

The Bank For Everyone



Half Yearly Report
For The Period Ended
June 30

2010

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BOARD OF DIRECTORS

Mr. Nasser Abdullah Hussain Lootah
Chairman (Subject to clearance from SBP)
Mr. Husain Lawai
President & CEO
Mr. Nasim Beg
Director
Mr. Asadullah Khawaja
Director
Mr. Farid Uddin
Director (Subject to clearance from SBP)
Mr. Mohamed Ahmad Mousa Ismail
Director (Subject to clearance from SBP)
Miss Khrida Nasser Abdullah H. Lootah
Director (Subject to clearance from SBP)

AUDIT COMMITTEE

Mr. Asadullah Khawaja
Chairman
Mr. Nasim Beg
Member

RISK MANAGEMENT COMMITTEE

Mr. Husain Lawai
Member
Mr. Asadullah Khawaja
Member
Mr. Nasim Beg
Member

HUMAN RESOURCE (HR) COMMITTEE

Mr. Husain Lawai
Member
Mr. Asadullah Khawaja
Member

CFO AND COMPANY SECRETARY

Mr. Muhammad Amin Bhoori

AUDITORS

M. Yousuf Adil Salim & Co.
Chartered Accountants

LEGAL ADVISORS

Liaquat Merchant Associates

HEAD OFFICE

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

REGISTERED OFFICE

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Karachi – 74000

SHARE REGISTRAR

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

ENTITY RATINGS

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

E-mail: info@arifhabibbank.com

Website: www.arifhabibbank.com

Toll free: 0800 24252

VISION

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

MISSION

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

Directors' Report

On behalf of the Board of Directors of Arif Habib Bank Limited (the Bank), I am pleased to present the un-audited financial statements of the Bank for the half year ended June 30, 2010.

Financial Highlights

Financial Highlights of the Bank for the period under review are as follows:

	June 30, 2010 Unaudited	December 31, 2009 Audited
	(Rupees in '000)	
Pre-tax (Loss) for the period	(448,574)	(2,285,586)
Equity	3,873,923	4,065,941
Paid-up-capital	5,000,000	5,000,000
Deposits	32,678,917	31,307,488
Advances (Net of provisions)	20,774,375	18,503,815
Investments	13,280,740	12,446,033
Basic and Diluted (Loss) per share	(0.38)	(4.13)

During the period under review, the total assets of the Bank grew by 8.4% to Rs. 41.4 billion with advances (net of provisions) showing a growth of 12.3% to Rs. 20.8 billion. Despite significant repayment of high cost money to the institutional depositors, with some roll-overs at lower rates, the Bank was able to maintain and grow its deposits base by 4.4% to Rs. 32.7 billion as at June 30, 2010. Now, the focus is on to mobilize deposits in the Current and Saving Accounts (CASA). In the process, the Bank was also able to reduce the cost of deposits from 9.9% in December 2009 to 9.5% for the half year ended June 30, 2010.

As a matter of policy the Bank continued to maintain a high level of liquidity, with total investments of Rs 13.3billion, of which SLR eligible investments were Rs. 8.9 billion against an SLR requirement of only Rs. 4.2 billion, as at June 30, 2010, i.e. a surplus liquidity of Rs. 5.0 billion.

During the half year, the Bank incurred a pre-tax loss of Rs. 448.6 million because of additional Provisions of Rs. 434.9 million made against the NPLs, which were primarily due to the downgrading of existing NPLs and the addition of a few more accounts as at June 30, 2010. The Bank is making intensive efforts to recover the NPLs. There has been some success, and the current NPLs stand at Rs. 4,580.6 million as opposed to Rs. 5,016.8 million as at December 31, 2009, despite some additions during the period. Administrative expenses increased by 19.3% to Rs. 596.5million as compared to the comparative half year of last year. This was mainly due to an increase in the branch network from 34 branches last year to 40 branches at the present time.

Economic Overview

The increase in total deposits of the banking system has facilitated the market liquidity conditions and helped in meeting the credit requirements of the economy that has also improved the balance of payment position during FY10. Even with challenges, the country has shown resilience with real GDP growth estimated at 4.1%, up from 1.2% in the previous year, driven primarily by industrial revival, which grew by 4.9%.

Exports grew by 3% to \$ 19 billion. With a slight decrease of 2% in imports, the trade deficit declined by 10% over FY 09. Moreover, the country was successful in achieving the highest ever level of remittances of \$ 8.9 billion in FY10. Following the remittances, current account deficit reduced by 62% over last year. Foreign Exchange Reserves of the country have also touched a new high, by crossing \$ 16 billion. The average CPI inflation of 11.7% during FY10 has been 270 bps higher than the target and is projected to remain between 11% to 12% in FY11. In order to alleviate risks to macroeconomic stability, the State Bank of Pakistan increased their discount rate by 50 bps to 13% effective August 02, 2010.

Recently country has come face to face with the worst flood disaster to have ever affected this region. More than 1,500 people have been killed while over 15 million have been affected. No signs have yet appeared of this flooding to subside, which has placed a massive burden on government resources with billions of rupees already spent. The country's agricultural and food crops have been affected adversely. There will be inflationary impact on prices.

