Corporate Information

Board of Directors	*Chairman*	: H. U. Beg
	Directors	: Nasir Ali Shah Bukhari Sohail Wajahat H. Siddiqui Tariq M. Rangoonwala N. K. Shahani Syed Asghar Ali Shah Muneer Kamal
President / Chief Executive Officer		Muneer Kamal
Audit Committee	*Chairman*	: H. U. Beg Tariq M. Rangoonwala N. K. Shahani Syed Asghar Ali Shah
Human Resource & Remuneration Committee	*Chairman*	: Nasir Ali Shah Bukhari H. U. Beg Sohail Wajahat H. Siddiqui Syed Asghar Ali Shah Muneer Kamal
Risk Management Committee	*Chairman*	: Tariq M. Rangoonwala Nasir Ali Shah Bukhari N. K. Shahani Muneer Kamal
Company Secretary		Muhammad Hamidullah
Chief Financial Officer		Laila Humayun
Auditors		A. F. Ferguson & Co.
Legal Advisors		Mandviwalla & Zafar Advocates & Legal Consultants
Registered Office & Head Office		Razia Sharif Plaza (Basement), Jinnah Avenue, 90-Blue Area, Islamabad Tel: (92-51) 2270725, 2276828-30 Fax: (92-51) 2270727
Principal Office		Business & Finance Centre, I.I. Chundrigar Road, Karachi Tel: (92-21) 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 FOURTEENTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Fourteenth Annual General Meeting (AGM) of KASB Bank Limited (KASB Bank) will be held on Monday, April 20, 2009 at 10:30 a.m. at the Registered Office of the Bank at Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad to transact the following business:

1. To confirm the Minutes of the Extraordinary General Meeting held on December 27, 2008.
2. To adopt the annual audited accounts of KASB Bank and the consolidated annual audited accounts of KASB Bank for the year ended December 31, 2008 together with the Directors' and Auditors' Reports thereon.
3. To appoint auditors for the year ending December 31, 2009 and to fix their remuneration.

4. Special Business

   (i) To consider and approve providing of diversified services by KASB Bank Ltd. to other group companies on cost sharing basis for the amounts to be recovered as determined according to the nature, scope and extent of services, and if thought fit pass the following special resolution, with or without modifications, in compliance of the provisions of section 208 of the Companies Ordinance, 1984:

   > RESOLVED AND APPROVED THAT KASB Bank Limited (KASB Bank) will provide diversified shared services to the KASB Group companies on cost sharing basis on the terms and conditions to be decided in relation to the nature, scope and extent of the service(s);
   >
   > RESOLVED FURTHER THAT the President & Chief Executive of KASB Bank will finalize the terms and conditions of the shared services and execute the related documents/agreements either by himself or through his nominated executives of KASB Bank.

   (ii) To approve disposal of fractional shares henceforth relating to any declaration of Bonus Shares, Right Shares or issuance of fresh shares in connection with mergers or for any other reason, and if thought fit pass the following resolution with or without modification:

   > RESOLVED THAT in the event of generation of fractional shares KASB Bank Limited for any reason and against any entitlement, the Company Secretary be and is hereby authorized to consolidate such Fractional Entitlements and dispose of the same in the stock market; and the sale proceeds on realization (less expenses) be donated to any charitable Trust or Foundation."

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

By Order of the Board

Place: Islamabad
Date: March 28, 2009

Muhammad Hamidullah
Company Secretary

NOTES:

1) The Share Transfer Books of KASB Bank will be closed from April 14, 2009 to April 20, 2009 (both days inclusive).
2) All shareholders are entitled to attend and vote at the meeting.
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 KASB Bank.
   Proxy Form in order to be effective must be received by KASB Bank at its Registered Office at Razia Sharif Plaza (Basement), Jinnah Avenue, 90-Blue Area, Islamabad duly stamped and signed not less than forty-eight hours before the meeting.
4) Account holders/sub account holders holding book entry securities of the company in Central Depository System of Central Depository Company of Pakistan Ltd who wish to attend the meeting are requested to bring with them their National Identity Card, original passport with a photocopy duly attested by their bankers for identification purposes. In case of corporate entity, the Board of Directors' Resolution/Power of Attorney with specimen signature of the nominee shall be produced, unless it has been provided earlier, at the time of meeting 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.
5) Members are requested to promptly notify the change of address, if any, and also for the consolidation of folio numbers, if any, to our Registrar, Noble Computer Services (Private) Limited, 2nd Floor, Sohni Centre, Main Karimabad, Block-4, Federal B Area, Karachi.

Statement of Material Facts concerning Special Business under
Section 160(1)(b) of the Companies Ordinance, 1984

(i) The Bank intends to provide diversified shared services to other companies of the Group from the platform of its Shared Services Division for which the Bank will charge appropriate amounts to the respective companies in relation to the nature, scope and quantum of services provided.

As provided for in Section 208 of the Companies Ordinance, 1984 a banking company duly licensed by the State Bank of Pakistan, to the extent of investments made in the ordinary course of its business, excluding equity investments, is exempted from the requirement of the said section 208 of the Ordinance. The receivables from the Group companies, by nature, may not fall in the exempted category; hence approval of the shareholders is sought for providing shared services to other companies of KASB Group in compliance of the requirement of section 208 of the Ordinance. The Directors of the Bank have no interest in the above special business except to their shareholding in the respective companies.

(ii) In respect of fractional entitlements of the shareholders on issuance of fresh shares due to any reason including issuance of shares against Right Issues and Mergers etc. highly negligible benefit becomes available to the shareholders in respect of their fractional entitlements. On the other hand the cost of processing the fractional entitlements and postal expenses are found to be exorbitant in relation to the meager sale amount of consolidated fractional shares. The Board of Directors have therefore decided to donate the sale proceeds (less expenses) of the consolidated fractional shares through the Company Secretary to any Charitable Organization/Foundation. The Directors of the Bank have no interest whatsoever in this respect except to the extent of their shareholdings.

DIRECTORS' REPORT

I have the privilege of presenting, on behalf of the Board of Directors of your Bank, the Fourteenth Annual Report of your Bank containing the audited financial statements of KASB Bank Limited (combined with the merged entities, KASB Capital Limited and Network Leasing Corporation Limited) and consolidated financial statements of the Bank and its subsidiaries for the year ended December 31, 2008.

2008 – A YEAR OF GROWTH, MERGERS AND CHANGING ECONOMIC SCENARIO

The year 2008 started as a year of intrinsic and fast growth. The Bank was ahead of its budgeted targets and was aiming for achieving its growth targets in assets, deposit mobilization, deposit cost reduction and branch network. The market situation and the economic scenario changed drastically towards the middle of the year, and the Board of Directors and the Management of the Bank, quickly adjusted to the changing realities of an economic slowdown, coupled with a tight monetary policy and changing capital requirements for Banks and decided to initiate a merger with KASB Capital Limited, a group company, which has substantial business and expertise in investment banking and private equity deals. Later the merger of Network Leasing Corporation Limited was also proposed and before the end of the year we managed to obtain the schemes of amalgamation for merging KASB Capital Limited and Network Leasing Corporation Limited with and into KASB Bank Limited sanctioned by the State Bank of Pakistan.

Realizing the changing economic and operating environment, your Bank decided to be a well-capitalized bank and grow into a larger institution. Along with the merger activities, the Bank also managed to successfully increase the branch/sub-branch network to 73 branches by an addition of 18 new branches and 20 new sub branches countrywide. The full impact of the increased branch network will be realized in 2009 with the full year operation of all the 73 offices and their associated business.

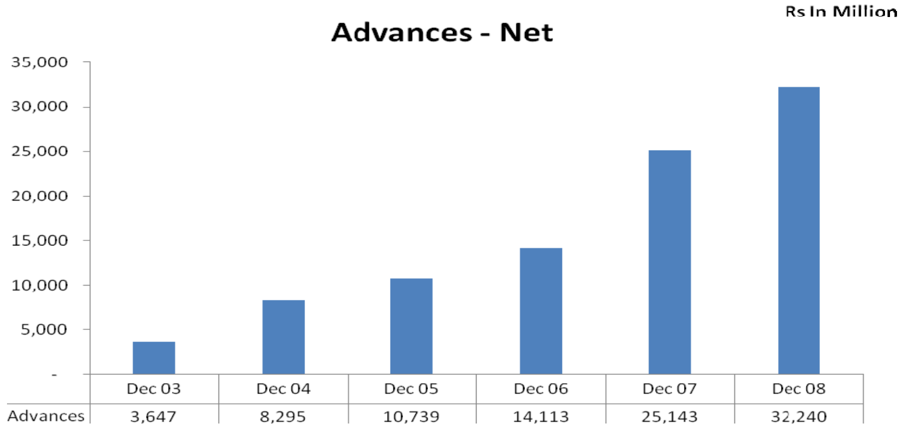
Today, though the last quarter of 2008, eroded significantly your Bank's profitability, we believe that the Bank is poised with an enhanced capacity to deliver innovative, value added services and products. We are minimum capital compliant and the capital adequacy and all other regulatory ratios have been met. We also have the added comfort of having more than adequately provided for future non-performing loans that may arise as a result of the prevalent economic downturn.

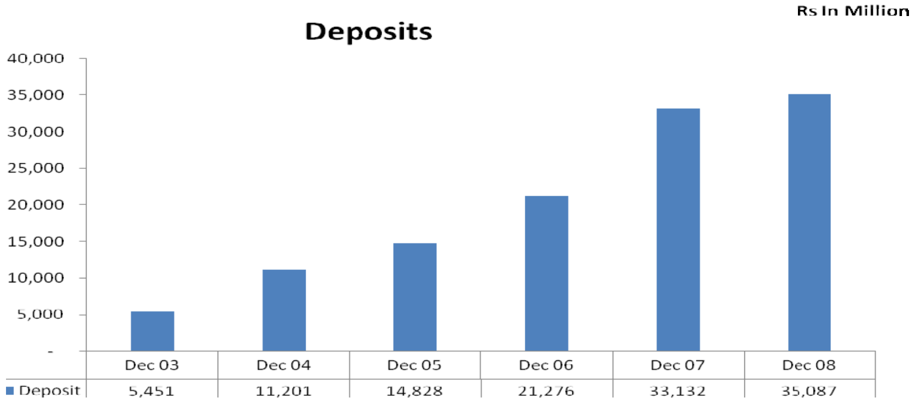
With all the expansion and merger activity, we have continued to focus on developing and enhancing the internal control environment (risk management, internal control, audit and compliance functions), for our Bank to ensure that robust and proactive controls exist for the management. We continue to invest in our core banking system, to enable our Bank to offer innovative products and services and relentlessly focusing on improving the service quality standards at your Bank. We truly believe that technology is the tool that will continue to enable us to offer high quality service and products to the satisfaction of our customers as customer satisfaction is the key to success in this highly competitive environment.

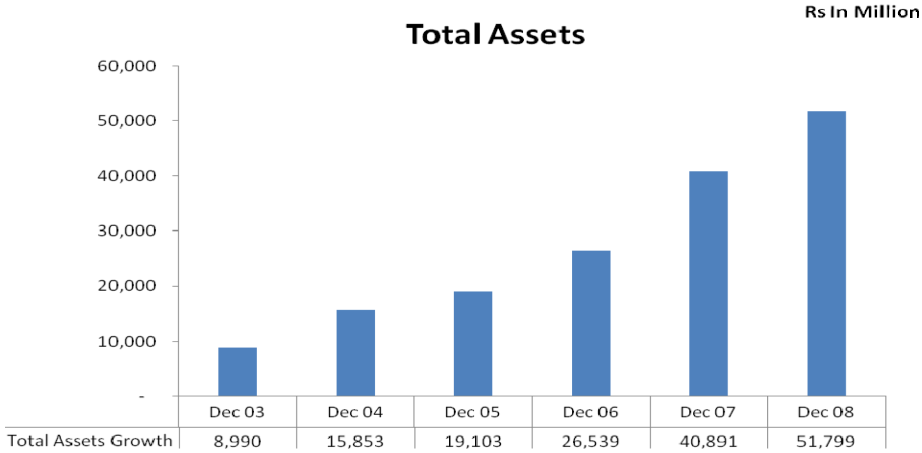
In September 2008, despite the negative sentiments and a dip in overall country's deposits (as per SBP data published on the website) your Bank had successfully managed to raise its deposit base to Rs. 47 billion. Subsequently the downturn in the stock markets, the mutual funds, coupled with the public's concerns over the safety of their deposits manifested by the sudden decrease in deposits, particularly the foreign currency deposits, the Bank faced a challenging situation where the deposits of non-banking financial institutions and corporate sector were under pressure. There were panic withdrawals from most banks, and our deposit base decreased to Rs. 35 billion at the end of the year. However, the deposit position has now significantly improved from the December 31, 2008 position to over Rs. 42 billion.

Along with a reduction in deposits and a pressure on Bank's Advances to Deposit Ratio (ADR), the management of the Bank realized the importance of a reduction in assets. In a market where liquidity was extremely tight, the Bank managed to reduce its own-source advances by over Rs. 2.5 bn from September 08 to December 08 in compliance with the regulatory ratios.

There was considerable increase in the balance sheet size with the Total Assets increasing to Rs. 51,799 million (2007: Rs. 40,890 million, an increase of 26.6 %), Advances increasing to Rs. 32,240 million (2007: Rs. 25,143 million, an increase of 28.2 %), and Deposits increasing to Rs. 35,087 million (2007: Rs. 33,131 million, an increase of 5.9 %).







The bottom line of the Bank has been impaired, given the heavy provisioning (of which Rs.1,113 million was subjective) and the additional impact of Rs. 158 million for impairment in investment in equities due to the closure and subsequent slide of the stock markets. In view of the prevalent market conditions and the economic slowdown, it was prudent to make this provision. Going forward as the market conditions improve, we feel that a substantial portion of the provision will be reversed, translating into a significant improvement. It is already evident that the stock market that was at its 48 months low at 5865, has already been recovered by 16 % and this increase will help improve the profitability of the Bank

The Bank has gone through a tough phase over the last few months whereby deposits have declined. Now we have started consolidating the deposit base, launched new assets and liability products and expanded branch/sub branch network. In our consumer and retail banking business we follow a multi-product strategy. We had successfully launched branded liability products such as Mahana Khazana, Maheena Asaan and Business Flex. In 2008 we re-launched our deposit based products and we will be continuing to add to the liability product menu to give our customers a detailed range of saving options.

In 2007 we launched two consumer products, Cash Asaan and Ghar Asaan. In 2008 we launched Karobar Asaan, which is equity unlock product for home/property owners to meet their business needs (which makes it an ideal and very secure SME financing product). These products are a significant part of our consumer product menu and are expected to be significant part of the bank's advances in the coming years.

KASB Bank is offering Personal loans in two variants, Cash Asaan, Installment and Revolving. The Cash Asaan facility enables customers to bridge their financial needs 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 and Credit Shield

We are also offering KASB Bank Ghar Asaan, 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 and life mortgage insurance.

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 is this 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.

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. We will be upgrading the e-banking services this year with the implementation of the branded MISYS internet banking module.

KASB Connect is a state-of-the-art countrywide Toll-Free contact center, with IVR and Personalized Services round-the-clock. This enables our customers to have a year long access to call centre officers to assist them with their banking needs and to use all phone banking services, such as balance inquiry, bill payment, request statements and information from their phones. We have upgraded our call centre this year to cater to the needs of our customers and will be adding more features in the coming months to enable our Bank's customers to manage a host of transactions through a mere phone call.

We launched Ghar Asaan and Cash Asaan (Installment) at the end of 2007 and Cash Asaan (Revolving) in 2008. We will be seeing a significantly higher contribution from these products in 2009.

While our product menu has grown since 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 ranks. We at KASB believe that service is the key differentiating factor and that continuous improvement in the customer satisfaction and service quality is the way to succeed in retaining and improving the market share in this competitive environment. 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 & Strengthening the Technology Platform**
Technology is one of the most important ingredients in today's business, it is even more so in banking. We believe that going forward, the successful banks will be like IT companies with the tools to enable the optimization of control functions, customer convenience and cost control. The Bank has rolled out the customer relationship management module and it is currently in the testing phase; there are various modules of MISYS that are also either currently in the implementation phase or expected to be implemented in 2009 which include Profitability Anlaysis, Webform, Internet Banking, Trade Portal and Cash Portal.

   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 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 and has been acknowledged by the Misys team. The smooth functioning of the core banking system enabled KASB Bank to roll out 38 new branches without any system related issues.

   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. Hot Disaster Recovery site for the Core Banking System has been successfully tested.

3. **Risk Management Progress**
Risk management has always been a very integral part of the Bank. Going forward, the importance of the Risk Management function has become even more important, given the industry wide increase in the classified accounts. In 2009, the Risk Management division will be focusing on recoveries and management of classified accounts to ensure maximum recoveries and ensuring that marginal customers do not become delinquent.

   The Bank is also investing in risk management software for enhancing the risk control in line with Basel II requirements and scoring models for analyzing the risks for Middle Market and SME customers.

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 be completed by June 30, 2009. The "as-is" and "should-be" processes have been identified. The testing phases are beginning in April and it is expected to be tested by the external auditors in the 3rd and 4th quarter of this year. 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 the gaps so as to ensure compliance with best practices

5. **Quality 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 but all these cannot be achieved without the

"right" people. Over the few years we have supplemented and enhanced 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. Annual Branch Expansion Plan

The annual branch expansion (ABEP) of 2008 was successful, with all the approved branches coming online before the end of the year. The Bank delayed the submission of the ABEP for 2009, as it was undergoing consolidation as a result of the mergers. The Bank has applied to the State Bank for an addition of 16 branches and 11 sub branches, which would enable the bank to have a 100 branch network. We are hopeful that the State Bank will approve the ABEP request of the Bank. The proposed expansion will increase KASB Bank's access to 17 new cities and enable a wider coverage for developing business potential and enable a more wide spread access to its customers.

We believe that 2009 will be a challenging year for the economy and the banking sector. The added synergies that have arisen as a result of the merger, as well as the inherent strengths of the Bank's technology, service quality and well structured systems and controls has positioned KASB Bank well to deal with the upcoming challenges.

CORPORATE GOVERNANCE

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

- 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, except for the change mentioned in notes 3.3 & 5.7 to the financial statements, and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored on best possible efforts.
- There are no doubts upon the Bank's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data of last six years has been 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 other than those disclosed in the financial statements.

Employee Benefits Scheme

Value of investments of Employees' Provident Fund based on its un-audited accounts for the period ended December 31, 2008 amounts to Rs.141 million.

Share Acquisitions by Directors

The following acquisitions of shares were made by the Directors of the Bank during the year 2008:

- Allotment of 280,218 shares of the Bank in the name of Mr. H. U. Beg, Chairman on subscription to the Right Shares offer.
- Allotment of 22,340,716 shares of the Bank in the name of Mr. Nasir Ali Shah Bukhari, Director on subscription of Right Shares offer.
- Allotment of 307 shares of the Bank in the name of Mr. Sohail Wajahat H. Siddiqui, Director on subscription to the Right Shares offer.
- Allotment of 1,317 shares of the Bank in the name of Mr. Tariq M. Rangoonwala, Director on subscription to the Right Shares offer.
- Allotment of 1,080 shares of the Bank in the name of Mr. N. K. Shahani, Director on subscription to the Right Share Offer. Further 50,500 shares were acquired by him in his name during the year 2008.

- Allotment of 108 shares of the Bank in the name of Mr. Muneer Kamal, President & Chief Executive and Director on subscription to the Right Shares offer.
- Allotment of 553 shares of the Bank in the name of Mr. Muhammad Hamidullah, Company Secretary and disposal of 500 shares during the year 2008.
- No other trading in the shares of the Bank was carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children during the year 2008.

Pattern of Shareholding
The Pattern of shareholding as at December 31, 2008 along with disclosure required under the Code of Corporate Governance is annexed to the Report.

Board of Directors Meetings
Five (5) 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	5
Mr. Nasir Ali Shah Bukhari	5
Mr. Sohail Wajahat H. Siddiqui	4
Mr. Tariq M. Rangoonwala	3
Mr. Muneer Kamal (Director/Chief Executive)	5
Mr. N. K. Shahani	5
Syed Asghar Ali Shah	5

Credit Rating
The Pakistan Credit Rating Agency (Pvt.) Ltd. has maintained the medium to long term rating of A (Single A) with a positive outlook and a short term rating of A-1 (A One). The long term rating denotes good credit quality with a low expectation of credit risk and the adequate capacity for timely payment of financial commitments. Similarly the short term ratings denote obligations supported by a satisfactory capacity for timely repayment.

Dividend
The Board has not declared any dividend in the current period as the Bank has incurred a loss after taxation of Rs. 972.969 million during the current period.

Auditors
The Present auditors M/s. A. F. Ferguson & Co., Chartered Accountants have completed five years term and in accordance with the Code of Corporate Governance, they are required to be changed; however, due to the ongoing merger processes, the State Bank has been kind enough to grant one year's extension. The auditors now 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, 2009.

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. The merger of KASB Capital and Network Leasing Corporation Limited with and into KASB Bank Limited was managed (with all regulatory approvals) in the shortest possible time and was handled with diligence for which I would like to commend the management of the Bank.

I would like to thank Mr. Sohail Wajahat H. Siddiqui, who was a Director of the Bank since 2003 for his significant contribution to the Board and the Bank. He, being the Managing Director of Seimens, feels that he will be unable to give adequate attention to his duties as a Board Member and has thus decided to resign. Mr. Asghar Ali Shah, who joined us in 2008, will also be resigning from his position. He also played a significant role in the Board and also on the special projects undertaken by the Bank. Both these Directors presence, their views and their contributions to the Board will surely be missed.

I would like to welcome Mr. Leon Seynave and Mr. Waseem Haqqie who will be joining as Directors on our Board subsequent approval of the regulatory institution. They both were Directors on the Board of KASB Capital Limited and were active participants and significant contributors to the development and success of KASB Capital.

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 and now has the task to manage a larger balance sheet at a more difficult time.

I would like to appreciate the continued guidance and support of the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan.

I would also like to appreciate the continued support of our shareholders. And most of all I would like to thank our customers who have shown tremendous faith in our bank. We believe that you are not just another customer and we are not just another bank. We appreciate your business and we hope for the continued and growing relationship.

