Corporate Information

Board of Directors	*Chairman*	:	H. U. Beg
	Directors	:	Nasir Ali Shah Bukhari Sohail Wajahat H. Siddiqui Tariq M. Rangoonwala N. K. Shahani Muneer Kamal Syed Asghar Ali Shah
President / Chief Executive Officer			Muneer Kamal
Audit Committee	*Chairman*	:	H. U. Beg Tariq M. Rangoonwala N. K. Shahani
Human Resource & Remuneration Committee	*Chairman*	:	Nasir Ali Shah Bukhari H. U. Beg Muneer Kamal
Risk Management Committee	*Chairman*		Nasir Ali Shah Bukhari Tariq M. Rangoonwala N. K. Shahani Muneer Kamal
Company Secretary			Muhammad Hamidullah
Chief Financial Officer			Laila Humayun
Auditors			A. F. Ferguson & Co.
Legal Advisors			Ghulam Ali & Co.
Registered Office and Head Office			Business & Finance Centre, I.I. Chundrigar Road, Karachi Tel : (92-21) 2446772-77 Fax : (92-21) 2446828 & 2446865
Regional Office, Lahore			76-B, E-1, Main Boulevard, (Next to Hafeez Centre,) Gulberg-III, Lahore-54000. Tel : (92-42) 5764288-9 Fax : (92-42) 5755358 & 5760079
Registrar and Share Transfer Office			Noble Computer Services (Pvt.) Ltd. 2nd Floor, Sohni Centre, BS 5&6, Main Karimabad, Block-4, Federal 'B' Area, Karachi. Tel : (92-21) 6801880-2 Fax : (92-21) 6801129

NOTICE OF THE THIRTEENTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Thirteenth Annual General Meeting of KASB Bank Limited ("the Bank") will be held on Friday, March 28, 2008 at 5:00 p.m. at Pearl Continental Hotel, Club Road, Karachi to transact the following business:

1. To confirm the Minutes of the Extraordinary General Meeting held on June 28, 2007.

2. To adopt the annual audited accounts of the Bank and the consolidated annual audited accounts of the Bank for the year ended December 31, 2007 together with the Directors' and Auditors' Reports thereon.

3. To appoint auditors for the year ending December 31, 2008 and to fix their remuneration.

4. To elect seven directors as fixed by the Board in accordance with the provisions of Section 178 (1) of the Companies Ordinance, 1984 for a period of three years in place of the following retiring directors who are also eligible for election:

   I. Mr. H. U. Beg
   II. Mr. Nasir Ali Shah Bukhari
   III. Mr. Sohail Wajahat H. Siddiqui
   IV. Mr. Tariq M. Rangoonwala
   V. Mr. N. K. Shahani
   VI. Mr. Muneer Kamal
   VII. Syed Asghar Ali Shah

5. SPECIAL BUSINESS:

   To consider remuneration of the Directors of the Bank.

6. To transact any other business with the permission of the Chair.

By Order of the Board

Muhammad Hamidullah
Company Secretary

Place: Karachi
Date: March 5, 2008

NOTES:

1. The Share Transfer Books of the Bank will be closed from March 26, 2008 to April 1, 2008 (both days inclusive).
2. Any person who seeks to contest the Election of Directors shall file the following with Company Secretary of the Bank at Business & Finance Centre, I.I. Chundrigar Road, Karachi not later than fourteen days before the day of the above said meeting:-

(i) His/her intention to offer himself/herself for election of Directors in terms of Section 178(3) of the Companies Ordinance, 1984, together with (a) consent on Form-28 as prescribed by the Companies Ordinance, 1984 ("the Ordinance"), (b) a Declaration with consent to act as Director as prescribed vide clause (ii) of the Code of Corporate Governance ("the Code") of SECP confirming his/her awareness of the duties and powers of the Directors under the Ordinance, listing regulations of the Stock Exchanges and the Memorandum & Articles of Association of the Bank and (c) a Declaration in accordance with clauses (iii) and (iv) of the Code (d) a declaration about his/her being a candidate as an independent director as required in “Fit & Proper Test” criteria of State Bank of Pakistan besides declaring that he/she is not ineligible to become a Director of the Bank under any circular or directive of State Bank of Pakistan/SECP.

(ii) A specified affidavit as prescribed in State Bank of Pakistan BPRD Circular No.4 dated 23rd April, 2007 concerning “Fit & Proper Test” together with prescribed Questionnaire along with recent photograph and copy of NIC (Passport in case of foreign national). Copy of the circular may be obtained from the website of State Bank of Pakistan or from the office of the Company Secretary of the Bank before the last date.

(iii) As per the prescribed criteria of State Bank of Pakistan such person as Director has been considered undesirable and against public interest who is (a) associated with any illegal activity especially relating to banking affairs, (b) who in his/her individual capacity or a proprietary concern or any partnership firm or any private limited company or an unlisted public company or any listed public company (of which he/she has been a proprietor, partner, director or shareholder) has been in default of payment of dues owed to any financial institution and/or is/has been in default of payment of any taxes.

3. 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 (Business & Finance Centre, I.I. Chundrigar Road, Karachi) not less than forty-eight hours before the meeting.

4. 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, Noble Computer Services (Private) Limited, 2nd Floor, Sohni Centre, Main Karimabad, Block-4, Federal B Area, Karachi.

5. 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.

6. Statement of material facts under section 160 (1) (B) of the Companies Ordinance, 1984 about Special Business is given hereunder:

STATEMENT OF MATERIAL FACT UNDER SECTION 160 (1) (B) OF THE COMPANIES ORDINANCE, 1984 CONCERNING SPECIAL BUSINESS

The Board of Directors of the Bank in their meeting of June 05, 2007 approved to pay reasonable and appropriate remuneration to the non executive directors of the Bank for attending the meetings of the Board and its committees, linking the payment to the number of meetings attended inline with the Prudential Regulation of State Bank of Pakistan. Accordingly, the Board of Directors of the Bank approved to pay Rs. 75,000/- per meeting to non executive directors.

Except to the extent mentioned above and their respective shareholding in the bank, the Directors of the Bank have no other direct or indirect interest in the matter. The following resolution will be presented in Annual General Meeting for approval of the shareholders by way of Ordinary resolution:

‘RESOLVED THAT the payment of Rs. 75,000/- per meeting being made to all non-executive directors of KASB Bank Ltd., for attending the Board meetings and the meetings of its committees as decided by the board be and is hereby approved’.

DIRECTORS' REPORT TO THE SHAREHOLDERS

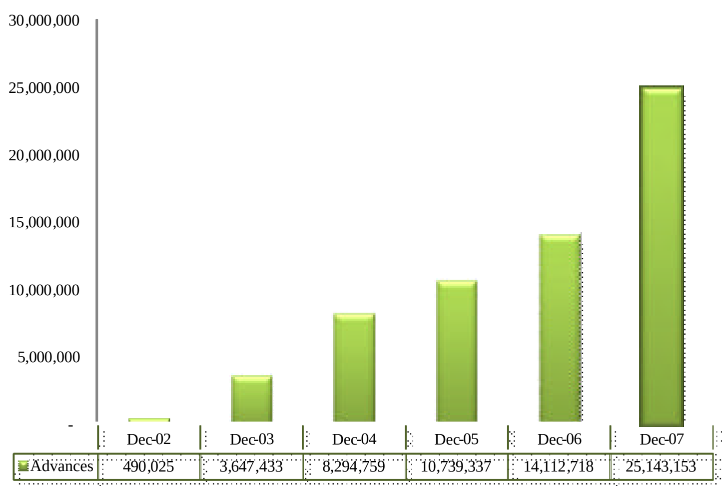
I have the privilege of presenting, on behalf of the Board of Directors of your Bank, the Thirteenth Annual Report of your Bank containing the audited financial statements of KASB Bank Limited and consolidated financial statements of the Bank and its subsidiary for the year ended December 31, 2007.

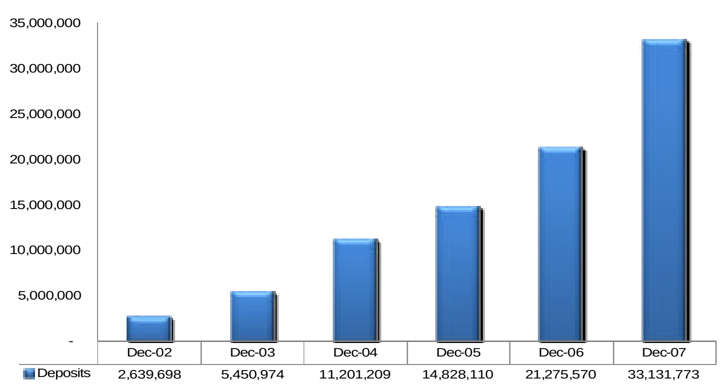
2007 - PREPARATION FOR TAKE-OFF

The year, 2007 was focused on preparing the Bank for an aggressive growth strategy for the coming years. We did that by developing the proper control mechanisms (i.e. risk management, internal control and internal audit), investing heavily in our core banking system, designing strategic business relationships including new consumer products, relentlessly following our "mantra" that customer satisfaction and service quality are to be the key differentiating factor for the Bank.

We invested in these segments and our strategy not only enabled us to obtain an entity rating upgrade but we also managed to gain confidence with our customers resulting in an 78% increase in advances and an 56% increase in deposits.

There is considerable increase in the balance sheet size with the Total Assets increasing to Rs. 40,891 million (2006: Rs. 26,538 million, an increase of 54%), Advances increased to Rs. 25,143 million (2006: Rs. 14,112 million, an increase of 78%), and Deposits increased to Rs. 33,131 million (2006: Rs. 21,275 million, an increase of 56%).





The bottom line of the Bank has also improved from a profit of Rs. 137 million to a profit of Rs. 198 million. This increase in the bottom line has been despite the aggressive drive to recognize the delinquent portfolio and provide adequately against the NPLs. This year we had the additional provisioning as a result of removal of the Forced Sale Value benefit amounting to Rs. 157.9 million, which if the regulation had not changed would have enabled the profitability of the bank to be significantly higher.

We have eliminated the accumulated losses to a large extent. We will be paying out a dividend to our valued shareholders when we completely wipe-off these accumulated losses.

In our consumer and retail banking business we follow a multi-product strategy. We have successfully launched branded liability products such as:

- Mahana Khazana
- Maheena Asaan
- Business Flex.
- Cash Assan
- Ghar Asaan
- Karobar Asaan
- Education Asaan

This year we launched two consumer products, Cash Asaan and Ghar Asaan. These products are now part of our consumer product menu and are expected to be significant part of the Bank's advances.

KASB Bank is offering Personal loans in two variants, Cash Asaan, Installment and Revolving. The Cash Asaan facility enables customers to bridge their financial gaps for the purpose of obtaining consumer durable items, going on vacations, arranging children's wedding, renovating home, paying for children's education, consolidating high price debts and other general expenses. Some of the key features of the product include: Balance Transfer Facility, Credit limits up to PKR 2 Million, ATM/Debit Card, Credit Shield, etc.

Focus is on KASB Bank **Ghar Asaan** product which is primarily a housing finance product offering unmatched flexibility to customers with loan amounts ranging from PKR 300,000 to PKR 20 million, loan tenures ranging from 3 years to 20 years, affordable monthly installments, income clubbing option with blood relations and additionally property & life mortgage insurance. The acquisition of International Housing Finance enables us to gain the expertise of the oldest private sector mortgage finance company in Pakistan.

We launched Ghar Asaan and Cash Asaan (Installment) at the end of 2007. Cash Asaan (Revolving) has been launched in 2008. We will be seeing a significantly higher contribution from these products in this year, with a full year impact in advances booked and their revenues.

We launched a unique consumer product, in 2006, Education Asaan, a customized product designed specifically to provide flexibility and convenience to parents, facilitating them in making timely and hassle free payments against their child's education. This product is expected to be a stable piece in our consumer asset product menu. We believe that not only this is a product for today, but the end-users of this product will be our bank's future customers. We are not only developing an asset base today, but are also building a future customer base.

Karobar Asaan is a revolving credit line facility for individuals & secured against real estate mortgage. The main product features include, credit through equity unlock (real estate mortgage), financing to self employed business individuals, professionals & directors of private limited companies, and financing against residential properties.

KASB Bank offers its customers the facility to pay their utility bills. Customers just need to register their bill consumer number with the bank and subsequently start paying their bills through KASB Bank. This service is available round the clock. Customers have the option of either using their ATM, Call Centre or the Online Banking Site of the Bank.

We have also introduced e-banking, enabling customers to access all their account related information on the web. This service also enables customers to generate statements, transfer funds, and make bill payments. With time we will be offering more options on e-banking enabling the bank's customers to take care of their financial transactions any time and from any place.

KASB Connect is a state-of-the-art countrywide Toll-Free contact center, with IV Personalized Services round-the-clock. This enables our customers to have a 24 and seven days a week a year access to Call Centre officers to assist them with banking needs and to use all phone banking services, such as balance inquir payment, request statements and information from their phones.

While our product menu has grown in 2007, the focus on the control mechanisms, information technology and service quality have been of paramount importance to the bank. The following is a brief on these key areas:

1. Inculcating a Service Culture Across KASB Bank

The establishment of service quality at KASB Bank was a major initiative, with full commitment and support of the President down to the junior most staff. KASB Bank is the only local bank with a service quality department in Pakistan. In this increasingly competitive business, service will be the key differentiating factor to attract and retain business, thus we believe that the focus on service quality will not only increase customer satisfaction but going forward will translate in a healthy bottom line. We have relentlessly focused on service standards across all areas of the bank, with continuously upgrading our Internal Service Measures, showing tremendous improvement in the Mystery Shopping Program and Customer Satisfaction Survey reports that are conducted by external agencies.

2. MISYS Conversion & Strengthening the Technology Platform

Technology is one of the most important ingredients in today's business. it is even more so in banking. The KASB Group is extremely technology conscious and the Bank had decided to upgrade its banking software in 2006. The implementation of state of the art software from Misys in all 35 branches across Pakistan was completed on May 2, 2007, in a record time of 12 weeks making our system a real time, online system. This has been one of the fastest conversions onto Misys. This has been acknowledged by the Misys team. The lead that KASB Bank has achieved over its peers by the quick implementation will be further strengthened by adding on new applications from Misys like Cash and Trade Portal and Internet Banking modules.

Given the importance of ensuring the safety and security of data and being able to ensure that the bank's operations are not affected in case of any untoward event that may not allow the staff to work out of their designated office space, the Bank has a Disaster Recovery Plan. Disaster recovery arrangements with IBM are in place and have been successfully tested.

3. Risk Management Progress

The risk management unit was further strengthened by adding experienced personnel and developing and implementing further policies and procedures to strengthen our Bank. The cornerstone of our risk management framework is a strong risk management culture, supported by a robust enterprise-wide set of policies, procedures and limits, which involve our risk management professionals, business segments and other functional teams. This partnership is designed to ensure the ongoing alignment of business strategies and activities with our risk appetite.

The status of the Basel II implementation vis-à-vis various risks is being addressed at KASB Bank. For ***Credit Risk*** we are currently manually calculating Capital Adequacy Ratio (CAR). The Bank is in the process of fully automating this procedure. Apart from adopting the standardized approach for credit risk, the bank is also conducting feasibility studies for the transition onto the advanced approaches. The Bank is fully compliant with the standardized approach for ***Market Risk*. It has purchased a Market Risk software from a local vendor which will facilitate with automatic computation of CAR and also has the capability to adopt the advanced measurement approach for market risk. The Bank is fully compliant with the Basic Indicator Approach for Operational Risk. Going forward, the bank plans to implement the COSO framework and it is in the process of identifying Key Risk Indicators. The Bank is focused on strengthening the ***Pillar II*** requirements and is in the process of developing an internal capital adequacy assessment process (ICAAP). The Bank is compliant with the disclosure requirements set out by the State Bank of Pakistan (***Pillar III***). The Bank has been preparing and reporting quarterly statements of Minimum Capital Requirements (as required under the parallel run by the State Bank of Pakistan).

4. Internal Control

KASB Bank is focused on enhancement of internal controls. We have appointed an external consultant to assist in implementing an effective internal control framework (COSO). The project kicked off in last quarter of 2007 and is expected to complete by June 30, 2008. The project will cover reviews of the existing internal controls system at KASB. This would involve documentation of business processes highlighting existing control procedures and review of control environment within the Bank to identify Entity Level Controls. The project would facilitate evaluation of the existing internal controls system against best practices (COSO), identify gaps and recommend changes to existing procedures to fill these gaps so as to ensure compliance with best practices

5. Strengthening Human Resource

While we realize that the a combination of viable product offering, a state of the art technology platform, a strategic plan to chart the bank's direction, risk management, internal control, and a culture of service quality are extremely important, all these cannot be achieved without the "right" people. In 2007, we continued to supplement and enhance our human capital. We truly believe that the right person in the right job is one of the most important assets that any organization can have.

6. The Merger of IHFL

A key decision of our principal sponsor, the directors and the management was to merge International Housing Finance Limited (IHFL) into KASB Bank. This was a strategic acquisition by our principal sponsor and we received the approval of the merger from the State Bank of

Pakistan on October 30, 2007. The effective date of the merger was November 21, 2007 after which all the assets and liabilities of IHFL are merged with KASB Bank. The transaction also resulted in an additional share capital of Rs. 585 million through a share swap in accordance with the Scheme of Amalgamation. The merger also resulted in incremental assets over Rs. 650 million for the Bank. We officially launched our Ghar Asaan product at the time of the merger and the existing portfolio of IHFL has given us a platform to enhance home mortgage financing.

We believe that mortgage financing is one of the most important consumer assets. Worldwide, mortgage financing is the largest portion of consumer assets and we believe that going forward this will have to be the case in Pakistan as well.

7. Annual Branch Expansion Plan

The State Bank has granted our bank approval to open an additional 18 branches and 20 sub-branches. This will further strengthen our branch network and outreach to customers and will enable the bank to access newer markets and enter geographical areas where we currently have no presence.

8. Restructuring of KASB Group and the Creation of KASB Capital

There has been significant restructuring of the KASB Group. This restructuring has involved separating the non-banking financial businesses of the KASB Group from the Bank. This has resulted in the formation of KASB Capital, a non-banking financial conglomerate. KASB Capital Limited, has successfully raised Rs. 2 billion (US$ 33 million) through a private placement of equity to GLG Emerging Markets Special Situation Fund (managed by GLG Partners LP – England), Tikahau Asia (a subsidiary of Tikahau Group – France) and Liberty Harbor (a partner of Goldman Sachs Asset Management). Under the terms of the placement these investors have taken a 35% stake in KASB Capital Limited. Under the new structure, KASB Capital Limited is the holding company of KASB Securities Limited and KASB Funds Limited. The Bank divested its stake in KASB Securities (100%) of Rs. 300 million and KASB Funds (30%) of Rs. 30 million, and has sold the stake to KASB Capital for Rs. 680 million. The Bank has also invested in 68 million shares of KASB Capital Limited which translates in a 27.5% shareholding of the new entity. We feel that this investment will result in substantial future gains in the form of dividend income and appreciation of the value of the investment.

We strongly believe that 2008 will be the year when the asset growth (inclusive of higher yielding consumer assets) will be able to deliver the expected profitability for the shareholders. This was the year we were preparing to take-off – 2008 onwards the bank will take off.

CORPORATE GOVERNANCE

The management and the Board are very conscious of the requirements of good governance. The following requisites have been duly met in managing the Bank in compliance of the best practices:

? 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 of the Bank have been maintained.
? Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are reasonably correct and based on prudence.
? 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 with 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 given with the Directors' Report.
- No loans have been allowed to any of the Directors and their own concerns and associates. There is no outstanding statutory payment on account of taxes, duties, levies and charges.

Employee Benefits Scheme

Value of investments of Employees' Provident Fund based on its initialed accounts for the period ended June, 2007 is Rs.55.881 million out of which the Principal amount is Rs.52.092 million.

Share Acquisitions by Directors

The following acquisitions of shares were made by the Directors of the Bank during the year 2007:

- Allotment of 70,762 shares of the Bank in the name of Mr. H. U. Beg, Chairman on subscription to the Right Shares offer.
- Allotment of 5,641,595 shares of the Bank in the name of Mr. Nasir Ali Shah Bukhari, Director on subscription of Right Shares offer. Further allotment of 32,718,879 shares against the shares of International Housing Finance Ltd. (IHFL) on its merger with the Bank as per the sanction of the Scheme of Amalgamation by State Bank of Pakistan. Besides, 945,217 shares in the name of the spouse Mrs. Ambreen Bukhari were allotted on subscription of Right Shares offer.
- Allotment of 77 shares of the Bank in the name of Mr. Sohail Wajahat H. Siddiqui, Director on subscription to the Right Shares offer.
- Allotment of 332 shares of the Bank in the name of Mr. Tariq M. Rangoonwala, Director on subscription to the Right Shares offer.
- Allotment of 1,462 shares to late Mr. Irtiza Husain, Director against the shares of IHFL on its merger with the Bank as per the sanction of the Scheme of Amalgamation by State Bank of Pakistan.
- Allotment of 19,500 shares of the Bank in the name of Mr. N. K. Shahani against the shares of IHFL on its merger with the Bank as per the sanction of the Scheme of Amalgamation by State Bank of Pakistan.
- Allotment of 50 shares of the Bank in the name of Mr. Muneer Kamal, Director & Chief Executive on subscription to the Right Shares offer and further allotment of 27,300 shares against the shares of IHFL on its merger with the Bank as per the sanction of the Scheme of Amalgamation by State Bank of Pakistan.
- No trading in the shares of the Bank was carried out by the Directors, Chief Executive, Chief Financial Officer, Company Secretary and their spouses and minor children during the year 2007.

Pattern of Shareholding

The Pattern of shareholding as at December 31, 2007 along with disclosure required under the Code of Corporate Governance is annexed to the Report.

Board of Directors Meetings

Eight (8) Board meetings were held during the financial year. Information about the attendance is as under:

Name of Director	No. of meetings attended
Mr. H. U. Beg	8
Mr. Nasir Ali Shah Bukhari	7
Mr. Sohail Wajahat H. Siddiqui	2
Mr. Tariq M. Rangoonwala	6
Mr. Muneer Kamal (Director/Chief Executive)	8
Mr. N. K. Shahani	8
Mr. Irtiza Husain	6

Credit Rating Upgrade

The Bank's credit rating by PACRA has been upgraded, with the medium to long term rating of A – (Single A Minus) and a short term rating of A-2 (A two). Pending the completion of the merger of IHFL and some other positive developments, PACRA has placed the Bank on a rating watch with positive implications.

Capital Compliance

KASB Bank in 2007 raised its share capital by Rs. 585 million through the allotment of shares to shareholders of ex-IHFL. Further Rs. 908 million was received as subscription money against 4th Issue of Right Shares before December 31, 2007, though the shares were transferred into CDC accounts of Shareholders on January 7, 2008.

Auditors

The Present auditors M/s. A. F. Ferguson & Co., Chartered Accountants retire and offer themselves for reappointment. On the recommendations of the Audit Committee of your Bank, the Board has agreed to recommend for the re-appointment of M/s. A. F. Ferguson & Co., Chartered Accountants, to function as Bank's statutory auditors for the current year ending December 31, 2008.

I wish to recognize the sterling contribution of our hard-working management and staff which has enabled the Bank to meet with the challenges of the restructuring of the organization with the pressures of continuous improvement and expectations to raise the standard on an on-going basis, and for this I thank them sincerely.

I would like to pay a special tribute to Mr. Irtiza Husain, who passed away on January 10, 2008. His contribution to the Bank through his active participation as a Board Member as well as on special projects has played a vital role in the development of the Bank. We all will miss this man who is a legend amongst his peers, the organizations he worked for and to all those who had the opportunity to get to know him.

I would like to welcome Syed Asghar Ali Shah on board in place of late Mr. Irtiza Husain. Syed Asghar Ali Shah has vast experience in Information Technology and has remained associated with a number of companies and banks of repute in UK, USA, Germany and Pakistan. We are looking forward to his valuable contributions in the conduct of Board business and for the growth of the Bank.

The Board now has seven directors of which five are independent directors namely Mr. H. U. Beg, Mr. Sohail Wajahat H. Siddiqui, Mr. Tariq M. Rangoonwala, Mr. N. K. Shahani and Syed Asghar Ali Shah.

I would like to acknowledge the contributions of Muneer Kamal who took over the charge of the Bank in November 2005 and has made significant contributions for not only the Bank but for the entire group.

I would like to appreciate the guidance and support of the State Bank of Pakistan. And most of all I would like to thank our customers and shareholders who have shown tremendous faith in our bank. We believe, for each and every one of you, that you are not just another customer or shareholder and that we are not just another bank. We hope for the continued relationship.

H U. Beg
Chairman

Karachi
05 March 2008

KEY FINANCIAL DATA

	2002	2003	2004	2005	2006	2007
			[Rs in Million]			
Paid-up Share Capital	616	1,293	1,707	2,015	2,293	4,015
Reserve Fund & Other Reserves	(23)	(77)	5	(268)	(131)	158
Shareholders' Equity	593	1,216	1,712	1,747	2,162	4,173
Total Assets (Excluding Contra)	4,037	8,990	15,853	19,103	26,539	40,891
Deposits	2,640	5,451	11,201	14,828	21,276	33,132
Advances-net	490	3,647	8,295	10,739	14,513	25,143
Investments-net	2,118	2,395	2,687	3,822	4,694	7,278
Imports & Export Business	3,805	6,173	8,303	10,895	16,798	21,434
Pre-tax Profit / (Loss)	(102)	56	16	(511)	53	66
Post-tax Profit / (Loss)	(114)	25	98	(273)	137	198

No.of Branches	18	19	21	35	35	35
No.of Employees	292	328	398	569	694	892
Bonus Shares	-	-	-	-	-	-
Earning / (Loss) per share - Rupees	(1.85)	0.20	0.68	(1.52)	0.62	0.90
Break up value per share - Rupees	9.62	9.40	10.25	8.70	9.43	13.78

STATEMENT OF VALUE ADDED

	2007		2006	
Added as Follows	**(Rupees in '000)**	**%**	**(Rupees in '000)**	**%**
Markup/Return Earned - net of Provisions	2,704,368	73%	1,749,060	72%
Deferred Tax & Other Income	194,944	5%	129,331	5%
Fee, Commission and Brokerage Income	129,488	4%	93,035	4%
Dividend Income	210,604	6%	172,800	7%
Profit on Investment	359,772	10%	254,747	10%
Income from Dealing in Foreign Currencies	79,152	2%	47,454	2%
Total Value Added	**3,678,328**	**100%**	**2,446,427**	**100%**
Distributed as Follows				
To Employees as Remuneration	556,928	15%	385,067	16%
To Society as Donations	80	0%	13	0%
To Depositors as Profit on Investments	2,067,161	56%	1,234,592	50%
Profit on Borrowings	218,220	6%	194,453	8%
To Government as Income Tax	20,350	1%	19,868	1%
To Shareholders as Dividends	-	0%	-	0%
Administrative Expenses / other provisions / other charges	617,896	17%	475,087	19%
Retained in Business as Reserves and Retained Profits	197,693	5%	137,347	6%
Total Value Distributed	**3,678,328**	**100%**	**2,446,427**	**100%**

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

This statement is in compliance of the Code of Corporate Governance with a view to establishing a framework of good governance according to which the Bank is managed complying with the best practices of corporate governance.

The Bank has applied the principles contained in the Code in the following manner:

- The Board consists of seven directors including six non-executive directors. None of the directors is serving as a director in more than ten listed companies including the Bank.

- All the Directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to any bank/ DFI/NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange. The Directors on the Board of the Bank are individuals of repute and integrity with vast diversified experience of the corporate affairs. Besides, a comprehensive session on corporate governance was conducted for the Directors by Mr. N. K. Shahani, Chartered Accountant, Director of the Bank, on November 24, 2007. Mr. Shahani also attended four parts of Board Development Series from 28th March, 2007 to 31st March, 2007 organized by Pakistan Institute of Corporate Governance and has been awarded the certificate of a 'Certified Director'. On the other hand Mr. Muneer Kamal is an associate member of PICG.

- The Board has already formulated 'Vision Statement' and 'Mission Statement'.

- 'Statement of Ethics and Business Practices' has been signed by the Directors and employees of the Bank.

- Corporate strategies and significant policies of the Bank have been made with appropriate delegation of authorities and responsibilities to various levels of management. Record of particulars of significant policies and the approvals/amendments has been maintained.

- Powers of the Board are duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer have been taken by the Board.

- The Board has approved appointment of CFO and Company Secretary and terms of the appointment as determined by the CEO.

- Board meetings were held at least once in a quarter presided over by the Chairman. Written notices of the Board meetings along with agenda were circulated seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

- The Directors, Chief Executive and Executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.

- The Directors' Report for the year ended December 31, 2007 has been prepared in compliance with the requirements of the Code and the corporate and financial reporting requirements have been complied with.

- The financial statements of the Bank for the year ended December 31, 2007 were duly endorsed by Chief Executive and Chief Financial Officer before approval of the Board.

- The Board formed an Audit Committee comprising of four non executive Directors. Terms of reference of the Audit Committee have been determined. The meetings of the Audit Committee were held at least once every quarter.

- An effective Internal Audit Department already exists and the Board has set up an effective internal audit function. The staff of Internal Audit Department are suitably qualified and experienced for the purpose and are conversant with the policies and procedure of the Bank and they are involved in the internal audit function on a full time basis.

- The system of sound internal control is in place and effectively monitored in the Bank.

- The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan.

- The statutory auditors of the Bank have confirmed that they or any partner in the firm of statutory auditors, his spouse and minor children do not at any time hold, purchase, sell or take any position in shares of the Bank.

- The statutory auditors of the Bank or person associated with them have not been appointed to provide other service expect in accordance with the listing regulations and the auditors have confirmed that they have observed the IFAC guidelines in this regard.

- The quarterly un-audited financial statements of the Bank are circulated along with the Directors' review.

- Half - yearly financial statement were subjected to limited review by the statutory auditors. Financial statements for the year ended December 31, 2007 have been audited and will be circulated in accordance with the clause (xxii) of the Code.

- Material principles contained in the Code have been complied with.

H. U. Beg
Chairman

Karachi
March 5, 2008

A member firm of
PRICEWATERHOUSECOOPERS

A.F. FERGUSON & CO.

A.F.Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I.Chundrigar Road, P.O.Box 4716
Karachi-74000, Pakistan
Telephone: (021) 2426682-6 / 2426711-5
Facsimile: (021) 2415007 / 2427938

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of KASB Bank Limited to comply with Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan, Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance 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 the 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2007.

AFF & Co

Chartered Accountants
Karachi: March 05, 2008

Lahore Office: 505-509, 5th Floor, Alfalah Building, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore, Pakistan Tel: (92-42) 6301796-7 / 6307127-30 Fax: (92-42) 6361954
Islamabad Office : PIA Building, 49 Blue Area, P.O.Box 3021, Islamabad, Pakistan Tel: (92-51) 2273457-60 Fax: (92-51) 2277924

STATEMENT OF INTERNAL CONTROLS

REPORTING ON INTERNAL CONTROL SYSTEM

The Board is responsible for the overall policies on internal control and it is the responsibility of bank's management to establish and maintain an adequate and effective system of internal control that could help in achieving the aims and objectives of the Bank.

In line with the international standards, KASB system of internal control is designed to provide reasonable assurance regarding achievement of the following three objectives that all businesses strive for:

1. *Effectiveness and efficiency of operations;*
2. *Reliability of financial data and reports; and*
3. *Compliance with laws and regulations*

At KASB system of internal control and its implementation is an ongoing process and there is always room for improvement. Our Internal Control System is designed to identify and prioritize the risks to the achievement of the Bank's policies, aims and objectives, to evaluate the likelihood of those risks being realized and the impact should they be realized and to manage them efficiently, effectively and economically.

EVALUATION OF EXISTING INTERNAL CONTROL SYSTEMS

Management ensures the efficient and effective Internal Control System by identifying control objectives, reviewing policies / procedures and establishing relevant control procedures. All policies and procedures are reviewed and compared with existing practices and necessary amendments made where required on timely basis in line with the risk management framework and best practices.

The Bank's internal control environment comprises systems, policies and to:

- establish and monitor the achievement of Bank's objectives.
- facilitate policy and decision making
- ensure compliance with established policies, procedures, laws and regulation
- identify , assess and manage the risks to the Bank's objectives including risk management
- ensure the economical, effective and efficient use of resources and
- safeguarding of assets

- ✍ provide appropriate financial management and reporting of the Bank's affairs
- ✍ ensure adequate performance management and reporting

Independent Audit and Compliance Departments have also been strengthened:

- ? To provide independent and reasonable assurance that risk management and control process are adequate, effective and sustainable and;
- ? Contribute in continuous improvement of the Bank's risk management and control process.

The observations and weaknesses found and identified by the auditors, are taken care of immediately and necessary steps taken by the management to ensure non-repetition of those exceptions and eliminations of such weaknesses to the maximum possible level. The management has also given timely and satisfactory response to the recommendations and suggestions made by its auditors.

Compared to the previous year the internal control system, customer services and operation has improved in all areas / departments of the bank. Moreover training wherever required is being given to the personnel to keep them upto date with the necessary skills required in line with the Banks operations.

Chief Financial Officer **Head of Internal Audit**

KASB BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2007

	Note	2007	2006
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	3,001,895	2,305,082
Balances with other banks	8	807,555	799,731
Lendings to financial institutions	9	1,766,398	2,305,232
Investments	10	7,277,875	5,094,312
Advances	11	25,143,153	14,112,718
Operating fixed assets	12	1,094,748	673,064
Deferred tax assets - net	13	610,533	488,621
Other assets	14	1,188,415	759,975
		40,890,572	26,538,735
LIABILITIES			
Bills payable	16	879,152	199,670
Borrowings	17	1,745,807	2,176,032
Deposits and other accounts	18	33,131,773	21,275,570
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	19	1,428	3,775
Deferred tax liabilities		-	-
Other liabilities	20	848,420	754,891
		36,606,580	24,409,938
NET ASSETS		4,283,992	2,128,797
REPRESENTED BY			
Share capital	21	3,106,978	2,292,707
Subscription money received against proposed issue of right shares		907,912	-
Revenue reserves		151,287	111,748
Accumulated losses		(7,497)	(163,156)
Effect of fair value measurement of capital on amalgamation		13,775	(79,240)
		4,172,455	2,162,059
Surplus / (deficit) on revaluation of securities - net of tax	22	111,537	(33,262)
		4,283,992	2,128,797
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes 1 to 44 and Annexure - I form an integral part of these financial statements.

