

HBL



HABIB ALLIED INTERNATIONAL BANK PLC

ANNUAL REPORT 2007



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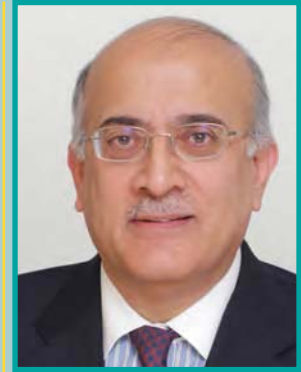
B O A R D O F



R. Zakir Mahmood
Chairman



Iain Donald Cheyne
Vice Chairman



Nauman K Dar
Chief Executive Officer

D I R E C T O R S



David Blatchford
Director



M. Aftab Manzoor
Director



Ayaz Ahmed
Director

M A N A G E M



E N T T E A M



Nauman K Dar
Chief Executive Officer

Anwar Zaidi
Head of Business
Development Group

Chris Wright
Head of Treasury

Hamid M Qazi
Head of Corporate Affairs
& HR

William Dobbie
Head of Finance

Chris Hayward
Head of Credit

Tariq M Akbar
Head of Operations

Gareth C Elford
Head of Audit &
Compliance, MLRO

CHAIRMAN'S REVIEW

I am pleased to present my review of Habib Bank UK's performance for the year 2007.

The Industry

The year began with the UK financial industry in general good health, albeit against the background of higher inflation but a stable property market. A change was visible during the third quarter when the US sub-prime loan crisis became more pronounced with subsequent ripple effects being felt in the UK. The market sentiments were reflected in the high volatility of interest rates which was a cause for concern for the Financial Industry especially those banks that were heavily dependent on institutional funding which was getting scarce and costly.

The funding model of Habib Bank UK, however, remained sound, with all loans and advances funded through customer deposits. A more cautious approach was nonetheless taken to ensure prudent placement of surplus liquidity.

As part of our preparation for adherence to BASEL II, the "ICAAP" (Internal Capital Adequacy Assessment Process), as required under Pillar II of the framework, has been developed for Regulatory authorisation. This will, in some measure, set the basis of future expansion of the Bank's risk assets.

Business Development

The Bank is booking increasing amounts of trade business as we seek to broaden our customer base domestically whilst at the same time maintaining a dominant position with respect to business from Pakistan. We will continue to explore growth opportunities in other emerging markets by leveraging the network of the parent bank (HBL) and other affiliates.

We continue to strive to offer superior levels of customer service. It is in this field that we have a unique competitive advantage for our personal, business and institutional customers.

In order to further improve the delivery channels available to our customers, a Debit/ATM card was soft launched during the year. This will be marketed

extensively in 2008 with a view to expanding our UK client base from locations where the Bank does not have a branch outlet.

In line with the growth strategy, a new branch site has been identified in East London. This will enable the Bank to provide products and services to our target segment in areas of large concentration of the South Asian community.

Financial Performance

The Bank continues to maintain its growth trajectory over the 6 years of its establishment.

Profit before tax grew by 25% (from £2.920 million in 2006 to £3.646 million in 2007) primarily due to a 9.4% growth in Operating Income and well contained Operating Expense. The continuing increase in profitability and its retention has grown the Shareholders Equity & Reserves to £39 million which in turn will give further impetus in growing the assets of the Bank. The challenge continues to be for the Bank to grow its Fees, Commission & FX income.

A healthy 10% growth was achieved in customer deposits (from £152 million at the end of 2006 to £167 million at the end of 2007). Bank deposits also grew substantially from £87 million to £99 million (up 14% over the previous year). Loans and Advances to customers grew by 27% (from £85 million at the end of 2006 to £108 million at the end of 2007).

Outlook

Along with the higher fuel and food prices which will raise the cost of living in the first half of 2008, the credit crunch will also take its toll on the UK economy. There are already growing signs of an economic slowdown, possibly necessitating cuts in interest rates in the UK. Additionally, it is likely that more stringent lending standards will be imposed as a result of the knock-on effects of the US led sub-prime problems.

The financial market strains originating in the US may possibly necessitate bigger cuts in the Fed Fund rate over and above the 0.75% drop seen recently. The US GDP growth for 2008 is expected to be 1.5% as compared to 1.9% in 2007.

The business model of Habib Bank UK, however, will allow us to weather these conditions as our lending criteria are robust with sufficient cushion in our loan-to-value ratios to withstand a drop in property prices. We are in the process of expanding our coverage within the UK to tap the depository clientele that could not be reached earlier. On the trade side, we continue to diversify to other emerging markets through the linkages of the Parent Bank.

Acknowledgement

On behalf of the Board, I would like to acknowledge the support provided by the Regulators, coupled with a deep appreciation of our customers for their unwavering loyalty. I must also acknowledge the contributions of my fellow board members as well as the management and staff of Habib Bank UK for their dedication to the fulfilment of our Bank's vision.

We have every reason to look forward to continued growth in 2008 on the back of a sound business model established at the Bank.

