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Corporate Information

BOARD OF DIRECTORS

Mr. Arif Habib
Chairman

Mr. Husain Lawai
President & CEO

Mr. Salim Chamdia
Executive Director

Mr. Md. Abdul Hamid Miah
Director

Mr. Asadullah Khawaja
Director

Mr. Nasim Beg
Director

Mirza Qamar Beg (Resigned)
Director

AUDIT COMMITTEE

Mr. Asadullah Khawaja
Chairman

Mr. Nasim Beg
Member

Mr. Arif Habib
Member

EXECUTIVE COMMITTEE

Mr. Arif Habib
Chairman

Mr. Husain Lawai
Member

Mr. Salim Chamdia
Member

Mr. Nasim Beg
Member

RISK MANAGEMENT COMMITTEE

Mr. Arif Habib
Chairman

Mr. Husain Lawai
Member

Mr. Salim Chamdia
Member

Mr. Asadullah Khawaja
Member

Mr. Nasim Beg
Member

HUMAN RESOURCE (HR) COMMITTEE

Mr. Arif Habib
Chairman

Mr. Husain Lawai
Member

Mr. Salim Chamdia
Member

Mr. Asadullah Khawaja
Member

CFO AND COMPANY SECRETARY

Mr. Muhammad Amin Bhori

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) 4391316-7
Fax: (021) 4391318

ENTITY RATINGS

Rated by: JCR-VIS
Medium to long term "A"
Short term "A-2"
Outlook "Stable"
E-mail: info@arifhabibbank.com
Website: www.arifhabibbank.com
Toll free: 0800 24252

VISION

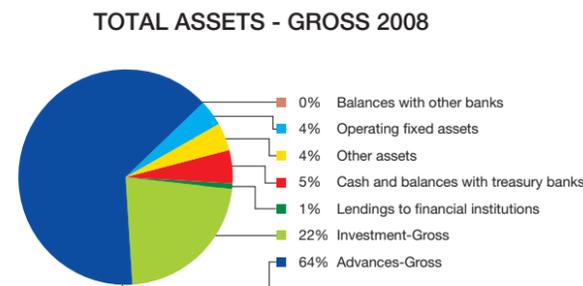
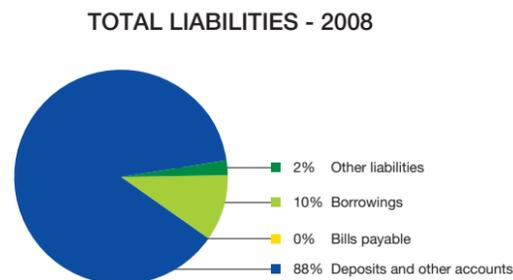
“We are committed to be recognized as the preferred supplier of financial services to the markets we serve”

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”

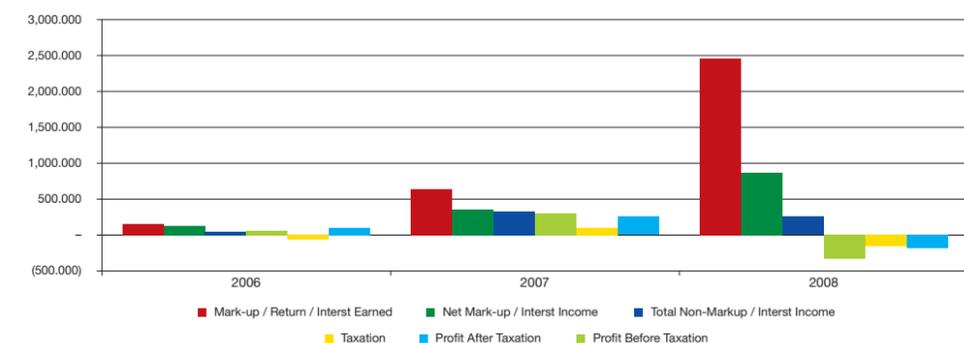
Financial and Operating Data- History

	Rupees in '000'		
	2006	2007	2008
ASSETS			
Cash and balances with treasury banks	228.374	753.845	1,349.649
Balances with other banks	645.650	52.551	65.580
Lendings to financial institutions	1,079.286	2,855.582	200.000
Investments-Gross	1,752.655	5,441.370	5,575.553
Advances-Gross	1,564.608	8,157.709	16,510.341
Operating fixed assets	385.074	597.515	927.882
Deferred tax assets	-	-	360.893
Other assets	227.130	447.992	1,069.894
Total Assets- Gross	5,882.777	18,306.564	26,059.792
Provision against non performing advances	(140.239)	(128.461)	(751.663)
Surplus / Deficit on revaluation of investments	(21.787)	(32.945)	(480.940)
Provision held against other assets	(24.372)	(24.372)	(24.372)
TOTAL ASSETS - NET OF PROVISIONS	5,696.379	18,120.786	24,802.817
LIABILITIES			
Deposits and other accounts	2,526.271	9,464.785	16,616.466
Borrowings	-	1,748.603	1,869.940
Bills payable	3.899	384.179	75.963
Sub-ordinated loans	-	-	-
Deferred tax liabilities	0.105	39.867	-
Other liabilities	93.328	181.776	420.328
NET ASSETS / LIABILITIES	3,072.776	6,301.576	5,820.120
REPRESENTED BY			
Equity			
Share capital	3,000.000	4,500.000	5,000.000
Share premium	-	1,500.000	1,000.000
Statutory reserves	18.795	64.828	64.828
General reserves	-	66.567	250.000
Unappropriated profit	75.179	192.744	(182.097)
Total Equity	3,093.974	6,324.139	6,132.731
Deficit on revaluation of assets - net	(21.198)	(22.563)	(312.611)



Financial and Operating Data- History

	Rupees in '000'		
	2006	2007	2008
RESULTS OF OPERATIONS			
Mark-up/Return/Interest earned	142.802	617.854	2,471.982
Mark-up/Return/Interest expensed	23.309	252.338	1,585.875
Net Mark-up/ Interest income	119.493	365.516	886.107
Total Non-Markup/Interest Income	21.214	345.904	262.905
Non Markup / Interest Expenses	90.654	384.502	776.959
Profit before provisions	50.053	326.918	(970.476)
Provision against non performing loans and advances	0.024	-	(623.202)
Profit Before Taxation	50.029	326.918	(347.274)
Taxation	(43.945)	96.753	(155.866)
Profit After Taxation	93.974	230.165	(191.408)
FINANCIAL RATIOS			
Return on equity (ROE)	3.06%	3.65%	-3.29%
Return on assets (ROA)	1.65%	1.27%	-0.77%
Profit before tax ratio	35.03%	52.91%	-14.05%
Gross spread ratio	83.68%	59.16%	35.85%
Advances to deposits ratio- Gross	61.93%	86.19%	99.36%
Advance to deposit ratio - Net	56.38%	84.83%	94.84%
Income to expenses ratio (times)	1	2	2
Cost to revenue ratio	43.45%	64.76%	70.36%
Debt to equity ratio	81.65%	177.31%	301.44%
Total assets to shareholders' funds (times)	2	3	4
NPL ratio	8.96%	1.57%	6.97%
Capital adequacy ratio	56.22%	45.03%	20.85%
SARE INFORMATION			
Weighted average number of shares outstanding	85.10	351.78	459.59
Earnings per share (EPS)	1.1	0.65	(0.38)
Market value of shares	-	15,570	2,925
Price earning ratio (PE)	-	67.65	(15.28)
Book value per share	10.24	14.00	11.64
NON FINANCIAL INFORMATION			
Non performing loans (NPL)	140.215	128.461	1,150.46
Number of employees	192	319	541
Number of branches	7	12	33



Director's Report

On behalf of the Board of Directors of Arif Habib Bank Limited (the Bank), we are pleased to present the financial statements for the year ended December 31, 2008.

Country's Economy

The global economy remained under pressure during the year 2008. The Stock Exchanges in most of the developed and developing countries plunged by more than 50 percent. The prices of most hard and soft commodities which sky rocketed during 2007 and the first half of 2008, dropped steeply later in the year, disrupting economic activity across the globe. In some cases, commodity prices dropped by more than 50%, severely affecting the commodity producing countries and major trading centers. During the year, Pakistan's economy suffered on account of high prices of oil and other commodities which exacerbated the current account deficit, and resulted in high inflation and dwindling forex reserves. The Pak Rupee depreciated by around 30% against the US Dollar, which gave a competitive advantage to the exporters of the country over our regional competitors, thereby off-setting the effect of some higher cost factors of production. The massive devaluation of the Rupee, coupled with higher import tariffs, discouraged the import of non essential items in the country. GDP growth for the fiscal year 2008-2009 is now expected to be about 3% rather than the initially projected 5.8%.

The macroeconomic indicators of the country are expected to gradually improve, starting from 2nd half of Fiscal Year 2008-09. The Current Account recorded a surplus of US\$ 146 million in February 09 after a long period of deficits. The major contributing factors were a modest increase in exports, a significant increase in home remittances, and a reduction in the import bill mainly due to a reduction in the commodity and oil prices. Government's bold steps, like cutting back subsidies, nominal downward fuel price adjustments, increasing the tax net, a new power sector initiative, and opting for the IMF program, will support fiscal discipline and financial stability in the country in the years to come.

Banking Sector Overview

The banking sector in Pakistan remained relatively insulated from the financial shocks that badly affected the credibility of the major global banks. However, because of the liquidity crunch in the latter part of 2008, surge in Non Performing Loans and a decline in the value of their investments in the equity market, the overall profitability of the banks was down by 21% in 2008 as compared to the previous year.

State Bank of Pakistan responded to the challenges facing the banking system and our economy by pursuing a tight monetary policy and increasing the discount rate to a record level of 15%. However, this policy didn't have the desired effect on the inflationary trend, and inflation hovered around 25% in the last few months. During the last quarter of the calendar year, SBP eased the Statutory Liquidity Requirement (SLR) and the Cash Reserve Requirement (CRR) for banks, in order to ease the liquidity in the system. Another significant measure taken by SBP was to allow a benefit of 30% of the Forced Sale Value (FSV) of securities against advances, when making provisions against non-performing loans.

Opportunities and Challenges

The financial sector, including the banking industry, is adjusting to the changed realities of the economy and are in the process of re-vamping their credit and investment policies so as to lend and invest securely and profitably. The liquidity crunch has resulted in banks scrambling to secure deposits by offering higher rates of return to their depositors. Six-month KIBOR climbed

Director's Report

to 15.76% per annum during the year. However, since the beginning of 2009, there is a downward trend in the KIBOR which is expected to continue during the year.

In order to meet the minimum capital requirements as outlined by SBP last year, Pakistan's banking industry will experience mergers and takeovers of banks and financial institutions during 2009. As for the potential for investments and financing in Pakistan, there are still many opportunities, particularly in Small and Medium Enterprises, Agriculture and Farming, Light Industries, Value Added Exports, etc.

Financial Highlights & Operations

Financial Highlights of the Bank for the year ended December 31, 2008 are as follows:

	2008	2007
	Rupees in '000'	
(Loss)/profit for the year before taxation	(347,274)	326,918
Equity	6,132,731	6,324,139
Paid-up-capital	5,000,000	4,500,000
Deposits	16,616,466	9,464,785
Advances (Net of provisions)	15,758,678	8,029,248
Investments	5,094,613	5,408,425
Advances to Deposit Ratio	94.84%	84.83%
Earnings per share	(0.38)	0.57
No. of Branches	33	12

The Bank continued its growth momentum on the operational front. The Branch network of the Bank expanded from 12 to 33, while the deposits and advances increased by 96% and 76%, to Rs. 15,758 million and Rs. 16,616 million respectively, during the year under report.

The Bank incurred a loss before tax of Rs.347.3 million as compared to a profit before tax of Rs. 326.9 in the preceding year. This was mainly due to provisions for classified advances, amounting to Rs.623.2 million, and reversal of related markup amounting to Rs 157 million. The Bank posted a loss after tax of Rs. 191.4 million during the year as against profit after tax of Rs.230.165 million for the previous year. The equity of the Bank stood at Rs. 6.133 billion as at end 2008 -- a decrease of 3.03% over the previous year.

Pursuant to the global financial and economic crises, coupled with the local problems, capital markets of Pakistan recorded a substantial decline in the last quarter of 2008. This decline triggered the impairment testing under the International Accounting Standard 'Financial Instrument: Recognition and Measurement' (IAS 39) and 'Impairment of Assets' (IAS 36) respectively. The State Bank of Pakistan vide BSD Circular No. 4 dated February 13, 2009 allowed banks to benefit from the Securities and Exchange Commission of Pakistan (SECP) notification vide SRO 150(I)/2009 dated February 13, 2009 allowing the impairment loss, if any, recognized as on December 31, 2008 due to mark to market valuation of listed equity investments held as "Available for Sale", to be taken directly to equity. The amount taken to equity, including any adjustment / effect for price movements, shall be taken to profit

Director's Report

and loss account on quarterly basis during the year ending December 31, 2009. The Bank accordingly decided to charge the impairment directly to equity, considering this as a temporary decline.

During the year under review, the management has decided to charge the goodwill amounting to Rs. 60.79 million to the profit and loss account, which was recognized at the time of acquisition of Rupali Bank Limited – Pakistan Operations in the year 2006.

During 2009, the Bank will have access to additional resources generated through a wider network of branches. These resources will be invested prudently to generate additional and incremental revenue streams to improve the profitability of the Bank. The cost of operations will receive particular attention of the management to keep it under control.

The Bank is improving its out reach by installing ATM machines at selected PSO petrol pumps in Karachi, Lahore, Faisalabad and Islamabad. This initiative will greatly facilitate our customers, and enable us to win over new customers as well.

Appropriations

Following are the proposed appropriations out of profit for the year 2008:

	2008	2007
	Rupees in '000'	
Un-appropriated profit brought forward	192,744	75,179
(Loss)/Profit for the period after taxation	(191,408)	230,165
Un-appropriated profit available for appropriation	1,336	305,344
APPROPRIATIONS:		
• Transfer to statutory reserve	–	46,033
• Transfer to general reserve	*183,433	66,567
Un-appropriated (loss)/profit carried forward	(182,097)	192,744

*The appropriation in current years reflects the transfer relating to the year 2007.

Share Capital and Listing

During the year, Bank's shares were listed on all the stock exchanges in Pakistan through offer for sale of shares by Arif Habib Securities Limited (AHSL- the holding company). AHSL disinvested 119,748,500 ordinary shares from their equity in the Bank.

Further, shares amounting to Rs 500 million were issued as bonus to its shareholders in October, 2008 out of the share premium account of Rs. 1,500 million, thus increasing the paid up capital of the Bank to Rs 5,000 million.

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, with a stable outlook.

Director's Report

Future Outlook

The Bank's strategic plan for long term sustainable growth is under implementation. However, the economic, financial and capital market developments of the second half of 2008 have caused a considerable set-back. We have now re-engineered our short term strategy to counter the recent developments and to put our long term development plans back on track. The commitment of your Board towards developing the Bank as a front runner in its peer group remains very much intact, and we are reinforcing our efforts to that end by strengthening our management team through the induction of some senior bankers with rich domestic and international experience.

The Bank, AHSL (the holding company) and a consortium of investors led by Mr. Husain Lawai (investors) have entered into an agreement on December 24, 2008 for the acquisition by the investors of upto 60% shareholding in the Bank. Under the terms of the agreement, the Bank shall increase its authorized share capital to Rs 25 billion and shall issue further capital for increasing the existing paid-up capital by the amount of investment from the new investors, subject to approval by the regulators. The subscription price for this new issue for investors will be Rs 10 per share.

The injection of fresh capital will greatly enhance the Bank's capacity to grow and to diversify our activities into the Small and Medium Enterprises sector as well as Retail Banking services, while retaining our strengths in the Corporate and Investment Banking activities.

The increased capital base will also enable us to look at acquisition opportunities while growing organically at a fast pace through an expanding branch network.

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

Earnings Per Shares

Basic and diluted (loss) / earnings per share have 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, 1984. These statements present fairly the Company's state of affairs, result of its operations, cash flows and changes in equity.
- Proper books of accounts of the company have been maintained.
- Appropriate accounting policies have been consistently applied.
- The International Financial Reporting Standards, as applicable in Pakistan, have been followed in 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.

Director's Report

- 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 numbers of Board meetings held during the year ended December 31, 2008 were seven (7) and attendance therein by the directors is as below:

S.No.	NAME	Meetings Attended
1.	Arif Habib	7
2.	Husain Lawai (President & CEO) (Joined in November 2008)	0
3.	Salim Chamdia	7
4.	Md. Abdul Hamid Miah	2
5.	Asadullah Khawaja	6
6.	Nasim Beg	7
7.	Syed Ajaz Ahmed (Resigned)	2
8.	Mirza Qamar Beg (Resigned)	1
9.	Kamal Uddin Khan (Resigned)	6

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. There is a need for an integrated approach to risk management, which will be implemented during 2009. 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 buffer to mitigate risk.

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

Statement on Internal Control

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

Director's Report

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, 2009.

Acknowledgment

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

Date: March 14, 2009



Husain Lawai
President & CEO

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.

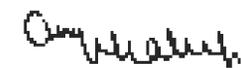
The Bank has adopted the Code of Corporate Governance and applied the principles contained in the Code in the following manner:

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 independent / non-executive and three executive directors.
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. During the year, one casual vacancy occurred in the Board of Directors which was filled up within 30 days. Appointment of new President/Chief Executive has also been made during the year.
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 CEO.
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 seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board approves appointments of CFO, the Company Secretary and Head of Internal Audit on the terms and conditions as determined by the CEO.
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

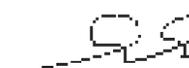
11. The Director's report for this year has been prepared in compliance with the requirements of the Code and describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by the CEO and CFO before approval of the Board.
13. The directors, CEO, and executives do not hold any interest in the shares of 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 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.
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. 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

Date: March 14, 2009



Husain Lawai
President & CEO

Auditors' Review Report To the Members On Statement Of Compliance with Best Practices Of Code Of Corporate Governance

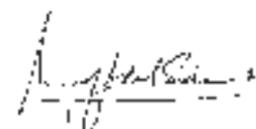
We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Arif Habib Bank Limited (the Bank) for the year ended December 31, 2008, to comply with Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan, the Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Listing Regulations of the Lahore Stock Exchange and Chapter XI of the Listing Regulations of the Islamabad Stock Exchange, where the Bank is listed.