President & Chief Executive	Director	Director	Director

KASB BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	2007	2006
		(Rupees in '000)	
Mark-up / return / interest earned	24	2,917,344	1,790,347
Mark-up / return / interest expensed	25	2,285,381	1,429,045
Net mark-up / return / interest income		631,963	361,302
Provision against loans and advances - net	11.4	214,718	68,149
Reversal of provision for diminution in the value of investments	10.9	(1,742)	(26,862)
Bad debts written off directly	11.6	-	-
		212,976	41,287
Net mark-up / return / interest income after provisions		418,987	320,015
Non mark-up / return / interest income			
Fee, commission and brokerage income		129,488	93,035
Dividend income		210,604	172,800
Income from dealing in foreign currencies		79,152	47,454
Gain on sale of securities - net	26	128,931	124,506
Unrealised gain on revaluation of investments classified as held for trading - net	10.11	34,779	130,241
Gain on disposal of investment in subsidiary and associate		196,062	-
Other income	27	42,463	24,911
Total non mark-up / return / interest income		821,479	592,947
		1,240,466	912,962
Non mark-up / interest expenses			
Administrative expenses	28	1,153,736	853,523
Other provisions / write offs	29	-	1,456
Other charges	30	21,168	5,188
Total non mark-up / interest expenses		1,174,904	860,167
Extraordinary / unusual items		-	-
Profit before taxation		65,562	52,795
Taxation - Current year	31	20,350	19,868
- Prior years	31	-	-
- Deferred	31	(152,481)	(104,420)
		(132,131)	(84,552)
Profit after taxation		197,693	137,347
Accumulated loss brought forward		(163,156)	(273,034)
Unappropriated profit / (accumulated loss) carried forward		34,537	(135,687)
Earnings per share (Rupees)	32	0.90	0.62

The annexed notes 1 to 44 and Annexure - I form an integral part of these financial statements.

President & Chief Executive **Director** **Director** **Director**

KASB BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	2007	2006
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		65,562	52,795
Less: Dividend income		(210,604)	(172,800)
		(145,042)	(120,005)
Adjustments for non-cash and other items:			
Depreciation		86,195	72,069
Amortisation of intangible assets		7,713	33,807
Provision against loans and advances - net		214,718	68,149
Provision for compensated absences / (reversal of provision)		1,388	(2,160)
Provision for gratuity		23,816	21,475
Gain on disposal of operating fixed assets - net		(197)	(4,747)
Financial charges on leased assets		289	481
Unrealised gain on revaluation of investments classified as held for trading		(34,779)	(130,241)
Gain on disposal of investment in subsidiary and associate		(196,062)	-
Reversal of provision for diminution in the value of investments		(1,742)	(26,862)
Amortisation of premium on investments		35,899	35,319
		137,238	67,290
		(7,804)	(52,715)
(Increase) / decrease in operating assets			
Lendings to financial institutions		538,834	(1,227,686)
Held for trading securities		67,738	34,996
Advances		(10,722,835)	(3,441,530)
Others assets (excluding advance taxation)		(564,012)	3,542
		(10,680,275)	(4,630,678)
Increase / (decrease) in operating liabilities			
Bills payable		679,482	72,224
Borrowings		(668,138)	571,810
Deposits		11,856,203	6,447,460
Other liabilities (excluding current taxation)		66,226	265,760
		11,933,773	7,357,254
		1,245,694	2,673,861
Income tax paid - net		(40,731)	(47,750)
Gratuity benefits paid		(4,464)	(712)
Net cash inflow from operating activities		1,200,499	2,625,399
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(1,819,165)	(1,204,205)
Net investments in held to maturity securities		99,999	(4,888)
Dividend income received		261,229	122,175
Investments in operating fixed assets		(285,593)	(299,906)
Cash inflow on acquisition of International Housing Finance Limited		10,538	-
Sale proceeds realised from disposal of investment in subsidiary and associate		680,000	-
Investment in associate		(680,000)	-
Sale proceeds realised on disposal of operating fixed assets		7,165	22,061
Net cash outflow on investing activities		(1,725,827)	(1,364,763)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments against lease obligations - net		(2,636)	(6,199)
Proceeds from issue of right shares		229,271	278,000
Shares issue costs		(2,495)	-
Subscription money received against proposed issue of right shares		907,912	-
Net cash inflow from financing activities		1,132,052	271,801
Net increase in cash and cash equivalents		606,724	1,532,437
Cash and cash equivalents at the beginning of the year	33	3,096,625	1,564,188
Cash and cash equivalents at the end of the year	33	3,703,349	3,096,625

The annexed notes 1 to 44 and Annexure - I form an integral part of these financial statements.

President & Chief Executive **Director** **Director** **Director**

KASB BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007

	Share capital	Subscription towards issue of right shares	Statutory reserve	Revenue reserve	Total reserves	Accumulated losses	Effect of fair value measurement of capital on amalgamation	Total
	----- Rupees in '000 -----							
Balance as at December 31, 2005	2,014,707	-	83,895	384	84,279	(273,034)	(79,240)	1,746,712
Right shares issued during the year	278,000	-	-	-	-	-	-	278,000
Profit after taxation for the year ended December 31, 2006	-	-	-	-	-	137,347	-	137,347
Transfer to statutory reserve	-	-	27,469	-	27,469	(27,469)	-	-
Balance as at December 31, 2006	2,292,707	-	111,364	384	111,748	(163,156)	(79,240)	2,162,059
Right shares issued during the year	229,271	-	-	-	-	-	-	229,271
Subscription money received against proposed issue of right shares	-	907,912	-	-	-	-	-	907,912
Shares issued pursuant to amalgamation - note 6	585,000	-	-	-	-	-	93,015	678,015
Shares issue cost	-	-	-	-	-	(2,495)	-	(2,495)
Profit after taxation for the year ended December 31, 2007	-	-	-	-	-	197,693	-	197,693
Transfer to statutory reserve	-	-	39,539	-	39,539	(39,539)	-	-
Balance as at December 31, 2007	3,106,978	907,912	150,903	384	151,287	(7,497)	13,775	4,172,455

The annexed notes 1 to 44 and Annexure - I form an integral part of these financial statements.

President & Chief Executive **Director** **Director** **Director**

1. STATUS AND NATURE OF BUSINESS

1.1 KASB Bank Limited was incorporated in Lahore, Pakistan on October 13, 1994 as a public limited company under the Companies Ordinance, 1984 and received banking license from the State Bank of Pakistan (SBP) on January 9, 1995. The registered office of the bank is situated at Business and Finance Center, I.I. Chundrigar Road, Karachi. The bank obtained certificate of commencement of business on January 11, 1995 and is engaged in commercial banking, consumer banking and related services through 35 branches operating in different cities. The bank's shares are listed on the Karachi, Lahore and Islamabad stock exchanges.

1.2 The Pakistan Credit Rating Agency Limited has determined the bank's long-term rating as A- (A Minus) and the short-term rating as A2.

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan 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.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable to banks in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified by the Securities and Exchange Commission of Pakistan (SECP) from time to time, the requirements of the Companies Ordinance, 1984, the requirements of the Banking Companies Ordinance, 1962 and the directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives prevail.

3.2 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for banking companies through BSD Circular No. 10 dated August 26, 2002. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

3.3 These financial statements represent the separate stand alone financial statements of the bank. The consolidated financial statements of the bank, its subsidiary companies and its associates are presented separately.

3.4 Amendments to published standards and new interpretations effective in 2007

Amendment to International Accounting Standard (IAS) 1 - 'Presentation of financial statements - Capital Disclosures', introduces certain new disclosures about the level of the bank's capital and how the bank manages its capital. Adoption of this amendment has only resulted in additional disclosures which have been set out in note 41.1 to these financial statements.

International Financial Reporting Standard (IFRS) 2 - 'Share-based Payment', adoption of this standard has only resulted in disclosure which has been set out in note 21.4 to these financial statements.

International Financial Reporting Standard (IFRS) 3 - 'Business Combinations' impacts the accounting for business combinations and goodwill which have been set out in notes 5.1, 5.6 and 6 to these financial statements.

Other new standards, amendments and interpretations that were mandatory for accounting periods beginning on or after January 1, 2007 and are not considered relevant or do not have any significant effect on the bank's operations, are not detailed in these financial statements.

3.5 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following amendments to existing standards have been published that are mandatory and relevant for the bank's accounting periods beginning on the dates mentioned below:

i)	IAS 1 - Presentation of Financial Statements (Revised September 2007)	effective from January 1, 2009
ii)	IAS 27 (Revised) - Consolidated and Separate Financial Statements	effective from accounting periods beginning on or after July 1, 2009
iii)	IFRS 3 (Revised) - Business Combinations	effective from accounting periods beginning on or after July 1, 2009

3.6 Standards, interpretations and amendments to published approved accounting standards that are not yet effective and not relevant for the bank's operations

The following standards, amendments and interpretations to existing approved accounting standards are effective for the bank's accounting periods beginning on or after January 1, 2008 but these are currently not relevant for the bank's operations:

IAS 23 - Borrowing Costs (Revised March 2007)	effective from accounting periods beginning on or after January 1, 2008
IFRS 8 - Operating segments	effective from accounting periods beginning on or after January 1, 2009
IFRIC 11 - IFRS 2 - Group and treasury share transactions	effective from accounting periods beginning on or after March 1, 2007
IFRIC 12 - Service concession arrangements	effective from accounting periods beginning on or after January 1, 2008
IFRIC 13 - Customer loyalty programmes	effective from accounting periods beginning on or after July 1, 2008
IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	effective from accounting periods beginning on or after January 1, 2008

4. BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except that certain investments, foreign currency balances and commitments in respect of foreign exchange contracts have been marked to market and are carried at fair value and certain staff retirement benefits are carried at present value.

4.2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that effect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgements were made by the management in the application of accounting policies are as follows:

i) classification and provisioning of investments (notes 5.4 and 10)
ii) classification and provisioning of advances (notes 5.5 and 11)
iii) income taxes (notes 5.8, 13 and 31)
iv) depreciation / amortisation of operating fixed assets (notes 5.7, 12.2 and 12.3)
v) fair values of the net assets acquired in business combination (note 6)
v) impairment of goodwill (note 5.6)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Business combinations

Business combinations are accounted for by applying the purchase 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 exchange, plus costs directly attributable to the acquisition. The identifiable net assets acquired are measured at fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of identifiable net assets acquired is recorded as goodwill.

5.2 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks in current and deposit accounts.

5.3 Lendings to / borrowings from financial institutions

(a) Sale of securities under repurchase obligations

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and repurchase price is recognised as mark-up expense on a time proportion basis.

(b) Purchase of securities under resale obligations

Securities purchased under an agreement 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 to financial institutions. The difference between the purchase and resale price is recognised as mark-up income on a time proportion basis.

5.4 Investments

The management determines the appropriate classification of its investments at the time of purchase and classifies these investments as held for trading, available for sale or held to maturity. These investments are initially recognised at cost, being the fair value of the consideration given including the acquisition cost.

(a) Held for trading

These are securities which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealer's margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

(b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity that the bank has the positive intent and ability to hold to maturity.

(c) Available for sale

These are investments, other than those in subsidiaries and associates, that do not fall under the held for trading or 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 investment.

In accordance with the requirements of the State Bank of Pakistan (SBP), quoted securities other than those classified as held to maturity and investments in subsidiaries and associates are stated at market value. Investments classified as held to maturity are carried at amortised cost whereas investments in subsidiaries and associates are accounted for in accordance with the relevant International Accounting Standards as applicable in Pakistan.

The surplus / deficit arising on revaluation of quoted securities classified as 'available for sale' is kept in a separate account shown in the balance sheet 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.

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.

Provision for diminution in the value of securities (except term finance certificates) is made after considering impairment, if any, in their value. Provision for diminution in the value of term finance certificates is made in accordance with the requirements of the Prudential Regulations issued by SBP.

Gain or loss on sale of investments is included in income currently.

5.5 Advances

Advances are stated net of specific and general provisions. The specific and general provisions for advances are made in accordance with the requirements of the Prudential Regulations and other directives issued by the State Bank of Pakistan and charged to the profit and loss account. Non-performing loans and advances in respect of which the bank does not expect any recoveries in future years are written off.

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 at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. Unearned finance income is recognised over the term of the lease, so as to produce a constant periodic return on the outstanding net investment in lease.

5.6 Goodwill acquired in business combinations

Goodwill represents the difference in the cost of an acquisition over the fair value of the bank's share of net identifiable assets of the acquired entity at the date of acquisition.

During the current year, the bank has changed its accounting policy relating to the subsequent measurement of goodwill acquired in a business combination. As per the new policy, goodwill acquired in a business combination is measured, subsequent to initial recognition, at its cost less accumulated impairment losses, if any. Previously, such goodwill was being amortised on a straight line basis over its estimated useful life of 10 years. The change has been made in order to comply with the requirements set out in the International Financial Reporting Standard (IFRS) 3, 'Business Combinations' which is applicable to the financial statements of the bank covering accounting periods beginning on or after January 1, 2007. Consequent to the change in accounting policy, the bank has discontinued the amortisation of goodwill acquired in a business combination with effect from January 1, 2007 in accordance with the transitional provision of IFRS 3. In addition, goodwill acquired in a business combination, if any, is now tested for impairment annually or whenever there is an indication of impairment as per the requirements of International Accounting Standard (IAS) 36, 'Impairment of Assets'.

In accordance with the transitional provisions prescribed in IFRS 3, the change in accounting policy has been applied prospectively from the current period. Had there been no change in accounting policy in respect of amortisation of goodwill the following effects would have occurred:

- the profit before taxation for the year ended December 31, 2007 would have been lower by Rs 0.388 million,
- the earnings per share for the year ended December 31, 2007 would have been lower by Rs 0.002,
- the administrative expenses for the year ended December 31, 2007 would have been higher by Rs 17.492 million,
- the gain on disposal of subsidiary and associates classified as “held for sale“ for the year ended December 31, 2007 would have been higher by Rs 17.104 million; and

- the carrying amount of goodwill as at December 31, 2007 would have been lower by Rs 0.388 million.

5.7 Operating fixed assets and depreciation

Tangible - owned

Fixed assets, other than land which is not depreciated, are stated at cost less accumulated depreciation and accumulated impairment losses (if any).

Depreciation is calculated using the straight line method in accordance with the rates specified in note 12.2 to the financial statements after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on all fixed assets is charged from the date on which an asset is put to use till the date of its disposal.

Gains / losses on disposal of fixed assets, if any, are included in profit and loss account currently.

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 are charged to the profit and loss account as and when incurred.

Tangible - leased

Fixed assets held under finance lease are stated at cost less accumulated depreciation. 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.

Capital work-in-progress

Capital work-in-progress is stated at cost.

Intangibles

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised using the straight line method from the date an asset is available for use, whereby the cost of an intangible asset is amortised over its estimated useful life over which economic benefits are expected to flow to the bank. The useful life and amortisation method is reviewed and adjusted, if appropriate, at each balance sheet date.

Impairment

The carrying amount of assets is reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account.

5.8 Taxation

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 is calculated using the prevailing tax rates or tax rates expected to apply to the profits for the year or minimum tax at the rate of 0.5 percent of turnover, whichever is higher. The charge for current tax also includes adjustments relating to prior years, if necessary, arising from assessments finalised during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. In addition, the bank also records a deferred tax asset on available tax losses. Deferred tax is calculated at the rates that are expected to apply to the periods when the differences will reverse, based on tax rates that have been enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The bank also recognises a deferred tax asset / liability on deficit / surplus on revaluation of securities which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12, 'Income Taxes'.

5.9 Staff retirement and other benefits

Defined contribution plan

The bank operates a contributory provident fund for all its permanent employees to which equal contributions are made by both the bank and the employees at the rate of 8.33 percent of basic salary.

Defined benefit scheme

The bank operates an approved unfunded gratuity scheme for all its permanent employees who complete the prescribed eligibility period of service. 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 immediately.

5.10 Provisions

Provisions are recognised when the bank has a legal or constructive obligation as a result of past events, 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.

5.11 Revenue Recognition

Advances and investments

Mark-up / interest on advances and returns on investments are recognised on a time proportion basis using the effective interest method, except that mark-up / interest on non-performing advances and investments is recognised on a receipt basis in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

Financing method is used in accounting for income from lease financing. Under this method, the unearned finance income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is taken to income over the term of the lease so as to produce a constant periodic rate of return on the outstanding net investment in lease.

Unrealised finance income on lease is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognised as income when they are realised.

Premium or discount on acquisition of debt investments is capitalised and amortised through the profit and loss account over the remaining period till maturity.

Dividend income is recognised when the bank's right to receive the dividend is established.

Fees, brokerage and commission

Fees, brokerage and commission on letters of credit / guarantee and others is recognised on an accrual basis.

5.12 Foreign currencies

a) Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the foreign exchange rates prevailing at the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts are valued at rates determined with reference to their respective maturities.

b) Translation gains and losses

Translation gains and losses are included in the profit and loss account.

5.13 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in the financial statements at committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the balance sheet date.

5.14 Financial instruments

Financial assets and financial liabilities

Financial instruments carried on the balance sheet include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments, advances, other assets, bills payable, borrowings, deposits, liabilities against assets subject to finance lease and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

Derivative financial instruments

Derivative financial instruments 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.

Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is 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.

5.15 Proposed dividend and transfer between reserves

Dividends and appropriations to reserves, except appropriations which are required by the law, after the balance sheet date are recognised as liability in the bank's financial statements in the year in which these are approved.

5.16 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the bank operates. The financial statements are presented in Pakistani Rupees, which is the bank's functional and presentation currency.

5.17 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 product 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 business segments within the bank have been categorised into the following classification of business segments in accordance with the requirements of the State Bank of Pakistan.

Business segments

Trading and sales

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

Retail banking

It includes retail lending and deposits, banking services, trust and estates, private lending and deposits, banking service and consumer assets.

Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, leasing, lending, guarantees, bills of exchange and deposits.

6. BUSINESS COMBINATION

6.1 The bank had decided to amalgamate International Housing Finance Limited (IHFL), a company in which Mr. Nasir Ali Shah Bukhari (sponsor / director of the bank) directly held 55.93 percent shares, with and into the bank. The proposal for the amalgamation and a scheme of amalgamation has been approved by the Board of Directors and the shareholders of the bank in their meetings held on October 27, 2006 and June 28, 2007 respectively. The State Bank of Pakistan through its letters BPRD (LCGD-02)/625-79/1316/RK/2006/11977 dated December 22, 2006 and BPRD (LCGD-04)/625-79/2007/11282 dated October 30, 2007 had also accorded In-Principle approval and approved the scheme of amalgamation and granted sanction order for the amalgamation of IHFL with and into the bank.

Pursuant to the aforementioned approvals and scheme of amalgamation duly approved by the State Bank of Pakistan, the entire undertaking of IHFL including property, assets, liabilities and the rights and obligation of IHFL as at November 21, 2007 (the acquisition date) have been amalgamated into and vested with the bank as at the commencement of November 22, 2007. In consideration for the amalgamation, the bank has allotted 58.5 million fully paid ordinary shares to the shareholders of IHFL, which rank pari passu with the existing shares of the bank. IHFL stands dissolved (without winding up) and de-listed from the stock exchange upon allotment of the shares of the bank to the shareholders of IHFL.

6.2 International Housing Finance Limited (IHFL)

International Housing Finance Limited (a Non-Banking Finance Company) was a public limited company incorporated in Pakistan on July 11, 1990 under the Companies Ordinance, 1984. The company was principally engaged in providing housing and non-residential finance facilities in Pakistan. The company was listed on the Karachi Stock Exchange.

The acquired business of IHFL contributed Rs 7.106 million to the operating income and Rs 4.245 million to the profit after taxation of the bank for the year ended December 31, 2007 as the bank has obtained the control of IHFL as at the commencement of November 22, 2007 . Had the acquisition occurred and been accounted for on January 1, 2007, the results of IHFL would have contributed operating income amounting to Rs 110.787 million and profit after taxation amounting to Rs 14.208 million in the results of the bank for the year ended December 31, 2007.

6.3 The business combination with IHFL has been accounted for by applying the purchase method. The cost of the acquisition has been measured at the fair value of equity instruments issued at the date of exchange plus cost directly attributable to the acquisition. Identified assets acquired, liabilities (including contingent liabilities) assumed or incurred have been carried at the fair value at the acquisition date. The excess of cost of acquisition over the fair value of identifiable net assets acquired has been recorded as goodwill in the financial statements of the bank.

Details of the fair values of the net assets acquired, purchase consideration and goodwill are as follows:

	Note	Rupees in thousand
Purchase Consideration		
- Shares issued (58,500,000 shares)	6.3.1	678,015
- Direct cost relating to the acquisition		8,755
Total purchase consideration		686,770
Fair value of net assets acquired	6.3.2	(651,408)
Goodwill	6.3.3	35,362

6.3.1 The fair value of the shares issued to the shareholders of IHFL is based on the discounted cash flows method. This value has been determined by an independent valuer. The published quoted price of the bank has not been used for determining the fair value of the consideration as it has been affected by the thinness of the market. Management believes that the fair value determined using the discounted cash flows method provides a more realistic indicator of the fair value of the consideration as at the date of exchange.

6.3.2 The preliminary fair values and carrying amounts of assets and liabilities are as follows:

	Note	Preliminary fair values (note 6.4)	Acquiree's carrying amounts
		(Rupees in '000)	
Fixed assets		205,619	205,619
Intangible assets	6.3.2.1	31,348	613
Housing / non residential finance facilities		522,317	541,030
Long-term loans, advances, deposits and prepayments		1,726	1,726
Short-term investments		22,201	22,201
Advances and prepayments		469	469
Accrued mark-up / profit		12,620	12,620
Other receivables		9,375	9,375
Cash and bank balances		19,293	19,293
Total assets		824,968	812,946
Deferred tax liability		16,056	16,056
Long-term borrowings		140,000	140,000
Accrued markup / profit		3,482	3,482
Accrued and other liabilities		3,081	3,081
Contingent liability		3,019	-
Taxation - net		7,922	7,922
Total liabilities		173,560	170,541
Net asset acquired		651,408	
Cash and cash equivalents acquired			19,293
Direct cost settled in cash			(8,755)
Cash inflow on acquisition			10,538

6.3.2.1 The fair value of the intangible assets acquired as part of the acquisition of IHFL are as follows:

	Rupees in thousand
Customer list	30,735
Computer software	613
	31,348

6.3.3 The goodwill arising on acquisition represents future economic benefits expected to be derived from synergies and consumer finance sector in which IHFL's portfolio is concentrated. Accordingly, the entire amount of goodwill has been allocated to the outstanding acquired portfolio of IHFL and the bank's own housing finance portfolio.

6.4 Due to the proximity of the acquisition to the year ended December 31, 2007 , the fair value amounts contain some provisional balances. The effect of adjustments, if any, in these values will be recognised in the financial statements of the bank for the year ending December 31, 2008.

7. CASH AND BALANCES WITH TREASURY BANKS

	Note	2007	2006
		(Rupees in '000)	
In hand:			
- Local currency	7.1	497,099	365,345
- Foreign currency		67,280	67,383
With State Bank of Pakistan in:			
- Local currency current account	7.2	2,332,234	1,701,069
- Foreign currency current account	7.3	11,768	5,574
- Foreign currency deposit account	7.4	73,139	107,455
With National Bank of Pakistan in local currency current account		20,375	58,256
		3,001,895	2,305,082

7.1 This includes National Prize Bonds of Rs 1.991 million (2006: Rs 3.244 million).

7.2 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan 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 from time to time.

7.3 This represents US Dollar Settlement Account maintained with SBP.

7.4 This represents foreign currency cash reserve maintained with SBP equivalent to at least 10 percent of the bank's foreign currency deposits mobilised under the FE-25 scheme. The foreign currency cash reserve comprises of an amount equivalent to at least 5 percent of the bank's foreign currency deposits mobilised under the FE-25 scheme, which is kept in a non-remunerative account. The balance reserve equivalent to at least 5 percent of the bank's foreign currency deposits mobilised under the FE-25 scheme is maintained in a remunerative account on which the bank is entitled to earn a return which is declared by SBP on a monthly basis. During the year, this deposit was remunerated at rates ranging from 3.71 percent per annum to 4.72 percent per annum (2006: 3.39 percent per annum to 4.39 percent per annum).

8. BALANCES WITH OTHER BANKS

	Note	2007	2006
		(Rupees in '000)	
In Pakistan			
- On current account		363,394	331,040
Outside Pakistan			
- On current account		131,975	353,458
- On deposit account	8.1	312,186	115,233
		444,161	468,691
		807,555	799,731

8.1 Deposit accounts carry mark-up at rates ranging from 3.9 percent per annum to 5.3 percent per annum (2006: 4 percent per annum to 4.5 percent per annum).

9. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2007	2006
		(Rupees in '000)	
Clean placements		-	750,000
Repurchase agreement lendings (Reverse Repo)	9.2	1,766,398	1,555,232
		1,766,398	2,305,232

9.1 All lendings to financial institutions are in local currency.

9.2 Securities held as collateral against lendings to financial institutions

These represent short-term lendings to financial institutions against investment securities. These lendings carry mark-up at rates ranging from 9.4 percent per annum to 9.95 percent per annum (2006: 8.30 percent per annum to 9.00 percent per annum) and are due to mature from January 2, 2008 to January 8, 2008 (2006: January 4, 2007 to February 23, 2007).

	2007			2006		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	(Rupees in '000)					
Pakistan Investment Bonds	-	-	-	100,000	-	100,000
Market Treasury Bills	1,766,398	-	1,766,398	1,455,232	-	1,455,232
	1,766,398	-	1,766,398	1,555,232	-	1,555,232

10. INVESTMENTS

10.1 Investments by types

		2007			2006		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
		(Rupees in '000)					
Held for trading securities							
Units of Mutual Funds	10.8	50,000		50,000			-
Commercial papers		66,710		66,710			-
Ordinary shares of listed companies	10.3	14,422	-	14,422	68,629	-	68,629
		131,132	-	131,132	68,629	-	68,629
Available for sale securities							
Pakistan Investment Bonds		175,501	-	175,501	180,048	-	180,048
Market Treasury Bills		3,835,924	-	3,835,924	1,323,116	-	1,323,116
Listed Term Finance Certificates	10.6	123,092	-	123,092	150,544	-	150,544
Unlisted Term Finance Certificates	10.7	770,080	-	770,080	610,572	-	610,572
Commercial papers		102,992	-	102,992	-	-	-
Units of Mutual Funds	10.8	371,524	-	371,524	1,200,000	-	1,200,000
Ordinary shares of listed companies	10.3	205,800	-	205,800	283,814	-	283,814
Ordinary shares of unlisted companies	10.4 & 10.5	15,680	-	15,680	15,680	-	15,680
		5,600,593	-	5,600,593	3,763,774	-	3,763,774
Held to maturity securities							
Federal Investment Bonds		6,519	-	6,519	116,751	-	116,751
Pakistan Investment Bonds		711,002	-	711,002	732,121	-	732,121
		717,521	-	717,521	848,872	-	848,872
Associates							
KASB Funds Limited		-	-	-	30,000	-	30,000
KASB Capital	10.14	680,000	-	680,000	-	-	-
		680,000	-	680,000	30,000	-	30,000
Subsidiaries							
KASB Securities Limited		-	-	-	300,000	-	300,000
KASB Technology Services Limited	10.15	4,771	-	4,771	4,771	-	4,771
		4,771	-	4,771	304,771	-	304,771
Investments at cost		7,134,017	-	7,134,017	5,016,046	-	5,016,046
Less: Provision for diminution in the value of investments	10.9	(8,443)	-	(8,443)	(10,185)	-	(10,185)
Investments (net of provision)		7,125,574	-	7,125,574	5,005,861	-	5,005,861
Surplus / (deficit) on revaluation of held for trading securities	10.11	34,779	-	34,779	130,241	-	130,241
Surplus / (deficit) on revaluation of available for sale securities	22	117,522	-	117,522	(41,790)	-	(41,790)
Total investments		7,277,875	-	7,277,875	5,094,312	-	5,094,312

10.2 Investments by segments	Note	2007	2006
		(Rupees in '000)	
Federal Government Securities			
- Market Treasury Bills	10.13	3,835,924	1,323,116
- Pakistan Investment Bonds	10.12 & 10.13	886,503	912,169
- Federal Investment Bonds	10.12 & 10.13	6,519	116,751
		4,728,946	2,352,036
Fully paid-up ordinary shares			
- Listed companies	10.3	220,222	352,443
- Unlisted companies	10.4 & 10.5	15,680	15,680
		235,902	368,123
Term Finance Certificates	10.13		
- Listed	10.6	123,092	150,544
- Unlisted	10.7	770,080	610,572
		893,172	761,116
Commercial papers	10.13	169,702	-
Units of Mutual Funds	10.8	421,524	1,200,000
Associates			
- KASB Funds Limited		-	30,000
- KASB Capital Limited	10.14	680,000	-
		680,000	30,000
Subsidiaries			
- KASB Securities Limited		-	300,000
- KASB Technology Services Limited		4,771	4,771
		4,771	304,771
Investments at cost		7,134,017	5,016,046
Less: Provision for diminution in the value of investments	10.9	(8,443)	(10,185)
Investments (net of provisions)		7,125,574	5,005,861
Surplus / (deficit) on revaluation of held for trading securities	10.11	34,779	130,241
Surplus / (deficit) on revaluation of available for sale securities	22	117,522	(41,790)
Total investments		7,277,875	5,094,312

10.3 Particulars of investments in ordinary shares of listed companies

Company Name	Number of shares / certificates held	Paid up value per share / certificates	Total paid up value	Cost	Market Value
		(Rupees)	----------(Rupees in '000)----------		
Held for trading					
- Pak Suzuki Motor Company Limited	149,250	10	1,493	14,422	49,201
Available for sale					
- Karachi Electric Supply Cororation preference shares	3,905	10	39	22	39
- Hub Power Company Limited *	3,475,000	10	34,750	122,839	105,987
- Eye Television Network Limited *	2,930,200	10	29,302	29,302	185,775
- Karachi Electric Supply Corporation	3,000,000	10	30,000	31,857	15,900
- Pakistan Oil Fields Limited	40,000	10	400	14,572	13,376
- Fauji Fertilizers Co. Ltd	38,205	10	382	4,575	4,537
- Bosicor Pakistan Limited	15,000	10	150	275	320
- Callmate Tellips Limited	51,250	10	513	1,548	761
- UTP Large Capital Fund	100,000	10	1,000	810	810
				205,800	327,505
				220,222	376,706

* The bank's investment in 3,475,000 ordinary shares of Hub Power Company Limited and 2,930,200 ordinary shares of Eye Television Network Limited have been classified as strategic investments under the guidelines provided in Regulation 'R-6' of the Prudential Regulations and BPD Circular Letter No. 16 dated August 1, 2006, issued by the State Bank of Pakistan.

10.4 Particulars of investments in ordinary shares of unlisted companies

Company name	Number of shares held	Paid up value per share	Cost	Break up value of investment	Based on investee's financial statements	Name of Chief Executive
		(Rupees)	----(Rupees in '000)----			
Shareholding upto 10 percent						
- Khushhali Bank Limited	10	1,000,000	10,000	10,720	September 30, 2007 (un-audited)	Mr. M Ghalib Nishtar
- Pakistan Export Finance Guarantee Agency Limited	568,044	10	5,680	2,008	June 30, 2007 (un-audited)	Mr. S.M Zaeem
			15,680	12,728		

10.5 This includes the bank's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs 10 million (2006: Rs 10 million). Pursuant to section 10 of the Khushhali Bank Ordinance, 2000, strategic investors (including the bank) cannot sell or transfer their investment in Khushhali Bank Limited before a period of 5 years that has expired on October 10, 2005, from the date of subscription. Thereafter, such sale / transfer would be subject to prior approval of the State Bank of Pakistan. In addition, profit of Khushhali Bank Limited cannot be distributed as dividend under clause 35(i) of the Khushhali Bank Ordinance, 2000. However, Khushhali Bank Ordinance is in process of amendment under which the restriction on the dividend payments is expected to be deleted. Moreover, the shareholders of Khushhali Bank Limited at the Extra Ordinary General Meeting held in December 2007 have passed a resolution stating that Khushhali Bank be licensed and operated under the Micro Finance Institution Ordinance, 2001 under the conversion structure stipulated by the State Bank of Pakistan which does not restrict the distribution of dividend to members.

10.6 Particulars of investments in listed Term Finance Certificates

Company name	Number of certificates held	Face value per certificate	Unredeemed face value per certificate	Cost	Market value	Name of Chief Executive
		-----(Rupees)-----		-----(Rupees in '000)-----		
- Azgard Nine Limited	5,000	5,000	3,000	12,500	13,773	Ahmed Humayun Shaikh
- Chanda Oil and Gas Co. Ltd.	4,000	5,000	4,000	14,400	14,400	Khursheed Zafar
- United Bank Limited	16,232	5,000	5,000	81,150	81,150	Atif R. Bukhari
- Standard Chartered Bank Limited	61	5,000	2,000	117	121	Badar Kazmi
- Trust Leasing Corporation Limited	189	5,000	2,000	360	361	Asif Kamal
- Al Zamin Leasing Modaraba	1,136	5,000	3,000	3,934	3,934	Bashir Ahmed Chowdhry
- Telecard Limited	3,000	5,000	5,000	10,631	10,046	Shahid Firoz
				123,092	123,785	

10.7 Particulars of investments in unlisted Term Finance Certificates

Company name	Number of certificates held	Face value per certificate	Unredeemed face value per certificate	Cost	Name of Chief Executive
		----(Rupees)----		(Rupees in '000)	
- New Khan Transport	140	1,000,000	593,000	82,956	Shaikh Muhammad Ashraf
- Dominion Fertilizer	40,000	5,000	5,000	191,666	Ahmed Joudat Bilal
- Tandlianwala Sugar Mills	1	22,666,667	17,500,000	17,500	Haroon Akhtar Khan
- Pakistan Mobile Communication	5,000	5,000	5,000	24,985	Zouhair Khaliq
- KASHF Foundation *	-	-	-	40,972	Sadaf Abid
- Avari Hotel Limited *	-	-	-	152,000	Byram D Avari
- Azgard Nine Limited (Second issue)	35,000	5,000	4,000	175,000	Ahmed Humayun Shaikh
- Associate Builder	20,000	5,000	4,000	85,001	Shamsuddin Ibrahim
				770,080	

* These represent amounts privately placed under an agreement to invest in Term Finance Certificates of the investee company

10.8 Particulars of investments in units of Mutual Funds

Mutual Fund	Number of units held	Face value per unit	Cost	Market Value
		(Rupees)	----(Rupees in '000)----	
Held for trading				
- Reliance Income Fund	954,397	50	50,000	50,000
Available for sale				
- KASB Liquid Fund	112,134	100	11,524	11,804
- KASB Stock Market Fund	2,413,966	50	110,000	130,920
- KASB Balanced Fund	5,000,342	50	250,000	250,017
			371,524	392,741
			421,524	442,741

10.9 Particulars of provision for diminution in the value of investments

	2007	2006
	(Rupees in '000)	
Opening balance at January 1	10,185	37,047
Charge for the year	1,554	310
Reversals during the year	(3,296)	(27,172)
Net (reversal) / charge for the year	(1,742)	(26,862)
Closing balance at December 31	8,443	10,185

10.9.1 Particulars of provision for diminution in the value of investments - by type and segment

	2007	2006
Available for sale securities		
Term Finance Certificates - unlisted	-	3,296
Fully paid-up ordinary shares - unlisted	3,672	2,118
	3,672	5,414
Subsidiaries		
KASB Technology Services Limited	4,771	4,771
	8,443	10,185

10.10 Quality of available for sale securities

	2007		2006	
	Amount (Rupees in '000)	Rating	Amount (Rupees in '000)	Rating
Pakistan Investment Bonds	156,184	Baa2	156,315	Baa2
Market Treasury Bills	3,829,148	Baa2	1,322,482	Baa2
Term Finance Certificates - listed				
- World Call Communication	-	-	2,338	AA-
- Security Leasing Corporation Limited	-	-	20,056	Unrated
- Azgard Nine Limited	13,773	AA-	18,750	A+
- United Bank Limited	81,150	AA	81,153	AA-
- Chanda Oil and Gas Company Limited	14,400	A+	17,360	A
- Al-Noor Sugar Mills	-	-	12,498	A-
- Standard Chartered Bank Pakistan	121	AAA	-	
- Trust Leasing Corporation Limited	361	AA	-	
- Al Zamin Leasing Modaraba	3,934	A	-	
- Telecard Limited	10,046	BBB	-	
	123,785		152,155	
Term Finance Certificates - unlisted				
- New Khan Transport	82,956	Unrated	113,077	Unrated
- Tandlianwala Sugar Mills	17,500	Unrated	22,500	Unrated
- Gharibwal Cement	-	-	50,000	A-
- Associate Builders	85,001	Unrated	-	-
- Dominon Fertilizer (Pvt) Limited	191,666	AA-	200,000	AA-
- Pakistan Mobile Communication	24,985	AA-	24,995	AA-
Azgard Nine Limited	175,000	Unrated	200,000	Unrated
- Avari Hotel Limited	152,000	A-	-	-
- KASHF Foundation	40,972	A	-	-
	770,080		610,572	
Units of Mutual Funds				
- NAFA Cash Fund	-		400,091	A(F)
- KASB Liquid Fund	11,804	AM3+	265,563	Unrated
- KASB Balanced Fund	250,017	AM3+	-	-
- Askari Income Fund	-	-	350,363	Unrated
- AMZ Plus Income Fund	-	-	100,096	A(F)
- Dawood Money Market Fund	-	-	100,086	5 star
- KASB Stock Market Fund	130,920	AM3+	-	-
	392,741		1,216,199	
Ordinary shares of listed companies	327,505	Unrated	248,581	Unrated
Ordinary shares of unlisted companies	15,680	Unrated	15,680	Unrated
Commercial papers	102,992	Unrated	-	
Total	5,718,115		3,721,984	

		2007	2006
10.11	**Unrealised gain / (loss) on revaluation of investments classified as held for trading**	**(Rupees in '000)**	
	Ordinary shares / units of listed companies / mutual funds		
	Pak Suzuki Motor Company Limited	34,779	130,241

10.12 Federal Investment Bonds and Pakistan Investment Bonds are eligible for discounting with the State Bank of Pakistan.