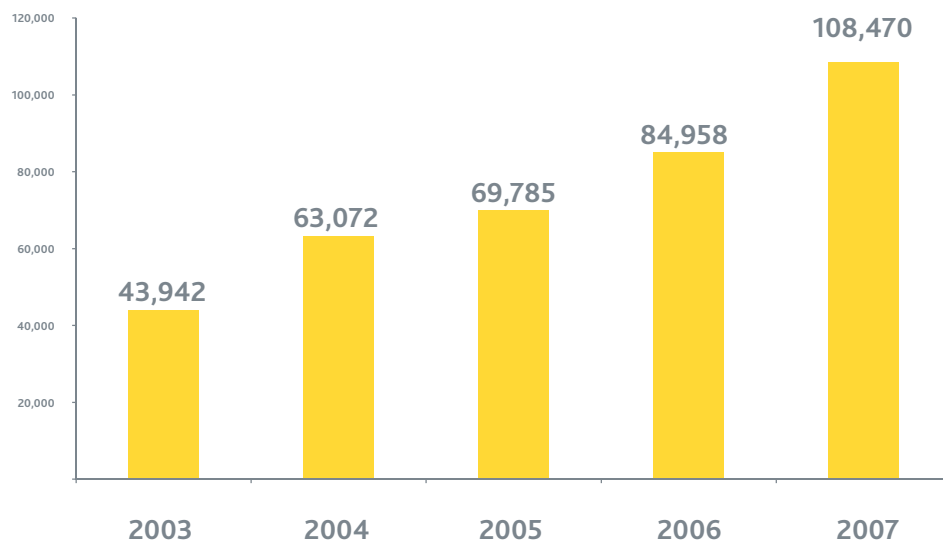
R. Zakir Mahmood
Chairman

Last Five Years at a Glance

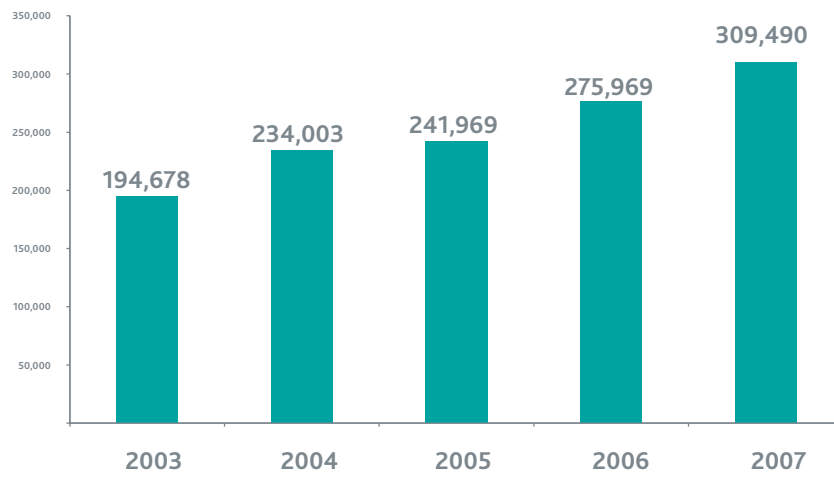
£'000 Customer Deposits



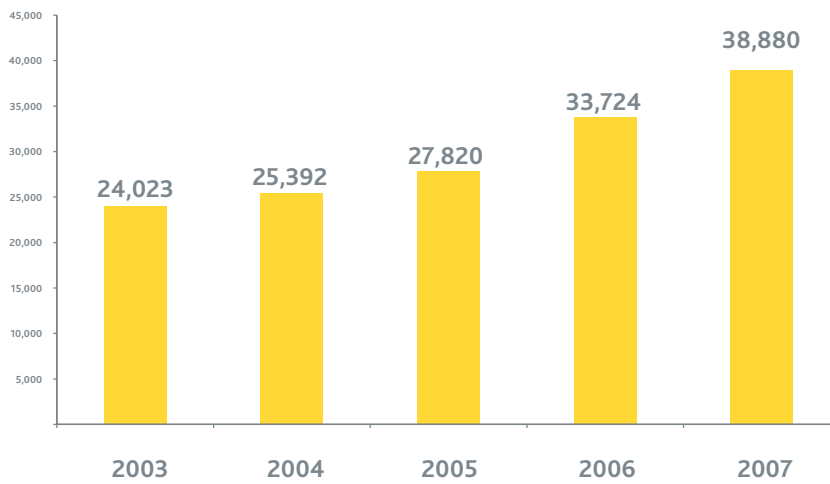
£'000 Advances



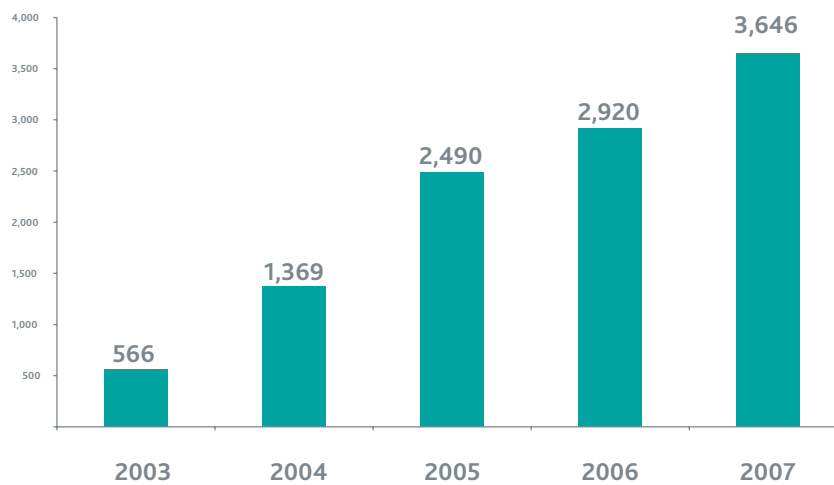
£'000 **Total Assets**



£'000 **Shareholders Equity & Reserves**



£'000 **Pre Tax Profit**



Directors' Report

The Directors are pleased to present their Annual Report and Audited Financial Statements together with the Auditors' Report thereon for the year ended 31 December 2007.

Principal Activity

The Bank is an authorised institution under the Financial Services and Markets Act 2000 and is regulated by the Financial Services Authority. The principal activity of the Bank is the provision of a range of commercial banking services in the United Kingdom including a comprehensive service in all aspects of trade finance, short term finance through bills discounting and traditional banking products within the scope of the authorisation granted to the Bank by the FSA.

Business Development

This year the Bank has completed its sixth full year of operations and has made satisfactory progress in all the areas of its operation. During the year the efforts towards extending the Bank's business into diversified fields and to further enhance relationship with small and medium scale business firms has proven successful. This is reflected in the operating results of 2007 which show a steady and sustainable growth in customer deposits, customer loans/ advances, financial institutions loans and bills discounting.

The Bank has maintained strong growth in Trade Finance. The Bank's assets are primarily financed by customer deposits. The Bank has continued to increase its customer deposits and attract quality borrowers to further develop its retail and corporate banking services to its target clients.

The Bank believes in offering and providing value added services to its customers with a commitment to quality, and value to clients. The Bank's organisational structure is designed to support this objective while also ensuring that effective controls, supervision and consistency are maintained across the business.