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 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 Bank has three executive directors on the Board, whereas as per the Prudential Regulations it should have only two executive directors including the chief executive.

Based on our review, except for the matter mentioned above, 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, 2008.



Chartered Accountants
Karachi

Date: March 14, 2009

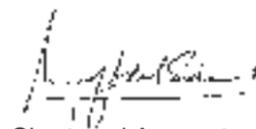
Auditors' Report to the Members

We have audited the annexed balance sheet of Arif Habib Bank Limited (the Bank) as at December 31, 2008 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for four branch which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than 60% of the total loans and advances of the bank, we report that:

- (a) in our opinion proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the 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 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 statements 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, 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, 2008 and its true balance of loss, cash flows and changes in equity for the year then ended; and
- (d) in our opinion, zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XLVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.



Chartered Accountants
Karachi

Date: March 14, 2009

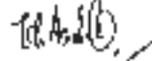
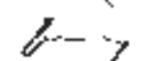
Balance Sheet

As at December 31, 2008

	Note	2008	2007
Rupees in '000'			
ASSETS			
Cash and balances with treasury banks	7	1,349,649	753,845
Balances with other banks	8	65,580	52,551
Lendings to financial institutions	9	200,000	2,855,582
Investments	10	5,094,613	5,408,425
Advances	11	15,758,678	8,029,248
Operating fixed assets	12	927,882	597,515
Deferred tax assets	13	360,893	-
Other assets	14	1,045,522	423,620
		<u>24,802,817</u>	<u>18,120,786</u>
LIABILITIES			
Bills payable	15	75,963	384,179
Borrowings	16	1,869,940	1,748,603
Deposits and other accounts	17	16,616,466	9,464,785
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	13	-	39,867
Other liabilities	18	420,328	181,776
		<u>18,982,697</u>	<u>11,819,210</u>
NET ASSETS		<u>5,820,120</u>	<u>6,301,576</u>
REPRESENTED BY			
Share capital	19	5,000,000	4,500,000
Reserves		1,314,828	1,631,395
Accumulated (loss) / profit		<u>(182,097)</u>	<u>192,744</u>
		6,132,731	6,324,139
Deficit on revaluation of assets - net of tax	20	<u>(312,611)</u>	<u>(22,563)</u>
		<u>5,820,120</u>	<u>6,301,576</u>
CONTINGENCIES AND COMMITMENTS			
	21		

The annexed notes from 1 to 42 form an integral part of these financial statements. The details of valuation of investments, impairment and impact on profit and loss are given in note 10.12



PRESIDENT AND CHIEF EXECUTIVE DIRECTOR DIRECTOR DIRECTOR

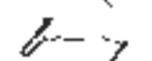
Profit And Loss Account

For the year ended December 31, 2008

	Note	2008	2007
Rupees in '000'			
Mark-up / return / interest earned	22	2,471,982	617,854
Mark-up / return / interest expensed	23	<u>(1,585,875)</u>	<u>(252,338)</u>
Net mark-up / interest income		886,107	365,516
Provision against non-performing loans and advances	11.4	<u>(623,202)</u>	-
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		<u>(623,202)</u>	-
Net mark-up / interest income after provisions		<u>262,905</u>	<u>365,516</u>
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		79,135	6,975
Dividend income		107,615	35,118
(Loss) / gain from dealing in foreign currencies		<u>(29,706)</u>	1,706
Gain on sale of securities - net	24	5,311	295,672
Unrealised loss on revaluation of investments classified as held for trading		-	<u>(6,797)</u>
Other income	25	4,425	13,230
Total non-markup / interest income		<u>166,780</u>	<u>345,904</u>
		<u>429,685</u>	<u>711,420</u>
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	26	774,742	383,529
Other provisions / write-offs		-	-
Other charges	27	2,217	973
Total non-markup / interest expenses		<u>776,959</u>	<u>384,502</u>
		<u>(347,274)</u>	<u>326,918</u>
Extra ordinary / unusual items		-	-
(LOSS) / PROFIT BEFORE TAXATION		<u>(347,274)</u>	<u>326,918</u>
Taxation – Current	28	<u>(84,254)</u>	<u>(11,982)</u>
– Prior years		4,105	<u>(42,013)</u>
– Deferred		<u>236,015</u>	<u>(42,758)</u>
		<u>155,866</u>	<u>(96,753)</u>
(LOSS) / PROFIT AFTER TAXATION		<u>(191,408)</u>	<u>230,165</u>
Unappropriated profit brought forward		192,744	75,179
Profit available for appropriation		<u>1,336</u>	<u>305,344</u>
Basic (loss) / earnings per share (Rupee)	29	<u>(0.38)</u>	<u>0.57</u>
Diluted (loss) / earnings per share (Rupee)	29	<u>(0.38)</u>	<u>0.57</u>

The annexed notes from 1 to 42 form an integral part of these financial statements. The details of valuation of investments, impairment and impact on profit and loss are given in note 10.12.



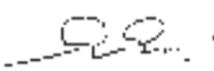
PRESIDENT AND CHIEF EXECUTIVE DIRECTOR DIRECTOR DIRECTOR

Cash Flow Statement

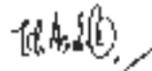
For the year ended December 31, 2008

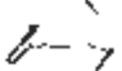
Note	2008	2007
	Rupees in '000'	
A. CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) / profit before taxation	(347,274)	326,918
Dividend income	(107,615)	(35,118)
	<u>(454,889)</u>	<u>291,800</u>
Adjustments:		
Depreciation	46,793	34,383
Amortization	26,072	11,209
Impairment of goodwill	60,794	-
Provision against non-performing advances	623,202	-
Unrealized loss on revaluation of Investment in Held for Trading	-	6,797
Gain on sale of fixed assets	(845)	(847)
Provision for compensated absences	8,492	-
Provision for gratuity	9,625	4,092
	<u>774,133</u>	<u>55,634</u>
	<u>319,244</u>	<u>347,434</u>
(Increase) / decrease in operating assets		
Lendings to financial institutions Held for trading securities	2,655,582	(1,776,296)
Advances	61,952	(68,749)
Other assets	(8,352,632)	(6,604,879)
	<u>(590,678)</u>	<u>(252,605)</u>
	<u>(6,225,776)</u>	<u>(8,702,529)</u>
Increase / (decrease) in operating liabilities		
Bills payable	(308,216)	380,280
Borrowings from financial institutions	121,337	1,748,603
Deposits and other accounts	7,151,681	6,938,514
Other liabilities	221,175	77,734
	<u>7,185,977</u>	<u>9,145,131</u>
	<u>1,279,445</u>	<u>790,036</u>
Income tax paid	(123,291)	(21,040)
Net cash flows from operating activities	<u>1,156,154</u>	<u>768,996</u>
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in available for sale securities	(90,159)	(3,619,966)
Investment in associate	(112,773)	-
Dividend income	111,163	32,158
Investments in operating fixed assets	(494,906)	(270,108)
Sale proceeds from disposal of property and equipment	39,354	21,292
Net cash flows used in investing activities	<u>(547,321)</u>	<u>(3,836,624)</u>
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of share capital	-	1,500,000
Share premium on issue of share capital	-	1,500,000
Net cash flows from financing activities	<u>-</u>	<u>3,000,000</u>
Increase/ (decrease) in cash and cash equivalents	608,833	(67,628)
Cash and cash equivalents at beginning of the year	806,396	874,024
Cash and cash equivalents at end of the year	<u>1,415,229</u>	<u>806,396</u>

The annexed notes from 1 to 42 form an integral part of these financial statements.


PRESIDENT AND CHIEF EXECUTIVE


DIRECTOR


DIRECTOR


DIRECTOR

ARIF HABIB BANK LIMITED

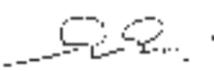
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Statement Of Changes In Equity

For the year ended December 31, 2008

	Share capital	Capital Reserves		Revenue Reserves		Total
		Share premium	Statutory reserve	General reserve	Unappropriated profit / accumulated (loss)	
Rupees in '000'						
Balance as at December 31, 2006	3,000,000	-	18,795	-	75,179	3,093,974
Issue of share capital	1,500,000	1,500,000	-	-	-	3,000,000
Profit after taxation for the year ended December 31, 2007	-	-	-	-	230,165	230,165
Transfer to statutory reserve	-	-	46,033	-	(46,033)	-
Transfer to general reserve	-	-	-	66,567	(66,567)	-
Balance as at December 31, 2007	4,500,000	1,500,000	64,828	66,567	192,744	6,324,139
Issue of bonus shares	500,000	(500,000)	-	-	-	-
Transfer to general reserve	-	-	-	183,433	(183,433)	-
Loss after taxation for the year ended December 31, 2008	-	-	-	-	(191,408)	(191,408)
Balance as at December 31, 2008	<u>5,000,000</u>	<u>1,000,000</u>	<u>64,828</u>	<u>250,000</u>	<u>(182,097)</u>	<u>6,132,731</u>

The annexed notes from 1 to 42 form an integral part of these financial statements.


PRESIDENT AND CHIEF EXECUTIVE


DIRECTOR


DIRECTOR


DIRECTOR

ARIF HABIB BANK LIMITED

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Notes to the Financial Statements

For the year ended December 31, 2008

1. STATUS AND NATURE OF BUSINESS

Arif Habib Bank Limited (the Bank) was incorporated in Pakistan as a public limited company on December 09, 2005 under the Companies Ordinance, 1984. Its registered office is situated at 2/1 R.Y. 16, Old Queens Road, Karachi in the province of Sindh. It is listed on all the Stock Exchanges of Pakistan.

The Bank is principally engaged in the business of banking, through its 33 branches (2007: 12 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

3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified by the Securities and Exchange Commission of Pakistan, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). In case requirements differ, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the requirements of the said directives shall prevail.

3.2 The SBP, vide BSD Circular letter No.10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for banking companies till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the categories prescribed by the SBP through various circulars.

Notes to the Financial Statements

For the year ended December 31, 2008

3.3 Standards or interpretation not yet effective or are not relevant

The following standards and interpretations of approved accounting standards are applicable in Pakistan from the dates mentioned below against the respective standard or interpretation.

Standard or Interpretation	Effective from (accounting periods beginning on or after)
IAS - 1 (Revised) Presentation of Financial Statements *	January 01, 2009
IAS - 23 (Revised) Borrowing Costs	January 01, 2009
IAS - 29 Financial Reporting in Hyperinflationary Economies	April 28, 2008
IFRS - 3 (Revised) Business Combinations	July 01, 2009
IFRS - 8 Operating Segments	January 01, 2009
IFRIC - 13 Customer Loyalty Programs	July 1, 2008
IFRIC - 15 Agreements for the Construction of Real Estate	January 01, 2009
IFRIC - 16 Hedges of a Net Investment in a Foreign Operation	October 01, 2008
IFRIC - 17 Distribution of Non Cash Assets to Owners	July 01, 2009
IFRIC - 18 Transfer of Assets from Customers	July 01, 2009

* Presentation of financial statements (effective for annual periods beginning on or after January 1, 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. The change will be effected once enforced by regulators.

The above standards and interpretations of approved accounting standards effective for accounting period beginning on or after January 1, 2009 are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain increased disclosures in certain cases.

4. BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except that certain financial instruments are carried at fair value and staff retirement benefits are stated at present value.

Notes to the Financial Statements

For the year ended December 31, 2008

4.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires to make certain judgments, accounting estimates and assumptions. It also requires the management to exercise its judgment in the process of applying the bank's accounting policies. These estimates and associated assumptions are continually evaluated and are based on historical experience, statutory requirements and other factors considered reasonable in the circumstances. Revision to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The estimates and assumptions that are expected to have a significant effect on the assets and liabilities, income and expenses have been disclosed in note 6 to these financial statements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

For the purpose of cash flow statements, cash and cash equivalents include cash and balances with treasury banks and balances with other banks (net of overdrawn nostro balances) in current and deposit accounts.

5.2 Lending to / borrowings from financial and other institutions

The Bank enters into transactions of borrowings (re-purchase) from and lending (reverse re-purchase) to financial and other institutions, at contracted rates for a specified period of time. These are recorded as under:

(a) Repurchase agreement borrowings

Securities sold subject to a repurchase agreement at a specified future date (repos) are continued to be recognised in the balance sheet and are measured in accordance with accounting policies for investment securities. The counterparty liability for amounts received under these agreements is included in borrowings. The difference between sale and repurchase price is treated as mark-up expense and is accrued over the period of the repo agreement.

(b) Repurchase agreement lendings

Securities purchased under agreement to resell at a specified future date (reverse repos) are not recognised in the balance sheet. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up earned and is accrued over the period of the reverse repo agreement.

Securities purchased are not recognised in the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability under borrowings from financial institutions.

Notes to the Financial Statements

For the year ended December 31, 2008

5.3 Investments

The management determines the appropriate classification of its investments at the time of purchase and classifies these investments as held for trading, available for sale or held to maturity. These are initially recognised at cost, being the fair value of the consideration given including the acquisition cost.

(a) Held-for-trading

These are securities which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealer's margin or are securities included in portfolio in which a pattern of short-term profit taking exists.

(b) Held-to-maturity

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

(c) Available-for-sale

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

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

In accordance with the requirements of SBP, quoted securities, other than those classified as held to maturity and investments and associates, are stated at market value. Investments classified as held to maturity are carried at amortized cost whereas investments in associates (which qualify for accounting under International Accounting Standard-28 'Investment in Associates') are carried at cost in accordance with the directive of SBP.

The unrealised surplus / (deficit) arising on revaluation of the Bank's held for trading investment portfolio is taken to profit and loss account.

The surplus / (deficit) arising on revaluation of quoted securities classified as available for sale is kept in a separate account shown in the balance sheet below equity. The surplus / (deficit) arising on these securities is taken to profit and loss account when actually realised on disposal.

Quoted securities are revalued as per directives of SBP.

Unquoted equity securities are valued at lower of cost and break-up value. Subsequent increases and 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, if any.

Notes to the Financial Statements

For the year ended December 31, 2008

Premium or discount on acquisition of investment is capitalised and amortised through the profit and loss account over the remaining period till maturity.

Gain and losses arising on sale of investments during the year are taken to the profit and loss account.

Provisions for diminution in the value of securities (except for debentures, participation term certificates and term finance certificates) is made after considering impairment, if any, in their value. Provision for diminution in value of debentures, participation term certificates and term finance certificates are made in accordance with the requirements of Prudential Regulations issued by SBP.

5.4 Advances

Advances are stated net of general and specific provisions. The specific and general provisions for advances are made in accordance with the requirements of Prudential Regulations and other directives issued by the State Bank of Pakistan and are charged to the profit and loss account. Non-performing loans and advances in respect of which the bank does not expect any recoveries in future years are written off.

Leases, where the Bank transfers substantially all the risks and rewards incidental to the ownership of an assets are classified as finance leases. A receivable is recognised at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. Unearned finance income is recognised over the term of the lease, so as to produce a constant periodic return on the outstanding net investment in lease.

5.5 Goodwill

Goodwill represents the difference in the cost of an acquisition over the fair value of the Bank's share of net identifiable assets of the acquired entity at the date of acquisition. 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.

5.6 Operating fixed assets and depreciation

Owned

Property and equipment, other than leasehold land which is not depreciated, are stated at cost less accumulated depreciation and impairment losses, if any.

Notes to the Financial Statements

For the year ended December 31, 2008

Depreciation is calculated using the straight line method to write down the cost of assets to their residual values over the estimated useful lives. The rates at which the assets are depreciated are disclosed in Note 12.2 to the financial statements. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets disposed off.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account as and when incurred.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets is recognised in the profit and loss account in the year when asset is derecognised.

Capital work in progress

Capital work-in-progress are stated at cost.

Intangible assets

Intangible assets, other than goodwill, having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized over their estimated useful lives, using the straight line method. Amortization is charged from the month the assets are available for use at the rate stated in note 12.3.

Impairment

The carrying amounts of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The resulting impairment loss is taken to the profit and loss account.

5.7 Non current assets held for sale

Non current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. The assets (or disposal groups) are measured at lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss.

Notes to the Financial Statements

For the year ended December 31, 2008

5.8 Deferred Costs

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

5.9 Staff retirement and other benefits

Defined Contribution Plan

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

Defined Benefit Scheme

The Bank operates an unfunded gratuity scheme for all its permanent employees who have completed the minimum qualifying period of five years. Provision is made to meet the cost of such gratuity benefits on the basis of actuarial recommendations and are charged to income currently. The actuarial valuations are periodically carried out using the 'Projected Unit Credit Method'.

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

Employees' Compensated absences

Effective from current year, the Bank has started accounting for compensated absences on the basis of unavailed leave balance of each employee at the end of the year.

5.10 Taxation

Current

Provision for current taxation is based on taxable income at the current rate of tax after taking with applicable tax credits, rebates and exemptions available; if any.

Deferred

Deferred tax is recognized on all major temporary differences, tax credits and unused losses at the balance sheet date between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is calculated at the rates that are expected to apply to the periods when the differences will reverse, based on tax rates that have been enacted or substantially enacted at the balance sheet date.

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

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

Notes to the Financial Statements

For the year ended December 31, 2008

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

(a) Foreign currency transactions and translations

Transactions in foreign currencies are translated into rupees at the exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupees terms at the rates of exchange ruling on the balance sheet date. Forward foreign exchange contracts are valued at forward rates determined with reference to their respective maturities

(b) Translation gains and losses

Translation gains and losses are included in profit and loss account.

5.13 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pakistani Rupees, which is the bank's functional and presentation currency.

5.14 Proposed dividend and appropriation to reserves

Dividends and appropriations to reserves, except appropriations which are required by the law, after the balance sheet date are recognised as liability in the bank's financial statements in the year in which these are declared.

