

KASB

[Contents]

VISION, VALUES & MISSION STATEMENT	02
SERVICES	03
THE GROUP	04
CORPORATE INFORMATION	05
MANAGEMENT COMMITTEES	06
DIRECTORS' REPORT TO THE SHAREHOLDERS	07
SUMMARY OF THE KEY FINANCIAL DATA	11
HORIZONTAL ANALYSIS	12
STATEMENT OF VALUE ADDITION	13
NOTICE OF EIGHTEENTH ANNUAL GENERAL MEETING	14
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE	15
REVIEW REPORT TO THE MEMBERS ON STATEMENT OF CODE OF CORPORATE GOVERNANCE	17
STATEMENT OF INTERNAL CONTROLS	18

STANDALONE FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE MEMBERS	20
STATEMENT OF FINANCIAL POSITION	22
PROFIT AND LOSS ACCOUNT	23
STATEMENT OF COMPREHENSIVE INCOME	24
CASH FLOW STATEMENT	25
STATEMENT OF CHANGES IN EQUITY	26
NOTES TO THE FINANCIAL STATEMENTS	27
STATEMENT OF WRITTEN-OFF LOANS	75

CONSOLIDATED FINANCIAL STATEMENTS

DIRECTORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS	78
AUDITORS' REPORT TO THE MEMBERS	80
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	81
CONSOLIDATED PROFIT AND LOSS ACCOUNT	82
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	83
CONSOLIDATED CASH FLOW STATEMENT	84
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	85
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	86
STATEMENT OF WRITTEN-OFF LOANS	139
PATTERN OF SHAREHOLDING	141
BRANCH NETWORK	144
FORM OF PROXY	

[Vision]

Partnering Success

[Values]

V ision	Customer Focus and Innovation
A ttitude	Passion and Quest that Drives Us
L eadership	Sense of Integrity, Trust & Accountability
U pright	Commitment to Being a Credible Corporate Citizen
E xcellence	Distinction as a Habit
S ynergy	Ability to Harness the Power of Teams

[Mission]

STATEMENT

Excellence in customer service and innovation for sustained profitable growth through prudent business practices

[Services]

Commercial Banking

- Retail Banking
- Middle Market Financing
- SME Financing
- Agriculture Financing

Corporate Banking

- Term Loans
- Working Capital & Trade Finance
- Project Finance

Consumer Financial Services

- Home Loans
- Personal Loans
- Purpose Loans
- Equity Unlock

Investment Banking

- Financial Advisory Services
- Equity Capital Markets
- Debt Capital Markets

Global Transactional Services

- Home Remittances
- Cash Management Services
- Correspondent Banking
- Trade Finance

Value Added Services

- VISA Debit Card
- ATM Network
- KASB One Phone Banking
- Internet Banking
- E-Banking
- SMS Alerts
- Mobile Banking

[The Group]



KASB Bank is now serving clients through 105 branches in 45 cities of Pakistan, offering unique and innovative financial solutions to a large portfolio of investment, corporate and consumer banking customers. KASB Bank is regarded as the flagship entity of the group with state of the art technology providing wide scale financial services to a diversified client base. The Bank also provides a host of financial services offered by the KASB Group.



KASB Funds Limited is in the business of providing investment and savings solutions to its investors through a range of investment products. KASB Funds serves a large and diversified investor base with its investment products, ranging from retail investors to high net worth individuals and from pension funds, employee benefit funds to corporations and institutions. KASB Funds also provides investment advisory services to a host of clients.



KASB Securities is one of the oldest securities firms in Pakistan, tracing its roots back to 1955. A full service firm, intermediary services are offered in equities, commodity futures, fixed income and interdealer foreign exchange, supplemented by award winning research. Over 15,000 institutional, individual and foreign clients place their trust in KASB Securities. Research is co-branded with Bank of America Merrill Lynch, a 19 year relationship.



KASB Modaraba is a multipurpose, perpetual and multi dimensional Modaraba, floated as First Mehran Modaraba in October 1990 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. The main lines of business of Modaraba are Ijarah, Musharaka, Murabaha and Modaraba transactions & Capital Market operations. KASB Modaraba is one of the first to take Modaraba business to high streets in Pakistan.

Board of Directors**Chairman**

Tariq M. Rangoonwala

Acting President / Chief Executive Officer

Syed M. Husaini

Directors

Aizaz Sarfraz

Ashraf M. Hayat

Leon Seynave

Muneer Kamal

Syed Tariq Hussain Gilani

Sun Shui

Chief Financial Officer

Syed Liaquat Ali

Company Secretary

Muhammad Hamidullah

Auditors

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants

Legal Advisors

Mandviwalla & Zafar

Advocates & Legal Consultants

Registered Office

Razia Sharif Plaza,

Jinnah Avenue, 90-Blue Area, Islamabad

Tel: (92-51) 2270725, 2276828-30

Fax: (92-51) 2270727

Principal Office

Business & Finance Centre

I.I. Chundrigar Road, Karachi

Tel: (92-21) 32446772-77

Fax: (92-21) 32446828 & 32446865

Website

<http://www.kasb.com/bank>

Audit Committee

Ashraf M. Hayat

Leon Seynave

Syed Tariq Hussain Gilani (Chairman)

Human Resource and Remuneration Committee

Ashraf M. Hayat

Leon Seynave

Muneer Kamal

Syed M. Husaini

Tariq M. Rangoonwala (Chairman)

Risk Management and Recovery Committee

Aizaz Sarfraz

Ashraf M. Hayat

Muneer Kamal (Chairman)

Syed M. Husaini

Syed Tariq Hussain Gilani

Tariq M. Rangoonwala

Regional Office, Lahore

KASB House

14-C, Jail Road, Gulberg,

Lahore.

Tel: (92-42) 35776723-4

Fax: (92-42) 35762192

Registrar and Share Transfer Office

M/s. THK Associates (Private) Limited

Ground Floor, State Life Building No. 3,

Dr. Ziauddin Ahmed Road, Karachi-75530.

Tel: (92-21) 111-000-322

Fax: (92-21) 35655595

Website: www.thk.com.pk

Email: secretariat@thk.com.pk

info@thk.com.pk

(All names in alphabetical order)

MANAGEMENT COMMITTEES

Management Committee (MANCOM):

Farooq Ahmed Khan - Group Executive Business Banking
Khaqan Saadullah Khan - Head Investment Banking
Muhammad Hamidullah - Company Secretary
Muhammad Muzaffar Khan - Country Treasurer
Muzaffar Ali Shah Bukhari - Advisor to President & CEO
Rashid Zaman Khan - Chief Information Officer
Salman Naqvi - Group Head Branch Banking
Sumair Wahid Abro - Head Human Resource Division
Syed Fazal Hasnain - Head Special Assets Management
Syed Liaquat Ali - Chief Financial Officer
Syed M. Husaini - Acting President & CEO
Syed Zia-ul-Husnain Shamsi - Group Head Compliance and
Legal Affairs
Waqar Ahmed Khan - Group Executive Operations & GTS

Investment Committee:

Khaqan Saadullah Khan - Head Investment Banking
Muhammad Muzaffar Khan - Country Treasurer
Salman Naqvi - Group Head Branch Banking
Syed Liaquat Ali - Chief Financial Officer
Syed M. Husaini - Acting President & CEO
Waqar ul Islam - Head Risk Division

Assets & Liability Committee:

Farooq Ahmed Khan - Group Executive Business Banking
Khaqan Saadullah Khan - Head Investment Banking
Muhammad Muzaffar Khan - Country Treasurer
Syed Liaquat Ali - Chief Financial Officer
Syed M. Husaini - Acting President & CEO
Waqar ul Islam - Head Risk Division

Human Resources Management Committee:

Farooq Ahmed Khan - Group Executive Business Banking
Salman Naqvi - Group Head Branch Banking
Sumair Wahid Abro - Head Human Resource Division
Syed Liaquat Ali - Chief Financial Officer
Syed M. Husaini - Acting President & CEO
Waqar Ahmed Khan - Group Executive Operations & GTS

Market Risk Policy Committee:

Muhammad Muzaffar Khan - Country Treasurer
Syed Liaquat Ali - Chief Financial Officer
Syed M. Husaini - Acting President & CEO
Waqar ul Islam - Head Risk Division

Credit Risk Management Committee:

Farooq Ahmed Khan - Group Executive Business Banking
Muhammad Sadiq Sheikh - Country Credit Officer
Syed Fazal Hasnain - Head Special Assets Management
Syed M. Husaini - Acting President & CEO
Waqar ul Islam - Head Risk Division

Information Technology Steering Committee:

Farooq Ahmed Khan - Group Executive Business Banking
Muzaffar Ali Shah Bukhari - Advisor to President & CEO
Rashid Zaman Khan - Chief Information Officer
Syed Liaquat Ali - Chief Financial Officer
Syed M. Husaini - Acting President & CEO
Waqar Ahmed Khan - Group Executive Operations & GTS

(All names in alphabetical order)

DIRECTORS' REPORT TO THE MEMBERS

Annual Report 2012

We are pleased to present the Directors report and the audited financial statements of **KASB Bank Limited** for the year 2012.

Key financial indicators

Key financial figures of your Bank with comparatives for last year are as follows

Balance Sheet	Dec 31, 2012	Dec 31, 2011
	----- Rupees in Million -----	
Paid-up Capital	19,509	19,509
Equity	2,612	3,290
Deposits	61,873	61,263
Advances - net	29,695	28,437
Investments - net	40,875	16,884
Profit and Loss Account	Dec 31, 2012	Dec 31, 2011
Revenue	3,259	137
Non markup expenses	3,080	2,580
Operating Profit / (Loss)	179	(2,443)
Provisions	1,990	558
(Loss) before tax	(1,811)	(3,001)
(Loss) after tax	(1,063)	(2,370)
(Loss) per share - Rupees	(0.55)	(2.36)

Business review

The Bank has shown operating profit of Rs. 179 million as against an operating loss of Rs. 2.44 billion in the previous year. The bank has remained liquid during the period under review. The excess liquidity is invested in GOP treasury bill; a significant improvement over the last few years. Current and Saving deposits (CASA) were 77% of total deposits as at 31 December 2012. The management focus remains to generate low cost deposit. As a result the cost of deposit has fallen to 4.12%, currently. It is expected to fall further.

The Bank through its Special Assets Management Group (SAMG) has adopted an aggressive mode for recoveries in cash and restructuring/re-scheduling for its non performing portfolio. We have adequate asset coverage for the net NPLs. In addition, substantial number of companies and customers with NPLs are still operating and the bank is in the process of restructuring their facilities wherever required. Although we have made additional provisions of Rs. 1.985 billion to meet regulatory requirements, resulting in a loss after tax of Rs. 1.063 billion, the management is vigorously pursuing legal options and litigations which have become apparent and have resulted in recoveries of NPL amounting Rs 2.1 billion during the current year.

The Bank under SBP's PRI initiative has attracted significant volumes as home remittances with a consistent rising trend supported by reputable partner institutions with unparalleled service quality standards. The home remittance volumes increased to US\$213 million in 2012 compared to US\$160 M last year. The Investment Banking Group (IBG) has a healthy business pipeline of advisory mandates.

Shareholders' Equity

As part of the capital plan of the Bank, the sponsor shareholders have placed US dollar 4 (four) million as advance towards subscription of future issue of rights shares. It is anticipated that the sponsors shall place additional amount increasing the advance towards future rights shares to equivalent of US dollars 30 (thirty) million. The bank will thereafter issue right shares to its shareholders.

Auditors' report

Auditors in their report have emphasized on the issue of non-compliance with the prescribed requirement of capital as on 31 December 2012. The Board and management of your bank are of the view that upon completion of the capital and business plan as approved by the Board; the bank will be fully compliant with the statutory requirements.

Another reference made by the auditors in their report relates to the realization of the deferred tax asset in the future years. Management of your bank is confident that the forecast profits as per the financial projections approved by the Board of Directors would be sufficient enough to absorb the total amount of deferred tax asset.

Corporate Governance

The management and the Board have remained very conscious of good governance. Following statements are recorded to meet the requirements of the Code of Corporate Governance:

- The financial statements prepared by the management of the Bank present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
- Proper books of account have been maintained by the Bank;
- Appropriate accounting policies have been consistently applied in preparation of financial statements except for the changes as disclosed therein, and accounting estimates are based on reasonable and prudent judgment;
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed;
- The system of internal control is sound in design and has been effectively implemented and monitored on best possible efforts;
- There are no doubts upon the Bank's ability to continue as a going concern;
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations;
- Key operating and financial data of last six years has been included in these financial statements;
- In view of the loss for the year, no dividend is proposed to be given for the year; and
- There is no outstanding statutory payment on account of taxes, duties, levies and charges, other than those disclosed in the financial statements.

DIRECTORS' REPORT TO THE MEMBERS

Annual Report 2012

Employee Benefits Scheme

Your Bank operates two Employee Benefit Schemes, one Un-Funded Gratuity Scheme and the other Funded Employees' Provident Fund. The value of investments of Employees' Provident Fund based on its un-audited accounts for the period ended 31 December 2012 was Rs. 289 Million.

Shareholding by Directors

Shares held by directors and any trade by Directors, Chief Executives, their spouses and minor children during 2012 is part of pattern of shareholding and disclosed therein.

Pattern of Shareholding

The Pattern of shareholding as at 31 December 2012 along with disclosure required under the Code of Corporate Governance is included in this Annual Report.

Changes in Board Composition

During the year 2012 Mr. Aizaz Sarfraz, Ms. Sun Shui and Mr. Ashraf M. Hayat have been co-opted as Directors on the Board of the bank in place of Mr. Irshadali Shabanali Kassim, Mr. Suo Lang Duo Ji and Mr. Waseem Haqqie who had resigned. Consequently the Board of Directors has elected Mr. Tariq M. Rangoonwala as Chairman of the BOD.

Syed M. Husaini has been appointed as Acting President & CEO of the bank in place of Mr. Aamer H. Zaidi who had resigned.

Meetings of Board of Directors and its Committees

Attendance at Meetings					
S #	Name of the Member	BOD Meetings	RM&RC Meetings	HR & RC Meeting	AC Meeting
1.	Mr. Suo Lang Duo ji*	0 of 7	o	o	o
2.	Tariq M. Rangoonwala	3 of 7	6 of 6	o	o
3.	Wasem Haqqie**	6 of 7	4 of 6	2 of 2	3 of 5
4.	Leon Seynave	7 of 7	o	2 of 2	5 of 5
5.	Muneer Kamal	7 of 7	6 of 6	0 of 2	o
6.	Irshadali Shabanali Kassim*	3 of 7	o	1 of 2	o
7.	Syed Tariq Hussain Gilani	7 of 7	6 of 6	o	5 of 5
8.	Aizaz Sarfraz***	4 of 7	4 of 6	o	
9.	Sun Shui***	0 of 7	o	o	o
10.	Ashraf M. Hayat****	1 of 7	2 of 6	o	2 of 5
11.	Aamer H. Zaidi	7 of 7	6 of 6	2 of 2	o

*Resigned as Director from April 18, 2012

**Resigned as Director from September 6, 2012

*** Co-opted as Director from April 18, 2012

**** Co-opted as Director from September 6, 2012

o (Not being member of the committee.)

DIRECTORS' REPORT TO THE MEMBERS

A
n
n
u
a
l
R
e
p
o
r
t
2
0
1
2

Credit Rating

The re-assessment of the credit rating is currently in progress. PACRA has last assigned long term rating of BBB and short term rating of A3.

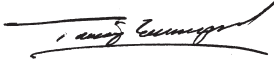
Auditors

The present auditors M/s. Ernst & Young Ford Rhodes Sidat Hyder, (EY) Chartered Accountants retire and, being eligible, have offered themselves for re-appointment in the forthcoming Annual General Meeting. The Audit Committee of the Board has recommended the re-appointment of EY for the next term.

Acknowledgment

We would like to thank our valued customers for their continued patronage and support, the State Bank of Pakistan, Securities and Exchange Commission of Pakistan and other regulatory authorities for their guidance, our staff for their commitment, hard work and dedication, and our shareholders for the trust and confidence reposed in us. The Board would like to record gratitude to the outgoing directors and the President.

For and on behalf of the Board of Directors.



Chairman
Karachi

08 April 2013

KEY FINANCIAL DATA

Annual Report 2012

	2012	2011	2010	2009	2008	2007
			Restated	Restated		
			(Rupees in Millions)			
Paid-up Share Capital	19,509	19,509	9,509	9,509	7,633	4,015
Reserve Fund & Other Reserves	(17,528)	(16,784)	(7,397)	(4,724)	1,180	158
Shareholders' Equity	1,981	2,725	2,112	4,785	8,813	4,173
Total Assets (Excluding Contra)	88,313	71,263	56,711	59,504	51,799	40,891
Deposits	61,873	61,263	46,274	43,900	35,087	33,132
Advances-net	29,695	28,437	29,528	29,499	32,240	25,143
Investments-net	40,875	16,884	13,893	15,970	9,454	7,278
Imports & Export Business	39,509	34,087	31,478	25,399	28,501	21,434
Pre-tax Profit / (Loss)	(1,811)	(3,001)	(3,455)	(5,943)	(1,849)	66
Post-tax Profit / (Loss)	(1,063)	(2,370)	(2,711)	(4,228)	(973)	198
No.of Branches	105	104	104	100	73	35
No.of Employees	1,203	1,126	1,198	1,118	1,134	892
Bonus Shares	-	-	-	1,962	-	-
Earning / (Loss) per share - Rupees	(0.55)	(2.36)	(2.85)	(4.45)	(1.63)	0.90
Break up value per share - Rupees	1.34	1.69	2.59	5.51	12.05	13.78

HORIZONTAL ANALYSIS

Annual Report 2012

	2012 v 2011	2011 v 2010	2010 v 2009	2009 v 2008	2008 v 2007
			Restated	Restated	
Assets					
Cash and balances with treasury banks	-1.16%	47.37%	14.76%	89.15%	-49.78%
Balances with other banks	-81.71%	5241.73%	7.20%	214.58%	-92.69%
Lendings to financial institutions	-43.32%	1456.71%	-98.57%	404.01%	-68.49%
Investments	142.10%	21.53%	-13.00%	68.92%	29.90%
Advances	4.42%	-3.69%	0.10%	-8.50%	28.23%
Operating fixed assets	-18.12%	-1.10%	2.44%	20.81%	149.36%
Deferred tax assets	18.19%	17.88%	28.18%	78.65%	143.55%
Other assets	28.00%	-16.67%	33.75%	-40.56%	216.75%
	23.93%	25.66%	-4.69%	14.88%	26.68%
Liabilities					
Bills payable	-1.54%	64.79%	40.14%	77.49%	-75.25%
Borrowings	379.61%	-27.87%	-25.11%	30.09%	260.86%
Deposits and other accounts	1.00%	32.39%	5.41%	25.11%	5.90%
Sub-ordinated loans	0.00%	0.00%	0.00%	0.00%	0.00%
Liabilities against assets subject to finance lease	-100.00%	-30.41%	-64.00%	-37.77%	868.50%
Other liabilities	23.53%	7.56%	-27.28%	80.41%	16.07%
	26.08%	25.30%	-0.03%	27.38%	16.37%
NET ASSETS	<u>-20.63%</u>	<u>33.56%</u>	<u>-52.98%</u>	<u>-43.04%</u>	<u>114.75%</u>
Represented by					
Share capital	0.00%	105.17%	0.00%	-1.19%	29.22%
Reserves	-4.18%	-4085.97%	0.00%	6.03%	438.05%
Accumulated losses	10.56%	29.53%	54.57%	402.53%	12084.85%
	-27.31%	29.02%	-55.87%	-45.71%	111.25%
Surplus on revaluation of assets - net of tax	11.57%	60.79%	-22.65%	17.78%	244.97%
	<u>-20.63%</u>	<u>33.56%</u>	<u>-52.98%</u>	<u>-43.04%</u>	<u>114.75%</u>

STATEMENT OF VALUE ADDED

Annual Report 2012

Added as Follows	2012		2011	
	(Rupees in '000)	%	(Rupees in '000)	%
Markup/Return Earned - net of Provisions	4,350,912	70%	3,959,679	75%
Gain on Sale of Investment	7,464	0%	126,750	2%
Fee, Commission and Brokerage Income	560,627	9%	359,939	7%
Dividend Income	35,494	1%	14,905	0%
Income from Dealing in Foreign Currencies	360,535	6%	109,250	2%
Deferred Tax & Other Income	857,442	14%	690,697	13%
Total Value Added	6,172,474	100%	5,261,220	100%
Distributed as Follows				
To Employees as Remuneration	1,292,369	21%	1,033,033	20%
To Society as Donations	-	0%	-	0%
To Depositors as Profit on Investments	3,350,397	54%	4,338,667	82%
Interest on Borrowings	769,223	12%	714,233	14%
To Government as Income Tax	36,308	1%	-	0%
Administrative Expenses / Other Charges	1,787,594	29%	1,545,212	29%
Retained in Business	(1,063,417)	-17%	(2,369,925)	-45%
Total Value Distributed	6,172,474	100%	5,261,220	100%

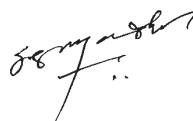
NOTICE OF EIGHTEENTH ANNUAL GENERAL MEETING

A n n u a l R e p o r t 2 0 1 2

NOTICE is hereby given that the Eighteenth Annual General Meeting (AGM) of KASB Bank Limited (the Bank) will be held on Tuesday, 30 April 2013 at 11:00 a.m. at the Registered Office of the Bank at Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad to transact the following business:

1. To confirm the Minutes of the Annual General Meeting held on 28 April 2012.
2. To adopt the annual audited standalone and consolidated accounts of the Bank for the year ended 31 December 2012 together with the Directors' and Auditors' Reports thereon.
3. To appoint auditors for the year ending 31 December 2013 and to fix their remuneration. Present Auditors M/s. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants have offered their services for reappointment for the year ending 31 December 2013.
4. To transact any other business with the permission of the Chair.

By Order of the Board



Muhammad Hamidullah
Company Secretary

Place: Islamabad
Date: 09 April 2013

NOTES:

1. The Share Transfer Books of the Bank will be closed from 24 April 2013 to 30 April 2013 (both days inclusive).
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend the meeting and vote for him/her. A proxy must be a member of the Bank. Proxies in order to be effective must be received by the Bank at its Registered Office Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad not less than forty-eight hours before the meeting.
3. Shareholders are requested to promptly notify the change of address, if any, and also for the consolidation of folio numbers, if any member holds more than one folio, to our Registrar, M/s. THK Associates (Private) Limited, Ground Floor, State Life Building No. 3, Dr. Ziauddin Ahmed Road, Karachi 75530.
4. CDC shareholders are requested to bring with them their National Identity Card along with the participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate identification of the respective shareholders.

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in the Listing Regulations No. 35 of the Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

KASB Bank Limited (the Bank) has applied the principles contained in the CCG in the following manner:

1. The Bank encourages representation of independent, non executive directors on its board of directors. At present the board includes:

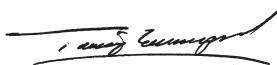
Category	Names
Independent Directors	Tariq M. Rangoonwala
	Leon Seynave
	Syed Tariq Hussain Gilani
	Aizaz Sarfraz
Executive Directors	Muneer Kamal
	Syed M. Husaini - Acting President & CEO
Non Executive Directors	Sun Shui
	Ashraf M. Hayat

2. As confirmed none of them is serving as a Director in more than seven listed companies, including the Bank.
3. All the resident directors of the Bank are registered as taxpayers and as reported none of them has defaulted in payment of any loan to a Banking company, a DFI or a NBFIs or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
4. The casual vacancies occurred during the year 2012 on the board of the Bank were filled in as per regulatory requirements.
5. The Bank has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision / mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and the determination of remuneration and terms and conditions of employment of the President & CEO, other executive and non executive directors, have been taken by the board.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings except in the case of one urgent meeting with consent of the Board. The minutes of the meetings were appropriately recorded and circulated.
9. No specific orientation course was arranged for directors, two of whom are foreign nationals, who are all highly experienced individuals with vast experience of handling board affairs of different entities. One of the directors, however, attended courses organized by Pakistan Institute of Corporate Governance.
10. The Board has approved appointment (including remuneration and terms and conditions of the employment) of the Head of Internal Audit after considering his required relevant experience and expertise. However, the Head of Internal Audit do not have the required qualification as prescribed under the Code, for which the SECP has been requested to provide exemption to the Bank.

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

A n n u a l R e p o r t 2 0 1 2

11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by Chief Executive Officer and the Chief Financial Officer before approval of the board.
13. The directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has constituted an Audit Committee comprising two independent directors including chairman of the committee and one non-executive director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the CCG. However, no such meeting was held in first quarter of the year 2012 (due to delay in finalization of the financial statements of the year ended December 31, 2011); instead, two meetings were held in second quarter of the year. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has constituted a Human Resource & Remuneration Committee comprising of five members two of whom are Independent Directors, two are Executive Directors and one Non-Executive Director. Chairman of the committee is an independent director.
18. The board has set up an effective internal audit function. Personnel of the Internal Audit Department are qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank.
19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period' prior to announcement of interim / final results, and business decisions, which may materially affect the market price of Bank's securities was determined and intimated to directors, employees and stock exchanges(s).
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchanges(s).
23. We confirm that all material principles contained in the Code have been complied with.



Tariq M. Rangoonwala
Chairman

Karachi:
8 April 2013

**REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE
WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE**

A
n
n
u
a
l
R
e
p
o
r
t
2
0
1
2



Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O. Box 15541, Karachi 75530, Pakistan

Tel: + 9221 3565 0007
Fax: + 9221 3568 1965
www.ey.com

We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) for the year ended 31 December 2012, prepared by the Board of Directors of KASB Bank Limited (the Bank) to comply with the said Code.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the statement reflects the status of the Bank's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Bank's personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Bank's corporate governance, procedures and risks.

Further, the Code requires the Bank to place before the Board of Directors for their consideration and approval related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedure to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the statement does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code, for the year ended 31 December 2012.

We draw your attention to clause 10 and 16 of the Statement which describe certain non-compliances with the Code.

Our conclusion is not qualified in respect of the above matter.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Dated: 08 April 2013
Karachi

A member firm of Ernst & Young Global Limited

STATEMENT ON INTERNAL CONTROLS

A N N U A L R E P O R T 2 0 1 2

It is the responsibility of the management of KASB Bank to fully establish and maintain adequate internal controls and procedures and ensures that necessary resources and efforts are undertaken and deployed towards implementing strong control procedures and maintaining sound control environment.

Board of Directors of the Bank is responsible for establishing overall policies related to these controls and systems. The Internal Audit Division, being an independent function reporting to the Audit Committee of the Board monitors compliance with Bank's policies, procedures and related controls and reports significant deviations regularly to the Board Audit Committee. The Internal Audit Division also regularly assesses the adequacy of the Internal Control system and environment, based on the annual audit plan approved by the Audit Committee. The observations, weaknesses and suggestions made by the external auditors are also promptly addressed and necessary steps are taken by the management to eliminate weaknesses highlighted by them. On an ongoing basis, compliance department and internal control unit (ICU) carry out frequent verifications of transactions to ensure prompt rectifications wherever required, to ensure compliance with the laid down procedures and regulations.

The Bank is currently in the process of adopting an internationally accepted COSO Internal Control Integrated Framework, as envisaged under the State Bank of Pakistan's (SBP) Internal Control Guidelines. The Bank has devised a well-defined and comprehensive Internal Control Programme along the lines of staged roadmap, as suggested by SBP. In accordance with this Programme, the Bank has completed a detailed documentation of the existing processes and control and its testing. Further gap analysis and remediation plan has been completed. The long form report as required along with external auditors report has been submitted to the State Bank of Pakistan. Further steps are in implementation to achieve full compliance of SBP directives. Going forward, the Bank plans to implement various initiatives to adequately remediate the gaps in a timely manner identified during the analysis. In addition, management testing plans will be further extended to assess on-going operating effectiveness of key controls.

The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve the organization's policies, aims and objectives. It can therefore, only provide reasonable and not absolute assurances against material misstatements or loss. The system of internal controls being followed by the Bank is considered adequate and sound in design and is being effectively implemented and monitored.

The Board of Directors endorses the above stated management's evaluation of internal controls.



Syed M. Husaini
Acting President &
Chief Executive

Dated: 08 April 2013

STANDALONE FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE MEMBERS

A n n u a l R e p o r t 2 0 1 2



Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O. Box 15541, Karachi 75530, Pakistan

Tel: + 9221 3565 0007
Fax: + 9221 3568 1965
www.ey.com

We have audited the annexed statement of financial position of KASB Bank Limited (the Bank) as at 31 December 2012, and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for fourteen branches (including four sub-branches) which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) In our opinion:
 - (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984) and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 5.1 to the financial statements, with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;

A member firm of Ernst & Young Global Limited



Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

- (c) in our opinion, and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2012 and its true balance of the loss, its comprehensive loss, cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

We draw attention to:

- (i) note 1.2 to the financial statements, which fully explains the Bank's capital deficiency in terms of the regulatory requirements as prescribed by the State Bank of Pakistan and the management's future plans and actions in relation thereto. The said note also indicates the existence of material uncertainties with respect to the recapitalisation of the Bank and consequently, its sustainability in future; and
- (ii) note 14.2 to the financial statements, which states that deferred tax asset has been recognized in these financial statements on the basis of Bank's financial projections for the future years as approved by the Board of Directors of the Bank. The preparation of financial projections involve management's assumptions regarding future business and economic conditions and therefore any significant change in such assumptions may have an effect on the realisability of the deferred tax asset.

Our opinion is not qualified in respect of the above matters.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Audit Engagement Partner: Arslan Khalid
Date: 08 April 2013
Karachi

A member firm of Ernst & Young Global Limited


STATEMENT OF FINANCIAL POSITION

Annual Report 2012

AS AT 31 DECEMBER 2012

	Note	2012	2011
------(Rupees in '000)-----			
ASSETS			
Cash and balances with treasury banks	8	4,766,887	4,822,597
Balances with other banks	9	1,946,937	10,644,794
Lendings to financial institutions	10	352,947	622,683
Investments	11	40,875,266	16,883,748
Advances	12	29,695,491	28,437,166
Operating fixed assets	13	2,736,443	3,342,032
Deferred tax assets	14	4,747,652	4,016,880
Other assets	15	3,190,919	2,492,870
		88,312,542	71,262,770
LIABILITIES			
Bills payable	16	877,827	891,579
Borrowings	17	21,233,732	4,427,271
Deposits and other accounts	18	61,873,268	61,262,896
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	19	-	1,510
Other liabilities	20	1,715,897	1,389,025
		85,700,724	67,972,281
NET ASSETS		<u>2,611,818</u>	<u>3,290,489</u>
REPRESENTED BY			
Share capital	21	19,508,617	19,508,617
Reserves		384	384
Accumulated losses		(10,843,780)	(9,808,201)
Discount on issue of right shares		(6,976,276)	(6,976,276)
Advance against future issue of rights shares	1.2	291,449	-
		1,980,394	2,724,524
Surplus on revaluation of assets - net of tax	22	631,424	565,965
		<u>2,611,818</u>	<u>3,290,489</u>
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes 1 to 44 form an integral part of these financial statements.


Acting President and Chief Executive


Director


Director


Director


PROFIT AND LOSS ACCOUNT

Annual Report 2012

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011
(Rupees in '000)			
Mark-up / return / interest earned	25	6,340,531	4,517,206
Mark-up / return / interest expensed	26	(4,119,620)	(5,052,900)
Net mark-up / return / interest income		2,220,911	(535,694)
Provision against non-performing loans and advances	12.5	(1,459,307)	(582,614)
(Provision) / reversal for diminution in the value of investments	11.3	(525,854)	33,074
Bad debts written off directly	12.6.1	(4,458)	(7,987)
		(1,989,619)	(557,527)
Net mark-up / return / interest income after provisions		231,292	(1,093,221)
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		560,627	359,939
Dividend income		35,494	14,905
Income from dealing in foreign currencies		360,535	109,250
Gain on sale / redemption of securities	27	7,464	126,750
Unrealised gain / (loss) on revaluation of investments classified as held-for- trading		-	-
Other income	28	74,041	61,852
Total non mark-up / interest income		1,038,161	672,696
		1,269,453	(420,525)
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	29	(2,676,125)	(2,323,287)
Other provisions / write offs		(16,700)	(129,135)
Other charges	30	(387,138)	(127,786)
Total non mark-up / interest expenses		(3,079,963)	(2,580,208)
LOSS BEFORE TAXATION		(1,810,510)	(3,000,733)
Taxation - Current		(36,308)	-
- Prior years		-	-
- Deferred	14.1	783,401	630,808
		747,093	630,808
LOSS AFTER TAXATION		(1,063,417)	(2,369,925)
Basic and diluted loss per share	31	(0.55)	(2.36)

The annexed notes 1 to 44 form an integral part of these financial statements.


Acting President and Chief Executive


Director


Director


Director

STATEMENT OF COMPREHENSIVE INCOME


Annual Report 2012

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	(Rupees in '000)	
Net loss for the year	(1,063,417)	(2,369,925)
Other comprehensive income	-	-
Total comprehensive loss for the year	<u>(1,063,417)</u>	<u>(2,369,925)</u>

Surplus arising on revaluation of fixed assets and available-for-sale investments is required to be shown separately below equity as 'surplus on revaluation of assets' in accordance with the requirements specified by the State Bank of Pakistan (SBP). Accordingly, these have not been included in comprehensive income which has been shown as part of equity.

The annexed notes 1 to 44 form an integral part of these financial statements.


Acting President and Chief Executive


Director


Director


Director


CASH FLOW STATEMENT

Annual Report 2012

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(1,810,510)	(3,000,733)
Less: dividend income		(35,494)	(14,905)
		(1,846,004)	(3,015,638)
Adjustments:			
Depreciation		232,784	258,413
Amortisation		30,348	49,198
Provision against non-performing loans and advances		1,459,307	582,614
Bad debts written-off directly		4,458	7,987
(Reversal) / provision for diminution in the value of investments		525,854	(33,074)
Provision for gratuity		55,282	12,371
Reversal of provision for compensated absences		(5,820)	-
Loss / (gain) on disposal of operating fixed assets		(7,123)	15,195
Financial charges on leased assets		-	34
Impairment of goodwill		23,969	64,736
Other provisions / write offs		16,700	129,135
		2,335,759	1,086,609
		489,755	(1,929,029)
Decrease / (increase) in operating assets			
Lendings to financial institutions		269,736	(582,683)
Advances		(2,722,090)	499,931
Others assets		(770,532)	307,059
		(3,222,886)	224,307
Increase / (decrease) in operating liabilities			
Bills payable		(13,752)	350,538
Borrowings		17,365,679	(2,262,852)
Deposits and other accounts		610,372	14,988,709
Other liabilities		303,669	110,268
		18,265,968	13,186,663
		15,532,837	11,481,941
Income tax paid		(3,309)	(2,898)
Gratuity paid		(20,439)	(24,390)
Compensated absences paid		(5,820)	(644)
Net cash inflow from operating activities		15,503,269	11,454,009
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in available for sale securities		(24,222,027)	(3,813,357)
(Investments in) / Proceeds from held to maturity securities		(167,540)	925,920
Investments in associate		18,121	-
Dividend received		34,309	15,479
Investments in operating fixed assets		209,894	(199,791)
Sale proceeds on disposal of operating fixed assets		139,686	103,609
Net cash used in investing activities		(23,987,557)	(2,968,140)
CASH FLOW FROM FINANCING ACTIVITIES			
Advance against future issue of right shares		291,449	-
Proceeds from issue of shares		-	3,000,000
Share issue cost		-	(41,496)
Payments of lease obligation		(1,510)	(694)
Net cash inflow from financing activities		289,939	2,957,810
(Decrease) / increase in cash and cash equivalents		(8,194,349)	11,443,679
Cash and cash equivalents at beginning of the year		14,887,456	3,443,777
Cash and cash equivalents at the end of the year	32	6,693,107	14,887,456

The annexed notes 1 to 44 form an integral part of these financial statements.


Acting President and Chief Executive


Director


Director


Director


STATEMENT OF CHANGES IN EQUITY

Annual Report 2012

FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital	Advance against future issue of shares	Statutory reserve	General reserves	(Discount) / premium on issue of shares	Accumulated losses	Total
----- (Rupees in ' 000) -----							
Balance as at 31 December 2010	9,508,617	-	150,903	384	23,724	(7,571,978)	2,111,650
Issuance of right shares	10,000,000	-	-	-	(7,000,000)	-	3,000,000
Rights share issue cost	-	-	-	-	-	(41,496)	(41,496)
Total comprehensive loss for the year	-	-	-	-	-	(2,369,925)	(2,369,925)
Transferred from Statutory reserve to accumulated losses	-	-	(150,903)	-	-	150,903	-
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	24,295	24,295
Balance as at 31 December 2011	<u>19,508,617</u>	<u>-</u>	<u>-</u>	<u>384</u>	<u>(6,976,276)</u>	<u>(9,808,201)</u>	<u>2,724,524</u>
Advance against future issue of shares (Note 1.2)	-	291,449	-	-	-	-	291,449
Total comprehensive loss for the year	-	-	-	-	-	(1,063,417)	(1,063,417)
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	27,838	27,838
Balance as at 31 December 2012	<u>19,508,617</u>	<u>291,449</u>	<u>-</u>	<u>384</u>	<u>(6,976,276)</u>	<u>(10,843,780)</u>	<u>1,980,394</u>

The annexed notes 1 to 44 form an integral part of these financial statements.


Acting President and Chief Executive


Director


Director


Director

FOR THE YEAR ENDED 31 DECEMBER 2012

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 KASB Bank Limited (the Bank) was incorporated in Pakistan on 13 October 1994 as a public limited company under the Companies Ordinance, 1984. The Bank received banking license from the SBP on 9 January 1995 and obtained certificate of commencement of business from Securities and Exchange Commission of Pakistan (SECP) on 11 January 1995. The Bank is engaged in commercial banking, consumer banking, corporate and investment banking and related services through 105 branches (including 34 sub branches & 1 HRPC) [2011: 104 branches (including 34 sub branches)] operating in 45 cities. The Bank is listed on all the Stock Exchanges in Pakistan. KASB Finance (Private) Limited is the holding company of the Bank.

1.2 The SBP vide BSD Circular No.7 dated 15 April 2009 set the Minimum Capital Requirement (MCR) for Banks up to Rs.10,000 million to be achieved in a phased manner by 31 December 2013. The required MCR (free of losses) as of 31 December 2012 is Rs. 9,000 million. Further, the Bank is also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of the risk weighted assets of the Bank. The paid up capital of the Bank (net of losses) as of 31 December 2012 amounted to Rs. 1,980.010 million and CAR, as disclosed in note 41.4, remained below the prescribed level of 10%.

In view of the above shortfall in meeting the regulatory capital requirements and the financial condition of the Bank, the management and sponsors of the Bank have taken / intend to take the following steps:

- i. The Bank intend to raise further capital of Rs. 3,000 million through its sponsors by the end of April 2013 and in this respect an aggregate advance of Rs. 390.820 million has been received up to March 2013 (31 December 2012: Rs. 291.449 million) from sponsors towards further right issue.
- ii. The management of the Bank has prepared financial projections for a period of six years to analyze the Bank's sustainability in the future period. These projections are approved by the Board and envisage additional capital injection through equity and sub-ordinated debt into the Bank and indicate future profitable operations based on various assumptions such as growth of deposits and advances, investment returns, future loan losses, interest rates, cost of funds etc. In preparing such projections, the Bank has assumed the maintainability of its major deposit relationships.
- iii. The Bank has submitted the above referred financial and capital plan to the State Bank of Pakistan and has sought relaxation from the current regulatory capital requirements in line with the Bank's recapitalization plan.

Based on the above, the Bank's management and the Board have made an assessment and are satisfied that the Bank has adequate resources to continue its business in the foreseeable future and therefore, have prepared these financial statements on a going concern basis. In making such assessments the Board has taken into account the material uncertainties with respect to events or conditions that may impact the financial projections and recapitalisation of the Bank and consequently, its sustainability in the future. The Board of Directors has in addition taken into consideration the commitment from the sponsors of the Bank to provide the necessary financial support to the Bank, if the need arises, to address any liquidity, solvency and capital adequacy issues to enable the Bank to continue its business.

2. BASIS OF PRESENTATION

2.1 These financial statements have been prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 04, dated 17 February 2006.

2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

2.3 These are separate financials statements of the Bank in which investment in subsidiaries and associates are reported on the basis of direct equity interest and are not consolidated or accounted for by using equity method of accounting.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and regulations / directives issued by the SECP and the SBP. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or regulations / directives issued by the SECP and the SBP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said regulations / directives shall prevail.

- 3.2 The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for banking companies till further instructions. Further, according to the notification of SECP dated 28 April 2008, IFRS - 7 "Financial Instruments: Disclosure" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

4. BASIS OF MEASUREMENT

- 4.1 These financial statements have been prepared under the historical cost convention except for, certain investments, land and buildings and derivative financial instruments which are revalued as referred to in notes 5.4, 5.7 and 5.11 below.
- 4.2 These financial statements are presented in Pak Rupees which is the Bank's functional currency and presentation currency.

5. SIGNIFICANT ACCOUNTING POLICIES

- 5.1 The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as follows:

New and amended standards and interpretations

The Bank has adopted the following revised and amended IFRSs and related interpretations which became effective during the year:

IAS 12 – Income Taxes - Recovery of Underlying Assets (Amendment)

The adoption of the above standard did not have any material effect on these financial statements.

5.2 Cash and cash equivalents

These include cash and balances with treasury banks and balances with other banks less overdrawn nostro accounts.

5.3 Lendings to / borrowings from financial institutions

The Bank enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase contract

Securities sold subject to a repurchase contract (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and contracted repurchase price is accrued over the period of the contract and recorded as an expense.

Purchase under resale contract

Securities purchased under a contract to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings. These transactions are accounted for on the settlement date. The difference between the purchase and resale price is recognised as mark-up income on a time proportion basis over the period of the contract and recorded as income.

5.4 Investments (other than investments in subsidiaries and associates)

These are classified as follows:

Held-for-trading

These are investments acquired principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin or are securities included in a portfolio in which a pattern of short-term trading exists.

Held-to-maturity

These are investments with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity.

Available-for-sale

These are investments which do not fall under the held-for-trading and held-to-maturity categories.

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

Investments (other than held for trading) are initially measured at fair value plus transaction cost associated with the investments. Held for trading investments are initially measured at fair value and transaction costs are expensed in the profit and loss account.

Premium or discount on debt securities classified as available for sale and held to maturity is amortised using effective interest method and taken to the profit and loss account.

In accordance with the requirements of the SBP, quoted securities, other than those classified as held to maturity are subsequently stated at market values. Investments classified as held to maturity are carried at amortised cost. Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Surplus / deficit arising on revaluation of quoted securities classified as available for sale is kept in a separate account shown in the statement of financial position below equity. The surplus / deficit arising on revaluation of quoted securities which are classified as held for trading is taken to the profit and loss account.

Impairment loss in respect of investments (other than debt securities) is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulations for Corporate / Commercial Banking issued by the SBP (Prudential Regulations). In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus on revaluation of assets is taken to the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

5.5 Investments in subsidiaries and associates

Investments in subsidiaries and associates are stated at cost less provision for impairment, if any.

5.6 Advances

Loans and advances

These are stated net of specific and general provisions, which are made in accordance with the requirements of the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account. Advances in respect of which the Bank does not expect any recoveries in future years are written off.

Net investment in finance lease

These are stated at net of provisions made against non-performing leases. Leases where the Bank transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognised on commencement of lease term at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any.

5.7 Operating fixed assets

Tangible operating assets - owned

Land is measured at cost at the time of initial recognition and is subsequently carried at revalued amount. Buildings are initially measured at cost and upon revaluation, are carried at revalued amount less accumulated depreciation and impairment, if any. Other operating assets are carried at cost less accumulated depreciation and impairment, if any.

Depreciation on fixed assets is charged to the profit and loss account applying the straight line method in accordance with the rates specified in note 13.2 to the financial statements after taking into account residual value, if significant. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on fixed assets is charged from the date on which an asset is put to use till the date of its disposal.

Land and buildings are revalued by independent professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. The surplus arising on revaluation of fixed assets is credited to the "surplus on revaluation of assets" account shown below equity. The Bank has adopted the following accounting treatment of depreciation on revalued assets, keeping in view the requirements of the Companies Ordinance, 1984 and SECP's SRO 45(1)/2003 dated 13 January 2003:

- depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year is taken to the profit and loss account; and
- an amount equal to incremental depreciation for the year (net of deferred taxation) is transferred from surplus on revaluation of assets to accumulated loss through statement of changes in equity to record realization of surplus to the extent of the incremental depreciation charge for the year.

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

Gains / losses on disposal of fixed assets, if any, are recognised in the profit and loss account, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to accumulated loss.

Tangible operating assets - leased

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation and impairment, if any. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods. The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on fixed assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the Bank.

Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortization and impairment, if any. Amortization is based on straight line method by taking into consideration the estimated useful life of assets at the rates specified in note 13.3. Intangible assets are amortized on prorata basis i.e. full month amortization in the month of purchase and no amortization in the month of disposal.

Intangible assets having an indefinite useful life are stated at cost less impairment in value, if any.

Capital work-in-progress

These are stated at cost less accumulated impairment, if any.

5.8 Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and the liabilities incurred or assumed at the date of acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement, if any. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisitions, the amount of any non-controlling interest in the acquiree, if any, and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at cost less accumulated impairment, if any. Goodwill acquired in a business combination is tested for impairment annually or whenever there is an indication of impairment as referred to in note 5.10 below. Impairment charge in respect of goodwill is recognised in the profit and loss account.

5.9 Non-banking assets acquired in satisfaction of claims

These are initially measured at the settlement value assigned for the purpose of extinguishment of borrowers' liabilities. Subsequent to initial recognition, these are carried at lower of their carrying values and fair values. Any resulting impairment loss is taken to profit and loss account currently. For subsequent increase in fair value, gain is recognized only to the extent it reverses previously recognized impairment loss.

5.10 Impairment of non-financial assets, goodwill and investments in subsidiaries and associates

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank's estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an assets or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of the money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used.

For assets excluding goodwill and intangible assets having indefinite useful life, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exists or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceeds its carrying recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit and loss account.

Impairment losses relating to goodwill and intangible assets having indefinite useful life are not reversed in future periods.

5.11 Financial instruments

Financial assets and financial liabilities

Financial assets and financial liabilities are recognised at the time when the Bank becomes a party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are de-recognised when obligation is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognised in the profit and loss account of the current period.

Derivative financial instruments

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

Offsetting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements only when the Bank has a legally enforceable right to set off and the Bank intends to either settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

5.12 Provisions

Provisions are recognised when the Bank has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

5.13 Provisions against off-balance sheet obligations

The Bank, in the ordinary course of business, issues letters of credit, acceptances, guarantees, bid bonds, performance bonds etc. The commission against such contracts is recognised in the profit and loss account under "fees, commission and brokerage income" over the period of contracts. The Bank's liability under such contracts is measured at the higher of the amount representing unearned commission income at the reporting date and the best estimate of the amount expected to settle any financial obligation arising under such contracts.

5.14 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for current tax also includes adjustments relating to prior years, if necessary, arising from assessments finalised during the year.

Deferred

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

The carrying amount of deferred income tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable temporary differences will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

5.15 Employees' benefits

Defined contribution plan

The Bank operates a contributory provident fund for all eligible employees to which equal monthly contributions at the rate of 8.33% of basic salary are made by both the Bank and the employees. The contributions are recognised as employee benefit expense when they are due.

