



Securities and Exchange Commission of Pakistan
(Market Supervision & Capital Issues Department)
Securities Market Division

Before The Director / HOD (MSCID)

In the matter of Show Cause Notice issued to Habib Bank Limited

Date of Hearing:

November 21, 2012

Present at the Hearing:

Representing Habib Bank Limited:

(i) Mr. Ayaz Ahmed

Chief Financial Officer

(ii) Ms. Nausheen Ahmad

Company Secretary

Assisting the Director/HOD (MSCID):

(i) Mr. Muhammad Atif Hameed

Joint Director

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. Misc./MSW/SMD/1(5) 2004/1645 dated November 08, 2012 ("SCN") issued to Habib Bank Limited ("Respondent") by the Securities and Exchange Commission of Pakistan ("Commission") under Section 22(c) of the Securities and Exchange Ordinance, 1969 ("Ordinance").

2. The brief facts of the case are that the Respondent is a company listed at the Karachi Stock Exchange Limited ("KSE"). On October 31, 2012 the Respondent communicated its financial results for the period ended September 30, 2012 to the KSE at 11:12 a.m. The announcement contained cumulative Earning Per Share ("EPS") and Income Statement for the nine months along with comparative EPS and Income Statement for the nine months of the preceding financial year. Immediately after receiving the Respondent's aforementioned communication, KSE vide its letter no. KSE/C-1117-7844 informed the Respondent that it has not followed the requirements, while conveying the nine months financial results, as prescribed



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under Form-7 of the Correspondence Manual for the Companies Listed on KSE ("Correspondence Manual"), particularly the requirements of complete figures of the quarter prescribed under para (v) of the said form. The Respondent, vide fax dated October 31, 2012 received at KSE at 12:49 p.m, resubmitted the financial results which in addition to the above-mentioned information contained EPS and Income Statement for the current interim period i.e third quarter ended September 30, 2012, along with comparative EPS and Income Statement for the interim period of pervious year. Subsequently, vide its letter dated November 2, 2012 addressed to KSE, the Respondent acknowledged that the initial incomplete results were disseminated due to inadvertent mistake and requested KSE to condone the error along with assurance that it will comply with the requirements of the Correspondence Manual in future.

3. The copies of aforementioned communication of the financial results by the Respondent and related correspondence exchanged between KSE and the Respondent were forwarded to the Commission by KSE for information. The documents provided by KSE were reviewed and it was observed that the Respondent while communicating its results for the period ended September 30, 2012 had failed to follow the requirements of the Regulation 16 of the Listing Regulations of the KSE ("Listing Regulations") which requires that a listed company shall communicate to the exchange all decisions of its Board of Directors relating to cash dividend, bonus issue, right issue or any other entitlement or corporate action and any other price sensitive information in the manner notified by the Exchange from time to time. Moreover, in order to facilitate the listed companies to follow time bound requirements of the Listing Regulations, the KSE circulated Correspondence Manual, Form-7 of the which requires that a company shall give complete income statements including EPS for the current interim period and cumulatively for the current financial year to-date with comparative income statements for the comparable interim periods (current and year-to-date of the immediately preceding financial year).

4. From the aforementioned, it was evident that the Respondent has violated the Listing Regulations, therefore, SCN was issued to the Respondent that it has prima facie contravened Regulation 16 of the Listing Regulations which in turn is a violation of Section 22 of the

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Ordinance. The Respondent through SCN was asked to explain its position through written reply within ten days of issuance of SCN and also appear in person or through an authorized representative before the undersigned at Commission's Head Office, Islamabad on November 21, 2012 at 11:30 a.m. for hearing.

5. The Respondent vide letter dated November 12, 2012 acknowledged the receipt of the SCN and subsequently submitted its response to the SCN vide letter dated November 16, 2012. The contentions raised in the response are summarized hereunder:-

i. *The bank took immediate steps to provide the information which had been omitted in the format required, which was provided within the time frame allowed by the regulations.*

ii. *It was human error which occurred inadvertently and it is emphasized that there was no change in figures with regard to income, profit and earnings per share in the results faxed. The missing quarterly data would not create any opportunity for any misunderstanding of the results leading to market volatility.*

iii. *There was neither any extraordinary trading nor price volatility in the trading of HBL shares on October 31, 2012 and the day's opening and closing price do not show volatility. The trading pattern in turnover as well as shares price was almost similar during the period from October 19, 2012 to November 12, 2012. Further the movement in price of the scrip was in line with the movement in price of the scrip observed on the days when financial results were announced previously.*

iv. *The Respondent requested to condone the error and assured compliance in future.*