In view of the above, the Government will raise funds for immediate rehabilitation of flood affected people and redevelopment of infrastructure damaged during the flood. Foreign aid has poured into the country since the onslaught

of the floods. To date, around \$ 820 million in aid has been committed by the donors with more foreign aid expected to come in the next few weeks.

Branch Network & Business

As at June 30, 2010, the Bank was operating with 40 branches across the country, with a presence in all the provinces of Pakistan and Azad Jammu & Kashmir.

The Bank is focusing mainly on Trade and fee-based business. The Bank handled Rs. 23,076 million of Foreign Trade Business during the period as compared to Rs.8,674 million in the comparable period last year. Tie ups have been executed with reputable international exchange companies under the Pakistan Remittance Initiative of the SBP.

The Bank has entered the consumer finance market by providing secured personal loans to its customers, which we see as an important niche market for future business growth.

We have also started offering Bancassurance products at our selected branches which is going to help our revenue stream. Many more products and services, unparalleled in the banking industry in Pakistan are also on the way for our valued customers.

Alternate Delivery Channel (ADC) services have been launched via AHBL's ATM network, incorporating Utility Bills and Credit Card Bill Payment along with Inter Bank Fund Transfer Services to all customers and account holders.

Re-branding

The new name Summit Bank Limited was formally launched on August 18, 2010 which has received positive response from all stakeholders in the financial sector. We have now formally assumed a new strategic direction and our new name signifies what we are and where we are headed.

Credit Rating

JCR-VIS has maintained the credit ratings of the Bank, 'A' for medium to long-term, and 'A2' for the short term.

Minimum Capital Requirement

In view of some unforeseen delays in effecting the merger of the three banks, the Bank is presently short on its Minimum Capital Requirement (MCR) prescribed by the State Bank of Pakistan (SBP), which was earlier expected to be made good by March 31, 2010, subsequently extended upto June 30, 2010. The Bank has applied to the SBP for a further extension in the waiver upto October 31, 2010.

Outlook

The Bank will introduce new deposit products and Visa Debit Card with new features during next 6 months. The bank will focus on customer services by investing more effectively in IT infrastructure. Further, the bank will concentrate on recoveries of NPLs by strengthening Remedial Asset Management Group.

Acknowledgments

The Board would like to appreciate and thank the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan and other regulatory authorities for their continuous guidance and support. The Board is grateful to our valued customers for their continued patronage and is committed to improving the quality of service and the experience they share with the bank.

The Board would also like to place on record its appreciation of the employees of the bank for their professionalism, commitment, and dedication to make Arif Habib Bank one of the best banks in the country.

On Behalf of the Board of Directors



Husain Lawai
President & CEO
August 28, 2010

Introduction

We have reviewed the accompanying condensed interim statement of financial position of ARIF HABIB BANK LIMITED ("the Bank") as at June 30, 2010 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim statement of changes in equity, and notes to the financial information for the half year then ended June 30, 2010 (here-in-after referred to as the "condensed interim financial information"). Management is responsible for the preparation and presentation of these condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on these condensed interim financial information based on our review. The figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended June 30, 2010 and 2009 have not been reviewed by us as we are required to review only the cumulative figures for the half year ended June 30, 2010.

Scope of Review

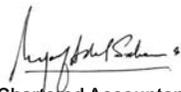
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended June 30, 2010 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1.4 to the condensed interim financial statements which fully explains matters regarding Bank's minimum capital requirement, its proposed merger with two other commercial banks and injection of further capital of Rs 2.5 billion by the new shareholders of the Bank. The State Bank of Pakistan (SBP) granted the Bank extension in time up to March 31, 2010 or proposed merger, whichever occurs earlier, to meet the requisite capital requirement. The SBP has extended the date of proposed merger till October 31, 2010. Further, the Bank has applied to the SBP for relaxation from the requisite capital requirements till October 31, 2010.



Chartered Accountants

Karachi

Date:

CONDENSED INTERIM BALANCE SHEET

AS AT JUNE 30, 2010

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Note	Rupees in '000'	
ASSETS		
Cash and balances with treasury banks	1,962,656	1,923,526
Balances with other banks	276,657	724,802
Lendings to financial institutions	1,440,000	1,433,817
Investments	7 13,280,740	12,446,033
Advances	8 20,774,375	18,503,815
Operating fixed assets	9 1,609,067	1,570,754
Deferred tax assets	686,591	381,016
Other assets	1,346,694	1,189,612
	41,376,780	38,173,375
LIABILITIES		
Bills payable	205,181	213,209
Borrowing from financial institutions	3,820,345	1,554,801
Deposits and other accounts	32,678,917	31,307,488
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Other liabilities	919,655	1,043,477
	37,624,098	34,118,975
NET ASSETS	3,752,682	4,054,400
REPRESENTED BY		
Share capital	5,000,000	5,000,000
Reserves	1,064,828	1,064,828
Accumulated loss	(2,190,905)	(1,998,887)
Deficit on revaluation of assets - net of tax	3,873,923 (121,241)	4,065,941 (11,541)
	3,752,682	4,054,400
CONTINGENCIES AND COMMITMENTS	10	