5.15 Related party transactions

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

5.16 Revenue Recognition

Revenue is recognized to the extent that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following recognition criteria are used for revenue recognition:

(a) Advances and investments

Markup / return on regular loans / advances and investments is recognized on time proportion basis. Where debt securities are purchased at premium or discount, the same is amortized through the profit and loss account over the remaining period till maturity.

Notes to the Financial Statements

For the year ended December 31, 2008

Interest or markup recoverable on classified loans and advances and investments is recognized on receipt basis. Interest / return / mark-up on rescheduled / restructured loans and advances and investments is recognized as permitted by the regulations of the SBP.

Dividend income is recognized when the bank's right to receive the dividend is established.

Gain and loss on sale of investments are recognized in the profit and loss account.

(b) Lease financing

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.

Gains/losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognized as income on receipts basis.

(c) Fees and commission

Fees and commission are generally recognised on an accrual basis.

5.17 Off setting

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

5.18 Financial instruments

(a) Financial assets and liabilities

Financial instruments carried on the balance sheet include cash and bank balances, lendings to financial institutions, investments, advances, certain other receivables, borrowings from financial institutions, deposits and certain other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them. Financial assets are de-recognised when the contractual right to future cash flows from the asset expire or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognised when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liabilities is recognised in the profit and loss account of the current period.

Notes to the Financial Statements

For the year ended December 31, 2008

(b) Derivative financial instruments

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

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Bank's accounting policies, as described in note 5, the management has made the following and estimates and judgments which are significant to financial statements: -

- (a) classification of investments (Note 5.3);
- (b) determining the residual values and useful lives of property and equipment (Note 5.6);
- (c) impairment of goodwill (Note 5.5);
- (d) impairment of non-current assets other than goodwill (Note 5.6);
- (e) accounting for post employment benefits (Note 5.9);
- (f) recognition of taxation and deferred tax (Note 5.10);
- (g) provisions (Note 5.11); and
- (h) valuation of derivatives (Note 5.18)

	Note	2008	2007
Rupees in '000'			
7. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		152,032	85,907
Foreign currencies		20,802	9,815
With State Bank of Pakistan in			
Local currency current account	7.1	853,912	642,956
Foreign currency current account	7.2	4,768	1,221
Foreign currency deposit account			
- Non remunerative	7.3	77,517	3,410
- Remunerative	7.4	233,463	10,536
With National Bank of Pakistan in			
Local currency current account		7,155	-
		<u>1,349,649</u>	<u>753,845</u>

Notes to the Financial Statements

For the year ended December 31, 2008

- 7.1 Deposits with the SBP are maintained to comply with the statutory requirements issued from time to time.
- 7.2 This represents the US Dollar Settlement account maintained with SBP.
- 7.3 This represents foreign currency special cash reserve maintained with SBP equivalent to at least 5% of the Bank's foreign currency deposits.
- 7.4 This represents foreign currency special cash reserves maintained with SBP equivalent to at least 15% of the Bank's foreign currency deposits. Profit rates on this deposit are fixed on a monthly basis by SBP. It carries markup at rates ranging between 0.90% to 3.60% (2007: 3.71% to 4.72%).

8. BALANCES WITH OTHER BANKS

	Note	2008	2007
		Rupees in '000'	
In Pakistan			
On current accounts		15,542	27,679
Outside Pakistan			
On current accounts		50,038	24,872
		<u>65,580</u>	<u>52,551</u>

9. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2008	2007
		Rupees in '000'	
Call money lendings	9.1	200,000	1,200,000
Repurchase agreement lendings (Reverse Repo)		—	1,655,582
		<u>200,000</u>	<u>2,855,582</u>

- 9.1 This represent call lending to a financial institution carrying mark-up rate of 15% (2007: 9.5% to 12%) per annum and is maturing on January 6, 2009.

	Note	2008	2007
		Rupees in '000'	
9.2 Particulars of lendings			
In local currency		200,000	2,855,582
In foreign currencies		—	—
		<u>200,000</u>	<u>2,855,582</u>

Notes to the Financial Statements

For the year ended December 31, 2008

9.3 Securities held as collateral against lendings to Financial Institutions

	December 31, 2008			December 31, 2007		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	Rupees in '000'					
Market Treasury Bills	—	—	—	99,206	1,556,376	1,655,582
	<u>—</u>	<u>—</u>	<u>—</u>	<u>99,206</u>	<u>1,556,376</u>	<u>1,655,582</u>

10. INVESTMENTS

Note	December 31, 2008			December 31, 2007		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
	Rupees in '000'					

10.1 Investments by types:

Held-for-trading securities

Listed ordinary shares	—	—	—	7,890	55,859	63,749
Mutual funds units / certificates	—	—	—	5,000	—	5,000
	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,890</u>	<u>55,859</u>	<u>68,749</u>

Available - for - sale securities

Market Treasury Bills	10.3	733,602	1,574,702	2,308,304	2,445,570	192,860	2,638,430
Pakistan Investment Bonds	10.3	364,608	—	364,608	446,042	—	446,042
Listed ordinary shares	10.4	422,738	211,021	633,759	158,271	146,458	304,729
Mutual funds unit							
- open ended	10.1.1 & 10.5	145,000	—	145,000	1,080,000	—	1,080,000
Mutual funds unit							
- closed ended	10.1.1 & 10.5	11,229	—	11,229	—	—	—
Term Finance Certificates							
- listed	10.6	99,980	—	99,980	—	—	—
Term Finance Certificates							
- unlisted	10.7	1,499,900	—	1,499,900	903,420	—	903,420
Sukuk Bonds	10.8	400,000	—	400,000	—	—	—
		<u>3,677,057</u>	<u>1,785,723</u>	<u>5,462,780</u>	<u>5,033,303</u>	<u>339,318</u>	<u>5,372,621</u>

Associates

Listed ordinary shares	10.10	112,773	—	112,773	—	—	—
Investment at cost		<u>3,789,830</u>	<u>1,785,723</u>	<u>5,575,553</u>	<u>5,046,193</u>	<u>395,177</u>	<u>5,441,370</u>

Less: Provision for diminution
in value of investments

		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Investments - net of provisions		<u>3,789,830</u>	<u>1,785,723</u>	<u>5,575,553</u>	<u>5,046,193</u>	<u>395,177</u>	<u>5,441,370</u>

Unrealized loss on held for
trading securities

		<u>—</u>	<u>—</u>	<u>—</u>	<u>(642)</u>	<u>(6,155)</u>	<u>(6,797)</u>
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Deficit on revaluation of
available for sale

securities	10.1.2 & 20	<u>(317,427)</u>	<u>(163,513)</u>	<u>(480,940)</u>	<u>(17,426)</u>	<u>(8,722)</u>	<u>(26,148)</u>
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Total investments at market value

		<u>3,472,403</u>	<u>1,622,210</u>	<u>5,094,613</u>	<u>5,028,125</u>	<u>380,300</u>	<u>5,408,425</u>
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Notes to the Financial Statements

For the year ended December 31, 2008

10.1.1 These includes mutual funds units / certificates of Pakistan Capital Protected Fund, Pakistan Strategic Allocation Fund, Pakistan Income Enhancement Fund and Pakistan Premier Fund Limited which are associated undertakings as per the Companies Ordinance, 1984 on the basis of common directorship, however, for the purpose of measurement, it have been classified as available for sale as the Bank does not exercise any significant influence over them.

	Note	2008	2007
		Rupees in '000'	
10.2 Investments by segments:			
Federal Government Securities:			
- Market Treasury Bills	10.3	2,308,304	2,638,430
- Pakistan Investment Bonds	10.3	364,608	446,042
Fully Paid up Ordinary Shares / Units / Certificate :			
- Listed companies	10.4	633,759	368,478
- Mutual funds - open ended	10.1.1 & 10.5	145,000	1,085,000
- Mutual funds - closed ended	10.1.1 & 10.5	11,229	-
Term Finance Certificates and Bonds			
- Listed Term Finance Certificate	10.6	99,980	-
- Unlisted Term Finance Certificates	10.7	1,499,900	903,420
- Sukuk Bonds	10.8	400,000	-
Investment in associates	10.10	112,773	-
Total investment at cost		5,575,553	5,441,370
Less: Provision for diminution in value of investments		-	-
Investments - net of provisions		5,575,553	5,441,370
Deficit on revaluation of securities			
- held for trading		-	(6,797)
Deficit on revaluation of securities			
- available for sale	10.12 & 20	(480,940)	(26,148)
Total investments at market value		5,094,613	5,408,425

10.3 Market Treasury Bills and Pakistan Investment Bonds are held with SBP and are eligible for rediscounting. Market Treasury Bills embody effective yield ranging from 9.84% to 13.85% (2007 : 9.0% to 9.4%) per annum and are maturing within 12 months. Pakistan Investment Bonds carry markup ranging from 7% to 11% (2007 : 8% to 11%) per annum on semi-annual basis and are maturing within 1 to 8 years. Certain government securities are kept with SBP to meet statutory liquidity requirement calculated on the basis of demand and time liabilities.

Notes to the Financial Statements

For the year ended December 31, 2008

10.4 Particulars of investment in ordinary shares - listed

Name of companies	Number of shares held		Paid-up value per share	Total nominal value	
	2008	2007		2008	2007
	Rupees in '000'				
Al-Abbas Cement Company Limited	1,478,026	-	10	14,780	-
Arif Habib Limited	2	-	10	-	-
Askari Commercial Bank Limited	4,000,011	1,500,000	10	40,000	15,000
Allied Bank Limited	29,000	-	10	290	-
Attock Refinery Limited	6	-	10	-	-
Bank Al Falah Limited	10	-	10	-	-
Bank Islami Pakistan Limited	7	-	10	-	-
Bosicor Pakistan Limited	150	-	10	2	-
Crescent Steel and Allied Products Limited	15	-	10	-	-
Dawood Lawrancepur Limited	28	-	10	-	-
Dewan Salman Fibre Limited	4	-	10	-	-
D.S. Industries Limited	60	-	10	1	-
D.G. Khan Cement Limited	500,000	-	10	5,000	-
Dost Steels Limited	100	-	10	1	-
Eye Television Network Limited	65	-	10	1	-
Fauji Fertilizer Bin Qasim Limited	21	500,000	10	-	5,000
Fauji Fertilizer Company Limited	54,600	1,000,000	10	546	10,000
Fauji Cement Company Limited	22	-	10	-	-
Faysal Bank Limited	1	-	10	-	-
First National Equities Limited	8	-	10	-	-
Habib Bank Limited	8,401	-	10	84	-
Ibrahim Fibres Limited	430,500	-	10	4,305	-
Invest and Finance Securities Limited	21	-	10	-	-
Javed Omer Vohra and Company	33	-	10	-	-
Jahangir Siddiqui and Company	7	-	10	-	-
Lucky Cement Company Limited	300,000	-	10	3,000	-
MCB Bank Limited	5	-	10	-	-
Maple Leaf Cement Factory Limited	4	-	10	-	-
National Bank of Pakistan	25,003	-	10	250	-
Nishat Cunian Limited	2	-	10	-	-
Netsol Technologies Limited	4	-	10	-	-
NIB Bank Limited	15	-	10	-	-
Oil & Gas Development Company Limited	50,000	-	10	500	-
Packages Limited	-	12,400	10	-	124
Pakistan Oilfield Limited	480,001	-	10	4,800	-
Pakistan Petroleum Limited	6	-	10	-	-
Pakistan State Oil Limited	100,000	-	10	1,000	-
Pak Suzuki Motors Limited	200,000	154,800	10	2,000	1,548
Pervaiz Ahmed Securities Limited	50	-	10	1	-
Pakistan Cement Company Limited	64	-	10	1	-
Pakistan PTA Limited	54	-	10	1	-
Saudi Pak Commercial Bank Limited	19	-	10	-	-
Sui Northern Gas Pipelines Limited	5	-	10	-	-

Notes to the Financial Statements

For the year ended December 31, 2008

Name of companies	Number of shares held		Paid-up value per share	Total nominal value	
	2008	2007		2008	2007
				Rupees in '000'	
Sui Southern Gas Company Limited	1	–	10	–	–
Telecard Pakistan Limited	74	–	10	1	–
TRG Pakistan Limited (Class A)	8	–	10	–	–
The Bank of Punjab	2	–	10	–	–
United Bank Limited	400,306	–	10	4,003	–
World Call Telecom Limited	4	–	10	–	–

10.5 Particulars of investment in mutual funds

Name of companies	Number of shares held		Paid-up value per certificate	Total nominal value	
	2008	2007		2008	2007
				Rupees in '000'	
Mutual fund open ended					
AMZ Plus Income Fund	–	1,889,359	100	–	188,936
Askari Income Fund	–	2,846,300	100	–	284,630
Dawood Money Market Fund	–	1,898,380	100	–	189,838
HBL Multi Asset Fund	–	500,000	10	–	5,000
KASB Balance Fund	–	100,000	50	–	5,000
Namco Income Fund	153,975	–	100	15,398	–
Pakistan Capital Protected Fund - 1 (Note 10.1.1)	3,198,000	3,000,000	10	31,980	30,000
Pakistan Income Enhancement Fund (Note 10.1.1)	2,000,000	–	50	100,000	–
Pakistan Income Fund	–	3,810,250	50	–	190,513
Reliance Income Fund	–	1,910,614	50	–	95,531
Mutual fund close ended					
JS Value Fund Limited	278	–	100	28	–
PICIC Growth Fund	1	–	10	–	–
Pakistan Premier Fund (Note 10.1.1)	500,012	–	10	5,000	–
Pakistan Strategic Allocation Fund (Note 10.1.1)	500,000	–	10	5,000	–

10.6 Particulars of investment in listed Term Finance Certificates - Face value of Rs.5,000 each

Name of companies	Rating	Markup rate	Repayment	Total nominal value	
				2008	2007
				Rupees in '000'	
NIB Bank Limited	'A'	6 months	Semi-annually	100,000	–
Maturity date: March 5, 2016		KIBOR plus			
20,000 (2007: Nil) certificates		1.15%			
Name of Chief Executive:					
Mr. Khawaja Iqbal Hassan					

Notes to the Financial Statements

For the year ended December 31, 2008

10.7 Particulars of investment in unlisted Term Finance Certificates - Face value of Rs.5,000 each

Name of companies	Rating	Markup rate	Repayment	Total nominal value	
				2008	2007
				Rupees in '000'	
Pak American Fertilizer (Pvt.) Limited	Unrated	6 months KIBOR plus 1.75%	Semi-annually	500,000	500,000
100,000 (2007: 100,000) certificates					
Maturity date: December 14, 2015					
Name of Chief Executive:					
Mr. Ahmed Jauded Bilal					
Gujranwala Electric Power Company Limited	Unrated	6 months KIBOR plus 0.23%	Semi-annually	333,330	–
66,666 (2007: Nil) certificates					
Maturity date: August 16, 2011					
Name of Chief Executive:					
Mr. Rana Muhammad Ashraf Zahid					
Islamabad Electric Power Company Limited	Unrated	6 months KIBOR plus 0.23%	Semi-annually	333,335	–
66,667 (2007: Nil) certificates					
Maturity date: August 16, 2011					
Name of Chief Executive:					
Mr. Raja Abdul Ghafoor					
Faisalabad Electric Power Company Limited	Unrated	6 months KIBOR plus 0.23%	Semi-annually	333,335	–
66,667 (2007: Nil) certificates					
Maturity date: August 16, 2011					
Name of Chief Executive:					
Mr. Ahmed Saeed Akhtar					
Engro Chemical Pakistan Limited	AA	6 months KIBOR plus 1.55%	Semi-annually	–	168,420
Nil (2007: 33,684) certificates					
Maturity date: June 21, 2015					
Pak Arab Fertilizer Limited	AA	6 months KIBOR plus 1.50%	Semi-annually	–	235,000
Nil (2007: 47,000) certificates					
Maturity date: July 21, 2012					

10.8 Particulars of investment in Sukuk Bonds - Face value of Rs.5,000 each

Name of companies	Rating	Markup rate	Repayment	Total nominal value	
				2008	2007
				Rupees in '000'	
Arzoo Textile Mills Limited	Unrated	6 months KIBOR plus 2% for first 2 year and 1.75% for year 3 onwards.	Semi-annually	200,000	–
40,000 (2007: Nil) certificates					
Maturity date: April 15, 2014					
Name of Chief Executive:					
Mr. Naseem Saigol					
Pak Electron Limited	A+	3 months Kibor plus 1%	Quarterly	200,000	–
40,000 (2007: Nil) certificates					
Maturity date: March 15, 2015					
Name of Chief Executive:					
Mr. Azhar Majeed Shiekh					

Notes to the Financial Statements

For the year ended December 31, 2008

10.9 Quality of Available for Sale Securities

Securities	2008		
	Short Term Rating	Long Term Rating	Rating by
Market Treasury Bills	Unrated	Unrated	–
Pakistan Investment Bonds	Unrated	Unrated	–
Pak American Fertilizer (Pvt) Limited	A+	A1	PACRA
AMZ Plus Income Fund	Unrated	BBB+(f)	JCR-VIS
Arzoo Textile Mills Limited (SUKUK)	Unrated	Unrated	–
Arif Habib Limited	Unrated	Unrated	–
Askari Bank Limited	A1+	AA	PACRA
Al Abbas Cement Company Limited	Unrated	Unrated	–
Allied Bank Limited	A1+	AA	PACRA
Askari Income Fund	Unrated	5 - Star	PACRA
Attock Refinery Limited	A1+	AA	PACRA
Bank Al Falah Limited	A1+	AA	PACRA
Bank Islami Pakistan Limited	A2	A-	PACRA
Bosicor Pakistan Limited	Unrated	Unrated	–
Crescent Steel and Allied Products Limited	A-1	A+	JCR-VIS
Dawood Money Market Fund	Unrated	Unrated	–
Dawood Lawrancepur Limited	Unrated	Unrated	–
Dewan Salman Fibre Limited	Unrated	Unrated	–
D.S. Industries Limited	Unrated	Unrated	–
Dost Steel Limited	Unrated	Unrated	–
D.G. Khan Cement Limited	Unrated	Unrated	–
Eye Television Network Limited	Unrated	Unrated	–
Engro Chemical Pakistan Limited (TFCs)	A1+	AA	PACRA
Fauji Fertilizer Bin Qasim Limited	Unrated	Unrated	–
Fauji Fertilizer Company Limited	Unrated	Unrated	–
Fauji Cement Company Limited	Unrated	Unrated	–
Faysal Bank Limited	A1+	AA	PACRA
First National Equities Limited	Unrated	Unrated	–
Faisalabad Electric Supply Co Limited (TFC)	Unrated	Unrated	–
Gujranwala Electric Power Co Limited (TFC)	Unrated	Unrated	–
Habib Bank Limited	A-1+	AA+	JCR-VIS
HBL Multi Asset Fund	Unrated	Unrated	–
Islamabad Electric Supply Co Limited (TFC)	Unrated	Unrated	–
Ibrahim Fibres Limited	Unrated	Unrated	–
Invest and Finance Securities Limited	Unrated	Unrated	–