6. On the date of hearing, Mr. Ayaz Ahmed, Chief Financial Officer and Ms. Nausheen Ahmad, Company Secretary ("the Representatives") appeared on behalf of the Respondent. The following submissions were made by the Representatives during the course of hearing:

i) *The Representatives reiterated the stance given in the Respondent's written reply.*

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- ii) *The Representatives acknowledged that the mistake in announcement of results was due to human error. The mistake mainly occurred due to the reason that various formats were available with the bank for making the announcement which are recommended for meeting various legal requirements like dissemination of Unconsolidated and Consolidated with or without notes. However, as soon as the mistake was pointed out complete results were disseminated.*
- iii) *The Representatives also stated that the information provided by the initial announcement was incomplete but was correct in every aspect. An investor having the results of the last quarter could have easily and accurately calculated the current quarter's results. Further, investors usually look at the accumulated figures and not the results of last quarter.*
- iv) *The Representatives assured that Respondent will comply with all the requirements of the Listing Regulations in future.*

7. I have thoroughly analyzed and examined the facts, evidence and documents on record, in addition to the written reply to SCN and assertions made by the Representatives of the Respondent during the course of hearing. My findings on the issues are as follows:

- i) The Respondent in its written reply and its Representatives during course of hearing accepted the fact that it has failed to comply with the Listing Regulations by not communicating in its initial fax the results for the quarter ended September 30, 2012 as per the format prescribed in the Correspondence Manual. In this connection, announcements of the financial results by the Respondent during the last two years were reviewed and it was observed that same were in accordance with the requirements of the Listing Regulations. The said fact does support the Respondent's argument that announcement of incomplete results was a human error and was not intentional. But at the same time, it is disappointing to ascertain that the Respondent which is one of the leading commercial bank of the country over-looked such a basic requirement of the Listing Regulations in spite of having implemented adequate internal controls and procedures.

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ii) I do agree with the Respondent's assertion that the information communicated vide the initial announcement was incomplete but accurate. Moreover, I also considered the Respondent's assertion that missing quarterly data did not create any opportunity for any misunderstanding of the financial results that may lead to market volatility. In this connection perusal of both announcements showed that the EPS for the quarter ended September 30, 2012 was Rs. 4.53 which is marginally below the EPS of Rs. 4.70 of the corresponding period last year. The said difference seems to be immaterial and had no significant impact on the price or volume of the scrip.

iii) With regard to the Respondent's assertion that the movement in price and volume in the scrip on October 31, 2012 was similar to the movement observed on the days of previous announcements, it is agreed that on the day of announcement no major movement was observed in the price or volume of the scrip as a total of 54,000 shares were traded and the scrip price opened at Rs. 106.37 and closed at Rs. 105.65. The trade level data of KSE shows that out of 54,000 shares traded on the day 34,000 shares were traded between the period of two announcements. However, the activity was not abnormal and no volatility was observed in the price of the scrip.

8. After a detailed and thorough perusal of the facts, evidence/information available on record, contentions and averments made by the Representatives during the course of the hearing, it is established that the Respondent did not comply with the requirements of the Listing Regulations while communicating its results to KSE on October 31, 2012, which in turn is a violation of Section 22 of the Ordinance. It is important to note that Respondent is a very well reputed commercial bank in Pakistan and is one of the top performing company listed at the KSE. Further, the Respondent over the years had a very exemplary record of corporate governance, therefore, it is expected of the Respondent that it should have placed proper systems and adequate internal controls which could have prevented the occurrence of such lapses. Therefore, the Respondent needs to review and further strengthen its internal controls

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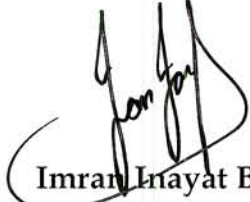
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and procedures. Moreover, it should exercise more prudence and carefulness while disseminating its financial results in future.

9. The violation of the Ordinance is a serious matter; however, keeping in view the fact that it was an inadvertent mistake due to human error, acknowledgment of mistake and prompt action taken by the Respondent to rectify its mistake, no abnormal trading volume and volatility in share price, previous compliance record of the Respondent and assurance by the Representatives that such violation will not occur in future, I have elected not to take penal action against the Respondent. Therefore, taking a lenient view, on this occasion, a stern warning is being issued to the Respondent to ensure that full compliance be made of all applicable rules and regulations in the future for avoiding any punitive action under the law.

10. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.




Imran Hayat Butt
Director/HOD (MSCID)

Announced on November 30, 2012
Islamabad.