Defined benefit scheme

The Bank operates an approved unfunded gratuity scheme for all eligible employees. Provision is made annually to meet the cost of such gratuity benefits on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. The actuarial gains and losses arising at each valuation date are recognised as income or expense in the profit and loss account.

5.16 Revenue recognition

Mark-up / interest / return on advances and investments is recognised on accrual basis, except in case of advances classified under the Prudential Regulations on which mark-up is recognized on receipt basis. Interest / return / markup on rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of the SBP.

Financing method is used in accounting for income from lease financing. Under this method, the unrealised lease income is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gain / loss on termination of lease contracts, front end fee and other lease income are recognised as income on receipt basis.

Dividend income is recognised when the right to receive is established.

Gain or loss on sale of investments is recognised in profit and loss account in the year in which it arises.

Fees, commission and brokerage income is recognised as services are performed.

Other income is recognised on accrual basis.

5.17 Foreign currencies transactions

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

5.18 Share issue cost

Share issue cost directly attributable to issuance of shares is recognised as a deduction from equity.

5.19 Dividends and transfers between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the balance sheet date are considered as non-adjusting events and are recorded in the financial statements in accordance with the requirements of IAS 10, "Events after the Reporting Date" in the year in which they are approved / transfers are made.

5.20 Earnings per share

The Bank presents basic and diluted earnings / loss per share for its shareholders. Basic earnings / loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted earnings / loss per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

5.21 Segment reporting

The Bank has structured its key business areas in various segments in a manner that each segment becomes a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The segments within the Bank have been categorised into the following classifications of business segments in accordance with the requirements of the SBP:

(a) Business segments

Commercial banking

This includes strategic partnership with corporate and SME sector entities to provide working capital financing, trade financing and cash management services, project finance, real estate, export finance, leasing, lending, guarantees, bills of exchange and deposits.

Retail banking

This includes mortgage finance and personal loans to individual customers.

Trading and sales

This includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

Corporate finance

This includes services provided in connection with mergers and acquisition, underwriting, privatization, securitization, research, debts (government and high yield), equity, syndication and secondary private placement.

(b) Geographical segments

The operations of the Bank are currently based only in Pakistan.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Bank's accounting policies, management has exercised judgments and estimates in determining the amounts recognized in the financial statements. The most significant judgments and estimates used are as follows:

6.1 Basis of preparation of financial statements

As referred to in note 1.2 to the financial statements, the Bank's management and the Board have made an assessment and are satisfied that the Bank has adequate resources to continue in business on a sustainable basis for the foreseeable future and consequently, would be able to realise its assets and discharge its liabilities in the normal course of business. Therefore, the financial statements of the Bank have been prepared on a going concern basis.

6.2 Provision against non-performing loans and advances

The Bank reviews its loan portfolio to assess amount of non-performing loans and determine provision required there against on a quarterly basis. Provisions are made in accordance with the requirements of Prudential Regulations and charged to profit and loss account. These regulations prescribe an age based criteria and subjective evaluation of advances by the banks for classification of non-performing loans and advances. The provision against such non-performing loans and advances is made at specified percentages as prescribed under Prudential Regulations after taking into account the forced sale value of collaterals held by the Bank. Such regulations also require the Bank to maintain general provision against consumer advances at specified percentage of consumer's portfolio.

6.3 Impairment of investments

The Bank assesses at each reporting date whether there is an indication of impairment of any of its investments in subsidiaries and associates. In case such indications exist, the Bank estimates the recoverable amount of investments which is the higher of investments' fair value less cost to sell and their value in use determined on the basis of estimated future cash flows. The determination of value in use requires judgment and estimates regarding the future cash flows and discount rates as disclosed in note 11.3.2 to the financial statements.

The Bank reviews its investment in debt securities on a quarterly basis, to assess whether they are impaired, in accordance with the requirements of Prudential Regulations.

The Bank also records impairment charge on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

6.4 Goodwill and intangible assets having indefinite useful life

The Bank carries out annual impairment testing in respect of the carrying value of goodwill and intangible assets having indefinite useful lives. Such impairment testing involves determination of the recoverable amount of the CGUs to which such asset pertains. The estimates and assumptions used for such impairment testing are disclosed in note 15.2.1 to the financial statements.

6.5 Deferred tax assets

These are recognized in respect of tax losses to the extent that it is probable that the taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The factors considered by the management in this respect are detailed in note 14.2 to the financial statements.

6.6 Defined benefit scheme

The cost of employee's gratuity scheme is determined using an actuarial valuation which involves assumptions about discount rates and future salary increases as disclosed in note 35 to the financial statements.

7. STANDARDS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards and amendments with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard:

	Effective date (accounting periods beginning on or after)
IAS 1 – Presentation of Financial Statements - Presentation of items of comprehensive income	01 July 2012
IAS 19 – Employee Benefits –(Amendment)	01 January 2013
IAS 32 – Offsetting Financial Assets and Financial liabilities – (Amendment)	01 January 2014
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	01 January 2013

The Bank expects that the adoption of the above revisions and amendments of the standards will not materially affect the Bank's financial statements in the period of initial application.

Improvements to IFRS

In addition to the above amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2013. The Bank expects that such improvements to the standards will not have any material impact on the Bank's financial statements in the period of initial application.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

	IASB Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2015
IFRS 10 – Consolidated Financial Statements	01 January 2013
IFRS 11 – Joint Arrangements	01 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 – Fair Value Measurement	01 January 2013

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012	2011
(Rupees in '000)			
8. CASH AND BALANCES WITH TREASURY BANKS			
In hand :			
- Local currency		848,025	904,262
- Foreign currency		480,848	292,377
- National Prize Bonds		5,275	4,628
		<u>1,334,148</u>	<u>1,201,267</u>
With State Bank of Pakistan in:			
- Local currency current account	8.1	2,572,429	1,759,624
- Foreign currency current account	8.2	18,032	2,381
- Foreign currency deposit account	8.3	503,235	1,599,235
With National Bank of Pakistan in local currency current account			
		<u>339,043</u>	<u>260,090</u>
		<u>4,766,887</u>	<u>4,822,597</u>

8.1 Represent accounts maintained with the SBP as per the requirements of Section 36 of the SBP Act, 1956. This section requires banking companies to maintain a local currency cash reserve in a current account with SBP at a sum not less than such percentage of the Bank's time and demand liabilities in Pakistan as may be prescribed by SBP.

8.2 Represents US Dollar Settlement Account maintained with SBP.

8.3 Represent foreign currency cash reserves maintained with SBP equivalent to at least 20 percent of the Bank's foreign currency deposits mobilised under the FE-25 scheme.

	Note	2012	2011
(Rupees in '000)			
9. BALANCES WITH OTHER BANKS			
In Pakistan			
- On current account		67,313	82,743
Outside Pakistan			
- On current account		742,244	7,130,483
- On deposit account	9.1	1,137,380	3,431,568
		<u>1,879,624</u>	<u>10,562,051</u>
		<u>1,946,937</u>	<u>10,644,794</u>

9.1 These carry interest rates ranging from 0.01 % to 2.66 % (2011: 0.1% to 3.6%) per annum.

10. LENDINGS TO FINANCIAL INSTITUTIONS

In local currency			
Clean placement	10.1	32,400	334,400
Repurchase agreement lendings (Reverse Repo)	10.2 & 10.3	320,547	288,283
		<u>352,947</u>	<u>622,683</u>

10.1 These carry mark-up rate of 15.85 % (2011: 12.5% to 15.85%) per annum and have matured in January 2013.

10.2 These carry mark-up rate of 8 % (2011: 11.9%) per annum and have matured in January 2013.

NOTES TO THE FINANCIAL STATEMENTS

10.3 Securities held as collateral against repurchase agreement lendings

	Note	2012			2011		
		Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
-----Rupees in '000-----							
Market Treasury Bills	10.3.1	320,547	-	320,547	288,283	-	288,283

10.3.1 As of 31 December 2012, the market value of the above securities amounted to Rs. 320.607 million (2011: Rs. 299.875 million).

11. INVESTMENTS

11.1 Investments by types

	Note	2012			2011		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
-----Rupees in '000-----							
Available for sale securities							
Market Treasury Bills		12,783,144	18,345,287	31,128,431	9,160,103	-	9,160,103
Pakistan Investment Bonds		2,370,095	-	2,370,095	790,937	-	790,937
Ordinary Shares of listed companies	11.6	757,828	-	757,828	64,678	-	64,678
Ordinary Shares of unlisted companies	11.7	1,161,029	-	1,161,029	1,171,029	-	1,171,029
Listed Term Finance Certificates	11.8	363,306	-	363,306	315,243	-	315,243
Unlisted Term Finance Certificates	11.9	617,712	-	617,712	674,384	-	674,384
		18,053,114	18,345,287	36,398,401	12,176,374	-	12,176,374
Held-to-maturity securities							
Pakistan Investment Bonds		304,724	-	304,724	521,424	-	521,424
Unlisted Term Finance Certificates	11.9	813,844	-	813,844	429,604	-	429,604
	11.1.1	1,118,568	-	1,118,568	951,028	-	951,028
Associates	11.10	2,615,020	-	2,615,020	2,200,839	-	2,200,839
Subsidiaries	11.11	2,619,383	-	2,619,383	3,051,685	-	3,051,685
Investment at cost		24,406,085	18,345,287	42,751,372	18,379,926	-	18,379,926
Provision for diminution in the value of investments	11.3	(1,990,724)	-	(1,990,724)	(1,464,870)	-	(1,464,870)
Investments - net of provisions		22,415,361	18,345,287	40,760,648	16,915,056	-	16,915,056
Surplus / (Deficit) on revaluation of available for sale investments - net	22.2	62,116	52,502	114,618	(31,308)	-	(31,308)
Total investments after revaluation		22,477,477	18,397,789	40,875,266	16,883,748	-	16,883,748

11.1.1 The aggregate market value of held to maturity securities as of 31 December 2012 amounted to Rs. 1,111.407 million (2011: 911.181 million)

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012	2011
(Rupees in '000)			
11.2 INVESTMENT BY SEGMENTS:			
Federal Government Securities			
- Market Treasury Bills	11.4	31,128,431	9,160,103
- Pakistan Investment Bonds	11.5	2,674,819	1,312,361
		33,803,250	10,472,464
Fully Paid up Ordinary Shares			
- Listed Companies	11.6	757,828	64,678
- Unlisted Companies	11.7	1,161,029	1,171,029
		1,918,857	1,235,707
Term Finance Certificates			
- Listed Companies	11.8	363,306	315,243
- Unlisted Companies	11.9	1,431,556	1,103,988
		1,794,862	1,419,231
Associates			
<i>Listed</i>			
KASB Asset Allocation Fund		298,424	298,424
KASB Capital Protected Gold Fund		-	71,039
KASB Cash Fund		113,389	28,961
KASB Income Opportunity Fund		328,794	328,794
KASB Islamic Income Opportunity Fund		103,525	103,525
Crosby Dragon Fund (Formerly KASB Stock Market Fund)		110,777	-
KASB Stock Market Fund		-	142,287
<i>Unlisted</i>			
KASB International Limited		41,867	41,867
KASB Funds Limited	11.3.3	432,302	-
New Horizon Exploration & Production Limited		558,000	558,000
Shakarganj Food Products Limited		627,942	627,942
		2,615,020	2,200,839
Subsidiaries			
<i>Listed</i>			
KASB Securities Limited		2,394,937	2,394,937
KASB Modaraba		91,675	91,675
<i>Unlisted</i>			
KASB Funds Limited	11.3.3	-	432,302
My Solutions Corporation Limited (formerly: KASB Technology Services Limited)		104,771	104,771
KASB Invest (Private) Limited		28,000	28,000
		2,619,383	3,051,685
Investment at cost		42,751,372	18,379,926
Less: Provision for diminution in the value of investments	11.3	(1,990,724)	(1,464,870)
Investment - net of provision		40,760,648	16,915,056
Surplus / (Deficit) on revaluation of available for sale investments	22.2	114,618	(31,308)
Total Investments after revaluation		40,875,266	16,883,748
11.3 Particulars of provision for diminution in the value of investments			
Opening Balance		1,464,870	1,513,563
Charge for the year		591,477	272,071
Reversal during the year		(65,623)	(305,145)
		525,854	(33,074)
Amount written off		-	(15,619)
Closing balance		1,990,724	1,464,870

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012	2011
11.3.1 Particulars of provision in respect of type and segment		(Rupees in '000)	
Available for sale investments			
Unlisted Term Finance Certificates		123,535	82,000
Ordinary shares of listed companies		50,010	19,062
Ordinary shares of unlisted companies		5,680	5,680
		179,225	106,742
Held to maturity securities			
Unlisted Term Finance Certificates		30,608	-
Associates			
New Horizon Exploration & Production Limited	11.3.2	188,618	-
KASB Funds Limited	11.3.3	370,246	-
KASB Income Opportunity Fund		73,182	-
KASB Stock Market Fund		-	46,560
KASB International Limited		17,911	17,911
KASB Asset Allocation Fund		10,216	10,216
		660,173	74,687
Subsidiaries			
KASB Securities Limited	11.3.2	1,037,947	928,670
KASB Funds Limited		-	300,000
KASB Invest (Private) Limited		28,000	-
My Solutions Corporation Limited (formerly: KASB Technology Services Limited)		54,771	54,771
		1,120,718	1,283,441
		1,990,724	1,464,870

11.3.2 During the year, the management has carried out impairment testing of its investments in subsidiaries and associates as required by IAS 36 – "Impairment of Assets". The recoverable amounts of these investments have been computed using 'value in use' computations with the investments in certain mutual funds which have been computed on the basis of the investment's 'fair value less cost to sell'.

Value in use computations were performed using discounted cash flows methodology, covering cash flow projections for a period of 5 years with the exception of New Horizon Exploration and Production Limited for which projections were prepared for a period of 20 years based on the expected reserve and field profile. The calculations of 'value in use' are most sensitive to the following assumptions:

	Discount rate	Terminal growth rate
	----- (%) -----	
Associates		
New Horizon Exploration and Production Limited	22.4%	-
Shakarganj Food Products Limited	26.0%	5%
KASB Funds Limited	25.5%	7.9%
Subsidiaries		
KASB Securities Limited	24.6%	8.0%
KASB Modaraba	16.6%	7.9%
My Solutions Corporation Limited [formerly KASB Technology Services Limited]	20.9%	2.7%
KASB Invest (Private) Limited	16.6%	7.9%

In addition, the management has used various business assumptions for estimating future cash flows of the respective companies which are based on industry data, historical performance and trends for growth rates, market share etc.

Based on such impairment testing, an additional impairment loss of Rs. 469.323 million in respect of the Bank's investment in subsidiaries and associates has been recognised in these financial statements.

11.3.3 Up until the previous year, the Bank held 58.8% shares of KASB Funds Limited, however, pursuant to the right shares issued by KASB Funds Limited during the year which were renounced by the Bank and accepted by KASB Finance (Private) Limited [the Holding company of the Bank], the percentage holding of the Bank reduced and accordingly, KASB Funds Limited became the subsidiary of KASB Finance (Private) Limited and an associated company of the Bank.

11.4 Market Treasury Bills

These securities have a maturity period of three months to one year (2011: three months to one year), with yield ranging between 9.08% to 11.85% (2011: 11.77% to 13.79%) per annum. These securities have an aggregate face value of Rs. 32,273.500 million (2011: Rs. 9,873 million).

11.5 Pakistan Investment Bonds

These securities have a maturity period of three, five and ten years (2011: three, five and ten years) with interest rates ranging between 8% to 12% (2011: 8% to 13%) per annum. These securities have an aggregate face value of Rs. 2,655.4 million (2011: Rs. 1,307 million).

11.6 Ordinary shares of listed companies - Available for sale

Name of security	2012	2011	2012	2011	2012	2011	2012	2011
	Number of shares of Rs.10/- each		Rating		Cost		Market value	
	----- (Rupees in '000) -----							
ICI Pakistan Limited	-	55,000	-	-	-	9,903	-	6,615
Network Microfinance Bank Limited	-	3,359,198	-	BBB	-	10,078	-	16,762
Pakgen Power Limited	398,590	933,590	AA	AA	7,573	17,738	8,386	10,512
Shell Pakistan Limited	-	95,000	-	-	-	26,959	-	18,077
Agriotech Limited (see note 11.6.1)	21,435,858	-	D	-	750,255	-	250,156	-
					<u>757,828</u>	<u>64,678</u>	<u>258,542</u>	<u>51,966</u>

11.6.1 During the year, the Bank alongwith other lenders, entered into a restructuring agreement in respect of the outstanding liabilities of Azgard Nine Limited (ANL). In terms of the said restructuring, the Bank has acquired 21,435,858 ordinary shares of Agriotech Limited which were previously owned by ANL, in order to partially settle the liabilities of ANL. The above ordinary shares of Agriotech Limited are subject to sale lock-in-period of 5 years in terms of the Share Purchase Agreement (SPA) between the ANL and various lenders including the Company. However, as per the SPA, the sale restriction is not applicable to transactions between the lenders of ANL.

The mark to market impairment loss on this investment as of 31 December 2012 amounts to Rs.500.099 million. However, in terms of SBP directives, the Bank has availed relaxation in respect of recognition of full impairment loss and will recognize the same in a phased manner by 31 December 2013. As per such relaxation the Bank has booked the required impairment as of 31 December 2012 which amounts to Rs. 50.010 million.

11.7 Ordinary shares of unlisted companies - Available for sale

Name of Security	2012	2011	2012	2011	2012	2011	2012	2011
	Number of shares		Rating		Cost		Carrying value	
	----- (Rupees in '000) -----							
Evolvement Capital Limited - incorporated in British Virgin Islands (related party)	5,400,000	5,400,000	-	-	1,155,349	1,155,349	1,155,349	1,155,349
Face value per share : USD 0.0845/- Breakup value per share: USD 2.50/- (2011: USD 2.59/-) [based on unaudited financial statements of 31 March 2012] Chief Executive: Mr. Khaled Al Muhairy								
Pakistan Export Finance Guarantee Agency Limited	568,044	568,044	-	-	5,680	5,680	-	-
Face value per share : Rs. 10/- Breakup value per share: Rs. 0.50/- (2011: Rs. 0.50/-) [based on un-audited financial statements of 30 June 2010] Chief Executive: Mr. S.M. Zaeem								
Khushhali Bank Limited	-	1,000,000	-	A-	-	10,000	-	10,000
Face value per share : Rs. 10/- Chief Executive: Mr. M Ghalib Nishtar								
					<u>1,161,029</u>	<u>1,171,029</u>	<u>1,155,349</u>	<u>1,165,349</u>

11.8 Listed Term Finance Certificates - Available for sale

Particulars	2012	2011	2012	2011	2012	2011	2012	2011
	No. of certificates of Rs. 5,000/- each		Rating		Cost		Market value	
	----- (Rupees in '000) -----							
Allied Bank Limited	2,000	2,000	AA	AA-	9,988	9,992	9,739	9,476
Telecard Limited	3,000	3,000	D	D	5,325	5,389	5,325	5,389
Trust Investment Bank Limited	9,000	9,000	D	BBB	22,093	21,385	22,093	21,587
United Bank Limited (2nd Issue)	16,232	16,232	AA	AA	81,134	81,137	80,837	77,121
United Bank Limited (4th Issue)	18,000	18,000	AA	AA	85,499	84,985	91,817	89,605
World Call Telecom Limited	39,348	39,348	D	BBB	84,267	112,355	84,267	97,747
Jahangir Siddiqui & Company Limited	15,000	-	AA	-	75,000	-	75,000	-
					<u>363,306</u>	<u>315,243</u>	<u>369,078</u>	<u>300,925</u>

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

11.8.1 Particulars of Listed Term Finance Certificates

Particulars	Profit rate per annum	Profit payment	Redemption terms	Maturity
Allied Bank Limited	Six months KIBOR + 0.85%	Semi-annually	Principal to be paid in 20 installments. First 19 installments of Re. 1 per certificate and last installment of Rs 4,981 per certificate.	August 2019
Telecard Limited	Six months KIBOR + 3.75%	Semi-annually	Principal to be paid in 13 unequal installments.	May 2015
Trust Investment Bank Limited	Six months KIBOR + 1.85%	Semi-annually	Principal to be paid in 10 installments. First 2 installments of Re. 1 per certificate and subsequent 8 installments of Rs. 625 per certificate.	July 2013
United Bank Limited (2nd Issue)	9.49%	Semi-annually	Principal to be paid in 16 installments. First 15 installments of Rs. 0.10 per certificate and last installment of Rs. 4998.5 per certificate.	March 2013
United Bank Limited (4th Issue)	Six months KIBOR + 0.85%	Semi-annually	Principal to be paid in 20 installments. First 19 installments of Re. 1 per certificate and last installment of Rs 4,981 per certificate.	February 2018
Worldcall Telecom Limited	Six months KIBOR + 1.6%	Semi-annually	Remaining Principal to be paid in 3 equal installments of Rs. 714 per certificate starting from October 2014.	October 2015
Jahangir Siddiqui & Company Limited	Six months KIBOR + 2.40%	Semi-annually	Principal to be paid in 8 semi annual installments	May 2016

11.9 Unlisted Term Finance Certificates

Particulars	Note	2012	2010	2012	2011	2012	2011
		No. of certificates of Rs. 5,000/- each		Rating		Cost	
---- (Rupees in '000) ----							
Available for sale							
Agritech Limited	11.9.1	30,000	30,000	D	D	149,943	150,016
Azgard Nine Limited (3rd Issue)	11.9.1	5,600	5,600	D	D	28,012	28,045
Engro Chemical Pakistan Limited		41,640	41,640	A	AA	209,222	209,343
Nishat Chunian Limited		38,500	38,500	A	A+	144,375	192,500
Pakistan Mobile Communication (Private) Limited		5,000	5,000	AA-	A+	4,160	12,480
Shakarganj Mills Limited		20,000	20,000	D	D	82,000	82,000
						617,712	674,384
Held to maturity							
Avari Hotel International		60,000	60,000	A-	A-	254,743	254,744
Azgard Nine Limited (3rd Issue)	11.9.1	35,000	35,000	D	D	60,041	174,860
Pakistan Mobile Communication (Private) Limited		50,000	-	AA-	-	237,500	-
Azgard Nine Limited (5th Issue)	11.9.1	33,883	-	D	-	169,415	-
Agritech Limited (4th Issue)	11.9.1	18,429	-	D	-	92,145	-
						813,844	429,604
						1,431,556	1,103,988

11.9.1 These securities have been classified as non-performing in accordance with the requirements of Prudential Regulations. However, in terms of SBP directives, the Bank has availed relaxation in respect of provisioning against certain non-performing securities to the extent of the Rs. 401.763 million (2011: Rs. 352.921 million).

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

11.9.2 Particulars of Unlisted Term Finance Certificates

Particulars	Profit rate per annum	Profit payment	Redemption terms	Maturity
Agritech Limited	Six months KIBOR + 1.75%	Semi-annually	Principal to be paid in 14 installments. First 4 installments of Re. 1 per certificate and subsequent 10 installments of Rs. 499.6 per certificate.	November 2014
Azgard Nine Limited	Six months KIBOR + 1%	Semi-annually	Principal to be paid in 14 installments. First 4 installments of Re. 1 per certificate and subsequent 10 installments of Rs. 499.6 per certificate.	December 2014
Engro Chemical Pakistan Limited	Six months KIBOR + 1.7%	Semi-annually	Bullet payment at the end of term.	March 2018
Nishat Chunian Limited	Three months KIBOR + 2.25%	Quarterly	Principal to be paid in 16 equal installments of Rs. 312.5 per certificate.	September 2015
Pakistan Mobile Communication (Private) Limited	Six months KIBOR + 2.85%	Semi-annually	Principal to be paid in 14 installments. First 8 installments of Re. 1 per certificate and subsequent 6 installments of Rs. 832 per certificate.	June 2013
Shakarganj Mills Limited	Six months KIBOR + 2.75%	Semi-annually	Principal to be paid in 10 equal installments of Rs. 500 per certificate.	September 2014
Avari Hotel Limited	One year KIBOR + 2.50%	Semi-annually	Principal to be paid in 3 installments. First installment of Rs. 2,807.79 per certificate, second installment of Rs. 561.42 per certificate and third installment of Rs. 1,630.77 per certificate.	October 2014
Pakistan Mobile Communication (Private) Limited	Three month KIBOR + 2.65%	Quarterly	Principal to be paid starting from 3rd month of issue date; 10%, 20%, 30% and 40% of the principal amount in 4 years.	April 2016
Azgard Nine Limited (5th Issue)	0% Coupon	Bullet Payment	Principal to be paid in 7 semi unequal installments in 5 years. Inclusive of 1.5 years grace period.	December 2016
Agritech Limited (4th Issue)	0% Coupon	Bullet Payment	Principal to be recovered i.e 45% between 2013 - 2016 (3.5 years) and 55% between 2016 - 2019 (3.5 years).	November 2019

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012		2011	
		Number of shares / units	Cost	Number of shares / units	Cost
(Rupees in '000)					
11.10 Associates	11.3.2				
KASB Asset Allocation Fund	11.10.1	6,473,552	6,453,449	298,424	298,424
Par value per unit: Rs. 50 /-					
Net asset value per unit: Rs. 43.42/- (2011: Rs. 33.60/-) [based on reviewed financial statements for the period ended 31 December 2012]					
Percentage of holding: 70.36% (2011: 69.14%)					
Management Company - KASB Funds Limited					
KASB Cash Fund		1,092,502	287,190	113,389	28,961
Par value per unit: Rs. 100 /-					
Net asset value per unit: Rs. 102.59/- (2011: Rs. 106.14/-) [based on reviewed financial statements for the period ended 31 December 2012]					
Percentage of holding:					
- Direct: 7.55% (2011: 4.73%)					
- Indirect: 4.87% (2011: 14.47%)					
Management Company - KASB Funds Limited					
KASB Income Opportunity Fund		3,361,101	3,361,101	328,794	328,794
Par value per unit: Rs. 100 /-					
Net asset value per unit: Rs. 72.40/- (2011: Rs. 53.90/-) [based on reviewed financial statements for the period ended 31 December 2012]					
Percentage of holding:					
- Direct: 51.64% (2011: 45.94%)					
- Indirect: 5.87% (2011: 3.93%)					
Management Company - KASB Funds Limited					
KASB Islamic Income Opportunity Fund		1,037,084	1,037,084	103,525	103,525
Par value per unit: Rs. 100 /-					
Net asset value per unit: Rs. 103.71/- (2011: Rs. 101.05/-) [based on reviewed financial statements for the period ended 31 December 2012]					
Percentage of holding: 46.82% (2011: 46.83%)					
Management Company - KASB Funds Limited					
Crosby Dragon Fund	11.10.1	1,343,240	-	110,777	-
Par value per unit: Rs. 100 /-					
Net asset value per unit: Rs. 91.86/- (2011: Nil) [based on reviewed financial statements for the period ended 31 December 2012]					
Percentage of holding:					
- Direct: 83.55% (2011: Nil)					
Management Company - KASB Funds Limited					
KASB Stock Market Fund		-	4,042,500	-	142,287
Management Company - KASB Funds Limited					
KASB Capital Protected Gold Fund		-	798,399	-	71,039
Management Company - KASB Funds Limited					
KASB Funds Limited	11.3.3	14,123,622	-	432,302	-
Face value per share: Rs. 10 /-					
Break-up value per share: Rs. 5.83/- (2011: Rs. 5.84/-) [based on audited financial statements for the year ended 31 December 2012]					
Percentage of holding:					
- Direct : 43.89% (2011: 58.85%)					
- Indirect : Nil (2011: 8.33%)					
Chief Executive: Mr. Amer Maqbool					
KASB International Limited - incorporated in Mauritius		283,000	283,000	41,867	41,867
Face value per share: USD 1 /-					
Break-up value per share: Rs. 84.76/- (2011: Rs. 84.65/-) [based on unaudited financial statements for the period ended 31 December 2012]					
Percentage of holding: 21.78% (2011: 21.78%)					
Chief Executive: Mr. Nadir Rahman					
New Horizon Exploration and Production Limited	11.10.1	61,600,000	61,600,000	558,000	558,000
Face value per share: Re. 1 /- and Rs. 10 /-					
Break-up value per share: Rs. 2.67/- (2011: Rs. 2.71/-) [based on unaudited financial statements for the period ended 31 December 2012]					
Percentage of holding:					
- Direct: 25.29% (2011: 25.29%)					
- Indirect: 15.44% (2011: 15.44%)					
Chief Executive: Ashraf Mohammad Hayat					
Shakarganj Food Products Limited		60,950,000	60,950,000	627,942	627,942
Face value per share: Rs. 10 /-					
Break-up value per share: Rs. 3.41/- (2011: Rs. 2.72/-) [based on unaudited financial statements for the year ended 31 December 2012]					
Percentage of holding: 40.20% (2010: 40.20%)					
Chief Executive: Mr. Anjum Saleem					
		<u>2,615,020</u>		<u>2,200,839</u>	

11.10.1 Includes 5,019,070 units of KASB Asset Allocation Fund, 1,343,240 units of Crosby Dragon Fund and 61,600,000 ordinary shares of New Horizon Exploration and Production Limited that have been classified by the Bank as strategic investment in accordance with the BPRD Circular Letter No. 16 dated 01 August 2006 issued by the SBP.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012		2011	
		Number of shares		Cost	
		(Rupees in '000)			
11.11 Subsidiaries					
KASB Modaraba Face value per certificate: Rs. 10 /- Break-up value per certificate: Rs. 11.99/- (2011: Rs. 10.83/-) [based on reviewed financial statements for the period ended 31 December 2012] Percentage of holding: - Direct : 36.95% (2011: 36.95%) - Indirect : 14.65% (2011: 14.26%) Chief Executive: Mr. Abid Aziz Merchant	11.3.2	10,446,767	10,446,767	91,675	91,675
KASB Securities Limited Face value per share: Rs. 10 /- Break-up value per share: Rs. 11.07/- (2011: Rs. 9.90/-) [based on audited financial statements for the year ended 31 December 2012] Percentage of holding: 77.12% (2011: 77.12%) Chief Executive: Mr. Nadir Rahman	11.11.1	77,121,500	77,121,500	2,394,937	2,394,937
KASB Funds Limited Chief Executive: Mr. Amer Maqbool	11.3.3	-	14,123,622	-	432,302
KASB Invest (Private) Limited [formerly KASB Modaraba Management (Private) Limited] Face value per share: Rs. 10 /- Break-up value per share: Rs. 8.16/- (2011: Rs. 9.32/-) [based on reviewed financial statements for the period ended 31 December 2012] Percentage of holding: 96.02% (2011: 96.02%) Chief Executive: Mr. Abid Aziz Merchant		3,985,000	3,985,000	28,000	28,000
My Solutions Corporation Limited [formerly KASB Technology Services Limited] Face value per share: Rs. 10 /- Break-up value per share: Rs. 2.46/- (2011: Rs. 2.13/-) [based on unaudited financial statements for the period ended 31 December 2012] Percentage of holding: 100% (2011: 100%) Chief Executive: Mr. Faisal Anwar	11.11.1	25,000,000	25,000,000	104,771	104,771
				<u>2,619,383</u>	<u>3,051,685</u>
11.11.1 Represent investment classified by the Bank as strategic investment in accordance with the BPRD Circular Letter No. 16 dated 01 August 2006 issued by the SBP.					

	Note	2012		2011	
		(Rupees in '000)			
12. ADVANCES					
Loans, cash credits, running finances, etc. - in Pakistan			33,397,873		32,190,161
Net investment in finance lease - in Pakistan	12.2		982,480		939,072
Bills discounted and purchased (excluding market treasury bills)					
Payable in Pakistan			2,264,991		1,034,749
Payable outside Pakistan			340,662		131,020
Advances - gross			<u>2,605,653</u>		<u>1,165,769</u>
Provision against non performing loans and advances					
- Specific provision	12.3		(7,282,458)		(5,844,770)
- General provision against consumer advances	12.4		(8,057)		(13,066)
Advances - net of provisions	12.5		<u>(7,290,515)</u>		<u>(5,857,836)</u>
			<u>29,695,491</u>		<u>28,437,166</u>
12.1 Particulars of advances - gross					
12.1.1 In local currency			36,645,344		34,163,982
In foreign currencies			340,662		131,020
			<u>36,986,006</u>		<u>34,295,002</u>
12.1.2 Short-term (up to one year)			21,069,983		26,326,132
Long-term (over one year)			15,916,023		7,968,870
			<u>36,986,006</u>		<u>34,295,002</u>

12.2 Net investment in finance lease

	2012				2011			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	------(Rupees in '000)-----							
Lease rentals receivable	677,689	215,974	-	893,663	661,070	220,214	-	881,284
Residual value	85,841	114,578	-	200,419	92,875	76,842	-	169,717
Minimum lease payments	763,530	330,552	-	1,094,082	753,945	297,056	-	1,051,001
Finance charges for future periods	(84,353)	(27,249)	-	(111,602)	(87,502)	(24,427)	-	(111,929)
Present value of minimum lease payments	679,177	303,303	-	982,480	666,443	272,629	-	939,072

12.3 Particulars of non-performing loans and advances

Advances include Rs 13,868.069 million (2011: Rs. 12,137.249 million) which have been placed under non-performing status as detailed below:

Category of classification	2012			Provision required	Provision held
	Domestic	Overseas	Total		
	------(Rupees in '000)-----				
OAEM	31,042	-	31,042	-	-
Substandard	1,670,920	-	1,670,920	263,520	263,520
Doubtful	1,636,645	-	1,636,645	337,747	337,747
Loss	10,529,462	-	10,529,462	6,681,191	6,681,191
	13,868,069	-	13,868,069	7,282,458	7,282,458

Category of classification	2011			Provision required	Provision held
	Domestic	Overseas	Total		
	------(Rupees in '000)-----				
Substandard	1,162,598	-	1,162,598	45,465	45,465
Doubtful	2,145,281	-	2,145,281	635,662	635,662
Loss	8,829,370	-	8,829,370	5,163,643	5,163,643
	12,137,249	-	12,137,249	5,844,770	5,844,770

12.4 General provision has been determined at the rate of 1.5% on fully secured regular portfolio of consumer loans and 5% on unsecured regular portfolio of consumer loans in accordance with the requirements of the Prudential Regulations.

12.5 Particulars of provision against non-performing loans and advances

	2012			2011		
	Specific	General	Total	Specific	General	Total
	------(Rupees in '000)-----					
Opening balance	5,844,770	13,066	5,857,836	5,290,067	20,234	5,310,301
Charge for the period	2,176,510	-	2,176,510	1,222,484	-	1,222,484
Reversals	(712,194)	(5,009)	(717,203)	(632,702)	(7,168)	(639,870)
Net charge	1,464,316	(5,009)	1,459,307	589,782	(7,168)	582,614
Amounts written off	(26,628)	-	(26,628)	(35,079)	-	(35,079)
Closing balance	7,282,458	8,057	7,290,515	5,844,770	13,066	5,857,836

12.5.1 In terms of SBP directives, the Bank has availed relaxation in respect of provisioning against non-performing advances of certain borrowers aggregating to Rs. 1,805.834 million (2011: Rs.1,911.356 million). Had the provision been made as per the requirements of Prudential Regulations, the provision against non-performing advances and loss before taxation for the year would have been higher by Rs. 637.640 million (2011: Rs. 1,066.696 million).

12.5.2 The above provision against non-performing advances has been computed after considering the benefit of Forced Sale Value (FSV) of collaterals amounting to Rs. 2,578.140 million (2011: Rs. 2,672.294 million). The FSV benefit recognized is not allowed for distribution of cash or stock dividend to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

12.5.3 Particulars of provision against non-performing loans and advances

	2012		2011	
	Specific	General	Specific	General
	----- (Rupees in '000) -----			
In local currency	7,282,458	8,057	5,844,770	13,066
In foreign currencies	-	-	-	-
	<u>7,282,458</u>	<u>8,057</u>	<u>5,844,770</u>	<u>13,066</u>

	Note	2012	2011
		(Rupees in '000)	
12.6 Particulars of write-offs			
12.6.1 Against provisions		26,628	35,079
Directly charged to the profit and loss account		<u>4,458</u>	<u>7,987</u>
		<u>31,086</u>	<u>43,066</u>
12.6.2 Write-offs of Rs 500,000/- and above	12.6.3	27,550	37,623
Write-offs of below Rs 500,000/-		<u>3,536</u>	<u>5,443</u>
		<u>31,086</u>	<u>43,066</u>
12.6.3 In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended 31 December 2012 is given in Annexure 1.			

12.7 Particulars of loans and advances to executives, directors, associated companies, etc.

	2012	2011
	(Rupees in '000)	
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons		
Balance at beginning of the year	779,917	800,170
Loans granted during the year	331,019	176,835
Repayments during the year	<u>(213,947)</u>	<u>(197,088)</u>
Balance at end of the year	<u>896,989</u>	<u>779,917</u>
Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members		
Balance at beginning of the year	-	388
Adjustment during the year	-	-
Loans granted during the year	-	-
Repayments during the year	-	<u>(388)</u>
Balance at end of the year	<u>-</u>	<u>-</u>
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
Balance at beginning of the year	427,627	232,513
Loans granted during the year	10,572,265	7,431,473
Repayments during the year	<u>(10,472,937)</u>	<u>(7,236,359)</u>
Balance at end of the year	<u>526,955</u>	<u>427,627</u>

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012	2011
(Rupees in '000)			
13 OPERATING FIXED ASSETS			
Capital work-in-progress	13.1	436,031	811,172
Property and equipment	13.2	2,170,339	2,387,289
Intangible assets	13.3	130,073	143,571
		<u>2,736,443</u>	<u>3,342,032</u>

13.1 Capital work-in-progress

Advance for acquiring floor / office premises	13.1.1	721,903	721,903
Advances to suppliers and contractors		-	11,738
Civil works		14,888	14,460
Computer software		60,192	63,071
		<u>796,983</u>	<u>811,172</u>
Provision for impairment against advance for acquiring floor / office premises	13.1.1	(360,952)	-
		<u>436,031</u>	<u>811,172</u>

13.1.1 Represents advance payment made by the Bank amounting to Rs. 721.903 million for the purchase of 4 floors in KASB Altitude against the aggregate purchase price of Rs. 947 million. The KASB Altitude is being developed/constructed by KASB Developers (Private) Limited (KDPL) and was expected to be completed in January 2012. Due to the suspension of the development / construction work at certain intervals during the past resulting from various reasons, the project is still under construction. In view of the said conditions, the management of the Bank is discussing various options with KDPL, however, as a matter of abundant caution, provision of Rs. 360.95 million has been made in these financial statements.

13.2 Property and equipment

	COST / REVALUATION						DEPRECIATION						BOOK VALUE		Rate of depreciation (%)		
	As at 1 January 2012	Revaluation	Reversal of accumulated depreciation	Additions	Deletions	Transfers	Reclassifications	As at 31 December 2012	As at 1 January 2012	Charge for the year	Transfer	Reversal of accumulated depreciation	Deletions	Reclassifications		As at 31 December 2012	As at 31 December 2012
----- (Rupees in '000) -----																	
Owned																	
Freehold land	299,800	-	-	9,492	-	-	-	309,292	-	-	-	-	-	-	-	309,292	-
Leasehold land	87,854	-	-	-	-	-	-	87,854	-	-	-	-	-	-	-	87,854	-
Buildings and leasehold improvements	1,637,413	-	-	26,777	(1,891)	-	-	1,662,299	126,713	81,505	-	-	(203)	-	208,015	1,454,284	5
Furniture and fixtures	209,629	-	-	2,835	(4,458)	-	-	208,006	92,049	17,938	-	-	(2,871)	-	107,116	100,890	10
Motor vehicles	223,037	-	-	34,087	(210,585)	2,433	-	48,972	83,303	17,934	1,125	-	(83,038)	-	19,324	29,648	20
Electrical, office and computer equipment	803,654	-	-	75,125	(7,308)	7,153	-	878,624	576,231	115,259	4,412	-	(5,649)	-	690,253	188,371	20-33.33
	<u>3,261,387</u>	<u>-</u>	<u>-</u>	<u>148,316</u>	<u>(224,242)</u>	<u>9,586</u>	<u>-</u>	<u>3,195,047</u>	<u>878,296</u>	<u>232,636</u>	<u>5,537</u>	<u>-</u>	<u>(91,761)</u>	<u>-</u>	<u>1,024,708</u>	<u>2,170,339</u>	
Leased																	
Motor vehicles	2,433	-	-	-	(2,433)	-	-	-	1,095	30	(1,125)	-	-	-	-	-	20
Electrical, office and computer equipment	7,153	-	-	-	(7,153)	-	-	-	4,293	119	(4,412)	-	-	-	-	-	20-33.33
	<u>9,586</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,586)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,388</u>	<u>149</u>	<u>(5,537)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
2012	<u>3,270,973</u>	<u>-</u>	<u>-</u>	<u>148,316</u>	<u>(224,242)</u>	<u>-</u>	<u>-</u>	<u>3,195,047</u>	<u>883,684</u>	<u>232,785</u>	<u>-</u>	<u>-</u>	<u>(91,761)</u>	<u>-</u>	<u>1,024,708</u>	<u>2,170,339</u>	

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	COST / REVALUATION							DEPRECIATION					BOOK VALUE		Rate of depreciation (%)	
	As at 1 January 2011	Revaluation	Reversal of accumulated depreciation	Additions	Deletions	Transfers	Reclassifications	As at 31 December 2011	As at 1 January 2011	Charge for the year	Transfer	Reversal of accumulated depreciation	Deletions	Reclassifications		As at 31 December 2011
------(Rupees in '000)-----																
Owned																
Freehold land	304,181	13,619	-	-	(18,000)	-	-	299,800	-	-	-	-	-	-	299,800	-
Leasehold land	115,126	7,728	-	-	(35,000)	-	-	87,854	-	-	-	-	-	-	87,854	-
Buildings and leasehold improvements	1,557,022	168,179	(157,922)	88,258	(18,124)	-	-	1,637,413	207,720	78,980	-	(157,922)	(2,065)	-	1,266,413	1,510,700
Furniture and fixtures	210,467	-	-	3,947	(4,785)	-	-	209,629	76,110	18,420	-	-	(2,481)	-	92,049	117,580
Motor vehicles	257,341	-	-	41,206	(75,510)	-	-	223,037	78,018	33,713	-	-	(28,428)	-	83,303	139,734
Electrical, office and computer equipment	760,055	-	-	47,795	(4,196)	-	-	803,654	454,564	125,504	-	-	(3,837)	-	576,231	227,423
	3,204,192	189,526	(157,922)	181,206	(155,615)	-	-	3,261,387	816,412	256,617	-	(157,922)	(36,811)	-	878,296	2,383,091
Leased																
Motor vehicles	2,433	-	-	-	-	-	-	2,433	730	365	-	-	-	-	1,095	1,338
Electrical, office and computer equipment	7,153	-	-	-	-	-	-	7,153	2,862	1,431	-	-	-	-	4,293	2,860
	9,586	-	-	-	-	-	-	9,586	3,592	1,796	-	-	-	-	5,388	4,198
2011	3,213,778	189,526	(157,922)	181,206	(155,615)	-	-	3,270,973	820,004	258,413	-	(157,922)	(36,811)	-	883,684	2,387,289

2012 **2011**
(Rupees in '000)

13.2.1 Carrying amount of temporarily idle properties

138,484 77,452

13.2.2 Cost of fully depreciated assets still in use

428,741 335,277

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

13.2.3 Details of disposals of property and equipment having original cost or book value exceeding one million rupees or two hundred and fifty thousand rupees respectively are as follows:

Particulars	Cost	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
----- (Rupees in '000) -----					
Vehicle	1,005	322	322	Terms of employment	Aurangzeb Khan - Ex-Employee
Vehicle	1,094	506	506	Terms of employment	Ashraf Kamdar - Ex-Employee
Vehicle	1,312	771	869	Terms of employment	Gauhar Aziz - Ex-Employee
Vehicle	1,374	1,271	1,322	Terms of employment	Younus Amir Sanjrani - Ex-Employee
Vehicle	1,100	456	483	Terms of employment	Syed Liaquat Saeed - Ex-Employee
Vehicle	1,049	433	446	Terms of employment	Syed Masud A Naqvi - Executive
Vehicle	1,270	937	968	Terms of employment	Rehan Riyaz Merchant - Ex-Employee
Vehicle	1,312	722	1,099	Terms of employment	Muzahir Rahim - Ex-Employee
Vehicle	1,232	816	972	Terms of employment	Ijaz Ahmed - Executive
Vehicle	1,328	266	265	Terms of employment	Mir Mujahid Ali Khan - Ex-Employee
Vehicle	1,370	365	1,200	Insurance claim	Adamjee Insurance Limited - Karachi
Vehicle	1,319	660	660	Terms of employment	Muhammad Iqbal - Executive
Vehicle	1,389	712	712	Terms of employment	Syed Murshid Ali - Executive
Vehicle	1,384	952	952	Terms of employment	Salman Raza - Executive
Vehicle	1,088	425	425	Terms of employment	Mirza Waqar Ahmed - Executive
Vehicle	1,506	301	301	Terms of employment	Waqar Ahmed Khan - Executive
Vehicle	1,060	437	437	Terms of employment	Muhammad Muzaffar Khan - Executive
Vehicle	1,490	1,322	1,322	Terms of employment	Rashid Zaman Khan - Executive
Vehicle	1,461	1,151	1,151	Terms of employment	Mudassar Aslam - Executive
Vehicle	1,089	436	436	Terms of employment	Asima Haider - Executive
Vehicle	1,100	427	427	Terms of employment	Fawad Yousuf - Ex-Employee
Vehicle	1,100	442	442	Terms of employment	S Munawar Masood Naqvi - Executive
Vehicle	1,270	905	905	Terms of employment	Imran Mirza Baig - Executive
Vehicle	1,000	425	425	Terms of employment	Ali Asghar Marvi - Executive
Vehicle	1,000	425	425	Terms of employment	Nilofer Ali - Executive
Vehicle	1,330	1,064	1,064	Terms of employment	Mahmood Ul Hassan - Ex-Employee
Vehicle	1,560	1,521	1,521	Terms of employment	Iqbal Munshi - Executive
Vehicle	1,100	426	426	Terms of employment	Muhammad Rizwan - Executive
Vehicle	1,100	862	862	Terms of employment	Babar Mughal - Executive
Vehicle	1,232	847	847	Terms of employment	Malik Tehseen Khokhar - Executive
Vehicle	1,232	755	755	Terms of employment	Muhammad Ashraf Chaudhry - Executive
Vehicle	1,354	846	846	Terms of employment	Kashif Rehman Malik - Executive
Vehicle	1,419	1,366	1,366	Terms of employment	Sardar Sher Ali - Executive
Vehicle	1,014	393	393	Terms of employment	Huma Kamani - Executive
Vehicle	1,270	921	921	Terms of employment	Salman Ahmed - Executive
Vehicle	1,270	905	905	Terms of employment	Anil Henry - Executive
Vehicle	1,414	990	990	Terms of employment	Hamid Baloch - Executive
Vehicle	1,202	705	705	Terms of employment	Salman Hafeez - Executive
Vehicle	1,232	770	770	Terms of employment	Ahmed Yawar Khan - Ex-Employee
Vehicle	1,461	1,132	1,132	Terms of employment	Muhammad Aamir Ahmadani - Executive
Vehicle	2,070	1,837	1,837	Terms of employment	Syed Liaquat Ali - Executive
Vehicle	1,239	805	805	Terms of employment	Syed Zawwar Hussain - Executive
Vehicle	1,725	712	712	Terms of employment	Muhammad Mustafa Khan - Executive
Vehicle	1,088	423	423	Terms of employment	Anjum Amin Siddiqui - Ex-Employee
Vehicle	1,252	861	861	Terms of employment	Shahzad Nazir Khan - Executive
Vehicle	2,163	2,109	2,109	Terms of employment	Salman Naqvi - Executive
Vehicle	1,232	801	801	Terms of employment	Azhar Mehmood - Executive
Vehicle	1,239	821	821	Terms of employment	Ali Sabih Hameed - Executive
Vehicle	1,384	865	865	Terms of employment	Ashfaq Ahmed Tareen - Executive
Vehicle	1,374	1,219	1,219	Terms of employment	Muhammad Ali - Executive
Vehicle	1,970	1,502	1,502	Terms of employment	Tahir Ayub - Executive
Vehicle	2,163	2,082	2,082	Terms of employment	Abid Aziz Merchant - Executive
Vehicle	2,070	1,837	1,837	Terms of employment	Raza Bande Ali - Executive
Vehicle	1,209	665	665	Terms of employment	Javed Akhter - Executive
Vehicle	1,935	1,403	1,403	Terms of employment	Shaban Butt - Executive
Vehicle	1,060	464	464	Terms of employment	Munawar Jaffrani - Executive
Vehicle	1,879	1,292	1,292	Terms of employment	Faisal Anwar - Executive
Vehicle	1,347	1,212	1,212	Terms of employment	Adeel Ishaq Sair - Executive
Vehicle	1,401	1,051	1,051	Terms of employment	Muhammad Tariq Mirza - Executive
Vehicle	1,354	812	812	Terms of employment	Syed Faidr Hussain - Executive
Vehicle	1,775	799	799	Terms of employment	Muhammad Hamidullah - Executive
Vehicle	2,163	2,082	2,082	Terms of employment	Farooq Ahmed Khan - Executive
Vehicle	1,202	721	721	Terms of employment	Wajahat Hussain - Executive
Vehicle	1,232	770	770	Terms of employment	Mazhar Alam Baig - Executive
Vehicle	1,263	916	916	Terms of employment	Saima Sardar - Executive
Vehicle	1,503	1,334	1,334	Terms of employment	M Asim Yaqub - Executive
Vehicle	1,389	712	712	Terms of employment	Aziz Ahmed Malik - Executive
Vehicle	1,503	1,334	1,334	Terms of employment	Ali Muhammad Khan - Executive
Vehicle	1,510	1,359	1,359	Terms of employment	Saulat Qadri - Executive
Vehicle	1,399	1,294	1,294	Terms of employment	Ali Imam - Executive
Vehicle	1,374	1,237	1,237	Terms of employment	M Hanif Awan - Executive
Vehicle	1,202	691	691	Terms of employment	Naveed Ashraf - Executive
Vehicle	1,202	676	676	Terms of employment	Haris Ijaz - Executive
Vehicle	2,089	1,880	1,880	Terms of employment	Munir Saleem - Ex-Employee
Renovation	1,441	1,249	1,990	Insurance claim	Adamjee Insurance Limited - Karachi
Vehicle	1,426	1,034	1,034	Terms of employment	Shaban Butt - Executive
Vehicle	2,133	2,053	2,053	Terms of employment	S Masud Naqvi - Executive
	<u>106,852</u>	<u>73,302</u>	<u>74,630</u>		