Whilst continuing to maintain its superior asset quality and underwriting standards, comfortable capital adequacy and surplus liquidity, the Bank's profit on ordinary activities before tax grew by 25% over the previous year.

The Directors are confident that the Bank will strive

for continued strong performance and deliver even better results in the years to come.

Financial Performance – Results

The financial statements for the year ended 31 December 2007 are set out in detail on pages 17 to 31. The profit on ordinary activities before tax for the financial year amounted to £ 3,646,000 (2006 - £2,920,000).

The Directors do not propose the payment of a dividend for the year.

Share Capital

Fully paid-up capital of the Bank remained unchanged at £25,000,000 divided into 25,000,000 ordinary shares, with the following shareholding:

| | |
|---------------------|--------|
| Habib Bank Limited | 90.50% |
| Allied Bank Limited | 9.50% |

Directors

During the year under report, the Board of Directors held three meetings. The Directors who held office at the date of this report are:

| | |
|---------------------|-------------------------------------------|
| R. Zakir Mahmood | Chairman – Non Executive |
| Iain D. Cheyne | Vice Chairman - Non Executive |
| Ayaz Ahmed | Non Executive |
| David J. Blatchford | Independent Non Executive |
| M. Aftab Manzoor | Non Executive (Appointed 1 November 2007) |
| Nauman K. Dar | Chief Executive Officer |

Khalid A. Sherwani also served on the Board during the year and retired with effect from 31 October 2007.

The Board records its appreciation for the valuable services rendered by the outgoing director Khalid A. Sherwani.

Director's Interests

None of the Directors who held office either during the year or at the end of the financial year under review had any disclosable interest in the shares of the Bank.

No contract of significance in relation to the Bank's business in which a director of the Bank has a material interest other than a service contract with the Bank, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Policy and Practice on Payment to its Suppliers

The Bank conforms to terms of settlement agreed with its suppliers as long as it is satisfied that goods or services have been supplied as agreed. It is not the Bank's policy to follow the terms of a standard code of payment practice. Based on the amounts billed by suppliers during the year, the average days outstanding for trade creditors at 31 December 2007 amounted to 14 days (2006 – 28 days).

Political and Charitable Contributions

During the year, the Bank made no political or charitable contributions.

Corporate Governance

The Bank's corporate governance is directed not only towards regulatory and legal requirements but also towards adherence to best business practices, transparency and disclosures to shareholders. The Bank within its relationship with its borrowers, depositors, shareholders and other stakeholders has always maintained its fundamental principles of corporate governance – that of integrity, transparency and fairness, seeking to provide an enabling environment

to harmonise the goals of maximising shareholder value and maintaining a customer centric focus.

The corporate governance framework of the Bank is based on an effective and independent Board which is not involved in day-to-day management. The Board of Directors is entrusted with the formulation of policy guidelines, objective settings, strategic planning, organisational structure, supervising business activities, reviewing performance of management, ensuring regulatory compliance and safeguarding interests of the shareholders. The Management seeks to realise the Bank's strategic goals which are to maximise long term shareholder value and to maintain the highest standards of integrity and transparency.

Board meetings are held at least three times a year. If required, additional meetings can be held to discuss any specific items of critical importance. The Company Secretary in consultation with the CEO and Chairman prepares a detailed agenda for the meetings. Agenda papers and other explanatory notes are circulated to the directors in advance. The directors have complete access to all information of the Bank, and are free to recommend inclusion of any matter in the agenda for discussion. Senior management is also invited to attend the Board meetings as and when required, so as to provide additional input to the items or issues being reviewed or discussed by the Board.

For smooth operation, risk management and monitoring purposes, the Board has formed various committees. These Board Committees conduct detailed analyses and reviews of various policies and critical issues and ensure that the activities of the Bank are always conducted with the highest ethical standards. All the significant matters discussed and decided at each meeting are reported to the Board by the Chairman of the respective Committee.

The Audit and Compliance function is independent with the Head of Audit and Compliance reporting directly to the Chairman of the Audit and Compliance Committee who is an Independent Non Executive Director.

Directors' Report

The Chief Executive Officer, who reports to the Chairman and the Board, is empowered for all operational issues and day-to-day management of the Bank. In carrying out his duties he is assisted by senior management and the following committees:

- Asset and Liability Committee;
- Business Review Committee;
- Operations Review Committee; and
- IT Steering Committee.

The Bank has developed an effective compliance team with the aim of ensuring adherence to regulatory requirements throughout the Bank, as well as providing timely guidance to business areas. Compliance work is designed to ensure that the Bank's activities are undertaken with the highest professional ethics and in accordance with relevant laws and regulations.

Risk Management

The Bank is exposed to a range of risks in its operations as a financial institution. Hence effective Risk Management is necessary for the Bank to achieve its objectives. To ensure that, the Board of Directors has established:

- Well defined, clear and coherent Risk Management Policies and Procedures on various types of risks to the Bank;
- Suitable forums for discussing, monitoring and managing these risks. All key decisions are subject to the "four eyes" principle;
- Suitable internal processes, procedures and controls to mitigate the identified risks;
- A Risk Management Framework which sets out the constitution, roles and responsibilities of the Board of Directors, Non Executive Directors, all the Committees, Chief Executive Officer, and Management.

To enable a better and more focused attention to the affairs of the Bank, the Board has established the following committees to prepare the ground work for decision making and to assist the Board in monitoring the effective implementation of the Policies, Processes and Procedures:

- Audit and Compliance Committee;
- Credit Policy Committee;
- Human Resources Committee.

Code of Ethics

Every employee of the Bank has a significant role to play in preserving and nurturing the Bank's reputation for honesty, integrity, and fair play in dealing with fellow employees, customers, regulators, suppliers and the general public. The Bank expects all employees to conduct themselves in accordance with the highest standards of personal and professional integrity and to comply with all laws, regulations, corporate policies and procedures.

The standards of ethical conduct which the Bank expects from its employees are laid down in the Bank's Code of Ethics and Business Conduct introduced in 2006. These are a set of principles that reinforce the rules and regulations reflected in the Bank's Policies and Procedures and cover important topics including prevention of money laundering and terrorist financing, fraud – theft or illegal activities, office decorum, confidentiality, conflicts of interest, insider trading, gifts and inducements.