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements



PRESIDENT AND CHIEF EXECUTIVE



DIRECTOR



DIRECTOR

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)

FOR THE HALF YEAR ENDED JUNE 30, 2010

	Half year ended June 30, 2010	Half year ended June 30, 2009	Quarter ended June 30, 2010	Quarter ended June 30, 2009
	<----- Rupees in '000' ----->			
Mark-up / return / interest earned	2,193,121	1,705,363	1,157,851	864,018
Mark-up / return / interest expensed	(1,686,471)	(1,341,769)	(841,622)	(722,770)
Net mark-up / interest income	506,650	363,594	316,229	141,248
Provision against non-performing loans and advances - net	(434,989)	(502,515)	(179,558)	(373,711)
Provision for diminution in the value of investments	(133,542)	(157,132)	(118,269)	(85,183)
Bad debts written off directly	-	-	-	-
	(568,531)	(659,647)	(297,827)	(458,894)
Net mark-up / interest income after provisions	(61,881)	(296,053)	18,402	(317,646)
NON MARK UP / INTEREST INCOME				
Fee, commission and brokerage income	146,395	46,476	86,178	32,663
Dividend income	12,197	15,722	5,305	6,909
Income from trading in government securities	1,576	13,129	458	1,664
Gain on sale of securities - net	47,322	31,042	24,764	39,199
Income/ (loss) from dealing in foreign currencies	14,345	9,533	4,417	(23,120)
Unrealized loss on revaluation of investments classified as held for trading	(22,376)	(16,234)	(19,108)	(16,312)
Other income	10,356	2,815	3,873	1,590
Total non-mark-up / interest income	209,815	102,483	105,887	42,593
	147,934	(193,570)	124,289	(275,053)
NON MARK UP / INTEREST EXPENSES				
Administrative expenses	(594,154)	(490,223)	(329,462)	(260,482)
Other provisions / write-offs	-	-	-	-
Other charges	(2,354)	(9,730)	(1,472)	(8,509)
Total non mark-up / interest expenses	(596,508)	(499,953)	(330,934)	(268,991)
	(448,574)	(693,523)	(206,645)	(544,044)
Extra ordinary / unusual items	-	-	-	-
LOSS BEFORE TAXATION	(448,574)	(693,523)	(206,645)	(544,044)
TAXATION				
Current	(24,029)	(13,787)	(18,333)	(11,872)
Deferred	280,585	139,123	247,499	126,719
	256,556	125,336	229,166	114,847
(LOSS) / PROFIT AFTER TAXATION	(192,018)	(568,187)	22,521	(429,197)
(Loss) / earnings per share (Rupee)	(0.38)	(1.14)	0.05	(0.95)

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements



PRESIDENT AND CHIEF EXECUTIVE



DIRECTOR



DIRECTOR

CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR AND QUARTER ENDED JUNE 30, 2010

	Half year ended June 30, 2010	Half year ended June 30, 2009	Quarter ended June 30, 2010	Quarter ended June 30, 2009
	<----- Rupees in '000' ----->			
(Loss) / profit after tax for the period	(192,018)	(568,187)	22,521	(429,197)
Other comprehensive income:	-	-	-	-
Comprehensive (loss) / income transferred to equity	(192,018)	(568,187)	22,521	(429,197)
Components of comprehensive income not reflected in equity				
Deficit on revaluation of investments	(151,972)	(311,526)	(30,704)	(91,359)
Deferred tax on revaluation of investments	30,731	109,034	(11,713)	31,976
	(121,241)	(202,492)	(42,417)	(59,383)
Total comprehensive loss for the period	(313,259)	(770,679)	(19,896)	(488,580)

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements



PRESIDENT AND CHIEF EXECUTIVE



DIRECTOR



DIRECTOR

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2010

	Capital Reserves			Revenue reserves		Total
	Share capital	Share premium	Statutory reserve	General reserve	Accumulated loss	
	Rupees in '000'					
Balance at January 01, 2009	5,000,000	1,000,000	64,828	250,000	(182,097)	6,132,731
Comprehensive loss transferred to equity for the half year ended June 30, 2009	-	-	-	-	(568,187)	(568,187)
Balance at June 30, 2009	5,000,000	1,000,000	64,828	250,000	(750,284)	5,564,544
Comprehensive loss transferred to equity for the half year ended December 31, 2009	-	-	-	-	(1,498,603)	(1,498,603)
Transferred from general reserve	-	-	-	(250,000)	250,000	-
Balance at December 31, 2009	5,000,000	1,000,000	64,828	-	(1,998,887)	4,065,941
Comprehensive loss transferred to equity for the half year ended June 30, 2010	-	-	-	-	(192,018)	(192,018)
Balance at June 30, 2010	5,000,000	1,000,000	64,828	-	(2,190,905)	3,873,923