10.13 Significant particulars relating to government securities, term finance certificates and commercial papers are as follows:

Particulars of investment	Maturity	Principal payments	Coupon rate / Discount rate	Coupon payments
Market Treasury Bills	January 2008 to December 2008	On Maturity	9.39% to 9.95%	Not applicable
Federal Investment Bonds	March 2008	On Maturity	15%	Semi-annually
Pakistan Investment Bonds	October 2011 to October 2013	On Maturity	8.00% to 13.00%	Semi-annually
Term Finance Certificates	July 2008 to July 2013	Various	8.00% to 13.72%	Various
Commercial papers	January 2008	On Maturity	4.44% to 8.99%	Not appliacble

10.14 Investment in associate

During the current year the bank has made an investment of Rs 680 million in KASB Capital Limited, an associate of the bank in which Mr Nasir Ali Shah Bukhari (sponsor / director of the bank) holds 37.48 percent shares, by subscribing to fully paid ordinary Class “B” shares of Rs 10 each of KASB Capital Limited. In lieu of the above investment in KASB Capital Limited, the bank has disposed of its entire shareholding in KASB Securities Limited amounting to Rs 300 million and KASB Funds Limited amounting 30 million to KASB Capital Limited at an aggregate sale consideration of Rs 680 million. The bank has recognised a net gain of Rs 196.062 million on the disposal of the aforementioned investments. Consequent to the disposal of the bank’s investment in KASB Securities Limited the bank has de-recognised the goodwill amounting to Rs 153.939 million which had been previously allocated to KASB Securities Limited.

In conection with the aforementioned transaction, the State Bank of Pakistan (SBP) granted approval to the bank through their letter No. BPRD (LCGD-04)/625-79/21755/2007/8554-A dated August 20, 2007.

10.15 Investments in subsidiaries

Details of the bank's subsidiary companies are as follows:

Name	Percentage of shareholding	Country of incorporation	Year of incorporation
KASB Technology Services Limited	100%	Pakistan	1995

	Note	2007	2006
11. ADVANCES		**(Rupees in '000)**	
Loans, cash credits, running finances, etc. - in Pakistan		23,844,503	11,770,125
Net investment in finance lease - in Pakistan	11.2	1,898,315	1,643,279
Bills discounted and purchased (excluding government treasury bills)			
- Payable in Pakistan		128,901	168,093
- Payable outside Pakistan		175,049	210,845
		303,950	378,938
		26,046,768	13,792,342
Financing in respect of Continuous Funding System (CFS)		-	1,015,437
		26,046,768	14,807,779
Provision against advances - specific	11.4	(870,746)	(693,484)
Provision for advanc es - general	11.4	(32,869)	(1,577)
		(903,615)	(695,061)
		25,143,153	14,112,718

11.1 Particulars of advances (Gross)

		2007	2006
		(Rupees in '000)	
11.1.1	In local currency	25,871,719	14,596,934
	In foreign currencies	175,049	210,845
		26,046,768	14,807,779
11.1.2	Short-term	20,968,564	12,117,662
	Long-term	5,078,204	2,690,117
		26,046,768	14,807,779

11.2 Net investment in finance lease

	2007				2006			
	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	911,031	986,343	41,267	1,938,641	730,119	888,134	32,518	1,650,771
Residual value	101,817	170,108	9,920	281,845	47,607	159,400	30,616	237,623
Minimum lease payments	1,012,848	1,156,451	51,187	2,220,486	777,726	1,047,534	63,134	1,888,394
Finance charge for future periods	(163,398)	(157,010)	(1,763)	(322,171)	(103,358)	(140,812)	(945)	(245,115)
Present value of minimum lease payments	849,450	999,441	49,424	1,898,315	674,368	906,722	62,189	1,643,279

11.3 Advances include Rs 1,069.872 million (2006: Rs 1,016.710 million) which have been placed under non-performing status as detailed below:

Category of classification	2007				
	Domestic	Overseas	Total	Provision required	Provision held
	(Rupees in '000)				
Substandard	58,884	-	58,884	2,184	2,184
Doubtful	117,612	-	117,612	40,036	40,036
Loss	893,376	-	893,376	828,526	828,526
	1,069,872	-	1,069,872	870,746	870,746

Category of classification	2006				
	Domestic	Overseas	Total	Provision required	Provision held
	(Rupees in '000)				
Substandard	36,641	-	36,641	9,161	9,161
Doubtful	149,633	-	149,633	56,959	56,959
Loss	830,436	-	830,436	627,364	627,364
	1,016,710	-	1,016,710	693,484	693,484

11.4 Particulars of provision against non-performing advances

	Note	2007			2006		
		Specific	General	Total	Specific	General	Total
		(Rupees in '000)					
Opening balance at January 1		693,484	1,577	695,061	654,463	3,870	658,333
Charge for the year		248,365	31,292	279,657	408,110	-	408,110
Reversals		(64,939)	-	(64,939)	(337,668)	(2,293)	(339,961)
Net charge / (reversal)		183,426	31,292	214,718	70,442	(2,293)	68,149
Amounts written off	11.6	(6,164)	-	(6,164)	(31,421)	-	(31,421)
Closing balance at December 31		870,746	32,869	903,615	693,484	1,577	695,061

11.4.1 General provision against consumer loans represents provision maintained at an amount equal to 1.5 percent of the fully secured regular portfolio of consumer loans and 5 percent of the unsecured regular portfolio of consumer loan as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

11.4.2 Particulars of provisions against non-performing advances

	2007		2006	
	Specific	General	Specific	General
	(Rupees in '000)			
In local currency	870,746	32,869	693,484	1,577
In foreign currencies	-	-	-	-
	870,746	32,869	693,484	1,577

11.5 Amendments in Prudential Regulations in respect of provisioning against non-performing advances

During the year the State Bank of Pakistan has introduced certain amendments in the Prudential Regulations in respect of maintenance of provisioning requirements against non-performing loans and advances vide BSD Circular No. 7 dated October 12, 2007. The amendments made in the provisioning requirements and the resulting additional provision of Rs 159.487 million is explained below:

11.5.1 Under the revised guidelines issued by SBP, banks cannot avail the benefit of discounted forced sales value of mortgaged assets held as collateral by the banks against their non-performing (excluding housing finance portfolio) advances for the purpose of determining the provisioning requirement to be maintained for non-performing customers with effect from December 31, 2007. Previously, the Prudential Regulations issued by SBP allowed banks to avail the benefit of discounted forced sales value of mortgaged assets held as collateral against non-performing advances of over Rs 10 million while determining the provisioning requirement there against. Had the provision against non-performing loans and advances been determined in accordance with the requirement previously laid down by SBP, the specific provision against non-performing loans and advances would have been lower and consequently profit before taxation and advances (net of provisions) as at December 31, 2007 would have been higher by approximately Rs 157.917 million.

11.5.2 As noted above in accordance with the revised guidelines issued by SBP, banks are allowed to avail the benefit of forced sales value of mortgaged assets held as collateral against their non-performing housing finance portfolio while determining provisioning requirement against such portfolio. However, the forced sales value of the mortgaged assets would only be allowed to the extent of 50% of its value during the first two years from the date of classification of the respective non-performing customers and no benefit would be admissible in subsequent years.

Previously, the Prudential Regulations allowed banks to avail the benefit of forced sales value of mortgaged assets held as collateral against their non-performing housing finance portfolio without any specified time limit. Had the provision against non-performing housing finance portfolio been determined in accordance with the requirement previously laid down by SBP, the specific provision against non-performing housing finance portfolio would have been lower and consequently profit before taxation and advances (net of provisions) as at December 31, 2007 would have been higher by approximately Rs 1.143 million.

11.5.3 In addition, as per the revised regulations the overdue time period for classifying personal loans as 'loss' has been reduced from one year to 180 days and as a result the category of 'doubtful' has been dispensed with. Had the provision against non-performing personal loans been determined in accordance with the requirement previously laid down by SBP, the specific provision against non-performing personal loans would have been lower and consequently profit before taxation and advances (net of provision) as at December 31, 2007 would have been higher by approximately Rs 0.427 million.

11.5.4 Although the bank has made full provision against its non-performing portfolio as per the category of the loan, the bank still holds collateral amounting to Rs _______ million to be able to enforce in recovery through litigation. These securities comprise of charge against various tangible assets of the borrower including land, building, plant and machinery, stock in trade etc.

11.6 Particulars of write offs

	Note	2007	2006
		(Rupees in '000)	
11.6.1 Against provisions	11.4	6,164	31,421
Directly charged to the profit and loss account		-	-
		6,164	31,421

		Note	2007	2006
			(Rupees in '000)	
11.6.2	Write offs of Rs 500,000 and above	11.7	5,340	29,371
	Write offs of below Rs 500,000		824	2,050
			6,164	31,421

11.7 Details of loan write offs of Rs 500,000 and above

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 December 31, 2007 is given at Annexure - I to these financial statements. However, the write off of loans does not affect the bank's right to recover the outstanding loans from these customers.

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

	2007	2006
	(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	176,015	112,852
Loans granted during the year	185,234	96,980
Repayments during the year	35,395	33,817
Balance at end of the year	325,854	176,015
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	-	-
Loans granted during the year	-	-
Repayments during the year	-	-
Balance at end of the year	-	-
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
Balance at beginning of the year	28,220	46,397
Loans granted during the year	92,455	4,896
Repayments during the year	65,844	23,073
Balance at end of the year	54,831	28,220

* These include loans given by the bank to its employees as per the terms of their employment.

12. OPERATING FIXED ASSETS

	Note	2007	2006
		(Rupees in '000)	
Capital work-in-progress	12.1	201,833	83,758
Tangible fixed assets	12.2	855,605	571,483
Intangibles	12.3	37,310	17,823
		1,094,748	673,064

12.1 Capital work-in-progress

	2007	2006
Civil works	78,724	26,024
Advances to suppliers and contractors	123,109	57,734
	201,833	83,758

12.2 Tangible fixed assets

	2007									
	COST				DEPRECIATION					
	As at January 1, 2007	Additions/ Transfers	Deletions / Adjustments	As at December 31, 2007	As at January 1, 2007	Charge for the year	Deletions / transfers / Adjustments	As at December 31, 2007	Book value at December 31, 2007	Rate of Depreciation (%)
	(Rupees in 000)									
Freehold land	-	127,500	-	127,500	-	-	-	-	127,500	0
Bank premises	329,156	158,028 153,782	(3,617) (9,469)	627,880	43,351	25,226	(1,927) 53,961 (494)	120,117	507,763	5
Furniture and fixtures	196,186	21,151 (153,782)	(1,739)	61,816	74,506	3,893	(1,124) (53,961)	23,314	38,502	10
Motor vehicles	74,797	20,143	(1,584)	93,356	19,448	12,973	(1,077)	31,344	62,012	20
Electrical, office and computer equipment	238,489	64,089	(9,965) (8,446)	284,167	133,772	43,059	(6,304) (3,795)	166,732	117,435	20-33.33
	838,628	390,911 -	(16,905) (17,915)	1,194,719	271,077	85,151	(10,432) (4,289)	341,507	853,212	
Assets held under finance lease										
Motor vehicles	8,174	-	(2,680)	5,494	4,419	867	(2,185)	3,101	2,393	20
Electrical, office and computer equipment	9,618	- -	-	9,618	9,441	177	- -	9,618	-	20-33.33
	17,792	- -	(2,680)	15,112 -	13,860 -	1,044 -	(2,185) -	12,719	2,393	
Total	856,420	390,911	(19,585) (17,915)	1,209,831	284,937	86,195	(12,617) (4,289)	354,226	855,605	

	2006									
	COST				DEPRECIATION					
	As at January 1, 2006	Additions/ Transfers	Deletions	As at December 31, 2006	As at January 1, 2006	Charge for the year	Deletions/ Transfers	As at December 31, 2006	Book value at December 31, 2006	Rate of Depreciation (%)
	(Rupees in 000)									
Bank premises	195,193	147,963	(14,000)	329,156	33,126	11,370	(1,145)	43,351	285,805	5
Furniture and fixtures	149,063	47,380	(257)	196,186	57,899	16,855	(248)	74,506	121,680	10
Motor vehicles	62,328	21,444	(8,975)	74,797	13,674	10,622	(4,848)	19,448	55,349	20
Electrical, office and computer equipment	145,189	71,834 23,493	(2,027)	238,489	80,104	32,058	(1,883) 23,493	133,772	104,717	20-33.33
	551,773	288,621 23,493	(25,259)	838,628	184,803	70,905	(8,124) 23,493	271,077	567,551	
Assets held under finance lease										
Motor vehicles	9,979	-	(1,805)	8,174	5,062	984	(1,627)	4,419	3,755	20
Electrical, office and computer equipment	33,111	- (23,493)	-	9,618	32,754	180	- (23,493)	9,441	177	20-33.33
	43,090	- (23,493)	(1,805)	17,792	37,816	1,164	(1,627) (23,493)	13,860	3,932	
Total	594,863	288,621	(27,064)	856,420	222,619	72,069	(9,751)	284,937	571,483	

12.3 Intangibles

	COST				AMORTISATION					
	As at January 1, 2007	Additions	Deletions / Adjustments	As at December 31, 2007	As at January 1, 2007	Amortis - ation	Deletions / Adjustments	As at December 31, 2007	Book value at December 31, 2007	Rate of Amortisation (%)
	(Rupees in 000)									
Computer software	35,980	969	- (4,678)	32,271	18,157	7,376	- (174)	25,359	6,912	33.33
Customer list	-	30,735	-	30,735	-	337	-	337	30,398	10
2007	35,980	31,704	- (4,678)	63,006	18,157	7,713	(174)	25,696	37,310	
2006	35,740	240	-	35,980	8,754	9,403	-	18,157	17,823	20-33.33

		2007	2006
		(Rupees in '000)	
12.4	Carrying amount of temporarily idle properties	Nil	Nil
12.5	The cost of fully depreciated assets that are still in use is:		
	Bank premises	15,069	-
	Furniture and fixtures	9,139	20,218
	Electrical, office and computer equipment	114,705	81,581
	Motor vehicles	3,103	1,333
	Computer software	12,921	8,242
12.6	The carrying amount of tangible fixed assets that have retired from active use and are held for disposal	Nil	Nil

12.7 Disposals of operating fixed assets during the year

The details of disposals of operating fixed assets whose original cost or book value exceeds one million rupees or two hundred and fifty thousand rupees respectively, whichever is lower, are given below:

Particulars	Cost	Accumulated depreciation	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
	----------------(Rupees '000)	------------------				
Bank premises						
Items having book value of more than Rs 250,000 or cost of more than Rs 1,000,000	3,617	1,927	1,690	1,690	Insurance claim	Adamjee Insurance Company Limited
	3,617	1,927	1,690	1,690		
Furniture and fixtures						
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000	734	595	139	26	Negotiation	Various
	1,005	529	476	476	Insurance claim	Adamjee Insurance Company Limited
	1,739	1,124	615	502		
Electrical, office and computer equipment						
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000	3,668	2,644	1,024	960	Negotiation	Various
	4,119	2,605	1,514	1,514	Insurance claim	Various
Items having book value of more than Rs 250,000 or cost of more than Rs 1,000,000	2,178	1,055	1,123	1,123	Insurance claim	Adamjee Insurance Company Limited
	9,965	6,304	3,661	3,597		
Motor vehicles						
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000	66	66	-	18	Auction	Intezar Autos
Toyota Corrolla	739	622	117	260	Auction	Mr.Imtiaz
KIA Spectra	759	588	171	87	Auction	Mr.Adnan Hasan Khan
KIA Spectra	759	424	335	236	Auction	Mr.Adnan Hasan Khan
Toyota Corrolla	739	622	117	370	Auction	Mr.Imtiaz
Items having book value of more than Rs 250,000 and cost of more than Rs 1,000,000						
Honda Civic	1,202	940	262	405	Auction	Mr.Ghulam Farid
	4,264	3,262	1,002	1,376		
2007	19,585	12,617	6,968	7,165		
2006	27,065	9,751	17,314	22,061		

13. DEFERRED TAX ASSETS - NET

	2007	2006
	(Rupees in '000)	
Deferred debits arising due to:		
Net deficit on revaluation of available for sale securities	-	8,528
Provision for diminution in the value of investments	2,955	3,565
Provision against non-performing loans and advances and mark-up in suspense	144,946	18,914
Provision for compensated absences	3,391	2,905
Provision against other assets	1,647	1,647
Provision for gratuity	14,040	-
Minimum tax	41,283	19,260
Unused tax losses (including unabsorbed depreciation)	648,725	729,286
Other deductible temporary difference	35,614	-
	892,601	784,105
Deferred credits arising due to:		
Unrealised gain on shares of listed companies and units of mutual funds	(3,478)	-
Net surplus on revaluation of securities	(5,985)	-
Reversal of accelerated tax depreciation	(68,580)	(69,053)
Liabilities against assets subject to finance lease	(338)	(55)
Net investment in finance leases	(203,687)	(226,376)
	(282,068)	(295,484)
	610,533	488,621

13.1 The bank has an aggregate amount of Rs 1,853.500 million in respect of unabsorbed tax losses as at December 31, 2007 on which the deferred tax asset recognised represents management's best estimate of the probable benefits expected to be realised in future years in the form of reduced tax liability as the bank would be able to set off the profits earned in these years against losses carried forward from prior years. The amount of this benefit has been determined based on the projected financial statements of the bank for the next 5 years.

13.2 Through the Finance Act 2007, a new section 100A read with the 7th schedule (the Schedule) was inserted in the Income Tax Ordinance, 2001 for the taxation of banking companies.The schedule seeks to simplify the taxation of banking companies and is applicable from the tax year 2009 (financial year ending on December 31, 2008).

The 7th Schedule does not contain transitory provisions to deal with the disallowances made upto the year ended December 31, 2007. This issue has been taken up with the tax authorities through Pakistan Banks Association for formulation of transitory provisions to deal with the items which were previously treated differently under the then applicable provisions.

The deferred tax asset on the deductible temporary differences disallowed as a deduction in the past up to December 31, 2007 is being kept as an asset as the bank is confident that transitory provisions would be introduced to set out the mechanism of claiming where benefit of these allowances can be claimed.

14. OTHER ASSETS

	Note	2007	2006
		(Rupees in '000)	
Income / mark-up accrued in local currency		895,757	387,765
Advances, deposits, advance rent and other prepayments		89,512	78,899
Taxation (payments less provisions)		70,682	50,301
Stationery and stamps in hand		11,500	8,975
Branch adjustment account		43,421	-
Goodwill	14.1	35,362	153,939
Unrealised gain on forward foreign exchange contracts		-	3,170
Receivable against sale of units of mutual funds and listed equity securities		32,734	23,358
Dividend receivable		-	50,625
Others		14,154	7,650
		1,193,122	764,682
Provision held against other assets	14.2	(4,707)	(4,707)
Other assets - net of provision		1,188,415	759,975

		Note	2007	2006
14.1	**Goodwill**		**(Rupees in '000)**	
	Goodwill recognised on acquisition of investment segment of KASB & Co.		256,564	256,564
	Goodwill recognised on amalgamation of KASB Leasing Limited		(4,174)	(4,174)
			252,390	252,390
	Amortisation to date		(98,451)	(98,451)
			153,939	153,939
	Goodwill derecognised on disposal of subsidiary		(153,939)	-
	Goodwill recognised on acquisition of IHFL	6.3	35,362	-
			35,362	153,939

14.2 Provision against other assets

	2007	2006
Opening balance at January 1	4,707	4,332
Charge for the year	-	375
Closing balance at December 31	4,707	4,707

15. CONTINGENT ASSETS

There were no contingent assets of the bank as at December 31, 2007.

16. BILLS PAYABLE

These represent bills payable in Pakistan.

17. BORROWINGS

	2007	2006
In Pakistan	1,639,706	2,167,844
Outside Pakistan	106,101	8,188
	1,745,807	2,176,032

17.1 Particulars of borrowings

	2007	2006
In local currency	1,639,706	2,167,844
In foreign currencies	106,101	8,188
	1,745,807	2,176,032

17.2 Details of borrowings secured / unsecured

	Note	2007	2006
Secured			
Borrowings from the State Bank of Pakistan under export refinance scheme	17.2.1	1,254,061	1,869,541
Borrowings from the State Bank of Pakistan under Long Term Finance (LTF)	17.2.2	285,645	298,303
		1,539,706	2,167,844
Unsecured			
Call money borrowing		100,000	-
Overdrawn nostro accounts		106,101	8,188
		1,745,807	2,176,032

17.2.1 The bank has entered into an agreement with the State Bank of Pakistan (SBP) for extending export finance to its customers. As per the agreement, the bank has granted SBP the right to recover the outstanding amount from the bank at the date of maturity of the finances by directly debiting the current account maintained by the bank with SBP. Borrowing from SBP under the export refinance scheme is secured by the bank's cash and security balances held by SBP. These borrowings carry mark-up at the rate of 6.5 percent per annum (2006: 6.5 percent per annum to 7.5 percent per annum) payable on a quarterly basis.

17.2.2 These borrowings have been made from SBP for providing financing facilities to customers for import of machinery, plant, equipment and accessories thereof (not manufactured locally) by export oriented units.

18. DEPOSITS AND OTHER ACCOUNTS

	2007	2006
	(Rupees in '000)	
Customers		
Remunerative		
Fixed deposits	15,165,536	7,408,694
Savings deposits	8,723,263	7,076,098
	23,888,799	14,484,792
Non-remunerative		
Current accounts	3,424,258	3,175,928
Margin deposits	374,262	447,240
	3,798,520	3,623,168
	27,687,319	18,107,960
Financial Institutions		
Remunerative deposits		
Savings deposits	857,256	565,270
Term deposits	4,498,500	2,600,000
Non-remunerative deposits		
Current accounts	88,698	2,340
	5,444,454	3,167,610
	33,131,773	21,275,570

18.1 Particulars of deposits and other accounts

	2007	2006
In local currency	32,466,628	20,725,702
In foreign currencies	665,145	549,868
	33,131,773	21,275,570

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2007			2006		
	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	1,068	86	982	2,583	235	2,348
Later than one year and not later than five years	447	1	446	1,519	92	1,427
	1,515	87	1,428	4,102	327	3,775

The bank has entered into various lease agreements with leasing companies and modarabas for the lease of equipment and vehicles. Lease rentals include financial charges ranging between 9.14 percent per annum to 14.74 percent per annum (2006: 9.14 percent per annum to 16.5 percent per annum) which has been used as a discounting factor. The lease rentals are payable in monthly installments by January 25, 2009. The bank has the option to purchase the assets upon completion of the lease period and has the intention to exercise the option.

20. OTHER LIABILITIES

	Note	2007	2006
		(Rupees in '000)	
Mark-up / return / interest payable in local currency		331,016	214,296
Mark-up / return / interest payable in foreign currencies		8,931	285
Advance against leases		20,562	18,572
Accrued expenses		56,951	37,584
Branch adjustment account		-	53,526
Security deposits against leases	20.1	285,776	237,688
Provision for compensated absences	20.2	9,689	8,301
Provision for gratuity	35.4	40,115	20,763
Payable to brokers against purchase of shares		-	6,171
Payable to brokers against purchase of listed equity securities		-	122,318
Unrealised loss on forward foreign exchange contracts		522	-
Others		94,858	35,387
		848,420	754,891

20.1 These represent interest free security deposits received from lessees against lease contracts and are adjustable against residual value of leased assets at the expiry of the respective lease terms.

20.2 This represents provision for compensated absences made in respect of the liability of the bank towards leaves accumulated on account of its employees upto December 31, 2005. The provision has been determined on the basis of gross salaries of employees for the month of December 2005 pursuant to the decision of the management to freeze this benefit as at December 31, 2005.

21. SHARE CAPITAL

Authorised

2007	2006		2007	2006
(Number of shares)			(Rupees in '000)	
600,000,000	400,000,000	Ordinary shares of Rs 10 each	6,000,000	4,000,000

Issued, subscribed and paid up

2007	2006		2007	2006
149,923,856	122,123,856	Ordinary shares of Rs 10 each fully paid in cash	1,499,238	1,221,238
11,600,000	11,600,000	Ordinary shares of Rs 10 each issued as fully paid bonus shares	116,000	116,000
89,001,900	89,001,900	Ordinary shares of Rs 10 each issued on amalgamation of investment segment of KASB & Co.	890,019	890,019
8,834,942	8,834,942	Ordinary shares of Rs 10 each issued on amalgamation of KASB Leasing	88,349	88,349
(30,089,900)	(30,089,900)	Ordinary shares of Rs 10 each of the bank cancelled previously held by KASB & Co.	(300,899)	(300,899)
22,927,080	27,800,000	Right shares of Rs 10 each issued during the year	229,271	278,000
58,500,000	-	Ordinary shares of Rs 10 each issued as fully paid up in consideration for acquisition of International Housing Finance Limited (IHFL)	585,000	-
310,697,878	229,270,798		3,106,978	2,292,707

21.1 The movement in the issued, subscribed and paid-up capital during the year is as follows:

	Number of shares	Amount (Rupees in '000)
Opening balance at January 1	229,270,798	2,292,707
Right shares issued during the year	22,927,080	229,271
Shares issued in consideration for acquisition of IHFL	58,500,000	585,000
Closing balance at December 31	310,697,878	3,106,978

21.2 Shares held by the related parties of the bank

Name of shareholder	2007	2006
	Number of shares	
Mr. Nasir Ali Shah Bukhari	94,776,425	56,415,951
Mrs. Ambreen Bukhari	10,397,390	9,452,173
Mr. Mahmood Ali Shah Bukhari	10,384,000	9,440,000
Mr. H. U. Beg	778,385	707,623
Mr. Sohail Wajahat H. Siddiqui	855	778
Mr. Tariq M. Rangoonwala	3,659	3,327
Mr. N.K. Shahani	22,500	3,000
Ms. Syeda Mubashira Bukhari	10,384,000	9,440,000
Mr. Irtiza Hussain	1,962	500
Mr. Munir Kamal	27,850	500

21.3 The State Bank of Pakistan required all commercial banks to raise their paid-up capital (net of losses) to minimum limits as prescribed in BSD Circular No. 6 dated October 28, 2005. As per the requirements, the minimum paid-up capital (net of losses) requirement for locally incorporated banks has been raised to Rs 6 billion (net of losses), to be achieved in a phased manner by December 31, 2009. The minimum paid-up capital requirement (net of losses) to be achieved by December 31, 2007 is Rs 4 billion. The paid-up capital of the bank as at December 31, 2007 amounts to Rs 3,106.978 million and the bank has accumulated losses of Rs 7.497 million.

Subsequent to the year ended December 31, 2007 , the bank has issued right shares amounting to Rs 907.912 million which have been fully subscribed by the shareholders of the bank. Consequent to the aforementioned issue of right shares, the paid-up capital of the bank subsequent to the year ended December 31, 2007 has been increased to Rs 4,014.890 million.

21.4 EMPLOYEE STOCK OPTION PLAN

21.4.1 The bank has established an Employee Stock Option Plan ('Plan') for the benefit of certain employees of the bank and its affiliates. The Plan had been approved by the shareholders of the bank in the Extra Ordinary General Meeting held on June 28, 2007. The bank has forwarded an application to the Securities and Exchange Commission of Pakistan (SECP) for the approval of the plan.

The plan will be administered by a Committee constituted by the Board of Directors of the bank which shall allocate share options not exceeding 4 percent of the bank's paid up share capital. The Plan entitles eligible employees, who are granted share options, to purchase shares of the bank at an exercise price of Rs 10 per share after the vesting period has lapsed or at any time after the grant date upon approval of the Committee. The grant date of the options will be determined by the Committee upon which options to purchase the shares will be granted to the eligible employees. The vesting period of share options will be a maximum period of twelve months or less. The exercise period constitutes a maximum period of three years after the vesting period during which options may be exercised. The SECP has not approved the Plan till date. In addition, the Committee constituted by the Board of Directors in respect of this plan has not yet determined the grant date, vesting period and other conditions relating to the Plan. This Plan has not been accounted for in these financial statements of the bank as the grant date, vesting period and other conditions related thereto will be determined subsequent to receipt of approval from SECP and will not relate to the year ended December 31, 2007.

	2007	2006
22. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX	**(Rupees in '000)**	
Surplus / (deficit) on revaluation of available for sale securities:		
Federal Government securities	(26,093)	(24,367)
Term Finance Certificates - listed	693	1,611
Units of Mutual Funds	21,217	16,199
Ordinary shares - listed	121,705	(35,233)
	117,522	(41,790)
Related deferred tax asset	(5,985)	8,528
	111,537	(33,262)

23. CONTINGENCIES AND COMMITMENTS

23.1 Direct credit substitutes

	2007	2006
Acceptances	1,935,011	2,116,691

23.2 Transaction-related contingent liabilities

	2007	2006
Guarantees issued favouring:		
- Government	2,392,925	26,967
- Others	967,549	3,006,817
	3,360,474	3,033,784

23.3 Trade-related contingent liabilities

	2007	2006
Letters of credit	3,488,493	2,822,946

23.4 Taxation matters have been disclosed in note 23.7 to these financial statements.

23.5 Commitments in respect of forward exchange contracts

	2007	2006
Purchase		
From the State Bank of Pakistan	7,064	8,585
From other banks	405,900	30,440
From other customers	60,667	24,822
	473,631	63,847
Sale		
To banks	694,642	291,285
To customers	-	12,620
	694,642	303,905
	1,168,273	367,752

		2007	2006
		(Rupees in '000)	
23.6	**Commitments for the acquisition of operating fixed assets**	422,999	28,639

23.7 Taxation

23.7.1 The income tax assessments of the bank have been assessed under the self assessment scheme upto and including the tax year 2007. The assessment of the bank for the tax year 2004 had been amended by the Taxation Officer on account of certain disallowances in respect of income from carry over transactions, provision for bad debts and bad debts written off and certain other items resulting in an additional tax liability of Rs 55.023 million. The Commissioner of Income Tax Appeals (CIT – Appeals) through its order dated May 15, 2006 had also decided the matter against the bank and had maintained the disallowances made by the Taxation Officer. Presently, the bank has filed an appeal before the Income Tax Appellate Tribunal (ITAT) which is pending to date.

However, on a prudent basis, in connection with the above, tax impact of Rs 13.465 million in respect of certain disallowances made by the income tax authorities has been incorporated in these financial statements. No provision for any implication arising out of certain other items(including income from carry over transactions relating to tax years 2003, 2005 - 2008) amounting to Rs 103.7 million has been recognised and its resultant effects on deferred tax assets on unused tax losses in these financial statements in respect of the current year or any other tax years which are deemed to be assessed under the Income Tax Ordinance, 2001 as the management is hopeful of a favourable decision in appeals.

	2007	2006
	(Rupees in '000)	
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances		
- Customers	2,275,338	1,216,041
- Financial institutions	10,859	26,270
On investments in:		
- available for sale securities	383,301	232,832
- held to maturity securities	73,157	75,045
- held for trading	4,130	-
On deposits with financial institutions	61,304	99,184
On securities purchased under resale agreements	82,878	39,286
On call money lending	5,629	8,416
On listed equity securities purchased under resale agreements	20,748	93,273
	2,917,344	1,790,347
25. MARK-UP/ RETURN / INTEREST EXPENSED		
Deposits	2,066,879	1,234,285
Securities sold under repurchase agreements	1,446	44,925
Borrowings from the State Bank of Pakistan under export refinance	122,510	98,916
Call borrowings	52,316	15,293
Short term borrowings	6,049	-
Forward cover fee	282	307
Amortisation of premium on securities	35,899	35,319
	2,285,381	1,429,045
26. GAIN ON SALE OF SECURITIES - NET		
Ordinary shares - listed	128,931	124,506
27. OTHER INCOME		
Gain on disposal of fixed assets - net	197	4,852
Others	42,266	20,059
	42,463	24,911

28. ADMINISTRATIVE EXPENSES

	Note	2007	2006
		(Rupees in '000)	
Salaries, allowances and other benefits *		539,234	372,987
Contribution to defined contribution plan		17,694	12,080
Rent, taxes, insurance and electricity		123,154	102,843
Legal and professional charges		25,226	18,242
Communication charges		35,630	30,169
Repairs and maintenance		33,969	31,596
Software and IT service charges		19,025	9,885
Finance charge on lease obligations		289	481
Stationery and printing		18,094	12,957
Advertisement and publicity		123,318	63,609
Depreciation	12.2	86,195	72,069
Amortisation	28.1	7,713	33,807
Auditors' remuneration	28.2	4,282	1,771
Vehicle running expenses		20,966	15,379
Brokerage and commission		1,979	2,027
Security charges		17,169	15,356
Fee and subscription		38,311	15,953
Correspondence charges		5,023	9,703
Entertainment		8,408	6,092
Travelling expenses		16,892	13,454
Donations		80	13
Others		11,085	13,050
		1,153,736	853,523

* This includes an amount of Rs 23.816 million (2006: Rs 21.475 million) that has been charged in the financial statements in respect of the defined benefit gratuity scheme.