Acknowledgement

The Board of Directors takes the opportunity to express its thanks and gratitude to all the stakeholders, and its customers who have extended their co-operation, support and contributed to put the Bank at a distinctive edge over its competitors and pledges its best efforts to create value for them and to remain their Bank of choice.

The Board of Directors also records its appreciation to the management and staff for their dedication, commitment and team work, without which this year's results would not have been possible.

Directors' Representation

The Directors' who held office at the date of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditors are unaware; and each director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

The Directors are unaware of any material events that have occurred since the end of the financial year to the date of signing this report that could impact the financial health of the Bank.

Auditors

KPMG Audit Plc, the present auditor of the Bank, has expressed its willingness to continue in office. A resolution proposing its reappointment as Auditors and giving authority to the directors to fix its remuneration will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Nauman K. Dar
Chief Executive Officer

Habib Allied International Bank Plc
63 Mark Lane
London EC3R 7NQ

26 February 2008

Statement of Directors' Responsibilities

in respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its financial statements comply with the Companies Act 1985.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report

to the members of Habib Allied International Bank Plc

We have audited the financial statements of Habib Allied International Bank Plc for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Bank's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 14.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985.

We also report to you whether in our opinion the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information

specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended;

Independent Auditors' Report

- The financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants

Registered Auditor
8 Salisbury Square
London EC4Y 8BB

26 February 2008

Profit & Loss Account

For the Year Ended 31 December 2007

| <i>Profit and loss account</i> | Note | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|------------------------------------------------------------------------|------|--------------------------------------------|--------------------------------------------|
| Interest receivable | | | |
| Interest receivable and similar income arising from debt securities | | 4,211 | 3,223 |
| Other interest receivable and similar income | | 11,734 | 8,788 |
| | | <u>15,945</u> | <u>12,011</u> |
| Interest payable | | (9,004) | (5,870) |
| Net interest income | | <u>6,941</u> | <u>6,141</u> |
| Fees and commissions receivable | | 1,880 | 1,857 |
| Less: Fees and commissions payable | | - | - |
| | | 1,880 | 1,857 |
| Foreign exchange dealing profits | | 455 | 523 |
| Other operating income | | 931 | 807 |
| Total operating income | | <u>10,207</u> | <u>9,328</u> |
| Administrative expenses | 2 | (5,948) | (5,852) |
| Depreciation and amortisation | 9 | (394) | (423) |
| Total operating expenditure | | (6,342) | (6,275) |
| Provisions | 7 | 219 | 133 |
| Profit on ordinary activities before tax | 3 | <u>3,646</u> | <u>2,920</u> |
| Taxation | 4 | 1,510 | 2,984 |
| Profit on ordinary activities after tax | 16 | <u><u>5,156</u></u> | <u><u>5,904</u></u> |

There are no recognised gains and losses other than the profit for the year as reported above.
The result for the year is derived entirely from continuing activities.
The notes on pages 19 to 31 form part of these financial statements.

Balance Sheet

As at 31 December 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---------------------------------------------|------|----------------|----------------|
| Assets | | | |
| Cash and balances at central banks | | 306 | 445 |
| Loans and advances to banks | 6 | 150,379 | 134,325 |
| Loans and advances to customers | 7 | 108,470 | 84,958 |
| Debt securities | 8 | 41,049 | 48,160 |
| Tangible fixed assets | 9 | 1,361 | 1,166 |
| Other assets | 10 | 6,358 | 5,040 |
| Prepayments and accrued income | | 1,567 | 1,875 |
| Total assets | | <u>309,490</u> | <u>275,969</u> |
| Liabilities | | | |
| Deposits by banks | 11 | 98,993 | 86,951 |
| Deposits by customers | 12 | 167,075 | 151,915 |
| Other liabilities | 13 | 2,983 | 2,816 |
| Accruals and deferred income | | 1,559 | 563 |
| Shareholders' funds | | | |
| Share capital | 14 | 25,000 | 25,000 |
| Profit and loss account | 16 | 13,880 | 8,724 |
| | | 38,880 | 33,724 |
| Total liabilities | | <u>309,490</u> | <u>275,969</u> |
| Memorandum items | | | |
| Contingent liabilities: | | | |
| Acceptances and endorsements | | 45,465 | 34,719 |
| Guarantees and assets pledged as collateral | | 12,090 | 4,168 |
| | | <u>57,555</u> | <u>38,887</u> |

The notes on pages 19 to 31 form part of these financial statements.

These financial statements were approved by the board of directors on 26 February 2008 and signed on its behalf by:

Nauman K. Dar
Director

Notes to the Accounts

These notes form part of the financial statements

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Bank's financial statements:

(a) Basis of preparation

The financial statements cover the year from 1 January 2007 to 31 December 2007 and have been prepared under the historical cost convention and in accordance with the special provisions of Part VII, Chapter II of the Companies Act 1985 relating to banking companies, applicable UK accounting standards and the British Banker's Association Statements of Recommended Accounting Practice.

The preparation of these financial statements require management to make estimates and judgements. This is particularly so in the development of provisions for bad and doubtful debts. Making reliable estimates of the ability of customers and other counterparties to repay is often difficult even in periods of economic stability and becomes more difficult in periods of economic volatility. Therefore, while management believes it has employed all available information to estimate adequate allowances for all identifiable risks in the current portfolios, there can be no assurance that the provisions for bad and doubtful debts or other provisions will prove adequate for all losses ultimately realised.

(b) Cash flow statement

Under FRS 1 (revised) "Cash flow statements", the Bank is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Bank in its own published consolidated financial

statements.

(c) Loans and advances

Advances cover loans, overdrafts and other methods of extending credit to borrowers.

Advances, net of amounts written-off, are recorded in the balance sheet on the basis of the cost of the amount of the advance outstanding, less suspended interest debited to the customers' account, specific and general provisions.

Specific provisions are made for advances which are recognised to be bad or doubtful. General provisions are also maintained as considered appropriate by the directors to cover performing loans and advances, bills discounted, and customers acceptances outstanding under letters of credit. Provisions made during the year are charged to revenue, net of recoveries. When there is no further likelihood of recovery, the remaining balance is written off.