H. U. Beg
Chairman

Islamabad
March 28, 2009

KEY FINANCIAL DATA

	2003	2004	2005	2006	2007	2008
			(Rupees in Millions)			
Paid-up Share Capital	1,293	1,707	2,015	2,293	4,015	7,633
Reserve Fund & Other Reserves	(77)	5	(268)	(131)	158	1,180
Shareholders' Equity	1,216	1,712	1,747	2,162	4,173	8,813
Total Assets (Excluding Contra)	8,990	15,853	19,103	26,539	40,891	51,799
Deposits	5,451	11,201	14,828	21,276	33,132	35,087
Advances-net	3,647	8,295	10,739	14,513	25,143	32,240
Investments-net	2,395	2,687	3,822	4,694	7,278	9,454
Imports & Export Business	6,173	8,303	10,895	16,798	21,434	28,425
Pre-tax Profit / (Loss)	56	16	(511)	53	66	(1,849)
Post-tax Profit / (Loss)	25	98	(273)	137	198	(973)
No.of Branches	19	21	35	35	35	73
No.of Employees	328	398	569	694	892	1,134
Bonus Shares	-	-	-	-	-	-
Earning / (Loss) per share - Rupees	0.20	0.68	(1.52)	0.62	0.90	(2.43)
Break up value per share - Rupees	9.40	10.25	8.70	9.43	13.78	12.05

STATEMENT OF VALUE ADDED

Added as Follows	2008 (Rupees in '000)	%	2007 (Rupees in '000)	%
Markup/Return Earned - net of Provisions	2,492,614	47%	2,704,368	74%
Deferred Tax & Other Income	983,651	18%	194,944	5%
Fee, Commission and Brokerage Income	162,362	3%	129,488	4%
Dividend Income	86,835	2%	210,604	6%
Profit on Investment	1,442,235	27%	359,772	10%
Income from Dealing in Foreign Currencies	191,766	4%	79,152	2%
Total Value Added	**5,359,463**	**100%**	**3,678,328**	**100%**
Distributed as Follows				
To Employees as Remuneration	860,536	16%	556,928	15%
To Society as Donations	3,091	0%	80	0%
To Depositors as Profit on Investments	3,830,071	71%	2,067,161	56%
Profit on Borrowings	618,369	12%	218,220	6%
To Government as Income Tax	51,584	1%	20,350	1%
To Shareholders as Dividends	-	0%	-	0%
Administrative Expenses / other provisions / other charges	968,781	18%	617,896	17%
Retained in Business as Reserves and Retained Profits	(972,969)	-18%	197,693	5%
Total Value Distributed	**5,359,463**	**100%**	**3,678,328**	**100%**

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

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 of Listing Regulations 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, for the purpose of establishing a framework of good governance, whereby the Bank is managed in compliance 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.

  On January 25, 2008 Syed Asghar Ali Shah was co-opted as a Director due to the sad demise of Mr. Irtiza Hussain, Director. Subsequently election of Directors was held in March, 2008 and six directors were elected leaving a casual vacancy due to the withdrawal of candidature on the eve of elections by one of the intending candidates. The casual vacancy was filled by co-option of Mr. Muneer Kamal as Director on April 28, 2008. The Board virtually remained unchanged.

- All the Resident 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 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, Company Secretary and Head of Internal Audit, including their remuneration and terms and condition of employment, 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 Bank has materially complied with the Corporate & Financial Reporting requirement of the code.

- The Directors' Report for the year ended December 31, 2008 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, 2008 were duly endorsed by Chief Executive and Chief Financial Officer before approval of the Board.

- The Board has 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.

- The Board has set up an 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 the partner of the firm, their spouses 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 except 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 statements were subjected to limited review by the statutory auditors. Financial statements for the year ended December 31, 2008 have been audited and will be circulated in accordance with clause (xxii) of the Code.

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

H. U. Beg
Chairman

Islamabad
March 28, 2009

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 were 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, 2008.

AFFerguson & Co

Chartered Accountants
Karachi:

March 28, 2009

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 up-to date with the necessary skills required in line with the Banks operations.

Chief Financial Officer **Head of Internal Audit**

A.F. FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **KASB Bank Limited** as at December 31, 2008, and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for twelve branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit.

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

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

(a) in our opinion, proper books of account have been kept by the bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;

(b) in our opinion:

   (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change as stated in notes 3.3 and 5.7 to the financial statements, with which we concur;

   (ii) the expenditure incurred during the year was for the purpose of the bank's business; and

   (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the bank and the transactions of the bank which have come to our notice have been within the powers of the bank;

(c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the bank's affairs as at December 31, 2008 and its true balance of loss, its cash flows and changes in equity for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Chartered Accountants
Karachi

AFFCo

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KASB BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2008

	Note	2008	2007
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	1,507,632	3,001,895
Balances with other banks	8	59,093	807,555
Lendings to financial institutions and others	9	556,455	1,766,398
Investments (including investments amounting to Rs 3,448,980 thousand classified as held for sale)	10	9,454,149	7,277,875
Advances	11	32,240,196	25,143,153
Operating fixed assets	12	2,730,533	1,094,748
Deferred tax assets - net	13	1,488,096	610,533
Other assets - net	14	3,762,944	1,188,415
		51,799,098	40,890,572
LIABILITIES			
Bills payable	16	217,520	879,152
Borrowings	17	6,300,622	1,745,807
Deposits and other accounts	18	35,087,477	33,131,773
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	19	9,685	1,428
Deferred tax liabilities		-	-
Other liabilities	20	984,287	848,420
		42,599,591	36,606,580
NET ASSETS		9,199,507	4,283,992
REPRESENTED BY			
Share capital	21	4,014,890	3,106,978
Subscription money received against proposed issue of right shares		-	907,912
Revenue reserves		151,287	151,287
Proposed shares to be issued on amalgamation	6.1	5,607,976	-
Accumulated losses		(974,788)	(7,497)
Effect of fair value measurement of capital on amalgamation		13,775	13,775
		8,813,140	4,172,455
Surplus on revaluation of assets - net of tax	22	386,367	111,537
		9,199,507	4,283,992
CONTINGENCIES AND COMMITMENTS	23		

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

President and Chief Executive	Director	Director	Director

KASB BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008	2007
		(Rupees in '000)	
Mark-up / return / interest earned	25	4,861,400	2,917,344
Mark-up / return / interest expensed	26	4,448,440	2,285,381
Net mark-up / return / interest income		412,960	631,963
Provision against loans and advances - net	11.4	2,034,196	214,718
Provision / (reversal of provision) for diminution in the value of investments	10.13	187,964	(1,742)
Provision against other assets	14.3	144,848	-
Bad debts written off directly	11.7	230	-
Investments written off directly		1,548	-
		2,368,786	212,976
Net mark-up / return / interest income after provisions		(1,955,826)	418,987
Non mark-up / return / interest income			
Fee, commission and brokerage income		162,362	129,488
Dividend income		86,835	210,604
Income from dealing in foreign currencies		191,766	79,152
Gain on sale of securities - net	27	163,835	128,931
Unrealised gain on revaluation of investments classified as held for trading	10.15	-	34,779
Gain on disposal of investment in subsidiary and associate		-	196,062
Other income	28	55,837	42,463
Total non mark-up / return / interest income		660,635	821,479
		(1,295,191)	1,240,466
Non mark-up / return / interest expenses			
Administrative expenses	29	1,759,032	1,153,736
Other provisions / write offs	30	9,282	-
Other charges	31	64,094	21,168
Total non mark-up / return / interest expenses		1,832,408	1,174,904
Gain on remeasurement of previously held equity interest in associate arising upon amalgamation	6.5.2	1,278,400	-
(Loss) / profit before taxation		(1,849,199)	65,562
Taxation - Current year	32	25,078	20,350
- Prior years	32	26,506	-
- Deferred	32	(927,814)	(152,481)
		(876,230)	(132,131)
(Loss) / profit after taxation		(972,969)	197,693
Accumulated losses brought forward		(7,497)	(163,156)
Transfer from surplus on revaluation of fixed assets - net of tax		5,678	-
(Accumulated losses) / unappropriated profit carried forward		(974,788)	34,537
(Loss) / earnings per share (Rupees)	33	(2.43)	0.79

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

President and Chief Executive	**Director**	**Director**	**Director**

KASB BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008	2007
		------------(Rupees in '000)------------	
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit before taxation		(1,849,199)	65,562
Less: dividend income		(86,835)	(210,604)
		(1,936,034)	(145,042)
Adjustments for non-cash and other items:			
Depreciation		141,111	86,195
Amortisation of intangible assets		27,151	7,713
Provision against loans and advances - net		2,034,196	214,718
(Reversal of provision) / provision against compensated absences		(1,329)	1,388
Provision for gratuity		39,205	23,816
Provision against other assets		144,848	-
Gain on disposal of operating fixed assets - net		(3,903)	(197)
Financial charges on leased assets		152	289
Unrealised gain on revaluation of investments classified as held for trading		-	(34,779)
Gain on disposal of investment in subsidiary and associate		-	(196,062)
Gain on remeasurement of previously held equity interest in associate arising upon amalgamation		(1,278,400)	-
Bad debts written off directly		230	-
Provision / (reversal of provision) for diminution in the value of investments		187,964	(1,742)
Amortisation of premium on investments		27,021	35,899
		1,318,246	137,238
		(617,788)	(7,804)
(Increase) / decrease in operating assets			
Lendings to financial institutions		1,466,402	538,834
Held for trading securities		219,569	67,738
Advances		(9,093,471)	(10,722,835)
Others assets (excluding advance taxation)		(838,074)	(564,012)
		(8,245,574)	(10,680,275)
Increase / (decrease) in operating liabilities			
Bills payable		(661,632)	679,482
Borrowings		4,099,906	(668,138)
Deposits		1,955,704	11,856,203
Other liabilities (excluding current taxation)		43,428	66,226
		5,437,406	11,933,773
		(3,425,956)	1,245,694
Income tax paid		(7,349)	(40,731)
Gratuity benefits paid		(4,614)	(4,464)
Net cash (outflow on) / inflow from operating activities		(3,437,919)	1,200,499
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		2,994,627	(1,819,165)
Net investments in held to maturity securities		(403,076)	99,999
Net investment in subsidiaries and associates		(834,883)	-
Dividend income received		86,005	261,229
Investments in operating fixed assets		(729,422)	(285,593)
Cash inflow on acquisition of International Housing Finance Limited		-	10,538
Cash inflow on acquisition of KASB Capital Limited		141,785	-
Cash inflow on acquisition of Network Leasing Corporation Limited		9,308	-
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		35,340	7,165
Net cash inflow from / (outflow on) on investing activities		1,299,684	(1,725,827)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments against lease obligations - net		(1,133)	(2,636)
Proceeds from issue of right shares		-	229,271
Shares issue costs		-	(2,495)
Subscription money received against proposed issue of right shares		-	907,912
Net cash (outflow on) / inflow from financing activities		(1,133)	1,132,052
Net (decrease) / increase in cash and cash equivalents		(2,139,368)	606,724
Cash and cash equivalents at the beginning of the year		3,703,349	3,096,625
Cash and cash equivalents at the end of the year	34	1,563,981	3,703,349

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

President and Chief Executive	Director	Director	Director

KASB BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008

	Issued, subscribed and paid-up capital	Subscription money received against proposed issue of right shares	Statutory reserve (a)	General reserves	Revenue reserves	Proposed shares to be issued on amalgamation	Effect of fair value measurement of capital on amalgamation of entities	Accumulated loss	Total
	---------- (Rupees in '000) ----------								
Balance as at December 31, 2006	2,292,707	-	111,364	384	111,748	-	(79,240)	(163,156)	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	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
Transferred 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	-	13,775	(7,497)	4,172,455
Right shares issued during the year	907,912	(907,912)			-	-	-	-	-
Loss after taxation for the year ended December 31, 2008	-	-	-	-	-	-	-	(972,969)	(972,969)
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation - net of tax	-	-	-	-	-	-	-	5,678	5,678
Transferred to statutory reserve during the period from January 1, 2008 to June 30, 2008	-	-	15,563	-	15,563	-	-	(15,563)	-
Transferred from statutory reserve to accumulated losses during the period from July 1, 2008 to December 31, 2008	-	-	(15,563)	-	(15,563)	-	-	15,563	-
Proposed shares to be issued on amalgamation	-	-	-	-	-	5,607,976	-	-	5,607,976
	4,014,890	-	150,903	384	151,287	5,607,976	13,775	(974,788)	8,813,140

(a) This represents reserve created under section 21(i)(a) of the Banking Companies Ordinance, 1962

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

President and 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 bank obtained certificate of commencement of business on January 11, 1995 and is engaged in commercial banking, consumer banking and related services through 73 branches (including 20 sub-branches) [2007: 35 branches (including Nil sub-branches)] operating in different cities. The shares of the bank are listed on the Karachi, Lahore and Islamabad stock exchanges.

1.2 During the year, in pursuance to the special resolution approved in the Extra Ordinary General Meeting (EOGM) held on December 27, 2008, the registered office of the bank has been changed from Business and Finance Center, I.I.Chundrigar Road, Karachi to Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad. The change of registered address was approved by the Securities and Exchange Commission of Pakistan vide its letter 0033472/Add.Reg./Com/2008 dated January 27, 2009.

1.3 In accordance with BSD Circular No 19 dated September 05, 2008, the minimum paid-up capital requirement (net of losses) of the bank at December 31, 2008 is Rs 5 billion. The issued, subscribed and paid-up capital of the bank as at December 31, 2008 is Rs 4.015 billion and the bank has accumulated losses of Rs 974.788 million. This shortfall is being met through the proposed issue of 361,804,941 shares consequent to the amalgamation of KASB Capital Limited and Network Leasing Corporation Limited as disclosed in note 6.1 and 21.6 to the financial statements.

1.4 Based on the financial statements of the bank for the year ended December 31, 2007, the Pakistan Credit Rating Agency Limited (PACRA) has determined the bank's long-term rating as 'A' and the short-term rating as 'A1'.

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 till further instructions. In addition, the Securities and Exchange Commission of Pakistan has deferred the applicability of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' vide SRO 411(I) / 2008 till further orders. 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 Standards early adopted by the bank

IFRS 3 (Revised 2008) "Business Combinations" and IAS 27 (Revised) "Consolidated and Separate Financial Statements" have been early adopted by the bank during the year ended December 31, 2008. The adoption of these standards has the following significant impacts on these financial statements:

IFRS 3 (Revised 2008) Business Combinations: The revised standard on business combinations was released in January 2008, accompanied by a revised standard on consolidated financial statements i.e. IAS 27 (Revised) - Consolidated and Separate Financial Statements. IFRS 3 is prospectively applicable for the financial periods beginning on or after July 1, 2009 and may be early adopted from period beginning on or after June 1, 2007. The revised standard has been applied by the bank to the acquisition of KASB Capital Limited (KCL) and Network Leasing Corporation Limited (NLCL) on December 31, 2008. The revised standard continues to apply the acquisition method to business combination with some significant accounting changes and enhanced disclosures. As per the revised standard, acquisition related costs have been recognised in the financial statements, which would otherwise have been included in the consideration for the business combination. Further, consideration now includes the fair value of all interests that the acquirer may have held previously in the acquired business. This includes any interest in an associate or joint venture or other equity interests of the acquired business. As per the revised standard if interests in the acquiree were not previously held at fair value, they are re-measured to fair value through the profit and loss account.

In addition to above revised standard has now given a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at the fair value or the non-controlling interest proportionate share of the acquiree's net assets.

The adoption of these standards has resulted in change in accounting policy of the bank in respect of business combination and transactions with minority interest. In accordance with the transitional provisions of Revised IFRS 3, the financial statements have not been restated due to exception to retrospective application (i.e. prospective application).

Significant implications arising as a consequence of early adoption of this standard are disclosed in notes 6.5 and 6.5.2 to the financial statements.

IAS 27 (Revised) - Consolidated and Separate Financial Statements: The early adoption of IAS 27 has not resulted in any change in the standalone financial statements of the bank. The resultant impacts of the revised standard have been considered and applied on the consolidated financial statements of the bank and its

3.4 These financial statements are the separate stand alone financial statements of the bank. In addition to these financial statements, consolidated financial statements of the bank and its subsidiary companies have also been prepared.

3.5 Amendments to published standards and new interpretations effective in 2008

(a) IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' and IFRS 7 (Amendment), 'Financial Instruments: Disclosures' - Reclassification of Financial Assets (Effective from July 1, 2008). This amendment to the Standard permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available-for-sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. However as applicability of IAS 39 and IFRS 7 has been deferred on the banks till further instructions, therefore the amendment has not affected the classification of financial assets in these financial statements.

(b) During the year ended December 31, 2008, IFRIC Interpretation 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction' became effective. The interpretation provides guidance on assessing the limit in IAS 19 - 'Employee Benefits' on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the bank's financial statements as the bank's gratuity scheme does not have any surplus requiring recognition of an asset.

(c) Other new standards, amendments and interpretations that were mandatory for accounting periods beginning on or after January 1, 2008 and are not considered relevant or have any significant effect on the bank's operations, are not detailed in these financial statements.

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

The following standards, interpretations and amendments to existing standards have been published and are mandatory for the bank's accounting periods beginning on or after January 1, 2009:

(a) IAS 1 (Revised), ‘Presentation of financial statements’ (effective from January 1, 2009), was issued in September 2007. The revised standard prohibits the presentation of items of income and expense (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial
effective from the accounting year ended December 31, 2006. Accordingly, the management believes that the adoption of this standard will not at present affect the presentation of the financial statements.

(b) IAS 19 (Amendment), ‘Employee Benefits’ (effective from January 1, 2009)

- The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

- The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

- IAS 37, ‘Provisions, Contingent Liabilities and Contingent Assets', requires those contingent liabilities to be disclosed, which are not recognised. IAS 19 has been amended to be consistent with the abovementioned requirement..

The management is in the process of assessing the impact of its adoption on the financial statements of the bank.

(c) IAS 23 (Amendment), ‘Borrowing costs’ (effective from January 1, 2009)

It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. Further, the definition of borrowing cost has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments Recognition and measurement'. The amendments will have an impact on the bank's financial statements to the extent of borrowing costs, if any, directly attributable to the acquisition of all construction of qualifying assets and the present accounting policy as disclosed in note 5.13 to the financial statements.

(d) IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009)

As per the new requirements, where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. This amendment is expected to have effect on the bank's financial statements to the extent of enhanced disclosures upon recognition of impairment, if any.

(e) IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009)

The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance for obtaining right of access to goods or receipt of services. This amendment is not expected to have a significant effect on the bank's financial statements.

(f) IFRS 2 (Amendment), ‘Share-based payment’ (effective from January 1, 2009)

The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions includes service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The management is in the process of assessing the impacts of its adoption on the bank's financial statements.

(g) IFRS 8, ‘Operating segments’ (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment reporting'.

The new standard requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes. This may result in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements' effective from the accounting year ended December 31, 2006. Accordingly, the management believes that the adoption of this standard will not at present affect the presentation of the financial statements.

(h) There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 but are considered not to be relevant or to have any significant effect on the bank's operations and are therefore not detailed in these financial statements.

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, certain staff retirement benefits are carried at present value and certain items of operating fixed assets are carried at revalued amounts.

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, liabilities, 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 5.10, 13 and 32)
iv) depreciation / amortisation of operating fixed assets (notes 5.7 and 12)
v) fair values of the net assets acquired in a business combination (notes 5.1 and 6)
vi) impairment of goodwill (notes 5.6 and 6)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise specified.

5.1 Business combinations

Business combination 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 acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement, if any. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisitions, the amount of any non-controlling interest in the acquiree, if any, and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the bank’s share of the 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 and any overdrawn nostro accounts.

5.3 Lendings to / borrowings from financial institutions

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

(a) Sale of securities under repurchase agreement

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 accrued over the period of the agreement and recorded as an expense.

(b) Purchase of securities under resale agreement

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. These transactions are accounted for on the settlement date. The difference between the purchase and resale price is recognised as mark-up income on a time proportion basis over the period of the contract.

5.4 Investments

The bank classifies its investments as follows:

(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 making 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.

Investments other than those categorised as 'held for trading' are initially recognised at fair value which includes transaction costs associated with the investment. Investments classified as 'held for trading' are initially recognised at fair value and transaction costs are expensed in the profit and loss account.

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 subsequently stated at market value. Investments classified as held to maturity are carried at amortised cost whereas investments in subsidiaries and associates are carried at cost, less accumulated impairment losses, if any. 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.

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.

Impairment loss in respect of investments classified as available-for-sale (except term finance certificates) and held to maturity is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of term finance certificates is made as per the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus on revaluation of securities on the balance sheet below equity is removed therefrom and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

Gain or loss on sale of investments is included in the profit and loss account currently.

5.5 Advances

Loans and advances

Advances are stated net of specific and general provisions. 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. Advances in respect of which the bank does not expect any recoveries in future years are written off.

Net investment in finance lease

Net investment in finance lease is stated at net of provisions made against non-performing leases.

Leases where the bank transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognised on commencement of lease term at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. 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 excess of the cost of acquisition, the amount of non-controlling interest in the acquiree, if any, and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the bank's share of identifiable net assets acquired.

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at its cost less accumulated impairment losses, if any. Goodwill acquired in a business combination is 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'. Impairment charge in respect of goodwill is recognised in the profit and loss account.

5.7 Operating fixed assets and depreciation

(a) Tangible assets - owned

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for land and buildings that are stated at revalued amounts less any subsequent accumulated depreciation and subsequent impairment losses.

During the year the bank has changed its accounting policy in respect of measurement of the carrying amount of its land and buildings subsequent to initial recognition. In this respect, the bank has decided to follow the revaluation model as allowed under International Accounting Standard (IAS) 16: 'Property, Plant and Equipment'. In accordance with the new policy, the land and building of the bank shall be carried at revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses, if any. Revaluation of these assets shall be carried out with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Previously, the land and buildings were carried at their cost less accumulated depreciation, if any, and accumulated impairment losses. The above change has been made as in the opinion of the management the revised treatment would result in a more accurate reflection of the carrying value of these assets in the financial statements. The impact of this change has been disclosed in note 12.3 to the financial statements.

Depreciation on fixed asset (excluding land which is not depreciated) is charged to income applying 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 significant. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on fixed assets is charged from the date on which an asset is put to use till the date of its disposal. The value assigned to the land is not depreciated as the leases are expected to be renewed for further periods on payment of relevant rentals. Annual lease rentals are charged to income and premium paid at the time of renewals, if any, is amortised over the remaining period of lease.