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements



PRESIDENT AND CHIEF EXECUTIVE



DIRECTOR



DIRECTOR

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)

FOR THE HALF YEAR ENDED JUNE 30, 2010

	June 30, 2010	June 30, 2009
Rupees in '000'		
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(448,574)	(693,523)
Less: Dividend income	(12,197)	(15,722)
	(460,771)	(709,245)
Adjustments:		
Depreciation	75,764	37,650
Amortization	14,551	13,755
Unrealized loss on revaluation of investment classified as held for trading	22,376	16,234
Provision for diminution in value of investments	133,542	157,132
Provision against non-performing loans and advances	434,989	502,515
Gain on sale of operating fixed assets	(12)	(27)
Income from trading in government securities - net	(1,576)	-
Income on sale of securities - net	(47,322)	-
Loss on sale of non banking asset acquired in satisfaction of claims	51	-
Provision for compensated absences	10,265	7,448
Provision for gratuity	7,782	5,357
	650,410	740,064
	189,639	30,819
(Increase)/decrease in operating assets		
Lendings to financial institutions	(6,183)	(114,471)
Investments	(85,763)	(113,865)
Advances	(2,705,549)	(2,274,032)
Others assets	(200,184)	(225,023)
	(2,997,679)	(2,727,391)
Increase / (decrease) in operating liabilities		
Bills payable	(8,028)	24,221
Borrowing from financial institutions	2,251,856	(19,850)
Deposits and other accounts	1,371,429	7,763,750
Other liabilities	(141,329)	193,163
	3,473,928	7,961,284
	665,888	5,264,712
Compensated absences paid	(540)	-
Income tax paid	(1,209)	(2,461)
	664,139	5,262,251
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	(990,654)	(4,327,578)
Dividend received	12,242	15,507
Investment in operating fixed assets	(124,519)	(554,296)
Sale proceed from disposal of non-banking assets in satisfaction of claim	16,000	-
Sale proceed from disposal of operating fixed assets	89	141
	(1,086,842)	(4,866,226)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) / increase in cash and cash equivalents (A+B)	(422,703)	396,025
Cash and cash equivalents at beginning of the period	2,648,328	1,415,229
Cash and cash equivalents at end of the period *	2,225,625	1,811,254

*It is net off overdrawn nostro balance amounting to Rs. 13.688 million (June 30, 2009: nil).

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements



PRESIDENT AND CHIEF EXECUTIVE



DIRECTOR



DIRECTOR

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited) FOR THE HALF YEAR ENDED JUNE 30, 2010

1. STATUS AND NATURE OF BUSINESS

- 1.1 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.
- 1.2 The Bank is principally engaged in the business of banking, through its 40 branches (December 31, 2009: 40 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'.
- 1.3 At March 31, 2010, 297,034,854 shares (59.41% of issued shares of the Bank) were transferred by Arif Habib Securities Limited to Suroor Investments Limited (SIL), a company incorporated in Mauritius, and consequently SIL has become the parent company of the Bank.
- 1.4 In accordance with BSD Circular No. 7 dated April 15, 2009, the minimum paid up capital requirement (free of losses) of the Bank at December 31, 2009 was Rs. 6 billion. The paid up capital (free of losses) of the Bank as at June 30, 2010 is Rs. 3.881 billion. The management through its letter No. AHBL/FIN/327/2010 dated March 27, 2010 has approached the State Bank of Pakistan (SBP) to grant extension of the said minimum capital requirement till June 30, 2010 on the basis of its planned merger with Mybank Limited and Atlas Bank Limited. The Board has also decided to inject further capital of Rs. 2.5 billion into equity of the merged bank. Due to delay in merger process, the management has applied for further extension in meeting minimum capital requirement till October 31, 2010 through its letter No. AHBL/FIN/410/2010 dated July 22, 2010. SBP's reply in this regard is awaited. However SBP has extended the date of proposed merger till October 31, 2010.
- 1.5 As part of change in ownership, effective from August 18, 2010 the name of the bank has been changed to "Summit Bank Limited".

2. STATEMENT OF COMPLIANCE

- 2.1 These condensed interim financial statements have been prepared in accordance with the requirements of International Accounting Standard (IAS) 34 'Interim Financial Reporting, 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.
- 2.2 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. Further, according to the notification of SECP dated April 28, 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these condensed interim financial statements, however, investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars from time to time.
- 2.3 These condensed interim financial statements are unaudited, however these are subjected to limited scope review by the auditors and are being submitted to the shareholders in accordance with Section 245 of the Companies Ordinance, 1984.

