP approval for another director appointed on December 15, 2008 as mentioned in point 1 above is still pending.
5. The Bank has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and the employees of the Bank.
6. The Bank has developed a vision/mission statement, overall corporate strategy and significant policies, which are periodically renewed and updated. A complete record of particulars of significant policies along with the dates on which they were approved or amended is maintained.
7. All the powers of the Board have been duly exercised and the Board has taken decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer and other executive directors have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met once in every quarter. Written notices of the Board meetings, along with agenda and working papers were circulated atleast seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. There was no new appointment of CFO, Company Secretary or Head of Internal Audit during the year ended December 31, 2009.
10. The Directors on the Board of the Bank are individuals of repute and integrity with vast diversified experience of the financial and corporate affairs. They are also directors in other listed companies and are well conversant with the local laws and practices.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

11. The Director's report for this year has been prepared in compliance with the requirements of the Code and describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by the CEO and CFO before approval of the Board.
13. The directors, CEO, and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of three members, out of whom one member is non-executive director 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 as required by the Code. The terms of the 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. The staff of Internal Audit Department is suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Bank.
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 the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors.
21. We confirm that all other material principles contained in the Code have been complied.

For and on behalf of the Board



Arif Habib
Chairman of the Board



Husain Lawai
President & CEO

Karachi:
March 03, 2010

AUDITORS' REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

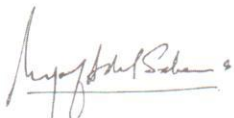
We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Arif Habib Bank Limited to comply with the Prudential Regulation No.G-1, Responsibilities of the Board of Directors vide BSD Circular No. 15, dated June 13, 2002.

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's personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of the financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We 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 internal control covers all controls and the effectiveness of such internal controls.

The Code of Corporate Governance requires Board of Directors to approve related party transactions bifurcating between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price. In this connection we are only required and have ensured compliance of requirement to the extent of Board of Directors approving the related party transactions in the aforesaid manner. We have not carried out any procedures to enable us to express an opinion as to whether the related party transactions were carried out at arm's length price.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2009.



Chartered Accountants

Karachi

Date: March 03, 2010

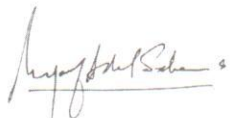
AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **ARIF HABIB BANK LIMITED** (the Bank) as at December 31, 2009 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement, together with the notes forming part thereof (here-in-after referred to as the financial statements) for the year then ended, in which are incorporated the unaudited certified returns from branches except for five branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a. in our opinion proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purpose of our audit;
- b. in our opinion:
 - i. The balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii. The expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii. The business conducted, investments made and the expenditures incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c. in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement 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, 2009 and its true balance of the loss, its total comprehensive loss, changes in equity and its cash flows for the year then ended; and
- d. in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.



Chartered Accountants

**Engagement Partner:
Mushtaq Ali Hirani**

**Karachi
Date: March 03, 2010**