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

13.3 Intangible assets

	COST			AMORTISATION			BOOK VALUE		Rate of amortisation (%)	
	As at 1 January 2012	Additions	Adjustment	As at 31 December 2012	As at 1 January 2012	Amortisation	Adjustment	As at 31 December 2012		
(Rupees in '000)										
Computer software	213,914	17,022	(172)	230,764	177,773	27,274	-	205,047	25,717	33.33
Customer list	30,735	-	-	30,735	12,632	3,074	-	15,706	15,029	10
Foreign affiliate relationship (note 15.2.1)	89,327	-	-	89,327	-	-	-	-	89,327	indefinite useful life
Contracts and mandates	89,353	-	-	89,353	89,353	-	-	89,353	-	
Total	423,329	17,022	(172)	440,179	279,758	30,348	-	310,106	130,073	

	COST			AMORTISATION			BOOK VALUE		Rate of amortisation (%)	
	As at 1 January 2011	Additions	Adjustment	As at 31 December 2011	As at 1 January 2011	Amortisation	Adjustment	As at 31 December 2011		
(Rupees in '000)										
Computer software	192,560	21,354	-	213,914	131,649	46,124	-	177,773	36,141	33.33
Customer list	30,735	-	-	30,735	9,559	3,073	-	12,632	18,103	10
Foreign affiliate relationship (note 15.2.1)	89,327	-	-	89,327	-	-	-	-	89,327	indefinite useful life
Contracts and mandates	89,353	-	-	89,353	89,353	-	-	89,353	-	
Total	401,975	21,354	-	423,329	230,561	49,197	-	279,758	143,571	

2012 **2011**
(Rupees in '000)

13.3.1 Cost of fully amortised assets still in use

140,103

53,610

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

		2012	2011
		(Rupees in '000)	
14.	DEFERRED TAX ASSETS		Restated (Note 43)
	Deductible temporary differences arising in respect of:		
	Carry forward tax losses	14.2 3,220,767	3,103,767
	Provision against non-performing loans and advances	1,917,816	1,573,414
	Goodwill	64,540	86,898
	Provision for diminution in the value of investments	120,345	82,610
	Deficit on revaluation of available for sale investments	-	12,716
	Provision for gratuity	46,737	34,542
	Provision for compensated absences	-	2,037
	Other provisions	131,910	5,578
		<u>5,502,115</u>	<u>4,901,562</u>
	Taxable temporary differences arising in respect of:		
	Surplus on revaluation of fixed assets	(196,495)	(211,483)
	Surplus on revaluation of available for sale investments	(39,913)	-
	Accelerated tax depreciation	(89,989)	(136,447)
	Fair value adjustments relating to net assets acquired upon amalgamation	(349,052)	(450,583)
	Net investment in finance leases	(79,014)	(85,227)
	Liabilities against assets subject to finance lease	-	(942)
		<u>(754,463)</u>	<u>(884,682)</u>
		14.3 <u>4,747,652</u>	<u>4,016,880</u>

14.1 Reconciliation of deferred tax

Note	Balance as at 31 December 2010		Recognised in profit and loss account		Recognised in surplus on revaluation of assets		Balance as at 31 December 2011		Recognised in profit and loss account		Recognised in surplus on revaluation of assets		Balance as at 31 December 2012	
(Rupees in '000)														
	Deductible temporary differences arising in respect of:													
	Carry forward tax losses	2,608,856	494,911	-	-	-	3,103,767	117,000	-	-	-	-	-	3,220,767
14.2	Provision against non-performing loans and advances	1,443,159	130,255	-	-	-	1,573,414	344,402	-	-	-	-	-	1,917,816
	Impairment of goodwill	65,198	21,700	-	-	-	86,898	(22,358)	-	-	-	-	-	64,540
	Provision for diminution in the value of investments	75,815	6,795	-	-	-	82,610	37,735	-	-	-	-	-	120,345
	Deficit on revaluation of available for sale investments	30,667	-	(17,951)	-	-	12,716	-	(12,716)	-	-	-	-	-
	Provision for gratuity	38,749	(4,207)	-	-	-	34,542	12,195	-	-	-	-	-	46,737
	Provision for compensated absences	2,262	(225)	-	-	-	2,037	(2,037)	-	-	-	-	-	-
	Other provisions	2,689	2,889	-	-	-	5,578	126,332	-	-	-	-	-	131,910
		<u>4,267,395</u>	<u>652,118</u>	<u>(17,951)</u>	<u>-</u>	<u>-</u>	<u>4,901,562</u>	<u>613,269</u>	<u>(12,716)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,502,115</u>
	Taxable temporary differences arising in respect of:													
	Surplus on revaluation of fixed assets	(221,403)	13,510	(3,590)	-	-	(211,483)	14,988	-	-	-	-	-	(196,495)
	Surplus on revaluation of available for sale investments	-	-	-	-	-	-	-	(39,913)	-	-	-	-	(39,913)
	Accelerated tax depreciation	(149,213)	12,766	-	-	-	(136,447)	46,458	-	-	-	-	-	(89,989)
	Fair value adjustments relating to net assets acquired upon amalgamation	(382,949)	(67,634)	-	-	-	(450,583)	101,531	-	-	-	-	-	(349,052)
	Net investment in finance leases	(104,878)	19,651	-	-	-	(85,227)	6,213	-	-	-	-	-	(79,014)
	Liabilities against assets subject to finance lease	(1,339)	397	-	-	-	(942)	942	-	-	-	-	-	-
		<u>(859,782)</u>	<u>(21,310)</u>	<u>(3,590)</u>	<u>-</u>	<u>-</u>	<u>(884,682)</u>	<u>170,132</u>	<u>(39,913)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(754,463)</u>
		<u>3,407,613</u>	<u>630,808</u>	<u>(21,541)</u>	<u>-</u>	<u>-</u>	<u>4,016,880</u>	<u>783,401</u>	<u>(52,629)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,747,652</u>

14.2 The above deferred tax asset has been recognised in these financial statements as the management estimates that sufficient taxable profits will be available in future years against which the unused carry forward tax losses and other deductible temporary differences can be utilised. The estimates of future taxable profits are based on financial projections of the Bank for the next five years approved by the Board. The projections involve certain key assumptions underlying the estimation of future taxable profits estimated including injection of fresh equity in the form of issuance of right shares and issue of a subordinated debt. The determination of future taxable profit is most sensitive to certain key assumptions such as cost to income ratio, deposit composition, interest rates, growth of deposits and advances, investment returns, potential provision against assets, branch expansion plan and maintainability of its major deposit relationships. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset. The management believes that it is probable that the Bank will be able to achieve the profits projected in the financial projections and consequently the deferred tax asset will be fully realised in future years.

14.3 As of 31 December 2012, the Bank has accumulated tax losses of Rs. 9,944.722 million (2011 : Rs. 10,196.231 million). The deferred tax on such losses works out to Rs. 3,480.653 million, however the Bank has recognised deferred tax asset on such losses to the extent of Rs. 3,220.767 million in line with the financial projections as referred to in note 14.2 above.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012	2011
(Rupees in '000)			
15. OTHER ASSETS			
Mark-up / return / interest accrued in local currency		888,403	941,028
Income / mark-up accrued in foreign currencies		-	-
Advances, deposits and prepayments		152,137	122,069
Taxation (payments less provisions)		17,115	50,115
Stationery and stamps in hand		10,704	10,421
Non-banking assets acquired in satisfaction of claims	15.1	1,255,765	810,625
Branch adjustment account		289	818
Goodwill - net of impairment	15.2	342,687	366,656
Commission receivable		124,416	81,948
Lease rental receivable		35,544	22,752
Receivable against sale of securities		8,795	-
Dividend receivable		1,185	-
Others		369,815	102,374
		<u>3,206,855</u>	<u>2,508,806</u>
Provision against other assets	15.3	<u>(15,936)</u>	<u>(15,936)</u>
Other assets - net of provisions		<u>3,190,919</u>	<u>2,492,870</u>

15.1 Represent commercial and residential properties acquired by the Bank in satisfaction of borrowers liabilities. The market value of these assets as per the latest valuation carried out by an independent valuer amounted to Rs. 1,521.420 million (2011: Rs. 1,025.252 million).

15.2 Goodwill

Goodwill recognised on acquisition of:			
International Housing Finance Limited		35,362	35,362
KASB Capital Limited		698,269	698,269
Network Leasing Corporation Limited		144,848	144,848
		<u>878,479</u>	<u>878,479</u>
Less: Impairment of goodwill			
International Housing Finance Limited		35,362	35,362
KASB Capital Limited		355,582	331,613
Network Leasing Corporation Limited		144,848	144,848
		<u>535,792</u>	<u>511,823</u>
		<u>342,687</u>	<u>366,656</u>

15.2.1 During the year, the management has carried out annual impairment tests in respect of goodwill and intangible assets having indefinite useful lives as required by IAS - 36 "Impairments of Assets". Goodwill and foreign affiliate relationship (note 13.3) were allocated to the Investment Banking Group, a CGU. Based on the impairment testing, the management estimated that an additional provision of Rs. 23.969 million was required in respect of goodwill, which accordingly, has been made in the financial statements.

The recoverable amount of the CGU has been determined using discounted cash flow methodology, covering cash flow projections for a period of 5 years, using a pre-tax discount rate of 22.6% per annum. Management believes that the assumptions used in estimating the future performance of the CGU are consistent with past performance, market position, deals in hand and anticipated market conditions. The growth rate used to extrapolate the cash flows beyond the five year period is 8%.

The calculation of value in use is most sensitive to the following assumptions:

Discount rate

Discount rate reflects management estimates of the rate of return of the CGU and is calculated using Capital Asset Pricing Model.

Terminal growth rate

Terminal growth rate is based on long term nominal growth of the economy from published data and management estimates.

Key business assumptions

These assumptions underlying the projected cash flows of the CGU are based on the industry and economic data to assess the overall current and projected economic scenario, anticipated transaction activity, market position of the unit and relationship with the foreign affiliates and transaction mandates going forward in addition to deals in hand thereby increasing revenues while maintaining margins.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	2012	2011
	(Rupees in '000)	
15.3 Movement in provision against other assets		
Opening balance	15,936	5,373
Charge for the year against non-banking assets	-	129,135
Adjustment upon disposal/reclassification of non-banking assets to operating fixed assets	-	(118,572)
Closing balance	<u>15,936</u>	<u>15,936</u>
16. BILLS PAYABLE		
In Pakistan	<u>877,827</u>	<u>891,579</u>
17. BORROWINGS		
In Pakistan	21,213,015	3,150,185
Outside Pakistan	20,717	1,277,086
	<u>21,233,732</u>	<u>4,427,271</u>
17.1 Particulars of borrowings with respect to currencies		
In local currency	21,213,015	3,150,185
In foreign currencies	20,717	1,277,086
	<u>21,233,732</u>	<u>4,427,271</u>
17.2 Details of borrowings		
Secured		
Borrowings from the SBP		
- Export refinance scheme	17.2.1 2,746,247	2,966,352
- Long term financing for export oriented projects	17.2.2 17,554	71,227
- Long term financing for imported and locally manufactured plant and machinery	17.2.3 <u>56,538</u>	<u>87,410</u>
	2,820,339	3,124,989
Repurchase agreement borrowings	17.2.4 18,383,078	-
Borrowing from financial Institutions	17.2.5 9,598	25,196
	<u>21,213,015</u>	<u>3,150,185</u>
Unsecured		
Call money borrowing	-	697,151
Overdrawn nostro accounts	<u>20,717</u>	<u>579,935</u>
	20,717	1,277,086
	<u>21,233,732</u>	<u>4,427,271</u>

17.2.1 These carry mark-up rates ranging from 8.5% to 10% (2011: 10%) per annum with maturities up to June 2013.

17.2.2 These carry mark-up rate of 5% (2011: 5%) per annum with maturities up to July 2013.

17.2.3 These carry mark-up rates ranging from 6.5% to 7.2% (2011: 6.5% to 7.2%) per annum with maturities up to December 2014.

17.2.4 These carry mark-up rates of 8.88% per annum with maturities up to January 2013.

17.2.5 These carry mark-up rates ranging from 1.5 % to 6.31 % (2011: 1.5% to 6.69%) per annum with maturities up to September 2013.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	2012	2011
	(Rupees in '000)	
18. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	13,984,688	21,124,548
Savings deposits	17,473,195	17,989,212
Current accounts- Non-remunerative	29,471,973	21,189,383
Margin deposits - Non-remunerative	401,932	561,696
	61,331,788	60,864,839
Financial Institutions		
Remunerative deposits	525,402	379,284
Non-remunerative deposits	16,078	18,773
	541,480	398,057
	61,873,268	61,262,896
18.1 Particulars of deposits		
In local currency	59,361,589	45,174,319
In foreign currencies	2,511,679	16,088,577
	61,873,268	61,262,896

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2012			2011		
	Minimum lease payments	Financial charge for future periods	Principal outstanding	Minimum lease payments	Financial charge for future periods	Principal outstanding
	------(Rupees in '000)-----					
Not later than one year	-	-	-	1,510	-	1,510
Later than one year and not later than five years	-	-	-	-	-	-
	-	-	-	1,510	-	1,510

	Note	2012	2011
		(Rupees in '000)	
20. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		520,298	696,012
Mark-up / return / interest payable in foreign currencies		987	2,340
Accrued expenses		226,489	180,390
Security deposit against lease		199,774	168,132
Provision for compensated absences		-	5,820
Provision for gratuity	35	133,534	98,691
Unclaimed dividends		604	604
Unearned commission income		28,583	34,528
Withholding tax payable		11,572	12,893
Federal excise duty payable		6,203	5,650
Unrealised loss on forward foreign exchange contracts		391,078	68,940
Others		196,775	115,025
		1,715,897	1,389,025

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

21. SHARE CAPITAL

Authorised capital

2012 (Number of Shares)	2011 (Number of Shares)	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
<u>2,500,000,000</u>	<u>2,500,000,000</u>	Ordinary shares of Rs. 10/- each	<u>25,000,000</u>	<u>25,000,000</u>

Issued, subscribed and paid-up capital

2012 (Number of Shares)	2011 (Number of Shares)	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
		Ordinary shares of Rs. 10/- each		
1,263,642,172	1,263,642,172	Issued for cash	12,636,422	12,636,422
207,809,549	207,809,549	Issued as bonus shares	2,078,095	2,078,095
518,141,783	518,141,783	Issued on amalgamations for consideration other than cash	5,181,418	5,181,418
(38,731,842)	(38,731,842)	Cancelled shares	(387,318)	(387,318)
<u>1,950,861,662</u>	<u>1,950,861,662</u>		<u>19,508,617</u>	<u>19,508,617</u>

2012 (Number of Shares)

21.1 Represents shares issued on amalgamations are as follows ;

International Housing Finance Limited	58,500,000	58,500,000
KASB & Company	89,001,900	89,001,900
KASB Capital Limited	361,797,538	361,797,538
KASB Leasing	8,834,942	8,834,942
Network Leasing Corporation Limited	7,403	7,403
	<u>518,141,783</u>	<u>518,141,783</u>

21.2 As of 31 December 2012, ordinary shares of Rs. 10/- each were held by the holding company, associated company and other related parties of the Bank as under :

Holding company	1,631,302,898	1,166,807,649
Associated company	19,858,649	19,858,649
Other related parties	15,894	469,603,330

Note 2012 (Rupees in '000)

22. SURPLUS ON REVALUATION OF ASSETS - net of tax

Operating fixed assets	22.1	556,719	584,557
Available for sale investments	22.2	74,705	(18,592)
		<u>631,424</u>	<u>565,965</u>

22.1 Operating fixed assets

Balance at the beginning of the year		796,040	644,318
Surplus during the year upon revaluation of land and buildings	13.2	-	189,526
Transfer to accumulated loss in respect of incremental depreciation charged during the period		(42,826)	(37,804)
		<u>753,214</u>	<u>796,040</u>

Related deferred tax liability:

Balance at the beginning of the year		211,483	221,403
Surplus during the year upon revaluation of land and buildings		-	3,589
Transfer to accumulated losses in respect of incremental depreciation charged during the year		(14,988)	(13,509)
		<u>196,495</u>	<u>211,483</u>
		<u>556,719</u>	<u>584,557</u>

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	2012	2011
	(Rupees in '000)	
22.2 Available for sale investments		
Federal Government Securities	108,034	(23,342)
Ordinary shares of listed companies	813	6,352
Listed Term Finance Certificates	5,771	(14,318)
	114,618	(31,308)
Related deferred tax (liability) / asset	(39,913)	12,716
	<u>74,705</u>	<u>(18,592)</u>
23 CONTINGENCIES AND COMMITMENTS		
23.1 Direct credit substitutes	<u>-</u>	<u>-</u>
23.2 Transaction-related contingent liabilities		
Includes performance bonds, bid bonds, warranties advance payment guarantees and shipping guarantees related to particular transactions issued in favour of:		
- Government	9,408,993	8,089,482
- Others	3,884,513	1,935,270
	<u>13,293,506</u>	<u>10,024,752</u>
23.3 Trade-related contingent liabilities		
Letters of credit	8,345,144	8,684,795
Acceptances	2,154,419	2,803,140
	<u>10,499,563</u>	<u>11,487,935</u>
23.4 Taxation		

The income tax returns of the Bank have been filed and tax assessments have been made by the tax authorities up to and including the tax year 2012.

For tax years 2003 and 2004, the Commissioner Income Tax Appeals (CIT Appeals) has passed appellate orders on account of certain disallowances in respect of income from carry over transactions, provision against non performing advances, bad debts and certain other items having an aggregate tax impact of Rs. 33.748 million (2011: Rs. 33.748 million). The Bank has preferred appeal before Income Tax Appellate Tribunal (ITAT) against the above referred orders of the CIT Appeals.

For tax years 2005 to 2009, the assessments of the Bank have been amended by the Taxation Officer by disallowing certain expenses / deductions including income from carry over transactions, provision for non performing advances, concessional loans to employees, amortisation of goodwill and impairment of investments having an aggregate tax impact of Rs. 757.487 million (2011: Rs. 757.487 million). The Bank has preferred appeals before the CIT Appeals against the above referred amendments of the Taxation Officer.

Income tax assessments of IHFL (amalgamated into the Bank during the year ended 31 December 2007) for tax years 2005 and 2006 have also been amended by the Taxation Officer by disallowing certain deductions including income from carry over transactions, gain on sale of investments, provision for doubtful debts and certain other items having an aggregate tax impact of Rs. 25.881 million (2011: Rs. 25.881 million). The Bank has preferred appeals before the CIT Appeals and ITAT for tax year 2005 and 2006 respectively against the above referred disallowances.

The aggregate financial impact of the above matters works out to be Rs. 817.116 million (2011: Rs. 817.116 million). The management, based on the opinion of its tax advisor, expects a favourable outcome of the above tax matters, however, as a matter of prudence, tax impact to the extent of Rs. 513.396 million (2011: Rs. 513.396 million) has been recognised in these financial statements by reducing the related deferred tax asset.

The income tax returns of the Bank for Azad Jammu Kashmir (AJK) region have been filed and tax assessments have been made by the tax authorities up to and including tax year 2012.

For tax years 2003, 2004, 2005 and 2006 the income tax authorities of AJK region has passed appellate orders by adding interest on surplus funds transferred to head office, resulting in an additional tax demand of Rs. 23.994 million (2011: Rs. 11.172 million). The Bank has filed reference with the Azad Kashmir High Court against such additions for tax years 2003 and 2004. For tax year 2005, the Bank's appeal is pending before the Commissioner Income Tax (Appeals) - AJK.

The management, based on the opinion of its tax advisor, is confident about the favourable outcome of the above matters and consequently no additional provision has been considered necessary in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

	Note	2012	2011
(Rupees in '000)			
23.5	Commitments in respect of forward exchange contracts		
	Purchase	29,116,581	11,445,273
	Sale	28,952,563	6,541,997
23.6	Commitments for the acquisition of operating fixed assets	276,598	270,067
23.7	Commitment to extend credits		
	The Bank makes commitments to extend credit in the normal course of its business but these being irrevocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
23.8	Commitment to extend credits		
	The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
24.	DERIVATIVE FINANCIAL INSTRUMENTS		
	The Bank deals in derivative financial instruments namely forward foreign exchange contracts and foreign currency swaps with the principal view of hedging the risks arising from its trade business. As per the Bank's policy, these contracts are reported on their fair value at the statement of financial position date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Unrealized gains and losses on these contracts are recorded on the statement of financial position under "other assets / other liabilities". These products are offered to the Bank's customers to protect from unfavourable movements in foreign currencies. The Bank hedges such exposures in the inter-bank foreign exchange market.		
		2012	2011
(Rupees in '000)			
25.	MARK-UP / RETURN / INTEREST EARNED		
	On loans and advances		
	Customers	3,065,321	3,194,696
	Financial institutions	22,773	25,886
		3,088,094	3,220,582
	On investments		
	Available for sale securities	3,099,558	1,178,129
	Held to maturity securities	39,480	57,022
		3,139,038	1,235,151
	On deposits with financial institutions	14,581	10,381
	On securities purchased under resale agreements	98,818	51,092
		6,340,531	4,517,206
26.	MARK-UP/ RETURN / INTEREST EXPENSED		
	Deposits	3,350,397	4,338,667
	Securities sold under repurchase agreements	489,452	175,416
	Borrowings from the SBP	254,088	351,454
	Call borrowings	55	157,519
	Other Borrowings	4,417	2,604
	Amortisation of premium on securities	21,211	27,240
		4,119,620	5,052,900
27.	GAIN / (LOSS) ON SALE / REDEMPTION OF SECURITIES		
	Federal Government securities	12,405	162,705
	Ordinary shares of listed companies	13,216	820
	Open-end mutual funds	(18,157)	(36,775)
		7,464	126,750

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012	2011
(Rupees in '000)			
28. OTHER INCOME			
Rent on property		6,486	5,965
Locker rent		4,792	4,842
Processing fee and cheque return charges		23,715	26,303
Bank charges against consumer loans		15,743	16,093
Renewal of credit fees		8,938	1,963
Insurance claims and stamp charges		4,177	6,341
Gain on sale of fixed assets- net		7,123	-
Recovery from impaired loans		2,807	-
Prepayment penalty charge to borrowers		260	345
		<u>74,041</u>	<u>61,852</u>
29. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits		1,199,370	981,497
Charge in respect of defined benefit scheme	35.2	55,282	12,371
Contribution to defined contribution plan		37,717	34,903
Rent, taxes, insurance and electricity		479,046	440,775
Legal and professional charges		63,264	53,281
Communication charges		122,749	110,631
Repairs and maintenance		129,883	105,306
Finance charge on lease obligations		-	34
Stationery and printing		37,307	38,650
Advertisement and publicity		92,515	74,393
Depreciation		232,784	258,413
Amortization		30,348	49,198
Auditors' remuneration	29.1	17,120	11,119
Vehicle running expenses		8,519	7,420
Brokerage and commission		4,312	3,850
Security charges		69,209	60,983
Fee and subscription		40,187	38,937
Entertainment		20,026	15,691
Traveling expenses		30,025	16,552
Others		6,462	9,283
		<u>2,676,125</u>	<u>2,323,287</u>
29.1 Auditors' remuneration			
Audit fee		2,900	2,525
Fee for half yearly review		900	775
Special certifications and sundry services		12,260	7,660
Out-of-pocket expenses		1,060	159
		<u>17,120</u>	<u>11,119</u>
30. OTHER CHARGES			
Impairment on goodwill	15.2.1	23,969	64,736
Impairment against advance for acquiring floor / office premises	13.1.1	360,952	-
(Reversal of penalties) / penalties imposed by the SBP		(10,618)	47,855
Loss on sale of non banking assets		12,835	-
Loss on sale of fixed assets - net		-	15,195
		<u>387,138</u>	<u>127,786</u>

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012	2011
(Rupees in '000)			
31. BASIC AND DILUTED LOSS PER SHARE			
Loss for the year after taxation		(1,063,417)	(2,369,925)
Number of shares			
Weighted average number of ordinary shares		1,950,861,662	1,002,916,457
(Rupees)			
Basic and diluted loss per share		(0.55)	(2.36)
(Rupees in '000)			
32. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	8	4,766,887	4,822,597
Balances with other banks	9	1,946,937	10,644,794
Overdrawn nostro accounts	17.2	(20,717)	(579,935)
		6,693,107	14,887,456
Number of employees			
Permanent		1,151	1,067
Temporary / on contractual basis		52	59
Bank's own staff strength at the end of the year		1,203	1,126
Outsourced		438	411
Total staff strength		1,641	1,537
34. DEFINED CONTRIBUTION PLAN			
The general description of the defined contribution plan is included in note 5.15.			
35. DEFINED BENEFIT SCHEME			
The Bank operates an approved unfunded gratuity scheme for all its permanent employees. Latest actuarial valuation of the gratuity scheme was carried out as at 31 December 2012 using the Projected Unit Credit Method. The following significant assumptions were used for the valuation of the scheme:			
		2012	2011
		(%)	
Discount rate		11.5	12.5
Expected rate of salary increase - short term		8	8
Expected rate of salary increase - long term		11.5	12.5
(Rupees in '000)			
35.1 Movement in liability			
Opening balance		98,691	110,710
Charge for the year		55,282	12,371
Payments made during the year		(20,439)	(24,390)
Closing balance		133,534	98,691
35.2 Charge for the year			
Current service cost		35,891	37,423
Interest cost		11,059	13,792
Actuarial loss / (gain) recognised		8,332	(38,844)
		55,282	12,371
35.3 Movement in present value of defined benefit obligations			
Opening balance		98,691	110,710
Current service cost		35,891	37,423
Interest cost		11,059	13,792
Benefits paid		(20,439)	(24,390)
Actuarial (gain) / loss recognised		8,332	(38,844)
Closing balance		133,534	98,691

NOTES TO THE FINANCIAL STATEMENTS

35.4 Historical information

	2012	2011	2010	2009	2008
	----- (Rupees in '000) -----				
Present value of obligations	133,534	98,691	110,710	91,018	74,706

35.5 Based on actuarial advice, the management estimates that the charge to defined benefit scheme for the year ending 31 December 2013 would be Rs. 50.383 million.

36. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Executive Directors		Executives	
	2012	2011	2012	2011	2012	2011
	----- (Rupees in '000) -----					
Managerial remuneration	7,926	12,118	11,599	11,600	357,191	273,334
Severance package to Ex-Chief Executive	29,559	-	-	-	-	-
Contribution to defined contribution plan	1,404	1,062	966	966	20,731	17,993
Contribution to defined benefit scheme	-	-	2,701	623	41,616	18,305
Rent and house maintenance	11,245	3,635	3,479	3,480	107,157	82,000
Utilities	3,748	1,212	1,159	1,160	35,719	27,333
Medical	3,748	1,212	1,160	1,160	35,722	27,333
Others	4,410	1,228	980	780	116,856	67,907
	62,040*	20,467	22,044	19,769	714,992	514,205
Number of persons	2*	1	1	1	362	306

* Include remuneration of Ex-Chief Executive of the Bank.

36.1 The Bank provides free use of Bank maintained car to the Chief Executive in accordance with the terms of his employment.

36.2 Fee paid to non-executive directors for attending the Board meetings amounts to Rs. 5.400 million (2011: Rs. 6.225 million).

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2012		2011	
	Book value	Fair value	Book value	Fair value
	----- (Rupees in '000) -----			
On-balance sheet financial instruments				
Assets				
Cash and balances with treasury banks	4,766,887	4,766,887	4,822,597	4,822,597
Balances with other banks	1,946,937	1,946,937	10,644,794	10,644,794
Lendings to financial institutions	352,947	352,947	622,683	622,683
Investments	40,875,266	39,915,232	16,883,748	15,555,013
Advances	29,695,491	29,695,491	28,437,166	28,437,166
Other assets	3,190,919	3,190,919	2,492,870	2,492,870
	80,828,447	79,868,413	63,903,858	62,575,123
Liabilities				
Bills payable	877,827	877,827	891,579	891,579
Borrowings	21,233,732	21,233,732	4,427,271	4,427,271
Deposits and other accounts	61,873,268	61,873,268	61,262,896	61,262,896
Other liabilities	1,715,897	1,715,897	1,389,025	1,389,025
	85,700,724	85,700,724	67,970,771	67,970,771
Off-balance sheet financial instruments				
Forward purchase of foreign exchange contracts	29,116,581	28,008,520	11,445,273	11,416,569
Forward sale of foreign exchange contracts	28,952,563	28,236,618	6,541,997	6,576,421

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Fair value of financial instruments is based on:

Federal Government securities	PKRV rates
Listed securities	Market prices
Mutual funds	Net asset values
Unlisted equity investments	Break-up value as per latest available financial statements / discounted cash flow valuation

Fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities. The provision for impairment of loans and advances and debt securities has been calculated in accordance with the Bank's accounting policies as stated in note 6.2 and 6.3.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activities of the Bank is as follows:

2012	Commercial banking	Retail banking	Trading and sales	Corporate finance	Total
----- (Rupees in '000) -----					
Total income	3,769,064	89,073	3,422,487	98,068	7,378,699
Total expenses	(7,897,944)	(153,919)	(1,072,649)	(64,690)	(9,189,202)
(Loss) / profit before taxation	<u>(4,128,880)</u>	<u>(64,846)</u>	<u>2,349,838</u>	<u>33,378</u>	<u>(1,810,510)</u>
Segment assets (gross)	53,580,218	1,687,889	42,199,352	503,210	97,970,669
Segment non-performing loans	13,119,784	748,285	-	-	13,868,069
Segment provision required	7,177,152	490,251	1,990,724	-	9,658,127
Segment liabilities	64,612,822	994,394	20,093,484	24	85,700,724
----- % -----					
Segment return on assets	(8)	(4)	6	7	
Segment cost of funds	8	11	2	11	
2011	Commercial banking	Retail banking	Trading and sales	Corporate finance	Total
----- (Rupees in '000) -----					
Total income	5,009,208	6,402	146,484	27,808	5,189,902
Total expenses	(7,816,351)	(150,346)	(154,565)	(69,373)	(8,190,635)
Loss before taxation	<u>(2,807,143)</u>	<u>(143,944)</u>	<u>(8,081)</u>	<u>(41,565)</u>	<u>(3,000,733)</u>
Segment assets (gross)	50,154,654	1,855,706	26,377,499	213,553	78,601,412
Segment non-performing loans	11,950,291	186,958	-	-	12,137,249
Segment provision required	5,245,954	627,818	1,464,872	-	7,338,644
Segment liabilities	66,593,050	542,224	836,999	9	67,972,282
----- % -----					
Segment return on assets	(6)	(8)	-	(19)	
Segment cost of funds	10	13	11	13	

39. TRUST ACTIVITIES

The Bank is not engaged in any trust activities.

40. RELATED PARTY TRANSACTIONS

The management has determined related party relationships in accordance with approved accounting standards which include holding company, subsidiaries, associates, retirement benefit funds, major share holders, directors and key management personnel and their close family members.

Transaction with related parties, other than those disclosed elsewhere in financial statements, are summarized as follows:

	As at 31 December 2012					Total
	Subsidiaries	Holding company / Associates	Directors	Key management personnel	Other related parties	
------(Rupees in '000)-----						
Deposits						
As at 01 January 2012	60,663	208,764	4,486	18,280	179,553	471,746
Received during the year	102,476,068	3,774,683	130,672	587,998	28,920,418	135,889,839
Withdrawals during the year	(102,144,137)	(3,939,794)	(125,019)	(591,217)	(28,983,893)	(135,784,060)
As at 31 December 2012	<u>392,594</u>	<u>43,653</u>	<u>10,139</u>	<u>15,061</u>	<u>116,078</u>	<u>577,525</u>
Loan and advances						
As at 01 January 2012	228,944	198,683	20,704	55,359	-	503,690
Disbursements during the year	10,342,941	229,324	13,749	53,440	-	10,639,454
Repayments during the year	(10,233,961)	(238,976)	(17,412)	(50,266)	-	(10,540,615)
As at 31 December 2012	<u>337,924</u>	<u>189,031</u>	<u>17,041</u>	<u>58,533</u>	<u>-</u>	<u>602,529</u>
Other assets	28,268	5,976	-	-	-	34,244
Other liabilities	87	-	30	46	1	162
Contingencies and commitments	51,000	444,460	-	-	-	495,460
As at 31 December 2011						
Deposits						
As at 01 January 2011	138,423	220,673	2,968	35,906	216,992	614,962
Adjustment during the year	-	-	-	-	-	-
Received during the year	58,565,566	10,202,831	58,201	286,546	541,552	69,654,696
Withdrawals during the year	(58,643,326)	(10,214,740)	(56,683)	(304,172)	(578,991)	(69,797,912)
As at 31 December 2011	<u>60,663</u>	<u>208,764</u>	<u>4,486</u>	<u>18,280</u>	<u>179,553</u>	<u>471,746</u>
Loan and advances						
As at 01 January 2011	102,868	129,645	15,580	49,496	388	297,977
Adjustment during the year	-	-	-	-	-	-
Disbursements during the year	7,188,690	242,783	10,000	27,541	-	7,469,014
Repayments during the year	(7,062,614)	(173,745)	(4,876)	(21,678)	(388)	(7,263,301)
As at 31 December 2011	<u>228,944</u>	<u>198,683</u>	<u>20,704</u>	<u>55,359</u>	<u>-</u>	<u>503,690</u>
Other assets	26,039	10,820	-	-	-	36,859
Other liabilities	63	95	2	102	7	269
Contingencies and commitments	-	350,010	-	-	2,249	352,259
For the year ended 31 December 2012						
Mark-up earned	16,878	26,736	1,737	4,367	-	49,718
Mark-up expensed	7,484	20,926	736	477	7,103	36,726
Other administrative Expenses	14,181	-	82,894	160,374	1	257,450
Contribution to staff provident fund	-	-	-	-	37,717	37,717
Other income	8,368	28,639	-	-	-	37,007
Others	4,485	293,100	-	-	-	297,585
For the year ended 31 December 2011						
Mark-up earned	20,021	26,371	1,077	1,838	12	49,319
Mark-up expensed	6,996	76,149	12	1,529	20,397	105,083
Group executive services	-	6,742	-	-	-	6,742
Remuneration for services	11,939	462	22,286	89,752	-	124,439
Contribution to staff provident fund	-	-	-	-	26,500	26,500
Other income	10,317	2,817	-	-	-	13,134
Others	894	-	-	-	-	894

41. CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

41.1 Capital management

The primary objective of the Bank's capital management is to ensure that the Bank complies with all regulatory capital requirements and at the same time maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. Basel II implementation is a vital initiative towards strengthening Bank's risk management. The Bank in line with the SBP guidelines has adopted the standardized approach for credit, market risks and basic indicator approach for operational risk.

The goals of managing capital of the Bank are as follows:

- To be an appropriately capitalised institution, as defined by regulatory authorities and comparable to the peers.
- Maintain strong ratings and to protect the Bank against unexpected events.
- Availability of adequate capital at a reasonable cost so as to enable the Bank to expand and achieve low overall cost of capital with appropriate mix of capital elements.

The Bank has developed a capital management plan as part of its Internal Capital Adequacy Assessment Process (ICAAP). This plan documents the Bank's risk management structures, financial projections and its capital management plan for the next 5 years. The plan has been approved by the management and Board and submitted to the SBP on annual basis as per the circular by SBP dated December 24, 2012 and is subject to periodic review.

41.2 Regulatory capital requirements

The SBP vide BSD Circular No.7 dated 15 April 2009 has set the Minimum Capital Requirement (MCR) for Banks up to Rs.10 billion to be achieved in a phased manner by 31 December 2013. The required MCR (free of losses) as of 31 December 2012 is Rs. 9 billion. Further, the Bank is also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of the risk weighted assets of the Bank.

The paid up capital of the Bank (net of losses) as of 31 December 2012 amounted to Rs. 1,980.010 million while CAR stands at negative 0.61% as of that date. The management's actions and plans for meeting the required capital requirements are disclosed in note 1.2 to the financial statements.

41.3 Capital structure

Tier I capital includes paid up capital, share premium, reserves and un-appropriated profit / accumulated losses, etc. after deductions for investment in subsidiaries (up to 50 percent) engaged in banking and financial activities, goodwill, intangibles and relaxation in provisions, if any.

Tier II capital, includes general provisions for loan losses (up to a maximum of 1.25 percent risk weighted assets). Revaluation reserves (up to a maximum of 45 percent of revaluation reserves gross of any deferred tax liability) after deduction of remaining 50 percent of investment in subsidiaries as mentioned above.

Tier III capital, consists of short term subordinated debt solely for the purpose of meeting a proportion of the capital requirement for market risks. The Bank currently does not have any Tier III capital.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012	2011
(Rupees in '000)			
Tier I capital			
Share capital		19,508,617	19,508,617
Discount / premium on issue of right shares		(6,976,276)	(6,976,276)
Accumulated losses		(10,843,780)	(9,808,201)
Advance against future issue of right shares		291,449	-
Reserves		384	384
		1,980,394	2,724,524
Book value of:			
- goodwill		(342,687)	(366,656)
- intangibles		(190,265)	(206,643)
Other deductions:			
- 50% investments in subsidiaries and associates	41.5	(1,087,578)	(1,232,942)
- Relaxation in provisions against non-performing loans and advances		-	-
		359,864	918,283
Tier II capital			
General provisions subject to 1.25% of total risk weighted assets		8,057	13,066
Revaluation reserve (up to 45%)		390,524	344,129
Other deductions:			
- 50% investments in subsidiaries and associates	41.5	(1,087,578)	(1,232,942)
		(688,997)	(875,747)
Eligible Tier III capital			
		-	-
Total regulatory capital			
		(329,133)	42,536

41.4 The capital to risk weighted assets calculated in accordance with SBP's guidelines on capital adequacy is as follows:

	Capital requirements		Risk weighted assets	
	2012	2011	2012	2011
----- (Rupees in '000) -----				
Credit risk				
Portfolios subject to standardized approach				
Claim on				
Corporate portfolio	1,668,969	1,945,949	16,689,693	19,459,488
Retail portfolio	61,186	72,078	611,858	720,779
Banks	55,905	223,550	559,051	2,235,501
Residential property	40,039	41,696	400,387	416,964
Past due loans	823,352	865,430	8,233,521	8,654,304
Investment in fixed assets	254,618	313,539	2,546,178	3,135,392
Other assets	1,011,132	881,858	10,111,320	8,818,577
	3,915,201	4,344,100	39,152,008	43,441,005
Off balance sheet				
Non market related	670,508	749,714	6,705,079	7,497,144
Market related	142,780	21,721	1,427,804	217,205
	813,288	771,435	8,132,883	7,714,349
	4,728,489	5,115,535	47,284,891	51,155,354
Market risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	208,483	92,705	2,606,035	1,158,818
Equity position risk	113,382	8,315	1,417,275	103,932
Foreign exchange risk	3,088	2,940	38,600	36,747
	324,953	103,960	4,061,910	1,299,497
Operational risk				
Capital requirement for operational risks	184,842	35,756	2,310,525	446,950
Total	5,238,284	5,255,251	53,657,326	52,901,801
Capital Adequacy Ratio				
Total eligible regulatory capital held	(329,133)	42,536		
Total risk weighted assets	53,657,326	52,901,801		
CAR	-0.61%	0.08%		

41.5 The CAR calculation does not include the impact of deduction of investments in open ended mutual funds amounting to Rs. 871.511 million (2011: Rs 916.254 million) based on the clarification issued by the SBP through its letter BSD/BAI-1/220/452/2009 dated 27 April 2009.

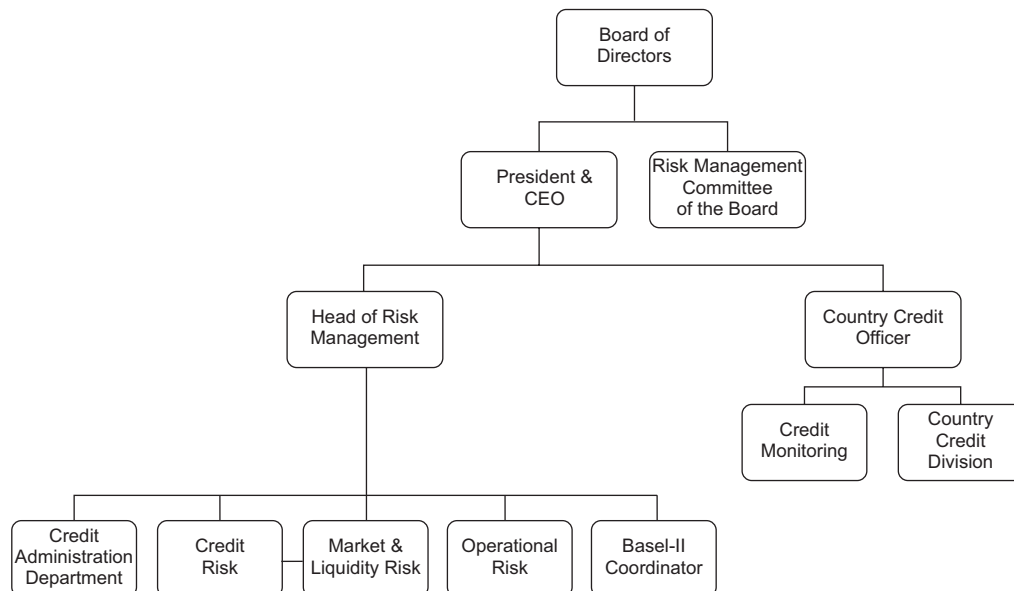
42 RISK MANAGEMENT

The Bank's business activities expose it to a wide variety of risks, which are inherent in virtually all aspects of its operations. The management's goal in managing these risks is to protect the Bank from an unacceptable level of earnings volatility while supporting and enabling business opportunities. This is done by ensuring that the risks arising from business activities and transactions provide an appropriate balance of return for the risk assumed and remain within the Bank's risk appetite. The Bank has implemented a risk management framework which is designed to ensure sound risk management practices guided by best industry practices. The cornerstone of this risk management framework is a strong risk management culture, supported by a robust enterprise-wide set of policies, procedures and guidelines, which involve the Bank's risk management professionals and business segments. This partnership is designed to ensure the ongoing alignment of business strategies and activities with the Bank's risk appetite. The primary risks associated with the Bank are:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Representations of risk are for a given period and the Bank's risk management will constantly evolve as its business activities change in response to credit, market, product and other developments. There have been many initiatives started by the Bank including business process re-engineering and inventorying the risks and controls within the Bank's existing business and process units. All of these initiatives will have a direct impact on the risk management function within the Bank.

The Bank strives to continually enhance its risk management capabilities in view of changing business needs and market conditions. In this regard the risk management structure at the Bank has been reorganized with the formation of a Country Credits Division (CCD) responsible for evaluation and approval of all credit proposals. The Division is headed by a Country Credit Officer (CCO) who reports directly to the President. The Credit Monitoring function has also been placed under the CCO. credit administration, financial risk, credit policy and procedures, operational risk and Basel II functions continue to report to the Chief Risk Officer.



42.1 Credit risk

Credit risk is the risk of financial loss if a customer or counter party fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees, and from the Bank's holdings of debt securities. Among the risks the Bank is faced with credit risk accounts for the largest regulatory capital requirement.

The aims of credit risk management are principally as follows:

- Participation in portfolio planning and management.
- Establishment of credit policies and standards that conform to regulatory requirements and the Bank's overall objectives.
- Working with business groups in keeping aggregate credit risk well within the Bank's risk taking capacity.
- Developing and maintaining credit approval authority structure.
- Approving major credits.
- Recommending approval authority to qualified and experienced individuals.
- Reviewing the adequacy of credit training across the Bank.
- Organising portfolio reviews focusing on quality assessment, risk profiles, industry concentrations, etc.
- Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

The credit portfolio, which includes Corporate and Commercial Banking (Middle Market and SME) loans are generally collateralised by cash equivalents, fixed and current assets including stocks, property plant and machinery and mortgages. Loans to individuals are typically secured by cash equivalents, residential mortgage and selected listed shares.

Credit risk organization and structure

Taking credit risk is central to the business therefore it has been ensured that business managers, in conjunction with risk managers, are responsible for establishing and maintaining appropriate risk limits and risk management procedures.

Credit approval authorities and standardised procedures

A system of checks and balances has been established around the extension of credit which is based on an independent risk management function and multiple credit approvers linked to the internal risk rating of an obligor.

Credit approval process, credit policy and procedure manual, credit bulletins and the enterprise wide risk policy have been approved by the Risk Management Committee (RMC) of the Board and includes:

- Setting maximum exposure limits for a single obligor and for a single group of related obligors based upon the obligor risk rating of the customer and the group.
- Defining maximum exposure limit to an individual sector in terms of portfolio composition to avoid excessive concentration.
- Requirement to risk rate every obligor on the basis of a standard and approved internal credit risk rating policy.
- Setting consistent standards to be followed across the Corporate, Financial Institution Group for the origination, documentation and maintenance of extensions of credit. These standards include problem recognition, the classification process of problem credits and remedial action.