(d) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into Sterling at the exchange rates ruling at the balance sheet date. Surpluses and deficits arising on translation are accounted for in the profit and loss account for the year.

(e) Debt securities

Investments held to maturity are shown in the balance sheet at cost plus any discounts earned up to the balance sheet date or minus any premiums chargeable against profit as at the balance sheet date, less any provision for permanent impairment.

Notes to the Accounts

(f) Depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight line method. Rates applicable are as follows:

| Nature of assets | Rate of depreciation |
|------------------------------------------|----------------------|
| Buildings | 5% |
| Leasehold improvements | over lease period |
| Furniture, fixtures and office equipment | 20% |
| Computer hardware and software | 20 - 33% |

Depreciation is charged on fixed assets from the month these are brought into use, whereas no depreciation is charged on assets during the month of disposal.

Fixed assets that are unserviceable are written-off and their book value charged to the profit and loss account in the year in which the write-off takes place.

Gains or losses on the disposal of fixed assets are taken to the profit and loss account.

(g) Deferred taxation

Deferred taxation is recognised in accordance with FRS 19 "Deferred Tax" and in respect of timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax assets are regarded as recoverable and recognised in the financial

statements to the extent that, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the timing difference can be deducted.

(h) Pension obligations

The Bank does not operate a defined benefits pension scheme. Pension costs under defined contribution arrangements are charged as incurred.

(i) Revenue recognition

Interest income is recognised in the profit and loss account as it accrues other than interest of doubtful collectibility which is credited to a suspense account and excluded from interest income. The balance on the suspense account is netted in the balance sheet against the amount debited to the borrower. Suspended interest is written off when there is no longer any realistic prospect of it being recovered.

Fees receivable which represent a return for services provided or risk borne or which are in the nature of interest are credited to income when the related service is performed or over the period of the loan, depending on the nature of the income.

Dealing profits represent foreign exchange profits or losses except for forward discounts or premiums which are amortised and treated as interest.

(j) Related party transactions

The Bank has taken advantage, under FRS 8, "Related Party Disclosures", of the exemption not to disclose related party transactions with group companies, as it is a 90.5% owned subsidiary of Habib Bank Limited.

2. Administrative expenses

| | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|-------------------------------|--------------------------------------------|--------------------------------------------|
| Staff costs: | | |
| Wages and salaries | 3,418 | 3,178 |
| Social security costs | 364 | 484 |
| Other pension costs | 143 | 129 |
| Other administrative expenses | 2,023 | 2,061 |
| | <u>5,948</u> | <u>5,852</u> |

The average number of persons (including part-time employees) employed by the Bank during the period was 79. The total number of persons employed at 31 December 2007 was 82 (2006: 75).

At 31 December 2007, £ Nil (2006: £ Nil) was outstanding by way of loans to officers. The amount outstanding by way of a loan on normal commercial terms to one director was £ Nil (2006: £868,000).

3. Profit on ordinary activities before tax

| | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|--------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| (a) Is stated after | | |
| <i>Charging:</i> | | |
| Fees payable to the Banks' auditors for the audit of the Banks' financial statements | 85 | 57 |
| Fees payable to the Banks' auditors for other services: | | |
| Services relating to taxation | - | 22 |
| All other services | 18 | 7 |
| Operating lease rentals | | |
| Land and buildings | 241 | 479 |

Notes to the Accounts

(b) Commitments

Annual commitments under non-cancellable operating leases on land and building are as follows:

| | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|--------------------------------|--------------------------------------------|--------------------------------------------|
| Operating leases which expire: | | |
| Within one year | - | - |
| In the second to fifth years | 241 | 243 |
| Over five years | - | - |

(c) Segmental reporting

The Bank has one class of business and all other services provided are ancillary to this. All business is conducted from the United Kingdom.

4. Taxation

| | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|-------------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| (a) Analysis of charge for the year | | |
| Current tax: | | |
| UK corporation tax for the year (note 4 (b)) | 270 | 210 |
| Underprovision in respect of prior year | - | 6 |
| Total current tax | <u>270</u> | <u>216</u> |
| Deferred tax: | | |
| Recognition of losses carried forward | (1,780) | (3,200) |
| Tax credit | <u>(1,510)</u> | <u>(2,984)</u> |
| (b) Factors affecting tax charge for the year | | |
| Profit on ordinary activities before tax | <u>3,646</u> | <u>2,920</u> |
| Profit multiplied by standard tax rate of 30% (2006: 30%) | 1,094 | 876 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 140 | 62 |
| Depreciation for the period in excess of capital allowances | 27 | 67 |
| Utilisation of losses brought forward | (991) | (795) |
| Current tax charge for the year | <u>270</u> | <u>210</u> |

(c) Factors that may affect the future tax charge

Since the Bank is a 90.5% owned subsidiary of Habib Bank Limited, and has been granted the status of an authorised institution under the UK Financial Services and Markets Act 2000 by the Financial Services Authority, the assessed trading losses brought forward by Habib Bank Limited are available to offset against the future profits arising on the former activities of Habib Bank Limited. Corporation Tax returns have been agreed up to the year ended 31 December 2005 with HM Revenue and Customs. Tax losses amounting to £30,577,000 were unutilised as at that date (2006: £33,157,000 unutilised as at 31 December 2004).

At 31 December 2006, based on the previous profitability of the bank and on the business plan for the three years to 31 December 2009 (which forecast that this profitability would continue), the directors decided that they should recognise a deferred tax asset of £3,200,000. This amount is recognised to the extent to which the losses brought forward are regarded as recoverable in the foreseeable future as at 31 December 2006. The Bank has now maintained a five year period of profitability. As at 31 December 2007, based on this continued profitability, and on the business plan for the four years to 31 December 2011 which demonstrates that the Bank will continue to be profitable over that period, the directors have decided that they should recognise a total deferred tax asset of £4,980,000. This amount is recognised to the extent to which the losses brought forward are regarded as recoverable in the foreseeable future as at 31 December 2007.