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

Surplus arising on revaluation is credited to the surplus on revaluation of fixed assets account. Deficit arising on subsequent revaluation of fixed asset is adjusted against the balance in the above mentioned surplus account as allowed under the provision of the Companies Ordinance, 1984. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets is transferred to unappropriated profit / accumulated losses.

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

(b) Tangible assets - leased

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation and accumulated impairment losses, if any. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods.

The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability.

Depreciation on fixed assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the bank.

(c) Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when assets become available for use.

(d) 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.

Intangible assets having an indefinite useful life are stated at acquisition cost. Provisions are made for permanent diminution in the value of assets, if any. Gains and losses on disposals, if any, are taken to the profit and loss account.

5.8 Impairment

The carrying amount of assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognized immediately in the financial statements. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.9 Non-current assets held for sale

The bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset (or disposal group) held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognized through the profit and loss account for any initial or subsequent write down of the non-current asset (or disposal group) to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognized to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale or while part of a disposal group classified as held-for-sale.

5.10 Taxation

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

Current

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

Deferred

Deferred 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 substantively 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 carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized.

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

5.11 Staff retirement and other benefits

(a) Defined contribution plan

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

(b) 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 immediately recognised as income or expense.

(c) Compensated absences

The liability in respect of compensated absences of employees is accounted for in the period in which the absences accrue.

5.12 Provisions

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

5.13 Borrowings / deposits and their cost

(a) Borrowings / deposits are recorded at the proceeds received.
(b) Borrowing / deposit costs are recognised as an expense in the period in which these are incurred using the effective mark-up / interest rate method.

5.14 Share issue cost

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

5.15 Revenue Recognition

- Mark-up income / interest on advances and returns on investments are recognised on a time proportion basis using the effective interest method, except that mark-up income / interest / return 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. Interest / return / mark-up on rescheduled / restructured advances and investments is recognised as permitted by the State Bank of Pakistan, except where, in the opinion of the management, it would not be prudent to do so.

- 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 in respect of non-performing lease finance 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 is 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 from investments is recognised when the bank's right to receive the dividend is established.

- Fees, brokerage and commission on letters of credit / guarantee and others is recognised on time proportion basis.

5.16 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. The forward cover fee payable on contracts with the SBP is amortised over the term of the contract.

b) Translation gains and losses

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

5.17 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.

5.18 Acceptances

Acceptances comprise undertakings by the bank to pay bills of exchange drawn on customers. The bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

5.19 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.

Offsetting

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

5.20 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.

5.21 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.

5.22 Earnings per share

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

5.23 Segment reporting

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

(a) 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.

Investment banking

Investment banking includes services provided in connection with mergers and acquisition, underwriting, privatisation, securitization, research, debts (government, high yield), equity, syndication, IPO and secondary private placements.

(b) Geographical segments

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

6 BUSINESS COMBINATION

6.1 The bank had decided to amalgamate KASB Capital Limited (KCL) [an associate of the bank and a company in which Mr. Nasir Ali Shah Bukhari (sponsor / director of the bank) and the bank directly hold 37.48 percent shares and 27.5 percent shares respectively] and Network Leasing Corporation Limited (NLCL) [a Non-Banking Finance Company in which KCL directly hold 78.84 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 December 5, 2008 and December 27, 2008 respectively. The State Bank of Pakistan through its letter BPRD (LCGD-04)/625-93/2009/29 dated January 1, 2009 had also approved the scheme of amalgamation and granted sanction order for the amalgamation of KCL and NLCL 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 KASB Capital Limited (KCL) and Network Leasing Corporation Limited (NLCL) including all the properties, assets and liabilities and the rights and obligations of KCL and NLCL as at December 31, 2008, stand amalgamated with and vest in the bank.

The bank has acquired 72.5 percent shares of KCL as at December 31, 2008 in addition to the existing 27.5 percent shares of KCL purchased in prior year. The bank has also acquired 78.84 percent shares of NLCL by virtue of amalgamation of KCL into the bank. The remaining 21.16 percent shares of NLCL have been acquired by the bank separately as at December 31, 2008 subsequent to which the NLCL has been amalgamated with and into the bank.

In consideration for the amalgamation, the bank intends to allot 361,797,538 fully paid ordinary shares to the shareholders of KCL and 7,403 fully paid ordinary shares to the shareholders of NLCL subsequent to the year ended December 31, 2008, which will rank pari passu with the existing shares of the bank. The shares proposed to be issued by the bank are as under:

	Rupees in '000
Proposed shares to be issued on amalgamation	5,607,976

As a result of the aforementioned allotment of shares, the issued, subscribed and paid-up capital of the bank subsequent to the year ended December 31, 2008 will be increased to Rs 7,632.940 million.

6.2 Consequent to the amalgamation of KCL and NLCL into the bank, the bank has obtained the control of and has directly or indirectly (i.e. through subsidiaries) exercised significant influence over certain entities. The details of the bank's direct and indirect shareholding in various entities subsequent to the amalgamation of KCL and NLCL with and into the bank are as under:

Particulars	Shareholding as at December 31, 2008						
	Direct			Indirect			Total
	Before amalgam-ation	Increased as a result of the amalgam-ation	Sub total	Before amalgama-tion	Increased as a result of the amalgama-tion	Sub total	
	A	B	C=A+B	D	E	F=D+E	G=C+F
	---------- In percent ----------						
Subsidiaries							
- KASB Securities Limited *	1.12	76.00	77.12	-	-	-	77.12
- KASB Funds Limited **	-	58.85	58.85	-	8.33	8.33	67.18
- KASB International Limited **	-	100.00	100.00	-	-	-	100.00
- KASB Modaraba Management (Private) Limited **	-	99.63	99.63	-	-	-	99.63
- KASB Technology Services Limited **	100.00	-	100.00	-	-	-	100.00
- KASB Modaraba *	-	36.95	36.95	-	13.55	13.55	50.50
Associates							
- New Horizon Exploration and Production Limited **	-	26.67	26.67	-	13.33	13.33	40.00
- Shakarganj Food Products Limited **	-	42.78	42.78	-	-	-	42.78
- KASB Stock Market Fund *	27.00	-	27.00	-	0.95	0.95	27.95
- KASB Balanced Fund *	26.00	-	26.00	-	-	-	26.00
- KASB Islamic Fund *	32.00	-	32.00	-	-	-	32.00
- Network Microfinance Bank Limited *	-	22.39	22.39	-	-	-	22.39

* Represents listed entities

** Represents unlisted entities

6.3 KASB Capital Limited (KCL)

KCL (an unlisted Non-Banking Finance Company in which the bank and a sponsor / director of the bank namely Mr. Nasir Ali Shah Bukhari previously held 27.5 percent and 37.48 percent shares respectively) was incorporated in Pakistan under the Companies Ordinance, 1984 on November 21, 2006 as an unlisted public limited company. The principal activities of KCL were to provide investment finance services.

6.4 Network Leasing Corporation Limited (NLCL)

NLCL (a Non-Banking Finance Company) was incorporated in Pakistan on August 19, 1993. NLCL was listed on all of the three Stock Exchanges of Pakistan and was principally engaged in lease financing of assets.

6.5 The business combination 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. Identified assets acquired, liabilities assumed or incurred have been carried at the provisional fair value at the acquisition date. The excess of the cost of acquisition and the acquisition date fair value of previously held equity interest of the bank in the entities acquired over the fair value of the bank's shares of the identifiable net assets acquired has been recorded as goodwill in the financial statements of the bank.

Details of the purchase consideration given, the acquisition date fair value of previously held equity interest of the bank, fair values of the net assets acquired and goodwill are as follows:

	Note	KASB Capital Limited	Network Leasing Corporation Limited
		Rupees in '000	
Purchase consideration	6.5.1	5,607,861	115
Fair value of equity interest in KCL held before the acquisition	6.5.3	1,958,400	-
Total consideration		7,566,261	115
Less: provisional fair value of net assets / (liabilities) acquired	6.5.4	5,848,871	(144,733)
Goodwill	6.5.5	1,717,390	144,848
Acquisition-related costs (included in administrative expenses in the profit and loss account for the year ended December 31, 2008)		9,177	8,177

6.5.1 The fair values of the shares proposed to be issued to the shareholders of KCL and NLCL are based on the discounted cash flows method. These values have 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 reliable indicator of the fair value of the consideration as at the date of acquisition.

6.5.2 Upon amalgamation of KCL into the bank, the bank has recognised a gain amounting to Rs 1,278.400 million in accordance with the provisions of IFRS 3 (Revised), ‘Business Combinations’, as a result of measuring at fair value its 27.5% equity interest in KCL held before the acquisition of KCL. The details of the previously held equity interest and its fair value as at December 31, 2008 are as under:

	Note	Rupees in '000
Fair value of the previously held equity interest as at December 31, 2008	6.5.3	1,958,400
Carrying value of the previously held equity interest in KCL	6.5.3	680,000
Net gain recognised in the profit and loss account of the bank		1,278,400

6.5.3 The fair value of the previously held equity interest in KCL has been determined by an independent valuer using the discounted cash flows. The carrying value of previously held equity interest in KCL represents the cost of investment in KCL.

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

Particulars (Note 1)	KASB Capital Limited		Network Leasing Corporation Limited	
	Preliminary fair values	Acquiree's carrying amounts	Preliminary fair values	Acquiree's carrying amounts
	-------------------------------Rupees in '000			--------------------------------
Cash and balances with treasury banks	3,191	3,191	214	214
Balances with other banks	138,594	138,594	9,094	9,094
Lendings to financial institutions	245,896	245,896	10,563	10,563
Investments	5,246,715	4,906,506	37,195	37,195
Advances	-	-	59,997	59,997
Operating fixed assets	365,152	365,152	4,596	4,596
Deferred tax assets - net	46,412	99,157	125,784	-
Other assets - net	86,528	86,528	1,786	1,786
Total assets	6,132,488	5,845,024	249,229	123,445
Bills payable	-	-	-	-
Borrowings	234,215	234,215	346,050	412,406
Deposits and other accounts	-	-	-	-
Sub-ordinated loans	-	-	-	-
Liabilities against assets subject to finance lease	9,238	9,238	-	-
Other liabilities	40,164	40,164	47,912	49,152
Deferred tax liabilities	-	-	-	-
Total liabilities	283,617	283,617	393,962	461,558
Net assets acquired	5,848,871		(144,733)	
Cash and cash equivalents acquired		141,785		9,308
Direct cost settled in cash		-		-
Cash inflow on acquisition		141,785		9,308

Note-1: The fair value of assets and liabilities have been re-grouped to bring inline the presentation of these balances as per the format specified by the SBP.

6.5.5 Goodwill is allocated to the group's cash-generating units (CGUs) identified according to operating segment. NLCL's license to operate as an NBFC and undertake leasing business had expired on June 14, 2007 and could not be renewed due to its negative equity. Consequently, no fresh lease disbursements were being made. In the given circumstances and considering the net liability status of the NLCL, the bank assessed goodwill of Rs. 144.848 million allocated to leasing business acquired from NLCL for impairment and concluded that it stands impaired on the date of acquisition. The entire goodwill relating to the CGU has been derecognised and the impairment charge amounting to Rs 144.848 million has been taken to the profit and loss account of the bank. The goodwill arising on acquisition of KCL is attributable to the significant synergies expected to arise from the amalgamation of KCL with and into the bank. The management has not yet specifically allocated the amount of goodwill to cash generating units and the exercise for the allocation will be completed by the year ending December 31, 2009.

6.6 The acquired businesses of KCL and NLCL did not contribute to the operating income of the bank for the current year as these entities were acquired by the bank as at close of December 31, 2008. Had the acquisition of KCL's and NLCL's businesses occurred and been accounted for on January 1, 2008, the results of KCL and NLCL would have contributed operating income amounting to Rs 757.817 million and Rs 7.845 millions respectively and profit after taxation amounting to Rs 826.726 million and Rs 9.039 million respectively in the results of the bank for the year ended December 31, 2008.

6.7 The provisional fair values of the receivables relating to KCL and NLCL as at the acquisition date amount to Rs.332.424 million and Rs. 72.347 million respectively. The gross contractual amount for the aforementioned receivables due is Rs. 382.424 million and Rs. 128.728 million respectively of which Rs. 50 million and Rs. 56.382 million respectively is expected to be uncollectable. These receivables mainly comprise of lendings, finance leases, loans and advances and other short-term receivables.

6.8 Network Leasing Corporation Limited [now merged with and into the bank] has filed a claim for recovery of Rs 273.229 million against ex-directors of the company in respect of misappropriation of public money with the National Accountability Bureau (NAB), Sindh. The amount has been determined after a detailed exercise carried out by the management of Network Leasing Corporation Limited (now part of the management team of the bank). The bank has not assigned any value to these balances at the time of determining and recognition of the fair values of these assets. Details in respect of the total recovery claim filed with NAB for misappropriation of public money are as under:

	Rupees in 000
Advance against lease	105,732
Receivable from ex-director against leave fare assistance (LFA)	20,386
Minimum lease payments receivable	84,954
Write down of property, plant and equipment	3,158
	214,230
Claim against payments made for purchase of land	10,050
Operating lease machinery	48,949
	273,229

6.9 The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination.

In connection with the above, the management is in the process of carrying out a detailed exercise for the identification and valuation of intangible assets required to be separately recognised under the initial accounting for the acquisition under International Financial Reporting Standard (IFRS) 3, 'Business Combinations', and the exercise is expected to be completed shortly. IFRS 3 envisages such a situation and allows the acquirer to account for the acquisition using provisional values if the initial accounting for the acquisition can be determined only provisionally by the year end. However, adjustments to these provisional values consequent to completion of the initial accounting of the acquisition is required, under IFRS 3, to be incorporated in the financial statements with effect from the acquisition date, within a period of twelve months from the acquisition date.

The management expects to finalize the determination and valuation of such intangible assets well before one year from the acquisition date, in compliance with the time frame envisaged in IFRS 3.

6.10 Due to the proximity of the acquisition to the year ended December 31, 2008, the fair value amounts contain some provisional balances. As allowed under IFRS 3, 'Business Combinations', the effects of adjustments, if any, in these values will be adjusted in the financial statements of the bank for the year ending December 31, 2009.

7. CASH AND BALANCES WITH TREASURY BANKS

	Note	**2008**	**2007**
		(Rupees in '000)	
In hand :			
- Local currency	7.1	458,996	497,099
- Foreign currency		180,772	67,280
With State Bank of Pakistan in:			
- Local currency current account	7.2	505,773	2,332,234
- Foreign currency current account	7.3	1,011	11,768
- Foreign currency deposit account	7.4	252,285	73,139
With National Bank of Pakistan in local currency current account		108,795	20,375
		1,507,632	3,001,895

7.1 This includes National Prize Bonds of Rs 1.143 million (2007: Rs. 1.991 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.

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 20 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 15 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 0.9 percent per annum to 2.14 percent per annum (2007: 3.71 percent per annum to 4.72 percent per annum).

8. BALANCES WITH OTHER BANKS	**Note**	**2008**	**2007**
		(Rupees in '000)	
In Pakistan			
- On current account		38,504	363,394
- On deposit account	8.1	10	-
		38,514	363,394
Outside Pakistan			
- On current account		11,923	131,975
- On deposit account	8.1	8,656	312,186
		20,579	444,161
		59,093	807,555

8.1 This represents funds deposited with various banks at profit rates ranging from 3.9 percent per annum to 6 percent per annum (2007: 3.9 percent per annum to 5.3 percent per annum).

9. LENDINGS TO FINANCIAL INSTITUTIONS	**Note**	**2008**	**2007**
		(Rupees in '000)	
Clean placement	9.2 & 9.3	210,563	-
Repurchase agreement lendings (Reverse Repo)	9.4	299,996	1,766,398
Financing in respect of Continuous Funding System (CFS)	9.5	45,896	-
		556,455	1,766,398

9.1 All lendings to financial institutions are in local currency.

9.2 This includes short term placements in Crescent Standard Investment Bank Limited (CSIBL) amounting to Rs. 10.563 million. As per the terms of restructuring agreement between the CSIBL and Innovative Investment Bank Limited (formerly Innovative Housing Finance Limited which acquired CSIBL), the Innovative Investment Bank Limited has undertaken to pay-off CSIBL's liabilities. The repayment of the amount will commence from October, 2009 and the total amount of placement is repayable by July 1, 2014. The placement carries mark-up at the rate of 5% per annum.

9.3 These represents short-term lendings to financial institution at rates from 5 percent to 22 percent per annum (2007: Nil) with maturities upto January 5, 2009.

9.4 Securities held as collateral against lendings to financial institutions

	Note	**2008**			**2007**		
		Held by bank	**Further given as collateral**	**Total**	**Held by bank**	**Further given as collateral**	**Total**
		---- (Rupees in '000) ----					
Market treasury bills		-	-	-	1,766,398	-	1,766,398
Term finance certificate	9.4.1	299,996	-	299,996	-	-	-
		299,996	-	299,996	1,766,398	-	1,766,398

9.4.1 These represent short-term lendings to KASB Liquid Fund against pledge of investment securities. These lendings carry mark-up at rates ranging from 15.7 percent to 16.4 percent per annum (2007: 9.40 percent per annum to 9.95 percent per annum) and are due to mature on January 20, 2009.

9.5 During December 2008, KCL (now merged into the bank) had entered into a Voluntary Continuous Funding System Mark-II Square Up Program (the 'Program') with National Clearing Company of Pakistan Limited for squaring up of its outstanding exposure in CFS. The need for this program developed due to the large number of suspension of members in December 2008 following eight days of continuous market lower locks in the underlying CFS shares posing great difficulty in squaring up and the likelihood of systematic risk emanating therein. The aim of this program was to ensure the full repayment of financier funds and prevent mass scale broker defaults enabling a vast majority of them to return from suspension.

Under the terms of the Program, CFS shares and their associated margins in the form of exposure shares (i.e. those shares which were deposited as collateral against the specific shares financed in the CFS market by the relevant financee broker) were sold to the financiers at a discount of 12.5% and 15% respectively to their closing prices prevailing as at December 24, 2008. The financiers opting into the program have purchased shares of an amount equal to 30% of the total value they had financed in the CFS market at the aforementioned price. The remaining 70% that they had financed in the CFS market along with the mark-up accrued thereon was to be settled in cash and has been reflected under the 'Advances' at December 31, 2008. This balance along with the entire mark-up accrued thereon has been received subsequent to the year ended December 31, 2008.

10 INVESTMENTS

10.1 Investment by types

	Note	2008			2007		
		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	10.12	2,869	-	2,869	50,000	-	50,000
Commercial papers		-	-	-	66,710	-	66,710
Ordinary shares of listed companies	10.3 & 10.7.1	258,715	-	258,715	14,422	-	14,422
		261,584	-	261,584	131,132	-	131,132
Available-for-sale securities							
Pakistan Investment Bonds		-	170,660	170,660	175,501	-	175,501
Market Treasury Bills		-	592,345	592,345	3,835,924	-	3,835,924
Listed Term Finance Certificates	10.10	376,535	-	376,535	123,092	-	123,092
Unlisted Term Finance Certificates	10.11	612,036	-	612,036	402,108	-	402,108
Commercial papers		-	-	-	102,992	-	102,992
Units of Mutual Funds	10.12	1,031,638	-	1,031,638	371,524	-	371,524
Ordinary shares of listed companies	10.3 & 10.7.2	437,288	-	437,288	205,800	-	205,800
Ordinary shares of unlisted companies	10.8	330,588	-	330,588	15,680	-	15,680
		2,788,085	763,005	3,551,090	5,232,621	-	5,232,621
Held to maturity securities							
Federal Investment Bonds		-	-	-	6,519	-	6,519
Pakistan Investment Bonds		2,000	686,826	688,826	711,002	-	711,002
Unlisted Term Finance Certificates	10.11	426,930	-	426,930	367,972	-	367,972
		428,930	686,826	1,115,756	1,085,493	-	1,085,493
Associates	10.4 & 10.18						
New Horizon Exploration and Production Limited - held for sale	10.2.2	500,000	-	500,000	-	-	-
KASB Capital Limited *		-	-	-	680,000	-	680,000
KASB Stock Market Fund	10.2.1	142,287	-	142,287	-	-	-
KASB Balanced Fund	10.2.1	298,424	-	298,424	-	-	-
KASB Islamic Income Fund	10.2.1	204,036	-	204,036	-	-	-
Network Microfinance Bank Limited - held for sale	10.2.2	10,078	-	10,078			
Shakarganj Food Products Limited - held for sale							
- Investment	10.6 & 10.2.2	568,442	-	568,442	-	-	-
- Advance against proposed issue of shares	10.6 & 10.2.2	59,500	-	59,500	-	-	-
		1,782,767	-	1,782,767	680,000	-	680,000
Subsidiaries	10.4 & 10.18						
KASB Technology Services Limited							
- Investment		4,771	-	4,771	4,771	-	4,771
- Advance against proposed issue of shares	10.5	100,000	-	100,000	-	-	-
KASB Modaraba Management (Private) Limited (including Rs 22,660 thousand classified as held for sale)	10.2.2	28,000	-	28,000	-	-	-
KASB Securities Limited (including Rs 1,804,898 thousand classified as held for sale)	10.2.2	2,394,937	-	2,394,937	-	-	-
KASB Funds Limited - held for sale	10.2.2	397,000	-	397,000	-	-	-
KASB International Limited - held for sale	10.2.2	41,867	-	41,867	-	-	-
KASB Modaraba (including Rs 44,535 thousand classified as held for sale)	10.2.2	91,676	-	91,676	-	-	-
		3,058,251	-	3,058,251	4,771	-	4,771
Investments at cost		8,319,617	1,449,831	9,769,448	7,134,017	-	7,134,017
Less: provision for diminution in the value of investments	10.13	(196,407)	-	(196,407)	(8,443)	-	(8,443)
Investments (net of provision)		8,123,210	1,449,831	9,573,041	7,125,574	-	7,125,574
Surplus on revaluation of held for trading securities	10.15	-	-	-	34,779	-	34,779
(Deficit) / surplus on revaluation of available for sale securities	22.2	(77,115)	(41,777)	(118,892)	117,522	-	117,522
Total investments - net		**8,046,095**	**1,408,054**	**9,454,149**	**7,277,875**	**-**	**7,277,875**

* Merged with the bank as at the close of business on December 31, 2008

		Note	2008	2007
			(Rupees in '000)	
10.2	**Investments by segments**			
	Federal Government Securities			
	- Market Treasury Bills	10.17	592,345	3,835,924
	- Pakistan Investment Bonds	10.16 & 10.17	859,486	886,503
	- Federal Investment Bonds	10.17	-	6,519
			1,451,831	4,728,946
	Fully paid-up ordinary shares			
	- Listed Companies	10.7	696,003	220,222
	- Unlisted Companies	10.8	330,588	15,680
			1,026,591	235,902
	Term Finance Certificates			
	- Listed	10.10	376,535	123,092
	- Unlisted	10.11	1,038,966	770,080
			1,415,501	893,172
	Commercial Papers		-	169,702
	Units of Mutual Funds	10.12	1,034,507	421,524
	Associates	10.4 & 10.18		
	- KASB Capital Limited		-	680,000
	- New Horizon Exploration and Production Limited - held for sale	10.2.2	500,000	-
	- KASB Stock Market Fund		142,287	-
	- KASB Balanced Fund		298,424	-
	- KASB Islamic Income Fund		204,036	-
	- Network Microfinance Bank Limited - held for sale	10.2.2	10,078	-
	- Shakarganj Food Products Limited - held for sale			
	- Investment	10.6 & 10.2.2	568,442	-
	- Advance against proposed issue of right shares	10.6 & 10.2.2	59,500	-
			1,782,767	680,000
	Subsidiaries	10.4 & 10.18		
	- KASB Technology Services Limited			
	- Investment		4,771	4,771
	- Advance against proposed issue of right shares	10.5	100,000	-
	- KASB Modaraba Management (Private) Limited (including Rs 22,660 thousand classified as held for sale)	10.2.2	28,000	-
	- KASB Securities Limited (including Rs 1,804,898 thousand classified as held for sale)	10.2.2	2,394,937	-
	- KASB Funds Limited - held for sale	10.2.2	397,000	-
	- KASB International Limited - held for sale	10.2.2	41,867	-
	- KASB Modaraba (including Rs 44,535 thousand classified as held for sale)	10.2.2	91,676	-
			3,058,251	4,771
	Investments at cost		9,769,448	7,134,017
	Less: provision for diminution in the value of investments	10.13	(196,407)	(8,443)
	Investments (net of provisions)		9,573,041	7,125,574
	Surplus on revaluation of held for trading securities	10.15	-	34,779
	(Deficit) / surplus on revaluation of available for sale securities	22.2	(118,892)	117,522
	Total investments		9,454,149	7,277,875

10.2.1 These include investment in the seed capital of KASB Balanced Fund, KASB Islamic Income Fund and KASB Stock Market Fund amounting to Rs 250, Rs 100 and Rs 110 million respectively which have to be kept for a period of 2 years uptil May 02, 2010.