28.1 Amortisation

	Note	2007	2006
		(Rupees in '000)	
Amortisation of goodwill		-	24,404
Amortisation of computer software	12.3	7,713	9,403
		7,713	33,807

28.2 Auditors' remuneration

	2007	2006
Audit fee*	1,000	550
Fee for half yearly review	300	150
Special certifications and sundry advisory services	1,500	230
Tax services	730	684
Out-of-pocket expenses	752	157
	4,282	1,771

* Audit fee amounting to Rs 2 million in respect of special audit carried out for the purpose of acquisition of IHFL has been included in the direct cost relating to the acquisition (note 6).

29. OTHER PROVISIONS / WRITE OFFS

	2007	2006
Security deposits written off	-	976
Provision against other assets - net	-	375
Fixed assets written off	-	105
	-	1,456

30. OTHER CHARGES

	2007	2006
Penalties imposed by the State Bank of Pakistan	12,193	5,188
Others	8,975	-
	21,168	5,188

31. TAXATION

	2007	2006
For the year		
Current	20,350	19,868
Deferred	(4,846)	(164,679)
	15,504	(144,811)
For prior years		
Current	-	-
Deferred	(147,635)	60,259
	(132,131)	(84,552)

31.1 Relationship between tax expense and accounting profit / (loss)

	2007	2006
	(Rupees in '000)	
Profit before taxation	65,562	52,795
Tax at the applicable tax rate of 35 percent	22,947	18,478
Tax effect on separate block of income	-	(51,840)
Tax effect on exempt income	(45,389)	(76,223)
Tax effect on permanent differences	14,691	(35,226)
Tax effect of goodwill on sale of subsidiary and associate	23,255	-
Deferred tax - prior years	(147,635)	60,259
	(132,131)	(84,552)

32. EARNINGS PER SHARE

	2007	2006
	(Rupees in '000)	
Profit for the year after taxation	197,693	137,347
	Number of Shares	
Weighted average number of ordinary shares outstanding during the year	220,640,166	221,951,482
	(Rupees)	
Earnings per share	0.90	0.62

32.1 A diluted earnings per share has not been presented as the bank does not have any convertible instruments in issue at December 31, 2006 and 2007 which would have any effect on the earnings per share if the option to convert is exercised.

33. CASH AND CASH EQUIVALENTS

	Note	2007	2006
		(Rupees in '000)	
Cash and balances with treasury banks	7	3,001,895	2,305,082
Balances with other banks	8	807,555	799,731
Overdrawn nostro accounts	17	(106,101)	(8,188)
		3,703,349	3,096,625

34. STAFF STRENGTH

	Number	
Permanent	869	637
Temporary / on contractual basis	23	57
Bank's own staff strength at the end of the year	892	694
Outsourced*	428	370
Total staff strength	1,320	1,064

* Outsourced staff includes those employees that are hired by an outside contractor / agency and are posted in the bank to perform various tasks / activities of the bank.

35. STAFF RETIREMENT BENEFITS

35.1 Defined contribution plan

The bank operates a recognised provident fund scheme for all its permanent employees which is administered by the Board of Trustees. The bank and the employees make matching contributions to the fund at the rate of 8.33 percent of basic salary in accordance with the rules of the Trust.

35.2 Defined benefit scheme

The bank operates an approved unfunded gratuity scheme for all its permanent employees. The actuarial valuation of the gratuity scheme was carried out as at December 31, 2007 using the Projected Unit Credit Method. The following significant assumptions were used for the valuation of the scheme:

	2007	2006
Discount rate	10%	10%
Expected rate of salary increase	10%	10%

35.3 Reconciliation of liability recognised by the bank

	2007	2006
	(Rupees in '000)	
Present value of unfunded obligations	42,132	26,815
Unrecognised past service cost	(2,017)	(6,052)
Liability recognised by the bank	40,115	20,763

35.4 Movement in liability recognised by the bank

	2007	2006
Balance as at January 1	20,763	-
Charge for the year	23,816	21,475
Payments made during the year	(4,464)	(712)
Balance as at December 31	40,115	20,763

35.5 Charge for the year

	2007	2006
Current service cost	12,079	4,653
Interest cost	2,682	1,018
Actuarial losses recognised	4,120	788
Past service cost recognised	4,035	15,016
Liability of employees previously not entitled for gratuity	900	-
	23,816	21,475

36. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for remuneration, including all benefits to the Chief Executive, Directors and Executives of the bank is as follows:

	President / Chief Executive		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	(Rupees in '000)					
Fees	-	-	4,767	2,497	-	-
Managerial remuneration	5,667	6,800	330	532	82,288	67,734
Contribution to defined contribution plan	472	567	-	-	6,069	4,767
Contribution to defined benefit plan	740	393	-	-	7,380	6,159
Rent and house maintenance	1,700	2,040	135	218	24,686	20,320
Utilities	567	680	-	-	8,229	6,773
Medical	567	680	-	-	8,229	6,773
Others	1,133	1,099	71	89	15,996	11,325
	10,846	12,259	5,303	3,336	152,877	123,851
Number of persons	1	1	7	9	124	70

36.1 The bank provides free use of bank maintained cars to the Chief Executive and certain executives in accordance with the terms of their employment.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

37.1 On-balance sheet financial instruments

The fair value of traded investments is based on quoted market prices, except for tradable securities classified as 'held to maturity'. These securities are carried at amortised cost in order to comply with the requirements of BSD Circular No. 14 dated September 24, 2004. The fair value of these investments amounts to Rs 598.270 million (2006: Rs. 564.316 million).

Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the bank's accounting policy as stated in note 5.5 to these financial statements.

The maturity and repricing profile and effective rates are stated in note 42.2.3 and 42.3.1 to these financial statements.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently repriced.

37.2 Off-balance sheet financial instruments

	2007		2006	
	Book value	**Fair value**	**Book value**	**Fair value**
	--------------------------(Rupees in '000)--------------------------			
Forward purchase of foreign exchange	473,631	479,234	63,847	64,063
Forward agreements for borrowings	-		-	-
Forward sale of foreign exchange	694,642	705,435	303,905	303,792
Forward agreements for lendings	-	-	-	-

38. Segment details with respect to business activities

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

	Trading and sales	Retail banking	Commercial banking	Others	Total
	--------------------------------------(Rupees in '000)--------------------------------------				
December 31, 2007					
Total income (net of interest expense and provisions)	1,009,242	76,772	(79,461)	233,913	1,240,466
Administrative and other expenses	9,897	-	200,512	964,495	1,174,904
Net income / (loss) before tax	999,345	76,772	(279,973)	(730,582)	65,562
Segment assets (gross)	8,917,979	1,228,336	25,869,473	5,791,549	41,807,337
Segment non-performing loans	-	104,956	964,916	-	1,069,872
Segment provision required	8,443	40,191	863,424	4,707	916,765
Segment liabilities	107,037	721,391	35,648,187	129,965	36,606,580
December 31, 2006					
Total income (net of interest expense and provisions)	327,809	180,303	225,433	179,417	912,962
Administrative and other expenses	10,541	-	976	848,650	860,167
Net income / (loss) before tax	317,268	180,303	224,457	(669,233)	52,795
Segment assets (gross)	8,293,594	438,360	14,160,661	4,356,073	27,248,688
Segment non-performing loans	-	183,550	833,160	-	1,016,710
Segment provision required	10,185	157,528	537,533	4,707	709,953
Segment liabilities	139,177	5,775,364	18,174,682	320,715	24,409,938

38.1 The bank is in the process of upgrading its systems and this will also appropriately cater to the information requirements for preparation of an accurate and meaningful segment analysis. However, in the interim stage, the above analysis has been prepared on the basis of certain estimates and application of judgement including the following:

- cost of deposits has been allocated to the business activities on the basis of the ratio of different types of deposits. The ratio used has been determined based on the deposits of the bank as at December 31, 2007.
- net investment in finance leases has been classified under the commercial banking activity.
- deferred taxation on provision against advances and mark-up in suspense account has been classified under the commercial banking activity, while the remaining deferred tax balance has been classified as "others".

39. TRUST ACTIVITIES

The bank is not engaged in any trust activities.

40. RELATED PARTY TRANSACTIONS

The bank has a related party relationship with its associated undertakings, subsidiary companies, employee benefit plans, and its key management personnel (including their associates). The details of investments in subsidiary companies is stated in note 10.15 to these financial statements.

Transactions between the bank and its related parties are carried out on an arm's length basis under the comparable uncontrolled price method, except for communication expenses that are carried out on 'cost plus' method.

Details of loans and advances to the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members, are given in note 11.8 to these financial statements. There were no transactions with key management personnel other than those that are entered into with them under the terms of their employment. Details of remuneration to the executives are disclosed in note 36 to these financial statements.

	December 31, 2007				December 31, 2006			
	Subsidiaries	Directors	Key Management Personnel	Associates	Subsidiaries	Directors	Key Management Personnel	Associates
	(Rupees in '000)							
Balances outstanding as at the period end								
Loans and advances								
Balance as at January 1	23,091	-	25,904	5,129	44,659	-	21,059	1,738
Disbursed during the year	58,787	-	18,726	33,668	-	-	19,072	4,896
Repayments during the year	62,446	-	4,265	3,398	21,568	-	14,227	1,505
Balance as at December 31	19,432	-	40,365	35,399	23,091	-	25,904	5,129
Deposit accounts								
Balance as at January 1	83,054	4,109	6,485	2,424	134,894	3,801	4,333	9,023
Deposits received during the year	2,857	1,040,400	67,670	6,169,147	116,800,278	757,739	66,412	1,541,067
Withdrawals during the year	84,249	1,041,798	68,126	5,753,746	116,852,118	757,431	64,260	1,547,666
Balance as at December 31	1,662	2,711	6,029	417,825	83,054	4,109	6,485	2,424
Security Deposit against lease advances	-	-	-	889	-	-	-	593
Receivable against expenses	780	-	-	169	881	-	-	-
Commission income receivable	457	-	-	-	341	-	-	-
Creditors - Trading	-	-	-	-	5,488	-	-	-
Bank profit payable	-	1	16	281	176	367	42	-
Receivable - Markup	1,140	-	-	257	466	-	-	-
Prepayments	-	-	-	-	2,354	-	-	-
Dividend Receivable	-	-	-	-	50,100	-	-	-
Unearned mark up	-	-	-	469	-	-	-	678
Mark Up Suspense	-	-	-	-	1,397	-	-	-
Distribution income receivable	-	-	-	535	-	-	-	114
Administrative expense payable	-	-	-	-	1,045	-	-	-

	December 31, 2007				December 31, 2006			
	Subsidiaries	Directors	Key Management Personnel	Associates	Subsidiaries	Directors	Key Management Personnel	Associates
	(Rupees in '000)							
Profit / expense for the year								
Brokerage commission paid	840	-	-	-	6,325	-	-	-
Interest income on advances	10,681	-	3,247	3,176	3,799	-	699	299
Interest expense on deposits	2,465	180	114	10,689	6,198	379	103	940
Rent Income	283	-	-	-	522	-	-	-
Rent Expense	2,377	-	-	-	3,086	-	-	-
IT Service charges	4,431	-	-	-	1,278	-	-	-
Communication expenses	1,386	-	-	-	1,435	-	-	-
Advertisement sponsorship	-	-	-	1,220	-	-	-	2,190
Dividend income	200,100	-	-	-	150,600	-	-	-
Remuneration paid	-	536	50,596	-	-	1,500	41,330	-
Administrative expenses	-	-	-	169	-	-	-	-
Directors Fees	-	4,767	-	-	-	2,610	-	-
Lease Income	-	-	-		38	-	-	-
Proceeds from sale of property	-	-	-	-	16,000	-	-	-
Bank Charges	-	-	-	3	-	-	-	3
Lease Documentation Income	-	-	-	-	-	-	-	6
Data Communication and Networking Expenses	9,423	-	-	-	5,865	-	-	-
Proceeds from sale of Vehicles	-	-	-	-	2,795	-	-	-
Commission Income	457	-	-	-	-	-	-	-
Distribution and facilitation income	-	-	-	733	-	-	-	378
Subordinated loan	-	320,000		297,000	-	-	-	-
Repayment of subordinated loan	-	320,000		297,000	-	-	-	-
Investment made during the year	-	-	-	680,000	-	-	-	-
Disposal of investment	300,000	-	-	30,000	-	-	-	-

	2007	2006
	(Rupees in '000)	
Contribution to staff provident fund	17,694	12,080
Charge in respect of gratuity scheme	23,816	21,475

41. CAPITAL ADEQUACY

41.1 Capital Management

The objective of managing capital is to safeguard the bank's ability to continue as a going concern, so that it could continue to provide adequate returns to shareholders by pricing products and services commensurately with the level of risk. It is the policy of the bank to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Goals of managing capital

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

- To be an appropriately capitalized 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 (including the quantum) 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.

Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 6 dated October 28, 2006 requires the minimum paid up capital (net of losses) for Banks / Development Finance Institutions to be raised to Rs 6 billion by the year ending December 31, 2009. The raise is to be achieved in a phased manner requiring Rs 4 billion paid up capital (net of losses) by the end of the financial year 2007. The paid up capital of the bank for the year ended December 31, 2007 stood at Rs 3.107 billion and accumulated losses amounted to Rs 7.497 million.

Subsequent to the year ended December 31, 2007 , the bank has issued right shares amounting to Rs 907.912 million which have been fully subscribed by the shareholders of the bank. Consequent to the aforementioned issue of right shares, the paid-up capital of the bank subsequent to the year ended December 31, 2007 has been increased to Rs 4,014.890 million to comply with the SBP requirement for the said year.

In addition the Banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 8 percent of the risk weighted exposure of the Bank. KASB Bank Limited's CAR as at December 31, 2007 was 12.32 percent of its risk weighted exposure.

Bank's regulatory capital analysed in two tiers.

Tier 1 capital, which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves as per the financial statements and net un-appropriated profits, etc after deductions for investments in the equity of subsidiary engaged in banking and financial activities and deficit on revaluation of available for sale investments.

Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25 percent risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 50 percent the balance in the related revaluation reserves), foreign exchange translation reserves, etc

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 6 dated October 28, 2006. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank.

The required capital adequacy ratio (8 percent of the risk-weighted assets) is achieved by the bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk and market risk.

The calculation of Capital Adequacy enables the bank to assess the long-term soundness. As the bank carries on the business on a wide areas network basis, it is critical that it is able to continuously monitor the exposure across the entire organization and aggregate the risks so as to take an integrated approach / view.

The allocation of capital between specific operations and activities is, to a large extent driven by the optimisation of the return achieved on the capital allocated. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, etc. and the fit of the activity with the bank's long term strategic objectives. There has been no material change in the bank's management of capital during the year.

41.2 Capital Adequacy Ratio

The capital to risk weighted assets ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

		2007	2006
Regulatory capital base		(Rupees in '000)	
Tier I capital			
Share capital		4,014,890	2,292,707
Reserves		165,062	32,508
Accumulated losses		(7,497)	(163,156)
Less: Adjustments		(61,455)	(513,539)
Tier I capital		4,111,000	1,648,520
Tier II capital			
General provisions subject to 1.25% of total risk weighted assets		32,869	1,577
Eligible surplus on revaluation of securities		71,461	8,905
Total Tier II capital		104,330	10,482
		4,215,330	1,659,002
Eligible Tier III capital		-	-
Total regulatory capital	**(a)**	4,215,330	1,659,002

Risk-weighted exposures		2007		2006	
		Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
Credit risk		(Rupees in '000)			
Balance sheet items:					
Cash and balances with treasury banks		3,001,895	4,075	2,305,082	11,651
Balances with other banks		807,555	161,511	799,731	159,946
Lendings to financial institutions		1,766,398	353,280	2,305,232	750,000
Investments		7,277,875	2,462,445	5,094,312	1,867,773
Advances	41.3	24,681,503	23,235,362	13,419,590	12,781,797
Operating fixed assets		1,094,748	1,094,748	673,064	673,064
Deferred tax assets - net		610,533	610,533	488,621	488,621
Other assets		1,188,415	879,584	759,975	534,561
		40,428,922	28,801,538	25,845,607	17,267,413
Off balance sheet items					
Loan repayment guarantees	41.4	1,935,011	1,935,011	2,069,665	2,069,665
Performance Bonds etc	41.4	3,046,267	1,523,133	2,784,751	1,392,376
Stand by letters of credit	41.4	3,465,371	1,732,685	2,739,219	1,369,609
Outstanding foreign exchange contracts	41.5				
-Purchase		261,769	2,017	63,847	496
-Sale		508,234	2,033	303,905	498
		9,216,652	5,194,879	7,961,387	4,832,644
Credit risk-weighted exposures			33,996,417		22,100,057
Market risk					
General market risk			103,663		199,878
Specific market risk			111,512		252,788
Market risk-weighted exposures			215,175		452,666
Total risk-weighted exposures	**(b)**		34,211,592		22,552,723
Capital Adequacy Ratio [(a) / (b) x 100]			**12.32%**		**7.36%**

41.3 These are stated gross of general reserve amounting to Rs 32,869 thousand (2006: Rs 1,577 thousand). This reserve has been added to the supplementary capital. Further, the amount of cash margins, deposits and government securities deducted is Rs 494,519 thousand (2006: Rs 694,705 thousand).

41.4 Cash margins, deposits and government securities deducted from loan repayment guarantees, performance bonds and letters of credit amount to Rs Nil (2006: Rs 47,026 thousand), Rs 314,208 thousand (2006: Rs 245,333 thousand) and Rs 23,123 thousand (2006: Rs 83,727 thousand) respectively.

41.5 Contracts having original maturities of 14 days or less have been excluded.

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 enterprise 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. KASB Bank has recently initiated a process to set up 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 limits, which involve the bank's risk management professionals, business segments and other functional teams. 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 is the risk of loss resulting from client or counterparty default
- Market risk is exposure to market variables such as interest rates, exchange rates and equity indices
- Liquidity risk is the risk that the bank may be unable to meet its payment obligations when due
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and therefore includes legal 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 IT projects for replacing the core banking system, business process re-engineering and inventorying the risks and controls within the bank's existing business and process units. All of these initiatives, as they partially or completely roll out, will have a direct impact on the risk management function within the bank.

The Risk Management structure at KASB Bank has recently been reorganised to have Credit Administration, Financial Risk, Credit Policy, Consumer and Retail Credit, Credit Risk Management and Operational Risk and Basel II functions reporting directly to Group Head Risk Management. The bank is in the process of putting the new structure in place and is also involved in the screening and appointing of critical human resources in each area. The main objective is to develop a dedicated risk management team which is capable of developing and maintaining a sound risk management culture at the bank.

42.1 Credit risk

Credit risk is the risk of loss to the Bank as a result of failure by a client or counterparty to meet its contractual obligations. It is inherent in loans, commitments to lend and contingent liabilities, such as letters of credit – and in traded products, repurchase agreements (repos and reverse repos) and securities borrowing and lending transactions.

The role of the Risk Management in credit risk includes:

- 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 wholesale portfolio, which includes corporate, Middle Market and SME loans are ideally collateralised by cash equivalents, fixed and current assets including stocks, property plant and equipment, and land. Loans to individuals are typically secured by cash equivalents or residential mortgage.

The bank manages limits and controls concentrations of credit risk as identified, in particular to individual counterparties and groups, and to industries, where appropriate. Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographic region 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 counterparty groups, by industry, product, counterparty and geographical location, 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 concentrations or areas of higher risk, or to control the rate of portfolio growth.

42.1.1 Segmental information

42.1.1.1 Segments by class of business

	2007					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	77,747	0.30%	450,281	1.36%	171,201	1.65%
Agribusiness	128,578	0.49%	273,577	0.83%	-	0.00%
Mining and Quarrying	145,165	0.56%	932,902	2.82%	-	0.00%
Textile	6,670,442	25.61%	630,276	1.90%	248,382	2.39%
Chemical and Pharmaceuticals	1,255,423	4.82%	106,159	0.32%	425,205	4.10%
Cement	1,154,081	4.43%	523,728	1.58%	211,113	2.03%
Sugar	90,789	0.35%	8,108	0.02%	-	0.00%
Footwear and Leather garments	190,749	0.73%	48,456	0.15%	-	0.00%
Automobile and transportation equipment	750,108	2.88%	238,281	0.72%	1,359,198	13.10%
Electronics and electrical appliances	634,494	2.44%	616,768	1.86%	711,686	6.86%
Construction	1,035,125	3.97%	568,165	1.71%	22,447	0.22%
Base Metal	-	0.00%	-	0.00%	935,335	9.02%
Power (electricity), Gas, Water, Sanitary	836,679	3.21%	1,126,149	3.40%	18,394	0.18%
Production & transmission of energy	-	0.00%	156,861	0.47%	-	0.00%
Wholesale and Retail Trade	1,571,601	6.03%	3,160,848	9.54%	-	0.00%
Exports / Imports	1,822,365	7.00%	90,941	0.27%	-	0.00%
Food & Beverages	17,144	0.07%	79,326	0.24%	-	0.00%
Manufacturing	47,202	0.18%	209,467	0.63%	-	0.00%
Transport, Storage and Communication	967,036	3.71%	38,396	0.12%	422,757	4.07%
Financial	308,673	1.19%	5,095,733	15.38%	1,107,606	10.68%
Insurance	-	0.00%	348,721	1.05%	-	0.00%
Services	1,227,106	4.71%	706,899	2.13%	145,780	1.41%
Individuals	3,493,268	13.41%	8,588,881	25.92%	-	0.00%
Others	3,622,993	13.91%	9,132,850	27.58%	4,596,146	44.29%
	26,046,768	100.00%	33,131,773	100.00%	10,375,250	100.00%

Segments by class of business

	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	209,476	1.41%	279,453	1.31%	186,745	2.23%
Mining and Quarrying	132,743	0.90%	330,960	1.56%	-	0.00%
Textile	3,397,399	22.94%	830,727	3.90%	1,235,160	14.76%
Chemical and Pharmaceuticals	450,059	3.04%	201,290	0.95%	672,808	8.04%
Cement	706,192	4.77%	77,674	0.37%	2,048	0.02%
Sugar	-	0.00%	4,407	0.02%	-	0.00%
Footwear and Leather garments	161,562	1.09%	19,394	0.09%	5,068	0.06%
Automobile and transportation equipment	534,605	3.61%	214,219	1.01%	180,396	2.16%
Electronics and electrical appliances	219,737	1.48%	590,937	2.78%	15,115	0.18%
Construction	545,585	3.68%	1,289,370	6.06%	170,815	2.04%
Base Metal	-	0.00%	-	0.00%	637,330	7.61%
Power (electricity), Gas, Water, Sanitary	67,250	0.45%	635,086	2.99%	255,388	3.05%
Wholesale and Retail Trade	1,600,814	10.81%	1,988,566	9.35%	252,336	3.01%
Exports/Imports	650,969	4.40%	161,747	0.76%	-	0.00%
Transport, Storage and Communication	1,307,897	8.83%	165,860	0.78%	765,388	9.14%
Financial	1,255,720	8.48%	2,828,704	13.30%	330,310	3.95%
Insurance	1,932	0.01%	338,906	1.59%	-	0.00%
Services	946,977	6.40%	1,501,716	7.06%	19,933	0.24%
Individuals	1,061,189	7.17%	4,882,601	22.95%	-	0.00%
Others	1,557,673	10.53%	4,933,953	23.17%	3,640,972	43.51%
	14,807,779	100.00%	21,275,570	100.00%	8,369,812	100.00%

42.1.1.2 Segment by sector

	2007					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	-	1,331,516	4.02%	2,647,467	25.52%
Private	26,046,768	100.00%	31,800,257	95.98%	7,727,783	74.48%
	26,046,768	100.00%	33,131,773	100.00%	10,375,250	100.00%

Segment by sector	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	0.00%	1,480,417	6.96%	8,858	0.11%
Private	14,807,779	100.00%	19,795,153	93.04%	8,360,954	99.89%
	14,807,779	100.00%	21,275,570	100.00%	8,369,812	100.00%

42.1.1.3 Details of non-performing advances and specific provisions by class of business segment

	2007		2006	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	(Rupees in '000)			
Agriculture, Forestry, Hunting and Fishing	-	-	3,750	3,750
Mining and Quarrying	-	-	-	-
Chemical & Pharmaceuticals	8,893	1,863	9,189	9,189
Cement	-	-	-	-
Textile	402,299	352,204	462,347	300,329
Sugar	-	-	-	-
Footwear & Leather garments	13,292	13,292	9,939	9,939
Automobile & Transportation equipment	7,268	7,268	360,471	296,498
Electronics and electrical appliances	20,650	20,400	25,917	14,371
Construction	10,706	4,333	6,373	-
Wholesale / Retail Trade	62,681	57,791	1,780	1,780
Exports / Imports	23,415	22,523	42,546	29,642
Transport, Storage and Communication	338,631	306,671	-	-
Financial	5,460	5,460	5,460	5,460
Insurance	-	-	-	-
Services	-	-	-	-
Individuals	110,968	31,008	13,161	11,233
Others	65,609	47,933	75,777	11,293
	1,069,872	870,746	1,016,710	693,484

42.1.1.4 Details of non-performing advances and specific provisions by sector

	2007		2006	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	(Rupees in '000)			
Public / Government	-	-	-	-
Private	1,069,872	870,746	1,016,710	693,484
	1,069,872	870,746	1,016,710	693,484

42.1.1.5 Geographical segment analysis

	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan	65,562	40,890,572	4,283,992	10,375,250
Others	-	-	-	-
	65,562	40,890,572	4,283,992	10,375,250

	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan	52,795	26,538,735	2,128,797	8,369,812
Others	-	-	-	-
	52,795	26,538,735	2,128,797	8,369,812

42.2 Market risk

Market risk is the risk of loss arising from movements in market variables including observable variables such as interest rates, exchange rates and equity indices, and others which may be only indirectly observable such as volatilities and correlations.

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.

Trading activities are centered in the Treasury and include market making, facilitation of client business and proprietary position taking, fixed income and interest rate products and foreign exchange and also CFS financing.

Controls are also applied to prevent any undue risk concentrations in trading books, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to individual market risk variables, such as individual interest or exchange rates (’risk factors’) and on positions in the securities of individual issuers.

Financial Risk Management Unit performs all market risk management activities within the bank. FRM Unit is responsible for developing and reviewing market risk policies, strategies & processes. It has to ensure monitoring and implementation of market risk and other policies, escalation of any deviation to senior management, compilation and MIS reporting, etc.

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 (BOD).
- 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.

42.2.1 Foreign exchange risk

Foreign Exchange Risk is the risk of loss resulting from changes in exchange rates. Foreign exchange positions are reported on a consolidated basis and limits are used to monitor exposure in individual currencies.

The trading exposures are subject to prescribed stress, sensitivity and concentration limits.

	2007			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----------(Rupees in '000)----------			
Pakistan rupee	40,122,714	35,835,527	226,201	4,513,388
United States dollar	680,209	549,114	(371,820)	(240,725)
Great Britain pound	28,202	166,337	143,204	5,069
Canadian Dollar	1,849	-	-	1,849
Japanese yen	2,303	6	-	2,297
Euro	54,991	55,596	2,415	1,810
Other currencies	304	-	-	304
	40,890,572	36,606,580	-	4,283,992

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----------(Rupees in '000)----------			
Pakistan rupee	25,675,617	23,851,596	243,455	2,067,476
United States dollar	786,465	498,700	(152,773)	134,992
Great Britain pound	35,599	33,109	71,210	73,700
Canadian Dollar	1,974	-	(59,790)	(57,816)
Japanese yen	1,357	5	(41,881)	(40,529)
Euro	36,220	26,528	(60,221)	(50,529)
Other currencies	1,503	-	-	1,503
	26,538,735	24,409,938	-	2,128,797

42.2.2 Equity position risk

Equity position risk in trading book arises due to changes in prices of individual stocks or levels of equity indices. The Bank’s equity trading book comprises of Held for trading (HFT) and Available for Sale (AFS) portfolios and Corporate Finance (CF) AFS portfolio. Objective of Treasury HFT portfolio is to take advantages of short-term capital gains, while the AFS portfolio is maintained with a medium-term view of capital gains and dividend income. CF maintains its AFS portfolio with a medium-long term view of capital gains and higher dividend yields.

42.2.3 Mismatch of interest rate sensitive assets and liabilities

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The bank is exposed to yield / interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The bank manages this risk by matching the re-pricing of assets and liabilities and off-balance sheet instruments. The bank's yield / interest rate sensitivity position, based on the earlier of contractual re-pricing or maturity date, is as follows:

	Effective yield / Interest rate	Total	2007 Exposed to Yield/ Interest risk 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	Non-interest bearing financial instruments
		----------(Rupees in '000)----------										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.21%	3,001,895	36,745	-	-	-	-	-	-	-	-	2,965,150
Balances with other banks	4.60%	807,555	312,186	-	-	-	-	-	-	-	-	495,369
Lending to financial institutions	9.95%	1,766,398	1,766,398	-	-	-	-	-	-	-	-	-
Investments	10.68%	7,277,875	989,972	506,022	1,102,697	1,546,368	164,893	134,132	750,298	563,595	-	1,519,898
Advances												
Performing	11.84%	24,976,896	4,442,223	6,119,005	9,178,507	1,062,572	845,315	845,315	1,688,918	297,964	497,077	-
Non performing - net of provision		166,257	-	-	-	-	-	-	-	-	-	166,257
Other assets		967,408	-	-	-	-	-	-	-	-	-	967,408
		38,964,284	7,547,524	6,625,027	10,281,204	2,608,940	1,010,208	979,447	2,439,216	861,559	497,077	6,114,082
Liabilities												
Bills payable		879,152	-	-	-	-	-	-	-	-	-	879,152
Borrowings	8.22%	1,745,807	315,367	218,532	327,798	655,595	57,129	57,129	114,257	-	-	-
Deposits and other accounts	8.11%	33,131,773	12,952,980	7,310,501	4,841,950	2,364,170	1,064,285	656,496	54,173	-	-	3,887,218
Liabilities against assets subject to finance lease	11.94%	1,428	98	152	234	495	449	-	-	-	-	-
Other liabilities		703,236	-	-	-	-	-	-	-	-	-	703,236
		36,461,396	13,268,445	7,529,185	5,169,982	3,020,260	1,121,863	713,625	168,430	-	-	5,469,606
On-balance sheet gap		2,502,888	(5,720,921)	(904,158)	5,111,222	(411,320)	(111,655)	265,822	2,270,786	861,559	497,077	644,476
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		473,631	266,069	117,586	89,976	-	-	-	-	-	-	-
Forward sale of foreign exchange		(694,642)	(539,595)	(110,521)	(44,526)	-	-	-	-	-	-	-
Off-balance sheet gap		(221,011)	(273,526)	7,065	45,450	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(5,994,447)	(897,093)	5,156,672	(411,320)	(111,655)	265,822	2,270,786	861,559	497,077	644,476
Cumulative Yield/Interest Risk Sensitivity Gap			(5,994,447)	(6,891,540)	(1,734,868)	(2,146,188)	(2,257,843)	(1,992,021)	278,765	1,140,324	1,637,401	2,281,877

	Effective yield / Interest rate	Total	2006 Exposed to Yield/ Interest risk 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	Non-interest bearing financial instruments
		----------(Rupees in '000)----------										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.05%	2,305,082	80,228	-	-	-	-	-	-	-	-	2,224,854
Balances with other banks	4.25%	799,731	115,233	-	-	-	-	-	-	-	-	684,498
Lending to financial institutions	10.10%	2,305,232	1,638,076	592,156	75,000	-	-	-	-	-	-	-
Investments	8.27%	5,094,312	420,944	19,186	410,823	1,064,545	52,233	75,236	185,663	858,161	-	2,007,521
Advances												
Performing	11.73%	13,791,069	3,539,645	2,831,308	3,846,960	483,039	723,634	723,634	1,428,439	112,931	101,479	-
Non performing - net of provision		321,649	-	-	-	-	-	-	-	-	-	321,649
Other assets		461,493	-	-	-	-	-	-	-	-	-	461,493
		25,078,568	5,794,126	3,442,650	4,332,783	1,547,584	775,867	798,870	1,614,102	971,092	101,479	5,700,015
Liabilities												
Bills payable		199,670	-	-	-	-	-	-	-	-	-	199,670
Borrowings	7.73%	2,176,032	188,842	361,307	541,961	1,083,922	-	-	-	-	-	-
Deposits and other accounts	9.13%	21,275,570	5,517,175	7,835,584	847,904	724,847	885,271	1,486,914	352,367	-	-	3,625,508
Liabilities against assets subject to finance lease	7.85%	3,775	867	175	270	567	980	86	830	-	-	-
Other liabilities		711,203	-	-	-	-	-	-	-	-	-	711,203
		24,366,250	5,706,884	8,197,066	1,390,135	1,809,336	886,251	1,487,000	353,197	-	-	4,536,381
On-balance sheet gap		712,318	87,242	(4,754,416)	2,942,648	(261,752)	(110,384)	(688,130)	1,260,905	971,092	101,479	1,163,634
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		63,847	41,338	19,754	2,755	-	-	-	-	-	-	-
Forward sale of foreign exchange		(303,905)	(242,535)	(61,370)	-	-	-	-	-	-	-	-
Off-balance sheet gap		(240,058)	(201,197)	(41,616)	2,755	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(113,955)	(4,796,032)	2,945,403	(261,752)	(110,384)	(688,130)	1,260,905	971,092	101,479	1,163,634
Cumulative Yield/Interest Risk Sensitivity Gap			(113,955)	(4,909,987)	(1,964,584)	(2,226,336)	(2,336,720)	(3,024,850)	(1,763,945)	(792,853)	(691,374)	472,260

42.3 Liquidity risk

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 franchises. 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.