Notes to the Financial Statements

For the year ended December 31, 2008

Short Term Rating	Long Term Rating	Rating by	2008	2007
			Rupees in '000'	
Unrated	Unrated	–	2,300,146	2,631,342
Unrated	Unrated	–	290,134	442,887
Unrated	Unrated	–	500,049	500,000
Unrated	A(f)	JCR-VIS	–	200,002
–	–	–	200,000	–
–	–	–	–	–
A1+	AA	PACRA	58,280	149,625
–	–	–	56,903	–
–	–	–	908	–
Unrated	A(f)	PACRA	–	300,598
–	–	–	–	–
–	–	–	–	–
–	–	–	–	–
–	–	–	1	–
–	–	–	–	–
Unrated	5 - Star	PACRA	–	200,000
–	–	–	1	–
–	–	–	–	–
–	–	–	1	–
–	–	–	1	–
–	–	–	10,635	–
–	–	–	3	–
Unrated	AA	PACRA	–	168,420
–	–	–	–	–
Unrated	Unrated	–	3,207	118,750
–	–	–	–	–
–	–	–	–	–
–	–	–	–	–
Unrated	Unrated	–	–	50,235
–	–	–	–	–
–	–	–	333,335	–
–	–	–	333,330	–
–	–	–	629	–
Unrated	Unrated	–	–	–
–	–	–	333,335	–
–	–	–	15,705	–
–	–	–	–	–

Notes to the Financial Statements

For the year ended December 31, 2008

Securities	2008		Rating by
	Short Term Rating	Long Term Rating	
Javed Omer Vohra and Company Limited	B	BB+	JCR-VIS
Jahangir Siddiqui and Company Limited	A1+	AA+	PACRA
JS Value Fund Limited	Unrated	5 - Star	PACRA
Lucky Cement Company Limited	Unrated	Unrated	-
MCB Bank Limited	A1+	AA+	PACRA
Maple Leaf Cement Factory Limited	A2	BBB+	PACRA
National Bank of Pakistan	A-1+	AAA	JCR-VIS
Nishat Chunian Limited	Unrated	Unrated	-
Netsol Technologies Limited	Unrated	Unrated	-
NIB Bank Limited	A1+	AA-	PACRA
NIB Bank Limited (TFC)	Unrated	A	PACRA
Namco Income Fund	Unrated	Unrated	-
Oil & Gas Development Company Limited	A-1+	AAA	JCR-VIS
Pak Arab Fertilizer Limited (TFCs)	Unrated	Unrated	-
Pakistan Capital Market Fund	Unrated	Unrated	-
Pakistan Income Fund	Unrated	Unrated	-
Pakistan Oilfield Limited	Unrated	Unrated	-
Pakistan Petroleum Limited	Unrated	Unrated	-
Pakistan Premier Fund	Unrated	Unrated	-
Pakistan State Oil Limited	A-1+	AAA	PACRA
Pakistan Strategic Allocation Fund	Unrated	Unrated	-
Pakistan Capital Protected Fund-1	Unrated	Unrated	-
Pakistan Income Enhancement Fund	Unrated	Unrated	-
Pak Suzuki Motors Limited	Unrated	Unrated	-
Pervez Ahmed Securities Limited	Unrated	Unrated	-
Pakistan Cement Company Limited	Unrated	Unrated	-
PICIC Growth Fund	Unrated	Unrated	-
Pakistan PTA Limited	Unrated	Unrated	-
Pakistan Electron Limited (SUKUK)	Unrated	A+	PACRA
Reliance Income Fund	Unrated	Unrated	-
Sui Northern Gas Pipelines Limited	A1+	AA	PACRA
Saudi Pak Commercial Bank Limited	A-3	A-	JCR-VIS
Sui Southern Gas Company Limited	A1+	AA-	PACRA
Telecard Pakistan Limited- Class-A	Unrated	BBB	JCR-VIS
TRG Pakistan Limited- Class A	A2	BBB+	PACRA
The Bank of Punjab	A1+	AA-	PACRA
United Bank Limited	A-1+	AA+	JCR-VIS
World Call Telecom Limited	A1	A+	PACRA

Notes to the Financial Statements

For the year ended December 31, 2008

Short Term Rating	2007		Rating by	2008	2007
	Long Term Rating			Rupees in '000'	
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	1	-
-	-	-	-	9,381	-
-	-	-	-	1	-
-	-	-	-	-	-
-	-	-	-	1,258	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	92,182	-
-	-	-	-	15,772	-
-	-	-	-	2,500	-
Unrated	AA	JCR-VIS	-	-	235,000
-	-	-	-	-	-
Unrated	4 - Star	PACRA	-	-	200,000
-	-	-	-	49,196	-
-	-	-	-	1	-
-	-	-	-	1,010	-
-	-	-	-	14,458	-
-	-	-	-	1,140	-
Unrated	Unrated	-	-	27,439	30,000
-	-	-	-	100,200	-
Unrated	Unrated	-	-	15,922	19,614
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	200,000	-
Unrated	Unrated	-	-	-	100,000
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	14,776	-
-	-	-	-	-	-
				<u>4,981,840</u>	<u>5,346,473</u>

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008	2007
Rupees in '000'			
10.10 Investment in associate			
Thatta Cement Company Limited		112,773	-

10.10.1 Summarized financial information in respect of associate is set out below:

	2008	2007
Rupees in '000'		
Total assets		820,513
Total liabilities		(165,274)
Net assets		655,239
Revenue		501,452
Profit for the period		85,448

These figures are based the latest available unaudited condensed interim financial statements as at September 30, 2008

10.11 Unrealized loss on investments classified as held for trading

	2008	2007
	Unrealized gain/(loss)	Unrealized loss
Rupees in '000'		
Fauji Fertilizer Bin Qasim Limited		(1,758)
Packages Limited	-	(223)
Pak Suzuki Motors Company Limited	-	(4,816)
	-	(6,797)

10.12 The Karachi Stock Exchange (Guarantee) Limited ("KSE") placed a "Floor Mechanism" on the market value of securities based on the closing prices of securities prevailing as on August 27, 2008. Under the "Floor Mechanism", the individual security price of equity securities could vary within normal circuit breaker limit, but not below the floor price level. The mechanism was effective from August 28, 2008 and remained in place until December 15, 2008. Consequent to the introduction of 'Floor Mechanism' by KSE, the market volume declined significantly during the period from August 27, 2008 to December 15, 2008. There were lower floors on a number of securities at December 31, 2008. The equity securities have been valued at prices quoted on KSE on December 31, 2008 without any adjustment as allowed by the State Bank of Pakistan vide BSD Circular Letter No. 2 dated January 27, 2009.

Notes to the Financial Statements

For the year ended December 31, 2008

Furthermore, SBP BSD Circular No. 4 dated February 13, 2009 has allowed to follow Securities and Exchange Commission of Pakistan (SECP) notification vide SRO 150 (1)/2009 dated February 13, 2009 allowing that the impairment loss, if any, recognized as on December 31, 2008, due to valuation of listed equity investments held as "Available for Sale" to quoted market prices may be shown under the equity. The amount taken to equity including any adjustment / effect for price movement shall be taken to profit and loss account on quarterly basis during the calendar year ending December 31, 2009. The amount taken to equity at December 31, 2008 shall be treated as a charge to profit and loss account for the purposes of distribution of dividend.

The impairment loss based on the market values as at December 31, 2008 has been determined at Rs. 388.957 million. In view of the "Floor Mechanism" as explained above and current economic conditions in the country, the management believes that these are 'rare circumstances' and the plunge in equity markets cannot be considered to be a fair reflection of equity values. Therefore recognition of impairment for "Available for Sale" equity securities through profit and loss account will not reflect the correct financial performance of the Bank.

The recognition of impairment loss based on the market values as at December 31, 2008 would have had the following effect on these financial statements.

	2008
Rupees in '000'	
Increase in 'impairment loss' in profit and loss account	388,957
Decrease in tax charge for the year	136,135
Increase in loss - after tax	252,822
Decrease in deficit on revaluation of available for sale investment	388,957
Increase in accumulated losses	252,822
	Rupee
Increase in loss per share - basic	(0.51)

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

	2008		2007	
	Number of shares	Amount Rupees in '000'	Number of shares	Amount Rupees in '000'
Askari Bank Limited	3,840,000	55,949	-	-
Fauji Fertilizer Company Limited	-	-	1,000,000	122,519
Fauji Fertilizer Bin Qasim Limited	-	-	500,000	22,783
Pak Suzuki Motors Company Limited	-	-	146,500	57,015

Notes to the Financial Statements
For the year ended December 31, 2008

	Note	2008	2007
Rupees in '000'			
11. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		16,346,866	7,625,888
Outside Pakistan		—	—
		<u>16,346,866</u>	<u>7,625,888</u>
Financing in respect of Continuous Funding System (CFS)	11.2	2,516	501,846
Net investment in finance lease			
In Pakistan	11.3	116,466	—
Outside Pakistan		—	—
		<u>116,466</u>	<u>—</u>
Bills discounted and purchased (excluding Treasury Bills)			
Payable in Pakistan		—	29,975
Payable outside Pakistan		44,493	—
		<u>44,493</u>	<u>29,975</u>
Advances - Gross		16,510,341	8,157,709
Provision against non- performing advances	11.4	(751,663)	(128,461)
Advances - net of provision		<u>15,758,678</u>	<u>8,029,248</u>
11.1 Particulars of advances			
11.1.1 In local currency		16,465,848	8,157,709
In foreign currencies		44,493	—
		<u>16,510,341</u>	<u>8,157,709</u>
11.1.2 Short Term		12,870,595	7,890,159
Long Term		3,639,746	267,550
		<u>16,510,341</u>	<u>8,157,709</u>
11.2 This represents secured financing in respect of purchase of shares from the CFS market. These carry mark up rates ranging from 17.53% to 17.59% (2007: 11.50% to 14.25%) per annum.			

Notes to the Financial Statements
For the year ended December 31, 2008

	2008				2007			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	Rupees in '000'							
Lease rentals receivable	26,636	92,856	—	119,492	—	—	—	—
Residual value	—	33,676	—	33,676	—	—	—	—
Minimum lease payments	26,636	126,532	—	153,168	—	—	—	—
Financial charges for future periods	(13,306)	(23,396)	—	(36,702)	—	—	—	—
Present value of minimum lease payments	13,330	103,136	—	116,466	—	—	—	—
11.3 Net Investment in Finance Lease								
11.4 Advances include Rs. 2,693.654 million (2007: Rs. 128.461 million) which have been placed under non-performing status as detailed below:								
Category of Classification	2008			2007				
	Classified Advances	Provision Required	Provision Held	Classified Advances	Provision Required	Provision Held		
Rupees in '000'								
Substandard	1,314,612	123,677	123,677	—	—	—		
Doubtful	745,993	173,633	173,633	—	—	—		
Loss	633,049	454,353	454,353	128,461	128,461	128,461		
	<u>2,693,654</u>	<u>751,663</u>	<u>751,663</u>	<u>128,461</u>	<u>128,461</u>	<u>128,461</u>		
11.4.1 Particulars of provision against non-performing advances:								
	2008			2007				
	Specific	General	Total	Specific	General	Total		
Rupees in '000'								
Opening balance	128,461	—	128,461	140,215	24	140,239		
Charge for the year	623,202	—	623,202	—	—	—		
Amount written off	—	—	—	(1,971)	—	(1,971)		
Reversals	—	—	—	(9,783)	(24)	(9,807)		
Closing balance	<u>751,663</u>	<u>—</u>	<u>751,663</u>	<u>128,461</u>	<u>—</u>	<u>128,461</u>		
11.4.2 Particulars of provisions against non-performing advances:								
In local currency	751,663	—	751,663	128,461	—	128,461		
In foreign currencies	—	—	—	—	—	—		
	<u>751,663</u>	<u>—</u>	<u>751,663</u>	<u>128,461</u>	<u>—</u>	<u>128,461</u>		
11.5 Particulars of write offs								
11.5.1 Against provisions				11.4	—	1,971		
Directly charged to profit & loss account					—	—		
					<u>—</u>	<u>1,971</u>		
11.5.2 Write offs of Rs.500,000/- and above					—	—		
Write offs of below Rs.500,000/-					—	1,971		
					<u>—</u>	<u>1,971</u>		

Notes to the Financial Statements

For the year ended December 31, 2008

	2008	2007
	Rupees in '000'	
11.6 Particulars of loans and advances to Directors, Associated Companies, etc.		
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons		
Balance at beginning of the year	83,252	11,272
Loans granted during the year	207,968	90,699
Repayments during the year	(66,743)	(18,719)
Balance at end of the year	<u>224,477</u>	<u>83,252</u>
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members		
Balance at beginning of the year	809,646	-
Loans granted during the year	5,350,873	859,074
Repayments during the year	(5,230,061)	(49,428)
Balance at end of the year	<u>930,458</u>	<u>809,646</u>
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
Balance at beginning of the year	481,275	380,050
Loans granted during the year	903,083	610,951
Repayments during the year	(1,384,358)	(509,726)
Balance at end of the year	<u>-</u>	<u>481,275</u>
	<u>1,154,935</u>	<u>1,374,173</u>

11.7 The State Bank of Pakistan vide BSD Circular No.2 dated January 27, 2009 has allowed the banks to take benefit of forced sale value (FSV) of pledge stocks, mortgage commercial and residential properties held as collateral against all NPLs for three years from the date of classification for calculating provisioning requirement with effect from December 31, 2008. The additional impact on profitability from availing the benefit shall not be available for payment of cash dividend or loans. The Bank has taken benefit offered by the said circular and the provision as a result of above has lower by Rs.106.067 million. Had the above mentioned benefit of FSV of collateral not been accounted for as allowed under the circular issued by SBP, the loss before tax would have been higher by Rs.106.067 million and advances and total assets would have been lower by the same amount.

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008	2007
		Rupees in '000'	
12. OPERATING FIXED ASSETS			
Capital work-in-progress	12.1	132,214	61,351
Property and equipment	12.2	485,812	343,049
Advances for purchase of properties		85,000	-
Advances for renovation and refurbishment	38	152,479	50,000
Intangible assets			
Computer software	12.3	72,377	82,321
Goodwill	12.4	-	60,794
		<u>927,882</u>	<u>597,515</u>
12.1 Capital work-in-progress			
Civil works		123,319	41,157
Advances to suppliers and contractors		<u>8,895</u>	<u>20,194</u>
		<u>132,214</u>	<u>61,351</u>

12.2 Property and equipment

Category of Classification	2008							
	Cost			Accumulated Depreciation			Net Book value at December 31, 2008	Rate of Depreciation %
	At January 01, 2008	Additions / (Deletions)/ Adjustment*	At December 31, 2008	As at January 01, 2008	For the year (on deletions)	As at December 31, 2008		
	Rupees in '000'							
Leasehold Land	-	88,030	88,030	-	-	-	88,030	-
Building	224,339	-	188,107	13,425	8,300	21,725	166,382	5%
		(36,232) *						
Building improvements	-	33,328	68,777	-	6,747	6,706	62,071	10%
		(783) *			(41) *			
		36,232 *						
Furniture and fixtures	13,936	14,706	28,642	970	2,217	3,187	25,455	10%
Electrical, office and computer equipment (note 12.2.1)	126,979	86,281	174,475	18,143	26,747	44,045	130,431	20% - 25%
		(38,785)			(845)			
Vehicles	13,719	6,461	19,114	3,386	2,782	5,671	13,443	20%
		(1,066)			(497)			
	<u>378,973</u>	<u>228,806</u>	<u>567,145</u>	<u>35,924</u>	<u>46,793</u>	<u>81,334</u>	<u>485,812</u>	
		(39,851)			(1,342)			
		(783) *			(41) *			

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008	2007
		Rupees in '000'	
14. OTHER ASSETS			
Income / Mark-up accrued in local currency		715,697	162,069
Income / Mark-up accrued in foreign currency		145	49
Advances, deposits, advance rent and other prepayments		218,283	92,727
Advance taxation - net of provision		43,142	-
Dividend receivable		100	3,648
Receivable from brokers		696	4,245
Receivable from group companies		898	-
Receivable from National Clearing Company of Pakistan Limited		67,467	-
Receivable from mutual funds against redemption		-	54,445
Advance against subscription of Term Finance Certificates		-	100,000
Deferred costs	14.1	21,714	30,084
Others		1,752	725
		<u>1,069,894</u>	<u>447,992</u>
Provision held against other assets	14.2	<u>(24,372)</u>	<u>(24,372)</u>
Other assets - net of provisions		<u>1,045,522</u>	<u>423,620</u>
14.1 Deferred costs - net			
Opening balance		30,084	38,454
Incurred during the year		-	-
Amortized during the year		(8,370)	(8,370)
Closing balance		<u>21,714</u>	<u>30,084</u>
14.2 Provision held against other assets			
Opening balance		24,372	24,372
Charge for the year		-	-
Reversals		-	-
Amount Written off		-	-
Closing balance		<u>24,372</u>	<u>24,372</u>
15. BILLS PAYABLE			
In Pakistan		75,963	384,179
Outside Pakistan		-	-
		<u>75,963</u>	<u>384,179</u>

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008	2007
		Rupees in '000'	
16. BORROWINGS			
In Pakistan		1,869,940	1,748,603
Outside Pakistan		-	-
		<u>1,869,940</u>	<u>1,748,603</u>
16.1 Particulars of borrowings with respect to currencies			
In local currency		1,869,940	1,748,603
In foreign currencies		-	-
		<u>1,869,940</u>	<u>1,748,603</u>
16.2 Details of borrowings secured/unsecured			
Secured			
Borrowings from State Bank of Pakistan	16.3	304,079	-
Repurchase agreement borrowings	16.4	1,565,861	1,748,603
Borrowings from subsidiary companies, managed modarabas and associated undertakings		-	-
Borrowings from directors (including chief executive) of the bank		-	-
Others		-	-
		<u>1,869,940</u>	<u>1,748,603</u>
Unsecured			
Call borrowings		-	-
Overdrawn nostro accounts		-	-
Others		-	-
		<u>1,869,940</u>	<u>1,748,603</u>
16.3			
These are secured against promisory notes, export documents and undertakings by the Bank granting the right to SBP to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current accounts maintained with the SBP. These borrowings are subject to markup rate of 6.5% (2007: 6.5%) per annum.			
16.4			
These represent borrowings from various financial institutions at markup rates ranging from 14.9% to 15% (2007: 10%) per annum maturing within one week. Market Treasury Bills amounting to Rs. 1,574.70 million (2007: Rs. 1,749.24 million) have been given as collateral against these borrowings.			