Quarterly reporting is made to the RMC of the Board of Directors on all credit exposures approved during the quarter, all changes in classification, provisions and write-offs taken during the quarter.

Credit risk portfolio management

The Bank seeks to manage its credit risk exposure by ensuring that its customers meet the minimum credit standards as defined in the approved credit policy. It also seeks diversification of lending activities by ensuring that there is no undue concentration of risks within groups of customers and industry segments.

The credit portfolio is monitored through the Credit Risk Management Committee (CRMC) which includes senior business and risk managers. The major functions of this committee include:

- To establish and review the lending policies and standards that conforms to the regulations and the corporate policies.
- Manage and ensure that the overall credit risk exposure of the Bank does not breach the pre-defined limits.
- Develop and implement standards of credit quality.
- Regularly review, monitor and evaluate the quality of credit portfolio in light of the approved limits.

Risk rating

The Board has approved the Internal Credit Risk Rating Policy for the Corporate and Commercial Banking segments. Through this policy, an appropriate rating mechanism has been devised for the purpose of identifying and measuring the credit risk against each obligor.

The model determines the Obligor Risk Rating (ORR) based on certain quantitative and qualitative information/assessment. It assigns grades from "1" to "7" under the performing category. ORRs ranging between "8" to "10" are assigned to classified obligors based upon an internal classification and remedial management process. The ORR model forms an integral part of the approval process that materially helps in decision making.

The risk rating of an obligor is initially performed by a Relationship Manager and reviewed by a responsible senior / Credit Officer who is normally the Regional Head. Risk rating is also reviewed by the CCO.

The credit limits delegations under the credit policy are based on a grid that is driven by the assigned risk rating.

A Risk Rating System for the consumer portfolio is also being developed.

Mitigants

The following initiatives are used to mitigate credit risk:

(a) Credit principles and policy

To ensure consistency and standardisation across the Corporate and Commercial Banking Group, standard credit procedures and policies are implemented through the approved Credit Policy Manual. This ensures clear definition of responsibilities of the business, risks, credit administration and remedial departments and provides a basis for a disciplined environment.

(b) Counter party limits and credit scoring

"The maximum permitted per party limits under the credit delegations are derived as a function of the ORR of that obligor or group of obligors and therefore, acts as a check and balance on building up excessive obligor concentrations.

(c) Concentration risk

The credit policy provides limits for industry sector concentrations and through the regular meetings of CRMC on the portfolio composition, exposures are monitored to prevent excessive concentration of risk.

(d) Collateral

One of the mitigants is the collateral held against the credit exposures. The credit policy requires that collateral should always be realistically valued, providing margins, duly insured in favour of the Bank and giving the Bank a pari passu status with other lenders for similar transactions / nature of exposure. In case of a weak credit, facility specific support / guarantees are recommended as risk mitigation. To minimize the credit loss, seeking additional collateral from the obligor is recommended, as soon as impairment indicators are noticed in individual loans and advances. There is no legally enforceable netting agreement with the borrowers.

(e) Risk Acceptance Criteria (RAC)

RACs have been approved by the management and put in place as basic guiding rules for Corporate and Commercial Banking segments.

Special Assets Management (SAM)

The credit policy defines the classified credit process to be followed in order to establish a consistent approach to problem recognition, problem labeling, remedial action, loan loss provisioning and the initiation of credit write-offs. It defines clear responsibilities pertaining to all processes that are required to be followed, in order to have an effective remedial management set-up in place.

The SAM portfolio is regularly reviewed by the CRMC and the RMC of the Board and all working plans, recoveries, waivers and write-offs are approved.

Credit concentration risk

The Bank manages limits and controls concentration of credit risk as identified, in particular to individual counter parties and groups, and to industries, where appropriate. Concentration of credit risk exists if clients are engaged in similar activities or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The Bank sets limits on its credit exposure to counter party groups, by industry, product, and counter party, in line with SBP directions / guidelines. Limits are also applied in a variety of forms to portfolios or sectors where the Bank considers it appropriate to restrict credit risk concentration or areas of higher risk, or to control the rate of portfolio growth. As of 31 December 2011 the Bank has exceeded certain exposure limits due to shortfall in capital. The management believes that such limits will be regularised upon recapitalization of the Bank as per plan referred to in note 1.2 to the financial statements.

Risk Asset Review

The Risk Asset Review (RAR) Unit continuously monitors portfolios and process quality. It reports regularly to the RMC of the Board and senior management on all portfolios, maintains and analyses the Institution's records in adversely classified credits, and conducts periodic inspections. RAR reviews on-site and reports on every portfolio and credit process at least every twelve months.

42.1.2 Credit risk – General Disclosure Basel II Specific

The Bank has adopted the Standardised Approach, under Basel II. According to the regulatory statement submitted under the Standardised Approach, the portfolio has been divided into claims on corporate portfolio 42.71%, claims on retail portfolio 1.57%, claims on banks 1.43%, claims on residential property 1.02%, past due loans 21.07%, investments in fixed assets 6.98% and all other assets 25.22%.

42.1.3 Credit Risk: Standardised Approach

The Bank uses unsolicited ratings from External Credit Assessment Institutions as approved by the SBP including JCR-VIS, PACRA and other foreign agencies wherever applicable.

Exposure	JCR-VIS	PACRA	Fitch & Moody's	Standard & Poor's
- Corporate	✓	✓	-	-
- Banks	✓	✓	✓	✓
- Sovereigns	-	-	✓	✓
- SME's	-	-	-	-
- Securitizations	-	-	-	-

Credit exposure subject to Standardised Approach

Risk buckets	2012		
	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation deduction	Net amount
	----- (Rupees in '000) -----		
0%	5,179,004	-	5,179,004
20%	4,159,545	256,486	3,903,059
35%	1,143,962	-	1,143,962
50%	7,859,997	1,500,000	6,359,997
75%	1,039,566	243,025	796,541
100%	26,035,321	717,784	25,317,537
150%	5,834,033	529	5,833,504
	<u>51,251,428</u>	<u>2,717,824</u>	<u>48,533,604</u>
Risk buckets	2011		
	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation deduction	Net amount
	----- (Rupees in '000) -----		
0%	5,386,235	-	5,386,235
20%	11,575,155	230,632	11,344,523
35%	1,191,327	-	1,191,327
50%	2,395,901	500,000	1,895,901
75%	1,263,597	303,517	960,080
100%	29,976,201	676,482	29,299,719
150%	6,494,997	-	6,494,997
	<u>58,283,413</u>	<u>1,710,631</u>	<u>56,572,782</u>

NOTES TO THE FINANCIAL STATEMENTS

42.1.4 Credit risk: Disclosure on Credit Risk Mitigation (CRM) for Standardised Approach - BASEL II Specific

The Bank has adopted simple approach to CRM under Basel II. Main types of collateral taken by the Bank are:

- Mortgage of residential, commercial and industrial property
- Equities and shares held
- Cash, deposits under lien and government securities

42.1.5 Segmental information

42.1.5.1 Segments by class of business

	2012					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Agriculture, Forestry, Hunting and Fishing	306,886	0.83	5,051,051	8.16	29,769	0.04
Automobile and transportation equipment	115,123	0.31	46,344	0.07	2,000	0.00
Cement	1,037,681	2.81	84,686	0.14	227,743	0.28
Chemical and Pharmaceuticals	1,249,391	3.38	613,175	0.99	130,744	0.16
Construction	1,442,585	3.90	637,524	1.03	3,351,758	4.08
Electronics and electrical appliances	1,295,088	3.50	46,242	0.07	198,458	0.24
Exports / Imports	1,160,076	3.14	223,790	0.36	4,490	0.01
Financial	565,745	1.53	509,157	0.82	65,621,270	79.89
Food and Beverages	3,431,762	9.28	369,523	0.60	-	-
Footwear and Leather garments	170,450	0.46	11,711	0.02	-	-
Individuals	6,324,103	17.10	21,212,331	34.28	2,300	0.00
Insurance	-	-	33,511	0.05	-	-
Manufacturing	-	-	623,735	1.01	-	-
Mining and Quarrying	-	-	188,060	0.30	-	-
Oil and gas	-	-	19,552,203	31.60	-	-
Power (electricity), Gas, Water, Sanitary	2,889,812	7.81	1,038,269	1.68	1,963,931	2.39
Production and transmission of energy	-	-	-	-	5,557,915	6.77
Public / Government	3,297,018	8.91	3,200,279	5.17	-	-
Services	295,985	0.80	4,300,347	6.95	1,549,152	1.89
Synthetic & Rayon	9,999	0.03	-	-	-	-
Sugar	1,631,384	4.41	7,608	0.01	-	-
Textile	6,839,230	18.49	427,621	0.69	834,800	1.02
Transport, Storage and Communication	263,526	0.71	522,492	0.84	-	-
Wholesale and Retail Trade	413,843	1.12	1,695,788	2.74	-	-
Others	4,246,319	11.48	1,477,821	2.40	2,664,481	3.23
	<u>36,986,006</u>	<u>100</u>	<u>61,873,268</u>	<u>100</u>	<u>82,138,811</u>	<u>100</u>

Segments by class of business

	2011					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Agriculture, Forestry, Hunting and Fishing	367,530	1.07	4,824,875	7.88	38,190	0.10
Automobile and transportation equipment	120,219	0.35	58,727	0.10	23,273	0.06
Cement	1,463,134	4.27	2,540	-	62,897	0.16
Chemical and Pharmaceuticals	1,747,243	5.09	1,673,565	2.73	1,407,432	3.54
Construction	2,040,184	5.95	714,483	1.17	2,510,936	6.31
Electronics and electrical appliances	1,250,943	3.65	43,231	0.07	298,319	0.75
Exports / Imports	1,263,169	3.68	161,372	0.26	94,269	0.24
Financial	1,632,397	4.76	380,747	0.62	22,789,885	57.30
Food and Beverages	1,619,068	4.72	330,257	0.54	-	-
Footwear and Leather garments	338,805	0.99	7,094	0.01	-	-
Individuals	5,094,174	14.85	19,806,371	32.33	-	-
Insurance	-	-	17,311	0.03	-	-
Manufacturing	-	-	876,968	1.43	-	-
Mining and Quarrying	-	-	85,602	0.14	-	-
Oil and gas	-	-	14,234,904	23.24	-	-
Power (electricity), Gas, Water, Sanitary	1,714,947	5.00	1,980,329	3.23	807,422	2.03
Production and transmission of energy	-	-	-	-	6,104,818	15.35
Public / Government	896,021	2.61	5,225,837	8.53	-	-
Services	945,840	2.76	4,235,141	6.91	847,439	2.13
Sugar	1,263,976	3.69	63,065	0.10	30,791	0.08
Textile	6,117,877	17.84	655,210	1.07	733,309	1.84
Transport, Storage and Communication	327,997	0.96	653,550	1.07	160,932	0.40
Wholesale and Retail Trade	1,671,953	4.88	2,770,118	4.52	22,519	0.06
Others	4,419,525	12.88	2,461,599	4.02	3,837,593	9.65
	<u>34,295,002</u>	<u>100</u>	<u>61,262,896</u>	<u>100</u>	<u>39,770,024</u>	<u>100</u>

42.1.6 Non-performing loans and advances and specific provision by class of business

	2012		2011	
	Classified advances	Specific provision held	Classified advances	Specific provision held
----- (Rupees in '000) -----				
Automobile and Transportation equipment	107,336	103,847	108,239	103,586
Cement	767,484	396,424	908,188	402,292
Chemical and Pharmaceuticals	952	952	923	923
Construction	1,048,438	572,751	1,426,791	575,058
Electronics and electrical appliances	2,502	2,502	2,502	2,502
Exports / Imports	21,680	12,527	21,680	9,476
Financial	378,362	201,512	368,067	323,707
Food and Beverages	267,762	135,005	135,005	67,749
Footwear and Leather garments	2,474	2,474	2,475	2,475
Individuals	1,873,876	787,603	1,442,362	619,281
Power (electricity), Gas, Water, Sanitary Services	353,538	121,490	-	-
Sugar	176,711	69,849	68,365	25,870
Textile	4,450,404	3,355,934	4,080,130	2,428,570
Transport, Storage and Communication	409,733	314,285	265,935	265,935
Wholesale / Retail Trade	286,352	226,345	227,483	182,814
Others	3,720,465	978,958	3,079,104	834,532
	<u>13,868,069</u>	<u>7,282,458</u>	<u>12,137,249</u>	<u>5,844,770</u>

42.1.7 Segments by sector

	2012					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	3,297,018	8.91	3,200,279	5.17	-	-
Private	33,688,988	91.09	58,672,989	94.83	82,138,811	100.00
	<u>36,986,006</u>	<u>100.00</u>	<u>61,873,268</u>	<u>100.00</u>	<u>82,138,811</u>	<u>100.00</u>

	2011					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	896,021	2.61	5,225,837	8.53	-	-
Private	33,398,981	97.39	56,037,059	91.47	39,770,024	100.00
	<u>34,295,002</u>	<u>100.00</u>	<u>61,262,896</u>	<u>100.00</u>	<u>39,770,024</u>	<u>100.00</u>

42.1.8 Non-performing loans and advances and specific provision by sector

	2012		2011	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
----- (Rupees in '000) -----				
Public / Government	-	-	-	-
Private	13,868,069	7,282,458	12,137,249	5,844,770
	<u>13,868,069</u>	<u>7,282,458</u>	<u>12,137,249</u>	<u>5,844,770</u>

42.2 Market risk

Market risk is the risk of loss in market values of a given portfolio arising from movements in market variables such as interest rates, foreign exchange rates and equity prices.

The Financial Risk Management (FRM) Department is responsible for developing the Bank's market risk policies and measurement techniques. The policies are approved by the Market Risk Policy Committee (MRPC) and the RMC of the Board.

Market risk measures and controls are applied at the portfolio level, and concentration limits and other controls are applied where necessary to individual risk types, to particular books and to specific exposures. Portfolio risk measures are common to all market risks, but concentration limits and other controls are tailored to the nature of the activities and the risks they create.

FRM unit performs all market risk management activities within the Bank. FRM unit is responsible for developing and reviewing market risk policies, strategies and processes. It has to ensure monitoring and implementation of market risk and other policies. Any deviations are escalated to the MRPC which comprises of senior management.

The scope of market risk management is as follows:

- To keep the market risk exposure within the Bank's risk appetite as assigned by the Board of Directors.
- All the market risk policies are approved by the RMC of the Board and implementation is done by the senior management through MRPC, Treasury and FRM unit.
- Various limits have been assigned on a portfolio basis.

The Bank uses the Standardised Approach to calculate capital charge for market risk as per the current regulatory framework under Basel II.

Market risk comprises of foreign exchange risk, equity price risk and interest rate / yield risk.

(i) Foreign exchange risk

Foreign exchange risk is the risk of loss resulting from changes in exchange rates. Foreign exchange risks is controlled and monitored through the limits approved by MRPC within the overall limits advised by the SBP. The regulatory limit for foreign exchange is relatively small compared to the size of the Bank and therefore the risk generated through foreign exchange activities is insignificant.

	2012			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----			
Pakistan rupee	85,090,183	83,167,341	(164,018)	1,758,824
United States dollar	2,715,304	1,985,523	(301,842)	427,939
Great Britain pound	155,525	230,297	79,507	4,735
Canadian dollar	58	170	-	(112)
Japanese yen	56,322	24	429,784	486,082
Euro	286,433	317,354	(43,431)	(74,352)
Other currencies	8,717	15	-	8,702
	<u>88,312,542</u>	<u>85,700,724</u>	<u>-</u>	<u>2,611,818</u>

	2011			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----			
Pakistan rupee	58,675,708	50,604,278	(4,903,276)	3,168,154
United States dollar	1,972,922	1,258,836	(786,636)	(72,550)
Great Britain pound	120,516	231,994	113,333	1,855
Canadian dollar	3,798	3,675	-	123
Japanese yen	7,095,155	8,655,274	1,599,022	38,903
Euro	3,388,978	7,217,348	3,977,557	149,187
Other currencies	5,693	876	-	4,817
	<u>71,262,770</u>	<u>67,972,281</u>	<u>-</u>	<u>3,290,489</u>

(ii) Equity price risk

Equity price risk arises due to change in prices of stocks or levels of equity indices.

The Bank's equity and mutual fund exposure is managed with the objective to be in the SBP limits for overall investment and per script exposure. In addition, there are internal limits for trading position as well as stop loss limits, dealer limits and future contracts limits.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

(iii) Interest rate / yield risk

Interest rate risk is the risk of loss from adverse movements in interest rates.

The Assets and Liability Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Bank arising from fluctuation in the market interest rates and mismatch in maturity of financial assets and financial liabilities.

The Bank's interest rate exposure is calculated by categorizing its interest sensitive assets and liabilities into various time bands based on contractual repricing or maturity dates.

Interest rate risk exposures of the Bank are controlled through dealer limits, counter-party exposure limits and instrument limits. Stress testing for interest rate risk is carried out regularly to estimate the impact of adverse changes in the interest rates.

Mismatch of interest rate sensitive assets and liabilities

The Bank's yield / interest rate sensitivity position, based on the earlier of contractual re-pricing or maturity date, is as follows:

		2012											
Effective Yield/ Interest Rate	Total	Exposed to Yield/ Interest risk								Non-interest bearing financial instruments			
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years		Above 10 Years		
-----Rupees in '000-----													
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	0.00%	4,766,887	503,235	-	-	-	-	-	-	-	-	-	4,263,652
Balances with other banks	0.03%	1,946,937	1,137,380	-	-	-	-	-	-	-	-	-	809,557
Lending to financial institutions	8.00%	352,947	352,947	-	-	-	-	-	-	-	-	-	-
Investments	9.52%	40,875,266	7,853,778	3,409,509	10,176,343	11,085,444	-	-	-	483,750	1,924,818	-	5,941,624
Advances	12.07%	29,695,491	677,087	1,603,541	16,533,857	2,009,545	90,226	90,226	-	-	-	-	8,691,009
Other assets	-	1,050,520	-	-	-	-	-	-	-	-	-	-	1,050,520
		78,689,048	10,524,427	5,013,050	26,710,200	13,094,989	90,226	90,226	483,750	1,924,818	-	-	20,756,362
Liabilities													
Bills payable	-	877,827	-	-	-	-	-	-	-	-	-	-	877,827
Borrowings	9.43%	21,233,732	18,616,864	1,983,000	587,967	20,235	25,666	-	-	-	-	-	-
Deposits and other accounts	4.61%	61,873,268	3,103,000	13,891,857	10,758,364	4,229,384	-	680	-	-	-	-	29,889,983
Liabilities against assets subject to finance lease	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	947,548	-	-	-	-	-	-	-	-	-	-	947,548
		84,932,375	21,719,864	15,874,857	11,346,331	4,249,619	25,666	680	-	-	-	-	31,715,358
		(6,244,327)	(11,195,437)	(10,861,807)	15,363,869	8,845,370	64,560	89,546	483,750	1,924,818	-	-	(10,958,996)
On-balance sheet gap													
		29,116,581	7,062,398	21,707,918	346,265	-	-	-	-	-	-	-	-
		(28,952,563)	(7,979,655)	(20,972,908)	-	-	-	-	-	-	-	-	-
		164,018	(917,257)	735,010	346,265	-	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap													
		(12,112,694)	(10,126,797)	15,710,134	8,845,370	64,560	89,546	483,750	1,924,818	-	-	-	(10,958,996)
Cumulative Yield / Interest Risk Sensitivity Gap													
		(12,112,694)	(22,239,491)	(6,529,357)	2,316,013	2,380,573	2,470,119	2,953,869	4,878,687	4,878,687	(6,080,309)	-	-

		2011											
Effective Yield/ Interest Rate	Total	Exposed to Yield/ Interest risk								Non-interest bearing financial instruments			
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years		Above 10 Years		
-----Rupees in '000-----													
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	0.00%	4,822,597	1,599,235	-	-	-	-	-	-	-	-	-	3,223,362
Balances with other banks	0.01%	10,644,794	3,431,568	-	-	-	-	-	-	-	-	-	7,213,226
Lending to financial institutions	6.53%	622,683	622,683	-	-	-	-	-	-	-	-	-	-
Investments	8.44%	16,883,748	27,143	898,115	1,265,747	7,741,298	647,819	223,032	466,477	502,405	-	-	5,111,712
Advances	13.61%	28,437,166	17,089,816	2,874,954	2,201,693	37,340	46,772	129,258	72,742	170,383	357,561	-	5,456,647
Other assets	-	941,028	-	-	-	-	-	-	-	-	-	-	941,028
		62,352,016	22,770,445	3,773,069	3,467,440	7,778,638	694,591	352,290	539,219	672,788	357,561	-	21,945,975
Liabilities													
Bills payable	-	891,579	-	-	-	-	-	-	-	-	-	-	891,579
Borrowings	12.28%	4,427,271	623,124	2,285,274	1,377,312	42,272	73,623	25,666	-	-	-	-	-
Deposits and other accounts	9.08%	61,262,896	4,579,734	16,215,623	12,174,307	6,510,200	10,200	2,000	980	-	-	-	21,769,852
Liabilities against assets subject to finance lease	2.06%	1,510	1,510	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	1,046,875	-	-	-	-	-	-	-	-	-	-	1,046,875
		67,830,131	5,204,368	18,500,897	13,551,619	6,552,472	83,823	27,666	980	-	-	-	23,708,306
		(5,278,115)	17,566,077	(14,727,828)	(10,084,179)	1,226,166	610,768	324,624	538,239	672,788	357,561	-	(1,762,331)
On-balance sheet gap													
		11,445,273	3,029,750	4,036,280	4,379,243	-	-	-	-	-	-	-	-
		(6,541,997)	(2,917,440)	(2,021,000)	(1,603,557)	-	-	-	-	-	-	-	-
		4,903,276	112,310	2,015,280	2,775,686	-	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap													
		17,678,387	(12,712,548)	(7,308,493)	1,226,166	610,768	324,624	538,239	672,788	357,561	(1,762,331)	-	-
Cumulative Yield / Interest Risk Sensitivity Gap													
		17,678,387	4,965,839	(2,342,654)	(1,116,488)	(505,720)	(181,096)	357,143	1,029,931	1,387,492	(374,839)	-	-

42.3 Liquidity risk

42.3.1 Liquidity Risk Management

Liquidity risk is the risk that the Bank will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management function. The Bank understands the importance of liquidity and the opportunity cost associated with surplus liquidity, it follows a comprehensive Market & Liquidity Risk Management Policy duly reviewed and approved by the RM&RC of the Board.

The Bank's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage to business franchise. A centralised approach is adopted, based on an integrated framework incorporating an assessment of all material known and expected cash flows and the availability of high-grade collateral which could be used to secure additional funding, if required. The framework entails careful monitoring and control of the daily liquidity position. A contingency funding plan is in place to ensure a systematic response in a crisis situation.

The following tools are being used in order to monitor the liquidity risk:

- Liquidity Gap Reports
- Stress Scenarios
- Various Liquidity Ratios
- Significant Funding Concentrations
- Investment Maturity Profile Analysis
- Segment-wise Advances' Maturity Analysis
- Trends Analysis – Advances, Investments & Deposits

42.3.2 Maturities of assets and liabilities

(a) Working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

In accordance with BSD Circular letter No.3 dated February 22, 2011 issued by the SBP. The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities at the year end have been determined on the basis of the remaining period, derived from the 'statement of financial position' date and the 'contractual maturity' date.

The Bank has conducted an objective and systematic behavioural study using statistical analysis to ascertain the maturity of its non-contractual assets and liabilities. The behavioural maturities of Demand Deposits are determined on the basis of an empirical study conducted by the Bank, based on past years' Data. The attrition rate of deposits is determined based on the historically observed data of all Current & Saving deposit accounts.

Through ALCO's discretion, volatile deposits have been determined and placed into 1-3 Months buckets. This is a stringent assumption and assumes the worst case scenario.

	2012									
Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
-----Rupees in '000-----										
Assets										
Cash and balances with treasury banks	4,766,887	4,766,887	-	-	-	-	-	-	-	-
Balances with other banks	1,946,937	1,946,937	-	-	-	-	-	-	-	-
Lending to financial institutions	352,947	352,947	-	-	-	-	-	-	-	-
Investments	40,875,266	8,343,591	3,047,281	10,628,577	11,551,691	241,105	142,384	1,707,930	2,774,092	2,438,615
Advances	29,695,491	976,251	2,780,899	7,221,047	2,801,271	5,041,406	4,946,131	2,462,066	3,466,420	-
Operating fixed assets	2,736,443	22,540	45,081	67,621	135,242	270,485	270,485	464,647	840,934	619,408
Deferred tax assets	4,747,652	-	-	-	900,864	900,864	900,864	2,045,060	-	-
Other assets	3,190,919	1,424,402	24,117	36,176	177,986	114,229	114,229	-	1,255,765	44,015
	88,312,542	17,833,555	5,897,378	17,953,421	15,567,054	6,568,089	6,374,093	6,679,703	8,337,211	3,102,038
Liabilities										
Bills payable	877,827	146,304	292,609	438,914	-	-	-	-	-	-
Borrowings	21,233,732	18,616,864	1,983,000	587,967	20,235	25,666	-	-	-	-
Deposits and other accounts	61,873,268	4,359,046	26,833,495	3,463,709	8,173,428	3,307,571	4,207,243	6,729,944	4,798,832	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,715,897	812,109	578,647	6,677	46,401	59,754	92,801	119,508	-	-
	85,700,724	23,934,323	29,687,751	4,497,267	8,240,064	3,392,991	4,300,044	6,849,452	4,798,832	-
Net assets	2,611,818	(6,100,768)	(23,790,373)	13,456,154	7,326,990	3,175,098	2,074,049	(169,749)	3,538,379	3,102,038
Share capital	19,508,617									
Reserves	384									
Accumulated losses	(10,843,780)									
(Discount)/Premium on issue of right shares	(6,976,276)									
Advance against future issue of right shares	291,449									
	1,980,394									
Surplus on revaluation of assets - net	631,424									
	<u>2,611,818</u>									

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

2011									
Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
-Rupees in '000-									
Assets									
Cash and balances with treasury banks	4,822,597	4,822,597	-	-	-	-	-	-	-
Balances with other banks	10,644,794	10,644,794	-	-	-	-	-	-	-
Lending to financial institutions	622,683	622,683	-	-	-	-	-	-	-
Investments	16,983,748	413,310	898,117	1,225,785	7,837,420	566,684	1,322,598	502,405	3,894,396
Advances	28,437,166	8,414,516	5,352,275	3,843,198	2,858,307	5,910,816	373,853	928,398	469,000
Operating fixed assets	3,342,032	24,252	48,505	72,758	145,516	291,031	498,100	892,479	1,078,360
Deferred tax assets	4,016,880	-	-	-	803,376	803,376	1,606,752	-	-
Other assets	2,492,870	514,491	645,069	26,575	477,866	392,427	-	-	44,015
	71,262,770	25,456,643	6,943,966	5,168,316	12,122,485	7,964,334	2,083,720	4,355,848	1,681,687
Liabilities									
Bills payable	891,579	148,596	297,193	445,790	-	-	-	-	-
Borrowings	4,427,271	623,124	2,285,274	1,377,312	42,272	73,623	25,666	-	-
Deposits and other accounts	61,262,896	6,248,757	10,595,852	5,591,359	11,798,412	3,690,870	5,683,902	9,091,237	8,562,507
Liabilities against assets subject to finance lease	-	1,510	-	-	-	-	-	-	-
Deferred tax liabilities	1,510	-	-	-	-	-	-	-	-
Other liabilities	1,389,025	837,085	285,073	5,226	38,381	48,832	76,763	97,665	-
	67,972,281	7,859,072	13,463,392	7,419,687	11,879,065	3,813,325	5,786,331	9,188,902	8,562,507
Net assets									
	3,290,489	17,597,571	(6,519,426)	(2,251,371)	243,420	4,151,009	(3,702,611)	(4,833,054)	(6,880,820)
Share capital	19,508,617								
Reserves	384								
Accumulated losses	(9,808,201)								
(Discount)/Premium on issue of right shares	(6,976,276)								
Surplus on revaluation of assets - net	2,724,524								
	565,365								
	3,290,489								

b) Based on contractual maturity of the assets and liabilities of the Bank

In accordance with BSD Circular letter No.2, dated January 14, 2013 issued by the SBP, the Bank is required to report assets and liabilities maturities as per their remaining contractual maturity.

2012									
Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
-Rupees in '000-									
Assets									
Cash and balances with treasury banks	4,766,887	4,766,887	-	-	-	-	-	-	-
Balances with other banks	1,946,937	1,946,937	-	-	-	-	-	-	-
Lending to financial institutions	352,947	352,947	-	-	-	-	-	-	-
Investments	40,875,266	8,343,591	3,047,281	10,628,577	11,551,691	241,105	1,707,930	2,774,092	2,438,615
Advances	29,695,491	976,251	2,780,899	7,221,047	2,801,271	5,041,406	4,946,131	2,462,066	3,466,420
Operating fixed assets	2,736,443	22,540	45,081	67,621	135,242	270,485	464,647	840,934	619,408
Deferred tax assets	4,747,652	-	-	-	900,864	900,864	2,045,060	-	-
Other assets	3,190,919	1,424,403	24,117	36,176	177,985	114,229	-	1,255,765	44,015
	88,312,542	17,833,556	5,897,378	17,953,421	15,567,053	6,568,089	6,374,093	6,679,703	8,337,211
Liabilities									
Bills payable	877,827	146,304	292,609	438,914	-	-	-	-	-
Borrowings	21,233,732	18,616,864	1,983,000	587,967	20,235	25,666	-	-	-
Deposits and other accounts	61,873,268	50,975,080	4,900,809	1,767,315	4,229,384	-	680	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-
Other liabilities	1,715,897	812,109	578,647	6,677	46,401	59,754	119,508	-	-
	85,700,724	70,550,357	7,755,065	2,800,873	4,296,020	85,420	93,481	119,508	-
Net assets									
	2,611,818	(52,716,801)	(1,857,687)	15,152,548	11,271,033	6,482,669	6,280,612	6,560,195	8,337,211
Share capital	19,508,617								
Reserves	384								
Accumulated losses	(10,843,780)								
(Discount)/Premium on issue of right shares	(6,976,276)								
Advance against future issue of right shares	291,449								
Surplus on revaluation of assets - net	1,980,394								
	631,424								
	2,611,818								

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2012

	2011									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000										
Assets										
Cash and balances with treasury banks	4,822,597	4,822,597	-	-	-	-	-	-	-	-
Balances with other banks	10,644,794	10,644,794	-	-	-	-	-	-	-	-
Lending to financial institutions	622,683	622,683	-	-	-	-	-	-	-	-
Investments	16,983,748	413,310	898,117	1,225,795	7,837,420	566,694	223,033	1,322,598	502,405	3,894,396
Advances	28,437,166	8,414,516	5,352,275	3,843,198	2,858,307	5,910,816	373,853	925,398	286,803	469,000
Operating fixed assets	3,342,032	24,252	48,505	72,758	145,516	291,031	291,031	498,100	892,479	1,078,360
Deferred tax assets	4,016,880	-	-	-	803,376	803,376	803,376	1,606,752	-	-
Other assets	2,492,870	514,491	645,069	26,575	477,866	392,427	-	-	-	44,015
	71,262,770	25,456,643	6,943,966	5,168,316	12,122,485	7,964,334	2,083,720	4,355,848	1,681,687	5,485,771
Liabilities										
Bills payable	891,579	148,596	297,193	445,790	-	-	-	-	-	-
Borrowings	4,427,271	623,124	2,285,274	1,377,312	42,272	73,623	25,666	-	-	-
Deposits and other accounts	61,262,896	6,248,757	10,595,852	5,591,359	11,798,412	3,690,870	5,683,902	9,091,237	8,562,507	-
Liabilities against assets subject to finance lease	1,510	1,510	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,389,025	837,085	285,073	5,226	38,381	48,832	76,763	97,665	-	-
	67,972,281	7,859,072	13,463,392	7,419,687	11,879,065	3,813,325	5,786,331	9,188,902	8,562,507	-
Net assets	3,290,489	17,597,571	(6,519,426)	(2,251,371)	243,420	4,151,009	(3,702,611)	(4,833,054)	(6,880,820)	5,485,771
Share capital	19,508,617									
Reserves	384									
Accumulated losses	(9,808,201)									
(Discount)/Premium on issue of right shares	(6,976,276)									
Surplus on revaluation of assets - net	2,724,524									
	565,965									
	3,290,489									

42.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks.

The Bank has developed a comprehensive Operational Risk Policy with the assistance of an independent consultant that governs the setting up of an Operational Risk Management Framework at the Bank. The framework addresses all significant areas of Operational Risk Management including carrying out a Risk and Controls Self Assessment exercise (RCSA), identification and monitoring of Key Risk Indicators (KRIs), Operational Loss Data Management and Capital Calculation etc.

Internal controls are an essential features of risk reduction in operational risk management. The Bank has taken following initiatives for developing a framework of internal controls:

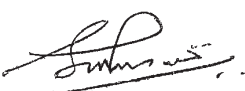
- The Bank is in the process of adopting the internationally accepted COSO Internal Control Framework and has devised a well-defined and comprehensive Internal Control Programme in line with SBP guidelines.
- Internal control policies and manuals have been approved by the Board of Directors.
- The Bank with the help of an independent consultant has developed IT Policies and Standard Framework that is aligned with the internationally recognized COBIT standards.

43. GENERAL

- 43.1 Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparison. However, there are no material reclassifications to report.
- 43.2 Figures have been rounded off to the nearest thousand rupees.

44. DATE OF AUTHORISATION

These financial statements were authorized for issue in the Board of Directors' meeting held on 08 April 2013.


Acting President and Chief Executive


Director


Director


Director

ANNEXURE - 1

Annual Report 2012

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RS. 500,000 OR ABOVE PROVIDED DURING THE YEAR ENDED 31 DECEMBER 2012

(Rupees in million)

S. No.	Name and address of the borrowers	Name of individuals/ Partners/ directors with (CNIC No.)	Father's Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
1	M/s. QFS International Transport Services (Pvt) Ltd. Office at Room No. 905, Kashif Centre, Main Shahrah-e-Faisal Road, Karachi	Shahab Siddiqi (42201-5489964-3) Wahid Hussain (42201-8853532-7) Tariq Jamil Khan (42301-3806856-1) Maqbool Ahmed Memon (41303-7492346-9) Imdad Ali Soomro (42501-4482858-5) Nuzhat Sultana (42201-4916110-8) Rashid Hameed Khan (42201-1723854-3) Samina Rashid Khan (42201-8997232-2)	Israr Alam Siddiqui Ahmad Hussain Abdul Jamil Khan Muhammad Sadiq Memon Ghous Bux Soomro Ahmed Hussain Abdul Hafeez Khan Rashid Hameed Khan	23.215	-	-	23.215	21.115	-	-	21.115
2	M/s. Pak Carriage Company Gulshan-e-Maymar Turning, New Sabzi Mandi, Scheme 33, Super Highway, Karachi	Habib-ur-Rehman Khan Khitaran (36302-0359384-5) Habib-ur-Rehman Khan Khitaran (36302-0328870-1)	Sardar Abdul Rehman Khan Khaitran Sardar Abdul Rehman Khan Khetran	6.435	-	-	6.435	6.435	-	-	6.435
3	M/s. New Khan Transport Company 55-Lawrence Road, Lahore	Haroon Naseem (35201-1399642-5)	Muhammad Naseem	15.617	-	-	15.617	-	-	15.617	15.617
4	M/s. Trade ways International D-466, Roomi Street, Lalarukh, Wahcantt, Rawalpindi	Muhammad Aziz (37406-0526897-3)	Muhammad Hussain	5.950	1.097	-	7.047	-	1.728	-	1.728
5	Mr. Duraid Qureshi Plot No. 10/11, Hassan Ali Street, Off I.I. Chundrigar Road, Karachi	Duraid Qureshi (42301-6558491-3)	Shafi Muhammad Qureshi	187.768	27.080	-	214.848	-	27.080	-	27.080
6	M/s. Afghan Carpets D/16, Block-8, Ch. Khaliq-uz-Zaman Road, Clifton, Karachi	Pervaiz Hussain (42301-4454699-7)	Fazal-ur-Rehman	54.579 54.000	4.826 9.518	-	59.405 63.518	-	6.227 12.341	-	6.227 12.341
7	M/s. Husnain Cotex Limited 242-Ahmed Block, New Garden Town, Lahore	Mohammad Yousuf Sheikh (35201-4478842-1) Razia Begum (35202-6312974-4) Dilshad Bagum (35201-0307899-6) Muhammad Yaqoob Sheikh (35201-9482496-5) Muhammad Ramzan Sheikh (35201-9041208-1) Muhammad Ayub Sheikh (35201-1544971-3) Shaikh Husnain Haider (35201-9499182-3) Kamran Yousuf (35201-9387496-5) Adnan Yousuf Sheikh (35201-7360083-9)	Mian Ghulam Nabi Muhammad Yousaf Sheikh Muhammad Yousaf Sheikh Muhammad Yousuf Sheikh Muhammad Yousuf Sheikh Muhammad Yousuf Muhammad Yousuf Muhammad Yousuf Sheikh	63.652	12.405	-	76.057	-	11.057	-	11.057
8	M/s. Eden Developers (Pvt.) Ltd. M-3 Floor, 82-E-1, Main Boulevard Gulberg III, Lahore	Muhammad Arshad (35202-8583890-7) Muhammad Amjad (35202-7697311-7)	Ghulam Hussain Ghulam Hussain	145.668	16.909	-	162.577	-	4.153	-	4.153
9	M/s. Habib Rafique (Pvt) Ltd. 6-K, Block - H, Gulberg - II, Lahore	Muhammad Rafiq (35202-0632760-9) Habib Ahmed (35202-2860865-9) Khalid Rafiq (35202-2860880-1) Muhammad Shahid Rafiq (35202-2939821-5) Zahid Rafiq (35202-2860883-1) Sajid Rafiq (35202-2860874-1)	Shaikh Abdul Aziz Abdul Aziz Muhammad Rafiq Muhammad Rafiq Muhammad Rafiq Muhammad Rafiq	179.704	48.835	-	228.539	-	26.539	-	26.539

**STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RS. 500,000
OR ABOVE PROVIDED DURING THE YEAR ENDED 31 DECEMBER 2012**

(Rupees in million)

S. No.	Name and address of the borrowers	Name of individuals/ Partners/ directors with (CNIC No.)	Father's Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
10	M/s. M. Inayat Engineering Works Javid Sheet Market, Gondlanwala Road, Gujranwala	Ifikhar Ahmed (34101-3773656-5)	Muhammad Hanif	6.099	1.011	-	7.110	-	0.505	-	0.505
11	M/s. Erum Silk Factory Plot No. L-18, Block-22, F.B.Area, Karachi, Mukhtar Market, Karachi	Amna Yahya (42101-8972095-6)	Muhammad Yahya	0.408	0.092	-	0.500	-	0.092	-	0.092
12	M/s. Unique Textile P/183, Mukhtar Market, Tikka Gali No. 3, Montgomery Bazar, Faisalabad	Abdur Razzaq (33102-1775807-5)	Ulfat Ali	-	1.114	-	1.114	-	0.494	-	0.494
13	M/s. Dar Es Salam Textile Mills Ltd. 63-B-1, Gulberg III, Lahore	Faisal Mukhtar (35200-1561125-1)	Ahmed Mukhtar	9.449	1.133	-	10.582	-	0.688	-	0.688
		Shaikh h Pervez Ashraf (35202-6738230-7)	Shaikh Muhammad Ashraf								
		Nilofer Mukhtar (61101-1836202-0)	Chaudhry Ahmed Mukhtar								
		Mahwesh Faisal Mukhtar (35201-1523109-0)	Faisal Mukhtar								
		Zulfiqar Ahmed (35202-4941853-1)	Nazar Muhammad								
Muhammad Ejaz Akbar Khan (35202-2732679-9)	Muhammad Akbar Khan										
Abida Mukhtar (35200-1492705-4)	Chaudhry Ahmed Mukhtar										
14	Mr. Imdad Ali Unar House No. 46 / 47, Housing Society Nawabshah	Imdad Ali Unar (45402-0974835-3)	Zainulabdin	6.480	0.570	-	7.050	-	0.570	-	0.570
15	Mr. Umaz Ali Unar House No. 46 / 47, Housing Society Nawabshah	Umaz Ali Unar (45402-0974830-1)	Zainulabdin	4.486	0.393	-	4.879	-	0.393	-	0.393
								27.550	91.867	15.617	135.034

CONSOLIDATED FINANCIAL STATEMENTS

DIRECTORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

We are pleased to present the Directors report and the audited consolidated financial statements of KASB Bank Limited and its subsidiaries for the year 2012.

Key financial indicators

Balance Sheet	Dec 31, 2012	Dec 31, 2011
	----- Rupees in Million -----	
Paid-up Capital	19,509	19,509
Equity	3,028	3,527
Deposits	62,600	61,994
Advances - net	31,090	29,387
Investments - net	39,969	15,589
Profit and Loss Account		
Revenue	4,062	394
Non markup expenses	3,877	3,256
Operating Profit / (Loss)	185	(2,862)
Provisions	1,782	285
(Loss) before tax	(1,597)	(3,147)
(Loss) after tax	(806)	(2,524)
(Loss) per share - Rupees	(0.41)	(2.50)

Shareholders' Equity

As part of the capital plan of the Bank, the sponsor shareholders have placed US dollar 4 (four) million as advance towards subscription of future issue of rights shares. It is anticipated that the sponsors shall place additional amount increasing the advance towards future rights shares to equivalent of US dollars 30 (thirty) million. The bank will thereafter issue right shares to its shareholders.

Auditor's report

Auditors in their report have emphasized on the issue of non-compliance with the prescribed requirement of capital as on 31 December 2012. The Board and management of your bank are of the view that upon completion of the capital and business plan as approved by the Board; the bank will be fully compliant with the statutory requirements.

Another reference made by the auditors in their report relates to the realization of the deferred tax asset in the future years. Management of your bank is confident that the forecast profits as per the financial projections approved by the Board of Directors would be sufficient enough to absorb the total amount of deferred tax asset.

Employee Benefits Scheme

The Group operates two Employee Benefit Schemes, one Un-Funded Gratuity Scheme and the other Funded Employees' Provident Fund.

Pattern of Shareholding

The Pattern of shareholding as at 31 December 2012 along with disclosure required under the Code of Corporate Governance is included in this Annual Report.

Credit Rating

The re-assessment of the credit rating of the Bank is currently in progress. PACRA has last assigned long term rating of BBB and short term rating of A3.

DIRECTORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

A n n u a l R e p o r t 2 0 1 2

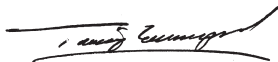
Auditors

The present auditors of the holding company M/s. Ernst & Young Ford Rhodes Sidat Hyder, (EY) Chartered Accountants retire and, being eligible, have offered themselves for re-appointment in the forthcoming Annual General Meeting. The Audit Committee of the Board has recommended the re appointment of EY for the next term.

Acknowledgment

We would like to thank our valued customers for their continued patronage and support, the State Bank of Pakistan, Securities and Exchange Commission of Pakistan and other regulatory authorities for their guidance, our staff for their commitment, hard work and dedication, and our shareholders for the trust and confidence reposed in us. The board would like to record gratitude to the outgoing directors and the President.

For and on behalf of the Board of Directors.



Chairman
Karachi

08 April 2013

AUDITORS' REPORT TO THE MEMBERS

A n n u a l R e p o r t 2 0 1 2



Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O. Box 15541, Karachi 75530, Pakistan

Tel: + 9221 3565 0007
Fax: + 9221 3568 1965
www.ey.com

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of KASB Bank limited (the Holding Company) and its subsidiary companies (together referred to as Group) as at 31 December 2012 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof for the year then ended. We have also expressed separate audit opinions / review conclusion on the financial statements of the Holding Company and its subsidiaries except for KASB Invest (Private) limited (the Company) which was subject to a limited scope review by another firm of Chartered Accountants, whose report has been furnished to us and our opinion, in so far as it relates to the amounts included for the Company, is based solely on the report of such other auditor. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included in such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of the Holding Company and its subsidiary companies as at 31 December 2012 and the results of their operations for the year then ended.

We draw attention to:

- (i) note 1.3 to the consolidated financial statements, which fully explains the Holding Company's capital deficiency in terms of the regulatory requirements as prescribed by the State Bank of Pakistan and the management's future plans and actions in relation thereto. The said note also indicates the existence of material uncertainties with respect to the recapitalisation of the Holding Company and consequently, its sustainability in future; and
- (ii) note 14.1 to the consolidated financial statements, which states that deferred tax asset has been recognized in these consolidated financial statements on the basis of Group's financial projections for the future years. The preparation of financial projections involve management's assumptions regarding future business and economic conditions and therefore any significant change in such assumptions may have an effect on the realisability of the deferred tax asset.

Our opinion is not qualified in respect of the above matters.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Audit Engagement Partner: Arslan Khalid

Date: 08 April 2013
Karachi

A member firm of Ernst & Young Global Limited


CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Annual Report 2012

AS AT 31 DECEMBER 2012

	Note	2012	2011
(Rupees in '000)			
ASSETS			
Cash and balances with treasury banks	8	4,766,966	4,822,751
Balances with other banks	9	2,039,237	10,930,425
Lendings to financial institutions	10	352,947	622,683
Investments	11	39,968,886	15,588,703
Advances	12	31,089,680	29,386,674
Operating fixed assets	13	3,703,959	4,366,514
Deferred tax assets	14	4,599,393	3,862,741
Other assets	15	3,756,558	3,610,267
		90,277,626	73,190,758
LIABILITIES			
Bills payable	16	877,827	891,579
Borrowings	17	21,245,349	4,607,205
Deposits and other accounts	18	62,600,058	61,993,604
Sub-ordinated loans	-	-	-
Liabilities against assets subject to finance lease	19	-	1,510
Deferred tax liabilities	-	-	-
Other liabilities	20	2,526,774	2,169,988
		87,250,008	69,663,886
NET ASSETS		<u>3,027,618</u>	<u>3,526,872</u>
REPRESENTED BY			
Share capital	21	19,508,617	19,508,617
Reserves		53,116	30,839
Accumulated losses		(10,926,027)	(10,125,988)
Discount on issue of right shares		(6,976,276)	(6,976,276)
Advance against proposed rights issue		291,449	-
		1,950,879	2,437,192
Non-controlling interests		411,516	502,021
		2,362,395	2,939,213
Surplus on revaluation of assets - net of tax	22	665,223	587,659
		<u>3,027,618</u>	<u>3,526,872</u>
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.