3. BASIS FOR PREPARATION

- 3.1 The disclosures included in these condensed interim financial statements are limited based on the format prescribed by the State Bank of Pakistan vide BSD Circular letter No. 7 dated March 12, 2004 and International Accounting Standard 34, "Interim Financial Reporting" (IAS 34). They do not include all of the information required for full annual financial statements, and accordingly these condensed interim financial statements should be read in conjunction with the financial statements of the Bank for the year ended December 31, 2009.
- 3.2 During the period, following new / revised standards, amendments and interpretations to accounting standards became effective:
- IAS 27 - Consolidated and Separate Financial Statements (Amendments)
 - IFRS 2 - Share Based Payments Amendments relating to Group Cash -Settled Share-based Payment Transactions
 - IFRS 3 - Business Combinations (Revised)
 - IFRIC 17 - Distributions to Non-cash Assets to Owners

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

FOR THE HALF YEAR ENDED JUNE 30, 2010

Adoption of the above standards, amendments and interpretations did not affect the accounting policies of the Bank as disclosed in the annual financial statements for the year ended December 31, 2009.

4. BASIS OF MEASUREMENT

These condensed interim financial statements have been prepared under the historical cost convention, except that certain investments and commitments in respect of forward exchange contracts have been carried at revalued amount and staff retirement benefits (Gratuity) stated at present value. All amounts are in Pakistan Rupees which is the functional and presentation currency of the Bank.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND FINANCIAL RISK MANAGEMENT

5.1 The accounting policies and methods of computation followed in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2009.

5.2 The financial risk management objectives and policies are consistent with those disclosed in the financial statements of the Bank for the year ended December 31, 2009.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The basis for significant accounting estimates and judgments adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2009.

	Note	Held by bank	Given as collateral	Total
< ----- Rupees in '000' ----- >				
As at June 30, 2010 - (Unaudited)	7.1	11,169,319	2,111,421	13,280,740
As at December 31, 2009 - (Audited)	7.1	11,916,946	529,087	12,446,033

Note	Unaudited June 30, 2010			Audited December 31, 2009		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
< ----- Rupees '000' ----- >						
7.1 Investments by types:						
Held for trading						
Listed ordinary shares	189,638	-	189,638	108,298	-	108,298
Available - for - sale securities						
Market Treasury Bills	7,441,343	2,109,910	9,551,253	8,210,515	487,831	8,698,346
Pakistan Investment Bonds	597,763	-	597,763	451,748	-	451,748
Listed ordinary shares	856,502	-	856,502	700,120	-	700,120
Mutual funds units - open ended	65,543	-	65,543	115,000	-	115,000
Mutual funds certificates- close ended	51,323	-	51,323	53,244	-	53,244
Term Finance Certificates- listed	321,998	-	321,998	300,084	44,973	345,057
Term Finance Certificates- unlisted	1,249,600	-	1,249,600	1,499,700	-	1,499,700
Sukuk bonds	847,397	-	847,397	605,304	-	605,304
	11,431,469	2,109,910	13,541,379	11,935,715	532,804	12,468,519
Investment in Associate	7.2	-	-	112,773	-	112,773
Investments at cost	11,621,107	2,109,910	13,731,017	12,156,786	532,804	12,689,590
Less: Provision for diminution in value of investments	(275,929)	-	(275,929)	(221,379)	-	(221,379)
Investments - net of provisions	11,345,178	2,109,910	13,455,088	11,935,407	532,804	12,468,211
Unrealized loss on - held for trading securities	(22,376)	-	(22,376)	(4,423)	-	(4,423)
(Deficit) / surplus on revaluation - available for sale	(153,483)	1,511	(151,972)	(14,038)	(3,717)	(17,755)
Total investments at market value	11,169,319	2,111,421	13,280,740	11,916,946	529,087	12,446,033

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE HALF YEAR ENDED JUNE 30, 2010

7.2 This represents ordinary shares of Thatta Cement Limited costing Rs 112.773 million which were classified as investments in associate upto December 31, 2009 in accordance with International Accounting Standard - 28, Investment in Associate (IAS-28) and were carried at cost as per the SBP directives. However, due to changes in ownership of the Bank during the period as described in note 1.3, it has been re-classified to available-for-sale investment. Impairment loss of Rs. 15.273 million on reclassification has been taken to profit and loss account.

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	Rupees in '000'	
8. ADVANCES		
Loans, cash credits, running finance, etc.		
In Pakistan	22,664,422	20,719,557
Outside Pakistan	-	-
	22,664,422	20,719,557
Net Investment in finance lease		
In Pakistan	300,653	142,388
Outside Pakistan	-	-
	300,653	142,388
Bills discounted and purchased (excluding Treasury Bills)		
Payable in Pakistan	600,061	97,064
Payable outside Pakistan	212,471	113,049
	812,532	210,113
Advances- Gross	23,777,607	21,072,058
Provision for non-performing advances - Specific	(3,003,018)	(2,568,243)
General provision against consumer financing	(214)	-
Advances - net of provision	20,774,375	18,503,815

8.1 Advances include Rs. 4,580.576 million (December 31, 2009: Rs 5,016.836 million) which have been placed under non-performing status as detailed below: -