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008	2007
		Rupees in '000'	
17. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		11,809,387	2,927,375
Savings deposits		3,630,055	3,756,073
Current accounts - Remunerative		–	–
Current accounts - Non-remunerative		751,320	2,757,846
Margin accounts		398,347	10,821
		<u>16,589,109</u>	<u>9,452,115</u>
Financial Institutions			
Remunerative deposits		–	–
Non-remunerative deposits		27,357	12,670
		<u>27,357</u>	<u>12,670</u>
		<u>16,616,466</u>	<u>9,464,785</u>
17.1 Particulars of deposits			
In local currency		15,188,748	9,403,460
In foreign currencies		1,427,718	61,325
		<u>16,616,466</u>	<u>9,464,785</u>
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		262,669	63,313
Payable to Bangladesh Bank		41,389	41,389
Payable to Rupali Bank - Bangladesh		16,292	16,292
Payable to brokers against purchase of shares		2,719	3,151
Payable to vendors		6,156	22,681
Provision for compensated absences		8,492	–
Accrued expenses		16,706	15,456
Current taxation - provisions less payments		–	6,622
Unrealised loss on forward foreign exchange contracts		1,444	11
Payable to defined benefit plan		14,407	4,782
Security deposit against lease finance		33,676	–
Withholding tax payable		4,376	2,475
Others		12,002	5,604
		<u>420,328</u>	<u>181,776</u>

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008	2007
		Rupees in '000'	
19. SHARE CAPITAL			
19.1 Authorized			
		Number of Shares	
		2008	2007
		<u>600,000,000</u>	<u>600,000,000</u>
		Ordinary shares of Rs.10/- each	
			<u>6,000,000</u>
			<u>6,000,000</u>
19.2 Issued, subscribed and paid-up			
		Number of Shares	
		2008	2007
		428,500,000	428,500,000
		21,500,000	21,500,000
		50,000,000	–
		<u>500,000,000</u>	<u>450,000,000</u>
		Ordinary shares of Rs.10/- each	
		fully paid in cash	4,285,000
		Issued for consideration other than cash	215,000
		Issued as bonus shares	500,000
			<u>5,000,000</u>
			<u>4,285,000</u>
			<u>215,000</u>
			<u>–</u>
			<u>4,500,000</u>
		Note	2008
			2007
			Rupees in '000'
19.3 Reconciliation of number of ordinary shares of Rs 10 each			
		At beginning of the year	450,000,000
		Add: Issued during the year	
		- for cash	–
		- as bonus shares	50,000,000
		At end of the year	<u>500,000,000</u>
			<u>300,000,000</u>
			<u>150,000,000</u>
			<u>–</u>
			<u>450,000,000</u>
19.4 The holding company Arif Habib Securities Limited (AHSL) and associated undertaking Rupali Bank Bangladesh held 297,034,854 (59.41%) and 32,777,450 (6.56%) [2007: 387,082,292 (86.02%) and 29,500,000 (6.56%)] ordinary shares respectively.			
		A consortium of investors led by Mr. Husain Lawai has entered into an agreement with Arif Habib Securities Limited (the holding company) and the Bank on December 24, 2008 for acquisition of the shareholdings in the Bank upto 60% by way of increase in the existing paid up capital with the amount of investment subject to the approval of SBP.	

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008	2007
		Rupees in '000'	
20. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET			
Federal Government Securities			
Market Treasury Bills		(8,158)	(7,087)
Pakistan Investment Bonds		(74,473)	(3,156)
Fully paid-up shares / units / certificates:			
Term finance certificates		(7,648)	–
Listed companies shares		(379,992)	(16,956)
Open end mutual funds units		(1,591)	1,051
Closed end mutual funds units		(9,078)	–
Total deficit on revaluation of securities		(480,940)	(26,148)
Related deferred tax asset		168,329	3,585
		<u>(312,611)</u>	<u>(22,563)</u>
21. CONTINGENCIES AND COMMITMENTS			
21.1 Direct credit substitutes		–	–
21.2 Transaction-related contingent liabilities / commitments guarantees issued favouring			
Government		475,059	7,024
Banking companies and other financial institutions		6,550	–
Others		1,628,147	1,925
		<u>2,109,756</u>	<u>8,949</u>
21.3 Trade-related contingent liabilities			
Letter of credits		176,876	581,088
Acceptances		224,265	7,640
		<u>401,141</u>	<u>588,728</u>
21.4 Other contingencies - claims against bank not acknowledge as debt		83,903	83,903
21.5 Contingent asset			
There were no contingent assets as at December 31, 2008 (2007: Nil)			

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008	2007
		Rupees in '000'	
21.6 Commitments in respect of forward lending			
Forward call lending		–	–
Forward repurchase agreement lending		933,317	1,655,582
Commitments to extend credit		21,272,326	–
		<u>22,205,643</u>	<u>1,655,582</u>
21.7 Commitments in respect of forward foreign exchange contracts			
Purchase		993,085	30,990
Sale		–	–
		<u>993,085</u>	<u>30,990</u>
21.8 Commitments for the acquisition of operating fixed assets			
Civil works (for branches)		64,102	19,210
Acquisition of computer software		–	–
		<u>64,102</u>	<u>19,210</u>
22. MARK-UP / RETURN / INTEREST EARNED			
On Loans and advances to:			
Customers		1,836,752	249,547
Financial Institutions		4,550	13,346
On Investments in:			
Held for trading securities		–	–
Available for sale securities		492,316	241,437
On deposits with financial institutions		–	11,087
On lending to financial institutions		138,364	102,437
		<u>2,471,982</u>	<u>617,854</u>
23. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits and other accounts		1,307,536	225,528
Securities sold under repurchase agreements		90,661	25,474
Other short term borrowings		187,678	1,336
		<u>1,585,875</u>	<u>252,338</u>
24. GAIN ON SALE OF SECURITIES - Net			
Federal Government Securities			
- Market Treasury Bills		–	(10)
- Pakistan Investment Bonds		(19,503)	1,473
Listed shares		104,397	208,111
Mutual funds Units / Certificates		(72,126)	86,098
Term Finance Certificates		(7,457)	–
		<u>5,311</u>	<u>295,672</u>

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008	2007
Rupees in '000'			
25. OTHER INCOME			
Bad debts recovered		–	9,807
Gain on disposal of operating fixed assets		845	847
Others		3,580	2,576
		<u>4,425</u>	<u>13,230</u>
26. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		317,609	178,402
Charge for defined benefit plan - gratuity	32.5	9,625	4,092
Contribution to defined contribution scheme		8,884	2,937
Non-executive directors' fees, allowances and other expenses		210	270
Brokerage and commission		10,950	17,876
Rent, taxes, insurance and electricity, etc.		112,961	46,876
Legal and professional charges		8,867	4,126
Fees and subscription		34,587	13,105
Repairs and maintenance		14,422	6,737
Communications		19,130	10,804
Stationery and printing		9,296	5,209
Advertisement and publicity		45,224	19,475
Traveling and conveyance		23,755	13,815
Education and training		638	1,005
Entertainment		5,914	3,223
Security services and charges		10,584	4,748
Auditors' remuneration	26.1	1,028	800
Depreciation	12.2	46,793	34,383
Amortization	12.3 & 14.1	26,072	11,209
Impairment of goodwill	12.4	60,794	–
Donation		–	–
Others		7,399	4,437
		<u>774,742</u>	<u>383,529</u>
26.1 Auditors' remuneration			
Audit fee		550	500
Tax services		130	195
Certifications, half yearly review and sundry advisory services		225	105
Out of pocket expenses		123	–
		<u>1,028</u>	<u>800</u>

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008	2007
Rupees in '000'			
27. OTHER CHARGES			
Penalties imposed by State Bank of Pakistan		222	320
Bank charges		1,995	653
		<u>2,217</u>	<u>973</u>
28. TAXATION			
28.1 For the year			
Current		84,254	11,982
Deferred		(236,015)	83,677
		<u>(151,761)</u>	<u>95,659</u>
For prior year			
Current		(4,105)	42,013
Deferred		–	(40,919)
		<u>(4,105)</u>	<u>1,094</u>
		<u>(155,866)</u>	<u>96,753</u>
28.2 Relationship between tax expense and accounting (loss) / profit			
(Loss) / profit before taxation		<u>(347,274)</u>	<u>326,918</u>
Tax at the applicable rate of 35 percent (2007: 35 percent)		<u>(121,546)</u>	<u>114,421</u>
Effect of:			
Income exempt from tax		–	(102,973)
Prior year tax provision		(4,105)	42,013
Others		(30,215)	43,292
Tax (reversal) / expense for the year		<u>(155,866)</u>	<u>96,753</u>
29. (LOSS) / EARNINGS PER SHARE - BASIC AND DILUTED			
(Loss) / profit for the year		<u>(191,408)</u>	<u>230,165</u>
			No. of Shares
Weighted average number of ordinary shares outstanding during the year		<u>500,000,000</u>	<u>401,780,822</u>
			Rupee
(Loss) / earnings per share - Basic and diluted		<u>(0.38)</u>	<u>0.57</u>

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008	2007
Rupees in '000'			
30. CASH AND CASH EQUIVALENTS			
Cash and balance with treasury banks	7	1,349,649	753,845
Balance with other banks	8	65,580	52,551
		<u>1,415,229</u>	<u>806,396</u>
31. STAFF STRENGTH			
Permanent		375	222
Contractual basis		166	97
Bank's own staff strength at the end of the year		<u>541</u>	<u>319</u>
Outsourced		–	–
Total staff strength		<u>541</u>	<u>319</u>

32. DEFINED BENEFIT SCHEME

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

32.2 Principal actuarial assumptions

The actuarial valuation of the funded scheme is carried out periodically. The actuarial valuation was carried out as at December 31, 2008 using "Projected Unit Credit Method". The following significant assumptions were used for actuarial valuation of the scheme:

	2008	2007
Discount rate	15%	10%
Expected rate of salary increase	15%	10%

	Note	2008	2007
Rupees in '000'			
32.3 Reconciliation of liability recognised by the Bank			
Present value of defined benefit obligations		15,003	5,561
Net actuarial gains or losses not recognized		(596)	(608)
Past service cost not yet recognized		–	(171)
Any amount not recognized as an asset		–	–
		<u>14,407</u>	<u>4,782</u>

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008	2007
Rupees in '000'			
32.4 Movement in liability recognised by the Bank			
Opening balance		4,782	690
Charge for the year		9,625	4,092
Closing balance		<u>14,407</u>	<u>4,782</u>
32.5 Charge for the year			
Current service cost		8,894	3,803
Interest cost		556	116
Actuarial gains and losses		4	1
Past service cost		171	172
		<u>9,625</u>	<u>4,092</u>

The expected future charge for defined benefit plan is Rs.12.275 million (2007: Rs. 6.73 million) according to actuarial recommendation.

33. DEFINED CONTRIBUTION PLAN

The Bank operates a provident fund scheme administered by the Board of Trustees for all its permanent employees. Equal monthly contributions are made both by the Bank and employees to the fund @ 8.33% of basic salary. During the year employees made a contribution of Rs. 8.884 million (2007: Rs. 2.937 million) to the fund. The Bank has also made a contribution of equal amount of the fund.

34. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2008	2007	2008	2007	2008	2007
Rupees in '000'						
Fees	–	–	210	270	–	–
Managerial remuneration	6,469	4,318	–	–	72,511	54,412
Charge for defined benefit plan	–	393	–	–	–	–
Charge for defined contribution plan	219	260	–	–	5,889	4,108
Rent and house maintenance	1,171	1,889	–	–	32,630	23,776
Utilities	260	420	–	–	7,251	5,283
Medical	260	420	–	–	7,251	5,283
Conveyance	388	323	–	–	11,924	7,694
Car allowance	500	–	–	–	17,225	2,055
Bonus	440	920	–	–	11,500	8,798
Payment to Ex-president for past services	29,120	–	–	–	–	–
	<u>38,827</u>	<u>8,943</u>	<u>210</u>	<u>270</u>	<u>166,181</u>	<u>111,409</u>
Number of person(s)	2	1	2	2	71	85

Notes to the Financial Statements

For the year ended December 31, 2008

34.1 Executive means employee, other than the Chief Executive and directors, whose basic salary exceeds five hundred thousand rupees in a financial year. The Chief Executive and certain executives are provided with free use of Bank company maintained cars in accordance with their entitlements.

34.2 Number of persons include the outgoing President, Director(s) and executives.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

35.1 On-balance sheet financial instruments

	Book value	Fair value	Book value	Fair value
	Rupees in '000'			
Assets				
Cash balances with treasury banks	1,349,649	1,349,649	753,845	753,845
Balances with other banks	65,580	65,580	52,551	52,551
Lending to financial institutions	200,000	200,000	2,855,582	2,855,582
Investments	5,094,613	5,094,613	5,408,425	5,408,425
Advances	15,758,678	15,758,678	8,029,248	8,029,248
Other assets	800,063	800,063	345,717	345,717
	<u>23,268,583</u>	<u>23,268,583</u>	<u>17,445,368</u>	<u>17,445,368</u>
Liabilities				
Bills payable	75,963	75,963	384,179	384,179
Borrowings from financial institutions	1,869,940	1,869,940	1,748,603	1,748,603
Deposits and other accounts	16,616,466	16,616,466	9,464,785	9,464,785
Other liabilities	406,641	406,641	172,679	172,679
	<u>18,969,010</u>	<u>18,969,010</u>	<u>11,770,246</u>	<u>11,770,246</u>

Notes to the Financial Statements

For the year ended December 31, 2008

36. 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	Total
	Rupees in '000'					
2008						
Total income	47,108	717,811	1,423,230	449,493	1,120	2,638,762
Total expenses	19,735	362,221	2,486,237	117,606	237	2,986,036
Net income / (loss) before tax	<u>27,373</u>	<u>355,590</u>	<u>(1,063,007)</u>	<u>331,887</u>	<u>883</u>	<u>(347,274)</u>
Segment assets (Gross)	910,742	7,139,971	17,055,891	471,888	360	25,578,852
Segment non performing loans	13	7,658	2,578,136	444	-	2,586,251
Segment provision	13	7,658	767,920	444	-	776,035
Segment assets (Net)	910,729	7,132,313	16,287,971	471,444	360	24,802,817
Segment liabilities	2,020	1,600,636	16,545,678	758,351	76,012	18,982,697
Segment return on assets (ROA) (%)	3.01%	4.99%	(6.53)%	70.40%	245.28%	
Segment cost of funds (%)	2.17%	5.08%	15.26%	24.95%	65.83%	
2007						
Total income	-	643,109	244,276	73,805	2,568	963,758
Total expenses	15,240	192,787	405,902	22,372	539	636,840
Net income before tax	<u>(15,240)</u>	<u>450,322</u>	<u>(161,626)</u>	<u>51,433</u>	<u>2,029</u>	<u>326,918</u>
Segment assets (Gross)	-	9,479,929	8,263,036	529,763	891	18,273,619
Segment non performing loans	-	-	128,461	-	-	128,461
Segment provision	-	-	152,833	-	-	152,833
Segment assets (Net)	-	9,479,929	8,110,203	529,763	891	18,120,786
Segment liabilities	-	1,862,099	9,569,502	3,003	384,606	11,819,210
Segment return on net assets (ROA) (%)	-	4.75%	(1.99)%	9.71%	227.72%	
Segment cost of funds (%)	-	2.03%	5.00%	4.22%	60.49%	

For segmental reporting purpose, unallocated items of income and expense are allocated to the above segments in proportion to segment's revenue.

37. TRUST ACTIVITIES

The Bank is not engaged in trust activities.

38. RELATED PARTY TRANSACTIONS

Related parties comprise associated undertakings, majority shareholders, retirement benefit plans, directors and key management personnel of the bank. These transactions were made on substantially the same commercial terms as those prevailing at the time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. There were no transactions with the key management personnel other than those under the terms of their employment.