Acting President and Chief Executive


Director


Director


Director


CONSOLIDATED PROFIT AND LOSS ACCOUNT

Annual Report 2012

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011
		(Rupees in '000)	
Mark-up / return / interest earned	25	6,594,769	4,711,888
Mark-up / return / interest expensed	26	(4,252,011)	(5,196,408)
Net mark-up / return / interest income		2,342,758	(484,520)
Provision against non-performing loans and advances	12.7	(1,459,060)	(582,764)
(Provision) / reversal for diminution in the value of investments	11.3	(318,331)	305,810
Bad debts written off directly	12.8.1	(4,458)	(7,987)
		(1,781,849)	(284,941)
Net mark-up / return / interest income after provisions		560,909	(769,461)
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		903,428	596,169
Dividend income		13,001	23,486
Income from dealing in foreign currencies		360,535	109,289
Gain on sale / redemption of securities	27	55,836	119,149
Unrealised loss on revaluation of investments classified as held for trading		(6,739)	(19,964)
Other income	28	128,419	124,958
Total non mark-up / interest income		1,454,480	953,087
		2,015,389	183,626
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	29	(3,142,427)	(2,803,302)
Other provisions / write offs		16,754	(162,070)
Other charges	30	(751,803)	(290,612)
Total non mark-up / interest expenses		(3,877,476)	(3,255,984)
		(1,862,087)	(3,072,358)
Share of profit / (loss) from associates	11.13	265,221	(73,868)
LOSS BEFORE TAXATION		(1,596,866)	(3,146,226)
Taxation - Current year		(45,207)	(9,228)
- Prior years		-	(4,568)
- Deferred		836,029	635,717
	31	790,822	621,921
LOSS AFTER TAXATION		(806,044)	(2,524,305)
Loss after taxation attributable to:			
Equity holders of the Holding Company		(805,600)	(2,509,621)
Non-controlling interests		(444)	(14,684)
		(806,044)	(2,524,305)
Basic and diluted loss per share (Rupees)	32	(0.41)	(2.50)

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.


Acting President and Chief Executive


Director


Director


Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Annual Report 2012

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	(Rupees in '000)	
Net loss for the year	(806,044)	(2,524,305)
Other comprehensive income	-	-
Total comprehensive loss for the year	<u>(806,044)</u>	<u>(2,524,305)</u>

Surplus on revaluation of fixed assets and available for sale investments is required to be shown separately below equity as 'surplus on revaluation of assets' in accordance with the requirements specified by the State Bank of Pakistan (SBP). Accordingly, these have not been included in the consolidated statement of comprehensive income.

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.



Acting President and Chief Executive



Director



Director



Director


CONSOLIDATED CASH FLOW STATEMENT

Annual Report 2012

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(1,596,866)	(3,146,226)
Less: dividend income		(13,001)	(23,486)
		<u>(1,609,867)</u>	<u>(3,169,712)</u>
Adjustments:			
Depreciation		244,906	272,593
Amortisation		45,665	104,982
Provision against non-performing loans and advances		1,459,060	582,764
Share of (profit) / loss from associates		(265,221)	73,868
Provision for gratuity		35,174	(35,991)
Reversal of provision for compensated absences		(5,820)	-
Provision / (reversal) for diminution in the value of investments		318,331	(305,810)
Bad debts written off directly		4,458	7,987
Unrealised loss on revaluation of investments classified as held for trading		6,739	19,964
Reversal of Non-controlling interest on derecognition of KASB Funds Limited (former subsidiary)		(71,683)	-
Loss on sale of fixed assets		7,469	13,552
Financial charges on leased assets		-	34
Impairment of goodwill		269,574	227,134
Gain on sale / redemption of securities		(55,836)	(119,149)
Other provisions / write offs		(16,754)	162,070
		<u>1,976,062</u>	<u>1,003,998</u>
		<u>366,195</u>	<u>(2,165,714)</u>
(Increase) / decrease in operating assets			
Lendings to financial institutions		269,736	(582,683)
Proceeds from held for trading securities		44,432	251,748
Advances		(3,166,524)	231,959
Other assets		(439,439)	45,597
		<u>(3,291,795)</u>	<u>(53,379)</u>
Increase / (decrease) in operating liabilities			
Bills payable		(13,752)	350,538
Borrowings		17,197,362	(2,581,356)
Deposits and other accounts		606,454	15,298,929
Other liabilities		362,606	193,152
		<u>18,152,670</u>	<u>13,261,263</u>
		<u>15,227,070</u>	<u>11,042,170</u>
Income tax - net		57,966	(17,688)
Dividend paid		(18,378)	(18,096)
Gratuity paid		(35,174)	23,537
Net cash inflow from operating activities		<u>15,231,484</u>	<u>11,029,923</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in available for sale securities		(24,121,121)	(3,454,432)
(Investments in) / proceeds from held to maturity securities		(162,390)	927,849
Investment in associates		12,915	123,043
Dividend income received		11,891	23,985
Investments in operating fixed assets		113,622	(151,114)
Sale proceeds on disposal of fixed assets		235,905	111,268
Net cash used in investing activities		<u>(23,909,178)</u>	<u>(2,419,401)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of right shares		-	3,000,000
Advance against future issue of right shares		291,449	-
Share issue cost		-	(41,498)
Payments of lease obligations		(1,510)	(694)
Net cash inflow from financing activities		<u>289,939</u>	<u>2,957,808</u>
Net (decrease) / increase in cash and cash equivalents		<u>(8,387,755)</u>	<u>11,568,330</u>
Cash and cash equivalents at the beginning of the year		<u>15,173,241</u>	<u>3,604,911</u>
Cash and cash equivalents at the end of the year	33	<u>6,785,486</u>	<u>15,173,241</u>

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.


Acting President and Chief Executive


Director


Director


Director


CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Annual Report 2012

FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital	Advance against proposed rights issue	Statutory reserves	General reserves	(Discount)/ premium on issue of shares	Accumulated losses	Total	Non-controlling interest	Total
(Rupees in ' 000)									
Balance as at 31 December 2010	9,508,617	-	162,343	384	23,724	(7,731,052)	1,964,016	534,801	2,498,817
Issuance of right shares	10,000,000	-	-	-	(7,000,000)	-	3,000,000	-	3,000,000
Share issue cost	-	-	-	-	-	(41,498)	(41,498)	-	(41,498)
Total comprehensive loss for the year	-	-	-	-	-	(2,509,621)	(2,509,621)	(14,684)	(2,524,305)
Transferred to statutory reserve	-	-	19,015	-	-	(19,015)	-	-	-
Transferred from statutory reserve to accumulated losses	-	-	(150,903)	-	-	150,903	-	-	-
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	24,295	24,295	-	24,295
Dividends	-	-	-	-	-	-	-	(18,096)	(18,096)
Balance as at 31 December 2011	19,508,617	-	30,455	384	(6,976,276)	(10,125,988)	2,437,192	502,021	2,939,213
Total comprehensive loss for the year	-	-	-	-	-	(805,600)	(805,600)	(444)	(806,044)
Transferred to statutory reserve	-	-	22,277	-	-	(22,277)	-	-	-
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	27,838	27,838	-	27,838
Dividends	-	-	-	-	-	-	-	(18,378)	(18,378)
Reversal of Non-controlling interest on derecognition of KASB Funds Limited (former subsidiary) - see note 11.3.3	-	-	-	-	-	-	-	(71,683)	(71,683)
Advance against future issue of shares (Note 1.2)	-	291,449	-	-	-	-	291,449	-	291,449
Balance as at 31 December 2012	19,508,617	291,449	52,732	384	(6,976,276)	(10,926,027)	1,950,879	411,516	2,362,395

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.


Acting President and Chief Executive


Director


Director


Director

FOR THE YEAR ENDED 31 DECEMBER 2012

1. THE GROUP AND ITS OPERATIONS

1.1 KASB Bank Limited (the Holding Company) was incorporated in Pakistan on 13 October 1994 as a public limited company under the Companies Ordinance, 1984. The Holding Company received banking license from the SBP on 9 January 1995 and obtained certificate of commencement of business from Securities and Exchange Commission of Pakistan (SECP) on 11 January 1995. The Holding Company is engaged in commercial banking, consumer banking, corporate and investment banking and related services through 105 branches (including 34 sub branches & 1 HRPC) [2011: 104 branches (including 34 sub branches)] operating in 45 cities. The Holding Company is listed on all the Stock Exchanges in Pakistan. KASB Finance (Private) Limited is the ultimate holding company of the Group.

The Group comprises of:

Holding Company

KASB Bank Limited

Subsidiaries

Percentage of holding

My Solutions Corporation Limited [formerly: KASB Technology Services Limited]	100%
KASB Securities Limited	77.12%
KASB Invest (Private) Limited	96.02%
KASB Modaraba	51.60%
Structured Venture (Private) Limited (Indirect Subsidiary)	77.12%

Associates

New Horizon Exploration and Production Limited	40.73%
KASB Funds Limited (see note 11.3.3)	43.89%
Shakarganj Food Products Limited	40.20%
KASB International Limited	21.78%
KASB Asset Allocation Fund	70.36%
Crosby Dragon Fund	83.55%
KASB Income Opportunity Fund	57.51%
KASB Islamic Income Opportunity Fund	46.82%
KASB Cash Fund	12.42%

The ultimate parent of the Group is KASB Finance (Private) Limited.

1.2 Brief description of subsidiaries

My Solutions Corporation Limited [formerly: KASB Technology Services Limited]

The Company is a public unlisted company registered under the Companies Ordinance 1984, and is engaged in providing information technology, internet connectivity and telecommunication services.

KASB Securities Limited

The Company is a public listed company having corporate membership of the Karachi Stock Exchange Limited [formerly: Karachi Stock Exchange (Guarantee) Limited] and National Commodity Exchange Limited and is engaged in the business of stocks, money market, foreign exchange and commodity broking, securities and economic research and investment advisory.

KASB Invest (Private) Limited [formerly: KASB Modaraba Management (Private) Limited]

The Company is registered under the Companies Ordinance, 1984, and is engaged in the business of floating and managing modaraba. The Company is currently managing KASB Modaraba.

KASB Modaraba

The Modaraba is a multipurpose perpetual modaraba and is engaged in ijarah financing, finance leasing, musharaka financing, murabaha financing, modaraba financing, investment in listed securities and issue of Certificates of Musharaka.

Structured Venture (Private) Limited

The Company is registered under the Companies Ordinance, 1984. The objective of the Company is to capitalize on opportunities across different asset classes, including but not limited to, commodities, structured products, real estate etc.

- 1.3 The SBP vide BSD Circular No.7 dated 15 April 2009 set the Minimum Capital Requirement (MCR) for the Holding Company up to Rs.10,000 million to be achieved in a phased manner by 31 December 2013. The required MCR (free of losses) as of 31 December 2012 is Rs. 9,000 million. Further, the Holding Company is also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of the risk weighted assets of the Holding Company. The paid up capital of the Holding Company (net of losses) as of 31 December 2012 amounted to Rs. 1,980.010 million and CAR, as disclosed in note 42.4, remained below the prescribed level of 10%.

In view of the above shortfall in meeting the regulatory capital requirements and the financial condition of the Holding Company, the management and sponsors of the Holding Company have taken / intend to take the following steps:

- i. The Holding Company intend to raise further capital of Rs. 3,000 million through its sponsors by the end of April 2013 and in this respect an aggregate advance of Rs. 390.820 million has been received up to March 2013 (31 December 2012: Rs. 291.449 million) from sponsors towards further right issue.
- ii. The management of the Holding Company has prepared financial projections for a period of six years to analyze the Holding Company's sustainability in the future period. These projections are approved by the Board and envisage additional capital injection through equity and sub-ordinated debt into the Holding Company and indicate future profitable operations based on various assumptions such as growth of deposits and advances, investment returns, future loan losses, interest rates, cost of funds etc. In preparing such projections, the Holding Company has assumed the maintainability of its major deposit relationships.
- iii. The Holding Company has submitted the above referred financial and capital plan to the State Bank of Pakistan and has sought relaxation from the current regulatory capital requirements in line with the Holding Company's recapitalization plan.

Based on the above, the Holding Company's management and the Board have made an assessment and are satisfied that the Holding Company has adequate resources to continue its business in the foreseeable future and therefore, have prepared these financial statements on a going concern basis. In making such assessments the Board has taken into account the material uncertainties with respect to events or conditions that may impact the financial projections and recapitalisation of the Holding Company and consequently, its sustainability in the future. The Board of Directors has in addition taken into consideration the commitment from the sponsors of the Holding Company to provide the necessary financial support to the Holding Company, if the need arises, to address any liquidity, solvency and capital adequacy issues to enable the Holding Company to continue its business.

2. BASIS OF PRESENTATION

- 2.1 These consolidated financial statements have been prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 04, dated 17 February 2006.
- 2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing includes purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchase and resale arising under these arrangements are not reflected in these consolidated financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon. However, murabaha financing arrangements undertaken by a subsidiary are accounted for as a purchase and sale transaction of the underlying goods in these consolidated financial statements in accordance with the accounting policies of the Group.

2.3 Basis of consolidation

These consolidated financial statements include the financial statements of the Holding Company and its subsidiaries.

- The financial statements of the subsidiaries are included in the consolidated financial statements from the date the control commences until the date the control ceases. In preparing consolidated financial statements, the financial statements of the Holding Company and subsidiaries are consolidated on a line by line basis by adding together like items of assets, liabilities, income and expenses. Significant intercompany transactions have been eliminated.

- Non-controlling interest are the part of the results of the operations and net assets of the subsidiary companies attributable to interests which are not owned by the Group. Interest in the equity of subsidiaries not attributable to the Holding Company is reported in the consolidated statement of changes in equity as non-controlling interest. Profit or loss attributable to non-controlling interest is reported in the consolidated profit and loss account as profit or loss attributable to non-controlling interest.

3. STATEMENT OF COMPLIANCE

- 3.1** These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise IFRS issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and regulations / directives issued by the SECP and the SBP. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or regulations / directives issued by the SECP and the SBP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said regulations / directives shall prevail.
- 3.2** The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for the banking companies till further instructions. Further, according to the notification of SECP dated 28 April 2008, IFRS - 7 "Financial Instruments: Disclosure" has not been made applicable for the banks. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements.

4. BASIS OF MEASUREMENT

- 4.1** These consolidated financial statements have been prepared under the historical cost convention except for land and buildings, certain investments and derivative financial instruments which are revalued as referred to in notes 5.4, 5.8 and 5.12 below.
- 4.2** These consolidated financial statements are presented in Pak Rupees which is the Group's functional currency and presentation currency.

5. SIGNIFICANT ACCOUNTING POLICIES

- 5.1** The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the previous financial year except as follows:

The Holding Company has adopted the following new and amended IFRSs and related interpretations which became effective during the year:

IAS 12 - Income Taxes - Recovery of Underlying Assets (Amendment)
IFRS 7 – Financial Instruments: Disclosures - Enhanced De-recognition Disclosure Requirements (Amendment)

The adoption of the above standards, amendments, interpretations and improvements did not have any material effect on these consolidated financial statements.

5.2 Cash and cash equivalents

These include cash and balances with treasury banks and balances with other banks less overdrawn nostro accounts.

5.3 Lendings to / borrowings from financial institutions

The Group enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase contract

Securities sold subject to a repurchase contract (repo) are retained in the consolidated financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and contracted repurchase price is accrued over the period of the contract and recorded as an expense.

Purchase under resale contract

Securities purchased under a contract to resell (reverse repo) are not recognised in the consolidated financial statements as investments and the amount extended to the counter party is included in lendings. These transactions are accounted for on the settlement date. The difference between the purchase and resale price is recognised as mark-up income on a time proportion basis over the period of the contract and recorded as income.

5.4 Investments

5.4.1 Investment in associates

Associates are those companies in which the Holding Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associates are accounted for using the equity method of accounting.

5.4.2 Other investments are classified as follows:

These are classified as follows:

Held-for-trading

These are investments acquired principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin or are securities included in a portfolio in which a pattern of short-term trading exists.

Held-to-maturity

These are investments with fixed or determinable payments and fixed maturities which the Group has the intention and ability to hold till maturity.

Available-for-sale

These are investments which do not fall under the held-for-trading and held-to-maturity categories.

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

Investments (other than held for trading) are initially measured at fair value plus transaction cost associated with the investments. Held for trading investments are initially measured at fair value and transaction costs are expensed in the profit and loss account.

Premium or discount on debt securities classified as available for sale and held to maturity is amortised using effective interest method and taken to the profit and loss account.

In accordance with the requirements of the SBP, quoted securities, other than those classified as held to maturity are subsequently stated at market values. Investments classified as held to maturity are carried at amortised cost. Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Surplus / deficit arising on revaluation of quoted securities classified as available for sale is kept in a separate account shown in the consolidated statement of financial position below equity. The surplus / deficit arising on revaluation of quoted securities which are classified as held for trading is taken to the profit and loss account.

Impairment loss in respect of investments (other than debt securities) is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulations for Corporate / Commercial Banking issued by the SBP (Prudential Regulations). In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus on revaluation of assets is taken to the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

5.5 Advances

Loans and advances

These are stated net of specific and general provisions, which are made in accordance with the requirements of the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account. Advances in respect of which the Group does not expect any recoveries in future years are written off.

Net investment in finance lease

These are stated at net of provisions made against non-performing leases. Leases where the Group transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognised on commencement of lease term at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any.

Ijarah

Assets leased out under 'Ijarah' are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are depreciated over the period of lease term. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of the asset using straight line basis.

Murabaha

Funds disbursed under murabaha arrangements for purchase of goods are recorded as advance for murabaha. On culmination of murabaha i.e. sale of goods to customers, murabaha receivables are recorded at the sale price net of deferred income. Goods purchased but remaining unsold and advances against purchase of goods at the reporting date are recorded as inventories and other assets respectively.

5.6 Trade debts

Trade debts are recognised at fair value and subsequently measured at amortised cost. A provision for doubtful debts is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the trade debt. Trade debts considered irrecoverable are written off.

5.7 Biological assets

The Group's biological assets comprise of livestock. Livestocks are measured at their fair value less estimated point-of-sale costs. The Group has determined the fair value of livestock based on market prices of livestock of similar age, breed, and genetic merit.

5.8 Operating fixed assets

Tangible operating assets - owned

Land is measured at cost at the time of initial recognition and is subsequently carried at revalued amount. Buildings are initially measured at cost and upon revaluation, are carried at revalued amount less accumulated depreciation and impairment, if any. Other operating assets are carried at cost less accumulated depreciation and impairment, if any.

Depreciation on fixed asset is charged to the consolidated profit and loss account applying the straight line method in accordance with the rates specified in note 13.2 to the consolidated financial statements after taking into account residual value, if significant. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on fixed assets is charged from the date on which an asset is put to use till the date of its disposal.

Land and buildings are revalued by independent professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. The surplus arising on revaluation of fixed assets is credited to the "surplus on revaluation of assets" account shown below equity. The Group has adopted the following accounting treatment of depreciation on revalued assets, keeping in view the requirements of the Companies Ordinance, 1984 and SECP's SRO 45(1)/2003 dated 13 January 2003:

- depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year is taken to the profit and loss account; and
- an amount equal to incremental depreciation for the year (net of deferred taxation) is transferred from surplus on revaluation of assets to accumulated loss through consolidated statement of changes in equity to record realization of surplus to the extent of the incremental depreciation charge for the year.

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

Gains / losses on disposal of fixed assets, if any, are recognised in the profit and loss account, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to accumulated loss.

Tangible operating assets - leased

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation and impairment, if any. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods. The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on fixed assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the Group.

Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortization and impairment, if any. Amortization is based on straight line method by taking into consideration the estimated useful life of assets at the rates specified in note 13.3. Intangible assets are amortized on prorata basis i.e. full month amortization in the month of purchase and no amortization in the month of disposal.

Intangible assets having an indefinite useful life are stated at cost less impairment in value, if any.

Capital work-in-progress

These are stated at cost less accumulated impairment, if any.

5.9 Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and the liabilities incurred or assumed at the date of acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement, if any. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisitions, the amount of any non-controlling interest in the acquiree, if any, and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at cost less accumulated impairment, if any. Goodwill acquired in a business combination is tested for impairment annually or whenever there is an indication of impairment as referred to in note 5.11 below. Impairment charge in respect of goodwill is recognised in the profit and loss account.

5.10 Non-banking assets acquired in satisfaction of claims

These are initially measured at the settlement value assigned for the purpose of extinguishment of borrowers' liabilities. Subsequent to initial recognition, these are carried at lower of their carrying values and fair values. Any resulting impairment loss is taken to profit and loss account currently. For subsequent increase in fair value, gain is recognized only to the extent it reverses previously recognized impairment loss.

5.11 Impairment of non-financial assets, goodwill and investments in associates

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an assets or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of the money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used.

For assets excluding goodwill and intangible assets having indefinite useful life, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exists or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its carrying recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit and loss account.

Impairment losses relating to goodwill and intangible assets having indefinite useful life are not reversed in future periods.

5.12 Financial instruments

Financial assets and financial liabilities

Financial assets and financial liabilities are recognised at the time when the Group becomes a party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are de-recognised when obligation is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognised in the profit and loss account of the current period.

Derivative financial instruments

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

Offsetting

Financial assets and financial liabilities are set off and the net amount is reported in the consolidated financial statements only when the Group has a legally enforceable right to set off and the Group intends to either settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

5.13 Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

5.14 Provisions against off-balance sheet obligations

The Holding Company, in the ordinary course of business, issues letters of credit, acceptances, guarantees, bid bonds, performance bonds etc. The commission against such contracts is recognised in the profit and loss account under "fees, commission and brokerage income" over the period of contracts. The Holding Company's liability under such contracts is measured at the higher of the amount representing unearned commission income at the reporting date and the best estimate of the amount expected to settle any financial obligation arising under such contracts.

5.15 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for current tax also includes adjustments relating to prior years, if necessary, arising from assessments finalised during the year.

Deferred

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

The carrying amount of deferred income tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable temporary differences will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

5.16 Employees' benefits

Defined contribution plan

The Group operates contributory provident fund for all eligible employees to which equal contributions at the rate of 8.33 % of basic salary are made by Group and the employees. The contributions are recognised as employee benefit expense when they are due.

Defined benefit scheme

The Group operates an approved unfunded gratuity scheme for all eligible employees. Provision is made annually to meet the cost of such gratuity benefits on the basis of actuarial recommendations. The actuarial valuation is carried out using the Projected Unit Credit Method. The actuarial gains and losses arising at each valuation date are recognised as income or expense in the profit and loss account.

5.17 Revenue recognition

Mark-up / interest / return on advances and investments is recognised on accrual basis, except in case of advances classified under the Prudential Regulations on which mark-up is recognized on receipt basis. Interest / return / markup on rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of the SBP.

Financing method is used in accounting for income from lease financing. Under this method, the unrealised lease income is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gain / loss on termination of lease contracts, front end fee and other lease income are recognised as income on receipt basis.

Rentals from ijarah are recognised as income over the term of the contract, net of depreciation expense relating to the ijarah asset.

Profit on musharaka / murabaha is recognized on a time proportion basis over the period of musharaka / murabaha arrangements.

Profit on modaraba finance is recognised on the basis of pre-agreed profit / loss sharing ratio where actual gain / loss on transaction is computed upon termination / completion of transaction.

Management fee from open-ended funds is recognized on a daily basis by applying the rates to the net asset value of unit trusts, at the close of business of each calendar day and is accrued at the month end.

Dividend income is recognised when the right to receive is established.

Gain or loss on sale of investments is recognised in profit and loss account in the year in which it arises.

Fees, commission and brokerage income is recognised as services are performed.

Other income is recognised on accrual basis.

5.18 Foreign currencies transactions

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

5.19 Share issue cost

Share issue cost directly attributable to issuance of shares is recognised as a deduction from equity.

5.20 Dividends and transfers between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the balance sheet date are considered as non-adjusting events and are recorded in the financial statements in accordance with the requirements of IAS 10, "Events after the Reporting Date" in the year in which they are approved / transfers are made.

5.21 Earnings / loss per share

The Group presents basic and diluted earnings / loss per share for its shareholders. Basic earnings / loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted earnings / loss per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

5.22 Segment reporting

The Group has structured its key business areas in various segments in a manner that each segment becomes a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The segments within the Group have been categorised into the following classifications of business segments in accordance with the requirements of the SBP:

(a) Business segments

Commercial banking

This includes strategic partnership with corporate and SME sector entities to provide working capital financing, trade financing and cash management services, project finance, real estate, export finance, leasing, lending, guarantees, bills of exchange and deposits.

Retail banking

This includes mortgage finance and personal loans to individual customers.

Trading and sales

This includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

Corporate finance

This includes services provided in connection with mergers and acquisition, underwriting, privatization, securitization, research, debts (government, high yield), equity, syndication and secondary private placement.

Asset management

Asset management includes management fee received from open-end funds and modaraba managed by the Group.

(b) Geographical segments

The operations of the Group are currently based only in Pakistan.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Group's accounting policies, management has exercised judgments and estimates in determining the amounts recognized in the financial statements. The most significant judgments and estimates used are as follows:

6.1 Basis of preparation of consolidated financial statements

As referred to note in 1.3, the management and the Board have made an assessment and are satisfied that the Holding Company has adequate resources to continue in business on a sustainable basis for the foreseeable future and consequently, would be able to realise its assets and discharge its liabilities in the normal course of business. Therefore, the consolidated financial statements of the Holding Company have been prepared on a going concern basis.

6.2 Provision against non-performing loans and advances

The Group reviews its loan portfolio to assess amount of non-performing loans and determine provision required there against on a quarterly basis. Provisions are made in accordance with the requirements of Prudential Regulations and charged to profit and loss account. These regulations prescribe an age based criteria (as supplemented by subjective evaluation of advances by the Group) for classification of non-performing loans and advances. The provision against such non-performing loans and advances is made at specified percentages as prescribed under Prudential Regulations after taking into account the forced sale value of collaterals held by the Group. Such regulations also require the Group to maintain general provision against consumer advances at specified percentage of consumer's portfolio.

6.3 Impairment of investments

The Group assesses at each reporting date whether there is an indication of impairment of any of its investments in associates. In case such indications exist, the Group estimates the recoverable amount of investments which is the higher of investments' fair value less cost to sell and their value in use determined on the basis of estimated future cash flows.

The Group reviews its investment in debt securities on a quarterly basis, to assess whether they are impaired, in accordance with the requirements of Prudential Regulations.

The Group also records impairment charge on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

6.4 Goodwill and intangible assets having indefinite useful life

The Group carries out annual impairment testing in respect of the carrying value of goodwill and intangible assets having indefinite useful lives. Such impairment testing involves determination of the recoverable amount of the CGUs to which such asset pertains. The estimates and assumptions used for such impairment testing are disclosed in note 15.3.1 to the consolidated financial statements.

6.5 Deferred tax assets

These are recognized in respect of tax losses to the extent that it is probable that the taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits. The factors considered by the management in this respect are detailed in note 14.1 to the consolidated financial statements.

6.6 Defined benefit scheme

The cost of employee's gratuity scheme is determined using an actuarial valuation which involves assumptions about discount rates and future salary increases as disclosed in note 36 to the consolidated financial statements.

7. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards and amendments with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard:

	Effective date (accounting periods beginning on or after)
IFRS 7 - Financial Instruments : Disclosures - (Amendments) - Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	01 January 2013
IAS 1 - Presentation of financial Statements - Presentation of items of comprehensive income	01 July 2012
IAS 12 - Income Taxes (Amendment) - Recovery of Underlying Assets	01 January 2012
IAS 19 - Employee Benefits - (Amendment)	01 January 2013
IAS 32 - Offsetting Financial Assets and Financial Liabilities - (Amendment)	01 January 2014
IFRIC 20 - Stripping Cost in the Production Phase of a Surface Mine	01 January 2013

Improvements to IFRS

In addition to the above amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2013. The Group expects that such improvements to the standards will not have any material impact on the Group's financial statements in the period of initial application.

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by SECP for the purpose of applicability in Pakistan.

	IASB Effective date (annual periods beginning on or after)
IFRS 9 - Financial Instruments: Classification and Measurement	01 January 2015
IFRS 10 - Consolidated Financial Statements	01 January 2013
IFRS 11 - Joint Arrangements	01 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 - Fair Value Measurement	01 January 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012	2011
(Rupees in '000)			
8. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		848,104	904,396
Foreign currency		480,848	292,377
National Prize Bonds		5,275	4,628
		1,334,227	1,201,401
With State Bank of Pakistan in:			
Local currency current account	8.1	2,572,429	1,759,644
Foreign currency current account	8.2	18,032	2,381
Foreign currency deposit account	8.3	503,235	1,599,235
		3,093,696	3,361,260
With National Bank of Pakistan in local currency current account			
		339,043	260,090
		<u>4,766,966</u>	<u>4,822,751</u>

8.1 Represent accounts maintained with the SBP as per the requirements of Section 36 of the SBP Act, 1956. This section requires banking companies to maintain a local currency cash reserve in a current account with SBP at a sum not less than such percentage of the Bank's time and demand liabilities in Pakistan as may be prescribed by SBP.

8.2 Represents US Dollar Settlement Account maintained with SBP.

8.3 Represent foreign currency cash reserves maintained with SBP equivalent to at least 20 percent of the Holding Company's foreign currency deposits mobilised under the FE-25 scheme.

9. BALANCES WITH OTHER BANKS

In Pakistan			
On current account		83,879	88,726
On deposit account		75,734	279,648
		159,613	368,374
Outside Pakistan			
On current account		742,244	7,130,483
On deposit account	9.1	1,137,380	3,431,568
		1,879,624	10,562,051
		<u>2,039,237</u>	<u>10,930,425</u>

9.1 These carry interest rates ranging from 0.01% to 2.66% (2011: 0.1% to 14.48%) per annum.

10. LENDINGS TO FINANCIAL INSTITUTIONS AND OTHERS

In local currency			
Clean placements	10.1	32,400	334,400
Repurchase agreement lendings (Reverse Repo)	10.2	320,547	288,283
		<u>352,947</u>	<u>622,683</u>

10.1 These carry mark-up rate to 15.85% (2011: 12.5% to 15.85%) per annum and have matured in January 2013.

10.2 These carry mark-up rate of 8% (2011: 11.9%) per annum and have matured in January 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10.3 Securities held as collateral against repurchase agreement lendings

	Note	2012			2011		
		Held by Group	Given as collateral	Total	Held by Group	Given as collateral	Total
-----Rupees in '000-----							
Market Treasury Bills	10.3.1	288,283	-	288,283	288,283	-	288,283

10.3.1 As of 31 December 2012, the market value of the above securities amounted to 320.607 million (2011: Rs. 299.875 million).

11. INVESTMENTS

11.1 Investments by types

	Note	2012			2011		
		Held by Group	Given as collateral	Total	Held by Group	Given as collateral	Total
-----Rupees in '000-----							
Held for trading securities							
Open ended mutual funds	11.11	85,000	-	85,000	2,299	-	2,299
Listed Term Finance Certificates	11.8	25,099	-	25,099	45,369	-	45,369
Ordinary shares of listed companies	11.6	-	-	-	127,205	-	127,205
		110,099	-	110,099	174,873	-	174,873
Available for sale securities							
Pakistan Investment Bonds		2,370,095	-	2,370,095	790,937	-	790,937
Market Treasury Bills		12,783,144	18,345,287	31,128,431	9,160,103	-	9,160,103
Listed Term Finance Certificates	11.8	363,305	-	363,305	315,243	-	315,243
Unlisted Term Finance Certificates	11.9	617,713	-	617,713	707,665	-	707,665
Open ended mutual funds	11.11	-	-	-	6,826	-	6,826
Ordinary shares of listed companies	11.6	878,933	-	878,933	190,745	-	190,745
Ordinary shares of unlisted companies	11.7	1,345,226	-	1,345,226	1,355,226	-	1,355,226
		18,358,416	18,345,287	36,703,703	12,526,745	-	12,526,745
Held to maturity securities							
Pakistan Investment Bonds		304,724	-	304,724	521,424	-	521,424
Sukuk Bonds - unlisted	11.10	12,268	-	12,268	17,418	-	17,418
Unlisted Term Finance Certificates	11.9	813,844	-	813,844	429,604	-	429,604
	11.1.1	1,130,836	-	1,130,836	968,446	-	968,446
Associates							
	11.12	2,484,257	-	2,484,257	2,246,622	-	2,246,622
Investments at cost							
		22,083,608	18,345,287	40,428,895	15,916,686	-	15,916,686
Less: provision for diminution							
in the value of investments	11.3	(594,388)	-	(594,388)	(276,057)	-	(276,057)
Investments - net of provisions							
		21,489,220	18,345,287	39,834,507	15,640,629	-	15,640,629
Deficit on revaluation of investments classified							
as held for trading investments		(6,436)	-	(6,436)	(20,039)	-	(20,039)
Surplus / (deficit) on revaluation of investments							
classified as available for sale investments	22.2	88,313	52,502	140,815	(31,887)	-	(31,887)
Total investments after revaluation							
		21,571,097	18,397,789	39,968,886	15,588,703	-	15,588,703

11.1.1 The aggregate market value of held to maturity securities as of 31 December 2012 amounted to Rs. 1,111.407 million (2011: 911.181 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012	2011
(Rupees in '000)			
11.2 Investments by segments			
Federal Government Securities			
- Market Treasury Bills	11.4	31,128,431	9,160,103
- Pakistan Investment Bonds	11.5	2,674,819	1,312,361
		33,803,250	10,472,464
Fully paid-up ordinary shares			
- Listed companies	11.6	878,933	317,950
- Unlisted companies	11.7	1,345,226	1,355,226
		2,224,159	1,673,176
Term Finance Certificates			
- Listed	11.8	388,404	360,612
- Unlisted	11.9	1,431,557	1,137,269
		1,819,961	1,497,881
Musharaka certificates		-	-
Sukuk Bonds	11.10	12,268	17,418
Units of Mutual Funds	11.11	85,000	9,125
Associates	11.12		
Listed			
KASB Asset Allocation Fund		281,082	216,836
KASB Capital Protected Gold Fund		-	83,220
KASB Cash Fund		184,390	125,606
KASB Islamic Income Opportunity Fund		107,555	104,798
KASB Income Opportunity Fund		266,007	196,675
Crosby Dragon Fund		123,392	-
KASB Stock Market Fund		-	95,717
Unlisted			
KASB International Limited		26,626	32,100
KASB Funds Limited	11.3.3	54,821	-
New Horizon Exploration and Production Limited		871,747	873,916
Shakarganj Food Products Limited		568,637	517,754
		2,484,257	2,246,622
Investments at cost		40,428,895	15,916,686
Less: provision for diminution in the value of investments	11.3	(594,388)	(276,057)
Investments - net of provisions		39,834,507	15,640,629
Deficit on revaluation of investments classified as held for trading investments		(6,436)	(20,039)
Surplus / (deficit) on revaluation of investments classified as available for sale	22.2	140,815	(31,887)
Total investments after revaluation		39,968,886	15,588,703
11.3 Particulars of provision for diminution in the value of investments			
Opening balance		276,057	589,182
Charge for the year		383,953	128,089
Reversal of provision		(65,622)	(433,899)
		318,331	(305,810)
Provision written off		-	(7,315)
Closing balance		594,388	276,057

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012	2011
(Rupees in '000)			
11.3.1 Particulars of provision in respect of type and segment			
Available for sale investments			
Unlisted Term Finance Certificates		123,535	81,997
Ordinary shares of listed companies		144,638	113,693
Ordinary shares of unlisted company		5,680	5,680
		273,853	201,370
Held to maturity investments			
Unlisted Term Finance Certificates		30,608	-
Associates			
KASB Stock Market Fund		-	46,560
New Horizon Exploration & Production Limited	11.3.2	188,618	-
KASB Income Opportunity Fund		73,182	-
KASB International Limited		17,911	17,911
KASB Asset Allocation Fund		10,216	10,216
		289,927	74,687
		594,388	276,057

11.3.2 During the year, the management has carried out impairment testing of its investments in associates as required by IAS 36 – "Impairment of Assets". The recoverable amounts of these investments have been computed using 'value in use' computations with the investments in certain mutual funds which have been computed on the basis of the investment's 'fair value less cost to sell'.

Value in use computations were performed using discounted cash flows methodology, covering cash flow projections for a period of 5 years with the exception of New Horizon Exploration and Production Limited for which projections were prepared for a period of 20 years based on the expected reserve and field profile. The calculations of 'value in use' are most sensitive to the following assumptions:

	Discount rate	Terminal growth rate
	----- (%) -----	
Associates		
New Horizon Exploration and Production Limited	22.4%	-
Shakarganj Food Products Limited	26.0%	5%
KASB Funds Limited	25.5%	7.9%

In addition, the management has used various business assumptions for estimating future cash flows of the respective companies which are based on industry data, historical performance and trends for growth rates, market share etc.

Based on such impairment testing, an additional impairment loss of Rs. 261.800 million in respect of the Bank's investment in associates has been recognised in these financial statements.

11.3.3 Up until the previous year, KASB Bank Limited (the Bank) held 58.8% shares of KASB Funds Limited (KFL), however, pursuant to the right shares issued by KFL during the year which were renounced by the Bank and accepted by KASB Finance (Private) Limited [the Holding company of the Bank], the percentage holding of the Bank reduced and accordingly, KFL became the subsidiary of KASB Finance (Private) Limited and an associated company of the Bank. Accordingly, the assets (including goodwill) and liabilities of KFL were derecognised by the Bank at their carrying amounts at the date when control was lost and recognise the investment in KFL at the fair value at the same date. The resultant difference is recorded in accordance with the requirements of IAS 27 'Consolidated and Separate Financial Statements' in other charges (see note 30.1).

11.4 Market Treasury Bills

These securities have a maturity period of three months to one year (2011: three months to one year), with yield ranging between 9.16% to 11.85% (2011: 11.77% to 13.79%) per annum. These securities have an aggregate face value of Rs. 32,273.500 million (2011: Rs. 9,873 million).

11.5 Pakistan Investment Bonds

These securities have a maturity period of three, five and ten years (2011: three, five and ten years) with interest rates ranging between 8% to 12% (2011: 8% to 13%) per annum. These securities have an aggregate face value of Rs. 2,655.400 million (2011: Rs. 1,307 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

11.6 Ordinary shares of listed companies

Name of security	2012	2011	2012	2011	2012	2011	2012	2011
	Number of shares of Rs.10/- each		Rating		Cost		Market value	
	----- (Rupees in '000) -----							
Held for trading								
Agritech Limited	-	686,000	-	D	-	11,220	-	10,537
Agritech LOR	-	110,000	-	D	-	1	-	1
D.G. Khan Cement Company Limited	-	3,140,000	-	-	-	59,075	-	59,754
Fatima Fertilizer Company Limited	-	222,500	-	A+	-	5,164	-	5,100
Fauji Fertilizer	-	10,000	-	-	-	1,537	-	1,496
First Capital Securities Limited	-	3,000,000	-	-	-	6,840	-	5,580
Hub Power	-	16,000	-	AA+	-	577	-	547
Ibrahim Fibres Limited	-	55,000	-	AA-	-	1,982	-	1,487
Jahangir Siddiqui & Company Limited	-	90,000	-	AA	-	429	-	363
JS Growth Funds	-	190,000	-	-	-	1,131	-	893
MCB Bank Limited	-	25,000	-	AA+	-	3,593	-	3,365
Muree Brewery Company	-	20,000	-	-	-	1,608	-	1,270
National Bank of Pakistan Limited	-	30,000	-	AAA	-	1,253	-	1,232
Nishat Mills Limited	-	10,000	-	AA-	-	422	-	405
Nishat Power	-	85,000	-	AA	-	1,117	-	1,101
Pakgen Power Limited	-	635,500	-	AA	-	10,147	-	7,156
Pakistan Oilfields Limited	-	2,500	-	-	-	872	-	866
Pakistan Petroleum Ltd	-	44,400	-	-	-	7,815	-	7,473
Pakistan Telecommunication Company Limited	-	1,190,000	-	-	-	12,148	-	12,364
United Bank Limited	-	5,000	-	AA+	-	274	-	262
						<u>127,205</u>		<u>121,252</u>
Available for sale								
Engro Chemical Pakistan Limited	-	21,000	-	AA	-	2,304	-	1,947
ICI Pakistan Limited	-	55,000	-	-	-	9,903	-	6,615
KASB Bank Limited	19,858,649	19,858,649	BBB	A-	116,472	116,472	48,256	21,844
Network Microfinance Bank Limited	-	3,359,198	-	BBB	-	10,078	-	16,762
Pakgen Power Limited	398,590	933,590	AA	AA	7,573	17,738	8,386	10,512
Agritech Limited (see note 11.6.1)	21,786,838	-	D	-	750,255	-	250,156	-
Engro Corporation Limited	48,000	-	A	-	4,633	-	4,418	-
Pakistan Petroleum Limited	-	42,000	-	-	-	7,291	-	7,069
Shell Pakistan Limited	-	95,000	-	-	-	26,959	-	18,077
						<u>878,933</u>	<u>190,745</u>	<u>311,216</u>
								<u>82,826</u>

11.6.1 During the year, the Bank alongwith other lenders, entered into a restructuring agreement in respect of the outstanding liabilities of Azgard Nine Limited (ANL). In terms of the said restructuring, the Bank has acquired 21,435,858 ordinary shares of Agritech Limited which were previously owned by ANL, in order to partially settle the liabilities of ANL. The above ordinary shares of Agritech Limited are subject to sale lock-in-period of 5 years in terms of the Share Purchase Agreement (SPA) between the ANL and various lenders including the Company. However, as per the SPA, the sale restriction is not applicable to transactions between the lenders of ANL.

The mark to market impairment loss on this investment as of 31 December 2012 amounts to Rs.500.099 million. However, in terms of SBP directives, the Bank has availed relaxation in respect of recognition of full impairment loss and will recognize the same in a phased manner by 31 December 2013. As per such relaxation the Bank has booked the required impairment as of 31 December 2012 which amounts to Rs. 50.010 million.

11.7 Ordinary shares of unlisted companies - Available for sale

Name of security	2012	2011	2012	2011	2012	2011	2012	2011
	Number of shares		Rating		Cost		Carrying value	
	----- (Rupees in '000) -----							
Al Jomiah Power Limited								
Face value per share : USD 1,000/-	3,370	3,370	-	-	184,197	184,197	184,197	184,197
Evolvement Capital Limited - incorporated in British Virgin Islands (related party)	5,400,000	5,400,000	-	-	1,155,349	1,155,349	1,155,349	1,155,349
Face value per share : USD 0.0845/-								
Breakup value per share: USD 2.59/- (2010: USD 2.40/-) [based on audited financial statements of 31 March 2011]								
Chief Executive: Mr. Khaled Al Muhairy								
Khushhali Bank Limited	-	1,000,000	-	A-	-	10,000	-	10,000
Face value per share : Rs. 10/-								
Breakup value per share: Nil (2011: Rs. 13.02/-) [based on audited financial statements of 31 December 2010]								
Chief Executive: Mr. M Ghalib Nishtar								
Pakistan Export Finance Guarantee Agency Limited	568,044	568,044	-	-	5,680	5,680	-	-
Face value per share : Rs. 10/-								
Breakup value per share: Rs. 0.50/- (2011: Rs. 0.50/-) [based on un-audited financial statements of 30 June 2010]								
Chief Executive: Mr. S.M. Zaeem								
					<u>1,345,226</u>	<u>1,355,226</u>	<u>1,339,546</u>	<u>1,349,546</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11.8 Listed Term Finance Certificates

Name of security	2012	2011	2012	2011	2012	2011	2012	2011
	No. of certificates of Rs. 5,000/- each		Rating		Cost		Market value	
	----- (Rupees in '000) -----							
Held for trading								
Pace (Pakistan) Limited	10,000	10,000	D	D	25,099	45,369	12,550	25,099
					<u>25,099</u>	<u>45,369</u>	<u>12,550</u>	<u>25,099</u>
Available for sale								
Allied Bank Limited	2,000	2,000	AA	AA-	9,988	9,992	9,739	9,476
Telecard Limited	3,000	3,000	D	D	5,325	5,389	5,325	5,389
Trust Investment Bank Limited	9,000	9,000	D	BBB	22,093	21,385	22,093	21,587
United Bank Limited (2nd Issue)	16,232	16,232	AA	AA	81,134	81,137	80,837	77,121
United Bank Limited (4th Issue)	18,000	18,000	AA	AA	85,499	84,985	91,817	89,605
World Call Telecom Limited	39,348	39,348	D	BBB	84,266	112,355	84,266	97,747
Jahangir Siddiqui & Company Limited	15,000	-	AA	-	75,000	-	75,000	-
					<u>363,305</u>	<u>315,243</u>	<u>369,077</u>	<u>300,925</u>

11.8.1 Particulars of Listed Term Finance Certificates - Available for sale

Particulars	Profit rate per annum	Profit payment	Redemption terms	Maturity
Allied Bank Limited	Six months KIBOR + 0.85%	Semi-annually	Principal to be paid in 20 installments. First 19 installments of Re.1 per certificate and last installment of Rs 4,981 per certificate.	August 2019
Telecard Limited	Six months KIBOR + 3.75%	Semi-annually	Principal to be paid in 13 unequal installments.	May 2015
Trust Investment Bank Limited	Six months KIBOR + 1.85%	Semi-annually	Principal to be paid in 10 installments. First 2 installments of Re.1 per certificate and subsequent 8 installments of Rs. 625 per certificate.	July 2013
United Bank Limited (2nd Issue)	9.49%	Semi-annually	Principal to be paid in 16 installments. First 15 installments of Rs. 0.10 per certificate and last installment of Rs. 4,998.5 per certificate.	March 2013
United Bank Limited (4th Issue)	Six months KIBOR + 0.85%	Semi-annually	Principal to be paid in 20 installments. First 19 installments of Re.1 per certificate and last installment of Rs 4,981 per certificate.	February 2018
Worldcall Telecom Limited	Six months KIBOR + 1.6%	Semi-annually	Principal to be paid in 10 installments. First 3 installments of Re.1 per certificate and subsequent 7 installments of Rs. 714 per certificate.	October 2013
Jahangir Siddique & Company Limited	Six months KIBOR + 2.40%	Semi-annually	Principal to be paid in 8 semi annual installments.	May 2016
Worldcall Telecom Limited	Six months KIBOR + 1.6%	Semi-annually	Principal to be paid in 10 installments. First 3 installments of Re. 1 per certificate and 7 subsequent installments of Rs. 714 per certificate.	October 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11.9 Unlisted Term Finance Certificates

Name of security	Note	2012	2011	2012	2011	2012	2011
		No. of certificates of Rs. 5,000/- each		Rating		Cost	
(Rupees in '000)							
Available for sale							
Agritech Limited	11.9.1	30,000	35,000	D	D	149,943	168,766
Azgard Nine Limited (3rd Issue)	11.9.1	5,600	11,400	D	D	28,011	42,576
Engro Chemical Pakistan Limited		41,640	41,640	A	A	209,224	209,343
Nishat Chunian Limited		38,500	38,500	A	A+	144,375	192,500
Pakistan Mobile Communication (Private) Limited		5,000	5,000	AA-	A+	4,160	12,480
Shakarganj Mills Limited	11.9.1	20,000	20,000	D	D	82,000	82,000
						617,713	707,665
Held to maturity							
Avari Hotel International		60,000	60,000	A-	A-	254,743	254,744
Azgard Nine Limited (3rd Issue)	11.9.1	35,000	35,000	D	D	60,041	174,860
Pakistan Mobile Communication (Private) Limited		50,000	-	AA-	-	237,500	-
Azgard Nine Limited		33,883	-	D	-	169,415	-
Agritech Limited		18,429	-	D	-	92,145	-
						813,844	429,604
						1,431,557	1,137,269

11.9.1 These securities have been classified as non-performing in accordance with the requirements of Prudential Regulations. However, in terms of SBP directives, the Holding Company has availed relaxation in respect of provisioning against certain non-performing securities to the extent of the Rs. 401.763 million (2011: Rs. 352.921 million).