42.3.1 Maturities of assets and liabilities

	2007									
	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	3,001,895	3,001,895	-	-	-	-	-	-	-	-
Balances with other banks	807,555	807,555	-	-	-	-	-	-	-	-
Lending to financial institutions	1,766,398	1,766,398	-		-	-	-	-	-	-
Investments	7,277,875	989,972	605,223	1,531,181	1,546,368	164,893	134,132	1,057,740	1,248,366	-
Advances										
Performing	24,976,896	4,442,223	6,119,005	9,178,507	1,062,572	845,315	845,315	1,688,918	297,964	497,077
Non performing - net of provisions	166,257	166,257	-	-	-	-	-	-	-	-
Operating fixed assets	1,094,748	9,123	18,246	27,369	54,737	109,475	109,475	218,950	547,373	-
Deferred tax assets	610,533	145,631	188,860	222,860	131,420	(15,200)	(15,200)	(47,838)	-	-
Other assets	1,188,415	388,142	605,082	11,866	94,414	30,055	7,831	15,663	35,362	-
	40,890,572	11,717,196	7,536,416	10,971,783	2,889,511	1,134,538	1,081,553	2,933,433	2,129,065	497,077
Liabilities										
Bills payable	879,152	879,152	-	-	-	-	-	-	-	-
Borrowings	1,745,807	315,367	218,532	327,798	655,595	57,129	57,129	114,257	-	-
Deposits and other accounts	33,131,773	16,840,199	7,310,501	4,841,950	2,364,170	1,064,285	656,496	54,172	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	1,428	98	152	234	495	449	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	848,420	491,827	1,660	2,490	4,980	57,590	57,590	232,283	-	-
	36,606,580	18,526,643	7,530,845	5,172,472	3,025,240	1,179,453	771,215	400,712	-	-
Net assets	4,283,992	(6,809,447)	5,571	5,799,311	(135,729)	(44,915)	310,338	2,532,721	2,129,065	497,077
Share capital	3,106,978									
Subscription money received against proposed issue of right shares	907,912									
Reserves	151,287									
Effect of fair value measurement of capital on amalgamation	13,775									
Accumulated loss	(7,497)									
	4,172,455									
Surplus on revaluation of assets	111,537									
	4,283,992									

	2006									
	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	2,305,082	2,305,082	-	-	-	-	-	-	-	-
Balances with other banks	799,731	799,731	-	-	-	-	-	-	-	-
Lending to financial institutions	2,305,232	1,638,076	592,156	75,000	-	-	-	-	-	-
Investments	5,094,312	1,570,450	19,186	539,206	1,064,545	317,796	75,236	185,663	1,322,230	-
Advances										
Performing	13,794,494	3,543,070	2,831,308	3,846,960	483,039	723,634	723,634	1,428,439	112,931	101,479
Non performing - net of provisions	318,224	318,224	-	-	-	-	-	-	-	-
Operating fixed assets	673,064	12,997	25,992	38,990	77,977	72,194	72,197	97,523	132,290	142,904
Deferred tax assets	488,621	(50,167)	(4,307)	(6,461)	47,414	25,779	15,529	(20,583)	25,832	455,585
Other assets	759,975	211,681	269,548	16,378	86,435	52,996	32,426	64,852	25,659	-
	26,538,735	10,349,144	3,733,883	4,510,073	1,759,410	1,192,399	919,022	1,755,894	1,618,942	699,968
Liabilities										
Bills payable	199,670	199,670	-	-	-	-	-	-	-	-
Borrowings	2,176,032	188,842	361,307	541,961	1,083,922	-	-	-	-	-
Deposits and other accounts	21,275,570	6,725,678	10,252,589	847,904	724,847	885,271	1,486,914	352,367	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	3,775	867	175	270	567	980	86	830	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	754,891	488,623	969	1,453	2,906	34,799	34,799	191,342	-	-
	24,409,938	7,603,680	10,615,040	1,391,588	1,812,242	921,050	1,521,799	544,539	-	-
Net assets	2,128,797	2,745,464	(6,881,157)	3,118,485	(52,832)	271,349	(602,777)	1,211,355	1,618,942	699,968
Share capital	2,292,707									
Reserves	111,748									
Effect of fair value measurement of capital on amalgamation	(79,240)									
Accumulated loss	(163,156)									
	2,162,059									
Deficit on revaluation of assets	(33,262)									
	2,128,797									

42.3.2 The above mentioned maturity profile has been prepared in accordance with International Accounting Standard (IAS) 30, 'Disclosures in the financial statements of banks and similar financial institutions' based on contractual maturities. The management believes that such a maturity analysis does not reveal the expected maturity of current and savings deposits as a contractual maturity analysis of deposits alone does not provide information about the conditions expected in normal circumstances. The management believes that the maturity profile for deposits and other accounts, which includes maturities of current and savings deposits determined by the management keeping in view the historical withdrawal pattern of these deposits reflects a more meaningful analysis of the liquidity risk of the bank as follows:

	2007	**2006**
	(Rupees in '000)	
Upto one month	7,738,705	4,707,576
One month to three months	7,789,526	5,144,010
Three months to six months	5,800,002	1,253,752
Six months to one year	3,322,222	1,871,649
One year to two years	2,022,337	1,848,825
Two years to three years	1,614,548	1,591,192
Three years to five years	4,844,433	1,725,929
Five years to ten years	-	3,132,637
Above ten years	-	-
	33,131,773	21,275,570

Current and saving deposits are repayable on demand, therefore, current deposits and saving accounts have been classified between all maturities upto 10 years. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

42.4 Operational risk

Operational Risk arises from a failure to properly control all aspects of the documentation, processing, settlement of and accounting for, transactions and more widely, all the hazards to which the bank is exposed to as a result of being in business and doing business. These risks and hazards arise predominantly from crime including fraud and theft committed by employees, customers or third parties, professional liability, contractual liability, statutory liability, business interruptions, malicious assault and attacks.

The bank’s Operational Risk Management implementation framework is based on an appropriate risk management architecture. The framework is flexible enough to be implemented in stages.

Following are the strategic initiatives that the bank has undertaken for the effective implementation of Operational Risk Management:

- An effective and integrated operational risk management framework is in place, with appropriately defined roles and responsibilities for all aspects of the operational risk management.

- The bank is in the process of establishing appropriate tools which help in identification, assessment, control and reporting of key risks. The policy on operational risk will be submitted to BOD during the first quarter of 2008.

- Operational risk management policies and procedures have been aligned to the overall business strategy and helps to continually improve risk management of the bank.

- All business and support functions have been made an integral part of the overall operational risk management framework to enable the institution to effectively manage the key operational risks facing the bank.

- Appropriate line management has been established for the identification, assessment and mitigation of operational risk.

A consolidated Business Continuity Plan is being augmented for the bank which encompasses roles and responsibilities, disaster recovery strategy, IT systems and structural back ups, scenario and impact analyses and testing directives.

There are several IT developments underway in the credit, market and operational risk areas. Specifically for operational risk mitigation and control, an IT infrastructure is being developed along with the other high-level initiatives, including process re-engineering and inventorying of risks and controls within the bank. A methodology for Risk and Control Self Assessment is approved and is under implementation across all the functions of the bank.

43. GENERAL

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

- Term finance certificates amounting to Rs 400,000 thousand which had inadvertently been classified under advances have now been reclassified as investments.

- Earnings per share for the prior period has been restated consequent to the issue of right shares during the current period.

43.2 Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

44. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 05, 2008 by the Board of Directors of the bank.

______________________________	_______________	_______________	_______________
President & Chief Executive	**Director**	**Director**	**Director**

Annexure - 1

Statement showing written-off loans or any other financial relief
of five hundred thousands Rupees or above provided
during the year ended 31 December - 2007

Rupees in millions

S. No.	Name and address of the borrowers	Name of individuals / Partners / directors with (NIC No.)	Father's Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest / Markup written-off	Other financial relief provided	Total
				Principal	Interest / Mark-up	Others	Total				(9+10+11)
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1	**Usman Exports**	Tahir Saleem Chaudari	Muhammad Saleem Chaudhari	12.340	0.678		13.018	5.340	0.678		6.018
	59 - X, Susan Road,	244-88-354553									
	Madina Town,	Shahid Saleem Chaudari	Muhammad Saleem Chaudhari								
	Faisalabad.	35202-7054469-9									
								5.340	**0.678**		**6.018**

KASB BANK LIMITED
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2007

	Note	2007	2006
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	3,001,928	2,305,248
Balances with other banks	8	806,967	976,257
Lendings to financial institutions	9	1,766,398	2,305,232
Investments	10	7,280,455	5,035,204
Advances	11	25,123,721	14,089,626
Operating fixed assets	12	1,108,021	915,397
Deferred tax assets - net	13	657,897	538,267
Other assets	14	1,202,493	1,608,221
		40,947,880	27,773,452
LIABILITIES			
Bills payable	16	879,152	199,670
Borrowings	17	1,746,375	2,176,032
Deposits and other accounts	18	33,130,112	21,191,480
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	19	1,428	18,979
Deferred tax liabilities		-	-
Other liabilities	20	949,674	1,824,827
		36,706,741	25,410,988
NET ASSETS		4,241,139	2,362,464
REPRESENTED BY			
Share capital	21	3,106,978	2,292,707
Subscription money received against proposed issue of right shares		907,912	-
Revenue reserves		170,038	138,161
Accumulated losses		(69,101)	(62,876)
Effect of fair value measurement of capital on amalgamation		13,775	(79,240)
		4,129,602	2,288,752
Minority interest		-	21,369
Surplus on revaluation of securities - net of tax	22	111,537	52,343
		4,241,139	2,362,464
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes 1 to 45 and Annexure - I form an integral part of these financial statements.

President & Chief Executive	**Director**	**Director**	**Director**

KASB BANK LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	2007	2006
		(Rupees in '000)	
CONTINUING OPERATIONS			
Mark-up / return / interest earned	24	2,906,662	1,786,548
Mark-up / return / interest expensed	25	2,282,923	1,424,257
Net mark-up / return / interest income		623,739	362,291
Provision against loans and advances - net	11.4	214,718	68,149
Reversal of provision for diminution in the value of investments - net	10.9	(1,742)	(26,862)
Bad debts written off directly	11.6	-	-
		212,976	41,287
Net mark-up / return / interest income after provisions		410,763	321,004
Non mark-up / return / interest income			
Fee, commission and brokerage income		129,031	93,035
Dividend income		10,504	22,200
Income from dealing in foreign currencies		79,152	47,454
Gain on sale of securities - net	26	128,931	124,506
Unrealised gain on revaluation of investments classified as held for trading - net	10.11	34,779	130,241
Other income	27	51,187	36,765
Total non mark-up / return / interest income		433,584	454,201
		844,347	775,205
Non mark-up / interest expenses			
Administrative expenses	28	1,183,251	887,116
Other provisions / write offs	29	246	1,824
Other charges	30	21,168	5,188
Total non mark-up / interest expenses		1,204,665	894,128
		(360,318)	(118,923)
Share of loss of associate	10.14	2,580	-
Extraordinary items / unusual items		-	-
Loss before taxation from continuing operations		(357,738)	(118,923)
Taxation - Current year	31	20,528	20,038
- Prior years	31	-	-
- Deferred	31	(245,079)	(155,219)
		(224,551)	(135,181)
(Loss) / profit after taxation from continuing operations		(133,187)	16,258
DISCONTINUED OPERATIONS			
Net profit after taxation from discontinued operations	32	161,334	185,542
Profit for the year		28,147	201,800
Accumulated loss brought forward		(62,876)	(210,794)
Accumulated loss carried forward		(34,729)	(8,994)
(Loss) / earning per share for profit from continuing operations (Rupees)	33	(0.60)	0.07
Earning per share for profit from discontinued operations (Rupees)	33	0.73	0.84
Earning per share for the year (Rupees)	33	0.13	0.91

The annexed notes 1 to 45 and Annexure - I form an integral part of these financial statements.

President & Chief Executive	Director	Director	Director

KASB BANK LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	2007	2006
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit before taxation		(84,778)	123,759
Less: Dividend income		(11,775)	(30,072)
		(96,553)	93,687
Adjustments for non-cash and other items:			
Depreciation		120,759	111,808
Gain on deemed disposal		-	(8,048)
Share of profit / (loss) from associate		(186)	2,155
Amortisation of intangible assets		7,439	32,015
Provision against loans and advances - net		214,718	68,149
Provision for compensated absences / (reversal of provision)		1,388	(2,160)
Provision for gratuity		23,816	20,763
Gain on disposal of operating fixed assets - net		(645)	(3,278)
Unrealised gain on revaluation of investments classified as held for trading		(42,171)	(129,315)
Gain on disposal of investment in subsidiary and associate		(41,438)	-
Reversal of provision for diminution in the value of investments		(1,742)	(26,862)
Amortisation of premium on investments		35,899	35,319
Finance charges on leased assets		1,839	2,499
		319,676	103,045
		223,123	196,732
(Increase) / decrease in operating assets			
Lendings to financial institutions		538,834	(1,227,686)
Held for trading securities		(24,001)	23,129
Advances		(10,734,570)	(3,860,953)
Others assets (excluding advance taxation)		(2,079,541)	430,479
		(12,299,278)	(4,635,031)
Increase / (decrease) in operating liabilities			
Bills payable		679,482	72,224
Borrowings		(668,138)	571,810
Deposits		11,938,632	6,488,976
Other liabilities (excluding current taxation)		2,194,663	128,165
		14,144,639	7,261,175
		2,068,484	2,822,876
Income tax paid - net		(81,631)	(113,886)
Gratuity benefits paid		(4,464)	-
Net cash inflow from operating activities		1,982,389	2,708,990
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(2,448,906)	(816,212)
Net investments in held to maturity securities		99,999	(4,888)
Dividend income received		12,300	29,547
Investments in operating fixed assets		(356,697)	(346,363)
Sale proceeds realised on disposal of operating fixed assets		8,959	12,404
Cash inflow on acquisition of International Housing Finance Limited		10,538	-
Sale proceeds realised from disposal of investment in subsidiary and associate		662,785	-
Investment in associate		(680,000)	(15,000)
Net cash outflow on investing activities		(2,691,022)	(1,140,512)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments against lease obligations - net		2,854	(2,356)
Proceeds from issue of right shares		229,271	278,000
Shares issue costs		(2,495)	-
Subscription money received against proposed issue of right shares		907,912	-
Net cash flow from financing activities		1,137,542	275,644
Net increase in cash and cash equivalents		428,909	1,844,122
Cash and cash equivalents at beginning of the year	34	3,273,317	1,429,195
Cash and cash equivalents at end of the year	34	3,702,226	3,273,317

The annexed notes 1 to 45 and Annexure - I form an integral part of these financial statements.

President & Chief Executive **Director** **Director** **Director**

KASB BANK LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007

	Attributable to the shareholders of the bank									
	Share capital	**Subscription towards issue of right shares**	**Statutory reserve**	**Revenue reserve**	**Total reserves**	**Accumulated losses**	**Effect of fair value measurement of capital on amalgamation**	**Sub total**	**Minority interest**	**Total**
	---------- Rupees in '000 ----------									
Balance as at December 31, 2005	2,014,707	-	83,895	384	84,279	(210,794)	(79,240)	1,808,952	-	1,808,952
Right shares issued during the year	278,000	-	-	-	-	-	-	278,000	-	278,000
Profit after taxation for the year ended December 31, 2006	-	-	-	-	-	201,800	-	201,800	-	201,800
Transfer to general reserve	-	-	-	26,413	26,413	(26,413)	-	-	-	-
Transfer to statutory reserve	-	-	27,469	-	27,469	(27,469)	-	-	-	-
Minority interest recognised on a subsidiary	-	-	-	-	-	-	-	-	21,369	21,369
Balance as at December 31, 2006	2,292,707	-	111,364	26,797	138,161	(62,876)	(79,240)	2,288,752	21,369	2,310,121
Right shares issued during the year	229,271	-	-	-	-	-	-	229,271	-	229,271
Subscription money received against proposed issue of right shares	-	907,912	-	-	-	-	-	907,912	-	907,912
Shares issued pursuant to amalgamation - note 6	585,000	-	-	-	-	-	93,015	678,015	-	678,015
Shares issue cost	-	-	-	-	-	(2,495)	-	(2,495)	-	(2,495)
Profit after taxation for the year ended December 31, 2007	-	-	-	-	-	8,344	-	8,344	-	8,344
Loss attributable to minority interest						19,803	-	19,803	19,803	
Transfer from general reserve	-	-	-	(7,661)	(7,661)	7,661	-	-	-	-
Transfer to statutory reserve	-	-	39,538	-	39,538	(39,538)	-	-	-	-
Minority interest derecognised on a subsidiary	-	-	-	-	-	-	-	-	(41,172)	(41,172)
Balance as at December 31, 2007	3,106,978	907,912	150,902	19,136	170,038	(69,101)	13,775	4,129,602	-	4,089,996

The annexed notes 1 to 45 and Annexure - I form an integral part of these financial statements.

President & Chief Executive **Director** **Director** **Director**

KASB BANK LIMITED
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

1. STATUS AND NATURE OF BUSINESS

1.1 The group consists of:

- KASB Bank Limited (Holding company)
- KASB Technology Services Limited (wholly owned subsidiary company)
- KASB Capital Services Limited (associate - 27.5 percent holding of the bank)

1.2 KASB Bank Limited was incorporated in Lahore, Pakistan on October 13, 1994 as a public limited company under the Companies Ordinance, 1984 and received banking license from the State Bank of Pakistan (SBP) on January 9, 1995. The registered office of the bank is situated at Business and Finance Center, I.I. Chundrigar Road, Karachi. The bank obtained certificate of commencement of business on January 11, 1995 and is engaged in commercial banking, consumer banking and related services through 35 branches operating in different cities. The bank's shares are listed on the Karachi, Lahore and Islamabad stock exchanges.

1.3 The Pakistan Credit Rating Agency Limited has determined the bank's long-term rating as A- (A Minus) and the short-term rating as A2.

2. BASIS OF PRESENTATION

(a) In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan 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.

(b) The consolidated financial statements include the financial statements of KASB Bank Limited, its subsidiary company and associate.

(c) Subsidiaries are all entities over which the group has the power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date when control ceases. The assets and liabilities of subsidiary companies for the year ended December 31, 2007 have been consolidated on a line by line basis. The carrying value of investments held by the bank is eliminated against the subsidiaries' shareholders' equity in these consolidated financial statements. Material intra-group balances and transactions have been eliminated.

(d) Minority interests are that part of the net results of operations and of net assets of subsidiary companies attributable to interests which are not owned by the group.

(e) As more fully explained in note 10.14 to the financial statements, the group has disposed off its subsidiary 'KASB Securities Limited' and its investment in 'KASB Funds Limited' (an associate of the bank) to KASB Capital Limited on August 31, 2007. Accordingly the results of the group for the year ended December 31, 2007 include the results of the aforementioned subsidiary and associate uptil August 31, 2007.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable to banks in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified by the Securities and Exchange Commission of Pakistan (SECP) from time to time, the requirements of the Companies Ordinance, 1984, the requirements of the Banking Companies Ordinance, 1962 and the directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives prevail.

3.2 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for banking companies through BSD Circular No. 10 dated August 26, 2002. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

3.3 These financial statements represent the consolidated financial statements of the bank, its subsidiary company and its associates.

3.4 Amendments to published standards and new interpretations effective in 2007

Amendment to International Accounting Standard (IAS) 1 - 'Presentation of financial statements - Capital Disclosures', introduces certain new disclosures about the level of the group's capital and how the group manages its capital. Adoption of this amendment has only resulted in additional disclosures which have been set out in note 42.1 to these financial statements.

International Financial Reporting Standard (IFRS) 2 - 'Share-based Payment', adoption of this standard has only resulted in disclosure which has been set out in note 21.4 to these financial statements and its service providers, if any.

International Financial Reporting Standard (IFRS) 3 - 'Business Combinations' impacts the accounting for business combinations and goodwill which have been set out in notes 5.1, 5.6 and 6 to these financial statements.

International Financial Reporting Standard (IFRS) 5 - 'Non-current Assets Held For Sale and Discontinued Operations' impacts the accounting for assets held for sale and the presentation and disclosure of discontinued operations which have been set out in notes 10.14 and 32 to these financial statements.

Other new standards, amendments and interpretations that were mandatory for accounting periods beginning on or after January 1, 2007 and are not considered relevant or do not have any significant effect on the group's operations, are not detailed in these financial statements.

3.5 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following amendments to existing standards have been published that are mandatory and relevant for the group's accounting periods beginning on the dates mentioned below:

i)	IAS 1 - Presentation of Financial Statements (Revised September 2007)	effective from January 1, 2009
ii)	IAS 27 (Revised) - Consolidated and Separate Financial Statements	effective from accounting periods beginning on or after July 1, 2009
iii)	IFRS 3 (Revised) - Business Combinations	effective from accounting periods beginning on or after July 1, 2009

3.6 Standards, interpretations and amendments to published approved accounting standards that are not yet effective and not relevant for the group's operations

The following standards, amendments and interpretations to existing approved accounting standards are effective for the group's accounting periods beginning on or after January 1, 2008 but these are currently not relevant for the group's operations:

IAS 23 - Borrowing Costs (Revised March 2007)	effective from accounting periods beginning on or after January 1, 2008
IFRS 8 - Operating segments	effective from accounting periods beginning on or after January 1, 2009
IFRIC 11 - IFRS 2 - Group and treasury share transactions	effective from accounting periods beginning on or after March 1, 2007
IFRIC 12 - Service concession arrangements	effective from accounting periods beginning on or after January 1, 2008
IFRIC 13 - Customer loyalty programmes	effective from accounting periods beginning on or after July 1, 2008
IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	effective from accounting periods beginning on or after January 1, 2008

4. BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except that certain investments, foreign currency balances and commitments in respect of foreign exchange contracts have been marked to market and are carried at fair value and certain staff retirement benefits are carried at present value.

4.2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that effect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgements were made by the management in the application of accounting policies are as follows:

i) classification and provisioning of investments (notes 5.4 and 10)
ii) classification and provisioning of advances (notes 5.5 and 11)
iii) income taxes (notes 5.8, 13 and 31)
iv) depreciation / amortisation of operating fixed assets (notes 5.7, 12.2 and 12.3)
v) fair values of the net assets acquired in business combination (note 6)
v) impairment of goodwill (note 5.6)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Business combinations

Business combinations are accounted for by applying the purchase 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 exchange, plus costs directly attributable to the acquisition. The identifiable net assets acquired are measured at fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of identifiable net assets acquired is recorded as goodwill.

5.2 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks in current and deposit accounts.

5.3 Lendings to / borrowings from financial institutions

(a) Sale of securities under repurchase obligations

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and repurchase price is recognised as mark-up expense on a time proportion basis.

(b) Purchase of securities under resale obligations

Securities purchased under an agreement 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 to financial institutions. The difference between the purchase and resale price is recognised as mark-up income on a time proportion basis.

5.4 Investments

The management determines the appropriate classification of its investments at the time of purchase and classifies these investments as held for trading, available for sale or held to maturity. These investments are initially recognised at cost, being the fair value of the consideration given including the acquisition cost.

(a) Held for trading

These are securities which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealer's margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

(b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity that the group has the positive intent and ability to hold to maturity.

(c) Available for sale

These are investments, other than those in subsidiaries and associates, that do not fall under the held for trading or held to maturity categories.

0

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 investment.

In accordance with the requirements of the State Bank of Pakistan (SBP), quoted securities other than those classified as held to maturity and investments in subsidiaries and associates are stated at market value. Investments classified as held to maturity are carried at amortised cost whereas investments in associates is accounted for in accordance with the relevant International Accounting Standards as applicable in Pakistan.

The surplus / deficit arising on revaluation of quoted securities classified as 'available for sale' is kept in a separate account shown in the balance sheet 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.

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.

Provision for diminution in the value of securities (except term finance certificates) is made after considering impairment, if any, in their value. Provision for diminution in the value of term finance certificates is made in accordance with the requirements of the Prudential Regulations issued by SBP.

Gain or loss on sale of investments is included in income currently.

5.5 Advances

Advances are stated net of specific and general provisions. The specific and general provisions for advances are made in accordance with the requirements of the Prudential Regulations and other directives issued by the State Bank of Pakistan and charged to the profit and loss account. Non-performing loans and advances in respect of which the group does not expect any recoveries in future years are written off.

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 at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. Unearned finance income is recognised over the term of the lease, so as to produce a constant periodic return on the outstanding net investment in lease.

5.6 Goodwill acquired in business combinations

Goodwill represents the difference in the cost of an acquisition over the fair value of the group's share of net identifiable assets of the acquired entity at the date of acquisition.

During the current year, the group has changed its accounting policy relating to the subsequent measurement of goodwill acquired in a business combination. As per the new policy, goodwill acquired in a business combination is measured, subsequent to initial recognition, at its cost less accumulated impairment losses, if any. Previously, such goodwill was being amortised on a straight line basis over its estimated useful life of 10 years. The change has been made in order to comply with the requirements set out in the International Financial Reporting Standard (IFRS) 3, 'Business Combinations' which is applicable to the financial statements of the group covering accounting periods beginning on or after January 1, 2007. Consequent to the change in accounting policy, the group has discontinued the amortisation of goodwill acquired in a business combination with effect from January 1, 2007 in accordance with the transitional provision of IFRS 3. In addition, goodwill acquired in a business combination, if any, is now tested for impairment annually or whenever there is an indication of impairment as per the requirements of International Accounting Standard (IAS) 36, 'Impairment of Assets'.

In accordance with the transitional provisions prescribed in IFRS 3, the change in accounting policy has been applied prospectively from the current period. Had there been no change in accounting policy in respect of amortisation of goodwill the following effects would have occurred:

- the profit before taxation for the year ended December 31, 2007 would have been lower by Rs 0.388 million,
- the earnings per share for the year ended December 31, 2007 would have been lower by Rs 0.002,
- the administrative expenses for the year ended December 31, 2007 would have been higher by Rs 17.492 million,
- the gain on disposal of subsidiary and associates classified as "held for sale" for the year ended December 31, 2007 would have been higher by Rs 17.104 million; and
- the carrying amount of goodwill as at December 31, 2007 would have been lower by Rs 0.388 million.

5.7 Operating fixed assets and depreciation

Tangible - owned

Fixed assets, other than land which is not depreciated, are stated at cost less accumulated depreciation and accumulated impairment losses (if any).

Depreciation is calculated using the straight line method in accordance with the rates specified in note 12.2 to the financial statements after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on all fixed assets is charged from the date on which an asset is put to use till the date of its disposal.

Gains / losses on disposal of fixed assets, if any, are included in profit and loss account currently.

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 are charged to the profit and loss account as and when incurred.

Tangible - leased

Fixed assets held under finance lease are stated at cost less accumulated depreciation. 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.

Capital work-in-progress

Capital work-in-progress is stated at cost.

Intangibles

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised using the straight line method from the date an asset is available for use, whereby the cost of an intangible asset is amortised over its estimated useful life over which economic benefits are expected to flow to the group. The useful life and amortisation method is reviewed and adjusted, if appropriate, at each balance sheet date.

Impairment

The carrying amount of assets is reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account.

5.8 Taxation

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 is calculated using the prevailing tax rates or tax rates expected to apply to the profits for the year or minimum tax at the rate of 0.5 percent of turnover, whichever is higher. The charge for current tax also includes adjustments relating to prior years, if necessary, arising from assessments finalised during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. In addition, the group also records a deferred tax asset on available tax losses. Deferred tax is calculated at the rates that are expected to apply to the periods when the differences will reverse, based on tax rates that have been enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The group also recognises a deferred tax asset / liability on deficit / surplus on revaluation of securities which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12, 'Income Taxes'.

5.9 Staff retirement and other benefits

Defined contribution plan

The group operates a contributory provident fund for all its permanent employees to which equal contributions are made by both the group and the employees at the rate of 8.33 percent of basic salary.

Defined benefit scheme

The bank operates an approved unfunded gratuity scheme for all its permanent employees who complete the prescribed eligibility period of service. 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 immediately.

5.10 Provisions

Provisions are recognised when the group has a legal or constructive obligation as a result of past events, 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.

5.11 Revenue Recognition

Advances and investments

Mark-up / interest on advances and returns on investments are recognised on a time proportion basis using the effective interest method, except that mark-up / interest on non-performing advances and investments is recognised on a receipt basis in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

Financing method is used in accounting for income from lease financing. Under this method, the unearned finance income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is taken to income over the term of the lease so as to produce a constant periodic rate of return on the outstanding net investment in lease.

Unrealised finance income on lease is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognised as income when they are realised.

Premium or discount on acquisition of debt investments is capitalised and amortised through the profit and loss account over the remaining period till maturity.

Dividend income is recognised when the group's right to receive the dividend is established.

Fees, brokerage and commission

Fees, brokerage and commission on letters of credit / guarantee and others is recognised on an accrual basis.

5.12 Foreign currencies

a) Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the foreign exchange rates prevailing at the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts are valued at rates determined with reference to their respective maturities.

b) Translation gains and losses

Translation gains and losses are included in the profit and loss account.

5.13 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in the financial statements at committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the balance sheet date.

5.14 Financial instruments

Financial assets and financial liabilities

Financial instruments carried on the balance sheet include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments, advances, other assets, bills payable, borrowings, deposits, liabilities against assets subject to finance lease and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

Derivative financial instruments

Derivative financial instruments 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.

Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is 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.

5.15 Proposed dividend and transfer between reserves

Dividends and appropriations to reserves, except appropriations which are required by the law, after the balance sheet date are recognised as liability in the group's financial statements in the year in which these are approved.

5.16 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the group operates. The financial statements are presented in Pakistani Rupees, which is the group's functional and presentation currency.

5.17 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 product 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 business segments within the group have been categorised into the following classification of business segments in accordance with the requirements of the State Bank of Pakistan.

Business segments

Corporate finance

Corporate finance includes services provided in connection with mergers and acquisitions, underwriting, privatization, securitization, research, debts (government, high yield), equity, syndication, IPO and secondary private placements.

Trading and sales

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

Retail banking

It includes retail lending and deposits, banking services, trust and estates, private lending and deposits, banking service and consumer assets.

Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, leasing, lending, guarantees, bills of exchange and deposits.

Retail brokerage

Retail brokerage includes brokerage services provided to the customers.

6. BUSINESS COMBINATION

6.1 The bank had decided to amalgamate International Housing Finance Limited (IHFL), a company in which Mr. Nasir Ali Shah Bukhari (sponsor / director of the bank) directly held 55.93 percent shares, with and into the bank. The proposal for the amalgamation and a scheme of amalgamation has been approved by the Board of Directors and the shareholders of the bank in their meetings held on October 27, 2006 and June 28, 2007 respectively. The State Bank of Pakistan through its letters BPRD (LCGD-02)/625-79/1316/RK/2006/11977 dated December 22, 2006 and BPRD (LCGD-04)/625-79/2007/11282 dated October 30, 2007 had also accorded In-Principle approval and approved the scheme of amalgamation and granted sanction order for the amalgamation of IHFL with and into the bank.

Pursuant to the aforementioned approvals and scheme of amalgamation duly approved by the State Bank of Pakistan, the entire undertaking of IHFL including property, assets, liabilities and the rights and obligation of IHFL as at November 21, 2007 (the acquisition date) have been amalgamated into and vested with the bank as at the commencement of November 22, 2007. In consideration for the amalgamation, the bank has allotted 58.5 million fully paid ordinary shares to the shareholders of IHFL, which rank pari passu with the existing shares of the bank. IHFL stands dissolved (without winding up) and de-listed from the stock exchange upon allotment of the shares of the bank to the shareholders of IHFL.

6.2 International Housing Finance Limited (IHFL)

International Housing Finance Limited (a Non-Banking Finance Company) was a public limited company incorporated in Pakistan on July 11, 1990 under the Companies Ordinance, 1984. The company was principally engaged in providing housing and non-residential finance facilities in Pakistan. The company was listed on the Karachi Stock Exchange.

The acquired business of IHFL contributed Rs 7.106 million to the operating income and Rs 4.245 million to the profit after taxation of the bank for the year ended December 31, 2007 as the bank has obtained the control of IHFL as at the commencement of November 22, 2007 . Had the acquisition occurred and been accounted for on January 1, 2007, the results of IHFL would have contributed operating income amounting to Rs 110.787 million and profit after taxation amounting to Rs 14.208 million in the results of the bank for the year ended December 31, 2007.

6.3 The business combination with IHFL has been accounted for by applying the purchase method. The cost of the acquisition has been measured at the fair value of equity instruments issued at the date of exchange plus cost directly attributable to the acquisition. Identified assets acquired, liabilities (including contingent liabilities) assumed or incurred have been carried at the fair value at the acquisition date. The excess of cost of acquisition over the fair value of identifiable net assets acquired has been recorded as goodwill in the financial statements of the group.

Details of the fair values of the net assets acquired, purchase consideration and goodwill are as follows:

	Note	Rupees in thousand
Purchase Consideration		
- Shares issued (58,500,000 shares)	6.3.1	678,015
- Direct cost relating to the acquisition		8,755
Total purchase consideration		686,770
Fair value of net assets acquired	6.3.2	(651,408)
Goodwill	6.3.3	35,362

6.3.1 The fair value of the shares issued to the shareholders of IHFL is based on the discounted cash flows method. This value has been determined by an independent valuer. The published quoted price of the bank has not been used for determining the fair vlaue of the consideration as it has been affected by the thinness of the market. Management believes that the fair value determined using the discounted cash flows method provides a more realistic indicator of the fair value of the consideration as at the date of exchange.

6.3.2 The preliminary fair values and carrying amounts of assets and liabilities are as follows:

	Note	Preliminary fair values (note 6.4)	Acquiree's carrying amounts
		(Rupees in '000)	
Fixed assets		205,619	205,619
Intangible assets	6.3.2.1	31,348	613
Housing / non residential finance facilities		522,317	541,030
Long-term loans, advances, deposits and prepayments		1,726	1,726
Short-term investments		22,201	22,201
Advances and prepayments		469	469
Accrued mark-up / profit		12,620	12,620
Other receivables		9,375	9,375
Cash and bank balances		19,293	19,293
Total assets		824,968	812,946
Deferred tax liability		16,056	16,056
Long-term borrowings		140,000	140,000
Accrued markup / profit		3,482	3,482
Accrued and other liabilities		3,081	3,081
Contingent liability		3,019	-
Taxation - net		7,922	7,922
Total liabilities		173,560	170,541
Net asset acquired		651,408	
Cash and cash equivalents acquired			19,293
Direct cost settled in cash			(8,755)
Cash inflow on acquisition			10,538

6.3.2.1 The fair value of the intangible assets acquired as part of the acquisition of IHFL are as follows:

	Rupees in thousand
Customer list	30,735
Computer software	613
	31,348

6.3.3 The goodwill arising on acquisition represents future economic benefits expected to be derived from synergies and consumer finance sector in which IHFL's portfolio is concentrated. Accordingly, the entire amount of goodwill has been allocated to the outstanding acquired portfolio of IHFL and the bank's own housing finance portfolio.

6.4 Due to the proximity of the acquisition to the year ended December 31, 2007 , the fair value amounts contain some provisional balances. The effect of adjustments, if any, in these values will be recognised in the financial statements of the bank for the year ending December 31, 2008.

		Note	2007	2006
			(Rupees in '000)	
7.	**CASH AND BALANCES WITH TREASURY BANKS**			
	In hand :			
	- Local currency	7.1	497,132	365,511
	- Foreign currency		67,280	67,383
	With State Bank of Pakistan in:			
	- Local currency current account	7.2	2,332,234	1,701,069
	- Foreign currency current account	7.3	11,768	5,574
	- Foreign currency deposit account	7.4	73,139	107,455
	With National Bank of Pakistan in local currency current account		20,375	58,256
			3,001,928	2,305,248

7.1 This includes National Prize Bonds of Rs 1.991 million (2006: Rs 3.244 million).

7.2 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan 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 from time to time.