10.2.2 The bank has incorporated a company with the name of KASB Finance (Private) Limited ('KFPL')(a company incorporated under the Companies Ordinance, 1984 as on October 8, 2008). The bank intends to transfer its substantial holding in all subsidiaries and associates acquired on amalgamation of KASB Capital Limited and Network Leasing Corporation Limited into the bank to KASB Finance & Co during the year ending December 31, 2009. KFPL (majority shareholding of which will be held by the sponsor shareholder of the bank in compliance with the requirements of section 59B of the Income Tax Ordinance, 2001) shall directly hold at least 55 percent shareholding in the bank (by virtue of transfer of shareholding held by the sponsor shareholder of the bank to KFPL) as well as greater than 55 percent shareholding and 75 percent shareholding in listed and unlisted subsidiaries which will be transferred to this company by the bank. The sponsor shareholder of the bank also plans to introduce third-party investors in KFPL, however, it is envisaged that the ownership structure of KFPL as well as other terms of the
be in compliance with the requirements of section 59B of the Income Tax Ordinance, 2001 (the Ordinance) and qualify for approval of the relevant regulatory authorities for formation of a "Group".

In view of the above, investment in certain subsidiaries and associates has been classified as "held for sale" in the financial statements for the year ended December 31, 2008 and valued at lower of cost and fair value less costs to sell in accordance with IFRS 5. In addition, the management believes that this group restructuring would not result in a taxable event under section 59B of the Ordinance and therefore, has not recognised the related deferred tax liability arising on difference between fair value of assets (subject to transfer under the above group restructuring which are eligible for special tax treatment under section 59B of the Ordinance) and its tax base (i.e. the cost of investment) amounting to Rs 442.11 million.

10.3 During the year the Karachi Stock Exchange (Guarantee) Limited (“KSE”) placed a “Floor Mechanism” on the market value of securities based on the closing prices of securities prevailing as on August 27, 2008. Under the “Floor Mechanism“, the individual security price of equity securities could vary within the normal circuit breaker limit, but not below the floor price level. The mechanism was effective from August 28, 2008. Consequent to the introduction of the above measures by the KSE, the market volume declined significantly. The “Floor Mechanism” was subsequently removed by the KSE on December 15, 2008 in order to rationalise the prices of equity securities. Subsequent to the removal of the “Floor Mechanism”, the KSE 100 index declined from 9,187.10 points at December 15, 2008 to 5,865.01 points at December 31, 2008 and the market remained generally inactive during this period due to low trading volumes.

In view of the above circumstances, the State Bank of Pakistan had been approached by the Pakistan Banks’ Association as well as individual banks on the matters relating to the determination and treatment of revaluation surplus / deficit on listed equity investments and term finance certificates. The State Bank of Pakistan vide its BSD Circular No. 2 of 2009 dated January 27, 2009 has clarified that the market price as quoted on the stock exchange on December 31, 2008 may be used as the fair value of securities as of that date for the purpose of preparation of financial statements for the period ended December 31, 2008. Accordingly, quoted securities have been valued at the market prices as quoted on the stock exchange on December 31, 2008.

International Accounting Standards require an entity to assess at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A significant or prolonged decline in the fair value of an investment in an equity security below its cost is an objective evidence of such impairment. When a decline in the fair value of an investment in equity securities classified as available-for-sale has been recognised directly in equity and there is an objective evidence that the investment is impaired, the cumulative loss that had been recognized directly in equity is removed from equity and recognised in the profit and loss account even though the investment has not been derecognised. Based on scrip wise analysis of the deficit arising on revaluation of quoted shares and open-end mutual funds (other than those held in associates and subsidiaries), the management has determined that an amount of Rs 158.075 million should be charged to the profit and loss account as impairment loss in accordance with the requirements of International Accounting Standards.

10.4 Investments in subsidiaries and associates of the bank (which qualify for equity accounting under International Accounting Standard - 28 'Accounting for Associates') have been carried at cost less accumulated impairment losses, if any, under the guidelines provided in BSD Circular No 11 dated August 04, 2004. During the current period, an impairment loss amounting to Rs 19.881 million has been charged to the profit and loss account in respect of the bank's investment in certain associates.

10.5 During the year, the bank has made an additional investment of Rs 100 million in KASB Technology Services Limited through the subscription of 10 million right shares at the rate of Rs 10 per share. The company had not issued the share certificates to the bank by December 31, 2008. The aforementioned additional investment in KASB Technology Services Limited has been classified by the bank as strategic investment under the guidelines provided in Regulation "R-6" of the Prudential Regulations and BPRD Circular Letter No 16 dated August 01, 2006 issued by the State Bank of Pakistan.

10.6 The KCL (subsequently merged into the bank) had entered into an agreement dated April 12, 2008 with Shakarganj Food Products Limited and the shareholders of Shakarganj Food Products Limited namely Shakarganj Mills Limited, Crescent Steel and Allied Products Limited and AKD Securities Limited for subscription towards the share capital of Shakarganj Food Products Limited. As per the terms of the agreement , the KCL had agreed to subscribe to the paid-up capital of the company to the extent of Rs 677 million. In consideration for the subscription, the company would issue 67.7 million ordinary shares to the bank. As at December 31, 2008, the KCL has subscribed a sum of Rs 627.942 million (including Rs 59.5 million advanced by the KCL against which the company had not issued share certificates by December 31, 2008). The remaining amount of Rs 50 million would be subscribed by the bank by June 30, 2009.

Out of the total amount of investment, the bank, through a separate agreement, entered into a forward sale agreement to dispose of 6 million ordinary shares to KASB International Limited (a wholly owned subsidiary of the bank) which represents transactions of purchase and simultaneous sale of these equity securities at a future date. The settlement of these shares would take place not later than July 2010. The management has not calculated the amount of gain / loss arising on forward sale of the aforementioned shares as it is impracticable to do so and the impact of this is not considered material by the bank.

10.7 Particulars of investments in ordinary shares of listed companies

2008	2007				2008		2007	
Number of shares / certificates held	Number of shares / certificates held	Company Name	Paid up value per share / certificates	Total paid up value	Carrying Value	Market Value **	Carrying Value	Market Value **
			(Rupees)	----------------------------(Rupees in '000)-------------------------				
10.7.1 Held for trading								
-	149,250	Pak Suzuki Motors	10	1,493	-	-	14,422	49,201
1,111,576	-	United Bank Limited	10	11,116	41,028	41,028	-	-
558	-	Honda Atlas Cars (Pakistan) Limited	10	6	6	6	-	-
142	-	Indus Motor Company Limited	10	1	17	17	-	-
799,046	-	Pakistan Telecommunication Company Limited	10	7,990	13,496	13,496	-	-
315	-	Eye Television Network Limited	10	3	11	11	-	-
3,839	-	Netsol Technologies Limited	10	38	97	97	-	-
2,012	-	Telecard Limited	10	20	4	4	-	-
5,571	-	TRG Pakistan Limited	10	56	10	10	-	-
6,289	-	Worldcall Telecom Limited	10	63	19	19	-	-
574	-	Allied Bank Limited	10	6	18	18	-	-
3,401	-	Arif Habib Bank Limited	10	34	19	19	-	-
1,180	-	Askari Bank Limited	10	12	17	17	-	-
384	-	Bank Al Habib Limited	10	4	10	10	-	-
1,775	-	Bank Al-Falah Limited	10	18	30	30	-	-
1,002,232	-	Bank Islami Pakistan Limited	10	10,022	7,266	7,266	-	-
991	-	Faysal Bank Limited	10	10	11	11	-	-
169	-	Habib Bank Limited	10	2	13	13	-	-
3,343	-	JS Bank Limited	10	33	19	19	-	-
9,059	-	MCB Bank Limited	10	91	1,140	1,140	-	-
86	-	Meezan Bank Limited	10	1	2	2	-	-
50,323	-	National Bank of Pakistan	10	503	2,532	2,532	-	-
1,262	-	Saudi Pak Commercial Bank	10	13	6	6	-	-
415	-	Soneri Bank Limited	10	4	5	5	-	-
3,497	-	The Bank of Punjab	10	35	46	46	-	-
1,755	-	Arif Habib Limited	10	18	150	150	-	-
4,038	-	Arif Habib Securities	10	40	170	170	-	-
394	-	Dawood Equities Limited	10	4	3	3	-	-
2,131	-	First National Equities Limited	10	21	110	110	-	-
26	-	Invest & Finance Securities Limited *	10	-	-	-	-	-
137,511	-	Jahangir Siddiqui & Co Limited	10	1,375	7,189	7,189	-	-
6,397	-	Javed Omer Vohra & Company Limited	10	64	58	58	-	-
626	-	JS Investment Limited	10	6	27	27	-	-
7,994	-	Pervez Ahmed Securities Limited	10	80	29	29	-	-
742	-	Crescent Steel & Allied Products Limited	10	7	13	13	-	-
3,145	-	Dost Steels Limited	10	31	25	25	-	-
6,441,055	-	Descon Oxcyhem Limited	10	64,411	50,884	50,884	-	-
99	-	BOC Pakistan Limited	10	1	11	11	-	-
2,703	-	Pakistan PTA Limited	10	27	4	4	-	-
767	-	Sitara Peroxide Limited	10	8	14	14	-	-
36,168	-	ICI Pakistan Limited	10	362	2,485	2,485	-	-
80	-	Packages Limited	10	1	6	6	-	-
116	-	Kot Addu Power Company Limited	10	1	4	4	-	-
107,717	-	The Hub Power Company Limited	10	1,077	1,518	1,518	-	-
775	-	Nishat Chunian Limited	10	8	7	7	-	-
735	-	Nishat Mills Limited	10	7	16	16	-	-
309	-	Dawood Lawrencepur Limited	10	3	17	17	-	-
325,129	-	Azgard Nine Limited	10	3,251	5,293	5,293	-	-
2,347	-	D.S Industries Limited	10	23	35	35	-	-
89	-	Pakistan International Container Terminal Ltd	10	1	4	4	-	-
896	-	Al-Abbas Cement Industries Limited	10	9	3	3	-	-
128	-	Attock Cement Limited	10	1	5	5	-	-
		Balance c/f			133,902	133,902	14,422	49,201

2008 Number of shares / certificates held	2007 Number of shares / certificates held	Company Name	Note	Paid up value per share / certificates (Rupees)	Total paid up value	2008 Carrying Value	2008 Market Value	2007 Carrying Value	2007 Market Value
					---------------------------(Rupees in '000)------------------------				
		Balance b/f				133,902	133,902	14,422	49,201
1,239	-	D.G. Khan Cement Company Limited		10	12	26	26	-	-
2,941	-	Dewan Cement Limited		10	29	9	9	-	-
1,941	-	Fauji Cement Company Limited		10	19	9	9	-	-
391	-	Lucky Cement		10	4	12	12	-	-
783	-	Maple Leaf Cement Factory Limited		10	8	3	3	-	-
6,576	-	Pakistan Cement Company Limited		10	66	21	21	-	-
1,662	-	Pioneer Cement Limited		10	17	40	40	-	-
10	-	Thatta Cement Company Limited *		10	-	-	-	-	-
243	-	Adamjee Insurance Company Limited		10	2	25	25	-	-
307	-	EFU General Insurance Limited		10	3	41	41	-	-
1,023	-	Pakistan Reinsurance Company Limited		10	10	24	24	-	-
203,804	-	Pak Elektron Limited		10	2,038	4,630	4,630	-	-
30,000	-	Pakistan State Oil Company Limited		10	300	4,337	4,337	-	-
89	-	Sui Northern Gas Pipelines Limited		10	1	2	2	-	-
515	-	Sui Southern Gas Company Limited		10	5	5	5	-	-
214,662	-	Pakistan Oil Fields Limited		10	2,147	22,001	22,001	-	-
4	-	Mari Gas Company Limited *		10	-	-	-	-	-
192,500	-	Pakistan Petroleum Limited		10	1,925	19,370	19,370	-	-
344,000	-	Oil & Gas Development Company Limited		10	3,440	17,197	17,197	-	-
948	-	Attock Refinery Limited		10	9	57	57	-	-
4,933	-	Bosicor Pakistan Limited		10	49	23	23	-	-
7	-	National Refinery Limited		10	-	1	1	-	-
200,150	-	Pakistan Refinery Limited		10	2,002	19,695	19,695	-	-
2,545	-	Dewan Salman Fibre Limited		10	25	4	4	-	-
287,258	-	Engro Chemical Pakistan Limited		10	2,873	27,709	27,709	-	-
160,903	-	Fauji Fertilizer Company Limited		10	1,609	9,450	9,450	-	-
6,742	-	Fauji Fertilizer Bin Qasim Company Limited		10	67	87	87	-	-
2,612	-	PACE (Pakistan) Limited		10	26	23	23	-	-
97	-	TRI-PACK Films Limited		10	1	12	12	-	-
						258,715	258,715	14,422	49,201

10.7.2 Available for sale

2008 Number of shares / certificates held	2007 Number of shares / certificates held	Company Name	Note	Paid up value per share / certificates (Rupees)	Total paid up value	2008 Carrying Value	2008 Market Value	2007 Carrying Value	2007 Market Value
3,475,000	3,475,000	Hub Power Company Limited	10.7.3	10	34,750	122,839	48,963	122,839	105,987
80,000	-	United Bank Limited		10	800	9,082	2,953	-	-
100,000	-	Oil and Gas Development Company		10	1,000	12,956	4,999	-	-
25,000	-	National Bank of Pakistan		10	250	4,420	1,258	-	-
80,000	-	Engro Chemicals		10	800	24,558	7,716	-	-
3,000,000	3,000,000	Karachi Electric Supply Corporation		3.5	10,500	31,857	6,210	31,857	15,900
94,050	-	Pakistan Petroleum Limited		10	941	22,632	9,463	-	-
70,000	38,205	Fauji Fertilizers Bin Qasim Company Ltd		10	700	2,520	903	4,575	4,537
4,600,765	-	Descon Oxy Chemical Limited		10	46,008	46,008	36,346	-	-
3,905	3,905	KESC Preferred Shares		3.5	14	22	8	22	39
8,641,942	-	KASB Bank Limited	10.7.4	10	86,419	160,394	160,394	-	-
-	2,930,200	Eye Television Network (Hum TV)		10	29,302	-	-	29,302	185,775
-	40,000	Pakistan Oil Fields Limited		10	400	-	-	14,572	13,376
-	15,000	Bosicor Pakistan Limited		10	150	-	-	275	320
-	51,250	Callmate Telips Limited		10	513	-	-	1,548	761
-	100,000	UTP Large Capital Fund		10	1,000	-	-	810	810
						437,288	279,213	205,800	327,505
						696,003	537,928	220,222	376,706

* Nil values due to rounding off.
** Market values before provision

10.7.3 The bank's investment in 3,475,000 ordinary shares of Hub Power Company Limited has been classified as strategic investments under the guidelines provided in Regulation 'R-6' of the Prudential Regulations and BPRD Circular Letter No. 16 dated August 1, 2006, issued by the State Bank of Pakistan.

10.7.4 These shares came into the possession of the bank at the time of acquisition of KASB Capital Limited (KCL) as at the acquisition date of December 31, 2008 and have been transferred into available-for-sale portfolio of the bank upon amalgamation of KCL into the bank. The management of the bank has written to the State Bank of Pakistan (SBP) for retaining these shares till disposal and the reply of the SBP on this matter is pending to date.

10.7.5 3,359,198 shares of Network Microfinance Bank Limited and 8,641,942 shares of KASB Bank Limited have been blocked by the Central Depository Company of Pakistan Limited in compliance with BPRD Circular No. 4 dated May 22, 2008 issued by the State Bank of Pakistan. According to the circular, ownership of sponsors / majority shareholding in banks are required to be deposited in a blocked account with Central Depository Company of Pakistan Limited. Further, no activity (including pledge and withdrawal) in these shares would be allowed without prior written permission of the State Bank of Pakistan.

10.8 Particulars of investments in ordinary shares of unlisted companies

2008

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 the Chief Executive
		(Rupees)	----(Rupees in '000)----			
Shareholding upto 10 percent						
- Khushhali Bank Limited - Note 10.9	1,000,000	10	10,000	10,940	September 30, 2008 (un-audited)	Mr. M Ghalib Nishtar
- Pakistan Export Finance Guarantee Agency Limited	568,044	10	5,680	1,523	June 30, 2008 (un-audited)	Mr. S.M Zaeem
- Evolvence Capital Limited	5,400,000	8 *	314,908	314,908	December 31, 2008 (un-audited)	Mr. Khaled Al Muhairy
			330,588	327,371		

* Paid-up value per share is US$ 10 cent which has been translated using spot rate of December 31, 2008

2007

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 the 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		

10.9 This represents the bank's initial subscription towards the paid-up capital of Khushhali Bank Limited. Under the scheme of transfer of assets and liabilities of the Khushhali bank to Khushhali Bank Limited, as approved by the State Bank of Pakistan, vide sanction order dated March 18, 2008 and by the shareholders in their Second Extra Ordinary General Meeting held on December 17, 2007, the Khushhali Bank Limited has been granted license to operate under the Micro Finance Institution Ordinance, 2001. Further, as required under BPRD Circular No. 4 dated May 22, 2008 the shares owned by the Bank have been deposited in a blocked account with the Central Depository Company of Pakistan Limited.

10.10 Particulars of investments in listed Term Finance Certificates

2008

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)-----		
United Bank Limited (2nd Issue)	16,232	5,000	4,999	81,147	81,147	Atif R. Bukhari
United Bank Limited (4th Issue)	18,000	5,000	4,950	83,944	83,944	Atif R. Bukhari
Telecard Limited	3,000	5,000	2,794	8,380	7,919	Shahid Firoz
Al-Zamin Leasing Modaraba	1,136	5,000	63	72	72	Bashir Ahmed Chowdhry
World Call Telecom	39,348	5,000	5,000	196,742	196,742	Salman Taseer
Azgard Nine Limited	5,000	5,000	1,250	6,250	6,886	Ahmed Humayun Shaikh
				376,535	376,710	

Company name	Number of certificates held	Face value per certificate	Unredeemed face value per certificate	Cost	Market value	Name of Chief Executive
		--------------------2007--------------------				
		-----(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	

10.11 Particulars of investments in unlisted Term Finance Certificates

Company name	Note	Number of certificates held	Face value per certificate	Unredeemed face value per certificate	Cost	Name of Chief Executive
		--------------------2008--------------------				
			----(Rupees)----		(Rupees in '000)	
New Khan Transport Co. Ltd.		140	1,000,000	546,970	76,576	Shaikh Muhammad Ashraf
Tandlianwala Sugar Mills Ltd.	10.11.2	5,000	5,000	2,500	12,500	Haroon Akhtar Khan
Pakistan Mobile Communications Ltd.		5,000	5,000	4,995	24,980	Zouhair Khaliq
Kashf Foundation	10.11.1 & 10.11.2	20,000	5,000	5,000	100,000	Ms Roshanah
Avari Hotel International	10.11.1 & 10.11.2	30,400	5,000	5,000	152,000	Byram D.Avari
Shakarganj Mills Ltd.	10.11.1 & 10.11.2	20,000	5,000	5,000	100,000	Ehsan M.Saleem
Engro Chemical Pakistan Limited		41,640	5,000	5,000	209,616	Asad Umar
Pak American Fertilizers Limited		30,000	5,000	4,998	150,255	Ahmed Judad Bilal
Azgard Nine Ltd (3rd Issue)		40,600	5,000	4,998	203,039	Ahmed Humayun Shaikh
Allied Bank Limited		2,000	5,000	5,000	10,000	Aftab Manzoor
					1,038,966	

Company name	Note	Number of certificates held	Face value per certificate	Unredeemed face value per certificate	Cost	Name of Chief Executive
		--------------------2007--------------------				
			----(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	10.11.1	-	-	-	40,972	Sadaf Abid
Avari Hotel Limited	10.11.1	-	-	-	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	

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

10.11.2 These companies had not issued certificate of investments by December 31, 2008 against the amount advanced by the bank for investment in these term finance certificates.