11.9.2 Particulars of Unlisted Term Finance Certificates - Available for sale

Particulars	Profit rate per annum	Profit payment	Redemption terms	Maturity
Agritech Limited	Six months KIBOR + 1.75%	Semi- annually	Principal to be paid in 14 installments. First 4 installments of Re.1 per certificate and subsequent 10 installments of Rs. 499.6 per certificate.	November 2014
Azgard Nine Limited	Six months KIBOR + 1%	Semi- annually	Principal to be paid in 14 installments. First 4 installments of Re.1 per certificate and subsequent 10 installments of Rs. 499.6 per certificate.	December 2014
Engro Chemical Pakistan Limited	Six months KIBOR + 1.7%	Semi- annually	Bullet payment at the end of term.	March 2018
Nishat Chunian Limited	Three months KIBOR + 2.25%	Quarterly	Principal to be paid in 16 equal installments of Rs. 312.5 per certificate.	September 2015
Pakistan Mobile Communication (Private) Limited	Six months KIBOR + 2.85%	Semi- annually	Principal to be paid in 14 installments. First 8 installments of Re.1 per certificate and subsequent 6 installments of Rs. 832 per certificate.	June 2013
Shakarganj Mills Limited	Six months KIBOR + 2.75%	Semi- annually	Principal to be paid in 10 equal installments of Rs. 500 per certificate.	September 2014
Avari Hotel Limited	1 year KIBOR + 2.50%	Semi- annually	Principal to be paid in 3 installments. First installment of Rs. 2,807.79 per certificate, second instalment of Rs. 561.42 per certificate and third installment of Rs. 1,630.77 per certificate.	October 2014
Pakistan Mobile Communication (Private) Limited	Three months KIBOR + 2.65%	Quarterly	Principal to be paid starting from 3rd month of issue date; 10%, 20%, 30% and 40% of the principal amount in 4 years.	April 2016
Azgard Nine Limited	0% Coupon	Bullet Payment	Principal to be paid in 7 semi unequal installements in 5 yrs. Inclusive of 1.5 yrs grace period.	December 2016
Agritech Limited	0% Coupon	Bullet Payment	Principal to be recovered i.e. 45% between 2013 - 2016 (3.5 yrs) and 55% between 2016 - 2019 (3.5 yrs)	November 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11.10 Sukuk Bonds - Held to maturity

	2012	2011	2012	2011	2012	2011
	No. of certificates of Rs. 5,000/- each		Rating		Cost	
					----(Rupees in '000)----	
Kohat Cement Company Limited	2,000	2,000	-	-	2,664	7,060
Maple Leaf Cement Factory Limited	2,000	2,000	BB+	D	9,479	9,983
Maple Leaf Cement Factory Limited	75	75	BB+	D	125	375
					<u>12,268</u>	<u>17,418</u>

11.11 Units of mutual funds

Name of fund	2012	2011	2012	2011	2012	2011	2012	2011
	Number of units		Rating		Cost		Net assets value	
					----- (Rupees in '000) -----			
Held for trading								
ABL Cash Fund	2,148,504	-	AA(f)	-	20,000	-	21,513	-
AMZ Plus Income Fund	-	36,669	-	AM3	-	2,299	-	3,857
Askari Sovereign Cash Fund	160,467	-	AAA(f)	-	15,000	-	16,132	-
JS Cash Fund	102,082	-	AA+(f)	-	10,000	-	10,425	-
UBL Liquidity Plus Fund	214,607	-	AA+(f)	-	20,000	-	21,520	-
MCB Cash Management Optimizer Fund	214,648	-	AA(f)	-	20,000	-	21,523	-
					<u>85,000</u>	<u>2,299</u>	<u>91,113</u>	<u>3,857</u>
Available for sale								
AMZ Plus Income Fund	-	108,880	-	AM3	-	6,826	-	11,453
					<u>85,000</u>	<u>9,125</u>	<u>91,113</u>	<u>15,310</u>

Note	2012	2011	2012	2011
	Number of shares / units		Carrying value	
			(Rupees in '000)	

11.12 Associates (under equity method of accounting)

KASB Asset Allocation Fund	11.12.1	6,473,552	6,453,449	281,082	216,836
Par value per unit: Rs. 50 /-					
Net asset value per unit: Rs. 43.42/- (2011: Rs. 33.60/-) [based on reviewed financial statements for the period ended 31 December 2012]					
Percentage of holding: 70.36% (2011: 69.14%)					
Management Company - KASB Funds Limited					
KASB Capital Protected Gold Fund		-	799,149	-	83,220
Management Company - KASB Funds Limited					
KASB Cash Fund		1,797,425	1,165,119	184,390	125,606
Par value per unit: Rs. 100 /-					
Net asset value per unit: Rs. 102.5854/- (2011: Rs. 106.1411/-) [based on reviewed financial statements for the period ended 31 December 2012]					
Percentage of holding: 12.42% (2011: 19.21%)					
Management Company - KASB Funds Limited					
KASB Income Opportunity Fund		3,743,336	3,648,800	266,007	196,675
Par value per unit: Rs. 100 /-					
Net asset value per unit: Rs. 72.3972/- (2011: Rs. 53.9013/-) [based on reviewed financial statements for the period ended 31 December 2012]					
Percentage of holding: 57.51% (2011: 49.88%)					
Management Company - KASB Funds Limited					
KASB Islamic Income Opportunity Fund		1,037,084	1,037,084	107,555	104,798
Par value per unit: Rs. 100 /-					
Net asset value per unit: Rs. 103.709/- (2011: Rs. 101.0511/-) [based on reviewed financial statements for the period ended 31 December 2012]					
Percentage of holding: 46.82% (2011: 46.83%)					
Management Company - KASB Funds Limited					

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012		2011	
		Number of shares / units		Carrying value	
(Rupees in '000)					
Crosby Dragon Fund	11.12.1	1,343,240	-	123,392	-
Par value per unit: Rs. 100 /-					
Net asset value per unit: Rs. 91.8613/- (2011: Nil) [based on reviewed financial statements for the period ended 31 December 2012]					
Percentage of holding: 83.55% (2011: Nil)					
Management Company - KASB Funds Limited					
KASB Stock Market Fund		-	4,042,500	-	95,717
Management Company - KASB Funds Limited					
KASB Funds Limited	11.3.3	14,123,622	-	54,821	-
Face value per share: Rs. 10 /-					
Break-up value per share: Rs. 5.83/- (2011: Rs. 5.84/-) [based on audited financial statements for the year ended 31 December 2012]					
Percentage of holding:					
- Direct : 43.89% (2011: 58.85%)					
- Indirect : Nil (2011: 8.33%)					
Chief Executive: Mr. Amer Maqbool					
KASB International Limited - incorporated in Mauritius		283,000	283,000	26,626	32,100
Face value per share: USD 1 /-					
Break-up value per share: Rs. 84.76/- (2011: Rs. 84.65/-) [based on unaudited financial statements for the period ended 31 December 2012]					
Percentage of holding: 21.78% (2011: 21.78%)					
Chief Executive: Mr. Nadir Rahman					
New Horizon Exploration and Production Limited	11.12.1	99,200,000	99,200,000	871,747	873,916
Face value per share: Re. 1/- and Rs. 10 /-					
Break-up value per share: Rs. 2.67/- (2011: Rs. 2.71/-) [based on unaudited financial statements for the period ended 31 December 2012]					
Percentage of holding: 40.73% (2011: 42.95%)					
Chief Executive: Ashraf Mohammad Hayat					
Shakarganj Food Products Limited		60,950,000	60,950,000	568,637	517,754
Face value per share: Rs. 10 /-					
Break-up value per share: Rs. 3.41/- (2011: Rs. 2.72/-) [based on unaudited financial statements for the year ended 31 December 2012]					
Percentage of holding: 40.20% (2011: 40.20%)					
Chief Executive: Mr. Anjum Saleem					
				2,484,257	2,246,622

11.12.1 Includes 5,019,070 units of KASB Asset Allocation Fund, 1,343,240 units of Crosby Dragon Fund and 61,600,000 ordinary shares of New Horizon Exploration and Production Limited that have been classified by the Bank as strategic investment in accordance with the BPRD Circular Letter No. 16 dated 01 August 2006 issued by the SBP.

11.13 Reconciliation of investments in associates

Particulars	2012											Total
	Shakarganj Food Products Limited	KASB Funds Limited (see note 11.3.3)	New Horizon Exploration and Production Limited	KASB Income Opportunity Fund	KASB Asset Allocation Fund	KASB Islamic Income Opportunity Fund	Crosby Dragon Fund	KASB Stock Market Fund	KASB Cash Fund	KASB Capital Protected Gold Fund	KASB International Limited	
(Rupees in '000)												
As at 1 January 2012	517,754	-	873,916	196,675	216,836	104,798	-	95,717	125,606	83,220	32,100	2,246,622
Net investments during the year	-	62,056	-	(20,282)	(9,805)	(7,186)	110,777	(142,287)	68,604	(71,104)	-	(9,227)
	517,754	62,056	873,916	176,393	207,031	97,612	110,777	(46,570)	194,210	12,116	32,100	2,237,395
Post-acquisition changes during the year:												
Recognised in the profit and loss account	50,883	(7,235)	(2,169)	82,017	77,403	13,784	12,615	53,456	2,057	(12,116)	(5,474)	265,221
Recognised in surplus / deficit on revaluation of assets	-	-	-	8,605	(3,125)	2,122	-	-	-	-	-	7,602
	50,883	(7,235)	(2,169)	90,622	74,278	15,906	12,615	53,456	2,057	(12,116)	(5,474)	272,823
	568,637	54,821	871,747	267,015	281,309	113,518	123,392	6,886	196,267	-	26,626	2,510,218
Dividend received during the year	-	-	-	(1,008)	(227)	(5,963)	-	(6,886)	(11,877)	-	-	(25,961)
At 31 December 2012 - before impairment	568,637	54,821	871,747	266,007	281,082	107,555	123,392	-	184,390	-	26,626	2,484,257
Provision for diminution in the value of investment	-	-	(188,618)	(73,182)	(10,216)	-	-	-	-	-	(17,911)	(289,927)
At 31 December 2012	568,637	54,821	683,129	192,825	270,866	107,555	123,392	-	184,390	-	8,715	2,194,330

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

Reconciliation of investments in associates

Particulars	2011									Total
	Shakarganj Food Products Limited	New Horizon Exploration and Production Limited	KASB Income Opportunity Fund	KASB Asset Allocation Fund	KASB Islamic Income Opportunity Fund	KASB Stock Market Fund	KASB Cash Fund	KASB Capital Protected Gold Fund	KASB International Limited	
	(Rupees in '000)									
As at 1 January 2011	507,324	876,692	282,073	281,443	100,840	187,010	195,548	77,009	40,238	2,548,177
Net investments during the year	-	-	(114,639)	377	2,345	(64,575)	(71,529)	-	-	(248,021)
Post-acquisition changes during the year:										
Recognized in the profit and loss account	10,430	(2,776)	23,959	(74,789)	(5,573)	(26,718)	3,526	6,211	(8,138)	(73,868)
Recognized in surplus / deficit on revaluation of assets	-	-	5,282	9,805	7,186	-	-	-	-	22,273
	10,430	(2,776)	29,241	(64,984)	1,613	(26,718)	3,526	6,211	(8,138)	(51,595)
	517,754	873,916	196,675	216,836	104,798	95,717	127,545	83,220	32,100	2,248,561
Dividend received during the year	-	-	-	-	-	-	(1,939)	-	-	(1,939)
At 31 December 2011 - before impairment	517,754	873,916	196,675	216,836	104,798	95,717	125,606	83,220	32,100	2,246,622
Provision for diminution in the value of investment	-	-	-	(10,216)	-	(46,560)	-	-	(17,911)	(74,687)
At 31 December 2011	517,754	873,916	196,675	206,620	104,798	49,157	125,606	83,220	14,189	2,171,935

	Note	2012	2011
(Rupees in '000)			
12. ADVANCES			
Loans, cash credits, running finances, etc. - in Pakistan	12.2	34,744,064	33,099,718
Net investment in finance lease - in Pakistan	12.3	974,228	933,348
Ijarah financing	12.4	56,970	46,642
Bills discounted and purchased (excluding government treasury bills)			
- Payable in Pakistan		2,264,991	1,034,749
- Payable outside Pakistan		340,662	131,020
		2,605,653	1,165,769
Advances - gross		38,380,915	35,245,477
Provision against non-performing loans and advances			
- Specific provision	12.5	(7,283,178)	(5,845,737)
- General provision	12.6	(8,057)	(13,066)
	12.7	(7,291,235)	(5,858,803)
Advances - net of provisions		31,089,680	29,386,674
12.1 Particulars of advances (Gross)			
12.1.1 In local currency		38,040,253	35,114,457
In foreign currencies		340,662	131,020
		38,380,915	35,245,477
12.1.2 Short-term (upto one year)		22,074,820	26,977,422
Long-term (over one year)		16,306,095	8,268,055
		38,380,915	35,245,477
12.2 Include following islamic financing facilities given by KASB Modaraba:			
Murabaha finance	12.2.1	573,788	554,715
Modaraba finance		135,114	84,523
Musharaka finance		120,863	81,265
Diminishing musharaka finance	12.2.2	479,824	283,796
		1,309,589	1,004,299
12.2.1 Murabaha finance			
Murabaha receivables - gross		697,772	688,332
Less: unearned income		(123,984)	(133,617)
		573,788	554,715
12.2.2 Diminishing musharaka finance			
Diminishing musharaka receivable-gross		577,785	346,704
Less: unearned income		(97,961)	(62,908)
		479,824	283,796

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12.3 Net investment in finance lease

	2012			2011		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
----- (Rupees in '000) -----						
Lease rentals receivable	677,990	216,409	894,399	662,821	221,061	883,882
Residual value	76,855	114,578	191,433	84,216	77,252	161,468
Minimum lease payments	754,845	330,987	1,085,832	747,037	298,313	1,045,350
Finance charges for future periods	(84,354)	(27,249)	(111,603)	(87,573)	(24,429)	(112,002)
Present value of minimum lease payments	670,491	303,738	974,229	659,464	273,884	933,348

12.4 Ijarah financing

	2012			
	Plant & Machinery	Motor vehicles	Computers and accessories	Total
----- (Rupees in '000) -----				
As at 31 December 2011				
Cost	72,597	28,365	952	101,914
Accumulated depreciation	(36,601)	(18,209)	(461)	(55,271)
Net book value	35,996	10,156	491	46,643
Additions during the year - at cost	10,196	28,542	463	39,201
Disposals during the year				
Cost	(20,319)	(9,365)	(35)	(29,719)
Accumulated depreciation	18,097	6,621	8	24,726
Depreciation charge for the year	(2,222)	(2,744)	(27)	(4,993)
	(12,815)	(10,752)	(314)	(23,881)
As at 31 December 2012				
Cost	62,474	47,542	1,380	111,396
Accumulated depreciation	(31,319)	(22,340)	(767)	(54,426)
Net book value	31,155	25,202	613	56,970
----- (Rupees in '000) -----				
2011				
	Plant & Machinery	Motor vehicles	Computers and accessories	Total
----- (Rupees in '000) -----				
As at 31 December 2010				
Cost	46,868	29,758	710	77,336
Accumulated depreciation	(19,543)	(11,878)	(232)	(31,653)
Net book value	27,325	17,880	478	45,683
Additions during the year - at cost	25,729	2,382	242	28,353
Disposals during the year				
Cost	-	(3,775)	-	(3,775)
Accumulated depreciation	-	1,668	-	1,668
Depreciation charge for the year	-	(2,107)	-	(2,107)
	(17,058)	(7,999)	(229)	(25,286)
As at 31 December 2011				
Cost	72,597	28,365	952	101,914
Accumulated depreciation	(36,601)	(18,209)	(461)	(55,271)
Net book value	35,996	10,156	491	46,643

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

12.5 Particulars of non-performing loans and advances

Advances include Rs 13,868.789 million (31 December 2011: Rs. 12,138.602 million) which have been placed under non-performing status as detailed below:

Category of classification	2012			Provision required	Provision held
	Domestic	Overseas	Total		
------(Rupees in '000)-----					
OAEM	31,042	-	31,042	-	-
Substandard	1,670,920	-	1,670,920	263,520	263,520
Doubtful	1,636,645	-	1,636,645	337,747	337,747
Loss	10,530,182	-	10,530,182	6,681,911	6,681,911
	<u>13,868,789</u>	<u>-</u>	<u>13,868,789</u>	<u>7,283,178</u>	<u>7,283,178</u>

Category of classification	2011			Provision required	Provision held
	Domestic	Overseas	Total		
------(Rupees in '000)-----					
Substandard	1,163,134	-	1,163,134	45,615	45,615
Doubtful	2,145,281	-	2,145,281	635,662	635,662
Loss	8,830,187	-	8,830,187	5,164,460	5,164,460
	<u>12,138,602</u>	<u>-</u>	<u>12,138,602</u>	<u>5,845,737</u>	<u>5,845,737</u>

12.6 General provision has been determined at the rate of 1.5% on fully secured regular portfolio of consumer loans and 5% on unsecured regular portfolio of consumer loans in accordance with the requirements of the Prudential Regulations.

12.7 Particulars of provision against non-performing advances

Note	2012			2011		
	Specific	General	Total	Specific	General	Total
------(Rupees in '000)-----						
Opening balance	5,845,737	13,066	5,858,803	5,290,696	20,234	5,310,930
Charge for the period	2,176,510	-	2,176,510	1,222,634	-	1,222,634
Reversals	(712,441)	(5,009)	(717,450)	(632,702)	(7,168)	(639,870)
Net charge	1,464,069	(5,009)	1,459,060	589,932	(7,168)	582,764
Transfers	-	-	-	188	-	188
Amounts written off	12.8 (26,628)	-	(26,628)	(35,079)	-	(35,079)
Closing balance	<u>7,283,178</u>	<u>8,057</u>	<u>7,291,235</u>	<u>5,845,737</u>	<u>13,066</u>	<u>5,858,803</u>

12.7.1 In terms of SBP directives, the Holding company has availed relaxation in respect of provisioning against non-performing advances of certain borrowers aggregating to Rs. 1,805.834 million (2011: Rs. 1,911.356 million). Had the provision been made as per the requirements of Prudential Regulations, the provision against non-performing advances and loss before taxation for the year would have been higher by Rs. 637.640 million (2011: Rs. 1,066.696 million).

12.7.2 The above provision against non-performing advances has been computed after considering the benefit of Forced Sale Value (FSV) of collaterals amounting to Rs. 2,578.140 million (2011: Rs. 2,672.294 million). The FSV benefit recognized is not allowed for distribution of cash or stock dividend to shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

12.7.3 Particulars of provision against non-performing loans and advances

	2012		2011	
	Specific	General	Specific	General
	----- (Rupees in '000) -----			
In local currency	7,283,178	8,057	5,845,737	13,066
In foreign currencies	-	-	-	-
	<u>7,283,178</u>	<u>8,057</u>	<u>5,845,737</u>	<u>13,066</u>

	Note	2012	2011
		(Rupees in '000)	
12.8 Particulars of write-offs			
12.8.1 Against provisions		26,628	35,079
Directly charged to the profit and loss account		4,458	7,987
		<u>31,086</u>	<u>43,066</u>
12.8.2 Write-offs of Rs 500,000/- and above	12.8.3	27,550	37,623
Write-offs of below Rs 500,000/-		3,536	5,443
		<u>31,086</u>	<u>43,066</u>

12.8.3 In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written off loans or any other financial relief of Rs.500,000 or above allowed to a person(s) during the year ended 31 December 2012 is given in Annexure - I to these consolidated financial statements. However, the write-off of loans does not affect the Group's right to recover the outstanding loans from these customers.

12.9 Particulars of loans and advances to executives, directors, associated companies, etc.

Debts due by directors, executives or officers of the Group or any of them either severally or jointly with any other persons

Balance at beginning of the year	779,917	801,337
Loans granted during the year	331,019	176,835
Repayments during the year	(213,947)	(198,255)
Balance at end of the year	<u>896,989</u>	<u>779,917</u>

Debts due by companies or firms in which the directors of the Group are interested as directors, partners or in the case of private companies as members

Balance at beginning of the year	-	388
Adjustment during the year	-	-
Loans granted during the year	-	-
Repayments during the year	-	(388)
Balance at end of the year	<u>-</u>	<u>-</u>

Debts due by associates and other related parties

Balance at beginning of the year	198,683	129,645
Loans granted during the year	229,324	242,783
Repayments during the year	(238,977)	(173,745)
Balance at end of the year	<u>189,030</u>	<u>198,683</u>

13. OPERATING FIXED ASSETS

Capital work-in-progress	13.1	811,032	1,186,172
Property and equipments	13.2	2,313,190	2,537,297
Intangible assets	13.3	579,737	643,045
		<u>3,703,959</u>	<u>4,366,514</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012	2011
(Rupees in '000)			
13.1 Capital work-in-progress			
Civil works		14,888	14,460
Equipment		-	-
Advances to suppliers and contractors		-	-
Advance for acquiring properties			
Office premises		1,096,904	1,108,641
Land		-	-
Computer software		60,192	63,071
		1,171,984	1,186,172
Provision for impairment against advance for acquiring floor / office premises	13.1.1	(360,952)	-
		<u>811,032</u>	<u>1,186,172</u>

13.1.1 Represents advance payment made by the Bank amounting to Rs. 721.903 million for the purchase of 4 floors in KASB Altitude against the aggregate purchase price of Rs. 947 million. The KASB Altitude is being developed/constructed by KASB Developers (Private) Limited (KDPL) and was expected to be completed in January 2012. Due to the suspension of the development / construction work at certain intervals during the past resulting from various reasons , the project is still under construction. In view of the said conditions, the management of the Bank is discussing various options with KDPL, however, as a matter of abundant caution, provision of Rs. 360.95 million has been made in these financial statements"

13.2 Property and equipment

	COST / REVALUATION						DEPRECIATION						BOOK VALUE		
	As at 1 January 2012	Revaluation	Reversal of accumulated depreciation	Additions	Deletions	Transfers	As at 31 December 2012	As at 1 January 2012	Adjustments	Charge for the year	Deletions	Transfers	As at 31 December 2012	As at 31 December 2012	Rate of depreciation (%)
------(Rupees in '000)-----															
Owned															
Freehold land	249,801	-	-	9,492	-	-	259,293	-	-	-	-	-	-	259,293	-
Leasehold land	139,532	-	-	-	-	-	139,532	-	-	-	-	-	-	139,532	-
Buildings and leasehold improvements	1,781,892	-	-	26,777	(1,891)	-	1,806,778	155,574	-	83,266	(143)	-	238,697	1,568,081	5
Furniture and fixtures	243,661	-	-	4,251	(4,458)	-	243,454	115,601	-	20,755	(2,871)	-	133,485	109,969	10
Motor vehicles	236,021	-	-	34,226	(214,088)	2,433	58,592	86,566	-	18,905	(84,247)	1,125	22,349	36,243	20
Electrical, office and computer equipment	1,066,384	-	-	82,964	(10,668)	7,153	1,145,833	824,886	-	121,975	(7,077)	4,412	944,196	201,637	20-33.33
	3,717,291	-	-	157,710	(231,105)	9,586	3,653,482	1,182,627	-	244,901	(94,338)	5,537	1,338,727	2,314,755	
Leased															
Motor vehicles	2,433	-	-	-	(2,433)	-	-	2,660	-	30	-	(1,125)	1,565	(1,565)	20
Electrical, office and computer equipment	7,153	-	-	-	(7,153)	-	-	4,293	-	119	-	(4,412)	-	-	20-33.33
	9,586	-	-	-	(9,586)	-	-	6,953	-	149	-	(5,537)	1,565	(1,565)	
2012	<u>3,726,877</u>	-	-	157,710	(240,691)	9,586	3,653,482	<u>1,189,580</u>	-	245,050	(94,338)	-	<u>1,340,292</u>	<u>2,313,190</u>	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	COST / REVALUATION						DEPRECIATION						BOOK VALUE		
	As at 1 January 2011	Revaluation	Reversal of accumulated depreciation	Additions	Deletions	Reclassifications	As at 31 December 2011	As at 1 January 2011	Adjustments	Charge for the year	Deletions	Reclassifications	As at 31 December 2011	As at 31 December 2011	Rate of depreciation (%)
------(Rupees in '000)-----															
Owned															
Freehold land	254,182	13,619	-	-	(18,000)	-	249,801	-	-	-	-	-	-	249,801	-
Leasehold land	166,804	7,728	-	-	(35,000)	-	139,532	-	-	-	-	-	-	139,532	-
Buildings and leasehold improvements	1,704,158	168,179	(157,922)	88,257	(20,780)	-	1,781,892	236,422	(157,922)	80,971	(3,897)	-	155,574	1,626,318	5
Furniture and fixtures	244,600	-	-	5,744	(6,692)	9	243,661	97,514	-	21,196	(3,116)	7	115,601	128,060	10
Motor vehicles	272,788	-	-	44,157	(80,924)	-	236,021	82,255	-	35,100	(30,789)	-	86,566	149,455	20
Electrical, office and computer equipment	1,015,793	-	-	52,006	(7,837)	6,422	1,066,384	694,017	-	133,530	(6,611)	3,950	824,886	241,498	20-33.33
	3,658,325	189,526	(157,922)	190,164	(169,233)	6,431	3,717,291	1,110,208	(157,922)	270,797	(44,413)	3,957	1,182,627	2,534,664	
Leased															
Motor vehicles	2,433	-	-	-	-	-	2,433	2,295	-	365	-	-	2,660	(227)	20
Electrical, office and computer equipment	7,153	-	-	-	-	-	7,153	2,862	-	1,431	-	-	4,293	2,860	20-33.33
	9,586	-	-	-	-	-	9,586	5,157	-	1,796	-	-	6,953	2,633	
2011	3,667,911	189,526	(157,922)	190,164	(169,233)	6,431	3,726,877	1,115,365	(157,922)	272,593	(44,413)	3,957	1,189,580	2,537,297	-

2012 **2011**
(Rupees in '000)

13.2.1 Carrying amount of temporarily idle properties

138,484 77,452

13.2.2 Cost of fully depreciated assets still in use

428,741 335,277

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

13.2.3 Details of disposals of property and equipment having original cost or book value exceeding one million rupees or two hundred and fifty thousand rupees respectively is as follows:

Particulars	Cost	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
(Rupees in '000)					
Vehicle	1,005	322	322	Terms of employment	Aurangzeb Khan - Ex-Employee
Vehicle	1,094	506	506	Terms of employment	Ashraf Kamdar - Ex-Employee
Vehicle	1,312	771	869	Terms of employment	Gauhar Aziz - Ex-Employee
Vehicle	1,374	1,271	1,322	Terms of employment	Younus Amir Sanjrani - Ex-Employee
Vehicle	1,100	456	483	Terms of employment	Syed Liaquat Saeed - Ex-Employee
Vehicle	1,049	433	446	Terms of employment	Syed Masud A Naqvi - Executive
Vehicle	1,270	937	968	Terms of employment	Rehan Riyaz Merchant - Ex-Employee
Vehicle	1,312	722	1,099	Terms of employment	Muzahir Rahim - Ex-Employee
Vehicle	1,232	816	972	Terms of employment	Ijaz Ahmed - Executive
Vehicle	1,328	266	265	Terms of employment	Mir Mujahid Ali Khan - Ex-Employee
Vehicle	1,370	365	1,200	Insurance claim	Adamjee Insurance Limited - Karachi
Vehicle	1,319	660	660	Terms of employment	Muhammad Iqbal - Executive
Vehicle	1,389	712	712	Terms of employment	Syed Murshid Ali - Executive
Vehicle	1,384	952	952	Terms of employment	Salman Raza - Executive
Vehicle	1,088	425	425	Terms of employment	Mirza Waqar Ahmed - Executive
Vehicle	1,506	301	301	Terms of employment	Waqar Ahmed Khan - Executive
Vehicle	1,060	437	437	Terms of employment	Muhammad Muzaffar Khan - Executive
Vehicle	1,490	1,322	1,322	Terms of employment	Rashid Zaman Khan - Executive
Vehicle	1,461	1,151	1,151	Terms of employment	Mudassar Aslam - Executive
Vehicle	1,089	436	436	Terms of employment	Asima Haider - Executive
Vehicle	1,100	427	427	Terms of employment	Fawad Yousuf - Ex-Employee
Vehicle	1,100	442	442	Terms of employment	S Munawar Masood Naqvi - Executive
Vehicle	1,270	905	905	Terms of employment	Imran Mirza Baig - Executive
Vehicle	1,000	425	425	Terms of employment	Ali Asghar Marvi - Executive
Vehicle	1,000	425	425	Terms of employment	Nilofer Ali - Executive
Vehicle	1,330	1,064	1,064	Terms of employment	Mahmood Ul Hassan - Ex-Employee
Vehicle	1,560	1,521	1,521	Terms of employment	Iqbal Munshi - Executive
Vehicle	1,100	426	426	Terms of employment	Muhammad Rizwan - Executive
Vehicle	1,100	862	862	Terms of employment	Babar Mughal - Executive
Vehicle	1,232	847	847	Terms of employment	Malik Tehseen Khokhar - Executive
Vehicle	1,232	755	755	Terms of employment	Muhammad Ashraf Chaudhry - Executive
Vehicle	1,354	846	846	Terms of employment	Kashif Rehman Malik - Executive
Vehicle	1,419	1,366	1,366	Terms of employment	Sardar Sher Ali - Executive
Vehicle	1,014	393	393	Terms of employment	Huma Kamani - Executive
Vehicle	1,270	921	921	Terms of employment	Salman Ahmed - Executive
Vehicle	1,270	905	905	Terms of employment	Anil Henry - Executive
Vehicle	1,414	990	990	Terms of employment	Hamid Baloch - Executive
Vehicle	1,202	705	705	Terms of employment	Salman Hafeez - Executive
Vehicle	1,232	770	770	Terms of employment	Ahmed Yawar Khan - Ex-Employee
Vehicle	1,461	1,132	1,132	Terms of employment	Muhammad Aamir Ahmadani - Executive
Vehicle	2,070	1,837	1,837	Terms of employment	Syed Liaquat Ali - Executive
Vehicle	1,239	805	805	Terms of employment	Syed Zawwar Hussain - Executive
Vehicle	1,725	712	712	Terms of employment	Muhammad Muzaffar Khan - Executive
Vehicle	1,088	423	423	Terms of employment	Anjum Amin Siddiqui - Ex-Employee
Vehicle	1,252	861	861	Terms of employment	Shahzad Nazir Khan - Executive
Vehicle	2,163	2,109	2,109	Terms of employment	Salman Naqvi - Executive
Vehicle	1,232	801	801	Terms of employment	Azhar Mahmood - Executive
Vehicle	1,239	821	821	Terms of employment	Ali Sabih Hameed - Executive
Vehicle	1,384	865	865	Terms of employment	Ashfaq Ahmed Tareen - Executive
Vehicle	1,374	1,219	1,219	Terms of employment	Muhammad Ali - Executive
Vehicle	1,970	1,502	1,502	Terms of employment	Tahir Ayub - Executive
Vehicle	2,163	2,082	2,082	Terms of employment	Abid Aziz Merchant - Executive
Vehicle	2,070	1,837	1,837	Terms of employment	Raza Bande Ali - Executive
Vehicle	1,209	665	665	Terms of employment	Javed Akhter - Executive
Vehicle	1,935	1,403	1,403	Terms of employment	Shaban Butt - Executive
Vehicle	1,060	464	464	Terms of employment	Munawar Jaffrani - Executive
Vehicle	1,879	1,292	1,292	Terms of employment	Faisal Anwar - Executive
Vehicle	1,347	1,212	1,212	Terms of employment	Adeel Ishaq Sair - Executive
Vehicle	1,401	1,051	1,051	Terms of employment	Muhammad Tariq Mirza - Executive

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

Particulars	Cost	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
(Rupees in '000)					
Vehicle	1,354	812	812	Terms of employment	Syed Faid Hussain - Executive
Vehicle	1,775	799	799	Terms of employment	Muhammad Hamidullah - Executive
Vehicle	2,163	2,082	2,082	Terms of employment	Farooq Ahmed Khan - Executive
Vehicle	1,202	721	721	Terms of employment	Wajahat Hussain - Executive
Vehicle	1,232	770	770	Terms of employment	Mazhar Alam Baig - Executive
Vehicle	1,263	916	916	Terms of employment	Saima Sardar - Executive
Vehicle	1,503	1,334	1,334	Terms of employment	M Asim Yaqub - Executive
Vehicle	1,389	712	712	Terms of employment	Aziz Ahmed Malik - Executive
Vehicle	1,503	1,334	1,334	Terms of employment	Ali Muhammad Khan - Executive
Vehicle	1,510	1,359	1,359	Terms of employment	Saulat Qadri - Executive
Vehicle	1,399	1,294	1,294	Terms of employment	Ali Imam - Executive
Vehicle	1,374	1,237	1,237	Terms of employment	M Hanif Awan - Executive
Vehicle	1,202	691	691	Terms of employment	Naveed Ashraf - Executive
Vehicle	1,202	676	676	Terms of employment	Haris Ijaz - Executive
Vehicle	2,089	1,880	1,880	Terms of employment	Munir Saleem - Ex-Employee
Renovation	1,441	1,249	1,990	Insurance claim	Adamjee Insurance Limited - Karachi
Vehicle	1,426	1,034	1,034	Terms of employment	Shaban Butt - Executive
Vehicle	2,133	2,053	2,053	Terms of employment	S Masud Naqvi - Executive
Vehicle	1,907	1,134	1,134	Negotiation	Syed M. Husaini
Vehicle	1,561	1,140	1,410	Negotiation	Fetah Motors
	<u>110,320</u>	<u>74,576</u>	<u>77,174</u>		

13.3 Intangible assets

	COST			AMORTISATION			BOOK VALUE		Rate of amortisation (%)	
	As at 1 January 2012	Additions	Adjustment	As at 31 December 2012	As at 1 January 2012	Amortisation	Adjustment	As at 31 December 2012		
(Rupees in '000)										
Computer software	235,215	17,199	(17,640)	234,774	197,370	28,386	-	225,756	9,018	33.33 & 20
Customer list	30,735	-	-	30,735	12,632	3,074	-	15,706	15,029	10
Foreign affiliate relationship (note 15.3.1)	438,190	-	-	438,190	37,971	-	-	37,971	400,219	indefinite useful life
Contracts and mandates	89,353	-	-	89,353	89,353	-	-	89,353	-	-
Membership cards of KSE and NCEL (see note 13.3.2)	73,250	-	-	73,250	11,250	-	-	11,250	62,000	indefinite useful life
Rooms at KSE	37,500	-	-	37,500	7,500	-	-	7,500	30,000	indefinite useful life
Booths at KSE	3,000	-	-	3,000	500	-	-	500	2,500	indefinite useful life
Management rights	45,796	-	(17,202)	28,594	-	-	-	-	28,594	indefinite useful life
Brands	22,084	-	-	22,084	-	-	-	-	22,084	indefinite useful life
Customer relationships	63,929	-	-	63,929	42,617	14,205	-	56,822	7,107	22.22
Research intangibles	3,186	-	-	3,186	-	-	-	-	3,186	indefinite useful life
Total	<u>1,042,238</u>	<u>17,199</u>	<u>(34,842)</u>	<u>1,024,595</u>	<u>399,193</u>	<u>45,665</u>	<u>-</u>	<u>444,858</u>	<u>579,737</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	COST			AMORTISATION				BOOK VALUE		Rate of amortisation (%)
	As at 1 January 2011	Additions	Reclassifications	As at 31 December 2011	As at 1 January 2011	Amortisation	Reclassifications	As at 31 December 2011	As at 31 December 2011	
------(Rupees in '000)-----										
Computer software	210,231	21,484	3,500	235,215	144,468	49,733	3,169	197,370	37,845	33.33 & 20
Customer list	30,735	-	-	30,735	9,559	3,073	-	12,632	18,103	10
Foreign affiliate relationship (note 15.3.1)	438,190	-	-	438,190	-	37,971	-	37,971	400,219	indefinite useful life
Contracts and mandates	89,353	-	-	89,353	89,353	-	-	89,353	-	note 13.3.1
Membership cards of KSE and NCEL	73,250	-	-	73,250	11,250	-	-	11,250	62,000	indefinite useful life
Rooms at KSE	37,500	-	-	37,500	7,500	-	-	7,500	30,000	indefinite useful life
Booths at KSE	3,000	-	-	3,000	500	-	-	500	2,500	indefinite useful life
Management rights (note 1.2)	28,513	-	17,283	45,796	-	-	-	-	45,796	indefinite useful life
Brands	22,084	-	-	22,084	-	-	-	-	22,084	indefinite useful life
Customer relationships	63,929	-	-	63,929	28,412	14,205	-	42,617	21,312	22.22
Research intangibles	3,186	-	-	3,186	-	-	-	-	3,186	indefinite useful life
Total	999,971	21,484	20,783	1,042,238	291,042	104,982	3,169	399,193	643,045	

2012 **2011**
Note **(Rupees in '000)**

13.3.1 Cost of fully amortised assets still in use 140,103 53,610

13.3.2 In accordance with the requirements of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 (The Act), KASB Securities Limited (the Subsidiary company) has received equity shares of Karachi Stock Exchange (KSE) and a Trading Right Entitlement (TRE) in lieu of its membership card of KSE. The Subsidiary company's entitlement in respect of KSE's shares is determined on the basis of valuation of assets and liabilities of KSE as approved by the SECP and the Subsidiary company has been allotted 4,007,383 shares of the face value of Rs 10/- each, out of which 2,404,430 shares are kept in the blocked account and the divestment of the same will be made in accordance with the requirements of the Act within two years from the date of Demutualization. The allocation of the carrying value of the composite asset (KSE shares and TRE) will be made in the due course based on the recommendation of the Professional Standards and Technical Committee of the Institute of Chartered Accountants of Pakistan.

14. DEFERRED TAX ASSETS - NET

Deductible temporary differences arising in respect of:			
Carry forward tax losses	14.2	3,252,612	3,202,228
Provision against non-performing loans and advances		1,898,646	1,554,244
Impairment of goodwill		64,540	86,898
Provision for diminution in the value of investments		120,345	82,610
Deficit on revaluation of available for sale investments		-	12,716
Provision for gratuity		46,737	34,542
Provision for compensated absences		-	2,037
Minimum tax		1,354	2,132
Other provisions		176,492	7,311
		<u>5,560,726</u>	<u>4,984,718</u>
Taxable temporary differences arising in respect of:			
Surplus on revaluation of fixed assets		(196,495)	(211,483)
Accelerated tax depreciation		(84,692)	(131,643)
Deficit on revaluation of available for sale investments		(39,913)	-
Fair value adjustments on amalgamation		(561,219)	(692,682)
Net investment in finance leases		(79,014)	(85,227)
Liabilities against assets subject to finance lease		-	(942)
		<u>(961,333)</u>	<u>(1,121,977)</u>
	14.1	<u>4,599,393</u>	<u>3,862,741</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

14.1 The above deferred tax asset has been recognised in these consolidated financial statements as the management estimates that sufficient taxable profits will be available in future years against which the unused carry forward tax losses and other deductible temporary differences can be utilised. The estimates of future taxable profits are based on financial projections of the Group for the next five years approved by the Board. The projections involve certain key assumptions underlying the estimation of future taxable profits estimated including injection of fresh equity in the form of issuance of right shares and issue of a subordinated debt. The determination of future taxable profit is most sensitive to certain key assumptions such as cost to income ratio, deposit composition, interest rates, growth of deposits and advances, investment returns, potential provision against assets, branch expansion plan and maintainability of its major deposit relationships. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset. The management believes that it is probable that the Group will be able to achieve the profits projected in the financial projections and consequently the deferred tax asset will be fully realised in future years.

14.2 As of 31 December 2012, the Group has accumulated tax losses of Rs. 10,301.306 million (2011: Rs. 10,501.657 million). The deferred tax on such losses works out to Rs. 3,605.457 million, however the Group has recognised deferred tax asset on such losses to the extent of Rs. 3,312.450 million in line with the financial projections as referred to in note 14.1 above.

	Note	2012	2011
(Rupees in '000)			
15. OTHER ASSETS			
Mark-up / return / interest accrued in local currency		902,748	954,767
Advances, deposits and prepayments		355,636	235,456
Taxation (payments less provisions)		39,706	81,144
Stationery and stamps in hand		10,709	10,435
Non-banking assets acquired in satisfaction of claims	15.1	1,255,765	810,625
Branch adjustment account		289	818
Trade debts	15.2	312,589	234,294
Goodwill - net of impairment	15.3	623,860	1,022,583
Receivable against sale of securities		8,795	-
Dividend receivable		1,185	75
Assets held for sale		-	86,490
Commission receivable		124,416	81,228
Lease rental receivable		35,544	22,752
Others		101,252	85,536
		<u>3,772,494</u>	<u>3,626,203</u>
Provision held against other assets		(15,936)	(15,936)
Other assets - net of provision		<u>3,756,558</u>	<u>3,610,267</u>
15.1 Represent commercial and residential properties acquired by the Holding Company in satisfaction of borrowers liabilities. The market value of these assets as per the latest valuation carried out by independent valuer amounted to Rs. 1,521.420 million (2011: Rs. 1,025.252 million).			
15.2 Trade debts			
Considered good		255,695	196,420
Considered doubtful		<u>172,789</u>	<u>187,223</u>
		428,484	383,643
Less: Provision for doubtful trade debts	15.2.1	(115,895)	(149,349)
Closing balance		<u>312,589</u>	<u>234,294</u>
15.2.1 Reconciliation of provision against trade debts			
Opening balance		149,349	129,817
Provision for the year		-	20,519
Reversal of provision during the year		<u>(33,454)</u>	<u>(987)</u>
		(33,454)	19,532
Closing balance		<u>115,895</u>	<u>149,349</u>
15.3 Goodwill			
Goodwill recognised on acquisition of:			
International Housing Finance Limited		35,362	35,362
KASB Capital Limited and its subsidiaries		<u>2,077,658</u>	<u>2,077,658</u>
		2,113,020	2,113,020
Less: accumulated impairment of goodwill		(1,360,011)	(1,090,437)
Less: reversal of goodwill of KASB Funds Limited (former subsidiary)	11.3.3 & 30.1	(129,149)	-
		<u>623,860</u>	<u>1,022,583</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

- 15.3.1** During the year, the management has carried out annual impairment tests in respect of goodwill and intangible assets having indefinite useful lives as required by IAS - 36 "Impairments of Assets". Goodwill and foreign affiliate relationship (note 13.3) were allocated to the Investment Banking Group, a CGU. Based on the impairment testing, the management estimated that an additional provision of Rs. 269.574 million was required in respect of goodwill, which accordingly, has been made in the financial statements.

The recoverable amount of the CGU has been determined using discounted cash flow methodology, covering cash flow projections for a period of 5 years, using a pre-tax discount rate of 22.6% per annum. Management believes that the assumptions used in estimating the future performance of the CGU are consistent with past performance, market position, deals in hand and anticipated market conditions. The growth rate used to extrapolate the cash flows beyond the five year period is 8%.

The calculation of value in use is most sensitive to the following assumptions:

Discount rate

Discount rate reflects management estimates of the rate of return of the CGU and is calculated using Capital Asset Pricing Model.

Terminal growth rate

Terminal growth rate is based on long term nominal growth of the economy from published data and management estimates.

Key business assumptions

These assumptions underlying the projected cash flows of the CGU are based on the industry and economic data to assess the overall current and projected economic scenario, anticipated transaction activity, market position of the unit and relationship with the foreign affiliates and transaction mandates going forward in addition to deals in hand thereby increasing revenues while maintaining margins.

	Note	2012 (Rupees in '000)	2011
16. BILLS PAYABLE			
In Pakistan		877,827	891,579
17. BORROWINGS			
In Pakistan		21,224,632	3,330,119
Outside Pakistan		20,717	1,277,086
		<u>21,245,349</u>	<u>4,607,205</u>
17.1 Particulars of borrowings with respect to currencies			
In local currency		21,224,632	3,330,119
In foreign currencies		20,717	1,277,086
		<u>21,245,349</u>	<u>4,607,205</u>
17.2 Details of borrowings			
Secured			
Borrowing from the State Bank of Pakistan			
- under export refinance scheme	17.2.1	2,746,247	2,966,352
- Long term financing for export oriented projects	17.2.2	17,554	71,227
- Long term financing for imported and locally manufactured plant and machinery	17.2.3	56,538	87,410
		<u>2,820,339</u>	<u>3,124,989</u>
Repurchase agreement borrowings	17.2.4	18,383,078	-
Borrowings from banks and financial institutions	17.2.5	21,215	205,130
		<u>21,224,632</u>	<u>3,330,119</u>
Unsecured			
FCY borrowings		-	-
Call money borrowings	17.2.6	-	697,151
Overdrawn nostro accounts		20,717	579,935
		<u>20,717</u>	<u>1,277,086</u>
		<u>21,245,349</u>	<u>4,607,205</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

- 17.2.1** These carry mark-up rates ranging from 8.5% to 10% (2011: 10%) per annum with maturities up to June 2013.
- 17.2.2** These carry mark-up rate of 5% (2011: 5%) per annum with maturities upto July 2013.
- 17.2.3** These carry markup rates ranging from 6.5% to 7.2% (2011: 6.5% to 7.2%) per annum with maturities upto December 2014.
- 17.2.4** These carry mark-up rates of 8.88% per annum with maturities upto January 2013.
- 17.2.5** These carry mark-up rates ranging from 1.5% to 6.31% (2011: 1.5% to 6.69%) per annum with maturities upto September 2013.
- 17.2.6** These carry mark-up rate of Nil (2011: 1.25%) per annum.