7.3 This represents US Dollar Settlement Account maintained with SBP.

7.4 This represents foreign currency cash reserve maintained with SBP equivalent to at least 10 percent of the bank's foreign currency deposits mobilised under the FE-25 scheme. The foreign currency cash reserve comprises of an amount equivalent to at least 5 percent of the bank's foreign currency deposits mobilised under the FE-25 scheme, which is kept in a non-remunerative account. The balance reserve equivalent to at least 5 percent of the bank's foreign currency deposits mobilised under the FE-25 scheme is maintained in a remunerative account on which the bank is entitled to earn a return which is declared by SBP on a monthly basis. During the year, this deposit was remunerated at rates ranging from 3.71 percent per annum to 4.72 percent per annum (2006: 3.39 percent per annum to 4.39 percent per annum).

		Note	2007	2006
			(Rupees in '000)	
8.	**BALANCES WITH OTHER BANKS**			
	In Pakistan			
	- On current account		361,733	486,461
	- On deposit account		1,073	21,105
			362,806	507,566
	Outside Pakistan			
	- On current account		131,975	353,458
	- On deposit account	8.1	312,186	115,233
			444,161	468,691
			806,967	976,257

8.1 Deposit accounts carry mark-up at rates ranging from 3.9 percent per annum to 5.3 percent per annum (2006: 4 percent per annum to 4.5 percent per annum).

		Note	2007	2006
			(Rupees in '000)	
9.	**LENDINGS TO FINANCIAL INSTITUTIONS**			
	Clean placements		-	750,000
	Repurchase agreement lendings (Reverse Repo)	9.2	1,766,398	1,555,232
			1,766,398	2,305,232

9.1 All lendings to financial institutions are in local currency.

9.2 Securities held as collateral against lendings to financial institutions

These represent short-term lendings to financial institutions against investment securities. These lendings carry mark-up at rates ranging from 9.4 percent per annum to 9.95 percent per annum (2006: 8.30 percent per annum to 9.00 percent per annum) and are due to mature from January 2, 2008 to January 8, 2008 (2006: January 4, 2007 to February 23, 2007).

	2007			2006		
	Held by group	Further given as collateral	Total	Held by group	Further given as collateral	Total
	(Rupees in '000)					
Pakistan Investment Bonds	-	-	-	100,000	-	100,000
Market Treasury Bills	1,766,398	-	1,766,398	1,455,232	-	1,455,232
	1,766,398	-	1,766,398	1,555,232	-	1,555,232

10. INVESTMENTS

10.1 Investments by types

	Note	2007 Held by group	2007 Given as collateral	2007 Total	2006 Held by group	2006 Given as collateral	2006 Total
		(Rupees in '000)					
Held for trading securities							
Units of Mutual Funds	10.8	50,000	-	50,000	14,230	-	14,230
Commercial Papers		66,710	-	66,710	-	-	-
Ordinary shares of listed companies	10.3	14,422	-	14,422	86,776	-	86,776
		131,132	-	131,132	101,006	-	101,006
Available for sale securities							
Pakistan Investment Bonds		175,501	-	175,501	180,048	-	180,048
Market Treasury Bills		3,835,924	-	3,835,924	1,323,116	-	1,323,116
Listed Term Finance Certificates	10.6	123,092	-	123,092	150,544	-	150,544
Unlisted Term Finance Certificates	10.7	770,080		770,080	610,572	-	610,572
Units of Mutual Funds	10.8	371,524	-	371,524	1,205,000	-	1,205,000
Ordinary shares of listed companies	10.3	205,800	-	205,800	335,364	-	335,364
Commercial Papers		102,992	-	102,992	-	-	-
Ordinary shares of unlisted companies	10.4 & 10.5	15,680	-	15,680	76,706	-	76,706
		5,600,593	-	5,600,593	3,881,350	-	3,881,350
Held to maturity securities							
Federal Investment Bonds		6,519	-	6,519	116,751	-	116,751
Pakistan Investment Bonds		711,002	-	711,002	732,121	-	732,121
		717,521	-	717,521	848,872	-	848,872
Associates							
KASB Funds Limited		-	-	-	36,260	-	36,260
KASB Capital Limited	10.14	682,580	-	682,580	-	-	-
		682,580	-	682,580	36,260	-	36,260
Investments at cost		7,131,826	-	7,131,826	4,867,488	-	4,867,488
Less: Provision for diminution in the value of investments	10.9	(3,672)	-	(3,672)	(5,414)	-	(5,414)
Investments (Net of Provisions)		7,128,154	-	7,128,154	4,862,074	-	4,862,074
Surplus / (deficit) on revaluation of held for trading securities	10.11	34,779	-	34,779	129,315	-	129,315
Surplus / (deficit) on revaluation of available for sale securities	22	117,522	-	117,522	43,815	-	43,815
Total investments		7,280,455	-	7,280,455	5,035,204	-	5,035,204

10.2 Investments by segments

	Note	2007	2006
		(Rupees in '000)	
Federal Government Securities			
- Market Treasury Bills	10.13	3,835,924	1,323,116
- Pakistan Investment Bonds	10.12 & 10.13	886,503	912,169
- Federal Investment Bonds	10.12 & 10.13	6,519	116,751
		4,728,946	2,352,036
Fully paid-up ordinary shares			
- Listed companies	10.3	220,222	422,140
- Unlisted companies	10.4 & 10.5	15,680	76,706
		235,902	498,846
Term Finance Certificates	10.13		
- Listed	10.6	123,092	150,544
- Unlisted	10.7	770,080	610,572
		893,172	761,116
Commercial papers	10.13	169,702	-
Units of Mutual Funds		421,524	1,219,230
Associate			
- KASB Funds Limited		-	36,260
- KASB Capital Limited	10.14	682,580	-
		682,580	36,260
Investments at cost		7,131,826	4,867,488
Less: Provision for diminution in the value of investments	10.9	(3,672)	(5,414)
Investments (net of provisions)		7,128,154	4,862,074
Surplus / (deficit) on revaluation of held for trading securities	10.11	34,779	129,315
Surplus / (deficit) on revaluation of available for sale securities	22	117,522	43,815
Total investments		7,280,455	5,035,204

10.3 Particulars of investments in ordinary shares of listed companies

Company Name	Number of shares / certificates held	Paid up value per share / certificates	Total paid up value	Cost	Market Value
		(Rupees)	----------(Rupees in '000)----------		
Held for trading					
- Pak Suzuki Motor Company Limited	149,250	10	1,493	14,422	49,201
Available for sale					
- Karachi Electric Supply Cororation preference shares	3,905	10	39	22	39
- Hub Power Company Limited *	3,475,000	10	34,750	122,839	105,987
- Eye Television Network Limited *	2,930,200	10	29,302	29,302	185,775
- Karachi Electric Supply Corporation	3,000,000	10	30,000	31,857	15,900
- Pakistan Oil Fields Limited	40,000	10	400	14,572	13,376
- Fauji Fertilizers Co. Ltd	38,205	10	382	4,575	4,537
- Bosicor Pakistan Limited	15,000	10	150	275	320
- Callmate Tellips Limited	51,250	10	513	1,548	761
- UTP Large Capital Fund	100,000	10	1,000	810	810
				205,800	327,505
				220,222	376,706

* The group's investment in 3,475,000 ordinary shares of Hub Power Company Limited and 2,930,200 ordinary shares of Eye Television Network Limited have been classified as strategic investments under the guidelines provided in Regulation 'R-6' of the Prudential Regulations and BPD Circular Letter No. 16 dated August 1, 2006, issued by the State Bank of Pakistan.

10.4 Particulars of investments in ordinary shares of unlisted companies

Company name	Number of shares held	Paid up value per share	Cost	Break up value of investment	Based on investee's financial statements	Name of Chief Executive
		(Rupees)	----(Rupees in '000)----			
Shareholding upto 10 percent						
- Khushhali Bank Limited	10	1,000,000	10,000	10,720	September 30, 2007 (un-audited)	Mr. M Ghalib Nishtar
- Pakistan Export Finance Guarantee Agency Limited	568,044	10	5,680	2,008	June 30, 2007 (un-audited)	Mr. S.M Zaeem
			15,680	12,728		

10.5 This includes the group's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs 10 million (2006: Rs 10 million). Pursuant to section 10 of the Khushhali Bank Ordinance, 2000, strategic investors (including the group) cannot sell or transfer their investment in Khushhali Bank Limited before a period of 5 years that has expired on October 10, 2005, from the date of subscription. Thereafter, such sale / transfer would be subject to prior approval of the State Bank of Pakistan. In addition, profit of Khushhali Bank Limited cannot be distributed as dividend under clause 35(i) of the Khushhali Bank Ordinance, 2000. However, Khushhali Bank Ordinance is in process of amendment under which the restriction on the dividend payments is expected to be deleted. Moreover, the shareholders of Khushhali Bank Limited at the Extra Ordinary General Meeting held in December 2007 have passed a resolution stating that Khushhali Bank be licensed and operated under the Micro Finance Institution Ordinance, 2001 under the conversion structure stipulated by the State Bank of Pakistan which does not restrict the distribution of dividend to members.

10.6 Particulars of investments in listed Term Finance Certificates

Company name	Number of certificates held	Face value per certificate	Unredeemed face value per certificate	Cost	Market value	Name of Chief Executive
		-----(Rupees)-----		-----(Rupees in '000)-----		
- Azgard Nine Limited	5,000	5,000	3,000	12,500	13,773	Ahmed Humayun Shaikh
- Chanda Oil and Gas Co. Ltd.	4,000	5,000	4,000	14,400	14,400	Khursheed Zafar
- United Bank Limited	16,232	5,000	5,000	81,150	81,150	Atif R. Bukhari
- Standard Chartered Bank Limited	61	5,000	2,000	117	121	Badar Kazmi
- Trust Leasing Corporation Limited	189	5,000	2,000	360	361	Asif Kamal
- Al Zamin Leasing Modaraba	1,136	5,000	3,000	3,934	3,934	Bashir Ahmed Chowdhry
- Telecard Limited	3,000	5,000	5,000	10,631	10,046	Shahid Firoz
				123,092	123,785	

10.7 Particulars of investments in unlisted Term Finance Certificates

Company name	Number of certificates held	Face value per certificate	Unredeemed face value per certificate	Cost	Name of Chief Executive
		----(Rupees)----		(Rupees in '000)	
- New Khan Transport	140	1,000,000	593,000	82,956	Shaikh Muhammad Ashraf
- Dominion Fertilizer	40,000	5,000	5,000	191,666	Ahmed Joudat Bilal
- Tandlianwala Sugar Mills	1	22,666,667	17,500,000	17,500	Haroon Akhtar Khan
- Pakistan Mobile Communication	5,000	5,000	5,000	24,985	Zouhair Khaliq
- KASHF Foundation *	-	-	-	40,972	Sadaf Abid
- Avari Hotel Limited *	-	-	-	152,000	Byram D Avari
- Azgard Nine Limited (Second issue)	35,000	5,000	4,000	175,000	Ahmed Humayun Shaikh
- Associate Builder	20,000	5,000	4,000	85,001	Shamsuddin Ibrahim
				770,080	

* These represent amounts privately placed under an agreement to invest in Term Finance Certificates of the investee company

10.8 Particulars of investments in units of Mutual Funds

Mutual Fund	Number of units held	Face value per unit	Cost	Market Value
		(Rupees)	----(Rupees in '000)----	
Held for trading				
- Reliance Income Fund	954,397	50	50,000	50,000
Available for sale				
- KASB Liquid Fund	112,134	100	11,524	11,804
- KASB Stock Market Fund	2,413,966	50	110,000	130,920
- KASB Balanced Fund	5,000,342	50	250,000	250,017
			371,524	392,741
			421,524	442,741

		2007	2006
10.9	**Particulars of provision for diminution in the value of investments**	**(Rupees in '000)**	
	Opening balance at January 1	5,414	32,276
	Charge for the year	1,554	310
	Reversals during the year	(3,296)	(27,172)
	Net (reversal) / charge for the year	(1,742)	(26,862)
	Closing balance at December 31	3,672	5,414

10.9.1 Particulars of provision for diminution in the value of investments - by type and segment

	2007	2006
Available for sale		
Term Finance Certificates - unlisted	-	3,296
Fully paid-up ordinary shares - unlisted	3,672	2,118
	3,672	5,414

10.10 Quality of available for sale securities

	2007		2006	
	Amount	**Rating**	**Amount**	**Rating**
Pakistan Investment Bonds	156,184	Baa2	156,315	Baa2
Market Treasury Bills	3,829,148	Baa2	1,322,482	Baa2
Term Finance Certificates - listed				
- World Call Communication	-	-	2,338	AA-
- Security Leasing Corporation Limited	-	-	20,056	Unrated
- Azgard Nine Limited	13,773	AA-	18,750	A+
- United Bank Limited	81,150	AA	81,153	AA-
- Chanda Oil and Gas Company Limited	14,400	A+	17,360	A
- Al-Noor Sugar Mills	-	-	12,498	A-
- Standard Chartered Bank Pakistan	121	AAA	-	
- Trust Leasing Corporation Limited	361	AA	-	
- Al Zamin Leasing Modaraba	3,934	A	-	
- Telecard Limited	10,046	BBB	-	
	123,785		152,155	
Term Finance Certificates - unlisted				
- New Khan Transport	82,956	Unrated	113,077	Unrated
- Tandlianwala Sugar Mills	17,500	Unrated	22,500	Unrated
- Gharibwal Cement	-	-	50,000	A-
- Associate Builders	85,001	Unrated	-	-
- Dominon Fertilizer (Pvt) Limited	191,666	AA-	200,000	AA-
- Pakistan Mobile Communication	24,985	AA-	24,995	AA-
- Azgard Nine Limited	175,000	Unrated	200,000	Unrated
- Avari Hotel Limited	152,000	A-	-	-
- KASHF Foundation	40,972	A	-	-
	770,080		610,572	
Units of Mutual Funds				
- NAFA Cash Fund	-	-	400,091	A(F)
- KASB Liquid Fund	11,804	AM3+	265,563	Unrated
- KASB Balanced Fund	250,017	AM3+	-	-
- Askari Income Fund	-	-	350,363	Unrated
- AMZ Plus Income Fund	-	-	100,096	A(F)
- Dawood Money Market Fund	-	-	100,086	5 star
- UTP Funds of Funds	-	-	5,299	Unrated
- KASB Stock Market Fund	130,920	AM3+	-	-
	392,741		1,221,498	
Ordinary shares of listed companies	327,505	Unrated	385,437	Unrated
Ordinary shares of unlisted companies	15,680	Unrated	76,706	Unrated
Commercial papers	102,992	Unrated	-	-
Total	5,718,115		3,925,165	

	2007	2006
10.11 Unrealised gain / (loss) on revaluation of investments classified as held for trading	**(Rupees in '000)**	
Ordinary shares / units of listed companies / mutual funds		
Pak Suzuki Motors	34,779	130,241
Oil and Gas Development Co. Limited*	-	(1,697)
Karachi Electric Supply Corporation*	-	243
Packages Limited*	-	15
AKD Opportunity Fund*	-	388
WE Balanced Fund*	-	125
	34,779	129,315

* These relate to discontinued operations of the group

10.12 Federal Investment Bonds and Pakistan Investment Bonds are eligible for discounting with the State Bank of Pakistan.

10.13 Significant particulars relating to government securities, term finance certificates and commercial papers are as follows:

Particulars of investment	Maturity	Principal payments	Coupon rate / Discount rate	Coupon payments
Market Treasury Bills	January 2008 to December 2008	On Maturity	9.39% to 9.95%	Not applicable
Federal Investment Bonds	March 2008	On Maturity	15%	Semi-annually
Pakistan Investment Bonds	October 2011 to October 2013	On Maturity	8.00% to 13.00%	Semi-annually
Term Finance Certificates	July 2008 to July 2013	Various	8.00% to 13.72%	Various
Commercial papers	January 2008	On Maturity	4.44% to 8.99%	Not appliacble

10.14 Investment in associate and disposal of non-current asset previously classified as 'held for sale'

During the current year the bank has made an investment of Rs 680 million in KASB Capital Limited, an associate of the bank in which Mr Nasir Ali Shah Bukhari (sponsor / director of the bank) holds 37.48 percent shares, by subscribing to fully paid ordinary Class “B” shares of Rs 10 each of KASB Capital Limited. In lieu of the above investment in KASB Capital Limited, the bank has disposed of its entire shareholding in KASB Securities Limited amounting to Rs 300 million and KASB Funds Limited amounting 30 million to KASB Capital Limited at an aggregate sale consideration of Rs 680 million. The investment in KASB Securities Limited and KASB Funds Limited was classified in Retail brokerage and Asset management segments respectively prior to the disposal. The bank has recognised a net gain of Rs 41.438 million on the disposal of the aforementioned investments. Consequent to the disposal of the bank’s investment in KASB Securities Limited the bank has de-recognised the goodwill relating to KASB Securities Limited amounting to Rs 153.939 and the goodwill relating to New Horizon Exploration and Production Limited amounting to Rs 3.632 million which was an indirect subsidiary of the bank.

In conection with the aforementioned transaction, the State Bank of Pakistan (SBP) granted approval to the bank through their letter No. BPRD (LCGD-04)/625-79/21755/2007/8554-A dated August 20, 2007.

Particulars of investment in associates	KASB Capital	KASB Funds	Total
	----------(Rupees in '000)----------		
Carrying amount as at January 1, 2007	-	36,260	36,260
Investment during the year	680,000	-	680,000
Share of profit / (loss) received during the year	2,580	(2,394)	186
	682,580	33,866	716,446
Disposals during the year	-	(33,866)	(33,866)
Carrying amount as at December 31, 2007	682,580	-	682,580

-

11.	**ADVANCES**	**Note**	**2007**	**2006**
			(Rupees in '000)	
	Loans, cash credits, running finances, etc. - in Pakistan		23,825,071	11,747,033
	Net investment in finance lease - in Pakistan	11.2	1,898,315	1,643,279
	Bills discounted and purchased (excluding government treasury bills)			
	- Payable in Pakistan		128,901	168,093
	- Payable outside Pakistan		175,049	210,845
			303,950	378,938
			26,027,336	13,769,250
	Financing in respect of Continuous Funding System (CFS)		-	1,015,437
			26,027,336	14,784,687
	Provision for advances - specific	11.4	(870,746)	(693,484)
	Provision for advances - general	11.4	(32,869)	(1,577)
			(903,615)	(695,061)
			25,123,721	14,089,626

11.1 Particulars of advances (Gross)

		2007	2006
11.1.1	In local currency	25,852,287	14,573,842
	In foreign currencies	175,049	210,845
		26,027,336	14,784,687
11.1.2	Short-term	20,949,132	11,029,969
	Long-term	5,078,204	3,754,718
		26,027,336	14,784,687

11.2 Net investment in finance lease

	2007				**2006**			
	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	911,031	986,343	41,267	1,938,641	730,119	888,134	32,518	1,650,771
Residual value	101,817	170,108	9,920	281,845	47,607	159,400	30,616	237,623
Minimum lease payments	1,012,848	1,156,451	51,187	2,220,486	777,726	1,047,534	63,134	1,888,394
Finance charge for future periods	(163,398)	(157,010)	(1,763)	(322,171)	(103,358)	(140,812)	(945)	(245,115)
Present value of minimum lease payments	849,450	999,441	49,424	1,898,315	674,368	906,722	62,189	1,643,279

11.3 Advances include Rs 1,069.872 million (2006: Rs 1,016.710 million) which have been placed under non-performing status as detailed below:

Category of classification	**2007**				
	Domestic	**Overseas**	**Total**	**Provision required**	**Provision held**
	(Rupees in '000)				
Substandard	58,884	-	58,884	2,184	2,184
Doubtful	117,612	-	117,612	40,036	40,036
Loss	893,376	-	893,376	828,526	828,526
	1,069,872	-	1,069,872	870,746	870,746

Category of classification	**2006**				
	Domestic	**Overseas**	**Total**	**Provision required**	**Provision held**
	(Rupees in '000)				
Substandard	36,641	-	36,641	9,161	9,161
Doubtful	149,633	-	149,633	56,959	56,959
Loss	830,436	-	830,436	627,364	627,364
	1,016,710	-	1,016,710	693,484	693,484

11.4 Particulars of provision against non-performing advances

	Note	2007			2006		
		Specific	General	Total	Specific	General	Total
		---------------- (Rupees in '000) ----------------					
Opening balance at January 1		693,484	1,577	695,061	654,463	3,870	658,333
Charge for the year		248,365	31,292	279,657	408,110	-	408,110
Reversals		(64,939)	-	(64,939)	(337,668)	(2,293)	(339,961)
Net charge / (reversal)		183,426	31,292	214,718	70,442	(2,293)	68,149
Amounts written off	11.6	(6,164)	-	(6,164)	(31,421)	-	(31,421)
Closing balance at December 31		870,746	32,869	903,615	693,484	1,577	695,061
					-	-	-

11.4.1 General provision against consumer loans represents provision maintained at an amount equal to 1.5 percent of the fully secured regular portfolio of consumer loans and 5 percent of the unsecured regular portfolio of consumer loan as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

11.4.2 Particulars of provisions against non-performing advances

	2007		2006	
	Specific	General	Specific	General
In local currency	870,746	32,869	693,484	1,577
In foreign currencies	-	-	-	-
	870,746	32,869	693,484	1,577
	-	-	-	-

11.5 Amendments in Prudential Regulations in respect of provisioning against non-performing advances

During the year the State Bank of Pakistan has introduced certain amendments in the Prudential Regulations in respect of maintenance of provisioning requirements against non-performing loans and advances vide BSD Circular No. 7 dated October 12, 2007. The amendments made in the provisioning requirements and the resulting additional provision of Rs 159.487 million is explained below:

11.5.1 Under the revised guidelines issued by SBP, banks cannot avail the benefit of discounted forced sales value of mortgaged assets held as collateral by the banks against their non-performing (excluding housing finance portfolio) advances for the purpose of determining the provisioning requirement to be maintained for non-performing customers with effect from December 31, 2007. Previously, the Prudential Regulations issued by SBP allowed banks to avail the benefit of discounted forced sales value of mortgaged assets held as collateral against non-performing advances of over Rs 10 million while determining the provisioning requirement there against. Had the provision against non-performing loans and advances been determined in accordance with the requirement previously laid down by SBP, the specific provision against non-performing loans and advances would have been lower and consequently profit before taxation and advances (net of provisions) as at December 31, 2007 would have been higher by approximately Rs 157.917 million.

11.5.2 As noted above in accordance with the revised guidelines issued by SBP, banks are allowed to avail the benefit of forced sales value of mortgaged assets held as collateral against their non-performing housing finance portfolio while determining provisioning requirement against such portfolio. However, the forced sales value of the mortgaged assets would only be allowed to the extent of 50% of its value during the first two years from the date of classification of the respective non-performing customers and no benefit would be admissible in subsequent years.

Previously, the Prudential Regulations allowed banks to avail the benefit of forced sales value of mortgaged assets held as collateral against their non-performing housing finance portfolio without any specified time limit. Had the provision against non-performing housing finance portfolio been determined in accordance with the requirement previously laid down by SBP, the specific provision against non-performing housing finance portfolio would have been lower and consequently profit before taxation and advances (net of provisions) as at December 31, 2007 would have been higher by approximately Rs 1.143 million.

11.5.3 In addition, as per the revised regulations the overdue time period for classifying personal loans as 'loss' has been reduced from one year to 180 days and as a result the category of 'doubtful' has been dispensed with. Had the provision against non-performing personal loans been determined in accordance with the requirement previously laid down by SBP, the specific provision against non-performing personal loans would have been lower and consequently profit before taxation and advances (net of provision) as at December 31, 2007 would have been higher by approximately Rs 0.427 million.

11.5.4 Although the bank has made full provision against its non-performing portfolio as per the category of the loan, the bank still holds collateral amounting to Rs _______ million to be able to enforce in recovery through litigation. These securities comprise of charge against various tangible assets of the borrower including land, building, plant and machinery, stock in trade etc.

		Note	2007	2006
11.6	**Particulars of write offs**		**(Rupees in '000)**	
11.6.1	Against provisions	11.4	6,164	31,421
	Directly charged to the profit and loss account		-	-
			6,164	31,421
11.6.2	Write offs of Rs. 500,000 and above	11.7	5,340	29,371
	Write offs of below Rs. 500,000		824	2,050
			6,164	31,421

11.7 Details of loan write offs of Rs 500,000 and above

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 December 31, 2007 is given at Annexure - I to these financial statements. However, the write off of loans does not affect the group's right to recover the outstanding loans from these customers.

		2007	2006
11.8	**Particulars of loans and advances to executives, directors, associated companies etc.**	**(Rupees in '000)**	
	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	176,015	112,852
	Loans granted during the year	185,234	96,980
	Repayments during the year	35,395	33,817
	Balance at end of the year	325,854	176,015
	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	-	-
	Loans granted during the year	-	-
	Repayments during the year	-	-
	Balance at end of the year	-	-
	Debts due by controlled firms, managed modarabas and other related parties		
	Balance at beginning of the year	5,129	1,738
	Loans granted during the year	33,668	4,896
	Repayments during the year	3,398	1,505
	Balance at end of the year	35,399	5,129
		361,253	181,144

* These include loans given to employees as per the terms of their employment.

	Note	2007	2006
		(Rupees in '000)	

12. OPERATING FIXED ASSETS

	Note	2007	2006
Capital work-in-progress	12.1	201,833	214,058
Tangible fixed assets	12.2	868,878	669,477
Intangibles	12.3	37,310	31,862
		1,108,021	915,397

12.1 Capital work-in-progress

	2007	2006
Civil works	78,724	134,699
Advances to suppliers and contractors	123,109	79,359
	201,833	214,058

12.2 Tangible fixed assets

	2007									
	COST				DEPRECIATION					
	As at January 1, 2007	Additions/ Transfers	Deletions / Adjustments	As at December 31, 2007	As at January 1, 2007	Charge for the year	Deletions / Adjustments / Transfers	As at December 31, 2007	Book value at December 31, 2007	Rate of Depreciation %
	(Rupees in '000)									
Freehold land	-	127,500	-	127,500	-	-	-	-	127,500	-
Bank premises	361,365	160,404 153,782 *	(3,617) (9,469) * (33,440) **	629,025	53,337	26,413	(1,927) 53,961 * (494) * (10,335) **	120,955	508,070	5
Furniture & fixtures	213,065	32,494 (153,782)*	(1,739) (25,420) **	64,618	86,591	4,799	(1,124) (53,961) * (11,346) **	24,959	39,659	10
Motor vehicles	88,222	23,756	(4,678) (12,596) **	94,704	25,303	14,567	(2,826) (4,439) **	32,605	62,099	20
Electrical, office and computer equipment	439,082	91,717	(10,247) (8,446) * (102,633) **	409,473	291,122	69,727	(6,585) (3,795) * (70,155) **	280,314	129,159	20-33.33
	1,101,734	435,871	(20,281) (192,004)	1,325,320	456,353	115,506	(12,462) (175,158)	458,833	866,487	
Assets held under finance lease										
Motor vehicles	29,061	14,630	(2,680) (35,518) **	5,493	6,456	4,164	(2,185) (5,333) **	3,102	2,391	20
Electrical, office and computer equipment	14,718	-	- (5,100) **	9,618	13,227	1,089	- (4,698) **	9,618	-	20-33.33
	43,779	14,630	(2,680) (40,618)	15,111	19,683	5,253	(2,185) (10,031)	12,720	2,391	
Total	1,145,513	450,501	(22,961) (232,622)	1,340,431	476,036	120,759 ***	(14,647) (185,189)	471,553	868,878	

* Adjustments relate to KASB Bank Limited, parent company.

** Amounts relate to KASB Securities Limited and New Horizon Exploration and Production Limited, subsidiaries of the bank, which were disposed off during the current year

*** This includes an amount of Rs 13.864 million pertaining to discontinued operations of the group.

	2006									
	COST				DEPRECIATION					
	As at January 1, 2006	Additions/ Transfers*	Deletions	As at December 31, 2006	As at January 1, 2006	Charge for the year	Deletions/ Transfers*	As at December 31, 2006	Book value at December 31, 2006	Rate of Depreciation %
	(Rupees in '000)									
Bank premises	212,242	149,123	-	361,365	40,901	12,436	-	53,337	308,028	5
Furniture and fixtures	165,087	48,319	(273)	213,065	69,135	17,709	(255)	86,591	126,474	10
		293 *	(200) **				(8) ***			
			(161) ***				10 *			
Motor vehicles	77,119	23,094	(17,517)	88,222	19,660	12,247	(9,563)	25,303	62,919	20
		6,189 ****	(663) ***				(26) ***			
							2,985 ****			
Electrical, office and computer equipment	333,562	81,931	(3,777)	439,082	203,592	63,374	(3,597)	291,122	147,960	20-33.33
		23,493	(2,649) ***				(649)			
		1,681 *					23,493			
		4,841 ****					4,841			
							68 *			
	788,010	302,467	(21,567)	1,101,734	333,288	105,766	(13,415)	456,353	645,381	
		36,497	(3,673)				30,714			
Assets held under finance lease										
Motor vehicles	24,265	17,071	(2,620)	29,061	7,723	3,780	(1,646)	6,456	22,605	20
		(3,466)					(416) ***			
		(6,189) ****					(2,985) ****			
Electrical, office and computer equipment	43,052	-	-	14,718	39,299	2,262	-	13,227	1,491	20-33.33
		(23,493) ****					(4,841) ****			
		(4,841) ****					(23,493) ****			
	67,317	17,071	(2,620)	43,779	47,022	6,042	(1,646)	19,683	24,096	
		(37,989)					(31,735)			
Total	855,327	319,538	(24,187)	1,145,513	380,310	111,808	(15,061)	476,036	669,477	
		(1,492)	(3,673)				(1,021)			

* Amount relates to New Horizon Exploration and Production Limited
** Amount relates to computer software which was previously shown under the head of furniture and fixtures.
*** Amount relates to KASB Funds Limited
**** Transfer from leased to owned assets.

12.3 Intangibles

	COST				AMORTISATION					
	As at January 1, 2007	Additions	Deletion / Adjustments	As at December 31, 2007	As at January 1, 2007	Amortis - ation	Deletion / Adjustments	As at December 31, 2007	Book value at December 31, 2007	Rate of Amortisation %
	(Rupees in '000)									
Computer software	37,927	10,400	-	32,271	18,264	9,129	-	25,359	6,912	33.33
			(4,678) *				(174) *			
			(11,378) **				(1,860) **			
Customer list	-	30,735	-	30,735	-	337	-	337	30,398	10.00
Membership cards, rooms and booths at KSE	12,199	-	-	-	-	-	-	-	-	33.33
			(12,199) **							
	50,126	41,135		63,006	18,264	9,466	-	25,696	37,310	
		-	(28,255)				(2,034)			
2006	47,939	5,037	(2,850)	50,126	8,754	9,639	(129)	18,264	31,862	

* Adjustments relate to KASB Bank Limited, parent company.
** Amounts relate to KASB Securities Limited and New Horizon Exploration and Production Limited, subsidiaries of the bank, which were disposed off during the current year
*** This includes an amount of Rs 1.753 million pertaining to discontinued operations of the group.

		2007	2006
		(Rupees in '000)	
12.4	Carrying amount of temporarily idle properties	Nil	Nil
12.5	The cost of fully depreciated assets that are still in use:		
	Bank premises	15,069	-
	Furniture and fixtures	9,139	27,821
	Electrical, office and computer equipment	239,789	137,042
	Motor vehicles	3,853	1,857
	Computer software	12,921	8,242
12.6	The carrying amount of tangible fixed assets that have retired from active use and are held for disposal	Nil	Nil

12.7 Disposals of operating fixed assets during the year

The details of disposals of operating fixed assets whose original cost or book value exceeds one million rupees or two hundred and fifty thousand rupees respectively, whichever is lower, are given below:

Particulars	Cost	Accumulated depreciation	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
	------------------(Rupees '000)------------------					
Bank premises						
Items having book value of more than Rs 250,000 or cost of more than Rs 1,000,000	3,617	1,927	1,690	1,690	Insurance claim	Adamjee Insurance Company Limited
	3,617	1,927	1,690	1,690		
Furniture and fixtures						
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000	734	595	139	26	Negotiation	Various
	1,005	529	476	476	Insurance claim	Adamjee Insurance Company Limited
	1,739	1,124	615	502		
Electrical, office and computer equipment						
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000	3,950	2,925	1,025	985	Negotiation	Various
	4,119	2,605	1,514	1,514	Insurance claim	Various
Items having book value of more than Rs 250,000 or cost of more than Rs 1,000,000	2,178	1,055	1,123	1,123	Insurance claim	Adamjee Insurance Company Limited
	10,247	6,585	3,662	3,622		
Motor vehicles						
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000						
Honda CD-70 bike	66	66	-	18	Auction	Intezar Autos (third party)
Toyota Corrolla	739	622	117	260	Auction	Mr.Imtiaz (third party)
Honda Civic EXI	943	589	354	354	Company policy	Murad Ansari (employee)
Honda Civic EXI	942	595	347	545	Negotiation	Mr.Ather Gulzar Khichi (third party)
KIA Spectra	759	588	171	87	Auction	Mr.Adnan Hasan Khan (third party)
KIA Spectra	759	424	335	236	Auction	Mr.Adnan Hasan Khan (third party)
Toyota Corrolla	739	622	117	370	Auction	Mr.Imtiaz (third party)
Items having book value of more than Rs 250,000 and cost of more than Rs 1,000,000						
Toyota Corrolla	1,209	565	644	870	Negotiation	Mr. Waheed ur Rahman (third party)
Honda Civic	1,202	940	262	405	Auction	Mr.Ghulam Farid
	7,358	5,011	2,347	3,145		
2007	22,961	14,647	8,314 **	8,959 *		
2006	24,187	15,061	9,126	12,404		

* This includes an amount of Rs 1.794 million pertaining to discontinued operations of the group.

** This includes an amount of Rs 1.346 million pertaining to discontinued operations of the group.

13. DEFERRED TAX ASSETS - NET

	2007	2006
	(Rupees in '000)	
Deferred debits arising due to:		
Net deficit on revaluation of available for sale securities	-	8,528
Provision for diminution in the value of investments	2,955	3,565
Provision against non-performing loans and advances	144,946	20,788
Provision for compensated absences	3,391	2,905
Provision against other assets	1,647	1,647
Provision against gratuity	14,040	-
Minimum tax	41,553	19,260
Unused tax losses (including unabsorbed depreciation)	690,166	777,450
Other deductible temporary difference	35,614	-
	934,312	834,143
Deferred credits arising due to:		
Unrealised gain on shares of listed companies and units of mutual funds	(3,478)	(68,885)
Net surplus on revaluation of securities	(5,985)	-
Reversal of accelerated tax depreciation	(62,927)	-
Liabilities against assets subject to finance lease	(338)	(615)
Net investment in finance leases	(203,687)	(226,376)
	(276,415)	(295,876)
	657,897	538,267

13.1 The group has an aggregate amount of Rs 1,853.500 million in respect of unabsorbed tax losses as at December 31, 2007on which the deferred tax asset recognised represents management's best estimate of the probable benefits expected to be realised in future years in the form of reduced tax liability as the group would be able to set off the profits earned in these years against losses carried forward from prior years. The amount of this benefit has been determined based on the projected financial statements of the bank for the next 5 years.

13.2 Through the Finance Act 2007, a new section 100A read with the 7th schedule (the Schedule) was inserted in the Income Tax Ordinance, 2001 for the taxation of banking companies.The schedule seeks to simplify the taxation of banking companies and is applicable from the tax year 2009 (financial year ending on December 31, 2008).