Category of Classification	Domestic	Overseas	Total Advances	Provision required	Provision held
Unaudited June 30, 2010					
Substandard	189,112	-	189,112	26,284	26,284
Doubtful	924,711	-	924,711	350,780	350,780
Loss	3,466,753	-	3,466,753	2,625,954	2,625,954
	4,580,576	-	4,580,576	3,003,018	3,003,018
Audited December 31, 2009					
Substandard	383,045	-	383,045	25,913	25,913
Doubtful	1,693,502	-	1,693,502	528,822	528,822
Loss	2,940,289	-	2,940,289	2,013,508	2,013,508
	5,016,836	-	5,016,836	2,568,243	2,568,243

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE HALF YEAR ENDED JUNE 30, 2010

	June 30, 2010 (Unaudited)	June 30, 2009 (Unaudited)
	Rupees in '000'	
9. OPERATING FIXED ASSETS - at cost		
9.1 Additions		
Leasehold improvements	23,868	59,725
Electrical, office and computer equipment	44,397	70,983
Furniture and fixtures	6,691	9,703
Computer software	6,186	5,561
Vehicles	2,811	5,139
Leasehold land	-	25,000
Building	-	5,000
Others	-	185,856
9.2 Deletions		
Electrical, office and computer equipment	259	66
Vehicles	-	113
	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	Rupees in '000'	
10. CONTINGENCIES AND COMMITMENTS		
10.1 Direct Credit Substitutes		
Including guarantees and standby letter of credit serving as financial guarantees for loans and advances:		
Government	-	-
Banking companies and other financial institutions	-	-
Others	-	-
	-	-
10.2 Transaction-related contingent liabilities / commitments guarantees issued favoring:		
Government	10,306,796	8,676,394
Banking companies and other financial institutions	243,067	1,010,067
Others	2,045,495	1,631,136
	12,595,358	11,317,597
10.3 Trade-related contingent liabilities		
Letters of credit	3,159,696	2,024,123
Acceptances	454,067	244,984
	3,613,763	2,269,107
10.4 Other contingencies - Claims against bank not acknowledge as debt	257,333	83,903
10.5 Contingent assets		

There were no contingent assets as at June 30, 2010
(December 31, 2009: Nil)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE HALF YEAR ENDED JUNE 30, 2010

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	Rupees in '000'	
10.6 Commitments in respect of forward lending		
Forward call lending	-	-
Forward repurchase agreement lending	540,203	1,533,560
Foreign documentary bills	722,727	-
Commitments to extend credit	13,537,063	13,304,338
	14,799,993	14,837,898
10.7 Commitments in respect of forward exchange / future contracts		
Purchase	1,288,657	688,650
Sale	689,704	42,195
	1,978,361	730,845
10.8 Commitments for the acquisition of operating fixed assets		
Civil works	27,517	67,266
10.9 Other commitments		
Commitments in respect of underwriting agreements	328,000	28,000
Commitments in respect of purchase of TFCs	-	100,000
Commitments in respect of purchase of rupee traveller cheques	3,230	-
	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	Rupees in '000'	
11. LOSS PER SHARE - Basic and diluted		
Loss for the period - Rupees in thousand	(192,018)	(568,187)
Weighted average number of ordinary shares - in thousands	500,000	500,000
Loss per share - basic and diluted - Rupee	(0.38)	(1.14)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE HALF YEAR ENDED JUNE 30, 2010

12. RELATED PARTY TRANSACTIONS

Related parties comprise associated undertakings, majority shareholders, retirement benefit plans, directors and key management personnel of the bank. Contributions in respect of staff retirement benefits are made in accordance with actuarial valuation/terms of the contribution plan. Remuneration of the key management personnel are in accordance with the terms of their employment. Other transactions are at agreed terms.

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

	Unaudited June 30, 2010		Audited December 31, 2009	
	Key management personnel	Associates/ related party	Key management personnel	Associates/ related party
< ----- Rupees '000' ----- >				
Advances				
Balance at beginning of the period / year	98,817	1,347,039	103,694	930,458
Sanctioned / granted during the period / year	5,279	2,415,104	3,885	1,785,615
Payment received /adjusted during the period / year	(29,741)	(2,812,713)	(8,762)	(1,369,034)
Balance at end of the period / year	74,355	949,430	98,817	1,347,039

	Unaudited June 30, 2010		Audited December 31, 2009	
	Key management personnel	Associates/ related party	Key management personnel	Associates/ related party
< ----- Rupees '000' ----- >				
Deposits				
Balance at beginning of the period / year	7,601	442,313	3,934	1,489,978
Deposits during the period / year	789,635	14,005,083	3,563,588	76,936,419
Withdrawal during the period / year	(763,890)	(14,071,044)	(3,559,921)	(77,984,084)
Balance at end of the period / year	33,346	376,352	7,601	442,313

	Unaudited June 30, 2010	Audited December 31, 2009
Investments in Shares		
Thatta Cement Company Limited	-	112,773

	Unaudited June 30, 2010	Audited December 31, 2009
Others		
Investments in Mutual Funds	-	153,244
Advance rent	-	6,125
Purchase of assets	-	185,856
Guarantees, letters of credits and acceptances	-	161,383
Contribution paid to the provident fund	-	13,664
Other Receivables	4,277	-
Other payable	-	1,097
Mark up payable	704	4,285
Mark up receivable	-	65,435