10.12 Particulars of investments in units of Mutual Funds

Mutual Fund	Number of units held	Face value per unit	Carrying Value	Market Value
		2008		
		(Rupees)	**----(Rupees in '000)----**	
Held for trading				
KASB Liquid Fund	31,492	100	2,857	2,857
JS Value Fund Limited	1,400	10	6	6
Pakistan Premier Fund Limited	1,089	10	2	2
PICIC Growth Fund (SEMF)	746	10	4	4
			2,869	2,869
Available for Sale				
Faysal Savings Growth Fund	1,468,716	100	150,000	152,130
KASB Liquid Fund	335,728	100	31,638	30,456
Askari Income Fund	1,971,220	100	200,000	185,354
United Money Market Fund	1,468,626	100	150,000	140,741
NAFA Cash Fund	46,474,448	10	500,000	445,667
			1,031,638	954,348
			1,034,507	957,217

Mutual Fund	Number of units held	Face value per unit	Carrying Value	Market Value
		2007		
		(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

10.13 Particulars of provision for diminution in the value of investments

	Note	2008	2007
		(Rupees in '000)	
Opening balance at January 1		8,443	10,185
Charge for the year:			
- in respect of certain investments carried at lower of cost or break-up value		2,008	1,554
- others		8,000	-
Impairment on:			
- Available for sale securities	10.3	158,075	-
- Associates	10.4	19,881	-
Reversals during the year		-	(3,296)
Net (reversal) / charge for the year		187,964	(1,742)
Closing balance at December 31		196,407	8,443

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

	Note	2008	2007
Available for sale securities			
Term Finance Certificates - unlisted		8,000	-
Ordinary shares of listed companies	10.3	158,075	-
Fully paid-up ordinary shares - unlisted		5,680	3,672
		171,755	3,672
Associates			
KASB Stock Market Fund	10.4	19,881	-
Subsidiary			
KASB Technology Services Limited		4,771	4,771
		196,407	8,443

10.14 Quality of available for sale securities

	2008 Amount (Rupees in '000) (Market value)	2008 Rating	2007 Amount (Rupees in '000) (Market value)	2007 Rating
Pakistan Investment Bonds	132,288	Unrated	156,184	Unrated
Market Treasury Bills	588,940	Unrated	3,829,148	Unrated
Term Finance Certificates - listed				
- World Call Communication	196,742	AA-	-	-
- Azgard Nine Limited	6,886	AA-	13,773	AA-
- United Bank Limited (2nd issue)	81,147	AA	81,150	AA
- United Bank Limited (4th issue)	83,944	AA	-	-
- Chanda Oil and Gas Company Limited	-	-	14,400	A+
- Standard Chartered Bank Pakistan	-	-	121	AAA
- Trust Leasing Corporation Limited	-	-	361	AA
- Al Zamin Leasing Modaraba	72	A-	3,934	A
- Telecard Limited	7,919	BBB	10,046	BBB
	376,710		123,785	
Term Finance Certificates - unlisted				
- New Khan Transport	76,576	Unrated	82,956	Unrated
- Tandlianwala Sugar Mills	12,500	Unrated	17,500	Unrated
- Associate Builders	-	-	85,001	Unrated
- Dominon Fertilizer (Pvt) Limited	-	-	191,666	AA-
- Pakistan Mobile Communication	24,980	AA-	24,985	AA-
- Azgard Nine Limited	28,109	A1++	-	-
- Engro Chemical Pakistan Limited	209,616	AA	-	-
- Pak American Fertilizers Limited	150,255	Unrated	-	-
- Allied Bank Limited	10,000	Unrated	-	-
- Shakarganj Mills Ltd.	100,000	A-	-	-
	612,036		402,108	
Units of Mutual Funds				
- KASB Liquid Fund	30,456	5-star	11,804	AM3+
- KASB Balanced Fund	-	-	250,017	AM3+
- KASB Stock Market Fund	-	-	130,920	AM3+
- Faysal Savings Growth Fund	152,130	A(F)	-	-
- Askari Income Fund	185,354	5-star	-	-
- United Money Market Fund	140,741	4-star	-	-
- NAFA Cash Fund	445,667	A(F)	-	-
	954,348		392,741	
Ordinary shares of listed companies				
- Hub Power Company Limited	48,963	Unrated	105,987	Unrated
- United Bank Limited	2,953	AA+	-	
- Oil and Gas Development Company	4,999	AAA	-	
- National Bank of Pakistan	1,258	AAA	-	
- Engro Chemicals	7,716	AA/A1+	-	
- Karachi Electric Supply Corporation	6,210	Unrated	15,900	Unrated
- Pakistan Petroleum Limited	9,463	Unrated	-	
- Fauji Fertilizers Bin Qasim Company Ltd	903	Unrated	4,537	Unrated
- Descon Oxy Chemical Limited	36,346	Unrated	-	
- KESC Preferred Shares	8	Unrated	39	Unrated
- KASB Bank Limited	160,394	A/A1	-	
- Eye Television Network (Hum TV)	-	-	185,775	Unrated
- Pakistan Oil Fields Limited	-	-	13,376	Unrated
- Bosicor Pakistan Limited	-	-	320	Unrated
- Callmate Tellips Limited	-	-	761	Unrated
- UTP Large Capital Fund	-	-	810	Unrated
	279,213		327,505	
Ordinary shares of unlisted companies	330,588	Unrated	15,680	Unrated
Commercial papers	-	-	102,992	Unrated
Total	3,274,123		5,350,143	

10.15 Unrealised gain / (loss) on revaluation of investments classified as held for trading

	2008 (Rupees in '000)	2007 (Rupees in '000)
Ordinary shares / units of listed companies / mutual funds		
- Pak Suzuki Motor Company Limited	-	34,779

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

10.17 Significant particulars relating to government securities and term finance certificates are as follows:

-----2008-----

Particulars of investment	Maturity	Principal payments	Coupon rate / Discount rate	Coupon payments
Market Treasury Bills	February 2009 to March 2009	On Maturity	9.04% to 9.17%	Not Applicable
Pakistan Investment Bond	October 2011 to October 2013	On Maturity	8.00% to 13.00%	Semi-annually
Term Finance Certificates	August 2009 to July 2014	Various	8.00% to 19.04%	Various

-----2007-----

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 applicable

10.18 Investments in subsidiaries and associates

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

Particulars of investments in subsidiary companies

The paid up value of these ordinary shares is Rs.10 unless otherwise specified.

2008 (Number of shares)	2007 (Number of shares)		2008 (Rupees in '000)	2007 (Rupees in '000)
25,000,000	15,000,000	**KASB Technology Services Limited** Percentage of holding : 100%* Break-up value per share: Rs. 6.46 Date of audited financial statements : 30 June 2008 Chief Executive : Mr Saif Uddin Shafi	104,771	4,771
3,985,000	-	**KASB Modaraba Management (Private) Limited** Percentage of holding : 99.63% Break-up value per share: Rs. 9.28 Date of audited financial statements :30 June 2008 Chief Executive : Syed Majeed Ullah Husaini	28,000	-
77,121,500	-	**KASB Securities Limited** Percentage of holding : 77.12%* Break-up value per share: Rs. 11.98 Date of audited financial statements : 31 December 2008 Chief Executive : Mr Farrukh H. Sabzwari	2,394,937	-
10,593,342	-	**KASB Funds Limited** Percentage of holding : 67.18%* Break-up value per share: Rs. 24.31 Date of audited financial statements : 31 December 2008 Chief Executive : Ms Naz Khan	397,000	-
283,000	-	**KASB International Limited** Percentage of holding : 100%* Break-up value per share: Rs. 177.03 ** Chief Executive : Mr Farid Masood Paid-up value: US$ 1 per share	41,867	-
10,446,767	-	**KASB Modaraba** Percentage of holding : 50.59%* Break-up value per share: Rs. 7.54 Date of audited financial statements : 30 June 2008 Chairman / Chief Executive : Syed Majeed Ullah Husaini	91,676	-
			3,058,251	4,771

* Represents direct and indirect holding

** As per the un-audited financial statements for the period ended December 31, 2008

Particulars of investments in associates

The paid up value of these shares / units is Rs.10 unless otherwise specified.

2008	2007		2008	2007
(Number of shares / units)			(Rupees in '000)	
50,000,000	-	**New Horizon Exploration and Production Limited** Percentage of holding : 40.00% Break-up value per share: Rs. 2.65 Date of audited financial statements : 31 December 2008 Chief Executive : Mr. Wamiq Bukhari (Paid-up value: Rs 1 per share)	500,000	-
6,375,640	-	**KASB Balanced Fund** Percentage of holding : 26% Net Asset Value per unit: Rs. 35.87 Date of reviewed financial statements : 31 December 2008 Investment Adviser - KASB Funds Limited (Paid-up value of each unit is Rs. 50)	298,424	-
2,434,724	-	**KASB Stock Market Fund** Percentage of holding : 27% Net Asset Value per unit: Rs. 22.46 Date of reviewed financial statements : 31 December 2008 Investment Adviser - KASB Funds Limited (Paid-up value of each unit is Rs. 50)	142,287	-
2,043,410	-	**KASB Islamic Income Fund** Percentage of holding : 32% Net Asset Value per unit: Rs. 91.50 Date of reviewed financial statements : 31 December 2008 Investment Adviser - KASB Funds Limited (Paid-up value of each unit is Rs. 100)	204,036	-
55,000,000	-	**Shakarganj Food Products Limited** Percentage of holding : 42.74% Break-up value per share: Rs. 4.61 Date of audited financial statements : 30 September 2008 Chief Executive : Mr Anjum Saleem	627,942	-
3,359,198	-	**Network Microfinance Bank Limited** Percentage of holding : 22.39% Break-up value per share: Rs. 0.59 Date of audited financial statements : 31 December 2008 Chief Executive : Mr Moazzam Khan	10,078	-
			1,782,767	-

10.18.1 Particulars of the assets and liablities of the associates

	Assets*	Liabilities*	Revenue**	Profit/ (Loss)**
	---- Rupees in '000 ----			
	As at December 31		From acquisition to December 31	
2008				
KASB Capital Limited	-	-	1,550,210	826,726
Shakarganj Food Products Limited	1,340,903	840,963	-	-
New Horizon Exploration and Production Limited	746,718,059	249,453,541	-	-
Network Microfinance Bank Limited	193,118,316	104,768,553	-	-
KASB Balanced Fund	689,648	5,424	-	-
KASB Islamic Fund	587,814	3,403	-	-
KASB Stock Market Fund	205,144	1,218	-	-
2007				
KASB Capital Limited	3,130	15,821	-	-

* merged into the bank

** as per results of standalone financial statements

11. ADVANCES

	Note	2008	2007
		(Rupees in '000)	
Loans, cash credits, running finances, etc. - in Pakistan		32,634,426	23,844,503
Net investment in finance lease - in Pakistan	11.2	1,796,965	1,898,315
Bills discounted and purchased (excluding government treasury bills)			
- Payable in Pakistan		678,054	128,901
- Payable outside Pakistan		55,405	175,049
		733,459	303,950
		35,164,850	26,046,768
Provision against advances - specific	11.4	(2,875,909)	(870,746)
- general	11.4	(48,745)	(32,869)
		(2,924,654)	(903,615)
		32,240,196	25,143,153

11.1 Particulars of advances (Gross)

		2008	2007
11.1.1	In local currency	35,109,445	25,871,719
	In foreign currencies	55,405	175,049
		35,164,850	26,046,768
11.1.2	Short-term (upto one year)	28,475,012	20,968,564
	Long-term (over one year)	6,689,838	5,078,204
		35,164,850	26,046,768

11.2 Net Investment in finance lease

	2008				2007			
	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	952,517	892,481	9,643	1,854,641	911,031	986,343	41,267	1,938,641
Residual value	111,558	162,968	2,566	277,092	101,817	170,108	9,920	281,845
Minimum lease payments	1,064,075	1,055,449	12,209	2,131,733	1,012,848	1,156,451	51,187	2,220,486
Finance charge for future periods	(178,455)	(155,747)	(566)	(334,768)	(163,398)	(157,010)	(1,763)	(322,171)
Present value of minimum lease payments	885,620	899,702	11,643	1,796,965	849,450	999,441	49,424	1,898,315

11.3 Advances include Rs 6,245.779 million (2007: Rs. 1,069.872 million) which have been placed under non-performing status as detailed below:

Category of classification	2008 Domestic	Overseas	Total	Provision required	Provision held
	(Rupees in '000)				
Substandard	766,778	-	766,778	148,188	148,188
Doubtful	3,439,490	-	3,439,490	1,094,688	1,094,688
Loss	2,039,511	-	2,039,511	1,633,033	1,633,033
	6,245,779	-	6,245,779	2,875,909	2,875,909

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

11.4 Particulars of provision against non-performing advances

	Note	2008 Specific	2008 General	2008 Total	2007 Specific	2007 General	2007 Total
		----- (Rupees in '000) -----					
Opening balance at January 1		870,746	32,869	903,615	693,484	1,577	695,061
Charge for the year *		2,235,616	15,876	2,251,492	248,365	31,292	279,657
Reversals		(217,296)	-	(217,296)	(64,939)	-	(64,939)
Net charge		2,018,320	15,876	2,034,196	183,426	31,292	214,718
Amounts written off	11.7	(13,157)	-	(13,157)	(6,164)	-	(6,164)
Closing balance at December 31		2,875,909	48,745	2,924,654	870,746	32,869	903,615

* Charge for the year includes provision amounting to Rs 1,113.314 million which has been made as per the subjective evaluation of the customers and is in accordance with the Prudential Regulations issued by the State Bank of Pakistan.

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 loans 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

	2008 Specific	2008 General	2007 Specific	2007 General
	----- (Rupees in '000) -----			
In local currency	2,875,909	48,745	870,746	32,869
In foreign currencies	-	-	-	-
	2,875,909	48,745	870,746	32,869

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

During the current 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. 2 dated January 27, 2009. Under the revised guidelines issued by SBP, banks have been allowed to avail the benefit of 30% of forced sale value of pledged stocks and mortgaged commercial and residential properties held as collateral against all non-performing loans for 3 years from the date of classification for calculating provisioning requirement with effect from December 31, 2008. However, as per the circular the additional impact on profitability arising from availing the benefit of forced sale value against pledged stocks and mortgaged residential and commercial properties would not be available for payment of cash or stock dividend. Under the previous guidelines issued by SBP which were effective from December 31, 2007, banks could not avail the benefit of discounted forced sale value of mortgaged assets held as collateral against all non-performing loans (except for housing finance) for calculating provisioning requirement.

11.6 Had the provision against non-performing loans and advances been determined in accordance with requirements previously laid down by the SBP, the specific provision against non-performing loans and loss before taxation would have been higher and consequently advances (net of provisions) as at December 31, 2008 would have been lower by approximately Rs 368.194 million.

11.6.1 Although the bank has made provision against its non-performing portfolio as per the category of classification of the loan, however, the bank still holds enforceable collateral in the event of recovery through litigation. These securities comprise of charge against various tangible assets of the borrower including land, building and machinery, stock in trade, etc.

11.7 Particulars of write offs

		Note	2008	2007
			(Rupees in '000)	
11.7.1	Against provisions	11.4	13,157	6,164
	Directly charged to the profit and loss account		230	-
			13,387	6,164
11.7.2	Write offs of Rs 500,000 and above	11.8	12,709	5,340
	Write offs of below Rs 500,000		678	824
			13,387	6,164

11.8 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, 2008 is given in 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.

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

	2008	2007
	(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	325,854	176,015
Loans granted during the year	545,762	185,234
Repayments during the year	236,491	35,395
Balance at end of the year	635,125	325,854
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	38,974	-
Repayments during the year	36,252	-
Balance at end of the year	2,722	-
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
Balance at beginning of the year	54,831	28,220
Loans granted during the year	93,315	92,455
Repayments during the year	110,586	65,844
Balance at end of the year	37,560	54,831

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

12. OPERATING FIXED ASSETS

	Note	2008	2007
		(Rupees in '000)	
Capital work-in-progress	12.1	694,011	201,833
Tangible fixed assets	12.2 & 12.3	1,957,716	855,605
Intangibles	12.4	78,806	37,310
		2,730,533	1,094,748

12.1 Capital work-in-progress

	Note	2008	2007
Civil works		116,990	78,724
Equipment		15,451	-
Advances to suppliers and contractors		57,748	123,109
Advance for acquiring floor / office premises	12.1.1	402,669	-
Others		101,153	-
		694,011	201,833

12.1.1 The bank and KASB Capital Limited (KCL) (now merged into the bank) had entered into an agreement with KASB Developers (Private) Limited for acquiring a commercial space, being paid in installments, in KASB Altitude, [a project of KASB Developers (Private) Limited]. As per the terms of the agreement, KASB Developers (Private) Limited would undertake construction of multi-storeyed building on Plot No Com 2/4, Block 1, Scheme 5, Clifton, Karachi and would enter into a sub-lease agreement with the bank in respect of the floors being purchased by the bank. Presently, the bank intends to acquire four floors in KASB Altitude at an aggregate consideration of Rs. 947 million. The project is expected to be completed within forty two months from the date of commencement of the construction i.e. January 2008 and the aforementioned floors would be available for use after completion and final payments of the above amounts. As at December 31, 2008, the bank has paid a total amount of Rs 402.669 million (including Rs 203.159 million paid by KCL before amalgamation into the bank) to KASB Developers (Private) Limited.

12.2 Tangible fixed assets

	2008											
	COST / REVALUATION					DEPRECIATION						
	As at January 1, 2008	Additions/ Revalua-tion*/ Acquired assets**	Reclassifi-cation	Deletions/ Adjust-ments	As at December 31, 2008	As at January 1, 2008	Adjust-ments/ Revaluati ons*	Reclassifi-cation	Charge for the year / (Deletions) *	As at December 31, 2008	Book value at December 31, 2008	Rate of Depreciat ion (%)
	----------(Rupees in 000)----------											
Freehold land	127,500	40,516 *	100,213	-	268,229	-	-	-	-	-	268,229	-
Bank premises - note 12.2.1	627,880	95,181 623,186 *	(100,213)	(5,902) (227) *	1,239,905	120,117	(75,670) *	-	39,475 (5,772) *	78,150	1,161,755	5
Furniture and fixtures	61,816	52,999 2,651 **	(44)	(2,499) (490) *	114,433	23,314	-	-	7,023 (1,161) *	29,176	85,257	10
Motor vehicles	93,356	170,952 5,565 **	1,894	(55,851) (30) *	215,886	31,344	-	1,546	25,970 (26,115) *	32,745	183,141	20
Electrical, office and computer equipment	284,167	174,373 26,350 **	9,662	(5,823) (1,723) *	487,006	166,732	(101)	9,618	68,022 (5,589) *	238,682	248,324	20-33.33
	1,194,719	493,505 663,702 * 34,566 **	11,512	(70,075) (2,470) *	2,325,459	341,507	(101) (75,670) *	11,164	140,490 (38,637) *	378,753	1,946,706	
Assets held under finance lease												
Motor vehicles	5,494	2,433 **	(1,894)	-	6,033	3,101	-	(1,546)	621	2,176	3,857	20
Electrical, office and computer equipment	9,618	7,153 **	(9,618)	-	7,153	9,618	-	(9,618)	-	-	7,153	20-33.33
	15,112	9,586 **	(11,512)	-	13,186	12,719	-	(11,164)	621	2,176	11,010	
Total	1,209,831	493,505 663,702 * 44,152 **	-	(70,075) (2,470) *	2,338,645	354,226	(101) (75,670) *	-	141,111 (38,637) *	380,929	1,957,716	

** Acquired assets represents transfer of assets from KASB Capital Limited and Network Leasing Corporation Limited consequent to the amalgamation of these companies with and into bank.

	2007											
	COST					DEPRECIATION						
	As at January 1, 2007	Additions/ Acquired assets* / Revalua-tion**	Reclassifi-cation	Deletions/ Adjust-ments	As at December 31, 2007	As at January 1, 2007	Deletions / Adjust-ments	Reclassifi-cations	Charge for the year	As at December 31, 2007	Book value at December 31, 2007	Rate of Depreciat ion (%)
	----------(Rupees in 000)----------											
Freehold land	-	127,500	-	-	127,500	-	-	-	-	-	127,500	0
Bank premises - note 12.2.1	329,156	158,028	153,782	(3,617) (9,469)	627,880	43,351	(1,927) (494)	53,961	25,226	120,117	507,763	5
Furniture and fixtures	196,186	21,151	(153,782)	(1,739)	61,816	74,506	(1,124)	(53,961)	3,893	23,314	38,502	10
Motor vehicles	74,797	20,143	-	(1,584)	93,356	19,448	(1,077)	-	12,973	31,344	62,012	20
Electrical, office and computer equipment	238,489	64,089	-	(9,965) (8,446)	284,167	133,772	(10,099)	-	43,059	166,732	117,435	20-33.33
	838,628	390,911	-	(16,905) (17,915)	1,194,719	271,077	(14,227) (494)	-	85,151	341,507	853,212	
Assets held under finance lease												
Motor vehicles	8,174	-	-	(2,680)	5,494	4,419	(2,185)	-	867	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	(2,185)	-	1,044	12,719	2,393	
Total	856,420	390,911	-	(19,585) (17,915)	1,209,831	284,937	(16,412) (494)	-	86,195	354,226	855,605	

12.2.1 This includes leasehold improvement amounting to Rs 299.971 million (2007: 210.919 million) which was not part of the revaluation carried out by the independent valuer and have been carried at cost.