The 7th Schedule does not contain transitory provisions to deal with the disallowances made upto the year ended December 31, 2007. This issue has been taken up with the tax authorities through Pakistan Banks Association for formulation of transitory provisions to deal with the items which were previously treated differently under the then applicable provisions.

The deferred tax asset on the deductible temporary differences disallowed as a deduction in the past up to December 31, 2007 is being kept as an asset as the bank is confident that transitory provisions would be introduced to set out the mechanism of claiming where benefit of these allowances can be claimed.

14. OTHER ASSETS

	Note	2007	2006
		(Rupees in '000)	
Income / mark-up accrued in local currency		894,617	385,725
Advances, deposits, advance rent and other prepayments		93,164	139,563
Taxation (payments less provisions)		78,709	57,571
Stationery and stamps in hand		11,500	8,996
Branch adjustment account		43,421	-
Goodwill	14.1	35,362	155,544
Unrealised gain on forward foreign exchange contracts		-	3,170
Trade debts - unsecured - considered good		3,932	1,579
Long term deposits		844	7,156
Receivable from brokers against sale of listed equity securities		32,734	846,671
Dividend receivable		-	525
Others		12,917	6,428
		1,207,200	1,612,928
Provision held against other assets	14.2	(4,707)	(4,707)
Other assets - net of provision		1,202,493	1,608,221

14.1 Goodwill

	2007	2006
	(Rupees in '000)	
Goodwill recognised on acquisition of investment segment of KASB & Co.	256,564	256,564
Goodwill recognised on amalgamation of KASB Leasing Limited	(4,174)	(4,174)
Goodwill recognised on acquisition of New Horizon Exploration and Production Limited	3,632	3,632
Negative goodwill on acquisition of KASB Technology Services Limited	(10,139)	(10,139)
	245,883	245,883
Amortisation upto January 1	(90,339)	(67,963)
Book value as at January 1	155,544	177,920
Goodwill derecognised on disposal of subsidiary	(157,571)	-
Goodwill after disposal of subsidiary	(2,027)	177,920
Goodwill recognised on acquisition of IHFL	35,362	-
Negative goodwill / amortisation charged off	2,027	(22,376)
	35,362	155,544

14.2 Provision against other assets

	2007	2006
Opening balance at January 1	4,707	4,948
Charge for the year	-	375
Reversals during the year	-	(616)
Closing balance at December 31	4,707	4,707

15. CONTINGENT ASSETS

There were no contingent assets of the group as at December 31, 2007.

16. BILLS PAYABLE

These represent bills payable in Pakistan.

17. BORROWINGS

	Note	2007	2006
		(Rupees in '000)	
In Pakistan		1,640,274	2,167,844
Outside Pakistan		106,101	8,188
		1,746,375	2,176,032

17.1 Particulars of borrowings

		2007	2006
In local currency		1,640,274	2,167,844
In foreign currencies		106,101	8,188
		1,746,375	2,176,032

17.2 Details of borrowings secured / unsecured

	Note	2007	2006
Secured			
Borrowings from the State Bank of Pakistan under export refinance scheme	17.2.1	1,254,061	1,869,541
Borrowings from the State Bank of Pakistan under Long Term Finance (LTF) scheme	17.2.2	285,645	298,303
Short term borrowings		568	-
		1,540,274	2,167,844
Unsecured			
Call money borrowing		100,000	-
Overdrawn nostro accounts		106,101	8,188
		1,746,375	2,176,032

17.2.1 The bank has entered into an agreement with the State Bank of Pakistan (SBP) for extending export finance to its customers. As per the agreement, the bank has granted SBP the right to recover the outstanding amount from the bank at the date of maturity of the finances by directly debiting the current account maintained by the bank with SBP. Borrowing from SBP under the export refinance scheme is secured by the bank's cash and security balances held by SBP. These borrowings carry mark-up at the rate of 6.5 percent per annum (2006: 6.5 percent per annum to 7.5 percent per annum) payable on a quarterly basis.

17.2.2 These borrowings have been made from SBP for providing financing facilities to customers for import of machinery, plant, equipment and accessories thereof (not manufactured locally) by export oriented units.

18. DEPOSITS AND OTHER ACCOUNTS

	2007	2006
	(Rupees in '000)	
Customers		
Remunerative		
Fixed deposits	15,165,536	7,408,694
Savings deposits	8,723,263	7,000,296
	23,888,799	14,408,990
Non-remunerative		
Current accounts	3,424,258	3,171,036
Margin deposits	374,262	447,240
	3,798,520	3,618,276
	27,687,319	18,027,266
Financial institutions		
Remunerative deposits		
Savings deposits	857,256	561,874
Term deposits	4,498,500	2,600,000
Non-remunerative deposits		
Current accounts	87,037	2,340
	5,442,793	3,164,214
	33,130,112	21,191,480

18.1 Particulars of deposits and other accounts

	2007	2006
In local currency	32,464,967	20,641,612
In foreign currencies	665,145	549,868
	33,130,112	21,191,480

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2007			2006		
	Minimum lease payments	Finance charges for future periods	Principal outstanding	Minimum lease payments	Finance charges for future periods	Principal outstanding
	(Rupees in '000)					
Not later than one year	1,068	86	982	11,718	1,862	9,856
Later than one year and not later than five years	447	1	446	9,974	851	9,123
	1,515	87	1,428	21,692	2,713	18,979

The bank has entered into various lease agreements with leasing companies and modarabas for the lease of equipment and vehicles. Lease rentals include financial charges ranging between 9.14 percent per annum to 14.74 percent per annum (2006: 9.14 percent per annum to 16.5 percent per annum) which has been used as a discounting factor. The lease rentals are payable in monthly installments by January 25, 2009. The bank has the option to purchase the assets upon completion of the lease period and has the intention to exercise the option.

		Note	2007	2006
20.	**OTHER LIABILITIES**		**(Rupees in '000)**	
	Mark-up / return / interest payable in local currency		331,017	224,904
	Mark-up / return / interest payable in foreign currency		8,931	285
	Advance against leases		20,562	18,572
	Accrued expenses		64,481	84,815
	Branch adjustment account		-	53,526
	Security deposits against leases	20.1	285,776	237,546
	Provision for compensated absences	20.2	9,689	8,301
	Provision for gratuity	36.4	40,115	20,763
	Payable to broker against purchase of shares		-	6,171
	Payable to brokers against purchase of listed equity securities		-	116,830
	Taxation payable		-	19,180
	Unclaimed dividend		-	609
	Advances from customers		2,464	(4,235)
	Creditors		18,600	920,960
	Loans from director		73,896	73,896
	Unrealised loss on forward foreign exchange contracts		522	-
	Others		93,621	42,704
			949,674	1,824,827

20.1 These represent interest free security deposits received from lessees against lease contracts and are adjustable against residual value of leased assets at the expiry of the respective lease terms.

20.2 This represents provision for compensated absences made in respect of the liability of the bank towards leaves accumulated by its employees upto December 31, 2005. The provision has been determined on the basis of gross salaries of employees for the month of December 2005 pursuant to the decision of the management to freeze this benefit as at December 31, 2005.

21. SHARE CAPITAL

Authorised				
2007	**2006**		**2007**	**2006**
(Number of shares)			**(Rupees in '000)**	
600,000,000	400,000,000	Ordinary shares of Rs 10 each	6,000,000	4,000,000
Issued, subscribed and paid up				
149,923,856	122,123,856	Ordinary shares of Rs 10 each fully paid in cash	1,499,238	1,221,238
11,600,000	11,600,000	Ordinary shares of Rs 10 each issued as fully paid bonus shares	116,000	116,000
89,001,900	89,001,900	Ordinary shares of Rs 10 each issued on amalgamation of investment segment of KASB & Co.	890,019	890,019
8,834,942	8,834,942	Ordinary shares of Rs 10 each issued on amalgamation of KASB Leasing	88,349	88,349
(30,089,900)	(30,089,900)	Ordinary shares of Rs 10 each of the bank cancelled previously held by KASB & Co.	(300,899)	(300,899)
22,927,080	27,800,000	Right shares of Rs 10 each issued during the year	229,271	278,000
58,500,000	-	Ordinary shares of Rs 10 each issued as fully paid up in consideration for acquisition of International Housing Finance Limited (IHFL)	585,000	-
310,697,878	229,270,798		3,106,978	2,292,707

21.1 The movement in the issued, subscribed and paid-up capital during the year is as follows:

	Number of shares	Amount (Rupees in '000)
Opening balance at January 1	229,270,798	2,292,707
Right shares issued during the year	22,927,080	229,271
Shares issued in consideration for acquisition of IHFL	58,500,000	585,000
Closing balance at December 31	310,697,878	3,106,978

21.2 Shares held by the related parties of the bank

Name of shareholder	2007	2006
	Number of shares	
Mr. Nasir Ali Shah Bukhari	94,776,425	56,415,951
Mrs. Ambreen Bukhari	10,397,390	9,452,173
Mr. Mahmood Ali Shah Bukhari	10,384,000	9,440,000
Mr. H. U. Beg	778,385	707,623
Mr. Sohail Wajahat H. Siddiqui	855	778
Mr. Tariq M. Rangoonwala	3,659	3,327
Mr. N.K. Shahani	22,500	3,000
Ms. Syeda Mubashira Bukhari	10,384,000	9,440,000
Mr. Irtiza Hussain	1,962	500
Mr. Munir Kamal	27,850	500

21.3 The State Bank of Pakistan required all commercial banks to raise their paid-up capital (net of losses) to minimum limits as prescribed in BSD Circular No. 6 dated October 28, 2005. As per the requirements, the minimum paid-up capital (net of losses) requirement for locally incorporated banks has been raised to Rs 6 billion (net of losses), to be achieved in a phased manner by December 31, 2009. The minimum paid-up capital requirement (net of losses) to be achieved by December 31, 2007 is Rs 4 billion. The paid-up capital of the bank as at December 31, 2007 amounts to Rs 3,106.978 million and the bank has accumulated losses of Rs 69.101 million.

Subsequent to the year ended December 31, 2007 , the bank has issued right shares amounting to Rs 907.912 million which have been fully subscribed by the shareholders of the bank. Consequent to the aforementioned issue of right shares, the paid-up capital of the bank subsequent to the year ended December 31, 2007 has been increased to Rs 4,014.890 million.

21.4 EMPLOYEE STOCK OPTION PLAN

21.4.1 The bank has established an Employee Stock Option Plan ('Plan') for the benefit of certain employees of the bank and its affiliates. The Plan had been approved by the shareholders of the bank in the Extra Ordinary General Meeting held on June 28, 2007. The bank has forwarded an application to the Securities and Exchange Commission of Pakistan (SECP) for the approval of the plan.

The plan will be administered by a Committee constituted by the Board of Directors of the bank which shall allocate share options not exceeding 4 percent of the bank's paid up share capital. The Plan entitles eligible employees, who are granted share options, to purchase shares of the bank at an exercise price of Rs 10 per share after the vesting period has lapsed or at any time after the grant date upon approval of the Committee. The grant date of the options will be determined by the Committee upon which options to purchase the shares will be granted to the eligible employees. The vesting period of share options will be a maximum period of twelve months or less. The exercise period constitutes a maximum period of three years after the vesting period during which options may be exercised. The SECP has not approved the Plan till date. In addition, the Committee constituted by the Board of Directors in respect of this plan has not yet determined the grant date, vesting period and other conditions relating to the Plan. This Plan has not been accounted for in these financial statements of the bank as the grant date, vesting period and other conditions related ther to the year ended December 31, 2007.

22. SURPLUS / (DEFICIT) ON REVALUATION OF SECURITIES - NET OF TAX

22.1 Surplus / (deficit) on revaluation of available for sale securities

	2007	2006
	(Rupees in '000)	
Federal Government securities	(26,093)	(24,367)
Term Finance Certificates - listed	693	1,611
Units of Mutual Funds	21,217	16,498
Ordinary shares - listed	121,705	50,073
	117,522	43,815
Related deferred tax asset	(5,985)	8,528
	111,537	52,343

23. CONTINGENCIES AND COMMITMENTS

23.1 Direct credit substitutes

	2007	2006
Acceptances	1,935,011	2,116,691

		2007	2006
23.2	**Transaction-related contingent liabilities**	**(Rupees in '000)**	
	Guarantees issued favouring:		
	- Government	2,392,925	26,967
	- Others	967,549	3,006,817
		3,360,474	3,033,784
23.3	**Trade-related contingent liabilities**		
	Letters of credit	3,488,493	2,822,946

23.4 Taxation matters have been disclosed in note 23.7 to these financial statements.

		2007	2006
		(Rupees in '000)	
23.5	**Commitments in respect of forward exchange contracts**		
	Purchase		
	From the State Bank of Pakistan	7,064	8,585
	From other banks	405,900	30,440
	From other customers	60,667	24,822
		473,631	63,847
	Sale		
	To banks	694,642	291,285
	To customers	-	12,620
		694,642	303,905
		1,168,273	367,752
23.6	**Commitments for the acquisition of operating fixed assets**	422,999	184,763

23.7 Taxation

23.7.1 The income tax assessments of the bank have been assessed under the self assessment scheme upto and including the tax year 2007. The assessment of the bank for the tax year 2004 had been amended by the Taxation Officer on account of certain disallowances in respect of income from carry over transactions, provision for bad debts and bad debts written off and certain other items resulting in an additional tax liability of Rs 55.023 million. The Commissioner of Income Tax Appeals (CIT – Appeals) through its order dated May 15, 2006 had also decided the matter against the bank and had maintained the disallowances made by the Taxation Officer. Presently, the bank has filed an appeal before the Income Tax Appellate Tribunal (ITAT) which is pending to date.

However, on a prudent basis, in connection with the above, tax impact of Rs 13.465 million in respect of certain disallowances made by the income tax authorities has been incorporated in these financial statements. No provision for any implication arising out of certain other items(including income from carry over transactions relating to tax years 2003, 2005 - 2008) amounting to Rs 103.7 million has been recognised and its resultant effects on deferred tax assets on unused tax losses in these financial statements in respect of the current year or any other tax years which are deemed to be assessed under the Income Tax Ordinance, 2001 as the management is hopeful of a favourable decision in appeals.

		2007	2006
24	**MARK-UP / RETURN / INTEREST EARNED**	**(Rupees in '000)**	
	On loans and advances		
	- Customers	2,264,656	1,212,242
	- Financial institutions	10,859	26,270
	On investments in:		
	- available for sale securities	383,301	232,832
	- held to maturity securities	73,157	75,045
	- held for trading	4,130	99,184
	On deposits with financial institutions	61,304	39,286
	On securities purchased under resale agreements	82,878	8,416
	On call money lending	5,629	-
	On listed equity securities purchased under resale agreements	20,748	93,273
		2,906,662	1,786,548

		Note	2007	2006
			(Rupees in '000)	
25.	**MARK-UP/ RETURN / INTEREST EXPENSED**			
	Deposits		2,064,414	1,228,087
	Securities sold under repurchase agreements		1,446	44,925
	Borrowings from the State Bank of Pakistan under export refinance		122,510	98,916
	Call borrowings		52,316	15,293
	Short term borrowings		6,049	-
	Term Finance Certificates		-	-
	Long term borrowings		7	1,410
	Forward cover fee		282	307
	Amortisation of premium on securities		35,899	35,319
			2,282,923	1,424,257
26.	**GAIN ON SALE OF SECURITIES - NET**			
	Ordinary shares - listed		128,931	124,506
27.	**OTHER INCOME**			
	Gain on disposal of fixed assets - net		197	1,351
	Revenue from rendering technology services		6,578	18,999
	Others		44,412	16,415
			51,187	36,765
28.	**ADMINISTRATIVE EXPENSES**			
	Salaries, allowances and other benefits*		542,273	374,799
	Contribution to defined contribution plan		17,694	12,130
	Rent, taxes, insurance and electricity		123,296	103,250
	Legal and professional charges		25,396	18,069
	Communication charges		47,412	43,694
	Repairs and maintenance		34,658	31,782
	Software and IT service charges		14,594	8,607
	Finance charges on lease obligations		289	481
	Stationery and printing		18,253	13,043
	Advertisement and publicity		123,635	63,609
	Depreciation	12.2	106,895	98,263
	Amortisation	28.1	5,686	31,779
	Auditors' remuneration	28.2	4,437	1,945
	Vehicle running expenses		20,966	15,379
	Brokerage and commission		682	2,027
	Security charges		17,169	15,356
	Fee and subscription		38,358	16,117
	Correspondence charges		5,023	9,703
	Entertainment		8,455	6,171
	Travelling expenses		16,892	14,131
	Donations		80	13
	Others		11,108	6,768
			1,183,251	887,116

* This includes an amount of Rs 23.816 million (2006: Rs 21.475 million) that has been charged in the financial statements in respect of the defined benefit gratuity scheme.

		Note	2007	2006
28.1	**Amortisation**		**(Rupees in '000)**	
	Negative goodwill / amortisation charged off	14.1	(2,027)	22,376
	Amortisation of computer software	12.3	7,713	9,403
			5,686	31,779

		2007	2006
28.2	**Auditors' remuneration**		
	Audit fee*	1,100	653
	Fee for half yearly review	350	200
	Special certifications and sundry advisory services	1,500	230
	Tax services	730	684
	Out-of-pocket expenses	757	178
		4,437	1,945

* Audit fee amounting to Rs 2 million in respect of special audit carried out for the purpose of acquisition of IHFL has been included in the direct cost relating to the acquisition. (note 6)

		2007	2006
29.	**OTHER PROVISIONS / WRITE OFFS**		
	Security deposits written off	-	976
	Provision against other assets	-	375
	Fixed assets written off	-	105
	Other provisions / write-offs	246	368
		246	1,824
30.	**OTHER CHARGES**		
	Penalties imposed by the State Bank of Pakistan	12,193	-
	Others (Impairment Loss)	8,975	5,188
		21,168	5,188
31.	**TAXATION**		
	Continuing operations		
	For the year		
	Current	20,528	20,038
	Deferred	(97,444)	(215,478)
		(76,916)	(195,440)
	For prior years		
	Current	-	-
	Deferred	(147,635)	60,259
		(224,551)	(135,181)
	Discontinued operations	131,429	57,140
31.1	**Relationship between tax expense and accounting profit / (loss)**		
	Loss from continuing operations	(357,738)	(118,923)
	Profit from discontinued operations	272,960	242,682
	Profit before taxation	(84,778)	123,759
	Tax at the applicable tax rate of 35 percent	(29,672)	43,316
	Tax effect on separate block of income	(32,617)	(74,001)
	Tax effect on exempt income	(33,012)	(78,345)
	Tax effect on permanent differences	18,325	(34,527)
	Tax effect of goodwill on sale of subsidiary and associate	91,875	-
	Minimum tax	(178)	25
	Reversal of prior year tax	(9,485)	-
	Deferred tax - prior years	(86,299)	2,109
	Others	(12,059)	63,382
		(93,122)	(78,041)

32. DISCONTINUED OPERATIONS

As detailed in note 10.14 to these financial statements the bank has disposed of its entire shareholding in KASB Securities Limited and KASB Funds Limited. Accordingly as per the requirements of International Financial Reporting Standard (IFRS) 5, 'Non-current Assets Held for Sale and discontinued operations' the disposal of shareholding of KASB Securities Limited and KASB Funds Limited by the group has been presented as discontinued operations.

The analysis of the result of discontinued operations, gain on disposal and the related cash flows are as follows:

32.1 Analysis of the results of discontinued operations:

	2007				2006			
	KASB Securities Limited	New Horizon Exploration and Production Limited	KASB Funds Limited	Total	KASB Securities Limited	New Horizon Exploration and Production Limited	KASB Funds Limited	Total
	(Rupees in '000)							
Revenue	607,796	83	-	607,879	589,891	-	4,935	594,826
Expenses	(330,831)	(43,132)	-	(373,963)	(337,896)	-	(20,141)	(358,037)
Profit / (loss) before tax of discontinued operations	276,965	(43,049)	-	233,916	251,995	-	(15,206)	236,789
Tax	(39,554)	-	-	(39,554)	(62,420)	-	5,280	(57,140)
Profit after tax of discontinued operations	237,411	(43,049)	-	194,362	189,575	-	(9,926)	179,649
Minority interest	-	19,803	-	19,803	-	-	-	-
Share of loss from associate	-	-	(2,394)	(2,394)	-	-	(2,155)	(2,155)
Pre-tax gain on disposal of discontinued operations	7,058	23,246	11,134	41,438	-	-	8,048	8,048
Tax	(91,875)	-	-	(91,875)	-	-	-	-
Profit after tax of discontinued operations	152,594	-	8,740	161,334	189,575	-	(4,033)	185,542

32.2 Analysis of the cash flows:

Operating cash flows	(327,837)	(32,618)	58,535	(301,920)	(87,540)	-	(7,930)	(95,470)
Investing cash flows	(588,838)	(24,956)	(42,040)	(655,834)	(67,674)	-	(65,589)	(133,263)
Financing cash flows	440,558	10,800	2,331	453,689	(127,486)	-	(538)	(128,024)

33. EARNINGS PER SHARE

	2007			2006		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	(Rupees in '000)					
(Loss) / profit for the year after taxation	(133,187)	161,334	28,147	16,258	185,542	201,800
	Number of shares					
Weighted average number of ordinary shares outstanding during the year	220,640,166	220,640,166	220,640,166	221,951,482	221,951,482	221,951,482
	(Rupees)					
(Loss) / earnings per share	(0.60)	0.73	0.13	0.07	0.84	0.91

33.1 A diluted earnings per share has not been presented as the group does not have any convertible instruments in issue at December 31, 2006 and 2007 which would have any effect on the earnings per share.

34. CASH AND CASH EQUIVALENTS

	Note	2007	2006
		(Rupees in '000)	
Cash and balances with treasury banks	7	3,001,928	2,305,248
Balances with other banks	8	806,967	976,257
Overdrawn nostro accounts	17	(106,101)	(8,188)
Short term borrowings - running finance	17	(568)	-
		3,702,226	3,273,317

35. STAFF STRENGTH

	2007	2006
	Number	
Permanent	884	771
Temporary / on contractual basis	27	65
Group's own staff strength at the end of the year	911	836
Outsourced*	428	370
Total staff strength	1,339	1,206

* Outsourced staff includes those employees that are hired by an outside contractor / agency and are posted in the group to perform various tasks / activities of the group.

36. STAFF RETIREMENT BENEFITS

36.1 Defined contribution plan

The group operates a recognised provident fund scheme for all its permanent employees which is administered by the Board of Trustees. The group and the employees make matching contributions to the fund at the rate of 8.33 percent of basic salary in accordance with the rules of the Trust.

36.2 Defined benefit scheme

The bank has introduced an approved unfunded gratuity scheme for all its permanent employees in the current year. The actuarial valuation of the gratuity scheme was carried out as at December 31, 2007 using the Projected Unit Credit Method. The following significant assumptions were used for the valuation of the scheme:

	2007	2006
Discount rate	10%	10%
Expected rate of salary increase	10%	10%

36.3 Reconciliation of liability recognised by the bank

	2007	2006
	(Rupees in '000)	
Present value of unfunded obligations	42,132	26,815
Unrecognised past service cost	(2,017)	(6,052)
Liability recognised by the bank	40,115	20,763

36.4 Movement in liability recognised by the bank

	2007	2006
Balance as at January 1	20,763	-
Charge for the year	23,816	21,475
Payments made during the year	(4,464)	(712)
Balance as at December 31	40,115	20,763

36.5 Charge for the year	2007	2006
	(Rupees in '000)	
Current service cost	12,079	4,653
Interest cost	2,682	1,018
Actuarial losses recognised	4,120	788
Past service cost recognised	4,035	15,016
Liability of employees previously not entitled for gratuity	900	
	23,816	21,475

37. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for remuneration, including all benefits to the Chief Executives, Directors and Executives of the group is as follows:

	President / Chief Executive		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	(Rupees in '000)					
Fees	-	-	4,767	2,497	-	-
Managerial remuneration	15,467	10,552	426	708	127,123	76,631
Contribution to defined contribution plan	655	767	-	18	7,844	5,181
Contribution to defined benefit plan	740	393	-	-	7,380	6,159
Rent and house maintenance	1,700	2,461	178	323	24,794	20,995
Utilities	567	774	73	35	8,265	6,931
Medical	619	704	-	35	9,704	6,917
Others	13,045	2,193	71	158	21,839	11,611
	32,793	17,844	5,515	3,774	206,949	134,425
Number of persons	4	4	11	13	170	80

37.1 Fees paid to directors includes fees in respect of three directors of the bank who left employment during the year.

37.2 The group provides free use of group maintained cars to the Chief Executive and certain executives in accordance with the terms of their employment.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

38.1 On-balance sheet financial instruments

The fair value of traded investments is based on quoted market prices, except for tradable securities classified as 'held to maturity'. These securities are carried at amortised cost in order to comply with the requirements of BSD Circular No. 14 dated September 24, 2004. The fair value of these investments amounts to Rs 598.270 million (2006: Rs. 564.316 million).

Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the bank's accounting policy as stated in note 5.5 to these financial statements.

The maturity and repricing profile and effective rates are stated in note 43.2.3 and 43.3.1 to these financial statements.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently repriced.

38.2 Off-balance sheet financial instruments

Forward purchase of foreign exchange	473,631	479,234	63,847	64,063
Forward agreements for borrowings	-	-	-	-
Forward sale of foreign exchange	694,642	705,435	303,905	303,792
Forward agreements for lendings	-	-	-	-

39. Segment details with respect to business activities

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

	Continuing operations					Discontinued operations				
	Trading and sales	Retail banking	Commercial banking	Others	Total	Corporate finance	Retail brokerage	Trading and sales	Others	Total
	(Rupees in '000)									
December 31, 2007										
Total income (net of interest expense and provisions	622,718	76,772	(85,171)	232,608	846,927	127,559	438,200	39,044	42,120	646,923
Administrative and other expenses	9,057	-	200,512	995,096	1,204,665	52,261	298,473	-	23,229	373,963
Net income / (loss) before tax	613,661	76,772	(285,683)	(762,488)	(357,738)	75,298	139,727	39,044	18,891	272,960
Segment assets (gross)	8,739,384	1,228,336	25,869,473	6,022,681	41,859,874	-	-	-	-	-
Segment non-performing loans	-	104,956	964,916	-	1,069,872	-	-	-	-	-
Segment provision require	3,672	40,191	863,424	4,707	911,994	-	-	-	-	-
Segment liabilities	107,037	721,391	35,648,187	230,126	36,706,741	-	-	-	-	-

39.1 The group is in the process of upgrading its systems and this will also appropriately cater to the information requirements for preparation of an accurate and meaningful segment analysis. However, in the interim stage, the above analysis has been prepared on the basis of certain estimates and application of judgement including the following:

- cost of deposits has been allocated to the business activities on the basis of the ratio of different types of deposits. The ratio used has been determined based on the deposits of the bank as at December 31, 2007.

- net investment in finance leases has been classified under the commercial banking activity.

- deferred taxation on provision against advances and mark-up in suspense account has been classified under the commercial banking activity, while the remaining deferred tax balance has been classified as "others".

40. TRUST ACTIVITIES

The group is not engaged in any trust activities.

Previously, a subsidiary of the group had handled the business of managed equity investment on behalf of certain clients. The assets acquired in this capacity were not treated as assets of the company and accordingly were not included in the accounts.

41. RELATED PARTY TRANSACTIONS

The group has related party relationships with its associated undertakings, employee benefit plans, and its key management personnel (including their associates).

Transactions between the group and its related parties are carried out at arm's length under the comparable uncontrolled price method, except for communication expenses that are carried out on 'cost plus' method.

Details of loans and advances to the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members, are given in note 11.8 to these financial statements. There were no transactions with key management personnel other than those that are entered into with them under the terms of their employment. Details of remuneration to the executives and disposals of vehicles are disclosed in note 37 to these financial statements.

	2007			2006		
	Directors	Key Management Personnel	Associates	Directors	Key Management Personnel	Associates
	(Rupees in '000)					
Balances outstanding as at the period end						
Loans and advances						
Balance as at January 1	-	25,904	5,129	-	21,059	1,738
Disbursed during the year	-	18,726	33,668	-	19,072	4,896
Repayments during the year	-	4,265	3,398	-	14,227	1,505
Balance as at December 31	-	40,365	35,399	-	25,904	5,129
Deposit accounts						
Balance as at January 1	4,109	6,485	2,565	3,801	4,333	9,022
Disbursed during the year	1,040,400	67,670	6,169,147	757,739	66,412	1,541,209
Withdrawals during the year	1,041,798	68,126	5,753,746	757,431	64,260	1,547,666
Balance as at December 31	2,711	6,029	417,966	4,109	6,485	2,565
Unearned mark-up	-	-	469	-	-	1,428
Investments	-	-	-	-	-	290,000
Security Deposits	-	-	1,031	-	-	735
Receivable against expenses	-	-	169	-	1,379	98
Creditors - Trading	-	-	-	-	568	114
Bank profit payable	1	16	281	367	42	-
Receivables - Trading	-	-	838	-	142	112
Advance against disposal of property	-	-	-	-	-	108,675
Administrative expenses payable	-	-	-	-	-	3,127
Prepayments	-	-	-	-	-	1,881
Payables	-	-	-	74,859	-	-
Distribution income and facilitation commission	-	-	535	-	-	114
Unearned revenue	-	-	968	-	-	-
Mark-up receivable	-	-	257	-	-	-

	2007			2006		
	Directors	Key Management Personnel	Associates	Directors	Key Management Personnel	Associates
	(Rupees in '000)					
Profit / expense for the year						
Brokerage income	-	38	945	-	122	3,018
Interest income on advances	-	3,247	3,176	-	699	299
Interest expense on deposits	180	114	10,689	379	103	940
Capital gain	-	-	-	-	-	340
Communication expenses	-	-	9,127	-	-	12,480
Advertisement sponsorship	-	-	1,220	-	-	2,190
Management fee	-	-	-	-	2,411	-
Remuneration paid	748	119,291	-	1,500	73,132	-
Brokerage expenses paid	-	-	-	-	-	191
Payment made to KASB Funds in respect of purchase of shares	-	-	-	-	-	15,000
Payment made to KASB Funds in respect of reverse repurchase of listed securities	-	-	-	-	-	3,755
Directors fees	4,767	-	-	2,610	-	-
Financial advisory fee	-	-	47	-	-	422
Proceed from sale of property	-	-	-	-	-	317
Purchase of fixed assets	-	-	894	-	-	581
Donations	-	-	600	-	-	200
Bank charges	-	-	3	-	-	3
Lease documentation income	-	-	-	-	-	6
Distribution and facilitation income	-	-	733	-	-	378
Reimbursement of expenses incurred by KASB securities on behalf KASB Funds	-	-	-	-	-	4,032
IT service charges	-	-	18	-	-	-
Administrative expenses	-	-	169	-	-	-
Data communication and networking expenses	-	-	9,865	-	-	-
Markup income	-	-	418	-	-	-
Repair and maintenance	-	-	559	-	-	-
Salary expence	-	-	55	-	-	-
Purchase of services	-	-	79	-	-	-
Subordinated loan	320,000	-	297,000	-	-	-
Repayment of subordinated loan	320,000	-	297,000	-	-	-
Investment made during the year	-	-	680,000			
Disposal of investment	-	-	30,000	-	-	-

	2007	2006
	(Rupees in '000)	
Contribution to staff provident fund	20,143	15,523
Contribution to gratuity Scheme	23,816	21,475

42. CAPITAL ADEQUACY

42.1 Capital Management

The objective of managing capital is to safeguard the group's ability to continue as a going concern, so that it could continue to provide adequate returns to shareholders by pricing products and services commensurately with the level of risk. It is the policy of the group to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Goals of managing capital

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

- To be an appropriately capitalized 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 (including the quantum) at a reasonable cost so as to enable the group to expand; and achieve low overall cost of capital with appropriate mix of capital elements.

Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 6 dated October 28, 2006 requires the minimum paid up capital (net of losses) for Banks / Development Finance Institutions to be raised to Rs 6 billion by the year ending December 31, 2009. The raise is to be achieved in a phased manner requiring Rs 4 billion paid up capital (net of losses) by the end of the financial year 2007. The paid up capital of the bank for the year ended December 31, 2007 stood at Rs 3.107 billion and accumulated losses amounted to Rs 69.101 million.

Subsequent to the year ended December 31, 2007 , the bank has issued right shares amounting to Rs 907.912 million which have been fully subscribed by the shareholders of the bank. Consequent to the aforementioned issue of right shares, the paid-up capital of the bank subsequent to the year ended December 31, 2007 has been increased to Rs 4,014.890 million to comply with the SBP requirement for the said year.

In addition the banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 8 percent of the risk weighted exposure of the bank. The group's CAR as at December 31, 2007 was 12.18 percent of its risk weighted exposure.

Bank's regulatory capital analysed in two tiers.

Tier 1 capital, which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves as per the financial statements and net un-appropriated profits, etc after deductions for investments in the equity of subsidiary engaged in banking and financial activities and deficit on revaluation of available for sale investments.

Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25 percent risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 50 percent the balance in the related revaluation reserves), foreign exchange translation reserves), etc

The Capital of the group is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 6 dated October 28, 2006. The adequacy of the capital is tested with reference to the risk-weighted assets of the group.

The required capital adequacy ratio (8 percent of the risk-weighted assets) is achieved by the group through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk and market risk.

The calculation of Capital Adequacy enables the group to assess the long-term soundness. As the group carries on the business on a wide areas network basis, it is critical that it is able to continuously monitor the exposure across the entire organisation and aggregate the risks so as to take an integrated approach / view.

The allocation of capital between specific operations and activities is, to a large extent driven by the optimisation of the return achieved on the capital allocated. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, etc. and the fit of the activity with the bank's long term strategic objectives. There has been no material change in the group's management of capital during the year.

42.2 Capital Adequacy Ratio

The capital to risk weighted assets ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

		2007	2006
Regulatory capital base		(Rupees in '000)	
Tier I capital			
Share capital		4,014,890	2,292,707
Reserves		183,813	58,921
Accumulated losses		(69,101)	(62,876)
Less: Adjustments		(61,455)	(179,910)
Tier I capital		4,068,147	2,108,842
Tier II capital			
General provisions subject to 1.25% of total risk weighted assets		32,869	1,577
Eligible surplus on revaluation of securities		71,461	34,091
Total Tier II capital		104,330	35,668
		4,172,477	2,144,510
Eligible Tier III capital		-	-
Total regulatory capital	(a)	4,172,477	2,144,510

Risk-weighted exposures		2007		2006	
		Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
Credit Risk		(Rupees in '000)			
Balance sheet items:					
Cash and balances with treasury banks		3,001,928	4,075	2,305,248	11,651
Balances with other banks		806,967	161,393	976,257	195,251
Lendings to financial institutions		1,766,398	353,280	2,305,232	750,000
Investments		7,280,455	2,465,025	4,635,204	2,077,213
Advances	42.3	24,662,071	23,215,930	13,796,498	12,758,705
Operating fixed assets		1,108,021	1,108,021	915,397	915,397
Deferred tax assets - net		657,897	657,897	538,267	538,267
Other assets		1,202,493	885,635	1,608,221	1,373,932
		40,486,230	28,851,256	27,080,324	18,620,416
Off balance sheet items					
Loan repayment guarantees	42.4	1,935,011	1,935,011	2,069,665	2,069,665
Performance Bonds etc	42.4	3,046,267	1,523,133	2,784,751	1,392,376
Stand by letters of credit	42.4	3,465,371	1,732,685	2,739,219	1,369,609
Outstanding foreign exchange contracts	42.5				
-Purchase		261,769	2,017	63,847	496
-Sale		508,234	2,033	303,905	498
		9,216,652	5,194,879	7,961,387	4,832,644
Credit risk-weighted exposures			34,046,135		23,453,060
Market risk					
General market risk			103,663		231,325
Specific market Risk			111,512		284,236
Market risk-weighted exposures			215,175		515,561
Total risk-weighted exposures	(b)		34,261,310		23,968,621
Capital Adequacy Ratio [(a) / (b) x 100]			**12.18%**		**8.95%**

42.3 These are stated gross of general reserve amounting to Rs 32,869 thousand (2006: Rs 1,577 thousand). This reserve has been added to the supplementary capital. Further, the amount of cash margins, deposits and government securities deducted is Rs 494,519 thousand (2006: Rs 694,705 thousand).