The additional deferred tax asset recognised at 31 December 2007 is £1,780,000.

5. Emoluments of directors

| | Year ended 31 December 2007 £'000 | Year ended 31 December 2006 £'000 |
|-----------------------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| Directors' fees and emoluments | 345 | 437 |
| Pension contributions | 11 | 11 |
| | <u>356</u> | <u>448</u> |
| The total remuneration and benefits of the highest paid director were | <u>329</u> | <u>428</u> |

Benefits under defined contribution pension arrangements accrued during the year to 1 Director (2006: 1 Director).

Notes to the Accounts

6. Loans and advances to banks

| | 2007 £'000 | 2006 £'000 |
|----------------------------------|----------------|----------------|
| Repayable: | | |
| On demand | 4,221 | 17,003 |
| 3 months or less | 119,234 | 74,194 |
| 1 year or less but over 3 months | 26,148 | 43,029 |
| 5 years or less but over 1 year | 776 | 99 |
| | <u>150,379</u> | <u>134,325</u> |

As at 31 December 2007, the amounts repayable on demand included a balance of £ 1,009,000 (2006: £3,899,000) due from the parent company.

7. Loans and advances to customers

| | 2007 £'000 Total | 2006 £'000 Total |
|----------------------------------|------------------------|------------------------|
| Remaining maturity: | | |
| 3 months or less | 44,516 | 25,377 |
| 1 year or less but over 3 months | 11,316 | 23,560 |
| 5 years or less but over 1 year | 45,209 | 16,880 |
| Over 5 years | 8,527 | 20,020 |
| Provisions | (1,098) | (879) |
| | <u>108,470</u> | <u>84,958</u> |

In addition to the above, the Bank is managing delinquent debts on behalf of Habib Bank Limited ("HBL") and Allied Bank Limited ("ABL") that arose prior to their transfer of business to HAIB in 2001. The loan balances for HBL amounted to £20,415,000 (2006: £24,236,000) and for ABL amounted to £15,000 (2006: £15,000) which were fully provisioned. Any gain and/or loss on these accounts are for the benefit of HBL and ABL.

| <i>Provisions</i> | HAIB Specific £ '000 | HAIB General £ '000 | 2007 Total £ '000 | 2006 Total £ '000 |
|-------------------------|----------------------------|---------------------------|-------------------------|-------------------------|
| At 31 December 2006 | 29 | 850 | 879 | 747 |
| Write-offs | - | - | - | (1) |
| Provisions for the year | 3 | 216 | 219 | 133 |
| At 31 December 2007 | <u>32</u> | <u>1,066</u> | <u>1,098</u> | <u>879</u> |

8. Debt securities

| | 2007 £'000 | 2006 £'000 |
|-------------------------------|---------------|---------------|
| <i>Investment securities</i> | | |
| <i>Listed</i> | | |
| Foreign government securities | 3,732 | 3,833 |
| Other issuers | 37,317 | 44,327 |
| | <u>41,049</u> | <u>48,160</u> |
| Due within one year | 2,488 | 10,850 |
| Due one year and over | 38,561 | 37,310 |
| | <u>41,049</u> | <u>48,160</u> |

| | Cost £'000 | Discount / Premium £'000 | Carrying value £'000 |
|-----------------------------------------|---------------|--------------------------------|----------------------------|
| <i>Investment securities - movement</i> | | | |
| At 31 December 2006 | 48,090 | 70 | 48,160 |
| New investments | 3,752 | (3) | 3,749 |
| Exchange adjustments | 32 | - | 32 |
| Matured during the year | (10,851) | (41) | (10,892) |
| At 31 December 2007 | <u>41,023</u> | <u>26</u> | <u>41,049</u> |

The market value of listed securities is £39,964,000 (2006 : £48,231,000).

Notes to the Accounts

9. Tangible fixed assets

| | Freehold property | Leasehold improvements | Computers, furniture, fixtures & equipment | Total |
|--------------------------------------------------|----------------------|---------------------------|-----------------------------------------------------|-------|
| | £'000 | £'000 | £'000 | £'000 |
| <i>Cost or valuation</i> | | | | |
| At 31 December 2006 | 679 | 541 | 1,526 | 2,746 |
| Additions | - | 345 | 244 | 589 |
| At 31 December 2007 | 679 | 886 | 1,770 | 3,335 |
| <i>Accumulated depreciation and amortisation</i> | | | | |
| At 31 December 2006 | 157 | 262 | 1,161 | 1,580 |
| Charge for the year | 34 | 176 | 184 | 394 |
| At 31 December 2007 | 191 | 438 | 1,345 | 1,974 |
| Net book value | | | | |
| At 31 December 2007 | 488 | 448 | 425 | 1,361 |
| At 31 December 2006 | 522 | 279 | 365 | 1,166 |

10. Other assets

| | 2007 £'000 | 2006 £'000 |
|-----------------------|---------------|---------------|
| Deferred tax (note 4) | 4,980 | 3,200 |
| Sundry debtors | 1,378 | 1,840 |
| | 6,358 | 5,040 |

11. Deposits by banks

| | 2007 £'000 | 2006 £'000 |
|-------------------------------------------------------------------------|---------------|---------------|
| With agreed maturity dates or periods of notice, by remaining maturity: | | |
| <i>Banks</i> | | |
| <i>Repayable</i> | | |
| On demand | 15,493 | 10,472 |
| 3 months or less but not repayable on demand | 52,665 | 47,921 |
| 1 year or less but over 3 months | 2,616 | 4,203 |
| | <u>70,774</u> | <u>62,596</u> |
| <i>Parent company</i> | | |
| <i>Repayable</i> | | |
| On demand | 3,355 | 4,031 |
| 3 months or less but not repayable on demand | 24,864 | 20,324 |
| | <u>28,219</u> | <u>24,355</u> |
| <i>Total</i> | | |
| <i>Repayable</i> | | |
| On demand | 18,848 | 14,503 |
| 3 months or less but not repayable on demand | 77,529 | 68,245 |
| 1 year or less but over 3 months | 2,616 | 4,203 |
| | <u>98,993</u> | <u>86,951</u> |