Notes to the Financial Statements

For the year ended December 31, 2008

Details of transaction with the related parties, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2008		2007	
	Key management personnel	Associates / related parties	Key management personnel	Associates / related parties
	Rupees in '000'			
Advances				
Balance at beginning of the year	14,237	1,290,921	3,611	380,050
Sanctioned / granted during the year	117,141	6,253,956	13,751	1,470,025
Payment received during the year	(27,684)	(6,614,419)	(3,125)	(559,154)
Balance at end of the year	<u>103,694</u>	<u>930,458</u>	<u>14,237</u>	<u>1,290,921</u>
Deposits				
Balance at beginning of the year	404,049	207,098	545	522,692
Deposits during the year	37,327,191	313,227,211	12,872,694	21,186,991
Withdrawal during the year	(37,727,306)	(311,944,331)	(12,469,190)	(21,502,585)
Balance at end of the year	<u>3,934</u>	<u>1,489,978</u>	<u>404,049</u>	<u>207,098</u>
Investment in shares / TFC's				
Thatta Cement Company Limited	–	112,771	–	235,000
Advance for renovation and refurnishment	–	152,479	–	50,000
Bills payable	–	5,625	–	–
Guarantees, letters of credits and acceptances	–	164,775	–	–
Contribution paid to the provident fund	–	8,884	–	2,937
Other receivable	–	898	–	123
Other payable	–	–	–	3,250
Mark up payable	22	8,209	449	5,462
Markup receivable	–	38,202	–	13,199

Notes to the Financial Statements

For the year ended December 31, 2008

	2008		2007	
	Key management personnel	Associates / related parties	Key management personnel	Associates / related parties
	Rupees in '000			
Profit / expense for the year				
Brokerage expenses paid - CFS	–	1,283	–	9,331
Brokerage expenses paid - equity securities	–	7,799	–	6,540
Rent Expense	–	7,800	–	3,250
Mark up earned	3,674	139,386	276	39,775
Capital gain earned	–	59,755	–	26,410
Dividend income	–	65,064	–	–
Capital / (loss)	–	7,203	–	–
Mark up expensed	36,490	221,848	1,212	27,262
Mark up paid	36,652	219,366	1,144	24,910
Common expenses	–	1,268	–	–
Proceed from disposal of operating fixed assets	569	38,785	20,455	798

39. CAPITAL ADEQUACY

39.1 Scope Of Applications

The Basel-II framework is applicable to the Bank in assessment of its capital adequacy requirement.

39.2 Capital Structure

Banks regulatory capital is analyzed into two tiers:

Tier 1 capital, which includes fully issued, subscribed and paid up capital, balance in share premium account, reserve for bonus issue, general reserves as per the financial statements and net un-appropriated profits, etc after deductions for investments in the equity of subsidiary companies engaged in banking and financial activities, if any and deficit on revaluation of available for sale investments and goodwill (including intangible assets).

Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25% of risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 45% of the balance in the related revaluation reserves) and subordinated debt (up to a maximum of 50%).

Tier 3 Capital has also been prescribed by the SBP for managing market risk; however the Bank does not have any Tier 3 capital.

Notes to the Financial Statements

For the year ended December 31, 2008

The required capital is achieved by the Bank through:

- enhancement in the risk profile of asset mix at the existing volume level;
- ensuring better recovery management; and
- maintain acceptable profit margins.

Detail of the Bank's eligible capital (on an unconsolidated basis) is as follows:

	Rupees in '000'
Tier I Capital	
Shareholders equity /Assigned Capital	5,000,000
Share premium	1,000,000
Reserves	314,828
Unappropriated / unremitted profits (Net of Losses)	(191,408)
Less: Intangible assets	(72,377)
Deficit on revaluation of investment in available for sale securities	(480,940)
Total Tier I Capital	5,570,103
Tier II Capital	
Subordinated Debt (upto 50% of total Tier 1 Capital)	-
General Provisions subject to 1.25% of Total Risk Weighted Assets	-
Revaluation Reserve (upto 45%)	-
Total Tier II Capital	-
Eligible Tier III Capital	-
Total Regulatory Capital Base	<u>5,570,103</u>

39.3 Capital Adequacy

Objectives of Managing Capital

Capital Management aims to ensure that there is sufficient capital to meet the capital requirements of the Bank as determined by the underlying business strategy and the minimum requirements of the SBP. The Capital Management process is governed by the Bank's Asset & Liability Committee (ALCO). ALCO is responsible for managing Bank's capital position vis-à-vis internal as well as regulatory requirements. ALCO also reviews the volume and mix of the Bank's assets, liabilities and funding sources in light of liquidity, capital, risk and profitability considerations.

Notes to the Financial Statements

For the year ended December 31, 2008

Bank's capital management seeks:

- to comply with the capital requirements set by the regulators and comparable to the peers;
- to actively manage the supply of capital costs and increase capital velocity;
- to increase strategic and tactical flexibility in the deployment of capital to allow for the timely reallocation of capital;
- to improve the liquidity of the Bank's assets to allow for an optimal deployment of the Bank's resources;
- to protect the Bank against unexpected events and maintain strong ratings;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide adequate return to shareholders;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- to achieve low overall cost of capital with appropriate mix of capital elements.

Externally Imposed Capital Requirements

In order to strengthen the solvency of Banks / Development Financial Institutions (DFI), SBP through its BSD Circular No. 19 of 2008 dated September 05, 2008 has asked the Banks to raise their minimum paid up capital to Rs. 5 billion by the end of financial year 2008.

Capital requirement of Rs. 5 billion has to be raised to Rs. 6 billion by the end of financial year 2009. The Banks are required to increase their minimum paid up capital to Rs. 23 billion in a phased manner by the end of financial year 2013. Further, SBP through its BSD Circular No. 30 dated November 25, 2008 has asked Banks to achieve the minimum Capital Adequacy Ratio (CAR) of 9% latest by December 31, 2008. The paid up capital and CAR of the Bank stands at Rs. 6.315 billion and 21.76% of its risk weighted exposure as at December 31, 2008.

The Bank has complied with all externally imposed capital requirements throughout the period.

Notes to the Financial Statements

For the year ended December 31, 2008

	2008	
	Capital Requirement	Risk Weighted Assets
	Rupees in '000'	
Credit Risk		
Portfolios subject to standardized approach (Simple or Comprehensive)		
Corporate portfolio. etc.	1,822,716	20,252,401
Sovereign	-	-
Retail	57,225	635,831
Financial Institutions	4,797	53,296
Others	143,628	1,595,863
Portfolios subject to Internal Rating Based		
Corporate	-	-
Sovereign	-	-
Retail	-	-
Securitization etc.	-	-
Equity Exposure Risk in the Banking Book		
Equity portfolio subject to market-based approaches		
Under simple risk weight method	-	-
Under Internal models approach	-	-
Equity portfolio subject to PD / LGD		
Market Risk		
Capital Requirement for portfolios subject to		
Standardized Approach		
Interest rate risk	143,649	1,795,613
Equity position risk etc.	81,937	1,024,213
Internal Models Approach		
Interest rate risk	-	-
Foreign exchange risk etc.	-	-
Operational Risk	108,345	1,354,318
Capital Requirement for operational risks	2,362,297	26,711,535
Capital Adequacy Ratio		
Total eligible regulatory capital held		5,570,103
Total Risk Weighted Assets		26,711,535
Capital Adequacy Ratio (a) / (b)		20.85%

Notes to the Financial Statements

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40. RISK MANAGEMENT

The acceptance and management of financial risk is inherent to banking business activities. The Bank is exposed to numerous risks in pursuit of its business objectives. The core risks are Credit, Market and Liquidity risks. These risks arise directly through the Bank's commercial activities whilst Operational and Compliance / Legal / Regulatory risks are normal consequences of any business undertaking. We believe a sound Risk Management Framework provides principles for identifying, accessing and monitoring risk within the Bank. The Framework specifies the key elements of the risk management process in order to maximise opportunities, to minimise adversity and to achieve improved outcomes and outputs based on informed decision making.

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

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

Risk Responsibilities

The Board of Directors is accountable for overall supervision of the risk management process. This is discharged by distributing responsibilities at Board level for their management and determining the manner in which risk authorities are set. The Board is also responsible for approval of all risk policies and ensuring that these are properly implemented. Further, the Board shall also seek appointment of senior management personnel capable of managing the risk activities conducted by the Bank.

The Board of Directors approves the policies proposed by risk management committee of the Bank which discharge various responsibilities assigned to it by the Board.

The Risk Management is headed by a Chief Risk Officer responsible to set-up and implement the Framework of the Bank.

Notes to the Financial Statements

For the year ended December 31, 2008

Risk management Group Organization

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

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

40.1 Credit Risk Management

Credit risk is the risk that one party to financial instrument fails to discharge an obligation and cause other party to incur a financial loss. The Bank is exposed to credit risk through its Lending and investment activities as well as in cases where it acts as an intermediary of behalf of customers or other third parties or issues guarantees. The following objectives govern the credit policy of the Bank:

- The Bank complies with the requirements of Prudential Regulations prescribed by SBP.
- Facilities provided by the Bank will be well diversified into different sectors as well as financing in different consumer products to achieve a strong market position and adequate return on capital.
- Return commensurate with the risk.
- Lending decision is based on a full appreciation for the risks inherent in the transaction and within the approved limits by the Board of Directors.
- Risk is related correctly and risk changes are identified promptly and remedial action are 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 year ended December 31, 2008

- 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.

The Bank creates loan loss provisions against non-performing commercial advances in accordance with Prudential Regulations issued by SBP. Please refer note 11.4.1 for reconciliation in loan loss provision.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be affected in a similar way by changes in economic or other conditions. As part of managing concentration risk, sector risk is managed on a portfolio basis. Please refer to note 40.1.1.1 for segment reporting.

As a matter of paramount importance the affairs of the customers enjoying credit facilities are carefully reviewed and reconsidered periodically. The facility review provides a timely signal of unfavourable developments in clients' affairs and warns of dangers before the bank is faced with undesirable positions. For this reason, all facilities of a continuing character are only approved after the next review date, unless otherwise agreed.

Credit administration tasks include the following:

- Maintain Credit, Custody and Security documentation files,
- Register Security and Collateral documents,
- Tracking of covenants,
- Administer facility fees/receipts/payments,
- Load limits into credit system, and
- Satisfy internal and external risk reporting requirements.

It is the Bank's policy to reduce or mitigate credit risk on credit facilities or exposure, as much as possible, in a given commercial environment by securing credit facilities or exposure with collateral. To correctly assess the extent to which the collateral mitigates the credit risk the collateral must be valued according to a specified valuation method and documented and monitored. The legal mechanism by which collateral is pledged and the Bank's procedures ensures that the Bank has clear rights over the collateral and may liquidate, retain or take legal possession of it in a timely manner in the event of the default, insolvency or bankruptcy or otherwise defined credit event set out in the transaction documentation, of the counterparty and, where applicable, of the custodian holding the collateral.

Notes to the Financial Statements

For the year ended December 31, 2008

40.1.1 Segmental information

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

40.1.1.1 Segments by class of business

	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000'	Percent	Rupees in '000'	Percent	Rupees in '000'	Percent
2008						
Agriculture, Forestry, Hunting and Fishing	–	–	154	–	21,000	0.08%
Mining and Quarrying	350,000	2.12%	924,333	5.56%	–	–
Textile	1,170,170	7.09%	28,162	0.17%	700,756	2.71%
Chemical and Pharmaceuticals	654,868	3.97%	45,979	0.28%	968,706	3.75%
Cement	716,094	4.34%	2,194	0.01%	236,906	0.92%
Sugar	134,845	0.82%	436	–	155	–
Footwear and Leather garments	4,990	0.03%	4,817	0.03%	91,448	0.35%
Automobile and transportation equipment	51,179	0.31%	9	–	66,099	0.26%
Electronic and electrical appliances	187,140	1.13%	1,670	0.01%	304	0.00%
Construction	1,284,452	7.78%	232,097	1.40%	3,783,170	14.63%
Power (electricity), Gas, Water, Sanitary	1,968,855	11.92%	115,428	0.69%	3,815,368	14.76%
Wholesale and Retail Trade	1,420,832	8.61%	2,783	0.02%	–	–
Exports/Imports	58,460	0.35%	17,622	0.11%	–	–
Transport, Storage and Communication	500,000	3.03%	1,440,707	8.67%	319,985	1.24%
Financial	4,577,598	27.73%	1,682,737	10.13%	12,528,635	48.45%
Insurance	–	–	–	–	–	–
Services	466,928	2.83%	250,609	1.51%	29,813	0.12%
Individuals	1,868,767	11.32%	3,343,484	20.12%	1,045,033	4.04%
Others	1,095,163	6.63%	8,523,244	51.29%	2,249,844	8.70%
	<u>16,510,341</u>	<u>100.00%</u>	<u>16,616,466</u>	<u>100.00%</u>	<u>25,857,222</u>	<u>100.00%</u>
2007						
Agriculture, Forestry, Hunting and Fishing	–	–	89	–	–	–
Textile	220,253	2.70%	21,963	0.23%	108,420	4.54%
Chemical and Pharmaceuticals	214,650	2.63%	20,652	0.22%	467,235	19.57%
Cement	295,940	3.63%	533	0.01%	12,143	0.51%
Sugar	–	–	190	–	–	0.00%
Footwear and Leather garments	–	–	171	–	–	0.00%
Automobile and transportation equipment	10,337	0.13%	1,868	0.02%	–	0.00%
Electronic and electrical appliances	–	–	–	–	1,645	0.07%
Construction	117,348	1.44%	197,680	2.09%	19,210	0.80%
Power (electricity), Gas, Water, Sanitary	–	–	6,440	0.07%	–	0.00%
Wholesale and Retail Trade	19,968	0.24%	3,180	0.03%	–	0.00%
Exports/Imports	–	–	8,322	0.09%	–	0.00%
Transport, Storage and Communication	–	–	2,840	0.03%	84,183	3.53%
Financial	5,470,353	67.06%	3,492,824	36.90%	30,990	1.30%
Services	1,111	0.01%	146,986	1.55%	–	0.00%
Individuals	1,752,641	21.48%	1,668,417	17.63%	–	0.00%
Others	55,108	0.68%	3,892,630	41.13%	1,663,535	69.68%
	<u>8,157,709</u>	<u>100.00%</u>	<u>9,464,785</u>	<u>100.00%</u>	<u>2,387,361</u>	<u>100.00%</u>

Notes to the Financial Statements

For the year ended December 31, 2008

40.1.1.2 Segment by sector

	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000'	Percent	Rupees in '000'	Percent	Rupees in '000'	Percent
2008						
Public/ Government	895,881	5.43%	3,571,425	21.49%	895,881	3.46%
Private	15,614,460	94.57%	13,045,041	78.51%	24,961,341	96.54%
	<u>16,510,341</u>	<u>100.00%</u>	<u>16,616,466</u>	<u>100.00%</u>	<u>25,857,222</u>	<u>100.00%</u>
2007						
Public/ Government	1,000,000	12.26%	28,651	0.30%	–	–
Private	7,157,709	87.74%	9,436,134	99.70%	2,387,361	100.00%
	<u>8,157,709</u>	<u>100.00%</u>	<u>9,464,785</u>	<u>100.00%</u>	<u>2,387,361</u>	<u>100.00%</u>

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

	2008		2007	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	Rupees in '000'			
Textile	207,615	158,075	108,534	108,534
Chemical and Pharmaceuticals	19,030	19,030	19,030	19,030
Automobile and transportation equipment	278	278	278	278
Construction	225,000	26,546	–	–
Wholesale and retail trade	241,255	58,842	–	–
Financial	1,318,744	357,185	–	–
Individuals	681,113	131,088	–	–
Others	619	619	619	619
	<u>2,693,654</u>	<u>751,663</u>	<u>128,461</u>	<u>128,461</u>

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

Public/ Government	–	–	–	–
Private	2,693,654	751,663	128,461	128,461
	<u>2,693,654</u>	<u>751,663</u>	<u>128,461</u>	<u>128,461</u>

	(Loss) / Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000'			

40.1.1.5 Geographical Segment Analysis

2008				
Pakistan	(347,274)	24,802,817	5,820,120	25,857,630
2007				
Pakistan	326,918	18,120,786	6,301,576	2,387,361

Total assets employed include intra group items of Rs. 1,490.92 million (2007: Rs. 1,805.86 million)

Notes to the Financial Statements

For the year ended December 31, 2008

40.2 Credit Risk - General Disclosure Basel II Specific

40.2.1 Credit Risk - General Disclosures

The Bank is following standardized approach for all its Credit Risk Exposures.

40.2.1 Credit Risk: Disclosures for portfolio subject to Standardized Approach and supervisory risk weights in IRB approach Basel II specific

Under standardized approach, the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. In this connection, the Bank utilizes the credit ratings assigned by ECAIs and has recognized agencies such as PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company – Vital Information Systems), Fitch, Moody's and Standard & Poors which are also recognized by the SBP. The Bank also utilizes rating scores of Export Credit Agencies (ECA) participating in the "Arrangement on Officially Supported Export Credits".

The Standardised Approach to credit risk sets out fixed risk weights corresponding, where appropriate, to external credit assessment levels or for unrated claims.

Selection of ECAIs

The Bank selects particular ECAI(s) for each type of claim. Amongst the ECAIs that have been recognised as eligible by SBP, the following are being used against each respective claim type.

Sovereigns Exposures: For foreign currency claims on sovereigns, the Bank uses country risk scores of **Export Credit Agencies (ECA) participating in the "Arrangement on Officially Supported Export Credits" available on OECD's website.**

Exposures to Multilateral Development Banks (MDBs): For exposures on MDBs not eligible for a 0% risk weight, ratings of Moody's, S&P and Fitch are being used to calculate risk-weighted assets.

Exposures to Public Sector Entities (PSEs): For PSE exposures, ratings of PACRA and JCR-VIS are used to arrive at risk weights.

Bank Exposures: For foreign banks (i.e., incorporated outside Pakistan), ratings of Moody's, S&P and Fitch is being used to arrive at risk weights. However, for local banks (i.e., incorporated in Pakistan) ratings of PACRA and JCR-VIS are used.

Corporate Exposures: Ratings assigned by PACRA and JCR-VIS are used for claims on Corporates **(excluding equity exposures).**

Notes to the Financial Statements

For the year ended December 31, 2008

Use of ECAI Ratings

The Bank prefers solicited ratings over unsolicited ratings at all times, owing to the greater degree of accuracy (in general) associated with solicited ratings as compared to unsolicited ratings. Unsolicited ratings may only be used in cases where a solicited rating is not available.