12.3 The land and buildings of the bank were revalued on September 30, 2008 by independent valuers namely Harvester Services (Private) Limited, Projects (Private) Limited and Prime Engineering Consultants on the basis of professional assessments of the market values. The revaluation resulted in a surplus of Rs 739.372 million over the book value of Rs 544.461 million. Had there been no revaluation, the net book value of land and buildings as at December 31, 2008 and the loss after taxation for the year ended December 31, 2008 would have been lower by Rs 730.636 million and Rs 5.678 million (net of deferred tax) respectively. The details relating to location of revalued asset with respect to the cities are as under:

City	**Land**	**Building**	**Total**
		---------------Rupees in '000---------------	
Karachi	80,526	897,990	978,516
Lahore	121,934	41,944	163,878
Islamabad	15,769	-	15,769
Multan	50,000	-	50,000
	268,229	939,934	1,208,163

12.4 Intangibles

	COST				**AMORTISATION**					
	As at January 1, 2008	**Additions**	**Deletions / Adjust-ments**	**As at December 31, 2008**	**As at January 1, 2008**	**Amortis - ation**	**Deletions / Adjust-ments**	**As at December 31, 2008**	**Book value at December 31, 2008**	**Rate of Amortisation (%)**
	-------------------				**(Rupees in 000)**			-------------------		
Computer software	32,271	68,647	- -	100,918	25,359	24,077	- -	49,436	51,482	33.33
Customer list	30,735	-	-	30,735	337	3,074	-	3,411	27,324	10
2008	63,006	68,647	-	131,653	25,696	27,151	-	52,847	78,806	

	COST				**AMORTISATION**					
	As at January 1, 2007	**Additions**	**Deletions / Adjust-ments**	**As at December 31, 2007**	**As at January 1, 2007**	**Amortis - ation**	**Deletions / Adjust-ments**	**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	

		2008	**2007**
		(Rupees in '000)	
12.5	Carrying amount of temporarily idle properties	50,000	37,500
12.6	The cost of fully depreciated assets that are still in use is:		
	Bank premises	11,806	15,069
	Furniture and fixtures	12,975	9,139
	Electrical, office and computer equipment	114,188	114,705
	Motor vehicles	2,419	3,103
	Computer software	22,956	12,921
		164,344	154,937
12.7	The carrying amount of tangible fixed assets that have retired from active use and are held for disposal	Nil	Nil

12.8 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	Accumu-lated deprecia-tion	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
	-----------------(Rupees '000)-----------------					
Bank premises						
Items having cost of						
more than Rs 1,000,000	4,583	4,583	-	30	Negotiation	Ashraf Masih
(note 12.8.2)	4,583	4,583	-	30		
Motor Vehicles						
Items having book value of more than Rs 250,000 and cost of less than Rs 1,000,000						
Honda City	831	399	432	431	Terms of employment	Muhammad Iqbal Haroon - Executive
Honda City	888	22	866	865	Terms of employment	Javed Allana - Executive
Honda City DSI-1300	831	410	421	431	Terms of employment	Naeem Khan - Executive
Honda City DSI-1300	886	354	532	794	Auction	Rehan Mehtani
Honda City DSI-1300	886	343	543	602	Terms of employment	Liaqat Saeed - Executive
Honda City DSI-1300	886	307	579	602	Terms of employment	Amir Zahoor - Executive *
Honda City-DSI	831	410	421	421	Terms of employment	Anwer Saeed - Executive
Honda City-DSI-1300	831	410	421	443	Terms of employment	Salim Paracha - Executive
Suzuki Alto	529	20	509	516	Terms of employment	Nadeem Abbas - Executive
Suzuki Alto	529	20	509	516	Terms of employment	Ubaidullah Noshahi - Executive
Suzuki Alto	529	20	509	516	Terms of employment	Shahzad Ghouri - Executive
Suzuki Cultus VXR	560	202	358	358	Terms of employment	Nasir Mansoor - Executive
Suzuki Cultus VXR	560	202	358	358	Terms of employment	Anjum Amin - Executive
Suzuki Cultus VXR	560	209	351	351	Terms of employment	Raza Saeed - Executive
Suzuki Cultus VXR	560	209	351	351	Terms of employment	Amir Iqbal Saifi - Executive
Suzuki Cultus VXR	560	189	371	371	Terms of employment	Mian Khurram Saleem - Executive
Suzuki Cultus VXR	560	217	343	358	Terms of employment	Huma Kamani - Executive
Suzuki Cultus VXR	560	194	366	366	Terms of employment	Kamran Khan - Executive *
Suzuki Cultus VXR	560	224	336	405	Auction	Ejaz Khan
Suzuki Cultus VXR	560	217	343	343	Terms of employment	Syed Khaleeq Najam - Executive
Suzuki Cultus VXR	560	105	455	455	Terms of employment	Nadeem Ghani - Executive
Suzuki Cultus VXR	560	68	492	500	Terms of employment	Mehboob Afridi - Executive
Suzuki Cultus VXR	560	60	500	507	Terms of employment	Saulat Qadri - Executive
Suzuki Cultus VXR	560	254	306	306	Terms of employment	Mirza Waqar Ahmed - Executive
Suzuki Cultus VXR	560	299	261	261	Terms of employment	Akhtar Hussain - Executive
Suzuki Cultus VXR	560	252	308	323	Terms of employment	Adnan Dada - Executive
Suzuki Cultus VXR	560	291	269	308	Terms of employment	Farhad Imdad Sheikh - Executive
Suzuki Cultus VXR	560	261	299	299	Terms of employment	Sajjad Ali Qureshi - Executive
Suzuki Cultus VXR	560	211	349	349	Terms of employment	Zafar Ahmad Khan - Executive
Suzuki Cultus VXR	560	253	307	448	Auction	Muhammad Kamran
Suzuki Cultus VXR	560	215	345	352	Terms of employment	Kashif Ejaz - Executive
Suzuki Cultus-VXR	560	252	308	308	Terms of employment	Raheel Abbas - Executive
Suzuki Cultus-VXR	560	291	269	276	Terms of employment	Muhammad Rizwan - Executive
Suzuki Cultus-VXR	560	282	278	278	Terms of employment	Javed Allana - Executive
Suzuki Cultus-VXR	560	289	271	271	Terms of employment	Najam ud Din Siddiqui - Executive
Suzuki Cultus-VXR	560	310	250	453	Auction	Adnan Khan
Suzuki Cultus-VXR	560	241	319	327	Terms of employment	Meer Jamali - Executive
Suzuki Cultus-VXR	560	233	327	335	Terms of employment	Malik Zahid Bashir - Executive
Suzuki Cultus-VXR	560	246	314	454	Insurance Claim	EFU General Insurance Limited
Suzuki Cultus-VXR	560	284	276	276	Terms of employment	Masood Naqvi - Executive
Suzuki Cultus-VXR	560	306	254	401	Auction	Rehan Mehtani
Suzuki Cultus-VXR	560	255	305	305	Terms of employment	Naveed Baz Khan - Executive
Suzuki Cultus-VXR	560	213	347	347	Terms of employment	Basheer Wasan - Executive
Suzuki Cultus-VXR	560	217	343	460	Auction	Noman Hasan Khan
Suzuki Cultus-VXR	560	209	351	358	Terms of employment	Syed Farrukh Raza - Executive
Suzuki Cultus-VXR	560	260	300	308	Terms of employment	Munawar Masood Naqvi - Executive
Suzuki Cultus-VXR	560	194	366	373	Terms of employment	Asima Haider - Executive
Suzuki Cultus-VXR	560	202	358	366	Terms of employment	Shahzad Mahmood - Executive
Suzuki Cultus-VXR	560	187	373	373	Terms of employment	Fawad Yousuf - Executive
Suzuki Cultus-VXR	560	85	475	475	Terms of employment	Rizwan Rafique - Executive
Bal c/f	34,880	15,986	18,894	20,280		

Particulars	Cost	Accumu-lated deprecia-tion	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
	-----------------(Rupees '000)------------------					
Bal b/f	34,880	15,986	18,894	20,280		
Suzuki Cultus-VXR	590	63	527	527	Terms of employment	Jamil Gurawara - Executive
Suzuki Cultus VXR	560	321	239	262	Auction	Imran Ahmad
Toyota Corolla GLI	969	362	607	906	Auction	Irfan Rasheed
Toyota Corolla XLI 1300	849	555	294	306	Terms of employment	Khalid Mahmud Salim - Executive *
Toyota Corolla XLI -1300	849	498	351	351	Terms of employment	Nadeem Mahdi Qureshi - Executive
Toyota Corolla-XLI-1300	849	571	278	278	Terms of employment	Muhammad Aslam - Executive
Toyota Corolla-XLI-1300	849	540	309	309	Terms of employment	Sohail Siddiqui - Executive
Toyota Corolla-XLI-1300	849	575	274	274	Terms of employment	Asim Sohail - Executive
Toyota Corolla-XLI-1300	849	558	291	291	Terms of employment	Mian Muhammad Khan - Executive
Toyota Corolla-XLI-1300	849	545	304	304	Terms of employment	Sameer Nisar Ahmad - Executive
	42,942	20,574	22,368	24,088		
Motor Vehicles						
Items having book value of less than Rs 250,000 and cost of more than Rs 1,000,000						
Honda Civic (Saloon)	1,155	924	231	505	Terms of employment	Qasim Rizvi - Executive
Honda Civic EXI	1,043	473	570	812	Auction	Rehan Mithani
Honda Civic VTI	1,283	718	565	728	Auction	Muhammad Ejaz Khan
Honda Civic VTI	1,328	637	691	691	Terms of employment	Arif Sirhindi - Executive *
Honda Civic VTI	1,309	337	972	1,178	Insurance Claim	EFU General Insurance Limited
Toyota Corolla (Saloon)1600	1,079	820	259	550	Auction	Syed M Iqbal
Toyota Corolla GLI 1.3	1,100	41	1,059	1,086	Terms of employment	Atiq Ur Rehman - Executive
Toyota Corolla GLI 1.3	1,014	25	989	1,014	Terms of employment	Sohail Siddiqi - Executive
	9,311	3,975	5,336	6,564		
2008	52,253	24,549	27,704	30,652		
2007	19,585	12,617	6,968	7,165		

* Disposals to Key Management Personnel.

12.8.1 Disposal as per the terms of employment represents assets disposed of to employees as per the bank's policy and in accordance with the terms of employment contract.

12.8.2 Represents scrapped lease hold improvement disposed of for Rs 30 thousand.

13. DEFERRED TAX ASSETS - NET

	Note	2008	2007
		(Rupees in '000)	
Deferred debits arising due to:			
Net deficit on revaluation of available for sale securities		22,290	-
Provision for diminution in the value of investments		40,140	2,955
Provision against non-performing loans and advances and mark-up in suspense		149,588	144,946
Provision for compensated absences		2,926	3,391
Provision against other assets		1,647	1,647
Provision for gratuity		26,147	14,040
Fair value adjustments relating to net asset acquired upon amalgamation		73,039	-
Minimum tax		41,283	41,283
Unused tax losses (including unabsorbed depreciation)	13.1	1,704,493	648,725
Other deductible temporary differences		2,357	35,614
		2,063,910	892,601
Deferred credits arising on / due to:			
Unrealised gain on shares of listed companies and units of mutual funds		-	(3,478)
Net surplus on revaluation of securities		-	(5,985)
Accelerated tax depreciation		(146,346)	(68,580)
Liabilities against assets subject to finance lease		(342)	(338)
Surplus on revaluation of fixed assets		(247,667)	-
Net investment in finance leases		(181,459)	(203,687)
		(575,814)	(282,068)
		1,488,096	610,533

13.1 The bank has an aggregate amount of Rs 4,869.980 million in respect of unabsorbed tax losses as at December 31, 2008 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, 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.

The Schedule does not contain transitory provisions to deal with the disallowances made upto December 31, 2007 and certain other matters including treatment relating to leases disbursed by the bank. This issue has been taken up with the tax authorities through the Pakistan Banks' Association for formulation of transitory provisions to deal with the items which were previously treated differently under the applicable provisions.

The deferred tax asset on the deductible temporary differences disallowed as a deduction in the past upto December 31, 2007 is being kept as an asset whereas deferred tax liability on certain balances (including deferred tax liability amounting to Rs 181.459 million on net investment in finance lease) is being kept as liability as the bank is confident that transitory provisions would be introduced to set out the mechanism of claiming where benefit for these allowances can be claimed.

14. OTHER ASSETS

	Note	2008	2007
		(Rupees in '000)	
Income / mark-up accrued in local currency		1,334,295	895,757
Income / mark-up accrued in foreign currencies		158	-
Advances, deposits, advance rent and other prepayments		364,147	89,512
Taxation (payments less provisions)		30,420	70,682
Stationery and stamps in hand		12,770	11,500
Non Banking Assets acquired in satisfaction of claims	14.1	211,642	-
Branch adjustment account		906	43,421
Goodwill	14.2	1,897,600	35,362
Receivable against sale of units of mutual funds and listed equity securities		-	32,734
Dividend receivable		830	-
Others		59,731	14,154
		3,912,499	1,193,122
Provision held against other assets	14.3	(149,555)	(4,707)
Other assets - net of provision		3,762,944	1,188,415

14.1 The market value of non-banking assets acquired in satisfaction of claims as per the valuation report dated January 24, 2008 amounted to Rs 220 million.

14.2 Goodwill

	Note	2008	2007
		(Rupees in '000)	
Goodwill recognised on acquisition of IHFL		35,362	35,362
Goodwill recognised on acquisition of KASB Capital Limited	6.5	1,717,390	-
Goodwill recognised on acquisition of Network Leasing Corporation Limited	6.5.5	144,848	-
		1,897,600	35,362

14.3 Provision against other assets

	Note	2008	2007
Opening balance at January 1		4,707	4,707
Charge for the year	14.4	144,848	-
Closing balance at December 31		149,555	4,707

14.4 This represents impairment charge in respect of goodwill arising on acquisition of Network Leasing Corporation Limited as more fully explained in note 6.5.5 to the financial statements.

15. CONTINGENT ASSETS

There were no contingent assets of the bank as at December 31, 2008.

		Note	2008	2007
			(Rupees in '000)	
16.	**BILLS PAYABLE**			
	Bills payable in Pakistan.		217,520	879,152
17.	**BORROWINGS**			
	In Pakistan		6,297,878	1,639,706
	Outside Pakistan		2,744	106,101
			6,300,622	1,745,807
17.1	**Particulars of borrowings**			
	In local currency		6,297,878	1,639,706
	In foreign currencies		2,744	106,101
			6,300,622	1,745,807
17.2	**Details of borrowings secured / unsecured**			
	Secured			
	Borrowing from the State Bank of Pakistan under export refinance scheme	17.2.1	2,475,309	1,254,061
	Borrowing from the State Bank of Pakistan under Long Term Finance (LTF) for export oriented projects	17.2.2	203,400	285,645
	Repurchase agreement borrowings	17.2.3	1,210,903	-
	Borrowing from banks and financial institutions	17.3	558,266	-
			4,447,878	1,539,706
	Unsecured			
	Call money borrowings with:			
	- State Bank of Pakistan	17.4	800,000	-
	- Other financial institutions	17.4	1,050,000	100,000
	Overdrawn nostro accounts		2,744	106,101
			1,852,744	206,101
			6,300,622	1,745,807

17.2.1 The bank has entered into agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to 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 finance by directly debiting the current account maintained by the bank with the SBP. Borrowing from the SBP under the export refinance scheme is secured by the bank's cash and security balances held by the SBP. The mark-up rate on this facility is 6.5 percent per annum (2007: 6.5 percent per annum) payable on quarterly basis.

17.2.2 These borrowings have been obtained from SBP for providing financing facilities to customers for import of machinery, plant, equipment and accessories thereof (not manufactured locally) by export oriented units. The mark-up rate on this facility is 6.5 percent per annum (2007: 6.5 percent per annum) payable on quarterly basis.

17.2.3 Repurchase agreement borrowings carry mark-up at rates ranging from 10.09 percent to 15.01percent respectively (2007: Nil and 11 percent respectively).

17.3 This includes financing facilities amounting to Rs. 624.622 million (provisional fair value amounting to Rs. 558.266 million) obtained by Network Leasing Corporation Limited and KASB Capital Limited (both now part of the bank) from banks and Non-Banking Finance Companies (NBFC). Out of the total carrying value of financing facilities, facilities having carrying value amounting to Rs 378.236 million are secured by a first hypothecation charge on specific leased assets, pledge of shares and the related lease rentals receivable. Mark-up on these facilities is payable at rates ranging from 1.5 percent to 17 percent per annum.

In respect of certain outstanding financing facilities taken by the NLCL , the management of the bank has approached the selected finance providers, i.e. banks and NBFCs, for early settlement of the outstanding amount of principal. Out of the twenty banks and financial institutions, eight banks and financial institutions have acceded to the proposal uptil December 31, 2008. The effects of these acceded proposals have been adjusted by the management of the bank at the time of recognition of these liabilities at their respective fair values in the books of the bank. The management intends to approach the remaining banks and financial institutions for early settlement of the liabilities and believes that this will be formalized in the financial year ending December 31, 2009.

17.4 These carry mark-up at the rates ranging from 18 percent to 21 percent per annum.

18. DEPOSITS AND OTHER ACCOUNTS

	2008	2007
	(Rupees in '000)	
Customers		
Remunerative		
Fixed deposits	18,437,251	15,165,536
Savings deposits	8,928,113	8,723,263
	27,365,364	23,888,799
Non-Remunerative		
Current accounts	3,671,559	3,424,258
Margin deposits	364,014	374,262
	4,035,573	3,798,520
	31,400,937	27,687,319
Financial Institutions		
Remunerative deposits		
Savings deposits	1,959,495	857,256
Term deposits	1,715,600	4,498,500
Non-remunerative deposits		
Current accounts	11,445	88,698
	3,686,540	5,444,454
	35,087,477	33,131,773

18.1 Particulars of deposits and other deposits

	2008	2007
In local currency	33,861,660	32,466,628
In foreign currencies	1,225,817	665,145
	35,087,477	33,131,773

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2008			2007		
	Minimum lease payments	Finance charge for future periods	Principal outstanding	Minimum lease payments	Finance charge for future periods	Principal outstanding
	(Rupees in '000)					
Not later than one year	4,845	1,174	3,671	1,068	86	982
Later than one year and not later than five years	6,604	590	6,014	447	1	446
	11,449	1,764	9,685	1,515	87	1,428

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 13.93% to 18.24% (2007: 9.14% to 14.74%) per annum which has been used as discounting factor and are payable monthly. 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	2008	2007
		(Rupees in '000)	
Mark-up / return / interest payable in local currency		463,150	331,016
Mark-up / return / interest payable in foreign currencies		10,545	8,931
Advance against leases		1,727	20,562
Accrued expenses		91,558	56,951
Security deposit against lease	20.1	287,572	285,776
Provision for compensated absences	20.2	8,360	9,689
Provision for gratuity	36.4	74,706	40,115
Unrealised loss on forward foreign exchange contracts		1,576	522
Others		45,093	94,858
		984,287	848,420

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 as at December 31, 2008. The provision has been determined on the basis of basic salaries of the employees for the month of December 2005 pursuant to the decision of the management to freeze this benefit as at this date.

21. SHARE CAPITAL

21.1 Authorised Capital

2008	2007		2008	2007
(Number of shares)			(Rupees in '000)	
2,500,000,000	600,000,000	Ordinary shares of Rs. 10 each	25,000,000	6,000,000

Issued, subscribed and paid up

172,850,902	172,850,902	Ordinary shares fully paid in cash	1,728,509	1,728,509
11,600,000	11,600,000	Ordinary shares issued as fully paid bonus shares	116,000	116,000
89,001,900	89,001,900	Ordinary shares issued on amalgamation of investment segment of KASB & Co.	890,019	890,019
8,834,942	8,834,942	Ordinary shares issued on amalgamation of KASB Leasing	88,349	88,349
(30,089,900)	(30,089,900)	Ordinary shares of the bank cancelled previously held by KASB & Co.	(300,899)	(300,899)
58,500,000	58,500,000	Ordinary shares issued on amalgamation of International Housing Finance Limited	585,000	585,000
90,791,236	-	Right shares issued during 2008	907,912	-
401,489,080	310,697,844		4,014,890	3,106,978

21.2 In accordance with Section 14 of the Banking Companies Ordinance (BCO), 1962, the issued subscribed and paid-up capital of the bank should not at any point in time be less than one half of the authorised capital of the bank. The authorised capital of the bank as at December 31, 2008 amounted to Rs 25 billion based on which the issued, subscribed and paid-up capital of the bank should have been Rs 12.5 billion (without considering the effect of profits / losses or any other reserves of the bank). The management of the bank has approached the SBP for seeking relaxation in respect of the applicability of Section 14 of the BCO and a reply on this matter is pending to date.

21.3 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	310,697,844	3,106,978
Right shares issued during the year	90,791,236	907,912
Closing balance at December 31	401,489,080	4,014,890

		2008	2007
21.4	**Shares held by the related parties of the bank and others**	**Number of shares**	
21.4.1	**Name of shareholder**		
	Mr. Nasir Ali Shah Bukhari	117,117,141	94,776,425
	Ms. Ambreen Bukhari	14,140,450	10,397,390
	Mr. Muzzaffar Ali Shah Bukhari	14,123,736	10,385,100
	Mr. Mahmood Ali Shah Bukhari	14,122,240	10,384,000
	Mr. H. U. Beg	1,058,603	778,385
	Mr. Sohail Wajahat H. Siddiqui	1,162	855
	Mr. Tariq M. Rangoonwala	4,976	3,659
	Mr. N.K. Shahani	74,080	22,500
	Ms. Syeda Mubashira Bukhari	14,122,240	10,384,000
	Mr. Irtiza Hussain	-	1,962
	Mr. Syed Asghar Ali Shah	500	-
	Mr. Muneer Kamal	748	27,850
21.4.2	Key Management Personnel	44,795	40,189

21.5 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. 19 dated September 05, 2008. As per the requirements, the minimum paid-up capital (net of losses) requirement for locally incorporated banks was raised to Rs 23 billion (net of losses), to be achieved in a phased manner by December 31, 2013. The minimum paid-up capital requirement (net of losses) to be achieved by December 31, 2008 is Rs 5 billion. The paid-up capital of the bank as at December 31, 2008 amounts to Rs 4,014.890 million and the bank has accumulated losses of Rs 974.788 million.

21.6 As more fully explained in note 1.3 and 6 to the financial statements, in order to comply with the minimum capital requirements prescribed by the State Bank of Pakistan (SBP) pursuant to the scheme of amalgamation, the entire undertaking of KASB Capital Limited (KCL) and Network Leasing Corporation Limited (NLCL) including properties, assets, liabilities and the rights and obligations of KCL and NLCL as at December 31, 2008 have been amalgamated into and vested with the bank as at that date. In consideration for the amalgamation, the bank intends to allot 361,797,538 fully paid ordinary shares to the shareholders of KCL and 7,403 fully paid ordinary shares to the shareholders of NLCL subsequent to the year ended December 31, 2008, which will rank pari passu with the existing shares of the bank.

Consequent to the aforementioned further issue of capital upon amalgamation of the entities into the bank, the issued, subscribed and paid-up capital of the bank subsequent to the year ended December 31, 2008 will be increased to Rs. 7,632.940 million.