12. Deposits by customers

| | 2007 £'000 | 2006 £'000 |
|-------------------------------------------------------------------------|----------------|----------------|
| With agreed maturity dates or periods of notice, by remaining maturity: | | |
| <i>Repayable</i> | | |
| On demand | 32,966 | 33,649 |
| 3 months or less but not repayable on demand | 127,607 | 111,912 |
| 1 year or less but over 3 months | 6,502 | 6,354 |
| | <u>167,075</u> | <u>151,915</u> |

Notes to the Accounts

13. Other liabilities

| | 2007 £'000 | 2006 £'000 |
|-------------------|---------------|---------------|
| Bills payable | 310 | 1,335 |
| Corporation tax | 121 | 210 |
| Other liabilities | 2,552 | 1,271 |
| | <u>2,983</u> | <u>2,816</u> |

14. Share capital

| | 2007 £'000 | 2006 £'000 |
|-------------------------------------------|---------------|---------------|
| <i>Authorised</i> | | |
| Ordinary shares of £1 each | <u>50,000</u> | <u>50,000</u> |
| <i>Allotted, called up and fully paid</i> | | |
| Ordinary shares of £1 each | <u>25,000</u> | <u>25,000</u> |

15. Movement in Shareholders' funds

| | 2007 £'000 | 2006 £'000 |
|---------------------------------|---------------|---------------|
| Shares issued | 25,000 | 25,000 |
| Retained profit brought forward | 8,724 | 2,820 |
| Profit for the year | 5,156 | 5,904 |
| | <u>38,880</u> | <u>33,724</u> |

16. Profit and loss account

| | 2007 £'000 | 2006 £'000 |
|-------------------------|---------------|---------------|
| Balance brought forward | 8,724 | 2,820 |
| Profit for the year | 5,156 | 5,904 |
| Balance carried forward | <u>13,880</u> | <u>8,724</u> |

17. Assets and liabilities denominated in foreign currency

| | 2007 £'000 | 2006 £'000 |
|---------------------------------|----------------|----------------|
| Assets | | |
| Denominated in Sterling | 151,046 | 151,824 |
| Denominated in other currencies | 158,444 | 124,145 |
| | <u>309,490</u> | <u>275,969</u> |
| Liabilities | | |
| Denominated in Sterling | 151,496 | 151,642 |
| Denominated in other currencies | 157,994 | 124,327 |
| | <u>309,490</u> | <u>275,969</u> |

18. Fair value of financial instruments

The book and fair values of financial assets and liabilities held in the banking book are set out below:

| | 2007 Book Value £'000 | Fair Value £'000 | 2006 Book Value £'000 | Fair Value £'000 |
|------------------------------------|-----------------------------|---------------------|-----------------------------|---------------------|
| Assets | | | | |
| Cash and balances at central banks | 306 | 306 | 445 | 445 |
| Loans and advances to banks | 150,379 | 150,379 | 134,325 | 134,325 |
| Loans and advances to customers | 108,470 | 108,470 | 84,958 | 84,958 |
| Debt securities | 41,049 | 39,964 | 48,160 | 48,231 |
| Tangible fixed assets | 1,361 | 1,361 | 1,166 | 1,166 |
| Other assets | 6,358 | 6,358 | 5,040 | 5,040 |
| Prepayments and accrued income | 1,567 | 1,567 | 1,875 | 1,875 |
| | <u>309,490</u> | <u>308,405</u> | <u>275,969</u> | <u>276,040</u> |
| Liabilities | | | | |
| Deposits by banks | 98,993 | 98,993 | 86,951 | 86,951 |
| Deposits by customers | 167,075 | 167,075 | 151,915 | 151,915 |
| Other liabilities | 2,983 | 2,983 | 2,816 | 2,816 |
| Accruals and deferred income | 1,559 | 1,559 | 563 | 563 |
| | <u>270,610</u> | <u>270,610</u> | <u>242,245</u> | <u>242,245</u> |

Notes to the Accounts

19. Interest rate sensitivity gaps

Interest rate risk primarily arises on the mis-matching of the Bank's assets with its funding. Interest rate sensitivity gaps in the Bank at the end of the year were:

| | 2007 | | | | | Total £'000 |
|----------------------------------------------|-------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------------------------|--------------------------------------------------------------|----------------------------------|----------------|
| | Not more than three months £'000 | More than three months but not more than 6 months £'000 | More than six months but not more than 1 year £'000 | More than 1 year but not more than 5 years £'000 | Non interest bearing £'000 | |
| | Loans and advances to: | | | | | |
| banks | 119,235 | 7,892 | 13,281 | 776 | 9,195 | 150,379 |
| customers | 108,470 | - | - | - | - | 108,470 |
| Debt securities | 37,317 | - | - | 3,732 | - | 41,049 |
| Other assets | - | - | - | - | 9,592 | 9,592 |
| | <u>265,022</u> | <u>7,892</u> | <u>13,281</u> | <u>4,508</u> | <u>18,787</u> | <u>309,490</u> |
| Deposits by: | | | | | | |
| banks | 77,529 | 2,488 | 128 | - | 18,848 | 98,993 |
| customers | 139,147 | 4,410 | 2,093 | - | 21,425 | 167,075 |
| Other liabilities and Shareholders' funds | - | - | - | - | 43,422 | 43,422 |
| | <u>216,676</u> | <u>6,898</u> | <u>2,221</u> | <u>-</u> | <u>83,695</u> | <u>309,490</u> |
| Overall gap | <u>48,346</u> | <u>994</u> | <u>11,060</u> | <u>4,508</u> | <u>(64,908)</u> | <u>-</u> |
| Cumulative gap | <u>48,346</u> | <u>49,340</u> | <u>60,400</u> | <u>64,908</u> | <u>-</u> | <u>-</u> |