Mapping to SBP Rating Grades

The selected final ratings (after application of the principles stated above) for all exposures need to be translated to the standard rating grades given by the SBP. In this regard, the mapping tables to be used for converting ECAI ratings to SBP rating grades are given below:

Long – Term Rating Grades Mapping

SBP Rating grade	PACRA	JCR-VIS	ECA Scores
1	AAA AA+ AA AA-	AAA AA+ AA AA-	0 1
2	A+ A A-	A+ A A-	2
3	BBB+ BBB BBB-	BBB+ BBB BBB-	3
4	BB+ BB BB-	BB+ BB BB-	4
5	B+ B B-	B+ B B-	5 6
6	CCC CC C	CCC CC C D	7

Short – Term Rating Grades Mapping

SBP Rating grade	PACRA	JCR-VIS
S1	A-1+ A-1	A-1+ A-1
S2	A-2	A-2
S3	A-3	A-3
S4	Others	Others

Types of exposures and ECAI's used

Exposures	JCR-VIS	PACRA
Corporate	Yes	Yes
Banks	Yes	Yes
Sovereigns	–	–
SME's	–	–
Securitized	–	–
Others	Yes	Yes

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Credit exposures subject to Standardized Approach

Exposure	2008			
	Rating category	Amount outstanding Rupees in '000'	Deduction CRM	Net Amount
Corporate	20%	671,434	–	671,434
	50%	803,141	–	803,141
	100%	332,193	–	332,193
	unrated	10,837,114	(1,026,727)	9,810,387
Retail	75%	803,242	(34,129)	769,113
Past due Loan	150%	467,412	–	467,412
	100%	1,593,195	–	1,593,195
	50%	633,049	–	633,049
Bank	20%	216,442	–	216,442
	unrated	50,038	–	50,038
Sovereign etc.	20%	2,072,696	–	2,072,696
Others	0%	341,278	–	341,278
	100%	1,550,989	–	1,550,989
		<u>20,372,223</u>	<u>(1,060,856)</u>	<u>19,311,367</u>

40.2.2.2 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank has adopted the Simple Approach of Credit Risk Mitigation for the Banking Book. Since, the trading book of the Bank only comprises equity investments; therefore no Credit Risk Mitigation benefit is taken in the trading book. In instances where the Bank's exposure on an obligor is secured by collateral that conforms with the eligibility criteria under the Simple Approach of CRM, then the Bank reduces its exposure under that particular transaction by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement i.e. risk weight of the collateral instrument securing the exposure is substituted for the risk weight of the counter party.

The Bank accepts cash, lien on deposits, government securities and eligible guarantees etc. under the simple approach of Credit Risk Mitigation. The Bank has in place detailed guidelines with respect to valuation and management of various collateral types. In order to obtain the credit risk mitigation benefit, the Bank uses realizable value of eligible collaterals to the extent of outstanding exposure.

Since no specific asset is available by way of security in the context of unfunded credit protection, the creditworthiness and reliability of the provider and the validity and enforceability of that party's obligations is of paramount importance. Therefore, unfunded credit protection is only "eligible" if it is provided by an appropriate counterparty which may include National Government, Central Bank etc.

Notes to the Financial Statements

For the year ended December 31, 2008

40.3 EQUITY POSITION RISK IN THE BANKING BOOK

The Bank makes investment for variety of purposes. Some of the investment positions of equity holding are made for revenue generation as part of strategic initiatives, while other equity holdings are held to earn capital gain to support the Bank's business activities.

Classification of investments

Under SBP's directives, equity investment may be classified as "Held For Trading (HFT)", "Available for Sale (AFS)" or "Investment in Subsidiaries and Associates". Some of the equity investments are listed and traded in public through stock exchanges, while other investments are unlisted and therefore illiquid.

Policies, valuation and accounting of equity investments

In accordance with the requirements of the SBP, quoted securities are carried at market value whereas investments in associates are accounted for in accordance with the directive of SBP.

The unrealized surplus / (deficit) arising on revaluation of the bank's held for trading investment portfolio is taken to the profit and loss account. The surplus / (deficit) arising on revaluation of quoted securities classified as available for sale 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 realised 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, if any. Provision for diminution in the value of securities is made after considering impairment, if any, in their value.

Profit and loss on sale of investments is included in income currently.

Composition of equity investments

	Held for Trading	Available for Sale Rupees in '000'	Investment in Associates
Equity Investments - Publicly Traded	–	253,767	112,773
Mutual Funds	–	145,560	
Total Value	<u>–</u>	<u>399,327</u>	<u>112,773</u>

The cumulative unrealized loss of Rs. 389.307 million was recognized in the balance sheet in respect of "AFS" securities.

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40.4 Market Risk

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

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

40.4.1 Interest Rate Risk

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

40.4.2 Foreign Exchange Risk

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

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

Notes to the Financial Statements

For the year ended December 31, 2008

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 outstanding	Off-balance Sheet Items	Net Foreign Currency Exposure
	Rupees in '000'			
2008				
Pakistan rupee	24,371,591	17,554,764	990,985	7,807,812
United States dollar	419,018	1,420,652	(993,085)	(1,994,719)
Great Britain pound	2,466	1,226	–	1,241
Deutsche mark	–	–	–	–
Japanese yen	648	–	–	648
Euro	7,969	6,055	2,100	4,015
Other currencies	1,123	–	–	1,123
	<u>24,802,817</u>	<u>18,982,697</u>	<u>–</u>	<u>5,820,120</u>
2007				
Pakistan rupee	18,070,883	11,757,688	(1,777,928)	4,535,267
United States dollar	33,458	56,983	(387,123)	(410,648)
Great Britain pound	3,644	602	(10,288)	(7,246)
Deutsche mark	–	–	–	–
Japanese yen	6,823	–	(44,861)	(38,038)
Euro	4,813	3,937	(96,083)	(95,207)
Other currencies	1,165	–	(71,078)	(69,913)
	<u>18,120,786</u>	<u>11,819,210</u>	<u>(2,387,361)</u>	<u>3,914,215</u>

40.4.3 Equity Position Risk

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

Notes to the Financial Statements

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40.4.4 Mismatch of Interest Rate Sensitive Assets and Liabilities

		2008			
		Exposed to Yield / Interest risk			
Effective Yield/ Interest rate	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	
		Rupees in '000'			
On-balance sheet financial instruments					
Assets					
Cash and balances with treasury banks	0.9% to 3.60%	1,349,649	233,462	-	-
Balances with other banks	-	65,580	-	-	-
Lending to financial institutions	15%	200,000	200,000	-	-
Investments	8.0% to 16.88%	5,094,613	-	2,107,342	202,813
Advances	5.84% to 20.7%	15,758,678	11,081,770	236,154	448,249
Other assets		800,063	-	-	-
		23,268,583	11,515,232	2,343,496	651,062
Liabilities					
Bills payable		75,963	-	-	-
Borrowings	6.5% to 15%	1,869,940	1,566,573	14,967	288,400
Deposits and other accounts	1.75% to 19.50%	16,616,466	8,198,474	1,795,198	1,724,829
Other liabilities		406,641	-	-	-
		18,969,010	9,765,047	1,810,165	2,013,229
On-balance sheet gap		4,299,573	1,750,185	533,332	(1,362,167)
Off-balance sheet financial instruments					
Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.)	14% to 17%	22,205,643	933,317	-	-
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)	14.9% to 15%	1,565,861	1,565,861	-	-
Off-balance sheet gap		20,639,782	(632,544)	-	-
Total Yield/Interest Risk Sensitivity Gap		24,939,355	1,117,641	533,332	(1,362,167)
Cumulative Yield/Interest Risk Sensitivity Gap		24,939,355	1,117,641	1,650,972	288,805

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							2008
							Exposed to Yield / Interest risk
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	bearing financial instruments	
Rupees in '000'							
-	-	-	-	-	-	-	1,116,187
-	-	-	-	-	-	-	65,580
-	-	-	-	-	-	-	-
119	619,987	639,987	509,514	502,751	-	-	512,100
341,794	621,625	695,382	1,096,341	1,067,806	138,972	-	30,585
-	-	-	-	-	-	-	800,063
341,913	1,241,612	1,335,369	1,605,855	1,570,557	138,972	-	2,524,515
-	-	-	-	-	-	-	75,963
-	-	-	-	-	-	-	-
3,596,561	1,700	32,286	88,392	-	-	-	1,179,026
-	-	-	-	-	-	-	406,641
3,596,561	1,700	32,286	88,392	-	-	-	1,661,630
(3,254,648)	1,239,912	1,303,083	1,517,463	1,570,557	138,972	-	862,885
-	-	-	-	-	-	-	21,272,326
-	-	-	-	-	-	-	-
(3,254,648)	1,239,912	1,303,083	1,517,463	1,570,557	138,972	-	862,885
(2,965,843)	(1,725,931)	(422,848)	1,094,615	2,665,172	2,804,144	-	3,667,029

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For the year ended December 31, 2008

		2007			
		Exposed to Yield / Interest risk			
Effective Yield/ Interest rate	Total	Upto 1	Over 1	Over 3	Rupees in '000'
		Month	to 3 Months	to 6 Months	
On-balance sheet financial instruments					
Assets					
Cash and balances with treasury banks	3.71% to 4.72%	753,845	10,536	-	-
Balances with other banks	-	52,551	-	-	-
Lending to financial institutions	9.5% to 12%	2,855,582	2,855,582	-	-
Investments	6.49% to 11.74%	5,408,425	99,545	786,613	1,222,466
Advances	5.0% to 16.0%	8,029,248	7,658,429	32,338	3,549
Other assets		345,717	-	-	-
		17,445,368	10,624,092	818,951	1,226,015
Liabilities					
Bills payable		384,179	-	-	-
Borrowings	10%	1,748,603	1,748,603	-	-
Deposits and other accounts	1.75% to 11.50%	9,464,785	5,960,780	289,464	423,585
Other liabilities		172,679	-	-	-
		11,770,246	7,709,383	289,464	423,585
On-balance sheet gap		5,675,122	2,914,709	529,487	802,430
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		5,675,122	2,914,709	529,487	802,430
Cumulative Yield/Interest Risk Sensitivity Gap		5,675,122	2,914,709	3,444,196	4,246,626

40.5 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.

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.

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

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		2007						bearing financial instruments
		Exposed to Yield / Interest risk						
	Rupees in '000'	Over 6 Months	Over 1	Over 2	Over 3	Over 5	Above	
		to 1 Year	to 2 Years	to 3 Years	to 5 Years	to 10 Years	10 Years	
		-	-	-	-	-	-	743,309
		-	-	-	-	-	-	52,551
		-	-	-	-	-	-	-
		522,718	-	-	594,292	752,015	-	1,430,776
		61,185	71,863	76,353	40,182	44,534	19,993	20,822
		-	-	-	-	-	-	345,717
		583,903	71,863	76,353	634,474	796,549	19,993	2,593,175
		-	-	-	-	-	-	384,179
		-	-	-	-	-	-	-
		20,160	-	-	280	-	-	2,770,516
		-	-	-	-	-	-	172,679
		20,160	-	-	280	-	-	3,327,374
		563,743	71,863	76,353	634,194	796,549	19,993	(734,199)
		-	-	-	-	-	-	-
		-	-	-	-	-	-	-
		563,743	71,863	76,353	634,194	796,549	19,993	(734,199)
		4,810,369	4,882,232	4,958,585	5,592,779	6,389,328	6,409,321	5,675,122

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40.5.1 Maturities of Assets and Liabilities

	Total	Upto 1 Month Rupees in '000'	Over 1 to 3 Months
2008			
Assets			
Cash and balances with treasury banks	1,349,649	1,349,649	-
Balances with other banks	65,580	65,580	-
Lending to financial institutions	200,000	200,000	-
Investments	5,094,613	512,100	2,107,342
Advances	15,758,678	11,083,818	237,775
Other assets	1,045,522	861,416	20,088
Operating fixed assets	927,882	374,992	10,597
Deferred tax assets	360,893	360,893	-
	<u>24,802,817</u>	<u>14,808,447</u>	<u>2,375,802</u>
Liabilities			
Bills payable	75,963	75,963	-
Borrowings	1,869,940	1,566,573	14,967
Deposits and other accounts	16,616,466	9,377,500	1,795,198
Sub-ordinated loans	-	-	-
Liabilities against assets subject to finance lease	-	-	-
Other liabilities	420,328	420,328	-
Deferred tax liabilities	-	-	-
	<u>18,982,697</u>	<u>11,440,364</u>	<u>1,810,165</u>
Net assets	<u>5,820,120</u>	<u>3,368,083</u>	<u>565,638</u>
Share capital	5,000,000		
Reserves	1,314,828		
Unappropriated profit	(182,097)		
Deficit on revaluation of assets - net	(312,611)		
	<u>5,820,120</u>		
2007			
Assets			
Cash and balances with treasury banks	753,845	753,845	-
Balances with other banks	52,551	52,551	-
Lending to financial institutions	2,855,582	2,855,582	-
Investments	5,408,425	1,530,321	786,613
Advances	8,029,248	7,659,638	33,245
Other assets	423,620	423,620	-
Operating fixed assets	597,515	71,840	8,690
Deferred tax assets	-	-	-
	<u>18,120,786</u>	<u>13,347,397</u>	<u>828,548</u>
Liabilities			
Bills payable	384,179	384,179	-
Borrowings	1,748,603	1,748,603	-
Deposits and other accounts	9,464,785	8,731,296	289,464
Sub-ordinated loans	-	-	-
Liabilities against assets subject to finance lease	-	-	-
Other liabilities	181,776	181,776	-
Deferred tax liabilities	39,867	-	-
	<u>11,819,210</u>	<u>11,036,757</u>	<u>289,464</u>
Net assets	<u>6,301,576</u>	<u>2,310,640</u>	<u>539,084</u>
Share capital	4,500,000		
Reserves	1,631,395		
Unappropriated profit	192,744		
Deficit on revaluation of assets - net	(22,563)		
	<u>6,301,576</u>		

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	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years Rupees in '000'	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
2008							
Cash and balances with treasury banks	-	-	-	-	-	-	-
Balances with other banks	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-
Investments	202,813	119	619,987	639,987	509,514	502,751	-
Advances	450,681	346,658	631,109	704,101	1,097,758	1,067,806	138,972
Other assets	26,335	40,083	63,165	34,436	-	-	-
Operating fixed assets	15,896	31,791	52,256	43,209	71,923	178,170	149,049
Deferred tax assets	-	-	-	-	-	-	-
	<u>695,724</u>	<u>418,651</u>	<u>1,366,517</u>	<u>1,421,733</u>	<u>1,679,195</u>	<u>1,748,727</u>	<u>288,021</u>
Liabilities							
Bills payable	-	-	-	-	-	-	-
Borrowings	288,400	-	-	-	-	-	-
Deposits and other accounts	1,724,829	3,596,561	1,700	32,286	88,392	-	-
Sub-ordinated loans	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-
	<u>2,013,229</u>	<u>3,596,561</u>	<u>1,700</u>	<u>32,286</u>	<u>88,392</u>	<u>-</u>	<u>-</u>
Net assets	<u>(1,317,505)</u>	<u>(3,177,910)</u>	<u>1,364,817</u>	<u>1,389,447</u>	<u>1,590,803</u>	<u>1,748,727</u>	<u>288,021</u>
2007							
Cash and balances with treasury banks	-	-	-	-	-	-	-
Balances with other banks	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-
Investments	1,222,466	522,718	-	-	594,292	752,015	-
Advances	4,909	63,905	77,303	81,484	44,237	44,534	19,993
Other assets	-	-	-	-	-	-	-
Operating fixed assets	13,552	27,103	54,207	52,657	111,990	57,915	199,561
Deferred tax assets	-	-	-	-	-	-	-
	<u>1,240,927</u>	<u>613,726</u>	<u>131,510</u>	<u>134,141</u>	<u>750,519</u>	<u>854,464</u>	<u>219,554</u>
Liabilities							
Bills payable	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-
Deposits and other accounts	423,585	20,160	-	-	280	-	-
Sub-ordinated loans	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	39,867	-	-	-	-
	<u>423,585</u>	<u>20,160</u>	<u>39,867</u>	<u>-</u>	<u>280</u>	<u>-</u>	<u>-</u>
Net assets	<u>817,342</u>	<u>593,566</u>	<u>91,643</u>	<u>134,141</u>	<u>750,239</u>	<u>854,464</u>	<u>219,554</u>

Notes to the Financial Statements

For the year ended December 31, 2008

40.6 Operational Risk Management

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

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

Other than customer's deposits, the Bank's funding source is the inter-bank money market. Change in the government monetary policy and market expectations of interest rate are all important factors that can adversely affect our key funding source. Efficient and accurate planning plays a critical role in liquidity management. Our MIS provides information on expected cash inflows/out flows which allow the Bank to take timely decisions based on the future requirements.

Gap analysis, stress testing and scenario analysis is done on periodic basis to capture any adverse effect of market movements on liquidity position. Based on the results produced, ALCO devise the liquidity management strategy to maintain sufficient liquidity to deal with any related catastrophe.

The Bank is currently in the process of implementing internationally accepted Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations of the Tread way Commission (COSO), with a view to consolidate and enhance the existing internal control processes.

41. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on March 14, 2009 by the Board of Directors of the Bank.

42. GENERAL

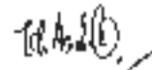
Figures have been rounded off to the nearest thousand rupees.