21.7 EMPLOYEE STOCK OPTION PLAN

21.7.1 The bank had established an Employee Stock Option Plan (the '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 had forwarded an application to the Securities and Exchange Commission of Pakistan (SECP) for approval of the plan.

The plan will be administered by a Committee constituted by the Board of Directors of the bank which shall allocate stock 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.

The Plan has not been accounted for in these financial statements 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, 2008.

		Note	2008	2007
			(Rupees in '000)	
22.	**SURPLUS ON REVALUATION OF ASSETS - NET OF TAX**			
	Surplus on revaluation of fixed assets - net of tax	22.1	482,969	-
	(Deficit) / surplus on revaluation of securities - net of tax	22.2	(96,602)	111,537
			386,367	111,537

	Note	2008	2007
		(Rupees in '000)	

22.1 Surplus on revaluation of fixed assets - net of tax

	Note	2008	2007
Surplus on revaluation of fixed assets as at January 01		-	-
Surplus arising on revaluation of fixed assets during the year		739,372	-
Transferred to accumulated loss in respect of incremental depreciation charge on related assets - net of deferred tax		(5,678)	-
Related deferred tax liability		(3,058)	-
		(8,736)	-
Surplus on revaluation of fixed assets as at December 31		730,636	-
Less: Related deferred tax liability on:			
- revaluation		250,725	-
- incremental depreciation charged during the year transferred to profit and loss account		(3,058)	-
		247,667	-
		482,969	-

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

	Note	2008	2007
Federal government securities		(41,777)	(26,093)
Term finance certificates - listed		175	693
Units of mutual funds		(77,290)	21,217
Ordinary shares - listed		(158,075)	121,705
		(276,967)	117,522
Amount of impairment losses on investment classified as available for sale transferred to profit and loss account	10.3	158,075	-
		(118,892)	117,522
Related deferred tax asset / (tax liability)		22,290	(5,985)
		(96,602)	111,537

23. CONTINGENCIES AND COMMITMENTS

23.1 Direct credit substitutes

	2008	2007
Acceptances	1,843,971	1,935,011

23.2 Transaction-related contingent liabilities

	2008	2007
Guarantees issued favouring:		
- Government	8,081,693	2,392,925
- Others	1,417,875	967,549
	9,499,568	3,360,474

23.3 Trade-related contingent liabilities

	2008	2007
Letters of credit	817,726	3,488,493

23.4 Taxation matters have been disclosed in note 23.8 to these financial statements.

23.5 Commitments in respect of forward exchange contracts

	2008	2007
Purchase		
From the State Bank of Pakistan	8,930	7,064
From other banks	1,369,656	405,900
From other customers	50,582	60,667
	1,429,168	473,631
Sale		
To banks	676,238	694,642
To customers	-	-
	676,238	694,642
	2,105,406	1,168,273

	2008	2007
	(Rupees in '000)	
23.6 Commitments for the acquisition of operating fixed assets	699,546	422,999

23.6.1 This includes an amount of Rs. 545.354 million committed to KASB Developers (Private) Limited (as more fully explained in note 12.1.1 to the financial statements) for acquiring a commercial space, being paid in installments, in KASB Altitude. The amount payable in each of the next 4 years is as under:

	Rupees in '000
2009	159,617
2010	159,617
2011	159,617
2012	66,503
	545,354

23.7 Other commitments

23.7.1 Commitment to extend credits

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

23.7.2 Payment in respect of purchase of shares in Shakarganj Food Products Limited amounting to Rs 50 million (as more fully explained in note 10.6 to the financial statements).

23.8 Taxation

23.8.1 Taxation excluding Azad Jammu and Kashmir

(a) The income tax returns of the bank have been filed under the self assessment scheme upto and including the tax year 2008. The assessment of the bank for the tax years 2003 and 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. The above-mentioned disallowances for the tax year 2003 and 2004 have resulted in an additional tax liability of Rs 17.935 million and Rs 55.023 million respectively. The Commissioner of Income Tax Appeals (CIT - Appeals), through the order dated May 31, 2006, has decided the matters relating to tax year 2004 against the bank and has maintained the above-mentioned disallowances made by the Taxation Officer. Presently, the bank has filed an appeal before the Income Tax Appellate Tribunal (ITAT) in respect of tax year 2004 which is pending to date. The bank has also filed an appeal with the CIT-Appeals in connection with the above amendments made by the Taxation Officer in respect of additions relating to tax year 2003 which is pending to date.

(b) Income tax assessments of International Housing Finance Limited (amalgamated into the bank during the year ended December 31, 2007) for tax years 2003-2006 have also been amended by the Taxation Officer on account of income from carry over transactions, gain on sale of units of mutual funds, provision for doubtful debts, gain on sale of property and certain other items resulting in a tax demand of Rs 35.973 million. The bank has filed an appeal with the CIT Appeals in respect of the above-mentioned disallowances which is pending to

On a prudent basis, in connection with items (a) and (b) above, tax impact of Rs 48.362 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 amounting to Rs 60.569 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.

23.8.2 Taxation - Azad Jammu and Kashmir

Income tax assessments of the Azad Jammu Kashmir Region (AJK) in respect of the operations of the bank had been finalised upto the tax year 2008 (including tax years 2006 to 2008 which have been finalised under Self Assessment Scheme and have not yet been selected for audit). While finalising tax year 2003, 2004 and 2005 the income tax authorities of AJK region had arbitrarily increased the taxable income of the bank mainly on account of excessive additions to Azad Kashmir region's shadow cost of funds resulting in an additional tax demand of Rs 17.314 million. The bank has filed reference with the Azad Kashmir High Court against such additions for tax years 2003 and 2004. For tax year 2005, the bank’s appeal is pending before the Commissioner Appeals.

No provision for the above tax demand of Rs 17.314 million has been recognised in these financial statements. Further, no provision has also been made in respect of tax year 2006 to 2009 as the management is hopeful of a favourable decision on the issue pending in appeals.

24. DERIVATIVE INSTRUMENTS

The bank at present does not offer structured derivative products such as Interest Rate Swaps, Forward Rate Agreements or FX Options. However, the bank's Treasury buys and sells derivative instruments such as:

- Forward Foreign Exchange Contracts
- Foreign Exchange Swaps

Forward Foreign Exchange Contracts:

Forward foreign exchange contract is a product offered to customer backed by international trading contract. These customers use this product to hedge themselves from unfavourable movements in foreign currencies.

In order to mitigate the risk of adverse exchange rate movements, the bank hedges its exposure by taking forward position in the inter bank market. In addition to this, the exposure is also managed by matching the maturities and fixing the counter parties, dealers, intra-day and overnight limits.

Foreign Exchange Swaps:

A foreign exchange Swap (FX Swap) is used by the bank if it has a need to exchange one currency for another currency on one day and then re-exchange those currencies at a later date. Exchange rates and forward margins are determined in the "interbank" market and fluctuate according to supply and demand.

	2008	2007
	(Rupees in '000)	

25. MARK-UP / RETURN / INTEREST EARNED

On loans and advances		
- Customers	4,051,966	2,275,338
- Financial Institutions	9,323	10,859
On investments in:		
- available for sale securities	496,998	383,301
- held to maturity securities	59,261	73,157
- held for trading	-	4,130
On deposits with financial institutions	14,176	61,304
On securities purchased under resale agreements	222,612	82,878
On call money lending	7,064	5,629
On listed equity securities purchased under resale agreements	-	20,748
	4,861,400	2,917,344

26. MARK-UP/ RETURN / INTEREST EXPENSED

Deposits	3,829,792	2,066,879
Securities sold under repurchase agreements	70,510	1,446
Borrowing from the State Bank of Pakistan under export refinance	106,474	122,510
Call borrowing	414,364	52,316
Short term borrowings	-	6,049
Forward cover fee	279	282
Amortization of premium on securities	27,021	35,899
	4,448,440	2,285,381

27. GAIN ON SALE OF SECURITIES - NET

Ordinary shares - listed	127,199	128,931
Mutual funds	36,636	-
	163,835	128,931

28. OTHER INCOME

Rent on property	297	-
Gain on disposal of fixed assets - net	3,903	197
Others	51,637	42,266
	55,837	42,463

29. ADMINISTRATIVE EXPENSES

	Note	2008 (Rupees in '000)	2007 (Rupees in '000)
Salaries, allowances and other benefits		795,396	510,651
Charge in respect of defined benefit gratuity scheme		39,205	23,816
Director fee		5,625	4,767
Contribution to defined contribution plan		25,935	17,694
Rent, taxes, insurance and electricity		230,726	123,154
Legal and professional charges		62,819	25,226
Communication charges		56,416	35,630
Repairs and maintenance		46,760	33,969
Software and IT service charges		46,592	19,025
Finance charge on lease obligations		152	289
Stationery and printing		26,603	18,094
Advertisement and publicity		85,360	123,318
Depreciation	12.2	141,111	86,195
Amortization	12.4	27,151	7,713
Auditors' remuneration	29.1	10,386	4,282
Vehicle running expenses		15,608	20,966
Brokerage and commission		4,207	1,979
Security charges		29,111	17,169
Fee and subscription		49,466	38,311
Correspondence charges		14,059	5,023
Entertainment		12,986	8,408
Travelling expenses		18,768	16,892
Donations	29.2	3,091	80
Others		11,499	11,085
		1,759,032	1,153,736

29.1 Auditors' remuneration

	2008	2007
Audit fee	1,300	1,000
Fee for half yearly review	500	300
Special certifications and sundry services	8,000	1,500
Tax services	371	730
Out-of-pocket expenses	215	752
	10,386	4,282

29.2 None of the directors or their spouses had any interest in the donees. The details of the donations paid in excess of Rs 100,000 during the year are as under:

	2008 (Rupees in '000)	2007 (Rupees in '000)
CSD Super Market	2,900	-

30. OTHER PORTIONS / WRITE OFFS

	2008	2007
Fixed assets written off	1,347	-
Others	7,935	-
	9,282	-

31. OTHER CHARGES

	2008	2007
Penalties imposed by the State Bank of Pakistan	9,561	12,193
Balances no longer receivable written off	45,044	-
Others	9,489	8,975
	64,094	21,168

32. TAXATION

	2008	2007
	(Rupees in '000)	
For the year		
- Current	25,078	20,350
- Deferred	(927,814)	(4,846)
	(902,736)	15,504
For the prior years		
- Current	26,506	-
- Deferred	-	(147,635)
	(876,230)	(132,131)

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

	2008	2007
(Loss) / profit before taxation	(1,849,199)	65,562
Tax at the applicable tax rate of 35 percent	(647,220)	22,947
Tax effect on separate block of income	108,759	-
Tax effect on exempt income	-	(45,389)
Tax effect on permanent differences	(392,321)	14,691
Tax effect of goodwill on sale of subsidiary and associate	-	23,255
Deferred tax - prior years	26,506	(147,635)
Others	28,046	-
	(876,230)	(132,131)

33. (LOSS) / EARNINGS PER SHARE

	2008	2007
(Loss) / profit for the year after taxation	(972,969)	197,693
	Number of Shares	
Weighted average number of ordinary shares outstanding during the year	400,662,876	249,323,388
	(Rupees)	
(Loss) / earnings per share	(2.43)	0.79

33.1 Diluted earnings per share has not been presented as the bank does not have any convertible instruments in issue at December 31, 2007 and 2008 which would have any effect on the earnings per share if the option to convert is exercised.

34. CASH AND CASH EQUIVALENTS

	Note	2008	2007
		(Rupees in '000)	
Cash and balances with treasury banks	7	1,507,632	3,001,895
Balances with other banks	8	59,093	807,555
Overdrawn nostro accounts	17	(2,744)	(106,101)
		1,563,981	3,703,349

35. STAFF STRENGTH

	2008	2007
	Number	
Permanent	1,081	869
Temporary / on contractual basis	53	23
Bank's own staff strength at the end of the year	1,134	892
Outsourced*	668	428
Total staff strength **	1,802	1,320

* 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.

** This includes staff transferred from KASB Capital Limited and Network Leasing Corporation Limited consequent to the amalgamation of KCL and NLCL with and into the bank as at the close of business of December 31, 2008.

36. STAFF RETIREMENT BENEFITS

36.1 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.

36.2 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, 2008 using the Projected Unit Credit Method. The following significant assumptions were used for the valuation of the scheme:

	2008	2007
Discount rate	15%	10%
Expected rate of salary increase	15%	10%

36.3 Reconciliation of liability recognised by the bank

	2008	2007
	(Rupees in '000)	
Present value of unfunded obligations	74,706	42,132
Unrecognised past service cost	-	(2,017)
Liability recognised by the bank	74,706	40,115

36.4 Movement in liability recognised by the bank

	2008	2007
Balance as at January 1	40,115	20,763
Charge for the year	39,205	23,816
Payments made during the year	(4,614)	(4,464)
Balance as at December 31	74,706	40,115

36.5 Charge for the year

	2008	2007
Current service cost	22,267	12,079
Interest cost	4,213	2,682
Actuarial losses recognised	10,708	4,120
Past service cost recognised	2,017	4,035
Liability of employees previously not entitled for gratuity	-	900
	39,205	23,816

36.6 Historical information

	2008	2007	2006	2005	2004
	Rupees in '000				
Defined benefit obligation	74,706	40,115	20,763	-	-
Fair value of plan assets	-	-	-	-	-
Deficit	(74,706)	(40,115)	(20,763)	-	-
Experience adjustments on plan liabilities	-	-	-	-	-
Experience adjustments on plan assets	-	-	-	-	-

36.6.1 An approved unfunded gratuity scheme was introduced for all permanent employees during the year ended December 31, 2006. Accordingly, the above details do not contain information relating to 2004 and 2005.

36.6.2 All actuarial gains / losses arising at each valuation date are recognised as income and expense immediately. Accordingly, there has been no effect of experience adjustments on plan liability during the years from 2006 to 2008.

36.6.3 Based on actuarial advice, the bank intends to charge an amount of approximately Rs 33.080 million in respect of gratuity fund in the financial statements for the year ending December 31, 2009.

36.6.4 The information provided in notes 36.2 to 36.6 has been obtained from the valuation carried out by independent actuaries as at December 31, 2008.

37. COMPENSATION OF DIRECTORS AND EXECUTIVES

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

	President / Chief Executive		Directors		Executives	
	2008	2007	2008	2007	2008	2007
	(Rupees in '000)					
Fees	-	-	5,625	4,767	-	-
Managerial remuneration	11,600	5,667	-	330	179,552	82,288
Contribution to defined contribution plan	966	472	-	-	13,041	6,069
Contribution to defined benefit plan	1,740	740	-	-	21,126	7,380
Rent and house maintenance	3,480	1,700	-	135	53,866	24,686
Utilities	1,160	567	-	-	17,955	8,229
Medical	1,160	567	-	-	17,955	8,229
Others	-	1,133	-	71	-	15,996
	20,106	10,846	5,625	5,303	303,495	152,877
Number of persons	1	1	6	7	173	124

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

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 marketable 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 922.721 million (2007: Rs 598.270 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 43.4.3 and 43.5.1 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

	2008			2007		
	Book value	Fair value	Gain / (loss)	Book value	Fair value	Gain / (loss)
	(Rupees in '000)					
Forward purchase of foreign exchange	1,429,168	1,409,244	(19,924)	473,631	479,234	5,603
Forward agreements for borrowings	-	-	-	-	-	-
Forward sale of foreign exchange	676,238	694,586	18,348	694,642	705,435	10,793
Forward agreements for lendings	-	-	-	-	-	-

39. Segment details with respect to business activities

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

	Corporate	Trading and sales	Retail banking	Commercial banking	Others	Total
	-------------------------------------(Rupees in '000)					--------------------------------------
December 31, 2008						
Total income (net of interest expense and provisions) *	486,839	13,084	(860,202)	305,708	37,780	(16,791)
Administrative and other expenses	14,058	296,740	244,443	45,441	1,231,726	1,832,408
Net income / (loss) before tax	472,781	(283,656)	(1,104,645)	260,267	(1,193,946)	(1,849,199)
Segment assets (gross)	18,827,452	7,666,457	5,187,784	13,508,182	9,879,839	55,069,714
Segment non-performing loans	-	-	756,406	5,489,373	-	6,245,779
Segment provision required	-	187,964	258,504	2,674,593	149,555	3,270,616
Segment liabilities	4,721,195	3,622,897	24,923,489	4,268,446	5,063,564	42,599,591
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

* Net of gain on remeasurement of previously held equity interest in associate arising upon amalgamation.

39.1 The above analysis includes allocation of items as per approved mapping policy of the bank.

39.2 The bank is in the process of upgrading its systems and this will also appropriately cater to the information requirements (including information relating to segment cost of funds and return on assets) 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, 2008.
- 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 bank is not engaged in any trust activities.

41. RELATED PARTY TRANSACTIONS

The bank has a related party relationship with its associated undertakings, associates, subsidiary companies, employee benefit plans, and its key management personnel (including their associates).

Usual transactions with related parties other than executives include deposits, advances, acceptances and provision of other banking services. Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk. Transactions with the executives are undertaken at terms in accordance with employment agreements and services rules and includes provision of advances on terms softer than those offered to the customers of the bank. Contributions to and accruals in respect of staff retirement benefit plan are made in accordance with the actuarial valuation / terms of benefit plan .

Contributions to the contributory provident fund scheme are made in accordance with the terms of the contribution plan.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the bank. The bank considers all member of their management team, including the Chief Executive and Directors to be key management personnel.

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 11.9 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 37 to these financial statements. The details of investments in subsidiary companies is stated in note 10.18 to these financial statements.

		2008					2007				
	Note	Subsidiaries	Directors	Key Management Personnel	Associates	Other related parties	Subsidiaries	Directors	Key Management Personnel	Associates	Other related parties
		(Rupees in '000)									
Balances outstanding as at the year end											
Loans and advances											
Balance as at January 1		19,432	21,000	19,365	-	35,399	23,091	6,644	19,260	-	5,129
Disbursed during the year		93,315	3,604	56,789	-	3,575	58,787	15,759	2,967	-	33,668
Repayments during the year		75,187	2,116	9,478	-	36,252	62,446	1,403	2,862	-	3,398
Balance as at December 31		37,560	22,488	66,676	-	2,722	19,432	21,000	19,365	-	35,399
Deposit accounts											
Balance as at January 1		1,662	3,078	5,662	355,270	62,555	83,054	5,174	5,420	1,435	989
Deposits received during the year		97,923	753,715	138,345	11,431,779	5,459,578	2,857	1,055,631	52,439	5,853,679	315,468
Withdrawals during the year		78,656	747,317	132,479	11,731,815	5,428,474	84,249	1,057,727	52,197	5,499,844	253,902
Balance as at December 31		20,929	9,476	11,528	55,234	93,659	1,662	3,078	5,662	355,270	62,555
Security deposit against lease advances		151	-	-	-	-	-	-	-	-	889
Receivable against expenses		21,311	-	-	95	351	780	-	-	-	169
Commission income receivable		142	-	-	-	-	457	-	-	-	-
Bank profit payable		134	11	118	129	16	-	1	16	281	-
Receivable - mark-up		6,362	-	-	-	-	1,140	-	-	257	-
Unearned mark-up		-	-	-	-	-	-	-	-	-	469
Distribution income receivable		-	-	-	-	-	-	-	-	-	535
Purchase of office equipment and machinery		5,672	-	-	-	3,399	-	-	-	-	-
Advance for acquisition of office premises	12.1.1	-	-	-	-	402,669	-	-	-	-	-
Profit / expense for the year											
Brokerage commission paid		-	-	-	-	-	840	-	-	-	-
Interest income on advances		1,948	640	1,492	-	904	10,681	476	2,771	-	3,176
Interest expense on deposits		-	225	452	68,615	9,268	2,465	185	109	9,594	1,095
Rent income		-	-	-	-	-	283	-	-	-	-
Rent expense		-	-	-	-	-	2,377	-	-	-	-
IT service charges		950	-	-	-	-	4,431	-	-	-	-
Communication expenses		5,841	-	-	-	-	1,386	-	-	-	-
Repairs and maintenance		13,283	-	-	-	-	-	-	-	-	-
Advertisement sponsorship		-	-	-	-	-	-	-	-	-	1,220
Dividend income		-	-	-	-	-	200,100	-	-	-	-
Remuneration paid		-	-	74,319	-	-	-	10,736	40,396	-	-
Administrative expenses		1,563	-	-	-	-	-	-	-	-	169
Directors fees		-	5,625	-	-	-	-	4,767	-	-	-
Bank charges		-	-	-	-	-	-	-	-	-	3
Data communication and networking expenses		-	-	-	-	-	9,423	-	-	-	-
Commission income		-	-	-	-	-	457	-	-	-	-
Distribution and facilitation income		-	-	-	-	-	-	-	-	-	733
Subordinated loan		-	-	-	-	-	-	320,000		297,000	-
Repayment of subordinated loan		-	-	-	-	-	-	320,000		297,000	-
Investment made during the year		100,000	-	-	-	-	-	-	-	680,000	-
Disposal of investment		-	-	-	-	-	300,000	-	-	30,000	-
Advance for acquisition of office premises	12.1.1	-	-	-	-	402,669	-	-	-	-	-

	2008	2007
	(Rupees in '000)	
Contribution to staff provident fund	25,935	17,694
Charge in respect of gratuity scheme	39,205	23,816

42. CAPITAL ADEQUACY

42.1 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 capitalised institution, as defined by regulatory authorities and comparable to the peers;

- Maintain strong ratings and to protect the bank against unexpected events;

- Availability of adequate capital (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. 19 dated September 5, 2008 requires the minimum paid-up capital (net of losses) for banks / Development Finance Institutions to be raised to Rs 23 billion by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs 5 billion paid-up capital (net of losses) by the end of the financial year 2008. The paid-up capital (net of losses) of the bank for the year ended December 31, 2008 stood at Rs 3.040 billion and the remaining short fall will be met through amalgamation of KASB Capital Limited (KCL) and Network Leasing Corporation Limited (NLCL) (as more fully discussed in note 6.2 to the financial statements). In addition, the bank is also required to maintain a minimum Capital Adequacy Ratio (CAR) of 9 percent of the risk weighted exposure of the bank. The bank's CAR as at December 31, 2008 was approximately 9.02 percent of its risk weighted exposure.

Bank’s regulatory capital is analysed in two tiers

Tier I capital, which includes fully paid up capital (including the bonus shares), effect of fair value measurement of capital upon amalgamation, reserves as per the financial statements and net un-appropriated profits / accumulated losses, etc, after deductions for investments in the equity of subsidiary (upto 50% of the equity investment in subsidiary companies) engaged in banking and financial activities, goodwill and intangibles.

