

CHAIRMAN'S REVIEW

Change: our impetus to stay on top

If 2006 was the year of strategic change for us, 2007 was the year we put those changes in motion. It was the year Habib Bank became HBL and a new era was born.

We not only maintained our position as the lead bank in Pakistan's private sector, but our balance sheet grew 16% to reach USD 11 billion.

I would like to take this opportunity to explain what this means for us and our investors, and to let you know that while we continue to enjoy our position as market leaders, we'll never become complacent – the market is simply too competitive to stand still in.

Profit margins have led to an increase in new entrants in the market and M&A activity was noted with international banks acquiring smaller local banks to gain market breadth. Going forward we expect an intensely competitive environment which, given our free market, may diminish sector returns over time.

One of the secrets to our success is our ability to be flexible: to quickly adapt to the changing needs of both the market and our customers. This flexibility will become even more important in future as we strive to exceed our customers' expectations in all service areas and ultimately make life a little easier for them.

Our customers have always had a strong affinity to the Habib Bank brand. Brand loyalty is desirable for any successful modern business, but to maintain loyalty, a brand needs to stay relevant to its audience.

In 2007, we overhauled our identity to make us appear more contemporary and progressive. HBL is written in a font inspired by the Kufic script and a distinctive aqua green has been adopted as our primary corporate colour, complemented with a gradient bar representing the rising sun. This is the graphic representation of our brand essence – Enriching Life. It is something at the heart of everything we do and drives our service offering.

As part of a service improvement programme, we revamped our corporate website to make it easy to use and introduced HBL InternetBanking, providing online cash management and transactional facilities to both our individual and business customers.

On the consumer side, we recently launched HBL Credit Card and are working on an aggressive consumer products launch strategy for 2008. Our deposit base has increased significantly and we are leveraging our size to focus on low cost deposits. The year also saw the launch of hybrid accounts including HBL Value Account and SuperValue Account for small savers. To

meet the needs of businessmen, we launched the BusinessValue Account, providing a mini cash management system backed by the strength of our 1,400+ branch network. These products have been well received.

In the early part of the year we launched PhoneBanking, offering 24/7 banking services to our customers. Taking a page from our counterparts in the West, we are conscious that automation can often lead to a depersonalization of services. To address this, we will maintain our teams of dedicated Relationship Managers and branch staff and continue to provide custom solutions to our customers.

Efforts to rebrand our domestic network branches have been steaming ahead with over 600 branches already completed and another 500 scheduled in 2008. We are already maintaining consistency in all communication and helping both employees and customers get a better understanding of who we are as a company, what we stand for and how this benefits them.

Branch refurbishment has been another key item on our agenda. We have already undertaken the renovation of existing branches and even moved some to better locations. This will greatly enhance the existing customer experience and reflect our new standards for customer service and excellence. Over the last year, 19 branches have been completed and over 150 branches will be refurbished during 2008-9. Additionally, we have opened 12 new branches in both urban and rural locations, chosen for their accessibility to large numbers of new customers. This will increase the availability of banking facilities and enhance service offering in the areas.

The bigger picture

While we're delighted to be regarded as the best bank in Pakistan, our ambitions don't end there. Our aim to become Pakistan's worldwide bank continues through our focus to strengthen and expand our international operations.

With an emphasis on South and Central Asia, the Middle East and Africa, we have finalised our expansion plans and have started upgrading our franchise operations in key markets. Capital was increased in Bangladesh and Sri Lanka and we acquired a strategic stake of 18% in Kyrgyz Investment & Credit Bank in the Kyrgyz Republic. On the back of our strategy on the African continent, we positioned ourselves in East Africa through a strategic holding in Diamond Trust Bank, which has presence in Kenya, Tanzania and Uganda.

In the Extraordinary General Meeting in December 2007, we received unanimous approval for additional capital investments in strategic markets, as well as investments in New Jubilee Insurance (NJI) and New Jubilee Life Insurance (NJLI), two premier insurance companies, both quoted on the stock exchange in Karachi. This partnership has given HBL a foothold in a rapidly growing insurance market in a country offering sizable upward potential.

Through joint marketing efforts, we hope to capitalise on NJI's experience, which spans over 50 years, and look to market Bancassurance products to our growing customer base.

In keeping with customer needs for investment opportunities we launched an asset management company that has floated a variety of funds for individuals as well as business customers. These include an income fund, a stock market fund and a balanced fund.

We've already begun to roll out our new brand identity to international markets. New fascias have been installed in key locations and everything from signage to advertising, stationery to plastic cards will be updated in the coming months. Websites will be revamped to incorporate the brand identity and we hope to align all international locations with the new look and feel by the end of the year.

Internal strides

Continuing the focus on our people, the Human Resources Department has recently completed a training strategy for all employees in conjunction with the International Finance Corporation (as part of its technical assistance to HBL) which will roll out during the year.

The Human Resources Group has also launched the Broad Band Pay System, a strategic approach to compensation structure that will drive the process of service improvements. The system will merge the existing structure of regular and contractual employees into a single tier, enabling both horizontal and vertical growth opportunities. Broad Band will introduce a simplified benefits structure and effective monetary performance evaluation. It will enhance cross-mobility with fewer levels of administration, making it easier for employees to grow within the business, helping us improve staff retention.

We have been actively developing the Treasury function and are focusing on improving the product offering for our customers with an increased range, including derivatives.

Over the past year, HBL has successfully implemented anti-money laundering software and KYC procedures. We will continue to deploy considerable financial resources towards meeting regulatory and compliance guidelines throughout our global operations. Implementation of Basel II procedures will continue in 2008, strengthening our risk management capabilities

including credit risk, market risk and interest rate risk particularly in credit administration.

To remain competitive, our plans to update and implement our technology have been right on track. We have a consolidated customer base which has made compliance, auditing and financial reporting efficient and transparent. We rolled out Misys during the year and have more than 600 green terminal branches in Pakistan. We have implemented risk management in our credit card systems and have built up the Call Centre in the last year to become a leading service offering.

The installation of 120 new ATMs will spearhead expansion plans for ATM availability throughout the country, while the implementation of IBTS-B in all domestic branches will give us clear market leadership in the sheer number of branches able to perform online transactions. Our data centre operations have been outsourced to IBM ensuring security and contingency. There has also been an Equation 3.82 upgrade in Pakistan, UAE and UK.

In July 2007, HBL was listed on the three Stock Exchanges and the Government of Pakistan offered 5% with a green shoe option of 2.5% out of its share holding in HBL to the public. The IPO was extremely successful and raised over Rs. 12 billion, making it the largest public offering in the history of Pakistan. Becoming a listed company has increased the focus on HBL and we are geared up to deliver even better results in line with market expectations.

The year ahead

In 2008, we will continue to work on improving our customer interface with branch refurbishment, employee training, improved IT Systems, brand strengthening and the introduction of new products and services. Last year we said that 2006 was the year "we changed our future". We have taken significant strides in this direction and in 2008 we hope to capitalize on the progress we have made. The pace of doing business has accelerated and it is praiseworthy that our employees, both old and new, are delivering on expectations. We look forward to their continued dedication and hard work in the year ahead.

Re-branding is not only about repositioning the bank. It is a change in the way we think and act. It is the outward manifestation of a bank on its way to building a progressive environment, a place where employees are proud to work and customers are happy to bank. In implementing processes that eliminate waste and respond to business needs, we aim to create an environment that is leaner and more agile. The refurbishment of our branches, implementation of training programmes, and updating of technology have all played a vital role in our journey to become HBL.

It is a journey that will stand us in good stead for years to come. It is a journey that will be driven by a hunger to stay on top.