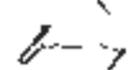
PRESIDENT AND CHIEF EXECUTIVE



DIRECTOR



DIRECTOR



DIRECTOR

Annexure

Statement Showing Written-Off Loans or any other Financial Relief of Five Hundred Thousand Rupees or above Provided During the year ended December 31, 2008

S.	Name and address of the borrower	Name of individuals/partners/directors (with NIC No.)	Father's/Husband's name	Outstanding Liabilities at beginning of the year				Principal written-off	Interest/Mark-up written-off	Others financial relief provided	Total (9+10+11)
				Principal	Interest/Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
				Rupees in '000'							
				NIL							
Total:				0	0	-	0	0	0	-	0

Categories of Shareholders

As on December 31, 2008

Categories of Shareholders	Shares Held	
	Number	% age
Associated Companies, Undertakings & Related Parties		
Arif Habib Securities Limited	297,034,854	59.41
Rupali Bank Limited	32,777,450	6.56
Directors		
Mr. Arif Habib	18,416,676	3.68
Mr. Salim Chamdia	1,135,512	0.23
Mr. Nasim Beg	1,114,877	0.22
Mr. Asadullah Khawaja	74	0.00
Mr. Md. Abdul Hamid Miah	1	0.00
CFO & Company Secretary		
Mr. Muhammad Amin Bhoori	5,599	0.00
Executives	938,889	0.19
Public Listed Companies	–	–
National Investment Trust & Investment Corporation of Pakistan	688,013	0.14
Banks, Development Financial Institutions, Non Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds	7,613,459	1.52
Foreign Shareholders	242,177	0.05
Individuals	128,675,330	25.74
Others	11,357,089	2.27
Total	500,000,000	100.00

Categories of Shareholders

As on December 31, 2008

Categories of Shareholders	Number of Shareholder	Shares Held	
		Number	% age
Associated Companies, Undertakings & Related Parties			
Arif Habib Securities Limited	1	297,034,854	59.41
Rupali Bank Limited	1	32,777,450	6.56
Directors	5	20,667,140	4.13
National Investment Trust & Investment Corporation of Pakistan	1	688,013	0.14
Banks, Development Financial Institutions, Non Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds	65	7,613,459	1.52
Foreign Shareholders	19	242,177	0.05
Individuals	49,848	129,619,818	25.92
Others	243	11,357,089	2.27
Total	50,183	500,000,000	100.00

Pattern of Shareholding
As on December 31, 2008

No. of Shareholders	Shareholding		Total Shares held
	From	To	
2,467	1	100	98,860
2,719	101	500	707,723
30,043	501	1,000	16,948,818
12,140	1,001	5,000	23,127,517
1,436	5,001	10,000	9,829,063
542	10,001	15,000	6,486,550
204	15,001	20,000	3,528,676
149	20,001	25,000	3,336,398
91	25,001	30,000	2,502,753
47	30,001	35,000	1,526,062
32	35,001	40,000	1,214,322
34	40,001	45,000	1,439,720
24	45,001	50,000	1,164,293
18	50,001	55,000	943,469
47	55,001	60,000	2,654,364
11	60,001	65,000	693,582
12	65,001	70,000	811,431
12	70,001	75,000	867,244
11	75,001	80,000	859,237
5	80,001	83,500	415,364
8	83,501	90,000	705,774
3	90,001	95,000	278,521
3	95,001	100,000	298,579
2	100,001	105,000	204,833
7	105,001	110,000	747,654
16	110,001	115,000	1,787,073
6	115,001	120,000	711,678
4	120,001	125,000	490,807
2	125,001	130,000	255,087
1	130,001	135,000	131,111
2	140,001	145,000	285,555
2	145,001	150,000	293,888
1	155,001	160,000	155,555
5	165,001	170,000	836,397
2	170,001	175,000	348,778
1	175,001	180,000	176,666
3	180,001	185,000	551,677
1	185,001	190,000	188,888
3	190,001	195,000	580,943
1	200,001	205,000	200,055
1	205,001	210,000	205,555
1	210,001	215,000	211,666
1	215,001	220,000	216,666
5	220,001	225,000	1,114,350
4	225,001	230,000	917,973
1	230,001	235,000	231,666

Pattern of Shareholding
As on December 31, 2008

No. of Shareholders	Shareholding		Total Shares held
	From	To	
1	240,001	245,000	243,569
2	245,001	250,000	499,444
1	255,001	260,000	260,000
1	260,001	265,000	260,140
3	265,001	270,000	802,555
3	275,001	280,000	835,554
2	285,001	290,000	574,189
1	300,001	305,000	301,831
1	305,001	310,000	307,581
1	320,001	325,000	322,888
1	330,001	335,000	333,333
1	335,001	340,000	335,288
1	360,001	365,000	362,222
1	380,001	385,000	384,444
1	385,001	390,000	388,162
1	440,001	445,000	444,444
1	445,001	450,000	450,000
1	480,001	485,000	481,500
1	485,001	490,000	490,000
1	535,001	540,000	537,535
1	550,001	555,000	554,444
1	555,001	560,000	555,555
1	565,001	570,000	568,233
1	595,001	600,000	596,722
1	655,001	660,000	656,860
1	665,001	670,000	667,222
1	705,001	710,000	708,492
1	720,001	725,000	721,622
1	775,001	780,000	776,666
1	800,001	805,000	802,564
1	995,001	1,000,000	1,000,000
1	1,110,001	1,115,000	1,111,101
2	1,135,001	1,140,000	2,274,955
1	1,190,001	1,195,000	1,191,132
1	1,320,001	1,325,000	1,322,222
1	1,885,001	1,890,000	1,888,888
1	2,870,001	2,875,000	2,873,712
1	3,275,001	3,280,000	3,277,450
1	4,340,001	4,345,000	4,341,444
1	6,925,001	6,930,000	6,927,222
1	8,575,001	8,580,000	8,576,111
1	13,840,001	13,845,000	13,841,666
1	18,330,001	18,335,000	18,333,343
1	29,495,001	29,500,000	29,500,000
1	29,700,001	29,705,000	29,700,812
1	267,330,001	267,335,000	267,334,042
50,183	TOTAL		500,000,000

Notice of the Third Annual General Meeting of the Shareholders of the Bank

Notice is hereby given that the third Annual General Meeting of the shareholders of Arif Habib Bank Limited ("AHBL"), will be held on Saturday, April 18, 2009 at 10:00 a.m. at Beach Luxury Hotel, Karachi to transact the following business:

NORMAL BUSINESS:

1. To confirm the minutes of Second Annual General Meeting of the Bank held on March 22, 2008.
2. To receive, consider and adopt the audited financial statements of the Bank for the year ended 31 December, 2008 alongwith Directors' and Auditors' Report thereon and Statement of Compliance with the Code of Corporate Governance.
3. To appoint External Auditors of the Bank for the year ending December 31, 2009 till the conclusion of next Annual General Meeting and fix their remuneration. (Present Auditors', M/s.M.Yousuf Adil Saleem & Co., Chartered Accountants being eligible, offer themselves for re-appointment).

SPECIAL BUSINESS:

4. To consider and approve to increase in Authorised Share Capital.

In order to comply with the Capital Adequacy Requirement and to maintain the paid-up capital as required by State Bank of Pakistan, the Board of Directors of the Bank in its meeting held on March 14, 2009 had recommended to the shareholders to consider in their Annual General Meeting the proposal to increase the Authorised Share Capital of the Bank:

"RESOLVED that pursuant to Section 92 of the Companies Ordinance, 1984, read with other applicable provisions, the Authorised Capital of the Bank be and is hereby increased from Rs.6,000,000,000/- (Six billion only) divided into 600,000,000 (Six hundred million) ordinary shares of Rs. 10/- each to Rs. 25,000,000,000 (Twenty five billion only) divided into 2,500,000,000 (Two billion five hundred million only) ordinary shares of Rs. 10 each, ranking pari passu with the existing ordinary shares of the Bank."

5. To consider and approve for the proposed changes in the Memorandum and Articles of Association of Bank.

The Board of Directors in its meeting held on March 14, 2009 had recommended to the shareholders for approval of amendments in Memorandum V and Article 6 of the Memorandum and Articles of Association of the Bank.

"RESOLVED that the existing Clause V of the Memorandum of Association of the Bank be and is hereby amended / substituted as follows:

V. The share capital of the Company is Rs.25,000,000,000/= (Rupees Twenty five billion) divided into 2,500,000,000/= shares of Rs.10/= (Rupees Ten) each with power to the company from time to time to increase, reduce or reorganize its capital or to sub-divide the shares in the capital for the time being into several classes. The share capital shall comprise

Notice of the Third Annual General Meeting of the Shareholders of the Bank

of one or more kinds of shares and different classes of shares under each kind as permitted by the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000 as amended from time to time, with such rights and privileges attached thereto as may be approved by the Members from time to time by a Special Resolution.

FURTHER RESOLVED that existing Article 6 of the Articles of Association of the Bank be and is hereby amended / substituted as follows:

The Capital of the Company is PKR 25,000,000,000/= (Pakistan Rupees Twenty Five Billion) divided into 2,500,000,000/= shares of PKR 10/= (Pakistani Rupees Ten) each with power to increase or reduce the capital and to divide the shares in the capital for the time being into several classes provided however, that rights as between various classes of ordinary shares (if any) as to profits, votes and other benefits shall be strictly proportionate to the paid-up value of the shares."

6. To discuss and if thought fit, pass the following resolution to approve as donation the sale proceeds of fractional entitlement of the shareholders on their behalf as and by way of special resolution:

The Board of Directors in its meeting held on March 14, 2009 had recommended to the shareholders for approval of sell of fractional entitlement of bonus shares of the shareholders and to pay the proceeds of sale when realized to a recognized non-profit / charitable institution.

"RESOLVED that in the event of any member holding shares which are not an exact multiple of his / her / their entitlement, the President / CEO and / or the Company Secretary be and is / are hereby authorized to sell such entitlements in the Stock Market and to pay the proceeds of sale when realized to a recognized non-profit / charitable institution."

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

OTHER BUSINESS:

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

By order of the Board

**Karachi:
March 28, 2009**

**Muhammad Amin Bhoori
Company Secretary**

Notice of the Third Annual General Meeting of the Shareholders of the Bank

NOTES:

- The Register of Members of the Bank will remain closed from April 11, 2009 to April 17, 2009 (both days inclusive).
- A member entitled to attend and vote at this meeting may appoint another member as his / her proxy to attend and vote on his / her behalf. The instrument appointing a Proxy and the power of attorney or other authority under which it is signed or a notarially certified copy of the power of attorney must be valid and received at the Share Registrar of the Bank, M/s.Technology Trade (Pvt.) Ltd., Dagia House, 241-C, Block-2, P.E.C.H.S., Off. Shahrah-e-Quideen, Karachi duly stamped, signed and witnessed not later than 48 hours before the meeting.
- Shareholders whose shares are deposited with Central Depository Company of Pakistan Limited (CDC) are requested to bring their computerized National Identity Card (CNIC) alongwith their CDC Account Number for verification. In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signatures of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.
- Members are requested to notify any change in their addresses immediately.
- Members are requested to submit copy of their CNICs with our Share Registrar M/s.Technology Trade (Pvt.) Ltd.

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

- Increase in Authorised Share Capital.**
The Board of Directors of the Bank in its meeting held on March 14, 2009 had recommended to the shareholders to consider in their Annual General Meeting the proposal to increase the Authorised Share Capital of the Bank.
- Changes in the Memorandum and Articles of Association of Bank.**
The Board of Directors in its meeting held on March 14, 2009 had recommended to the shareholders for approval of amendments in Memorandum V and Article 6 of the Memorandum and Articles of Association of the Bank.
- Proceeds of fractional entitlement of the shareholders.**
The Board of Directors in its meeting held on March 14, 2009 had recommended to the shareholders for approval of sell of fractional entitlement of bonus shares of the shareholders and to pay the proceeds of sale when realized to a recognized non-profit / charitable institution.

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

Branch Network

KARACHI (17 Branches)

Arif Habib Center 23
M.T. Khan Road,
Karachi - 74000
UAN:
111-124-725
Tel: 021-2437892,
021-2436519
Fax: 021-2435736

I.I. Chundrigar Road Branch
I.I. Chundrigar Road, Karachi
Tel: 021-2466410-3
Fax: 021-2466500

Boat Basin Branch
Ground Floor, FL-4,
Hanging Garden, Block-5,
Boat Basin, Clifton, Karachi.
Tel: 021-5824171-80
Fax: 021-5824163

Atrium Mall Branch
Shop 6 & 21, Ground Floor,
Atrium Mall, Staff Lines
Zaibunnisa Street,
Saddar, Karachi.
Tel: 021-5641000-3,
021-5641007
Fax: 021-5641008

Gulshan-e-Iqbal Branch
Ground floor, Shop No.CA1-2-3,
CA25-26-27-28, Hasan Center,
Main University Road,
Gulshan-e-Iqbal,Karachi.
Tel: 021-4829024, 4829027
Fax: 021-4829023

KSE Branch
Room No. 60-63,
1st Floor, Karachi Stock
Exchange Building, Karachi
Tel: 021-2462844-49,
021-2462829-30
Fax: 021-2462843

Cloth Market Branch
28th Cochinwala Market,
Laxmidas Street,
Karachi
Tel: 021-2443651,
021-2443591,
021-2443871
Fax: 021-2443821

Korangi Branch
33/1, Sector 15,
Korangi Industrial Area
Road, Karachi
Tel: 021-5114282,
021-5114290

Gulistan-e-Jauhar Sub Branch
Plot No. 118/A-B,
Shop No. 02-03-04
Ground Floor, Ruffi Paradise,
Block-18, Gulistan-e-Jauhar,
K.D.A, Scheme No. 36,
Karachi.
Tel: 021-2621281-4
Fax: 021-2621285

Dolmen City Sub-Branch
Ground Floor, Harbour Front,
Triangular Tower, Dolmen City,
Marine Drive, Block 4,
Clifton, Karachi
Tel: 021-5297611-15
Fax: 021-5297610

Jami Commercial DHA Branch
64-C, 7th Street, Phase 7,
Jami Commercial, DHA,
Karachi
Tel: 021-5316200-7
Fax: 021-5316208

Adamjee Nagar Branch
Plot No. 115 A/Z,
Adamjee Nagar,
Tipu Sultan Road, Karachi.
Tel: 021-4312984-7
Fax: 021-4312980

Hyderi Branch
D-10 Block-F, North
Nazimabad, Hyderi.
Karachi.
Tel: 021-6724972-74
Fax: 021-6724971

Bahadurabad Sub-Branch
CCA, Bihar Muslim
Commercial Area,
Bahadurabad, Karachi
Tel: 021-4913447
021-4913449,
021-4913451
Fax: 021-4913453

SITE Sub-Branch
B 49, State Avenue,
SITE Karachi
Tel: 021-2589662,
021-2589663 (2 Lines)
Fax: 021-2589661

M. A. Jinnah Road Branch
Ram Bagh Quarters,
M.A. Jinnah Road, Karachi
Tel : 021-2218395,
021-2218409,
021-92218428,
021-2218430,
021-2218433
Fax: 021-2218376

Nooriabad Branch
Nooriabad Industrial Area,
Nooriabad Karachi
Tel: 025-4670433
Fax: 025-4670434

LAHORE (5 Branches)

Lahore Branch
163, Y Block,
Phase III, D.H.A.,
Lahore Cantt.
Tel 042-5749069
042-5749071
Fax: 042-5749070

LSE Branch
Office No. 5, 6,
19th Awan-e-Iqbal Road
Lahore Stock Exchange
Building, Lahore
Tel: 042-6280853-6
Fax: 042-6280851

Multan Road Branch
Plot No. 9/A,
Scheme more
Corner, Allama Iqbal Town,
Multan Road, Lahore.
Tel: 042-7497451-6
Fax: 042-7497450

Gulberg Branch
Main Boulevard,
Gulberg Lahore
Tel: 042-5872621
Fax: 042-5872622

Branch Network

Ferozpur Road Branch
Main Ferozpur Road, Lahore,
Siza Farmer Factory, Sufiabad,
Tel: 042-5800096-98
Fax: 042-5800094

Liaquat Road Sub-Branch
Liaquat Road, Faisalabad
Tel: 041-2541256-60
041-2541261-64
Fax: 041-2541255

ISLAMABAD (3 Branches)

Islamabad Branch
6B. F-6, Super Market
Islamabad
Tel: 051-2279167-70
Fax: 051-2279166

**Islamabad Stock
Exchange Branch**
Shop No. 05, Al-Khair Plaza
Blue Area, Islamabad
Tel: 051-2806281-3
Fax: 051-2806280

Rawalpindi Branch
Plot No. 27, Bank Road,
Rawalpindi
Tel: 051-5120713-8
Fax: 051-5120712

MULTAN (2 Branches)

Abdali Road Branch
66-AB/9, Abdali Road,
Multan
Tel: 061-4573729,
061-4572519
Fax: 061-4516762

Hussain Agahi Road Branch
Zenith Market,
Chowk Bazar, Multan
Tel: 061-4511025, 4511029
061-4511031, 4511037
Fax: 061-4511193

FAISALABAD (2 Branches)

Yarn Market Branch
Property # 7, Yarn Market,
Ghunta Ghar, Faisalabad
Tel: 041-2619885, 2619746
041-2465504
Fax: 041-2619884

GUJRANWALA

Gujranwala Branch
Main GT Road,
Gujranwala
Tel: 055-3820970-74
Fax: 055- 3820967

GUJRAT

Gujrat Branch
Main GT Road, Gujrat
Tel: 053-3517051-54
Fax: 053-3516493

PESHAWAR

Deans Trade Center,
Islamia Road, Peshawar
Tel: 091-5253981-5
Fax: 091-5253080

SADIQABAD

KLP Road, Sadiqabad
Tel: 068-5786791-93
Fax: 068-5786300

MIRPUR AJK

Mirpur Azad Kashmir Branch
NS Tower, Kotli Road,
Mirpur Azad Kashmir
Tel: 058610-37193-96
Fax: 058610-37192

SILKOT

Sialkot Branch
Paris Road, Sialkot
Tel: 052-4602894-97
Fax: 052-4601310

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

(being member of the Bank) as my/our Proxy to attend, act and vote for me/us and on my/our behalf at the
3rd Annual General Meeting of the Bank will be held on April 18, 2009 and /or any adjournment thereof.

Signed this _____ day of _____ 2009.

Witnesses:

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

Signature on
Rs. 5/-
Revenue
Stamp

NOTICE:

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

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Arif Habib  Bank Limited

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REGISTRAR

Technology Trade (Pvt) Ltd.
Dagia House, 241-C, Block 2, PECHS,
Off Shahrah-e-Quaideen, Karachi.
Tel: (021) 4391316-7
Fax: (021) 4391318

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