	Unaudited June 30, 2010		Unaudited June 30, 2009	
	Key management personnel	Associates/ related party	Key management personnel	Associates/ related party
< ----- Rupees '000' ----- >				
Profit / expense for the half year				
Brokerage expenses paid - CFS	-	-	-	-
Brokerage expenses paid - equity securities	-	-	-	1,157
Rent expense	-	14,059	-	10,617
Mark up earned	2,681	77,206	2,028	80,623
Capital gain	-	3,077	-	9,712
Dividend income	-	3,030	-	10,320
Mark up expensed	2,243	24,208	1,059	65,868
Mark up paid	1,539	18,464	1,030	69,815
Contribution to provident fund	-	8,499	-	5,956

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE HALF YEAR ENDED JUNE 30, 2010

13. 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 '000' ----- >					
For the half year ended June 30, 2010						
Total income	8,000	782,130	400,331	1,209,884	2,591	2,402,936
Total expenses	2,208	380,097	795,128	1,673,802	275	2,851,510
Net income / (loss) before tax	5,792	402,033	(394,797)	(463,918)	2,316	(448,574)
Segment return on assets (ROA) (%)	93.01%	2.25%	(5.80%)	(2.77%)	114.82%	
Segment cost of funds (%)	35.46%	2.13%	11.67%	10.01%	13.63%	
For the half year ended June 30, 2009						
Total income	10,920	610,482	292,930	885,297	8,217	1,807,846
Total expenses	6,464	370,425	683,889	1,439,637	954	2,501,369
Net income / (loss) before tax	4,456	240,057	(390,959)	(554,340)	7,263	(693,523)
Segment return on assets (ROA) (%)	98.28%	1.85%	(7.67%)	(3.89%)	494.55%	
Segment cost of funds (%)	1.04%	2.64%	15.07%	1.17%	16.54%	
As at June 30, 2010						
Segment assets (Gross)	6,227	17,831,615	7,000,513	19,539,426	2,017	44,379,798
Segment non performing loans	-	-	319,459	4,261,117	-	4,580,576
Segment provision	-	-	188,270	2,814,748	-	3,003,018
Segment assets (Net)	6,227	17,831,615	6,812,243	16,724,678	2,017	41,376,780
Segment liabilities	1,080	2,237,528	8,847,591	26,532,718	5,181	37,624,098
As at December 31, 2009						
Segment assets (Gross)	9,812	17,230,556	3,854,766	19,645,597	887	40,741,618
Segment non performing loans	-	-	1,780,655	3,236,181	-	5,016,836
Segment provision	-	-	760,795	1,807,448	-	2,568,243
Segment assets (Net)	9,812	17,230,556	3,093,971	17,838,149	887	38,173,375
Segment liabilities	1,372	565,872	5,723,562	27,614,835	213,334	34,118,975

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

14. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on August 28, 2010 by the Board of Directors of the Bank.

15. GENERAL

15.1 Comparative information has been reclassified and re-arranged wherever necessary to facilitate the comparison. Significant reclassification include the following:

From	To	Half year ended June 30, 2009	Quarter ended June 30, 2009
< ---- Rupees '000' ---- >			
Loss from dealing in foreign currencies	Mark-up / return / interest expensed	46,170	17,696

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



PRESIDENT AND CHIEF EXECUTIVE



DIRECTOR



DIRECTOR

Branch Network

KARACHI (17 BRANCHES)

I.I. Chundrigar Road Branch

Uni Tower, I.I. Chundrigar Road Karachi. Tel:021-32466410-13

Boat Basin Branch

Ground floor, Plot No. FL-4, Hanging Garden, Block-5, Clifton Karachi. Tel:021-35824171-80, 021-35823469, 021-35823606

Gulshan-e-Iqbal Branch

Ground Floor, Shop # CA- 1, 2, 3, Hasan Center, Block 16, Main University Road Karachi. Tel: 021-34829024-27

Atrium Mall Branch

Shop No. 6 and 21 Ground floor, Plot No. 249, Atrium Mall, Zaibunissa Street, Saddar Karachi. Tel:021-5641000-9

Karachi Stock Exchange Branch

Room No. 60 to 63, KSE Building, Stock Exchange Road Karachi. Tel: 021-32462844-50, 021-32462829-30

Cloth Market Branch

28, Cochinwala Market, LaxmiDas Street Karachi. Tel:021-32443651, 021-32443591, 021-32443871

Korangi Branch

33/1, Sector-15, Korangi Industrial Area, Karachi. Tel:021-35122231-32

Gulistan-e-Jauhar (Sub-Branch)

118/A-B, Shop # 02,03,04 Ground Floor, Rufi Paradise Block-18,K.D.A, Scheme # 36, Gulistan-e-Jauhar, Karachi. Tel:021-34621281-4

Adamjee Nagar (Sub Branch)

Tipu Sultan Road, Adamjee Nagar, 115-A/Z, ShabierAbad, Opp Kathiawar Hospital, Karachi. Tel:021-34312984-7