2012 **2011**
(Rupees in '000)

18. DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits	13,984,688	21,124,548
Savings deposits	17,456,233	17,981,429
Certificates of Musharaka	1,114,140	791,370
Current accounts - Non-remunerative	29,469,643	21,183,006
Margin deposits - Non-remunerative	401,932	561,696
	<u>62,426,636</u>	<u>61,642,049</u>

Financial Institutions

Remunerative deposits	161,670	333,874
Non-remunerative deposits	11,752	17,681
	<u>173,422</u>	<u>351,555</u>
	<u>62,600,058</u>	<u>61,993,604</u>

18.1 Particulars of deposits

In local currency	60,088,379	45,905,027
In foreign currencies	2,511,679	16,088,577
	<u>62,600,058</u>	<u>61,993,604</u>

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2012			2011		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	------(Rupees in '000)-----					
Not later than one year	-	-	-	1,510	-	1,510
Later than one year and						
Not later than five years	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,510</u>	<u>-</u>	<u>1,510</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

20. OTHER LIABILITIES	Note	2012 (Rupees in '000)	2011
Mark-up / return / interest payable in local currency		518,961	711,657
Mark-up / return / interest payable in foreign currencies		987	2,340
Advance against leases		1,490	550
Advance from customers		-	389
Accrued expenses		320,530	211,540
Security deposit against lease		209,950	178,041
Security deposit		235	343
Provision for compensated absences		-	5,820
Provision for gratuity	36	134,518	99,344
Taxation (payments less provisions)		-	-
Unclaimed dividends		2,895	2,523
Unclaimed commission income		78,404	34,528
Unrealised loss on forward foreign exchange contracts		391,078	68,940
Withholding tax payable		14,240	12,960
Federal Excise Duty payable		6,203	5,650
Trade creditors		526,307	477,699
Others		320,976	357,664
		<u>2,526,774</u>	<u>2,169,988</u>

21. SHARE CAPITAL

Authorised capital

2012 (Number of shares)	2011	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
<u>2,500,000,000</u>	<u>2,500,000,000</u>	Ordinary shares of Rs. 10/- each	<u>25,000,000</u>	<u>25,000,000</u>

Issued, subscribed and paid-up capital

2012	2011	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
		Ordinary shares of Rs. 10/- each		
1,263,642,172	1,263,642,172	Issued for cash	12,636,422	12,636,422
207,809,549	207,809,549	Issued as bonus shares	2,078,095	2,078,095
518,141,783	518,141,783	Issued on amalgamations for consideration other than cash	5,181,418	5,181,418
<u>(38,731,842)</u>	<u>(38,731,842)</u>	Cancelled shares	<u>(387,318)</u>	<u>(387,318)</u>
<u>1,950,861,662</u>	<u>1,950,861,662</u>		<u>19,508,617</u>	<u>19,508,617</u>

2012
(Rupees in '000)

21.1 Represents shares issued on amalgamations as follows:

International Housing Finance Limited	585,000	585,000
KASB & Company	890,019	890,019
KASB Capital Limited	3,617,975	3,617,975
KASB Leasing	88,349	88,349
Network Leasing Corporation Limited	74	74
	<u>5,181,417</u>	<u>5,181,417</u>

21.2 As of 31 December 2012, ordinary shares of Rs. 10/- each were held by the parent company, associated company and other related parties of the Holding Company as under :

Parent Company	<u>1,631,302,898</u>	<u>1,166,807,649</u>
Associated companies	<u>19,858,649</u>	<u>19,858,649</u>
Other related parties	<u>15,894</u>	<u>464,603,330</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012 (Rupees in '000)	2011
22. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX			
Operating fixed assets	22.1	556,719	584,557
Available for sale investments	22.2	100,902	(19,171)
Share of surplus of associates classified as available for sale accounted for by the equity method	11.13	7,602	22,273
		<u>665,223</u>	<u>587,659</u>
22.1 Operating fixed assets			
Balance at the beginning of the year		796,040	644,318
Surplus during the year upon revaluation of land and buildings	13.2	-	189,526
Transferred to accumulated loss in respect of incremental depreciation charged during the year		(42,826)	(37,804)
		<u>753,214</u>	<u>796,040</u>
Related deferred tax liability			
Balance at the beginning of the year		211,483	221,403
Surplus during the year upon revaluation of land and buildings		-	3,589
Transferred to accumulated loss in respect of incremental depreciation charged during the year		(14,988)	(13,509)
		<u>196,495</u>	<u>211,483</u>
		<u>556,719</u>	<u>584,557</u>
22.2 Available for sale investments			
Federal Government Securities		108,034	(23,342)
Ordinary shares of listed companies		27,010	5,773
Listed Term Finance Certificates		5,771	(14,318)
		140,815	(31,887)
Related deferred tax asset		(39,913)	12,716
		<u>100,902</u>	<u>(19,171)</u>
23. CONTINGENCIES AND COMMITMENTS			
23.1 Transaction-related contingent liabilities			
Includes performance bonds, bid bonds, warranties advance payment guarantees and shipping guarantees related to particular transactions issued in favour of:			
Government		9,408,993	8,089,482
Others		3,884,513	1,960,594
		<u>13,293,506</u>	<u>10,050,076</u>
23.2 Trade-related contingent liabilities			
Letters of credit		8,345,144	8,684,795
Acceptances		2,154,419	2,803,140
		<u>10,499,563</u>	<u>11,487,935</u>

23.3 Taxation

- (i) The income tax returns of the Holding company have been filed and tax assessments have been made by the tax authorities upto and including the tax year 2012.

For tax years 2003 and 2004, the Commissioner Income Tax Appeals (CIT Appeals) has passed appellate orders on account of certain disallowances in respect of income from carry over transactions, provision against non performing advances, bad debts and certain other items having an aggregate tax impact of Rs. 33.748 million (2011: Rs. 33.748 million). The Holding company has preferred appeal before Income Tax Appellate Tribunal (ITAT) against the above referred orders of the CIT Appeals.

For tax years 2005 to 2009, the assessments of the Holding company have been amended by the Taxation Officer by disallowing certain expenses / deductions including income from carry over transactions, provision for non performing advances, concessional loans to employees, amortisation of goodwill and impairment of investments having an aggregate tax impact of Rs. 757.487 million (2011: Rs. 757.487 million). The Holding company has preferred appeals before the CIT Appeals against the above referred amendments of the Taxation Officer.

Income tax assessments of IHFL (amalgamated into the Holding company during the year ended 31 December 2007) for tax years 2005 and 2006 have also been amended by the Taxation Officer by disallowing certain deductions including income from carry over transactions, gain on sale of investments, provision for doubtful debts and certain other items having an aggregate tax impact of Rs. 25.881 million (2011: Rs. 25.881 million). The Holding company has preferred appeals before the CIT Appeals and ITAT for tax year 2005 and 2006 respectively against the above referred disallowances.

The aggregate financial impact of the above matters works out to be Rs. 817.116 million (2011: Rs. 817.116 million). The management, based on the opinion of its tax advisor, expects a favourable outcome of the above tax matters, however, as a matter of prudence, tax impact to the extent of Rs. 513.396 million (2011: Rs. 513.396 million) has been recognised in these financial statements by reducing the related deferred tax asset.

- (ii) The income tax returns of the Holding company for Azad Jammu Kashmir (AJK) region have been filed and tax assessments have been made by the tax authorities upto and including tax year 2012.

For tax years 2003, 2004, 2005 and 2006 the income tax authorities of AJK region has passed appellate orders by adding interest on surplus funds transferred to head office, resulting in an additional tax demand of Rs. 23.994 million (2011: Rs. 11.172 million). The Holding company has filed reference with the Azad Kashmir High Court against such additions for tax years 2003 and 2004. For tax year 2005, the Holding company's appeal is pending before the Commissioner Income Tax (Appeals) - AJK.

The management, based on the opinion of its tax advisor, is confident about the favourable outcome of the above matters and consequently no additional provision has been considered necessary in these financial statements.

23.4 Commitments in respect of commodity futures / forward exchange contracts

	2012	2011
	(Rupees in '000)	
Purchase	29,116,581	11,445,273
Sale	28,952,563	6,541,997
23.5 Commitments for the acquisition of operating fixed assets	<u>276,598</u>	<u>270,067</u>

23.6 Commitment to extend credits

The Holding Company makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

24. DERIVATIVE FINANCIAL INSTRUMENTS

The Holding company deals in derivative financial instruments namely forward foreign exchange contracts and foreign currency swaps with the principal view of hedging the risks arising from its trade business. As per the Holding Company's policy, these contracts are reported on their fair value at the statement of financial position date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Unrealized gains and losses on these contracts are recorded on the statement of financial position under "other assets / other liabilities". These products are offered to the Holding Company's customers to protect from unfavourable movements in foreign currencies. The Holding Company hedges such exposures in the inter-bank foreign exchange market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	2012	2011
	(Rupees in '000)	
25. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances		
Customers	3,300,497	3,370,681
Financial Institutions	7,194	6,180
	<u>3,307,691</u>	<u>3,376,861</u>
On investments :		
Available for sale securities	3,102,613	1,188,481
Held to maturity securities	41,272	59,853
	<u>3,143,885</u>	<u>1,248,334</u>
On deposits with financial institutions	44,121	32,636
On securities purchased under resale agreements	99,072	51,092
On listed equity securities purchased under resale agreements	-	2,965
	<u>6,594,769</u>	<u>4,711,888</u>
26. MARK-UP/ RETURN / INTEREST EXPENSED		
Deposits	3,466,254	4,417,957
Borrowing from the SBP	254,088	351,454
Securities sold under repurchase agreements	491,759	175,416
Call borrowings	55	157,519
Other Borrowings	7,389	2,759
Long term borrowings	11,255	64,063
Amortisation of premium on securities	21,211	27,240
	<u>4,252,011</u>	<u>5,196,408</u>
27. GAIN / (LOSS) ON SALE / REDEMPTION OF SECURITIES		
Federal Government securities	12,405	162,705
Term finance certificates	13,880	-
Open-end mutual funds	(4,449)	(28,977)
Ordinary shares of listed companies	34,000	(14,579)
	<u>55,836</u>	<u>119,149</u>
28. OTHER INCOME		
Gain on disposal of fixed assets	7,952	-
Gain on acquisition	-	20,317
Rent on property	5,371	4,806
Revenue from rendering technology services	35,065	28,644
Rent on lockers	4,792	4,842
Processing fee and cheque return charges	23,715	26,303
Prepayment penalty charged to borrowers	260	345
Bank charges against consumer loans	15,743	16,093
Recovery from impaired loans	2,807	-
Renewal of credit charges	8,938	-
Insurance claims, stamp charges	4,177	6,341
Miscellaneous earnings	19,599	17,267
	<u>128,419</u>	<u>124,958</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	Note	2012	2011
29. ADMINISTRATIVE EXPENSES		(Rupees in '000)	
Salaries, allowances and other benefits		1,469,017	1,234,989
Charge in respect of defined benefit gratuity scheme		55,282	12,371
Contribution to defined contribution plan		38,725	34,903
Rent, taxes, insurance and electricity		514,212	456,501
Legal and professional charges		70,053	63,889
Communication charges		156,624	159,651
Repairs and maintenance		138,631	115,785
Finance charge on lease obligations		-	34
Stationery and printing		57,602	45,019
Advertisement and publicity		97,105	82,946
Depreciation		244,906	272,593
Amortisation		45,665	104,982
Auditors' remuneration	29.1	19,113	13,228
Vehicle running expenses		10,223	7,774
Brokerage and commission		23,554	7,151
Security charges		69,862	61,003
Fee and subscription		62,193	62,382
Entertainment		23,567	16,660
Travelling expenses		36,265	20,894
Donations	29.2	2,072	1,480
Others		7,576	29,067
		3,142,427	2,803,302
29.1 Auditors' remuneration			
Audit fee		4,171	4,046
Fee for half yearly review		1,285	1,085
Special certifications and sundry services		12,350	7,735
Out-of-pocket expenses		1,307	362
		19,113	13,228
29.2	None of the directors or their spouses had any interest in the donees. The details of the donations paid in excess of Rs. 100,000/- during the year are as under:		
KASB Foundation (Flood Relief)		2,040	1,410
		2,040	1,410
30. OTHER CHARGES			
Impairment on goodwill	15.3.1	269,574	227,134
Impairment against advance for acquiring floor / office premises	13.1.1	360,952	-
'(Reversal of penalties) / penalties imposed by the SBP		(10,618)	47,855
Loss on derecognition of net assets of KASB Funds Limited	30.1	116,717	-
Loss on sale of fixed assets - net		12,840	13,552
Others		2,338	2,071
		751,803	290,612
30.1	As fully explained in note 11.3.3, the Holding Company has derecognised net assets amounting to Rs. 250.636 (including goodwill of Rs. 129.149 million) and non-controlling interest of Rs. 71.863 million of KASB Funds Limited (former subsidiary) at the date when the control over the former subsidiary was lost. Further, the Holding Company recognised its investment in the former subsidiary at fair value at the same date amounting to Rs. 62.056 million. The above resulted in a net loss of Rs. 116.717 million which is recognised in these consolidated financial statements.		
31. TAXATION			
For the year			
- Current		45,207	9,228
- Deferred		(836,029)	(635,717)
		(790,822)	(626,489)
For the prior years			
- Current		-	4,568
- Deferred		-	-
		(790,822)	(621,921)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Note	2012	2011
(Rupees in '000)			
32. BASIC AND DILUTED LOSS PER SHARE			
Loss for the year after taxation attributable to equity holders of the Holding Company		(805,600)	(2,509,621)
Number of shares			
Weighted average number of ordinary shares		1,950,861,662	1,002,916,457
(Rupees)			
Basic and diluted loss per share		(0.41)	(2.50)
33. CASH AND CASH EQUIVALENTS			
(Rupees in '000)			
Cash and balances with treasury banks	8	4,766,966	4,822,751
Balances with other banks	9	2,039,237	10,930,425
Overdrawn nostro accounts	17.2	(20,717)	(579,935)
		<u>6,785,486</u>	<u>15,173,241</u>
34. STAFF STRENGTH			
Number of employees			
Permanent		1,341	1,288
Temporary / on contractual basis		96	63
Group's own staff strength at the end of the year		<u>1,437</u>	<u>1,351</u>
Outsourced		438	447
Total staff strength		<u>1,875</u>	<u>1,798</u>
35. DEFINED CONTRIBUTION PLAN			
The general description of the defined contribution plan is included in note 5.16			
36. DEFINED BENEFIT SCHEME			
The Group operates approved unfunded gratuity scheme for all its permanent employees. Latest actuarial valuation of the gratuity scheme was carried out as at 31 December 2012 using the Projected Unit Credit Method. The following significant assumptions were used for the valuation of the scheme:			
		Holding Company	Subsidiary
		2012	2011
		2012	2011
		----- % -----	
Discount rate		11.5	12.5
Expected rate of salary increase - short term		8.0	8.0
Expected rate of salary increase - long term		11.5	12.5
		----- (Rupees in '000) -----	
36.1 Movement in liability			
Opening balance		98,691	110,710
Charge for the year		55,282	12,371
Payments made during the year		(20,439)	(24,390)
Closing balance		<u>133,534</u>	<u>98,691</u>
		<u>984</u>	<u>420</u>
36.2 Charge for the year			
Current service cost		35,891	37,423
Interest cost		11,059	13,792
Actuarial loss recognised		8,332	(38,844)
		<u>55,282</u>	<u>12,371</u>
		<u>407</u>	<u>238</u>
		<u>233</u>	<u>54</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	Holding Company		Subsidiary	
	2012	2011	2012	2011
----- (Rupees in '000) -----				
36.3 Movement in present value of defined benefit obligations				
Opening balance	98,691	110,710	653	420
Current service cost	35,891	37,423	300	238
Interest cost	11,059	13,792	109	54
Benefits paid	(20,439)	(24,390)	(76)	-
Actuarial loss recognised	8,332	(38,844)	(2)	(59)
Closing balance	<u>133,534</u>	<u>98,691</u>	<u>984</u>	<u>653</u>

36.4 Historical information

	2012	2011	2010	2009	2008
----- (Rupees in '000) -----					
Present value of obligations	<u>134,518</u>	<u>99,344</u>	<u>111,130</u>	<u>91,276</u>	<u>74,706</u>

36.5 Based on actuarial advice, the management estimates that the charge to defined benefit scheme for the year ending 31 December 2013 would be Rs. 50.383 million.

37. COMPENSATION OF DIRECTORS AND EXECUTIVES OF THE GROUP

The aggregate amounts charged in the consolidated financial statements for remuneration, including all benefits to the Chief Executive, Directors and Executives of the Group are as follows:

	Chief Executive		Directors		Executives	
	2012	2011	2012	2011	2012	2011
----- (Rupees in '000) -----						
Managerial remuneration	7,926	12,118	11,599	11,600	423,457	365,845
Severance package to Ex-Chief Executive	29,559	-	-	-	-	-
Contribution to defined contribution plan	1,404	1,062	966	966	23,938	23,241
Contribution to defined benefit scheme	-	-	2,701	623	41,616	18,305
Rent and house maintenance	11,245	3,635	3,479	3,480	123,958	113,579
Utilities	3,748	1,212	1,159	1,160	39,631	34,666
Medical	3,748	1,212	1,160	1,160	37,933	31,553
Others	4,410	1,228	980	780	118,917	77,409
	<u>62,040 *</u>	<u>20,467</u>	<u>22,044</u>	<u>19,769</u>	<u>809,450</u>	<u>664,598</u>
Number of persons	<u>2 *</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>398</u>	<u>404</u>

* Include remuneration of Ex-Chief Executive of the Bank.

37.1 Fee paid to non-executive directors for attending the Board meetings amounts to Rs. 7.920 million (2011: Rs. 11.730 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2012		2011	
	Book value	Fair value	Book value	Fair value
----- (Rupees in '000) -----				
On-balance sheet financial instruments				
Assets				
Cash and balances with treasury banks	4,766,966	4,766,966	4,822,751	4,822,751
Balances with other banks	2,039,237	2,039,237	10,930,425	10,930,425
Lendings to financial institutions	352,947	352,947	622,683	622,683
Investments	39,968,886	39,949,457	15,588,703	15,531,438
Advances	31,089,680	31,089,680	29,386,674	29,386,674
Other assets	3,756,558	3,756,558	3,610,267	3,610,267
	<u>81,974,274</u>	<u>81,954,845</u>	<u>64,961,503</u>	<u>64,904,238</u>
Liabilities				
Bills payable	877,827	877,827	891,579	891,579
Borrowings	21,245,349	21,245,349	4,607,205	4,607,205
Deposits and other accounts	62,600,058	62,600,058	61,993,604	61,993,604
Other liabilities	2,526,774	2,526,774	2,169,988	2,169,988
	<u>87,250,008</u>	<u>87,250,008</u>	<u>69,662,376</u>	<u>69,662,376</u>
Off-balance sheet financial instruments				
Forward purchase of foreign exchange contracts	<u>29,116,581</u>	<u>28,008,520</u>	<u>11,445,273</u>	<u>11,416,569</u>
Forward sale of foreign exchange contracts	<u>28,952,563</u>	<u>28,236,618</u>	<u>6,541,997</u>	<u>6,576,421</u>

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Fair value of financial instruments is based on:

Federal Government Securities	PKRV rates
Listed securities	Market prices
Mutual funds	Net asset values
Unlisted equity investments	Break-up value as per latest available statements / discounted cash flow valuation

Fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities. The provision for impairment of loans and advances and debt securities has been calculated in accordance with the Holding Company's accounting policies as stated in note 6.2 and 6.3.

39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activities of the Group is as follows:

2012	Asset Management	Commercial banking	Retail banking	Trading and sales / brokerage	Corporate finance	Total
----- (Rupees in '000) -----						
Total income	47,709	3,769,064	89,073	3,797,491	345,911	8,049,248
Total expenses	(45,336)	(7,536,992)	(153,919)	(1,106,497)	(803,372)	(9,646,116)
Profit / (loss) before taxation	<u>2,373</u>	<u>(3,767,928)</u>	<u>(64,846)</u>	<u>2,690,994</u>	<u>(457,461)</u>	<u>(1,596,868)</u>
Segment assets (gross)	-	53,941,171	1,687,889	41,835,171	1,446,152	98,910,383
Segment non-performing loans	-	13,119,783	748,286	-	720	13,868,789
Segment provision required	-	7,177,151	490,251	964,634	720	8,632,756
Segment liabilities	-	64,612,821	994,394	20,423,110	1,219,682	87,250,007
----- % -----						
Segment return on assets	-	(7)	(4)	6	(32)	
Segment cost of funds	-	8	11	2	11	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

2011	Asset Management	Commercial banking	Retail banking	Trading and sales / brokerage	Corporate finance	Total
----- (Rupees in '000) -----						
Total income	70,774	5,009,208	6,402	391,397	189,157	5,666,938
Total expenses	(77,369)	(7,816,351)	(150,346)	(461,340)	(307,758)	(8,813,164)
Loss before taxation	(6,595)	(2,807,143)	(143,944)	(69,943)	(118,601)	(3,146,226)
Segment assets (gross)	1,283,849	50,154,654	1,855,706	24,678,785	1,368,560	79,341,554
Segment non-performing loans	-	11,950,291	186,958	-	1,353	12,138,602
Segment provision required	-	5,245,954	627,818	276,057	967	6,150,796
Segment liabilities	169,901	66,593,050	542,224	1,503,429	855,282	69,663,886
----- % -----						
Segment return on assets	(1)	(6)	(8)	-	(9)	
Segment cost of funds	-	10	13	11	13	

40. TRUST ACTIVITIES

The Group is not engaged in any trust activities.

41. RELATED PARTY TRANSACTIONS

The management has determined related party relationships in accordance with approved accounting standards which include associates, retirement benefit funds, major share holders, directors and key management personnel and their close family members.

Transaction with related parties, other than those disclosed elsewhere in consolidated financial statements, are summarized as follows:

	2012				
	Associates	Directors	Key management personnel	Other related parties	Total
----- (Rupees in '000) -----					
Deposits					
As at 01 January 2012	208,764	4,486	18,280	179,553	411,083
Received during the year	3,874,683	130,673	588,325	28,973,418	33,567,099
Withdrawals during the year	(3,939,794)	(125,345)	(591,216)	(28,985,575)	(33,641,930)
As at 31 December 2012	143,653	9,814	15,389	167,396	336,252
Loan and advances					
As at 01 January 2012	198,683	20,704	55,360	-	274,747
Disbursements during the year	229,324	13,749	65,440	-	308,513
Repayments during the year	(238,977)	(17,413)	(50,267)	-	(306,657)
As at 31 December 2012	189,030	17,040	70,533	-	276,603
Other assets	18,177	-	3	-	18,180
Other liabilities	11,500	30	46	1	11,577
Contingencies and commitments	444,460	-	-	2,429	446,889

2011					
Deposits					
As at 01 January 2011	220,673	2,968	35,906	216,992	476,539
Received during the year	10,202,831	58,201	286,546	541,552	11,089,130
Withdrawals during the year	(10,214,740)	(56,683)	(304,172)	(578,991)	(11,154,586)
As at 31 December 2011	208,764	4,486	18,280	179,553	411,083
Loan and advances					
As at 01 January 2011	129,645	15,580	49,496	388	195,109
Disbursements during the year	242,783	10,000	27,542	-	280,325
Repayments during the year	(173,745)	(4,876)	(21,678)	(388)	(200,687)
As at 31 December 2011	198,683	20,704	55,360	-	274,747
Other assets	29,385	-	4,059	-	33,444
Other liabilities	111,890	2	3,633	7	115,532
Contingencies and commitments	350,010	-	-	2,249	352,259

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	For the year ended 31 December 2012				
	Associates	Directors	Key management personnel	Other related parties	Total
	------(Rupees in '000)-----				
Mark-up earned	26,736	1,737	4,367	-	32,840
Mark-up expensed	20,926	736	477	7,103	29,242
Group Executive Services	2,513	-	-	-	2,513
Remuneration for services	-	82,894	167,980	-	250,874
Contribution to staff provident fund	5,918	-	-	37,717	43,635
Management fee	39,326	-	-	-	39,326
Other Income	37,075	-	814	-	37,889
Mutual Fund Unit (Redeemed)	10,000	-	-	-	10,000
Mutual Fund Unit (Purchased)	74,895	-	-	-	74,895
Custody Service Charges	160	-	-	-	160
Financial charges	8,710	-	-	2,551	11,261
Advance against future issue of rights shares	293,100	-	-	-	293,100
Sale of investments	-	-	99,000	-	99,000

	For the year ended 31 December 2011				
Mark-up earned	26,371	1,077	1,838	12	29,298
Mark-up expensed	76,149	12	1,529	20,397	98,087
Group Executive Services	10,670	-	-	-	10,670
Remuneration for services	35,084	22,286	191,036	-	248,406
Contribution to staff provident fund	-	-	-	32,662	32,662
Bonus Units Issued	8,888	-	-	-	8,888
Other Income	6,852	-	-	-	6,852
Mutual Fund Unit (Redeemed)	254,697	-	-	-	254,697
Mutual Fund Unit (Purchased)	87,318	-	-	-	87,318
Custody Service Charges	4	-	45	-	49
Load Income	823	-	-	-	823
Disposal of Fixed Assets	-	-	1,025	-	1,025
Loan Disbursement	-	-	3,548	-	3,548
Loan Repayment	-	-	3,573	-	3,573

42. CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

42.1 Capital management

The primary objective of the Holding Company's capital management is to ensure that the Holding Company complies with all regulatory capital requirements and at the same time maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. Basel II implementation is a vital initiative towards strengthening Holding Company's risk management. The Holding Company in line with the SBP guidelines has adopted the standardized approach for credit, market risks and basic indicator approach for operational risk.

The goals of managing capital of the Group are as follows:

- To be an appropriately capitalised institution, as defined by regulatory authorities and comparable to the peers.
- Maintain strong ratings and to protect the Group against unexpected events.
- Availability of adequate capital at a reasonable cost so as to enable the Bank to expand and achieve low overall cost of capital with appropriate mix of capital elements.

The Holding Company has developed a capital management plan as part of its Internal Capital Adequacy Assessment Process (ICAAP). This plan documents the Holding Company's risk management structures, financial projections and its capital management plan for the next 5 years. The plan has been approved by the management and Board and submitted to the SBP on annual basis as per the BSD circular No. 03 of 2012 by SBP dated: December 24, 2012 and is subject to periodic review.

42.2 Regulatory capital requirements

The SBP vide BSD Circular No.7 dated 15 April 2009 has set the Minimum Capital Requirement (MCR) for Holding Company up to Rs.10 billion to be achieved in a phased manner by 31 December 2013. The required MCR (free of losses) as of 31 December 2012 is Rs. 9 billion. Further, the Holding Company is also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of the risk weighted assets of the Holding Company.

The paid up capital of the Holding Company (net of losses) as of 31 December 2012 amounted to Rs. 1,980.010 million while CAR at consolidated level is 1.07% as of that date. The management's actions and plans for meeting the required capital requirements are disclosed in note 1.3 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42.3 Capital structure

Tier I capital includes paid up capital, share premium, reserves and un-appropriated profit / accumulated losses, etc. after deductions for investment in subsidiaries (upto 50 percent) engaged in banking and financial activities, goodwill, intangibles and relaxation in provisions, if any.

Tier II capital, includes general provisions for loan losses (up to a maximum of 1.25 percent risk weighted assets). Revaluation reserves (up to a maximum of 45 percent of revaluation reserves gross of any deferred tax liability) after deduction of remaining 50 percent of investment in subsidiaries as mentioned above.

Tier III capital, consists of short term subordinated debt solely for the purpose of meeting a proportion of the capital requirement for market risks. The Holding Company currently does not have any Tier III capital.

	2012	2011
Tier I capital	(Rupees in '000)	
Share capital	19,508,617	19,508,617
Discount / premium on issue of right shares	(6,976,276)	(6,976,276)
Accumulated losses	(10,926,027)	(10,125,988)
Reserves	53,116	30,839
Advance against proposed rights issue	291,449	-
Non-controlling Interest	411,516	502,021
	2,362,395	2,939,213
Book value of:		
goodwill	(623,860)	(1,022,583)
intangibles	(639,929)	(706,116)
Other deductions:		
50% investments in associates	42.5 (449,694)	(455,719)
	648,912	754,795
Tier II capital		
General provisions subject to 1.25% of total risk weighted assets	8,057	13,066
Revaluation reserve (upto 45%)	402,313	343,869
Less: other deductions:		
- 50% investments in associates	42.5 (449,694)	(455,719)
	(39,324)	(98,784)
Eligible Tier III capital	-	-
Total regulatory capital	609,588	656,011

42.4 The capital to risk weighted assets calculated in accordance with SBP's guidelines on capital adequacy is as follows:

	Capital requirements		Risk weighted assets	
	2012	2011	2012	2011
	----- (Rupees in '000) -----			
Credit risk				
<u>Portfolios subject to standardized approach</u>				
Claim on				
Corporate portfolio	1,812,305	2,051,108	18,123,045	20,511,083
Retail portfolio	61,186	72,078	611,858	720,780
Banks	57,751	229,263	577,511	2,292,626
Residential property	40,039	41,696	400,387	416,964
Past due loans	823,352	865,431	8,233,521	8,654,305
Investment in fixed assets	306,403	366,040	3,064,029	3,660,399
Other assets	1,062,171	922,684	10,621,709	9,226,839
	4,163,207	4,548,300	41,632,060	45,482,996
Off balance sheet				
Non market related	670,508	749,715	6,705,079	7,497,145
Market related	142,780	21,721	1,427,804	217,206
	813,288	771,435	8,132,883	7,714,351
	4,976,495	5,319,735	49,764,943	53,197,347
Market risk				
<u>Capital requirement for portfolios subject to standardized approach</u>				
Interest rate risk	208,483	92,708	2,606,035	1,158,850
Equity position risk	121,808	32,652	1,522,600	408,150
Foreign exchange risk	3,088	2,933	38,600	36,663
	333,379	128,293	4,167,235	1,603,663
Operational risk				
<u>Capital requirement for operational risks</u>	245,916	80,348	3,073,950	1,004,350
Total	5,555,790	5,528,376	57,006,128	55,805,360
Capital Adequacy Ratio				
Total eligible regulatory capital held	609,588	656,011		
Total risk weighted assets	57,006,128	55,805,360		
CAR	1.07%	1.18%		

42.5 The CAR calculation does not include the impact of deduction of investments in open ended mutual funds amounting to Rs. 929.643 million (2011: Rs 766.076 million) based on the clarification issued by the SBP through its letter BSD/BAI-1/220/452/2009 dated 27 April 2009.

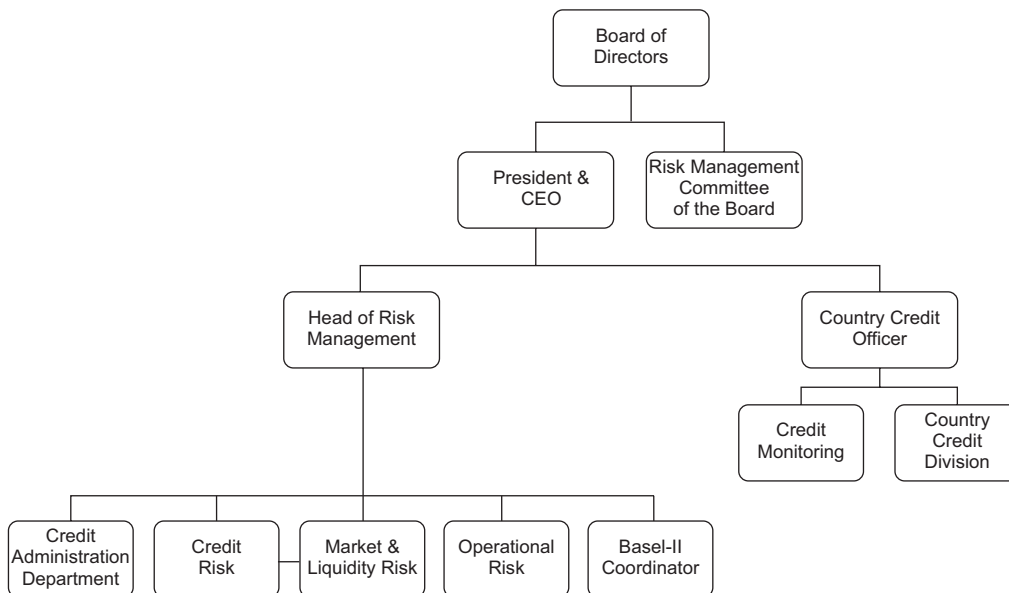
43. RISK MANAGEMENT

The Holding Company's business activities expose it to a wide variety of risks, which are inherent in virtually all aspects of its operations. The management's goal in managing these risks is to protect the Holding Company from an unacceptable level of earnings volatility while supporting and enabling business opportunities. This is done by ensuring that the risks arising from business activities and transactions provide an appropriate balance of return for the risk assumed and remain within the Holding Company's risk appetite. The Holding Company has implemented a risk management framework which is designed to ensure sound risk management practices guided by best industry practices. The cornerstone of this risk management framework is a strong risk management culture, supported by a robust enterprise-wide set of policies, procedures and guidelines, which involve the Holding Company's risk management professionals and business segments. This partnership is designed to ensure the ongoing alignment of business strategies and activities with the Holding Company's risk appetite. The primary risks associated with the Holding Company are:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Representations of risk are for a given period and the Holding Company's risk management will constantly evolve as its business activities change in response to credit, market, product and other developments. There have been many initiatives started by the Holding Company including business process re-engineering and inventorying the risks and controls within the Holding Company's existing business and process units. All of these initiatives will have a direct impact on the risk management function within the Holding Company.

The Holding Company strives to continually enhance its risk management capabilities in view of changing business needs and market conditions. In this regard the risk management structure at the Holding Company has been reorganized with the formation of a Country Credits Division (CCD) responsible for evaluation and approval of all credit proposals. The Division is headed by a Country Credit Officer (CCO) who reports directly to the President. The Credit Monitoring function has also been placed under the CCO. Credit administration, financial risk, credit policy and procedures, operational risk and Basel II functions continue to report to the Chief Risk Officer.



43.1.1 Credit risk

Credit risk is the risk of financial loss if a customer or counter party fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees, and from the Holding Company's holdings of debt securities. Among the risks the Holding Company is faced with credit risk accounts for the largest regulatory capital requirement.

The aims of credit risk management are principally as follows:

- Participation in portfolio planning and management.
- Establishment of credit policies and standards that conform to regulatory requirements and the Bank's overall objectives.
- Working with business groups in keeping aggregate credit risk well within the Bank's risk taking capacity.
- Developing and maintaining credit approval authority structure.
- Approving major credits.
- Recommending approval authority to qualified and experienced individuals.
- Reviewing the adequacy of credit training across the Bank.
- Organising portfolio reviews focusing on quality assessment, risk profiles, industry concentrations, etc.
- Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

The credit portfolio, which includes Corporate and Commercial Banking (Middle Market and SME) loans are generally collateralised by cash equivalents, fixed and current assets including stocks, property plant and machinery and mortgages. Loans to individuals are typically secured by cash equivalents, residential mortgage and selected listed shares.

Credit risk organization and structure

Taking credit risk is central to the business therefore it has been ensured that business managers, in conjunction with risk managers, are responsible for establishing and maintaining appropriate risk limits and risk management procedures.

Credit approval authorities and standardised procedures

A system of checks and balances has been established around the extension of credit which is based on an independent risk management function and multiple credit approvers linked to the internal risk rating of an obligor.

Credit approval process, credit policy and procedure manual, credit bulletins and the enterprise wide risk policy have been approved by the Risk Management Committee (RMC) of the Board and includes:

- Setting maximum exposure limits for a single obligor and for a single group of related obligors based upon the obligor risk rating of the customer and the group.
- Defining maximum exposure limit to an individual sector in terms of portfolio composition to avoid excessive concentration.
- Requirement to risk rate every obligor on the basis of a standard and approved internal credit risk rating policy.
- Setting consistent standards to be followed across the Corporate, Financial Institution Group for the origination, documentation and maintenance of extensions of credit. These standards include problem recognition, the classification process of problem credits and remedial action.

Quarterly reporting is made to the RMC of the Board of Directors on all credit exposures approved during the quarter, all changes in classification, provisions and write-offs taken during the quarter.

Credit risk portfolio management

The Holding Company seeks to manage its credit risk exposure by ensuring that its customers meet the minimum credit standards as defined in the approved credit policy. It also seeks diversification of lending activities by ensuring that there is no undue concentration of risks within groups of customers and industry segments.

The credit portfolio is monitored through the Credit Risk Management Committee (CRMC) which includes senior business and risk managers. The major functions of this committee include:

- To establish and review the lending policies and standards that conforms to the regulations and the corporate policies.
- Manage and ensure that the overall credit risk exposure of the Bank does not breach the pre-defined limits.
- Develop and implement standards of credit quality.
- Regularly review, monitor and evaluate the quality of credit portfolio in light of the approved limits.

Risk rating

The Board has approved the Internal Credit Risk Rating Policy for the Corporate and Commercial Banking segments. Through this policy, an appropriate rating mechanism has been devised for the purpose of identifying and measuring the credit risk against each obligor.

The model determines the Obligor Risk Rating (ORR) based on certain quantitative and qualitative information / assessment. It assigns grades from "1" to "7" under the performing category. ORRs ranging between "8" to "10" are assigned to classified obligors based upon an internal classification and remedial management process. The ORR model forms an integral part of the approval process that materially helps in decision making.

The risk rating of an obligor is initially performed by a Relationship Manager and reviewed by a responsible senior / Credit Officer who is normally the Regional Head. Risk rating is also reviewed by the CCO.

The credit limits delegations under the credit policy are based on a grid that is driven by the assigned risk rating.

A Risk Rating System for the consumer portfolio is also being developed.

Mitigants

The following initiatives are used to mitigate credit risk:

(a) Credit principles and policy

To ensure consistency and standardisation across the Corporate and Commercial Banking Group, standard credit procedures and policies are implemented through the approved Credit Policy Manual. This ensures clear definition of responsibilities of the business, risks, credit administration and remedial departments and provides a basis for a disciplined environment.

(b) Counter party limits and credit scoring

The maximum permitted per party limits under the credit delegations are derived as a function of the ORR of that obligor or group of obligors and therefore, acts as a check and balance on building up excessive obligor concentrations.

(c) Concentration risk

The credit policy provides limits for industry sector concentrations and through the regular meetings of CRMC on the portfolio composition, exposures are monitored to prevent excessive concentration of risk.

(d) Collateral

One of the mitigants is the collateral held against the credit exposures. The credit policy requires that collateral should always be realistically valued, providing margins, duly insured in favour of the Group and giving the Group a pari passu status with other lenders for similar transactions / nature of exposure. In case of a weak credit, facility specific support / guarantees are recommended as risk mitigation. To minimize the credit loss, seeking additional collateral from the obligor is recommended, as soon as impairment indicators are noticed in individual loans and advances. There is no legally enforceable netting agreement with the borrowers.

(e) Risk Acceptance Criteria (RAC)

RACs have been approved by the management and put in place as basic guiding rules for Corporate and Commercial Banking segments.

Special Assets Management (SAM)

The credit policy defines the classified credit process to be followed in order to establish a consistent approach to problem recognition, problem labelling, remedial action, loan loss provisioning and the initiation of credit write-offs. It defines clear responsibilities pertaining to all processes that are required to be followed, in order to have an effective remedial management set-up in place.

The SAM portfolio is regularly reviewed by the CRMC and the RMC of the Board and all working plans, recoveries, waivers and write-offs are approved.

Credit concentration risk

The Holding Company manages limits and controls concentration of credit risk as identified, in particular to individual counter parties and groups, and to industries, where appropriate. Concentration of credit risk exists if clients are engaged in similar activities or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The Holding Company sets limits on its credit exposure to counter party groups, by industry, product, and counter party, in line with SBP directions / guidelines. Limits are also applied in a variety of forms to portfolios or sectors where the Holding Company considers it appropriate to restrict credit risk concentration or areas of higher risk, or to control the rate of portfolio growth. As of 31 December 2012 the Holding Company has exceeded certain exposure limits due to shortfall in capital. The management believes that such limits will be regularised upon recapitalization of the Holding Company as per plan referred to in note 1.3 to the financial statements.

Risk Asset Review

The Risk Asset Review (RAR) Unit continuously monitors portfolios and process quality. It reports regularly to the RMC of the Board and senior management on all portfolios, maintains and analyses the Institution's records in adversely classified credits, and conducts periodic inspections. RAR reviews on-site and reports on every portfolio and credit process at least every twelve months.

43.1.2 Credit risk – General Disclosure Basel II Specific

The Holding Company has adopted the Standardised Approach, under Basel II. According to the regulatory statement submitted under the Standardised Approach, the portfolio has been divided into claims on corporate portfolio 43.53%, claims on retail portfolio 1.47%, claims on banks 1.39%, claims on residential property 0.96%, past due loans 19.78%, investments in fixed assets 7.36% and all other assets 25.51%.

43.1.3 Credit Risk: Standardised Approach

The Group uses unsolicited ratings from External Credit Assessment Institutions as approved by the SBP including JCR-VIS, PACRA and other foreign agencies wherever applicable.

Exposure	JCR-VIS	PACRA	Fitch & Moody's	Standard & Poor's
- Corporate	✓	✓	-	-
- Banks	✓	✓	✓	✓
- Sovereigns	-	-	✓	✓
- SME's	-	-	-	-
- Securitizations	-	-	-	-

Credit exposure subject to Standardised Approach.

Risk buckets	2012		
	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation deduction	Net amount
	----- (Rupees in '000) -----		
0%	5,179,083	-	5,179,083
20%	4,251,845	256,486	3,995,359
35%	1,143,962	-	1,143,962
50%	7,859,997	1,500,000	6,359,997
75%	1,039,566	243,025	796,541
100%	28,269,871	717,784	27,552,087
150%	6,036,777	529	6,036,248
	<u>53,781,101</u>	<u>2,717,824</u>	<u>51,063,277</u>
Risk buckets	2011		
	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation deduction	Net amount
	----- (Rupees in '000) -----		
0%	5,386,389	-	5,386,389
20%	11,860,786	230,632	11,630,154
35%	1,191,327	-	1,191,327
50%	2,395,902	500,000	1,895,902
75%	1,263,597	303,517	960,080
100%	31,673,875	676,482	30,997,393
150%	6,686,456	-	6,686,456
	<u>60,458,332</u>	<u>1,710,631</u>	<u>58,747,701</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43.1.4 Credit risk: Disclosure on Credit Risk Mitigation (CRM) for Standardised Approach -BASEL II Specific

The Holding Company has adopted simple approach to CRM under Basel II. Main types of collateral taken by the Bank are:

- Mortgage of residential, commercial and industrial property
- Equities and shares held
- Cash, deposits under lien and government securities

43.1.5 Segmental information

43.1.5.1 Segments by class of business

	2012					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
	------(Rupees in '000)-----					
Agriculture, Forestry, Hunting and Fishing	311,096	0.81	5,051,051	8.07	29,769	0.04
Automobile and transportation equipment	115,758	0.30	46,344	0.07	2,000	0.00
Cement	1,037,681	2.70	84,686	0.14	227,743	0.28
Chemical and Pharmaceuticals	1,253,570	3.27	613,175	0.98	130,744	0.16
Construction	1,498,271	3.90	637,524	1.02	3,351,758	4.08
Electronics and electrical appliances	1,319,861	3.44	46,242	0.07	198,458	0.24
Exports / Imports	1,160,076	3.02	223,790	0.36	4,490	0.01
Financial	500,840	1.30	141,099	0.23	65,621,270	79.89
Food and Beverages	3,431,762	8.94	369,523	0.59	-	-
Footwear and Leather garments	232,295	0.61	11,711	0.02	-	-
Individuals	6,428,038	16.75	22,167,941	35.41	2,300	0.00
Insurance	-	-	33,511	0.05	-	-
Manufacturing	-	-	623,735	1.00	-	-
Mining and Quarrying	-	-	188,060	0.30	-	-
Oil and gas	-	-	19,552,203	31.23	-	-
Power (electricity), Gas, Water, Sanitary	2,990,742	7.79	1,038,269	1.66	1,963,931	2.39
Production and transmission of energy	-	-	-	-	5,557,915	6.77
Public / Government	3,297,018	8.59	3,200,279	5.11	-	-
Services	631,808	1.65	4,300,347	6.87	1,549,152	1.89
Synthetic & Rayon	9,999	0.03	-	-	-	-
Sugar	1,633,722	4.26	7,608	0.01	-	-
Textile	7,109,367	18.52	427,621	0.68	834,800	1.02
Transport, Storage and Communication	414,478	1.08	522,492	0.83	-	-
Wholesale and Retail Trade	547,988	1.43	1,695,788	2.71	-	-
Others	4,456,545	11.61	1,617,059	2.58	2,664,481	3.24
	<u>38,380,915</u>	<u>100.00</u>	<u>62,600,058</u>	<u>100.00</u>	<u>82,138,811</u>	<u>100.00</u>

Segments by class of business

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
	------(Rupees in '000)-----					
Agriculture, Forestry, Hunting and Fishing	367,530	1.04	4,824,875	7.78	38,190	0.10
Automobile and transportation equipment	217,132	0.62	58,727	0.09	23,273	0.06
Cement	1,463,134	4.15	2,540	0.01	62,897	0.16
Chemical and Pharmaceuticals	1,750,572	4.97	1,673,565	2.70	1,407,432	3.54
Construction	2,106,114	5.98	714,483	1.15	2,510,936	6.31
Electronics and electrical appliances	1,270,830	3.61	43,231	0.07	298,319	0.75
Exports / Imports	1,263,169	3.58	161,372	0.26	94,269	0.24
Financial	1,464,668	4.16	334,245	0.54	22,789,885	57.27
Food and Beverages	1,619,068	4.59	330,257	0.53	-	-
Footwear and Leather garments	408,517	1.16	7,094	0.01	-	-
Individuals	5,171,933	14.67	20,589,341	33.21	-	-
Insurance	-	-	17,311	0.03	-	-
Manufacturing	-	-	876,968	1.41	-	-
Mining and Quarrying	-	-	85,602	0.14	-	-
Oil and gas	-	-	14,234,904	22.96	-	-
Power (electricity), Gas, Water, Sanitary	1,777,061	5.04	1,980,329	3.19	807,422	2.03
Production and transmission of energy	-	-	-	-	6,104,818	15.34
Public / Government	896,021	2.54	5,225,837	8.43	-	-
Services	1,044,473	2.96	4,235,141	6.83	847,439	2.13
Sugar	1,268,068	3.60	63,065	0.10	30,791	0.08
Textile	6,310,332	17.90	655,210	1.06	733,309	1.84
Transport, Storage and Communication	410,449	1.16	653,550	1.05	160,932	0.40
Wholesale and Retail Trade	1,912,799	5.43	2,770,118	4.47	22,519	0.06
Others	4,523,607	12.84	2,455,839	3.96	3,862,917	9.71
	<u>35,245,477</u>	<u>100.00</u>	<u>61,993,604</u>	<u>100.00</u>	<u>39,795,348</u>	<u>100.00</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43.1.5.2 Non-performing loans and advances and specific provision by class of business

	2012		2011	
	Classified advances	Specific provision held	Classified advances	Specific provision held
----- (Rupees in '000) -----				
Automobile and Transportation equipment	107,336	103,847	108,239	103,586
Cement	767,484	396,424	908,188	402,292
Chemical and Pharmaceuticals	16,949	952	923	923
Construction	1,048,438	572,751	1,426,791	575,058
Electronics and electrical appliances	2,502	2,502	2,502	2,502
Exports / Imports	21,680	12,527	21,680	9,476
Financial	378,362	201,512	368,067	323,707
Food and Beverages	357,256	160,105	135,005	67,749
Footwear and Leather garments	2,574	2,474	2,475	2,475
Individuals	1,873,876	787,603	1,442,362	619,281
Power (electricity), Gas, Water, Sanitary	300,000	67,952	-	-
Services	105,325	56,697	68,365	25,870
Sugar	-	-	-	-
Textile	3,847,319	2,792,626	4,080,130	2,428,570
Transport, Storage and Communication	409,733	314,285	265,935	265,935
Wholesale and Retail Trade	299,447	211,346	227,483	182,814
Others	4,330,508	1,599,575	3,080,457	835,499
	<u>13,868,789</u>	<u>7,283,178</u>	<u>12,138,602</u>	<u>5,845,737</u>

43.1.5.3 Segments by sector

	2012					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	3,297,018	8.59	3,200,279	5.11	-	-
Private	35,083,897	91.41	59,399,779	94.89	82,138,811	100.00
	<u>38,380,915</u>	<u>100.00</u>	<u>62,600,058</u>	<u>100.00</u>	<u>82,138,811</u>	<u>100.00</u>
	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	896,021	2.54	5,225,837	8.43	-	-
Private	34,349,456	97.46	56,767,767	91.57	39,795,348	100.00
	<u>35,245,477</u>	<u>100.00</u>	<u>61,993,604</u>	<u>100.00</u>	<u>39,795,348</u>	<u>100.00</u>

43.1.5.4 Non-performing loans and advances and specific provision by sector

	2012		2011	
	Classified advances	Specific provision held	Classified advances	Specific provision held
----- (Rupees in '000) -----				
Public / Government	-	-	-	-
Private	13,868,789	7,283,178	12,138,602	5,845,737
	<u>13,868,789</u>	<u>7,283,178</u>	<u>12,138,602</u>	<u>5,845,737</u>

43.2 Market risk

Market risk is the risk of loss in market values of a given portfolio arising from movements in market variables such as interest rates, foreign exchange rates and equity prices.

The Financial Risk Management (FRM) Department is responsible for developing the Holding Company's market risk policies and measurement techniques. The policies are approved by the Market Risk Policy Committee (MRPC) and the RMC of the Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Market risk measures and controls are applied at the portfolio level, and concentration limits and other controls are applied where necessary to individual risk types, to particular books and to specific exposures. Portfolio risk measures are common to all market risks, but concentration limits and other controls are tailored to the nature of the activities and the risks they create.