| | 2006 | | | | | Total £'000 |
|----------------------------------------------|-------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------------------------|--------------------------------------------------------------|----------------------------------|----------------|
| | Not more than three months £'000 | More than three months but not more than 6 months £'000 | More than six months but not more than 1 year £'000 | More than 1 year but not more than 5 years £'000 | Non interest bearing £'000 | |
| | Loans and advances to: | | | | | |
| banks | 74,194 | 34,805 | 8,224 | 99 | 17,003 | 134,325 |
| customers | 84,958 | - | - | - | - | 84,958 |
| Debt securities | 43,554 | 773 | - | 3,833 | - | 48,160 |
| Other assets | - | - | - | - | 8,526 | 8,526 |
| | <u>202,706</u> | <u>35,578</u> | <u>8,224</u> | <u>3,932</u> | <u>25,529</u> | <u>275,969</u> |
| Deposits by: | | | | | | |
| banks | 68,245 | 3,592 | 611 | - | 14,503 | 86,951 |
| customers | 122,562 | 4,488 | 1,866 | - | 22,999 | 151,915 |
| Other liabilities and Shareholders' funds | - | - | - | - | 37,103 | 37,103 |
| | <u>190,807</u> | <u>8,080</u> | <u>2,477</u> | <u>-</u> | <u>74,605</u> | <u>275,969</u> |
| Overall gap | <u>11,899</u> | <u>27,498</u> | <u>5,747</u> | <u>3,932</u> | <u>(49,076)</u> | <u>-</u> |
| Cumulative gap | <u>11,899</u> | <u>39,397</u> | <u>45,144</u> | <u>49,076</u> | <u>-</u> | <u>-</u> |

Non interest bearing items comprise shareholders funds, provisions, fixed assets and other assets and liabilities not subject to interest.

20. Derivative contracts

Derivative contracts are financial instruments which derive their value from an underlying rate or price. The Bank is not involved in derivative contracts.

21. Claims and litigation

Provision has been made, to the extent considered necessary by the directors, for legal proceedings instituted or threatened against the Bank.

22. Ultimate parent undertaking and parent undertaking of larger group of which the Bank is a member

The Bank is a subsidiary of Habib Bank Limited, registered in Pakistan, which is in turn a subsidiary of the Aga Khan Fund for Economic Development SA, registered in Switzerland, the ultimate parent undertaking. The smallest and largest group in which the results of the Bank are consolidated is that headed by Habib Bank Limited. Copies of the group accounts for Habib Bank Limited can be obtained from Habib Bank Limited, I.I. Chundrigar Road, Karachi, Pakistan. No other group financial statements include the results of the Bank.

H B L Group

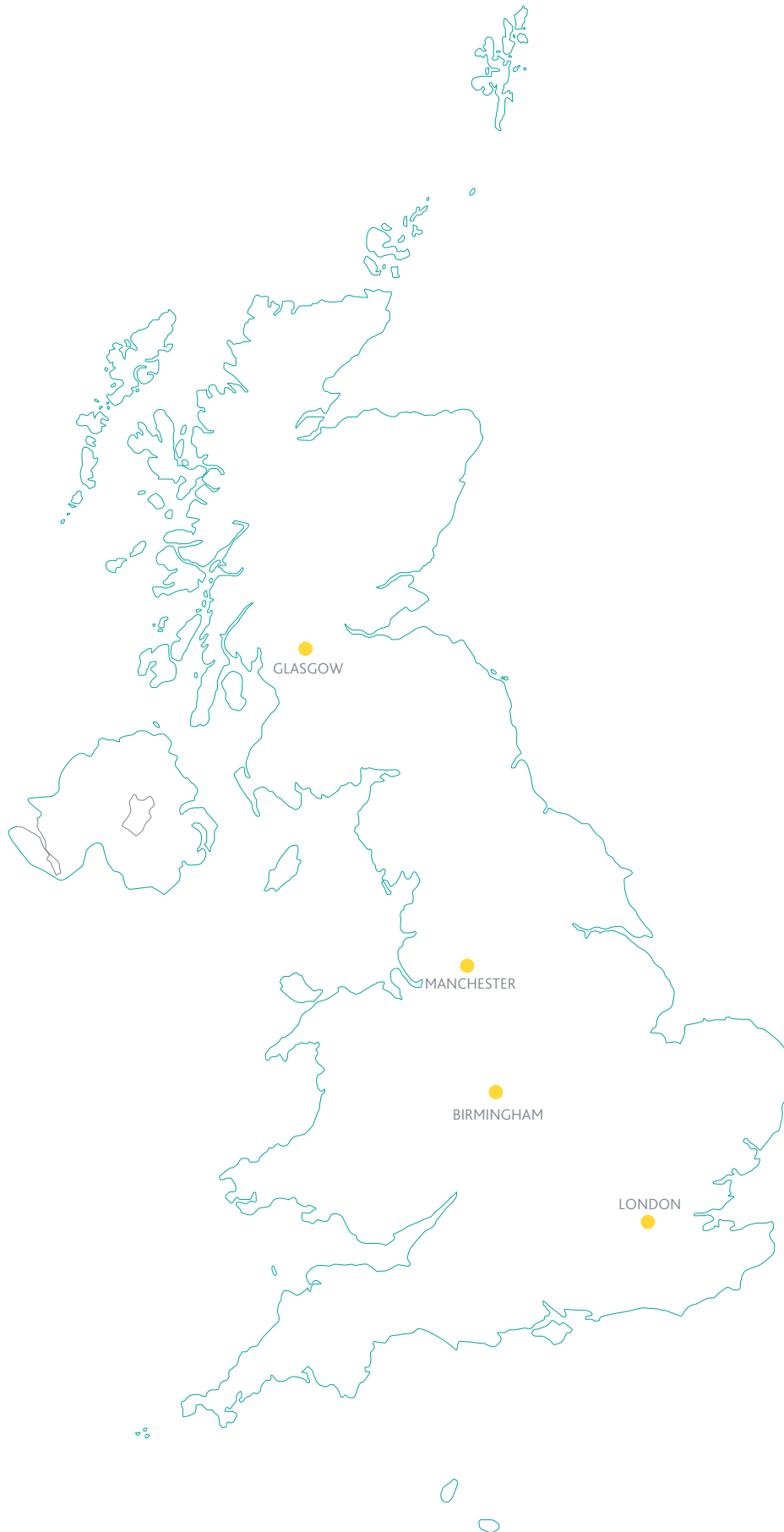


- Branch
- Subsidiary
- Affiliate
- Representative Office

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