Bahadurabad (Sub Branch)

Plot No. C-23, Block 3, CCA, Bihar Muslim Central Com. Area, Bahadurabad, Karachi. Tel:021-34913447, 021-34913449, 021-34913451

S.I.T.E. (Sub Branch)

B 49, State Avenue, SITE Karachi. Tel:021-32589662, 021-32589663

Dolmen City Branch

Ground Floor, Harbour Front, Triangular Tower, Dolmen City, Block 4, Clifton, Karachi. Tel:021-35297611-1561

Hyderi (Sub Branch)

D-10, Block F, North Nazimabad, Hyderi, Karachi. Tel:021-36724972-74

Nooriabad Branch

Nooriabad Industrial Area, Nooriabad Karachi. Tel:025-4670433

Khayaban-e-Jami Branch

64-C, 7th Street, Phase 7, Jami Commercial, DHA, Karachi. Tel:021-35316200-7

M. A. Jinnah Road Branch

Mezzanine Floor, Street R.B.6, Survey #19, Ram Bagh Quarters, M.A. Jinnah Road, Karachi. Tel:021-32218395, 021-32218409, 021-2218428

Jodia Bazar Branch

A/25/28 Darayalal Street, Jodia Bazar, Karachi. Tel:021-32500

Hyderabad (1 Branch)

Bori Bazar Branch

41/364, Saddar, Bori Bazar Hyderabad. Tel:022-2730911-5

Sukkur (1 Branch)

Marich Road Branch

B - 885, Marich Bazar, Sukkur. Tel:071-5627781-2, 85, 90

Mirpurkhas (1 Branch)

Mirpurkhas Branch

Plot No : 988 to 991 Umerkot Gharibabad, Mirpur Khas. Tel:0233-8751

Lahore (6 Branches)

Y Block DHA Branch

163, Block Y, Phase III, DHA Lahore Cantt, Lahore. Tel:042-5749069-79

Lahore Stock Exchange Branch

Office No. 5, LSE Building, 19, Aiwan e Iqbal Road, Lahore. Tel: 042-6280852-8, 042-6271715-6

Multan Road (Sub Branch)

Plot No. 9/A, Scheme More Corner, Industrial Block, Allama Iqbal Town, Multan Road, Lahore. Tel:042-7497451-6

Ferozpur Road (Sub Branch)

Siza Farmer Factory, Sufiabad, Main Ferozpur Road, Lahore. Tel:042-5800096-98

Gulberg Branch

132-E, Main Boulevard, Gulberg Lahore. Tel:042-5870832-33

Circular Road Branch

Baber Center, 51 Circular Road, Lahore. Tel:042-37379371-5

Branch Network

Islamabad (2 Branches)

Super Market Branch

Plot No. 6B, F-6, Super Market, Islamabad. Tel:051-2279167-70

Islamabad Stock Exchange (Sub Branch)

Shop No 5, Al Khair Plaza, Islamabad. Tel:051-2806281-3

Rawalpindi (1 Branch)

Bank Road

Plot No. 27, Bank Road, Rawalpindi. Tel:051-5120713-18

Multan (2 Branches)

Abdali Road Branch,

Plot No. 66-A & 66-B/9, Abdali Road, Multan.

Tel:4516761-2, 061-4572519

Hussain Agahi (Sub Branch)

Zenith Market, Chowk Bazar, Multan.

Tel:061-4511037, 061-4511057, 061-4511059

Faisalabad (2 Branches)

Yarn Market Branch

Property No. 7, Ward No.8, Chack No.212/RB,
Tehsil & District Faisalabad.

Tel:041-2619885, 041-2619746, 041-2645504

Liaquat Road Branch

Liaquat Road, FSD Chak # 212, Faisalabad. Tel:041-2541256-62

Gujranwala (1 Branch)

GT Road Branch

Property #Bx11-7S-105, Main GT Road, Gujranwala.

Tel:055-3820970-74

Gujrat (1 Branch)

Gujrat Branch

Revenue Area of Jattowakal, Main GT Road Tehsil & Distt, Gujrat.

Tel:053- 3517051-54

Peshawar (1 Branch)

Islamia Road Branch

Unit No. UG-67A, Upper GF & LG 79B & LG-79C,
Deans Trade Centre,

Islamia Road, Peshawar. Tel:091-5253981-5

Quetta (1 Branch)

M.A Jinnah Road Branch

Ground floor, Malik Plaza, M.A. Jinnah Road, Quetta.

Tel:081-2865590-95

Sadiqabad (1 Branch)

Sadiqabad Branch

Mozzah Khuda Bux Dehar, Macchi Goth, KLP Road, Sadiqabad.

Tel:068-5786791, 068-5786792, 068-5786793

Mirpur AJK (1 Branch)

Mirpur AJK Branch

NS Tower 119 F/1, Kotli Road, Mirpur, Azad Kashmir.

Tel:058274-37193-6

Sialkot (1 Branch)

Paris Road Branch

Plot No. 1/1437 Paris Road, Sialkot. Tel:052-4602894-97

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