42.4 Cash margins, deposits and government securities deducted from loan repayment guarantees, performance bonds and letters of credit amount to Rs Nil (2006: Rs 47,026 thousand), Rs 314,208 thousand (2006: Rs 245,333 thousand) and Rs 23,123 thousand (2006: Rs 83,727 thousand) respectively.

42.5 Contracts having original maturities of 14 days or less have been excluded.

43. RISK MANAGEMENT

The group'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 enterprise 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 group's risk appetite. The group has recently initiated a process to set up 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 limits, which involve the group's risk management professionals, business segments and other functional teams. This partnership is designed to ensure the ongoing alignment of business strategies and activities with the group's risk appetite. The primary risks associated with the group are:

- Credit risk is the risk of loss resulting from client or counterparty default
- Market risk is exposure to market variables such as interest rates, exchange rates and equity indices
- Liquidity risk is the risk that the group may be unable to meet its payment obligations when due
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and therefore includes legal risk

Representations of risk are for a given period and the group’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 group including IT projects for replacing the core banking system, business process re-engineering and inventorying the risks and controls within the group's existing business and process units. All of these initiatives, as they partially or completely roll out, will have a direct impact on the risk management function within the group.

The Risk Management structure at KASB Bank has recently been reorganised to have Credit Administration, Financial Risk, Credit Policy, Consumer and Retail Credit, Credit Risk Management and Operational Risk and Basel II functions reporting directly to Group Head Risk Management. The bank is in the process of putting the new structure in place and is also involved in the screening and appointing of critical human resources in each area. The main objective is to develop a dedicated risk management team which is capable of developing and maintaining a sound risk management culture at the bank.

43.1 Credit Risk

Credit risk is the risk of loss to the group as a result of failure by a client or counterparty to meet its contractual obligations. It is inherent in loans, commitments to lend and contingent liabilities, such as letters of credit – and in traded products, repurchase agreements (repos and reverse repos) and securities borrowing and lending transactions.

The role of the Risk Management in credit risk includes:

- Participation in portfolio planning and management.
- Establishment of credit policies and standards that conform to regulatory requirements and the group’s overall objectives.
- Working with Business Groups in keeping aggregate credit risk well within the group’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 group.
- 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 wholesale portfolio, which includes corporate, Middle Market and SME loans are ideally collateralised by cash equivalents, fixed and current assets including stocks, property plant and equipment, and land. Loans to individuals are typically secured by cash equivalents or residential mortgage.

The group manages limits and controls concentrations of credit risk as identified, in particular to individual counterparties and groups, and to industries, where appropriate. Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographic region 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 group sets limits on its credit exposure to counterparty groups, by industry, product, counterparty and geographical location, in line with SBP directions/guidelines. Limits are also applied in a variety of forms to portfolios or sectors where the group considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

43.1.1 Segmental information

43.1.1.1 Segments by class of business

	2007					
	Advances (Gross)		**Deposits**		**Contingencies and Commitments**	
	Rupees in '000	**Percent**	**Rupees in '000**	**Percent**	**Rupees in '000**	**Percent**
Agriculture, Forestry, Hunting and Fishing	77,747	0.30%	450,281	1.36%	171,201	1.65%
Agribusiness	128,578	0.49%	273,577	0.83%	-	0.00%
Mining and Quarrying	145,165	0.56%	932,902	2.82%	-	0.00%
Textile	6,670,442	25.63%	630,276	1.90%	248,382	2.39%
Chemical and Pharmaceuticals	1,255,423	4.82%	106,159	0.32%	425,205	4.10%
Cement	1,154,081	4.43%	523,728	1.58%	211,113	2.03%
Sugar	90,789	0.35%	8,108	0.02%	-	0.00%
Footwear and Leather garments	190,749	0.73%	48,456	0.15%	-	0.00%
Automobile and transportation equipment	750,108	2.88%	238,281	0.72%	1,359,198	13.10%
Electronics and electrical appliances	634,494	2.44%	616,768	1.86%	711,686	6.86%
Construction	1,035,125	3.98%	568,165	1.71%	22,447	0.22%
Base Metal	-	0.00%	-	0.00%	935,335	9.02%
Power (electricity), Gas, Water, Sanitary	836,679	3.21%	1,126,149	3.40%	18,394	0.18%
Production & transmission of energy	-	0.00%	156,861	0.47%	-	0.00%
Wholesale and Retail Trade	1,571,601	6.04%	3,160,848	9.54%	-	0.00%
Exports / Imports	1,822,365	7.00%	90,941	0.27%	-	0.00%
Food & Beverages	17,144	0.07%	79,326	0.24%	-	0.00%
Manufacturing	47,202	0.18%	209,467	0.63%	-	0.00%
Transport, Storage and Communication	967,036	3.72%	38,396	0.12%	422,757	4.07%
Financial	308,673	1.19%	5,095,733	15.38%	1,107,606	10.68%
Insurance	-	0.00%	348,721	1.05%	-	0.00%
Services	1,227,106	4.71%	706,899	2.13%	145,780	1.41%
Individuals	3,493,268	13.42%	8,588,881	25.92%	-	0.00%
Others	3,603,561	13.85%	9,131,189	27.58%	4,596,146	44.29%
	26,027,336	100.00%	33,130,112	100.00%	10,375,250	100.00%

Segments by class of business

	2006					
	Advances (Gross)		**Deposits**		**Contingencies and Commitments**	
	Rupees in '000	**Percent**	**Rupees in '000**	**Percent**	**Rupees in '000**	**Percent**
Agriculture, Forestry, Hunting and Fishing	209,476	1.42%	279,453	1.32%	186,745	2.19%
Mining and Quarrying	132,743	0.90%	330,960	1.56%	-	0.00%
Textile	3,397,399	22.98%	830,727	3.92%	1,235,160	14.49%
Chemical and Pharmaceuticals	450,059	3.04%	201,290	0.95%	672,808	7.89%
Cement	706,192	4.78%	77,674	0.37%	2,048	0.02%
Sugar	-	0.00%	4,407	0.02%	-	0.00%
Footwear and Leather garments	161,562	1.09%	19,394	0.09%	5,068	0.06%
Automobile and transportation equipment	534,605	3.62%	214,219	1.01%	180,396	2.12%
Electronics and electrical appliances	219,737	1.49%	590,937	2.79%	15,115	0.18%
Construction	545,585	3.69%	1,289,370	6.08%	170,815	2.00%
Base Metal	-	0.00%	-	0.00%	637,330	7.48%
Power (electricity), Gas, Water, Sanitary	67,250	0.45%	635,086	3.00%	255,388	3.00%
Wholesale and Retail Trade	1,600,814	10.83%	1,988,566	9.38%	252,336	2.96%
Exports/Imports	650,969	4.40%	161,747	0.76%	-	0.00%
Transport, Storage and Communication	1,307,897	8.85%	165,860	0.78%	765,388	8.98%
Financial	1,255,720	8.49%	2,828,704	13.35%	330,310	3.87%
Insurance	1,932	0.01%	338,906	1.60%	-	0.00%
Services	946,977	6.41%	1,501,716	7.09%	19,933	0.23%
Individuals	1,061,189	7.18%	4,882,601	23.04%	-	0.00%
Others	1,534,581	10.37%	4,849,863	22.89%	3,797,096	44.53%
	14,784,687	100.00%	21,191,480	100.00%	8,525,936	100.00%

43.1.1.2 Segment by sector

	2007					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	-	1,331,516	4.02%	2,647,467	25.52%
Private	26,027,336	100.00%	31,798,596	95.98%	7,727,783	74.48%
	26,027,336	100.00%	33,130,112	100.00%	10,375,250	100.00%

Segment by sector

	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	0.00%	1,480,417	6.99%	8,858	0.10%
Private	14,784,687	100.00%	19,711,063	93.01%	8,517,078	99.90%
	14,784,687	100.00%	21,191,480	100.00%	8,525,936	100.00%

43.1.1.3 Details of non-performing advances and specific provisions by class of business segment

	2007		2006	
	Rupees in '000			
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	----(Rupees in '000)----			
Agriculture, Forestry, Hunting and Fishing	-	-	3,750	3,750
Chemical & Pharmaceuticals	8,893	1,863	9,189	9,189
Textile	402,299	352,204	462,347	300,329
Footwear & Leather garments	13,292	13,292	9,939	9,939
Automobile & Transportation equipment	7,268	7,268	360,471	296,498
Electronics and electrical appliances	20,650	20,400	25,917	14,371
Construction	10,706	4,333	6,373	-
Wholesale / Retail Trade	62,681	57,791	1,780	1,780
Exports / Imports	23,415	22,523	42,546	29,642
Transport, Storage and Communication	338,631	306,671	-	-
Financial	5,460	5,460	5,460	5,460
Individuals	110,968	31,008	13,161	11,233
Others	65,609	47,933	75,777	11,293
	1,069,872	870,746	1,016,710	693,484

43.1.1.4 Details of non-performing advances and specific provisions by sector

	2007		2006	
	Rupees in '000			
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	----(Rupees in '000)----			
Public / Government	-	-	-	-
Private	1,069,872	870,746	1,016,710	693,484
	1,069,872	870,746	1,016,710	693,484

43.1.1.5 Geographical segment analysis

	2007			
	Loss / (profit) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan - Continuing operations	(357,738)	40,947,880	4,241,139	10,375,250
Pakistan - Discontinued operations	275,354	-	-	-
Others	-	-	-	-
	(82,384)	40,947,880	4,241,139	10,375,250

	2006			
	Loss / (profit) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan - Continuing operations	(118,923)	26,126,408	1,742,361	8,525,936
Pakistan - Discontinued operations	244,837	1,647,044	620,103	-
Others	-	-	-	-
	125,914	27,773,452	2,362,464	8,525,936

Total assets employed include intra group items of Rs Nil (2006: Rs Nil).

43.2 Market Risk

Market risk is the risk of loss arising from movements in market variables including observable variables such as interest rates, exchange rates and equity indices, and others which may be only indirectly observable such as volatilities and correlations.

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.

Trading activities are centered in the Treasury and include market making, facilitation of client business and proprietary position taking, fixed income and interest rate products and foreign exchange and also badla financing.

Controls are also applied to prevent any undue risk concentrations in trading books, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to individual market risk variables, such as individual interest or exchange rates ('risk factors'), and on positions in the securities of individual issuers.

Financial Risk Management Unit performs all market risk management activities within the Bank. FRM Unit department is responsible for developing and reviewing market risk policies, strategies & processes. It has to ensure monitoring and implementation of market risk and other policies, escalation of any deviation to senior management, compilation and MIS reporting, etc.

The scope of market risk management is as follows:

- To keep the market risk exposure within the group's risk appetite as assigned by the Board of Directors (BOD).

- 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 division.

- Various limits have been assigned on a portfolio basis.

43.2.1 Foreign Exchange Risk

Foreign Exchange Risk is the risk of loss resulting from changes in exchange rates. Foreign exchange positions are reported on a consolidated basis and limits are used to monitor exposure in individual currencies.

The trading exposures are subject to prescribed stress, sensitivity and concentration limits.

	2007			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	---------------------------------(Rupees in '000)---------------------------------			
Pakistan rupee	40,180,022	35,935,688	226,201	4,470,535
United States dollar	680,209	549,114	(371,820)	(240,725)
Great Britain pound	28,202	166,337	143,204	5,069
Deutsche mark	1,849	-	-	1,849
Japanese yen	2,303	6	-	2,297
Euro	54,991	55,596	2,415	1,810
Other currencies	304	-	-	304
	40,947,880	36,706,741	-	4,241,139

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	---------------------------------(Rupees in '000)---------------------------------			
Pakistan rupee	26,910,334	24,852,646	240,058	2,297,746
United States dollar	786,465	498,700	(240,901)	46,864
Great Britain pound	35,599	33,109	816	3,306
Canandian Dollor	1,974	-	-	1,974
Japanese yen	1,357	5	-	1,352
Euro	36,220	26,528	27	9,719
Other currencies	1,503	-	-	1,503
	27,773,452	25,410,988	-	2,362,464

43.2.2 Equity position Risk

Equity position risk in trading book arises due to changes in prices of individual stocks or levels of equity indices. The group's equity trading book comprises of Held for trading (HFT) & Available for Sale (AFS) portfolios and Corporate Finance (CF) AFS portfolio. Objective of Treasury HFT portfolio is to take advantages of short-term capital gains, while the AFS portfolio is maintained with a medium-term view of capital gains and dividend income. CF maintains its AFS portfolio with a medium-long term view of capital gains and higher dividend yields.

43.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The group is exposed to yield / interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The group manages this risk by matching the re-pricing of assets and liabilities and off-balance sheet instruments. The group's yield / interest rate sensitivity position, based on the earlier of contractual re-pricing or maturity date, is as follows:

2007

	Effective yield/ interest rate	Total	Exposed to Yield/ Interest risk: 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	Non-interest bearing financial instruments
		---(Rupees in '000)---										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.21%	3,001,928	36,778	-	-	-	-	-	-	-	-	2,965,150
Balances with other banks	4.60%	806,967	311,598	-	-	-	-	-	-	-	-	495,369
Lending to financial institutions	9.95%	1,766,398	1,766,398	-	-	-	-	-	-	-	-	-
Investments	10.68%	7,280,455	989,972	506,022	1,102,697	1,546,368	164,893	134,132	750,298	389,771	-	1,696,302
Advances												
Performing	11.84%	24,957,464	4,422,791	6,119,005	9,178,507	1,062,572	845,315	845,315	1,688,918	297,964	497,077	-
Non performing net of prov		166,257	-	-	-	-	-	-	-	-	-	166,257
Other assets		1,050,283	-	-	-	-	-	-	-	-	74,448	975,835
		39,029,752	7,527,537	6,625,027	10,281,204	2,608,940	1,010,208	979,447	2,439,216	687,735	571,525	6,298,913
Liabilities												
Bills payable		879,152	-	-	-	-	-	-	-	-	-	879,152
Borrowings	8.22%	1,746,375	315,935	218,532	327,798	655,595	57,129	57,129	114,257	-	-	-
Deposits and other accounts	8.11%	33,130,112	12,951,319	7,310,501	4,841,950	2,364,170	1,064,285	656,496	54,172	-	-	3,887,219
Liabilities against assets subject to finance lease	11.94%	1,428	98	152	234	495	449	-	-	-	-	-
Other liabilities		810,579	-	-	-	-	-	-	-	-	-	810,579
		36,567,646	13,267,352	7,529,185	5,169,982	3,020,260	1,121,863	713,625	168,429	-	-	5,576,950
On-balance sheet gap		2,462,106	(5,739,815)	(904,158)	5,111,222	(411,320)	(111,655)	265,822	2,270,787	687,735	571,525	721,963
Off-balance sheet financial instruments												
Forward purchase of foreign exchang		473,631	266,069	117,586	89,976	-	-	-	-	-	-	-
Forward sale of foreign exchange		(694,642)	(539,595)	(110,521)	(44,526)	-	-	-	-	-	-	-
Off-balance sheet gap		(221,011)	(273,526)	7,065	45,450	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(6,013,341)	(897,093)	5,156,672	(411,320)	(111,655)	265,822	2,270,787	687,735	571,525	721,963
Cumulative Yield/Interest Risk Sensitivity Gap			(6,013,341)	(6,910,434)	(1,753,762)	(2,165,082)	(2,276,737)	(2,010,915)	259,872	947,607	1,519,132	2,241,095

2006

	Effective yield/ interest rate	Total	Exposed to Yield/ Interest risk: 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	Non-interest bearing financial instruments
		---(Rupees in '000)---										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.05%	2,305,248	80,228	-	-	-	-	-	-	-	-	2,225,020
Balances with other banks	4.25%	976,257	136,338	-	-	-	-	-	-	-	-	839,919
Lending to financial institutions	10.10%	2,305,232	1,638,076	592,156	75,000	-	-	-	-	-	-	-
Investments	8.27%	5,035,204	551,593	19,186	492,840	1,064,545	67,796	75,236	185,663	860,668	-	1,717,677
Advances												
Performing	11.73%	13,767,977	3,543,396	2,831,965	3,847,948	485,011	727,578	727,578	1,436,332	66,688	101,481	-
Non performing net of prov		321,649	-	-	-	-	-	-	-	-	-	321,649
Other assets		1,236,091	-	-	-	-	-	-	-	-	-	1,236,091
		25,947,658	5,949,631	3,443,307	4,415,788	1,549,556	795,374	802,814	1,621,995	927,356	101,481	6,340,356
Liabilities												
Bills payable		199,670	-	-	-	-	-	-	-	-	-	199,670
Borrowings	7.73%	2,176,032	188,842	361,307	541,961	1,083,922	-	-	-	-	-	-
Deposits and other accounts	9.13%	21,191,480	10,610,100	2,738,699	843,944	716,927	869,431	1,471,074	320,688	-	-	3,620,617
Liabilities against assets subject to finance lease	7.85%	18,979	936	1,935	2,156	4,361	7,156	1,606	829	-	-	-
Other liabilities		1,773,822	-	-	-	-	-	-	-	-	-	1,773,822
		25,359,983	10,799,878	3,101,941	1,388,061	1,805,210	876,587	1,472,680	321,517	-	-	5,594,109
On-balance sheet gap		587,675	(4,850,247)	341,366	3,027,727	(255,654)	(81,213)	(669,866)	1,300,478	927,356	101,481	746,247
Off-balance sheet financial instruments												
Forward purchase of foreign exchang		63,847	41,338	19,754	2,755	-	-	-	-	-	-	-
Forward sale of foreign exchange		(303,905)	(242,535)	(61,370)	-	-	-	-	-	-	-	-
Off-balance sheet gap		(240,058)	(201,197)	(41,616)	2,755	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(5,051,444)	299,750	3,030,482	(255,654)	(81,213)	(669,866)	1,300,478	927,356	101,481	746,247
Cumulative Yield/Interest Risk Sensitivity Gap			(5,051,444)	(4,751,694)	(1,721,212)	(1,976,866)	(2,058,079)	(2,727,945)	(1,427,467)	(500,111)	(398,630)	347,617

43.3 Liquidity Risk

The group'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 franchises. A centralized 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.

43.3.1 Maturities of Assets and Liabilities

2007

	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	3,001,928	3,001,928	-	-	-	-	-	-	-	-
Balances with other banks	806,967	806,967	-	-	-	-	-	-	-	-
Lending to financial institutions	1,766,398	1,766,398	-	-	-	-	-	-	-	-
Investments	7,280,455	989,972	605,223	1,531,181	1,546,368	164,893	134,132	1,057,740	1,250,946	-
Advances										
Performing	24,957,464	4,422,791	6,119,005	9,178,507	1,062,572	845,315	845,315	1,688,918	297,964	497,077
Non performing - net of prov	166,257	166,257	-	-	-	-	-	-	-	-
Other assets	1,202,493	387,274	607,048	11,866	106,551	30,055	7,831	15,663	35,362	843
Deferred tax assets	657,897	146,027	189,649	224,044	133,788	(10,464)	(10,464)	(38,365)	23,682	-
Operating fixed assets	1,108,021	21,273	18,246	27,369	54,737	109,475	110,598	218,950	547,373	-
	40,947,880	11,708,887	7,539,171	10,972,967	2,904,016	1,139,274	1,087,412	2,942,906	2,155,327	497,920
Liabilities										
Bills payable	879,152	879,152	-	-	-	-	-	-	-	-
Borrowings	1,746,375	315,935	218,532	327,798	655,595	57,129	57,129	114,257	-	-
Deposits and other accounts	33,130,112	16,838,538	7,310,501	4,841,950	2,364,170	1,064,285	656,496	54,172	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	1,428	98	152	234	495	449	-	-	-	-
Other liabilities	949,674	491,937	6,039	2,490	6,590	57,590	58,249	250,883	-	75,896
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
	36,706,741	18,525,660	7,535,224	5,172,472	3,026,850	1,179,453	771,874	419,312	-	75,896
Net assets	4,241,139	(6,816,773)	3,947	5,800,495	(122,834)	(40,179)	315,538	2,523,594	2,155,327	422,024

Share capital	3,106,978
Subscription money received against proposed issue of right shares	907,912
Reserves	170,038
Effect of fair value measurement of capital on amalgamation	13,775
Accumulated loss	(69,101)
Minority Interest	-
	4,129,602
Surplus on revaluation of assets	111,537
	4,241,139

2006

	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	2,305,248	2,305,248	-	-	-	-	-	-	-	-
Balances with other banks	976,257	976,257	-	-	-	-	-	-	-	-
Lending to financial institutions	2,305,232	1,638,076	592,156	75,000	-	-	-	-	-	-
Investments	5,035,204	1,607,200	19,186	676,062	1,064,545	317,796	75,236	185,663	1,089,516	-
Advances										
Performing	13,767,977	3,543,396	2,831,965	3,847,948	485,011	727,578	727,578	1,436,332	66,688	101,481
Non performing - net of prov	321,649	321,649	-	-	-	-	-	-	-	-
Other assets	1,608,221	983,708	270,557	16,502	90,531	55,315	55,315	110,637	25,656	-
Deferred tax assets	538,267	(55,264)	(4,745)	(7,117)	52,231	28,398	17,107	(22,674)	28,457	501,874
Operating fixed assets	915,397	25,817	51,634	77,450	154,902	95,745	95,746	120,196	140,044	153,863
	27,773,452	11,346,087	3,760,753	4,685,845	1,847,220	1,224,832	970,982	1,830,154	1,350,361	757,218
Liabilities										
Bills payable	199,670	199,670	-	-	-	-	-	-	-	-
Borrowings	2,176,032	188,842	361,307	541,961	1,083,922	-	-	-	-	-
Deposits and other accounts	21,191,480	14,230,717	2,738,699	843,944	716,927	869,431	1,471,074	320,688	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	18,979	936	1,935	2,156	4,361	7,156	1,606	829	-	-
Other liabilities	1,824,827	1,466,248	23,221	3,916	10,295	49,578	49,578	221,991	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
	25,410,988	16,086,413	3,125,162	1,391,977	1,815,505	926,165	1,522,258	543,508	-	-
Net assets	2,362,464	(4,740,326)	635,591	3,293,868	31,715	298,667	(551,276)	1,286,646	1,350,361	757,218

Share capital	2,292,707
Reserves	138,161
Effect of fair value measurement of capital on amalgamation	(79,240)
Accumulated loss	(62,876)
Minority Interest	21,369
	2,310,121
Deficit on revaluation of assets	52,343
	2,362,464

43.3.2 The above mentioned maturity profile has been prepared in accordance with International Accounting Standard (IAS) 30, 'Disclosures in the financial statements of banks and similar financial institutions' based on contractual maturities. The management believes that such a maturity analysis does not reveal the expected maturity of current and savings deposits as a contractual maturity analysis of deposits alone does not provide information about the conditions expected in normal circumstances. The management believes that the maturity profile for deposits and other accounts, which includes maturities of current and savings deposits determined by the management keeping in view the historical withdrawal pattern of these deposits reflects a more meaningful analysis of the liquidity risk of the group as follows:

	2007	**2006**
	(Rupees in '000)	
Upto one month	7,738,705	4,698,724
One month to three months	7,789,526	5,140,051
Three months to six months	5,800,002	1,245,832
Six months to one year	3,322,222	1,863,729
One year to two years	2,022,337	1,840,905
Two years to three years	1,614,548	1,583,272
Three years to five years	4,842,772	1,718,009
Five years to ten years	-	3,100,958
Above ten years	-	-
	33,130,112	21,191,480

Current and saving deposits do not have any contractual maturity therefore, current deposits and saving accounts have been classified between all maturities upto 10 years. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

43.4 Operational Risk

Operational Risk arises from a failure to properly control all aspects of the documentation, processing, settlement of and accounting for, transactions and more widely, all the hazards to which the group is exposed to as a result of being in business and doing business. These risks and hazards arise predominantly from crime including fraud and theft committed by employees, customers or third parties, professional liability, contractual liability, statutory liability, business interruptions, malicious assault and attacks.

The group’s Operational Risk Management implementation framework is based on an appropriate risk management architecture. The framework is flexible enough to be implemented in stages.

Following are the strategic initiatives that the group has undertaken for the effective implementation of Operational Risk Management:

- An effective and integrated operational risk management framework is in place, with appropriately defined roles and responsibilities for all aspects of the operational risk management.

- The group is in the process of establishing appropriate tools which help in identification, assessment, control and reporting of key risks. The policy on operational risk will be submitted to BOD during the first quarter of 2008.

- Operational risk management policies and procedures have been aligned to the overall business strategy and helps to continually improve risk management of the group.

- All business and support functions have been made an integral part of the overall operational risk management framework to enable the institution to effectively manage the key operational risks facing the group.

- Appropriate line management has been established for the identification, assessment and mitigation of operational risk.

A consolidated Business Continuity Plan is being augmented for the group which encompasses roles and responsibilities, disaster recovery strategy, IT systems and structural back ups, scenario and impact analyses and testing directives.

There are several IT developments underway in the credit, market and operational risk areas. Specifically for operational risk mitigation and control, an IT infrastructure is being developed along with the other high-level initiatives, including process re-engineering and inventorying of risks and controls within the group. A methodology for Risk and Control Self Assessment is approved and is under implementation across all the functions of the group.

44. GENERAL

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

- Term finance certificates amounting to Rs 400,000 thousand which had inadvertently been classified under advances have now been reclassified as investments.

- Balances relating KASB Securities Limited and KASB Funds Limited included in the prior year figures of the profit and loss account and the related notes to the financial statements have been reclassified and shown as part of discontinued operations as required IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations'.

- Earnings per share for the prior period has been restated consequent to the issue of right shares during the current period.

44.2 Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

45. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 05, 2008 by the Board of Directors of the holding company, KASB Bank Limited.

President & Chief Executive	Director	Director	Director

Annexure - 1

Statement showing written-off loans or any other financial relief of five hundred thousands Rupees or above provided during the year ended 31 December - 2007

Rupees in millions

S. No.	Name and address of the borrowers	Name of individuals / Partners / directors with (NIC No.)	Father's Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest / Markup written-off	Other financial relief provided	Total
				Principal	Interest / Mark-up	Others	Total				(9+10+11)
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1	**Usman Exports**	Tahir Saleem Chaudari	Muhammad Saleem Chaudhari	12.340	0.678		13.018	5.340	0.678		6.018
	59 - X, Susan Road,	244-88-354553									
	Madina Town,	Shahid Saleem Chaudai	Muhammad Saleem Chaudhari								
	Faisalabad.	35202-7054469-9									
								5.340	**0.678**		**6.018**

PATTERN OF SHAREHOLDING AS AT DECEMBER 31, 2007

No. of Shareholders	Share Holding From	Share Holding To	Total number of shares held	Percentage
2,354	1	100	109,292	0.04%
2,408	101	500	495,837	0.16%
2,036	501	1,000	1,409,471	0.45%
966	1,001	5,000	2,195,159	0.71%
173	5,001	10,000	1,276,128	0.41%
45	10,001	15,000	574,906	0.19%
31	15,001	20,000	556,875	0.18%
28	20,001	25,000	648,746	0.21%
15	25,001	30,000	417,460	0.13%
8	30,001	35,000	262,266	0.08%
10	35,001	40,000	377,099	0.12%
2	40,001	45,000	85,300	0.03%
6	45,001	50,000	296,838	0.10%
2	50,001	55,000	103,450	0.03%
1	55,001	60,000	55,880	0.02%
7	60,001	65,000	439,260	0.14%
3	65,001	70,000	202,950	0.07%
4	70,001	75,000	291,196	0.09%
3	75,001	80,000	235,087	0.08%
2	80,001	85,000	167,353	0.05%
2	85,001	90,000	174,484	0.06%
2	90,001	95,000	187,000	0.06%
4	95,001	100,000	390,320	0.13%
1	100,001	105,000	100,100	0.03%
1	105,001	110,000	106,200	0.03%
1	120,001	125,000	123,200	0.04%
1	125,001	130,000	130,000	0.04%
2	130,001	135,000	265,838	0.09%
1	135,001	140,000	140,000	0.05%
1	140,001	145,000	143,260	0.05%
3	150,001	155,000	460,758	0.15%
2	165,001	170,000	334,670	0.11%
1	175,001	180,000	179,902	0.06%
3	190,001	195,000	583,080	0.19%
3	195,001	200,000	592,757	0.19%
1	205,001	210,000	210,000	0.07%
1	215,001	220,000	216,000	0.07%
1	255,001	260,000	260,000	0.08%
1	335,001	340,000	336,600	0.11%
1	345,001	350,000	346,726	0.11%
1	370,001	375,000	371,150	0.12%
1	415,001	420,000	415,200	0.13%
1	425,001	430,000	429,000	0.14%
1	430,001	435,000	433,445	0.14%
1	470,001	475,000	475,000	0.15%
1	480,001	485,000	481,000	0.15%
1	535,001	540,000	536,150	0.17%
1	775,001	780,000	778,385	0.25%
1	895,001	900,000	900,000	0.29%
1	1,000,001	1,005,000	1,000,986	0.32%
1	1,100,001	1,105,000	1,102,300	0.35%
1	1,115,001	1,120,000	1,115,374	0.36%
1	1,355,001	1,360,000	1,359,538	0.44%
1	1,440,001	1,445,000	1,442,770	0.46%
1	1,945,001	1,950,000	1,949,000	0.63%
1	2,595,001	2,600,000	2,600,000	0.84%
1	3,840,001	3,845,000	3,843,932	1.24%
1	3,845,001	3,850,000	3,850,000	1.24%
2	5,685,001	5,690,000	11,377,120	3.66%
1	6,210,001	6,215,000	6,214,761	2.00%
1	7,005,001	7,010,000	7,008,000	2.26%
1	8,500,001	8,505,000	8,505,000	2.74%
1	9,500,001	9,505,000	9,500,281	3.06%
2	9,995,001	10,000,000	20,000,000	6.44%
3	10,380,001	10,385,000	31,152,000	10.03%
1	10,395,001	10,400,000	10,397,390	3.35%
1	10,995,001	11,000,000	11,000,000	3.54%
1	11,395,001	11,400,000	11,400,000	3.67%
1	11,510,001	11,515,000	11,513,663	3.71%
1	13,085,001	13,090,000	13,088,560	4.21%
1	26,195,001	26,200,000	26,200,000	8.43%
1	32,715,001	32,720,000	32,718,879	10.53%
1	62,055,001	62,060,000	62,057,546	19.97%
8,174			**310,697,878**	**100.00%**

DETAILS OF PATTERN OF SHAREHOLDING AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE

CATEGORIES OF SHARE HOLDER	SHARE HELD
INDIVIDUALS	64,446,964
INVESTMENT COMPANIES	4,129,837
JOINT STOCK COMPANIES	51,001,105
DIRECTORS,CHIEF EXECUTIVE OFFICER AND THEIR SPOUSE AND MINOR CHILDREN	
MR. NASIR ALI SHAH BUKHARI	94,776,425
MRS. AMBREEN BUKHARI (SPOUSE OF MR. NASIR ALI SHAH BUKHARI)	10,397,390
MR. H.U. BEG (CHAIRMAN)	778,385
MR. N.K. SHAHANI (DIRECTOR)	22,500
MR. IRTAZA HUSSAIN (DIRECTOR)	1,962
MR. SOHAIL WAJAHAT H. SIDDIQUI (DIRECTOR)	855
MR. TARIQ MUHAMMAD ALI RANGOONWALA (DIRECTOR)	3,659
MR. MUNEER KAMAL (PRESIDENT & CEO)	27,850
EXECUTIVES	
MR. KHALID M. SHEIKH	650
MR. MIR MUJAHID ALI KHAN	650
MR. MIAN SHAUKAT ALI ARIF SIRHANDI	650
MR. SHAUKAT ALI	855
MR. MUHAMMAD RIAZ BUTT	898
MR. MAQBOOL AHMAD	898
MR. MUHAMMAD HAMIDULLAH	2,188
MR. WAQAR AHMED KHAN (IN THE NAME OF SON MANSOOR AHMED KHAN)	10,000
MR. NOMAN AHMAD	23,400
NIT/ICP	
NATIONAL BANK OF PAKISTAN, TRUSTEE DEPT	683,326
BANKS, DFIs, NBFIs, INSURANCE COMPANIES, MODARABAS & MUTUAL FUNDS	203,773
FOREIGN INVESTORS	84,165,378
CHARITABLE TRUSTS	17,630
OTHERS	650

CATEGORIES OF SHAREHOLDERS

PARTICULARS	SHAREHOLDERS	SHAREHOLDING	PERCENTAGE
INDIVIDUALS	7,987	64,446,964	20.74%
INVESTMENT COMPANIES	4	4,129,837	1.33%
JOINT STOCK COMPANIES	103	51,001,105	16.42%
DIRECTORS, CEO, THEIR SPOUSE & MINOR CHILDREN	9	106,009,026	34.12%
EXECUTIVES	9	40,189	0.01%
NIT / ICP	2	683,326	0.22%
FINANCIAL INSTITUTIONS	5	59,248	0.02%
INSURANCE COMPANIES	4	12,463	0.00%
MUTUAL FUNDS	2	131,305	0.04%
MODARABA COMPANIES	3	757	0.00%
FOREIGN INVESTORS	43	84,165,378	27.09%
CHARITABLE TRUST	2	17,630	0.01%
OTHERS	1	650	0.00%
	8,174	**310,697,878**	**100.00%**

FORM OF PROXY
THIRTEENTH ANNUAL GENERAL MEETING

The Company Secretary,
KASB Bank Limited
Business & Finance Centre,
I.I. Chundrigar Road,
Karachi-74000

I/We ____
of ____ being
member(s) of KASB Bank Limited holding ________________________________
Ordinary share 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 Thirteenth Annual General Meeting of the Bank to be held on Friday, March 28, 2008 at 05:00 PM at Pearl Continental Hotel, Club Road, Karachi and/or any adjournment thereof.

As witness my/our hand this ______________________ day of _________________ 2008

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, Business & Finance Centre, I.I Chundrigar Road, Karachi, 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.