FRM unit performs all market risk management activities within the Holding Company. FRM unit is responsible for developing and reviewing market risk policies, strategies and processes. It has to ensure monitoring and implementation of market risk and other policies. Any deviations are escalated to the MRPC which comprises of senior management.

The scope of market risk management is as follows:

- To keep the market risk exposure within the Holding Company's risk appetite as assigned by the Board of Directors.
- All the market risk policies are approved by the RMC of the Board and implementation is done by the senior management through MRPC, Treasury and FRM unit.
- Various limits have been assigned on a portfolio basis.

The Holding Company uses the Standardised Approach to calculate capital charge for market risk as per the current regulatory framework under Basel II.

Market risk comprises of foreign exchange risk, equity price risk and interest rate / yield risk.

(i) Foreign exchange risk

Foreign exchange risk is the risk of loss resulting from changes in exchange rates. Foreign exchange risks is controlled and monitored through the limits approved by MRPC within the overall limits advised by the SBP. The regulatory limit for foreign exchange is relatively small compared to the size of the Holding Company and therefore the risk generated through foreign exchange activities is insignificant.

	2012			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
----- (Rupees in '000) -----				
Pakistan rupee	87,055,225	84,716,625	(164,018)	2,174,582
United States dollar	2,715,304	1,985,523	(301,842)	427,939
Great Britain pound	155,525	230,297	79,507	4,735
Canadian dollar	58	170	-	(112)
Japanese yen	56,322	24	429,784	486,082
Euro	286,433	317,354	(43,431)	(74,352)
Other currencies	8,759	15	-	8,744
	<u>90,277,626</u>	<u>87,250,008</u>	<u>-</u>	<u>3,027,618</u>
	2011			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
----- (Rupees in '000) -----				
Pakistan rupee	60,603,696	52,295,883	(4,903,276)	3,404,537
United States dollar	1,972,922	1,258,836	(786,636)	(72,550)
Great Britain pound	120,516	231,994	113,333	1,855
Canadian dollar	3,798	3,675	-	123
Japanese yen	7,095,155	8,655,274	1,599,022	38,903
Euro	3,388,978	7,217,348	3,977,557	149,187
Other currencies	5,693	876	-	4,817
	<u>73,190,758</u>	<u>69,663,886</u>	<u>-</u>	<u>3,526,872</u>

(ii) Equity price risk

Equity price risk arises due to change in prices of stocks or levels of equity indices.

The Holding Company's equity and mutual fund exposure is managed with the objective to be in the SBP limits for overall investment and per script exposure. In addition, there are internal limits for trading position as well as stop loss limits, dealer limits and future contracts limits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

(iii) Interest rate / yield risk

Interest rate risk is the risk of loss from adverse movements in interest rates.

The Assets and Liability Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Holding Company arising from fluctuation in the market interest rates and mismatch in maturity of financial assets and financial liabilities.

The Holding Company's interest rate exposure is calculated by categorizing its interest sensitive assets and liabilities into various time bands based on contractual repricing or maturity dates.

Interest rate risk exposures of the Holding Company are controlled through dealer limits, counter-party exposure limits and instrument limits. Stress testing for interest rate risk is carried out regularly to estimate the impact of adverse changes in the interest rates.

Mismatch of interest rate sensitive assets and liabilities

The Group's yield / interest rate sensitivity position, based on the earlier of contractual re-pricing or maturity date, is as follows:

		2012											
Effective Yield/ Interest Rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments		
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years			
-----Rupees in '000-----													
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	0.00%	4,766,966	503,235	-	-	-	-	-	-	-	-	-	4,263,731
Balances with other banks	0.03% - 14.48%	2,039,237	1,208,867	-	-	-	-	-	-	-	-	-	830,370
Lending to financial institutions and others	8.00%	352,947	352,947	-	-	-	-	-	-	-	-	-	-
Investments	8% - 13.13%	39,969,886	7,853,778	3,410,606	10,177,065	11,099,441	-	2,617	2,785	487,680	2,030,838	-	4,904,076
Advances	12.07%	31,089,680	838,958	2,034,478	16,767,487	2,145,717	283,462	217,923	-	36,631	6,025	113	8,756,851
Other assets		912,728	-	-	-	-	-	-	-	-	-	-	912,728
		79,130,444	10,757,820	5,445,084	26,944,552	13,245,158	286,079	220,708	526,311	2,036,863	113	19,667,756	
Liabilities													
Bills payable		877,827	-	-	-	-	-	-	-	-	-	-	877,827
Borrowings	9.43%	21,245,349	18,613,481	1,983,000	587,967	35,235	25,666	-	-	-	-	-	-
Deposits and other accounts	4.61%	62,600,058	3,367,040	5,128,449	1,938,935	4,630,584	49,640	680	-	-	-	-	47,484,730
Liabilities against assets subject to finance lease	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities		1,051,918	-	-	-	-	-	-	-	-	-	-	1,051,918
		85,775,152	21,980,521	7,111,449	2,526,902	4,665,819	75,306	680	-	-	-	-	49,414,475
On-balance sheet gap		(6,644,708)	(11,222,701)	(1,666,365)	24,417,650	8,579,339	210,773	220,028	526,311	2,036,863	113	(29,746,719)	
Off-balance sheet financial instruments													
Forward purchase of foreign exchange		29,116,581	7,062,398	21,707,918	346,265	-	-	-	-	-	-	-	-
Forward sale of foreign exchange		(28,952,563)	(7,979,655)	(20,972,908)	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		164,018	(917,257)	735,010	346,265	-	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap		(12,139,958)	(931,355)	24,763,915	8,579,339	210,773	220,028	526,311	2,036,863	113	(29,746,719)		
Cumulative Yield / Interest Risk Sensitivity Gap		(12,139,958)	(13,071,313)	11,692,602	20,271,941	20,482,714	20,702,742	21,229,053	23,265,916	23,266,029	(6,480,690)		

		2011											
Effective Yield/ Interest Rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments		
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years			
-----Rupees in '000-----													
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	-	4,822,751	1,599,235	-	-	-	-	-	-	-	-	-	3,223,516
Balances with other banks	0.1% - 14.48%	10,930,425	3,711,216	-	-	-	-	-	-	-	-	-	7,219,209
Lending to financial institutions and others	6.53%	622,683	622,683	-	-	-	-	-	-	-	-	-	-
Investments	8% - 15.77%	15,588,703	27,142	899,212	1,266,469	7,767,844	650,436	259,099	470,407	507,225	-	-	3,740,869
Advances	13.61%	29,386,674	17,145,895	3,062,001	2,461,946	130,572	152,227	192,174	129,840	180,851	373,462	-	5,557,706
Other assets		954,842	-	-	-	-	-	-	-	-	-	-	954,842
		62,306,078	23,106,171	3,961,213	3,728,415	7,898,416	802,663	451,273	600,247	688,076	373,462	-	20,696,142
Liabilities													
Bills payable		891,579	-	-	-	-	-	-	-	-	-	-	891,579
Borrowings	12.28%	4,607,205	591,558	2,330,274	1,543,812	42,272	73,623	25,666	-	-	-	-	-
Deposits and other accounts	9.06%	61,993,604	4,647,159	7,194,955	3,183,309	6,803,100	97,300	54,115	980	-	-	-	40,012,686
Liabilities against assets subject to finance lease	12.05%	-	1,510	-	-	-	-	-	-	-	-	-	-
Other liabilities		1,104,128	-	-	-	-	-	-	-	-	-	-	1,104,128
		68,598,026	5,240,227	9,525,229	4,727,121	6,845,372	170,923	79,781	980	-	-	-	42,008,393
On-balance sheet gap		(6,291,948)	(17,865,944)	(5,564,016)	(998,706)	1,053,044	631,740	371,492	599,267	688,076	373,462	(21,312,251)	
Off-balance sheet financial instruments													
Forward purchase of foreign exchange		11,445,273	3,029,750	4,036,280	4,379,243	-	-	-	-	-	-	-	-
Forward sale of foreign exchange		(6,541,997)	(2,917,440)	(2,021,000)	(1,603,557)	-	-	-	-	-	-	-	-
Off-balance sheet gap		4,903,276	112,310	2,015,280	2,775,686	-	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap		17,978,254	(3,548,736)	1,776,980	1,053,044	631,740	371,492	599,267	688,076	373,462	(21,312,251)		
Cumulative Yield / Interest Risk Sensitivity Gap		17,978,254	14,429,518	16,206,498	17,259,542	17,891,282	18,262,774	18,862,041	19,550,117	19,923,579	(1,388,672)		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43.3 Liquidity risk

43.3.1 Liquidity Risk Management

Liquidity risk is the risk that the Holding Company will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management function. The Holding Company understands the importance of liquidity and the opportunity cost associated with surplus liquidity, it follows a comprehensive Market & Liquidity Risk Management Policy duly reviewed and approved by the RM&RC of the Board.

The Holding Company's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage to business franchise. A centralised approach is adopted, based on an integrated framework incorporating an assessment of all material known and expected cash flows and the availability of high-grade collateral which could be used to secure additional funding, if required. The framework entails careful monitoring and control of the daily liquidity position. A contingency funding plan is in place to ensure a systematic response in a crisis situation.

The following tools are being used in order to monitor the liquidity risk:

- Liquidity Gap Reports
- Stress Scenarios
- Various Liquidity Ratios
- Significant Funding Concentration Analysis
- Investment Maturity Profile Analysis
- Segment-wise Advances' Maturity Analysis
- Trends Analysis – Advances, Investments & Deposits

43.3.2 Maturities of assets and liabilities

a) Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

In accordance with BSD Circular letter No.3 dated February 22, 2011 issued by the SBP. The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities at the year end have been determined on the basis of the remaining period, derived from the 'statement of financial position' date and the 'contractual maturity' date.

The Holding Company has conducted an objective and systematic behavioural study using statistical analysis to ascertain the maturity of its non-contractual assets and liabilities. The behavioural maturities of Demand Deposits are determined on the basis of an empirical study conducted by the Holding Company, based on past years' Data. The attrition rate of deposits is determined based on the historically observed data of all Current & Saving deposit accounts.

Through ALCO's discretion, volatile deposits have been determined and placed into 1-3 Months buckets. This is a stringent assumption and assumes the worst case scenario.

	2012									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
-----Rupees in '000-----										
Assets										
Cash and balances with treasury banks	4,766,966	4,766,966	-	-	-	-	-	-	-	-
Balances with other banks	2,039,237	2,039,237	-	-	-	-	-	-	-	-
Lending to financial institutions	352,947	352,947	-	-	-	-	-	-	-	-
Investments	39,968,886	8,343,591	3,048,378	10,629,299	11,729,116	243,722	145,169	1,711,860	3,746,484	371,267
Advances	31,089,680	1,154,135	3,220,189	7,462,167	2,947,094	5,248,077	5,079,419	2,505,707	3,472,779	113
Operating fixed assets	3,703,959	27,469	54,942	82,414	164,828	329,656	329,656	569,407	1,064,297	1,081,289
Deferred tax assets	4,599,393	-	-	-	919,879	919,879	919,879	1,839,757	-	-
Other assets	3,756,558	1,501,411	61,058	91,586	386,817	207,953	207,953	-	1,255,765	44,015
	90,277,626	18,185,756	6,384,567	18,265,466	16,147,734	6,949,287	6,682,076	6,626,731	9,539,325	1,496,684
Liabilities										
Bills payable	877,827	146,304	292,609	438,914	-	-	-	-	-	-
Borrowings	21,245,349	18,613,481	1,983,000	587,967	35,235	25,666	-	-	-	-
Deposits and other accounts	62,600,058	4,603,665	27,036,806	3,614,875	8,514,514	3,292,952	4,143,893	6,628,592	4,764,761	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,526,774	1,337,948	850,849	6,726	48,483	61,934	96,965	123,869	-	-
	87,250,008	24,701,398	30,163,264	4,648,482	8,598,232	3,380,552	4,240,858	6,752,461	4,764,761	-
Net assets	3,027,618	(6,515,642)	(23,778,697)	13,616,984	7,549,502	3,568,735	2,441,218	(125,730)	4,774,564	1,496,684
Share capital	19,508,617									
Reserves	53,116									
Accumulated losses	(10,926,027)									
Discount on issue of right shares	(6,976,276)									
Advance against proposed rights issue	291,449									
	1,950,879									
Non-controlling interest	411,516									
Surplus on revaluation of assets - net	665,223									
	3,027,618									

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	2011									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
-----Rupees in '000-----										
Assets										
Cash and balances with treasury banks	4,822,751	4,822,751	-	-	-	-	-	-	-	-
Balances with other banks	10,930,425	10,930,425	-	-	-	-	-	-	-	-
Lending to financial institutions	622,683	622,683	-	-	-	-	-	-	-	-
Investments	15,588,703	576,585	899,214	1,226,507	7,942,745	569,301	259,099	1,427,728	1,333,401	1,354,123
Advances	29,386,674	8,486,975	5,550,464	4,117,824	2,963,355	6,033,506	450,583	995,028	301,401	487,538
Operating fixed assets	4,366,514	33,960	67,925	101,888	203,776	407,551	407,552	709,875	1,352,698	1,081,289
Deferred tax assets	3,862,741	-	-	-	772,548	772,548	772,549	1,545,096	-	-
Other assets	3,610,267	1,384,025	40,982	61,473	587,425	340,861	340,861	-	810,625	44,015
Total	73,190,758	26,857,404	6,558,585	5,507,692	12,469,849	8,123,767	2,230,644	4,677,727	3,798,125	2,966,965
Liabilities										
Bills payable	891,579	148,596	297,193	445,790	-	-	-	-	-	-
Borrowings	4,607,205	591,558	2,330,274	1,543,812	42,272	73,623	25,666	-	-	-
Deposits and other accounts	61,993,604	44,659,845	7,194,955	3,183,309	6,803,100	97,300	54,115	980	-	-
Liabilities against assets subject to finance lease	1,510	1,510	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,169,988	1,107,194	784,505	5,258	40,247	50,763	80,494	101,527	-	-
Total	69,663,886	46,508,703	10,606,927	5,178,169	6,885,619	221,686	160,275	102,507	-	-
Net assets	3,526,872	(19,651,299)	(4,048,342)	329,523	5,584,230	7,902,081	2,070,369	4,575,220	3,798,125	2,966,965
Share capital	19,508,617									
Reserves	30,839									
Accumulated losses	(10,125,988)									
Share premium	(6,976,276)									
	2,437,192									
Non-controlling interest	502,021									
Surplus on revaluation of assets - net	587,659									
	3,526,872									

b) Based on contractual maturity of the assets and liabilities of the Bank

In accordance with BSD Circular letter No.2, dated January 14, 2013 issued by the SBP, the Holding Company is required to report assets and liabilities maturities as per their remaining contractual maturity.

	2012									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
-----Rupees in '000-----										
Assets										
Cash and balances with treasury banks	4,766,966	4,766,966	-	-	-	-	-	-	-	-
Balances with other banks	2,039,237	2,039,237	-	-	-	-	-	-	-	-
Lending to financial institutions	352,947	352,947	-	-	-	-	-	-	-	-
Investments	39,968,886	8,343,591	3,048,378	10,629,299	11,729,116	243,722	145,169	1,711,860	3,746,484	371,267
Advances	31,089,680	1,154,135	3,220,189	7,462,167	2,947,094	5,248,077	5,079,419	2,505,707	3,472,779	113
Operating fixed assets	3,703,959	27,470	54,942	82,414	164,828	329,656	329,656	569,407	1,064,297	1,081,289
Deferred tax assets	4,599,393	-	-	-	919,879	919,879	919,879	1,839,756	-	-
Other assets	3,756,558	1,501,411	61,058	91,586	386,817	207,953	207,953	-	1,255,765	44,015
Total	90,277,626	18,185,756	6,384,567	18,265,466	16,147,734	6,949,287	6,682,076	6,626,731	9,539,325	1,496,684
Liabilities										
Bills payable	877,827	146,304	292,609	438,914	-	-	-	-	-	-
Borrowings	21,245,349	18,613,481	1,983,000	587,967	35,235	25,666	-	-	-	-
Deposits and other accounts	62,600,058	50,851,770	5,128,449	1,938,935	4,630,584	49,640	680	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,526,774	1,337,948	850,849	6,726	48,483	61,934	96,965	123,869	-	-
Total	87,250,008	70,949,503	8,254,907	2,972,542	4,714,302	137,240	97,645	123,869	-	-
Net assets	3,027,618	(52,763,747)	(1,870,340)	15,292,924	11,433,432	6,812,047	6,584,431	6,502,862	9,539,325	1,496,684
Share capital	19,508,617									
Reserves	53,116									
Accumulated losses	(10,926,027)									
Discount on issue of right shares	(6,976,276)									
Advance against proposed rights issue	291,449									
	1,950,879									
Non-controlling interest	411,516									
Surplus on revaluation of assets - net	665,223									
	3,027,618									

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2012

	2011									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
-----Rupees in '000-----										
Assets										
Cash and balances with treasury banks	4,822,751	4,822,751	-	-	-	-	-	-	-	-
Balances with other banks	10,930,425	10,930,425	-	-	-	-	-	-	-	-
Lending to financial institutions	622,683	622,683	-	-	-	-	-	-	-	-
Investments	15,588,703	576,585	899,214	1,226,507	7,942,745	569,301	259,099	1,427,728	1,333,401	1,354,123
Advances	29,386,674	8,486,975	5,550,464	4,117,824	2,963,355	6,033,506	450,583	995,028	301,401	487,538
Operating fixed assets	4,366,514	33,960	67,925	101,888	203,776	407,551	407,552	709,875	1,352,698	1,081,289
Deferred tax assets	3,862,741	-	-	-	772,548	772,548	772,549	1,545,096	-	-
Other assets	3,610,267	1,384,025	40,982	61,473	587,425	340,861	340,861	-	810,625	44,015
	73,190,758	26,857,404	6,558,585	5,507,692	12,469,849	8,123,767	2,230,644	4,677,727	3,798,125	2,966,965
Liabilities										
Bills payable	891,579	148,596	297,193	445,790	-	-	-	-	-	-
Borrowings	4,607,205	591,558	2,330,274	1,543,812	42,272	73,623	25,666	-	-	-
Deposits and other accounts	61,993,604	44,659,845	7,194,955	3,183,309	6,803,100	97,300	54,115	980	-	-
Liabilities against assets subject to finance lease	1,510	1,510	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,169,988	1,107,194	784,505	5,258	40,247	50,763	80,494	101,527	-	-
	69,663,886	46,508,703	10,606,927	5,178,169	6,885,619	221,686	160,275	102,507	-	-
Net assets	3,526,872	(19,651,299)	(4,048,342)	329,523	5,584,230	7,902,081	2,070,369	4,575,220	3,798,125	2,966,965
Share capital	19,508,617									
Reserves	30,839									
Accumulated losses	(10,125,988)									
Share premium	(6,976,276)									
	2,437,192									
Non-controlling interest	502,021									
Surplus on revaluation of assets - net	587,659									
	3,526,872									

44 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks.

The Holding Company has developed a comprehensive Operational Risk Policy with the assistance of an independent consultant that governs the setting up of an Operational Risk Management Framework at the Holding Company. The framework addresses all significant areas of Operational Risk Management including carrying out a Risk and Controls Self Assessment exercise (RCSA), identification and monitoring of Key Risk Indicators (KRIs), Operational Loss Data Management and Capital Calculation etc.

Internal controls are an essential features of risk reduction in operational risk management. The Holding Company has taken following initiatives for developing a framework of internal controls:

- The Holding Company is in the process of adopting the internationally accepted COSO Internal Control Framework and has devised a well-defined and comprehensive Internal Control Programme in line with SBP guidelines.
- Internal control policies and manuals have been approved by the Board of Directors.
- The Holding Company with the help of an independent consultant has developed IT Policies and Standard Framework that is aligned with the internationally recognized COBIT standards.


45. GENERAL

45.1 Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparison. However, there are no material reclassifications to report.

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

46. DATE OF AUTHORISATION

These consolidated financial statements were authorized for issue in the Board's meeting held on 08 April 2013.


Acting President and Chief Executive


Director


Director


Director

Statement showing written-off loans or any other financial relief of five hundred thousands Rupees or above provided during the year ended 31 December 2012

(Rupees in million)

S. No.	Name and address of the borrowers	Name of individuals/ Partners/ directors with (CNIC No.)	Father's Husband's Name	Outstanding liabilities at beginning of the year			Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total (9+10+11)	
				Principal	Interest/ Mark-up	Others					
1	2	3	4	5	6	7	8	9	10	11	12
1	M/s. QFS International Transport Services (Pvt) Ltd. Office at Room No. 905, Kashif Centre, Main Shahrah-e-Faisal Road, Karachi	Shahab Siddiqi (42201-5489964-3) Wahid Hussain (42201-8853532-7) Tariq Jamil Khan (42301-3806856-1) Maqbool Ahmed Memon (41303-7492346-9) Imdad Ali Soomro (42501-4482858-5) Nuzhat Sultana (42201-4916110-8) Rashid Hameed Khan (42201-1723854-3) Samina Rashid Khan (42201-8997232-2)	Israr Alam Siddiqui Ahmad Hussain Abdul Jamil Khan Muhammad Sadiq Memon Ghous Bux Soomro Ahmed Hussain Abdul Hafeez Khan Rashid Hameed Khan	23.215	-	-	23.215	21.115	-	-	21.115
2	M/s. Pak Carriage Company Gulshan-e-Maymar Turning, New Sabzi Mandi, Scheme 33, Super Highway, Karachi	Habib-ur-Rehman Khan Khitaran (36302-0359384-5) Habib-ur-Rehman Khan Khitaran (36302-0328870-1)	Sardar Abdul Rehman Khan Khaitran Sardar Abdul Rehman Khan Khetran	6.435	-	-	6.435	6.435	-	-	6.435
3	M/s. New Khan Transport Company 55-Lawrence Road, Lahore	Haron Naseem (35201-1399642-5)	Muhammad Naseem	15.617	-	-	15.617	-	-	15.617	15.617
4	M/s. Trade ways International D-466, Roomi Street, Lalarukh, Wahcantt, Rawalpindi	Muhammad Aziz (37406-0526897-3)	Muhammad Hussain	5.950	1.097	-	7.047	-	1.728	-	1.728
5	Mr. Duraid Qureshi Plot No. 10/11, Hassan Ali Street, Off I.I. Chundrigar Road, Karachi	Duraid Qureshi (42301-6558491-3)	Shafi Muhammad Qureshi	187.768	27.080	-	214.848	-	27.080	-	27.080
6	M/s. Afghan Carpets D/16, Block-8, Ch. Khaliq-uz-Zaman Road, Clifton, Karachi	Pervaiz Hussain (42301-4454699-7)	Fazal-ur-Rehman	54.579 54.000	4.826 9.518	-	59.405 63.518	- -	6.227 12.341	-	6.227 12.341
7	M/s. Husnain Cotex Limited 242-Ahmed Block, New Garden Town, Lahore	Mohammad Yousuf Sheikh (35201-4478842-1) Razia Begum (35202-6312974-4) Dilshad Bagum (35201-0307899-6) Muhammad Yaqoob Sheikh (35201-9482496-5) Muhammad Ramzan Sheikh (35201-9041208-1) Muhammad Ayub Sheikh (35201-1544971-3) Shaikh Husnain Haider (35201-9499182-3) Kamran Yousuf (35201-9387496-5) Adnan Yousuf Sheikh (35201-7360083-9)	Mian Ghulam Nabi Muhammad Yousaf Sheikh Muhammad Yousaf Sheikh Muhammad Yousuf Sheikh Muhammad Yousuf Sheikh Muhammad Yousuf Muhammad Yousuf Muhammad Yousuf Sheikh	63.652	12.405	-	76.057	-	11.057	-	11.057
8	M/s. Eden Developers (Pvt.) Ltd. M-3 Floor, 82-E-1, Main Boulevard Gulberg III, Lahore	Muhammad Arshad (35202-8583890-7) Muhammad Amjad (35202-7697311-7)	Ghulam Hussain Ghulam Hussain	145.668	16.909	-	162.577	-	4.153	-	4.153
9	M/s. Habib Rafique (Pvt) Ltd. 6-K, Block - H, Gulberg - II, Lahore	Muhammad Rafiq (35202-0632760-9) Habib Ahmed (35202-2860865-9) Khalid Rafiq (35202-2860880-1) Muhammad Shahid Rafiq (35202-2939821-5) Zahid Rafiq (35202-2860883-1) Sajid Rafiq (35202-2860874-1)	Shaikh Abdul Aziz Abdul Aziz Muhammad Rafiq Muhammad Rafiq Muhammad Rafiq Muhammad Rafiq	179.704	48.835	-	228.539	-	26.539	-	26.539

ANNEXURE - 1

Annual Report 2012

Statement showing written-off loans or any other financial relief of five hundred thousands Rupees or above provided during the year ended 31 December 2012

(Rupees in million)

S. No.	Name and address of the borrowers	Name of individuals/ Partners/ directors with (CNIC No.)	Father's Husband's Name	Outstanding liabilities at beginning of the year			Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total (9+10+11)	
				Principal	Interest/ Mark-up	Others					
1	2	3	4	5	6	7	8	9	10	11	12
10	M/s. M. Inayat Engineering Works Javid Sheet Market, Gondlanwala Road, Gujranwala	Ifikhar Ahmed (34101-3773656-5)	Muhammad Hanif	6.099	1.011	-	7.110	-	0.505	-	0.505
11	M/s. Erum Silk Factory Plot No. L-18, Block-22, F.B.Area, Karachi, Mukhtar Market, Karachi	Amna Yahya (42101-8972095-6)	Muhammad Yahya	0.408	0.092	-	0.500	-	0.092	-	0.092
12	M/s. Unique Textile P/183, Mukhtar Market, Tikka Gali No. 3, Montgomery Bazar, Faisalabad	Abdur Razzaq (33102-1775807-5)	Ulfat Ali	-	1.114	-	1.114	-	0.494	-	0.494
13	M/s. Dar Es Salam Textile Mills Ltd. 63-B-1, Gulberg III, Lahore	Faisal Mukhtar (35200-1561125-1)	Ahmed Mukhtar	9.449	1.133	-	10.582	-	0.688	-	0.688
		Shaikh h Pervez Ashraf (35202-6738230-7)	Shaikh Muhammad Ashraf								
		Nilofer Mukhtar (61101-1836202-0)	Chaudhry Ahmed Mukhtar								
		Mahwesh Faisal Mukhtar (35201-1523109-0)	Faisal Mukhtar								
		Zulfiqar Ahmed (35202-4941853-1)	Nazar Muhammad								
Muhammad Ejaz Akbar Khan (35202-2732679-9)	Muhammad Akbar Khan										
Abida Mukhtar (35200-1492705-4)	Chaudhry Ahmed Mukhtar										
14	Mr. Imdad Ali Unar House No. 46 / 47, Housing Society Nawabshah	Imdad Ali Unar (45402-0974835-3)	Zainulabdin	6.480	0.570	-	7.050	-	0.570	-	0.570
15	Mr. Umaz Ali Unar House No. 46 / 47, Housing Society Nawabshah	Umaz Ali Unar (45402-0974830-1)	Zainulabdin	4.486	0.393	-	4.879	-	0.393	-	0.393
								27.550	91.867	15.617	135.034

PATTERN OF SHAREHOLDING

Annual Report 2012

Number of Share Holders	Shareholding		Total Shares Held	PERCENTAGE
	From	To		
3,109	1	100	118,412	0.01%
2,197	101	500	434,331	0.02%
1,745	501	1,000	1,345,882	0.07%
1,270	1,001	5,000	2,822,246	0.14%
281	5,001	10,000	2,153,095	0.11%
92	10,001	15,000	1,173,499	0.06%
53	15,001	20,000	957,603	0.05%
45	20,001	25,000	1,048,738	0.05%
31	25,001	30,000	873,637	0.04%
21	30,001	35,000	698,227	0.04%
9	35,001	40,000	337,653	0.02%
12	40,001	45,000	518,491	0.03%
16	45,001	50,000	778,564	0.04%
7	50,001	55,000	367,362	0.02%
3	55,001	60,000	173,605	0.01%
3	60,001	65,000	194,500	0.01%
3	70,001	75,000	225,000	0.01%
5	75,001	80,000	388,944	0.02%
3	80,001	85,000	252,543	0.01%
3	85,001	90,000	266,000	0.01%
3	90,001	95,000	279,212	0.01%
11	95,001	100,000	1,091,080	0.06%
2	100,001	105,000	205,001	0.01%
1	105,001	110,000	110,000	0.01%
2	115,001	120,000	235,460	0.01%
1	120,001	125,000	121,209	0.01%
2	125,001	130,000	256,000	0.01%
2	130,001	135,000	262,470	0.01%
1	135,001	140,000	140,000	0.01%
2	155,001	160,000	315,232	0.02%
2	160,001	165,000	325,000	0.02%
1	170,001	175,000	171,396	0.01%
2	175,001	180,000	355,099	0.02%
1	185,001	190,000	190,000	0.01%
1	190,001	195,000	190,500	0.01%
4	195,001	200,000	800,000	0.04%
2	200,001	205,000	405,026	0.02%
2	205,001	210,000	420,000	0.02%
1	215,001	220,000	219,750	0.01%
1	220,001	225,000	221,653	0.01%
1	235,001	240,000	235,500	0.01%
1	240,001	245,000	242,551	0.01%
1	245,001	250,000	250,000	0.01%
1	260,001	265,000	264,000	0.01%
1	270,001	275,000	271,000	0.01%
2	295,001	300,000	600,000	0.03%
1	300,001	305,000	300,458	0.02%
1	305,001	310,000	308,279	0.02%

PATTERN OF SHAREHOLDING

Annual Report 2012

Number of Share Holders	Shareholding		Total Shares Held	PERCENTAGE
	From	To		
1	320,001	325,000	325,000	0.02%
1	325,001	330,000	327,892	0.02%
1	360,001	365,000	364,000	0.02%
1	390,001	395,000	394,509	0.02%
1	395,001	400,000	400,000	0.02%
1	445,001	450,000	450,000	0.02%
1	450,001	455,000	452,421	0.02%
1	495,001	500,000	500,000	0.03%
1	540,001	545,000	540,540	0.03%
1	565,001	570,000	569,613	0.03%
1	595,001	600,000	600,000	0.03%
1	745,001	750,000	750,000	0.04%
1	855,001	860,000	860,000	0.04%
1	915,001	920,000	917,520	0.05%
1	945,001	950,000	946,000	0.05%
1	985,001	990,000	989,416	0.05%
1	995,001	1,000,000	1,000,000	0.05%
1	1,180,001	1,185,000	1,181,949	0.06%
1	1,330,001	1,335,000	1,333,839	0.07%
1	1,405,001	1,410,000	1,405,371	0.07%
1	1,680,001	1,685,000	1,683,994	0.09%
1	2,495,001	2,500,000	2,500,000	0.13%
1	2,535,001	2,540,000	2,540,000	0.13%
1	2,545,001	2,550,000	2,550,000	0.13%
1	2,995,001	3,000,000	3,000,000	0.15%
1	3,515,001	3,520,000	3,515,798	0.18%
1	4,595,001	4,600,000	4,600,000	0.24%
1	4,650,001	4,655,000	4,652,697	0.24%
1	4,875,001	4,880,000	4,876,917	0.25%
1	4,995,001	5,000,000	5,000,000	0.26%
1	5,105,001	5,110,000	5,106,024	0.26%
1	8,845,001	8,850,000	8,845,101	0.45%
1	10,470,001	10,475,000	10,474,465	0.54%
1	10,585,001	10,590,000	10,585,480	0.54%
1	11,690,001	11,695,000	11,695,000	0.60%
1	19,855,001	19,860,000	19,858,649	1.02%
1	19,905,001	19,910,000	19,906,041	1.02%
1	19,970,001	19,975,000	19,972,062	1.02%
1	33,285,001	33,290,000	33,286,769	1.71%
1	106,685,001	106,690,000	106,687,489	5.47%
1	1,631,300,001	1,631,305,000	1,631,302,898	83.62%

9,002

1,950,861,662

100.00%

CATEGORIES OF SHAREHOLDERS

Categories of Share Holders	Number of Shares Held
INDIVIDUALS	75,974,423
INVESTMENT COMPANIES	2,883
JOINT STOCK COMPANIES	143,603,500
DIRECTORS, CHIEF EXECUTIVE OFFICER, THEIR SPOUSE AND MINOR CHILDREN	
SUN SHUI	500
AIZAZ SARFRAZ	500
ASHRAF M. HAYAT	500
LEON SEYNAVE	1,902
SYED TARIQ HUSSAIN GILANI	500
MUNEER KAMAL	942
TARIQ MUHAMMAD ALI RANGOONWALA	6,269
SYED MAJEEDULLAH HUSAINI	1
EXECUTIVES	138,275
NIT / ICP	-
MUTUAL FUNDS	
NATIONAL BANK OF PAKISTAN-TRUSTEE DEPARTMENT NI(U)T FUND	989,416
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	
KASB SECURITIES LIMITED	19,858,649
KASB FINANCE (PRIVATE) LIMITED	1,631,302,898
PUBLIC SECTOR COMPANIES AND CORPORATIONS	-
BANKS, DFIs, NBFIs, INSURANCE COMPANIES, TAKAFUL MODARABAS AND PENSION FUNDS	7,409,127
FOREIGN INVESTORS	71,541,169
CO-OPERATIVE SOCIETIES	-
CHARITABLE TRUSTS	79
OTHERS	30,129

	Shareholders	Shareholding	Percentage
INDIVIDUALS	8,841	75,974,423	3.89%
INVESTMENT COMPANIES	5	2,883	0.00%
JOINT STOCK COMPANIES	81	143,603,500	7.36%
DIRECTORS, CHIEF EXECUTIVE OFFICER, THEIR SPOUSE AND MINOR CHILDREN	10	11,114	0.00%
EXECUTIVES	10	138,275	0.01%
NIT / ICP	-	-	0.00%
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	2	1,651,161,547	84.64%
PUBLIC SECTOR COMPANIES AND CORPORATIONS	-	-	0.00%
MUTUAL FUNDS	1	989,416	0.05%
BANKS, DFIs, NBFIs, INSURANCE COMPANIES, TAKAFUL MODARABAS & PENSION FUND	16	7,409,127	0.38%
FOREIGN INVESTORS	34	71,541,169	3.67%
CO-OPERATIVE SOCIETIES	-	-	0.00%
CHARITABLE TRUSTS	1	79	0.00%
OTHERS	1	30,129	0.00%

9,002 1,950,861,662 100.00%

SHAREHOLDERS HOLDING FIVE PERCENT OR MORE VOTING INTEREST IN THE LISTED COMPANY

	No. of Shares Held	Percentage
KASB FINANCE (PRIVATE) LIMITED	1,631,302,898	83.62%
FIRST CAPITAL EQUITIES LIMITED	109,187,516	5.60%
TOTAL	1,740,490,414	89.22%

TRADE IN SHARES BY DIRECTORS, EXECUTIVES, THEIR SPOUSES AND MINOR CHILDREN

	No. of Shares	Purchase / Sale / Transfer
HARIS IJAZ CHAUDHARY	509	PURCHASED
AHMED HAMMAD SAEEDI	504	PURCHASED
MAQBOOL AHMED	1,013	SOLD
MUZAFFAR ALI SHAH BUKHARI	21,127,299	TRANSFERRED
AAMIR ALI AFGHANI	41,945	PURCHASED

KARACHI BRANCHES

Main Branch
Tel: (021) 32446005-10 / 32446772-77
Fax: (021) 32446781
UAN: 111 555 666

Jodia Bazar Branch
Tel: (021) 32521351-4
Fax: (021) 32521357

Cochinwala Branch (Sub Branch)
PABX No. (021) 32462703-5
FAX No. (021) 32467643

Korangi Branch
Tel: (021) 35078922-25
Fax (021) 35078926

Preedy Street Branch
PABX No (021) 32724121, 32724135,
32724178
Fax (021) 32725175

Electronic Market Sadar Branch (Sub Branch)
PABX No. (021) 32700561-63
Fax No. (021) 32700567

DHA Shahbaz Branch
PABX No. (021) 35349154-7
Fax No.(021) 35349149

DHA Phase VI Branch (Sub Branch)
PABX (021) 35242734-37
FAX No. (021) 35242739

Defence Phase IV Branch (Sub Branch)
PABX (021) 35312961-4
Fax No. (021) 35312966

Garden Branch
PABX No. (021) 32292041-43
FAX No. (021) 32292046

Gulshan-e-Iqbal Branch
Tel: (021) 34981330-31
Fax: (021) 34981334

Gulshan Chowrangi Branch (Sub Branch)
PABX No. (021) 34832541-3
FAX No. (021) 34832548

New Challi Branch
PABX No. (021) 32601231-33
Fax No. (021) 32601337

Shaheed-e-Millat Road Branch
PABX No (021) 34145183-84-86
Fax No. (021) 34145187

Dohraji Branch (Sub Branch)
PABX No. (021) 34860180-2
Fax No. (021) 34860184

Khalid Bin Waleed Branch (Sub Branch)
PABX (021) 34302806-9
Fax No. (021) 34302813

SITE Branch
PABX No (021) 32550391-3
Fax (021) 32550395

Shahrah-e-Faisal Branch
Tel: (021) 34313236-38
Fax: (021) 34538638

Muhammad Ali Society Branch (Sub Branch)
PABX No. (021) 34306061-3
FAX No. (021) 34306066

Manzoor Colony Branch (Sub Branch)
PABX No. (021) 35392805-7
FAX No. (021) 35392810

Hyderi Branch
PABX (021) 36724280-3-4
Fax No. (021) 36724282

Nazimabad (Sub Branch)
PABX No. (021) 36611909-12-13
Fax (021) 36611909

F.B. Area Karimabad Branch (Sub Branch)
PABX No. (021) 36826728/31/35
FAX No. (021) 36826805

Karachi Stock Exchange Branch
Tel: (021) 32473560-63
Fax (021) 32473564

DHA Phase 1 Branch
PABX No. (021) 35314121-3
Fax No. (021) 35314127

Gulistan-e-Johar Branch
PABX No. 34029901-3
Fax No. 34029902

Malir City Branch
PABX No. (021) 34117381, 34110812 / 822
FAX No. (021) 34117452

Clifton Branch
PABX No.: (021) 35879207, 35879170,
35879215
Fax: (021) 35879134

Shireen Jinnah (Clifton) (Sub Branch)
PABX No. (021) 35305581-3
FAX No. (021) 35374579

LAHORE BRANCHES

Defence Branch
PABX No: (042) 35731811, 35740083
Fax: (042) 35722228

DHA-G Branch (Sub Branch)
PABX (042) 35690987-8
Fax No. (042) 35690986

Johar Town Branch
PABX (042) 35220813-5
Fax No. (042) 35220819

Baghbanpura Branch
PABX No. (042) 36820445-6
FAX No. (042) 36820447

Mughalpur Branch (Sub Branch)
PABX No. (042) 36524880-3
FAX No. (042) 36524887

Gulshan-e-Ravi Branch
PABX No. (042) 37415063-83-86
FAX No. (042) 37414892

Raiwind Road Branch
PABX No:(042) 35426923, 35437893
Fax (042) 35426926

Abbot Road Branch
PABX No: (042) 36305143-44
Fax: (042) 36305142

Mozang Branch (Sub Branch)
PABX No. (042) 36371254-6
Fax No. (042) 36371504

Shadman Town Branch (Sub Branch)
PABX No. (042) 37569488-9
Fax: (042) 37569487

Lahore Stock Exchange Branch
PABX No: (042) 36367794-97
Fax No : (042) 36280804

Peco Road Branch
PABX No:(042) 35144951-4
FAX NO:(042) 35144955

Shah Alam Branch
PABX No: (042) 37656501, 37658221
FAX NO:(042) 37658275

Allama Iqbal Town Branch
PABX (042) 35424951-3
Fax No. (042) 35436226

Wahdat Road Branch (Sub Branch)
PABX (042) 35912863-4
Fax No. (042) 35912862

Circular Road Branch
PABX No: (042) 37639040-42
Fax: (042) 37660649

Shadbagh Branch (Sub Branch)
PABX No. (042) 37600953/986
FAX No. (042) 37600960

Gulberg Branch
PABX No: (042) 35764288-9
Fax No: (042) 35755358

Jail Road (KASB House) (Sub Branch)
PABX No. (042) 35776723-5
FAX No. (042) 35875013

Model Town Branch (Sub Branch)
PABX No. (042) 35915673-6
FAX No. (042) 35915677

BRANCH NETWORK

ISLAMABAD BRANCHES

Islamabad Branch
PABX No: (051) 2826181- 83
Fax: (051) 2826184
UAN: 111 555 666

F-11 Markaz Branch
PABX No. (051) 2111533-4
Fax No. 051 2111532

Rawat Branch
PABX No. (051) 4612413-5
FAX No. 051-4612418

G-10 Markaz Branch (Sub Branch)
PABX No. (051) 2819211-3
Fax No. 051 2819214

I-9 Markaz Branch (Sub Branch)
PABX No. (051) 4858395-97
FAX No. 051-4858401

SIALKOT BRANCH

Sialkot Branch
PABX No: (052) 3241671-74
Fax (052) 3241679

Kashmir Road (Sialkot) (Sub Branch)
PABX No. (052) 3242650-3
Fax No. 052-3242658

MULTAN BRANCH

Multan Branch
PABX No: (061) 4587701-3
Fax No: (061) 4587705

Bosan Road Multan Branch (Sub Branch)
PABX No. (061) 6210213-4
Fax No. 061-6210219

GUJRANWALA

Gujranwala Branch
PABX No: (055) 3252348 / 3252353
Fax: (055) 3254529

Gujranwala G.T. Road Branch (Sub Branch)
PABX No. (055) 4294014-6
FAX No. (055) 4274016

RAWALPINDI BRANCHES

Rawalpindi Branch
PABX No: (051) 5527840-43
Fax: (051) 5527844

Chandni Chowk Branch
PABX No. (051) 4417049-50
Fax No. 051 4417051

Bahria Town Rawalpindi Branch
PABX No: (051)5730371-3
Fax: (051) 5730376

Raja Bazar Branch (Sub Branch)
PABX No. (051) 5777451-2
Fax No. 051 5777453

Bahria Town Phase VIII Branch (Sub Branch)
PABX No. (051) 5705651-5705652-5705653
FAX No. (051) 5705658

PESHAWAR BRANCHES

Peshawar Branch
PABX No: (091) 5279432 / 5279425
Fax: (091) 5279838

Hayatabad Branch
PABX No. (091) 5830024-8
Fax No. 091 5830025

Sowari (Home Remittance Payment Centre)
Tel: 0345-8266441, 0345-8266442

University Road Branch (Sub Branch)
PABX No. (091) 5711526-7
Fax No. 091 5711529

HYDERABAD BRANCH

Hyderabad Branch
Tel: (022) 2729917-18
Fax: (022) 2785977
UAN: 111 555 666

Hyderabad Market Branch (Sub Branch)
PABX (022) 2636660-2
Fax 022 2636275

MIRPUR (AJK)

Mirpur (A.K.) Branch
PABX No: (058610) 42841 / 44877
Fax: (058610) 42742
UAN: 111 555 666

Chaksawari Branch
PABX No. 05827-454810-11
FAX No. 05827-454814

GUJRAT BRANCHES

Gujrat Branch
PABX:(053)-3517966-69
Fax (053) 3517965

Lala Musa (Sub branch)
PABX No. (053) 751905-8

OTHER CITIES

<p>Faisalabad Branch PABX NO (041) 2649667-70 Fax: (041) 2649672</p>	<p>Jhelum Branch PABX No. (0544) 622385/6 Fax No. 0544-622938</p>	<p>Sargodha Branch PABX No. (048) 3768121-3 Fax No. 048 3768122</p>
<p>Sukkur Branch Tel: (071) 5619083-4 Fax No. (071) 5619088</p>	<p>Kharian (Sub Branch) PABX No. (053) 7610629-36</p>	<p>Jacobabad Branch PABX No. (0722) 654804/5 FAX No. (0722)654801</p>
<p>Quetta Branch Tel: (081) 2842531, 2836518 Fax: (081) 2842531 UAN: 111 555 666</p>	<p>Dina (Sub Branch) PABX No. (0544) 631171-3 / 80</p>	<p>Rahimyarkhan Branch PABX No. (068) 5871901-3 Fax No. 068 5871908</p>
<p>Fateh Jang Branch PABX No. (051) 2210244-6 Fax No. 051-2210249</p>	<p>Dinga (Sub Branch) PABX No. (0537) 405061-62</p>	<p>D.G.Khan Branch PABX No. (064) 2471560-2 FAX No. (064) 2471566</p>
<p>Nawabshah Branch PABX No (024) 4330304-5 FAX No (024)-4330307</p>	<p>Kamoki Branch PABX No. (055) 6814580-2 FAX No. (055) 6814584</p>	<p>Mirpurkhas Branch PABX (0233) 874612-4 Fax No. (0233) 874615</p>
<p>Sadiqabad Branch PABX No. (068) 5800067-69 FAX No. (068) 5709114</p>	<p>Jhang Branch PABX No. (047) 7651670-2 FAX No. (047) 7651676</p>	<p>Gujjar Khan Branch PABX No. (0571) 3511903-5 FAX No. (0571) 3511913</p>
<p>Mandi Bahaudin Branch PABX No. (054) 6507207-9 FAX No. (054) 6507210</p>	<p>Kandhkot Branch PABX No.(0722) 570041-43 FAX No. (0722) 570044</p>	<p>Sambriyal Branch PABX No. (052) 6521003-5 FAX No. (052) 6521006</p>
<p>Bahawalpur Branch PABX No. (062) 2880701-3 FAX No. (062) 2880704</p>	<p>Ghourghashti Branch PABX No. 057-2871291-2871292 FAX No. 057-2871393</p>	<p>Sheikhupura Branch PABX No. (056) 3780984-6 FAX No. (056) 3780987</p>
<p>Kasur Branch PABX No. (049) 2720697-98-2763823 FAX No. (049) 2763824</p>	<p>Mehar Branch PABX No. (0254) 730375 FAX No. (0254) 730376</p>	<p>Okara Branch PABX No. (044) 2520526-8 FAX No. (044) 2520590</p>
	<p>Vehari Branch PABX No. (067) 3360515-7 FAX No. (067) 3360519</p>	<p>Sahiwal (Sub Branch) PABX No. (040) 4228801</p>
	<p>Sanghar Branch PABX No. (023) 5541479-80-5541478 FAX No.</p>	

FORM OF PROXY

A
n
n
u
a
l
R
e
p
o
r
t
2
0
1
2

EIGHTEENTH ANNUAL GENERAL MEETING

The Company Secretary,
KASB Bank Limited
Razia Sharif Plaza (Basement),
Jinnah Avenue, 90-Blue Area,
Islamabad.

I/We _____

of _____ being member(s)

of KASB Bank Limited holding _____

Ordinary share(s) hereby appoint _____

of _____ or failing him/her _____

of _____ who are also member(s) of the Bank, as my/our proxy

in my/our absence to attend and vote for me/us, and on my/our behalf at the Eighteenth Annual General Meeting of the Bank to be held on Tuesday, April 30, 2013 at 11:00 AM at the Registered Office of the Bank at Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad and/or any adjournment thereof.

As witness my/our hand this _____ day of _____ 2013

Shareholder Folio No.
Or
CDC Participant I.D. No.
&
Sub Account No.

Signature on
Five Rupee
Revenue Stamp

The signature should
agree with the
specimen registered
with the Company

NOTES:

1. This proxy form, duly completed and signed, must be received at the Registered Office of the Bank, Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad, not less the 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he/she himself/herself is a member of the Bank, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy, and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.
4. CDC shareholders and their proxies are each requested to attach an attested photocopy of their National Identity Card or passport with this proxy form before submission to the Company.