Tier II 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 45 percent of the balance in the related revaluation reserves gross of any deferred tax liability) after deduction of 50% of the equity investment of the subsidiary company, etc.

Tier III supplementary capital, which consists of short term subordinated debt, is solely for the purpose of meeting a proportion of the capital requirements for market risks. The bank currently does not have any Tier III capital.

The total of Tier II and Tier III capital has to be limited to Tier I capital.

The capital of the bank is managed keeping in view the minimum “Capital Adequacy Ratio” required by SBP through BSD Circular No. 30 dated November 25, 2008. The adequacy of the capital is tested with reference to the risk-weighted assets of the bank.

The capital adequacy ratio is being maintained by the bank through continuous improvements in risk management & decision making processes. Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined according to the requirements specified by 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, market and operational risk.

On and off-balance sheet assets in the banking book are broken down to various asset classes for calculation of credit risk requirement. External ratings for assets, where available, are applied using the assessments by various External Credit Assessment Institutions (ECAIs) and aligned with appropriate risk buckets. Otherwise, the exposures are treated as unrated and relevant risk weights applied. In addition, there are fixed risk weights for certain types of exposures such as retail portfolio and residential mortgage finance for which external ratings are not applicable. Collaterals if any, are used as credit risk mitigant using simple approach. Risk weights notified, are hence applied to adjusted exposures, wherever credit risk mitigation is available. Collaterals used include: Government of Pakistan guarantees, cash, lien on deposits, shares and government securities that fall within the definition of eligible collaterals and also fulfil other specified criteria under the relevant capital adequacy guidelines.

The calculation of Capital Adequacy enables the bank to assess the long-term soundness. As the bank carries on the business on a wide area 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.

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, using Basel II standardised approaches for credit and market risks and basic indicator approach for operational risk is presented below. Comparative information for 2007 is provided in note 42.3 which has been prepared based on Basel I requirements which were then applicable.

	Note	2008 Rupees in '000
Regulatory capital base		
Tier I capital		
Issued, subscribed and paid-up capital		4,014,890
Shares proposed to be issued	6.1	5,607,976
Effect of fair value measurement of capital upon amalgamation of entities		13,775
Reserves		151,287
Accumulated losses	42.2.1	(974,788)
Less: Book value of goodwill and intangibles		(1,831,558)
Other deductions (represents 50% of majority and significant minority investment in financial entities)	42.2.2	(1,481,779)
Total Tier I Capital		5,499,803
Tier II Capital		
General provisions of loan losses subject to 1.25% of total risk weighted assets		48,745
Revaluation reserve (upto 45%)		275,285
Less: Other deductions (represents 50% of majority and significant minority investment in financial entities)	42.2.2	(1,481,779)
Total Tier II capital		(1,157,749)
Eligible Tier III capital		-
Total regulatory capital	(a)	4,342,054

Risk-weighted exposures	2008	
	Capital Requirement	**Risk adjusted value**
Credit risk	----------- Rupees in '000 -----------	
Portfolios subject to standardised approach (Simple approach for CRM)		
Claims on:		
Banks and securities firms	23,559	294,486
Corporate portfolio	2,026,718	25,333,974
Retail non mortgages	131,876	1,648,451
Mortgages – residential	38,041	475,508
Securitized assets	-	-
Equities	237,933	2,974,159
Fixed assets	212,138	2,651,727
Other assets	150,814	1,885,173
Past due exposures	319,047	3,988,090
Off balance sheet items:		
Non-market related:		

Risk-weighted exposures	Note	2008 Capital Requirement	2008 Risk adjusted value
		---------- Rupees in '000 ----------	
Direct credit substitutes		244,047	3,050,588
Performance-related contingencies		162,583	2,032,283
Trade-related contingencies		40,636	507,953
Lending of securities or posting of securities as collateral		-	-
Other commitments		-	-
Market related:			
Outstanding foreign exchange contracts		3,359	41,984
Equity exposure risk in the banking book			
Market Risk			
Capital requirement for portfolios subject to Standardised Approach			
Interest rate risk		5,200	65,000
Equity position risk		78,234	977,925
Foreign exchange risk		2,360	29,500
Operational risk	42.2.5		
Capital requirement for operational risks (Basic indicator approach)		174,064	2,175,800
TOTAL	(b)	3,850,609	48,132,601
Capital adequacy ratio			
Total eligible regulatory capital held	(a)	4,342,054	
Total risk weighted assets	(b)	48,132,601	
Capital adequacy ratio	[(a / b)*100]	9.02%	

42.2.1 The bank does not consider the benefit of Force Sale Valuation (FSV) amounting to Rs 368.194 million (as more fully explained in note 11.6 to the financial statements) as a relaxation allowed by the SBP. Accordingly, the above benefit has not been deducted from Tier I Capital in the computation of capital adequacy ratio of the bank. The bank is aware that a clarification to the contrary was issued by the State Bank of Pakistan. However the management of the bank believes that this benefit is available to the bank as a result of an amendment in the regulatory framework and therefore this cannot be treated as a special relaxation allowed by the State Bank of Pakistan. The bank intends to take up this matter directly with the regulator and through the forum of Pakistan Banks Association (PBA) along with other banks operating in Pakistan. The management is confident that the matter will be resolved in line with the bank’s interpretation. Had this benefit been deducted from Tier 1 Capital, the capital adequacy ratio of the bank would be reduced by 0.50%.

42.2.2 The CAR calculation does not include the impact of deduction of significant minority investments in mutual funds of an associated asset management company which amount to Rs 762.569 million (Rs Nil in 2007). The Bank has not deducted this amount as there is a difference in opinion between the Bank and regulator's interpretation on the treatment. The Bank's interpretation is based on the adoption of the Basel II guidelines in several other countries and is also in line with the interpretation used by some of the other banks operating in Pakistan. The Bank intends to take up this matter directly with the regulator and through the forum of the Pakistan Banking Association (PBA) along with other banks operating in Pakistan. The management of the Bank is extremely hopeful that the matter will be resolved in line with the Bank's interpretation of the aforementioned circular. Had this deduction been incorporated in the CAR calculation the CAR for the year ended December 31, 2008 would have reduced by 1.20% (Nil in 2007).

42.2.3 Cash margin and government securities amounting to Rs 1,547.531 million have been deducted from gross advances using simple approach to credit risk mitigation under Basel II. Advances are not net off with general provision amounting to Rs 48.745 million which is reported separately in Tier II (supplementary) capital as per BSD Circular Letter No 03 dated May 20, 2006.

42.2.4 Cash margin and government securities amounting to Rs 191.213 million have been deducted from off-balance sheet items.

42.2.5 The capital charge for operational risk is a fixed percentage of average positive annual gross income of the bank over past three years (including year 2008).

42.3 Capital adequacy ratio as at December 31, 2007

As at December 31, 2007, 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
Regulatory capital base		**(Rupees in '000**
Tier I capital		
Share capital		4,014,890
Reserves		165,062
Accumulated losses		(7,497)
Less: Adjustments		(61,455)
Tier I capital		4,111,000
Tier II capital		
General provisions subject to 1.25% of total risk weighted assets		32,869
Eligible surplus on revaluation of securities		71,461
Total Tier II capital		104,330
		4,215,330
Eligible Tier III capital		-
Total regulatory capital	**(a)**	4,215,330

Risk-weighted exposures	2007	
	Book Value	**Risk Adjusted Value**
Credit risk	**(Rupees in '000)**	
Balance sheet items:		
Cash and balances with treasury banks	3,001,895	4,075
Balances with other banks	807,555	161,511
Lendings to financial institutions	1,766,398	353,280
Investments	7,277,875	2,462,445
Advances	24,681,503	23,235,362
Operating fixed assets	1,094,748	1,094,748
Deferred tax assets - net	610,533	610,533
Other assets	1,188,415	879,584
	40,428,922	28,801,538
Off balance sheet items		
Loan repayment guarantees	1,935,011	1,935,011
Performance Bonds etc	3,046,267	1,523,133
Stand by letters of credit	3,465,371	1,732,685
Outstanding foreign exchange contracts		
-Purchase	261,769	2,017
-Sale	508,234	2,033
	9,216,652	5,194,879
Credit risk-weighted exposures		33,996,417
Market risk		
General market risk		103,663
Specific market risk		111,512
Market risk-weighted exposures		215,175
Total risk-weighted exposures (b)		34,211,592
Capital Adequacy Ratio [(a) / (b) x 100]		**12.32%**

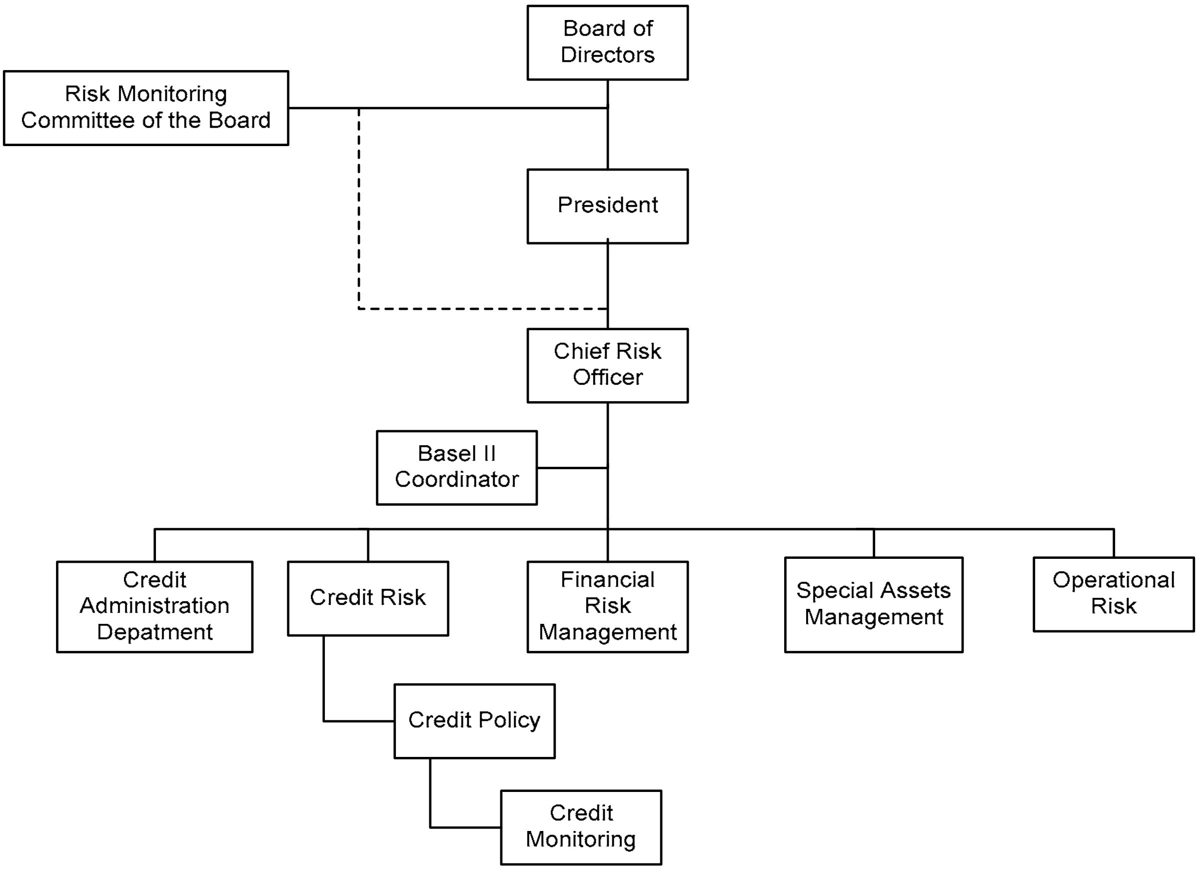
43 RISK MANAGEMENT

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. The bank has implemented a risk management framework which is designed to ensure sound risk management practices guided by best industry practices. The cornerstone of this risk management framework is a strong risk management culture, supported by a robust enterprise-wide set of policies, procedures and guidelines, which involve the bank's risk management professionals and business segments. This partnership is designed to ensure the ongoing alignment of business strategies and activities with the bank's risk appetite. The primary risks associated with the bank are:

- Credit risk - the risk of loss resulting from client or counter party default
- Market risk - exposure to market variables such as interest rates, exchange rates and equity indices
- Liquidity risk - the risk that the bank may be unable to meet its payment obligations when due
- Operational risk - 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 business process re-engineering and inventorying the risks and controls within the bank's existing business and process units. All of these initiatives will have a direct impact on the risk management function within the bank.

The Risk Management structure of the bank has been reorganised to have centralised Credit Administration, Financial Risk, Credit Policy, Consumer and Retail Credit, Credit Risk Management and Operational Risk and Basel II functions reporting directly to the Chief Risk Officer. The bank is endeavouring 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 financial loss if a customer or counter party fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees, and from the bank's holdings of debt securities. Among the risks the bank engages in credit risk that generates the largest regulatory capital requirement.

The aims of credit risk management are principally as follows:

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

The wholesale portfolio, which includes corporate, Middle Market and SME loans are generally collateralised by cash equivalents, fixed and current assets including stocks, property plant and equipment and mortgages. Loans to individuals are typically secured by cash equivalents, residential mortgage & selected listed shares.

Credit risk organization and structure:

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

Credit Approval Authorities and Standardised Procedures:

A system of checks and balances has been established around the extension of credit which is based on an independent risk management function and multiple credit approvers linked to the internal risk rating of an obligor. Every extension of credit is required to be approved by at least three authorised Credit Officers.

Credit Approval Process, Credit Policy & Procedure Manual, Credit Bulletins and the Enterprise Wide Risk Policy have been approved by the Risk Management Committee of the Board of Directors (BOD) and includes:

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

Quarterly reporting is made to the Risk Management Committee of the BOD on all credit exposures approved during the quarter, all changes in classification, provisions and write-offs taken during the quarter.

Credit Risk Portfolio Management:

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

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

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

Risk rating:

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

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

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

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

Mitigants:

A range of initiatives are used to mitigate credit risk.

(a) Credit Principles and Policy:

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

(b) Counter Party Limits and Credit Scoring:

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

(c) Concentration Risk:

The Credit Policy provides limits for industry sector concentrations and through the regular meetings of Credit Risk Monitoring Committee on the portfolio composition, exposures are monitored to prevent excessive concentration of risk.

(d) Collateral:

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

(e) Marginal Accounts:

The bank has set up a mechanism to identify marginal accounts. The basis on which accounts are identified and reported as marginal is irregular mark-up payments and frequent overdue trade bills, etc. The accounts are monitored and reviewed by the Credit Risk Management Committee and the Risk Management Committee of the Board on a quarterly basis.

(f) Risk Acceptance Criteria (RAC):

Generic RACs have been approved and put in place as basic guiding rules.

Special Assets Management (SAM)

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

The SAM portfolio is regularly reviewed by the Credit Risk Management Committee and the Risk Management Committee of the Board and all working plans, recoveries, waivers and write-offs are approved.

43.1.1 Credit Concentration Risk

The bank manages limits and controls concentration of credit risk as identified, in particular to individual counter parties and groups, and to industries, where appropriate. Concentration of credit risk exists if clients are engaged in similar activities or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The bank sets limits on its credit exposure to counter party groups, by industry, product, and counter party, in line with SBP directions / guidelines. Limits are also applied in a variety of forms to portfolios or sectors where the bank considers it appropriate to restrict credit risk concentration or areas of higher risk, or to control the rate of portfolio growth.

43.1.2 Risk Asset Review

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

43.1.3 Segmental information

43.1.3.1 Segments by class of business

	2008					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	390,811	1.11%	748,438	2.13%	35,051	0.23%
Mining and Quarrying	-	0.00%	1,267,335	3.61%	684,006	4.57%
Textile	6,063,622	17.24%	917,265	2.61%	-	0.00%
Chemical and Pharmaceuticals	1,280,155	3.64%	552,269	1.58%	38,581	0.26%
Cement	1,685,614	4.79%	340,933	0.97%	759,920	5.08%
Sugar	1,469,038	4.18%	25,631	0.07%	81,852	0.55%
Footwear and Leather garments	257,100	0.73%	200,231	0.57%	-	0.00%
Automobile and transportation equipment	120,288	0.34%	47,741	0.14%	76,353	0.51%
Electronics and electrical appliances	553,392	1.57%	49,764	0.14%	528,707	3.53%
Construction	1,964,151	5.59%	2,563,023	7.30%	965,985	6.45%
Power (electricity), Gas, Water, Sanitary	-	0.00%	30,390	0.09%	17,877	0.12%
Production & transmission of energy	122,757	0.35%	-	0.00%	117,378	0.78%
Wholesale and Retail Trade	4,044,868	11.50%	1,601,018	4.57%	-	0.00%
Exports / Imports	1,379,620	3.92%	324,227	0.92%	-	0.00%
Food & Beverages	-	0.00%	238,487	0.68%	-	0.00%
Manufacturing	-	0.00%	1,104,723	3.15%	-	0.00%
Transport, Storage and Communication	1,306,873	3.72%	339,477	0.97%	150,362	1.00%
Financial	331,866	0.94%	3,216,665	9.17%	7,048,242	47.09%
Insurance	-	0.00%	322,843	0.92%	-	0.00%
Services	1,331,018	3.79%	2,407,678	6.86%	1,219,344	8.15%
Individuals	5,326,489	15.14%	12,241,445	34.89%	-	0.00%
Others	7,537,188	21.45%	6,547,894	18.66%	3,242,559	21.68%
	35,164,850	100.00%	35,087,477	100.00%	14,966,217	100.00%

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	27.57%	4,596,146	44.30%
	26,046,768	100.00%	33,131,773	100.00%	10,375,250	100.00%

43.1.3.2 Segment by sector

	2008					
	Advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	500,000	-	2,017,783	5.75%	8,090,623	54.06%
Private	34,664,850	98.58%	33,069,694	94.25%	6,875,594	45.94%
	35,164,850	98.58%	35,087,477	100.00%	14,966,217	100.00%

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%

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

	2008		2007	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	(Rupees in '000)			
Chemical & Pharmaceuticals	1,722	1,388	8,893	1,863
Cement	540,000	119,250	-	-
Textile	1,350,272	827,353	402,299	352,204
Sugar	249,900	84,950	-	-
Footwear & Leather garments	2,459	2,459	13,292	13,292
Automobile & Transportation equipment	398,622	344,875	7,268	7,268
Electronics and electrical appliances	1,136,693	848,812	20,650	20,400
Construction	224,087	43,296	10,706	4,333
Wholesale / Retail Trade	473,838	127,335	62,681	57,791
Exports / Imports	4,691	4,691	23,415	22,523
Food & Beverages	180,000	90,000	-	-
Transport, Storage and Communication	-	-	338,631	306,671
Financial	5,460	5,460	5,460	5,460
Services	36,100	21,514	-	-
Individuals	1,277,462	187,128	110,968	31,008
Others	364,473	167,398	65,609	47,933
	6,245,779	2,875,909	1,069,872	870,746

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

	2008		2007	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	(Rupees in '000)			
Public / Government	-	-	-	-
Private	6,245,779	2,875,909	1,069,872	870,746
	6,245,779	2,875,909	1,069,872	870,746

43.1.3.5 Geographical segment analysis

	2008			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan	(1,849,199)	51,799,098	9,199,507	14,966,217
Others	-	-	-	-
	(1,849,199)	51,799,098	9,199,507	14,966,217

	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

43.2 Credit Risk – General Disclosures, Basel II Specific

The bank has adopted the Standardised Approach, under Basel II. According to the regulatory statement submitted under the Standardised Approach, the portfolio has been divided into claims on Public Sector Entities in Pakistan (PSEs), claims on corporate (excluding equity exposure) and claims categorized as retail portfolio. Claims on corporate constitute 62.40% of the total exposure, 1.09% represents claims on PSEs and 5.22% exposure pertains to claims categorized as retail portfolio.

43.3 Credit Risk: Standardised Approach

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

Following are the types of exposure for which each agency is used:

Exposure	JCR-VIS	PACRA	Fitch & Moody's
- Corporate	✔	✔	-
- Banks	✔	✔	✔
- Sovereigns	-	-	-
- SME's	-	-	-
- Securitizations	-	-	-

For exposure amounts after risk mitigation subject to the standardised approach, amount of bank's outstanding (rated & unrated) in each risk bucket as well as those that are deducted are as follows:

Exposure	Rating category No.	Amount outstanding	Deduction CRM*	Net Amount
- Corporate	1	588,224	-	588,224
	2	3,277,962	791,971	2,485,991
	3,4	940,222	-	940,222
	5,6	-	-	-
- Banks	1	165,268	-	165,268
	2,3	271,711	-	271,711
	4,5	-	-	-
	6	-	-	-
- Unrated (Corporate / Retail / Banks)		26,353,038	1,157,658	25,195,380
Total		**31,596,425**	**1,949,629**	**29,646,796**

* CRM= Credit Risk Mitigation

Eligible financial collateral and other eligible collateral after the application of haircuts

The bank has adopted simple approach to credit risk mitigation under Basel II. For the purpose of CRM, the bank uses cash margin, deposits in the name of the borrower under lien and government securities. Also identified as eligible collateral are rated equities held as collateral and satisfying the conditions required for CRM.

Main types of collateral taken by the bank are:-

- Charge on current assets and receivables (stocks)
- Charge on fixed assets
- Mortgage of residential, commercial and industrial property
- Equities and shares held
- Cash, deposits under lien and government securities

43.4 Market risk

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

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

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

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

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 and processes. It has to ensure monitoring and implementation of market risk and other policies. Any deviations are escalated to the Market Risk Policy Committee which comprises of senior management.

The scope of market risk management is as follows:

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

The bank follows guidelines provided by the State Bank of Pakistan under the Basel-II framework in separating its trading and banking book.

Trading Book

- Positions that are held for trading intent or to hedge other elements of the trading book

- Only those positions in the Available-for-Sale (AFS) and Held for Trading (HFT) portfolios are considered a part of the trading book that are managed on a trading desk with appropriate limit structures

- They are marked-to-market on a daily basis

Banking Book

- All other positions are considered part of the banking book

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

43.4.1 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.

	2008			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan rupee	50,878,278	41,360,485	(751,037)	8,766,756
United States dollar	834,704	1,000,618	599,564	433,650
Great Britain pound	38,361	169,415	128,297	(2,757)
Canadian Dollar	247	-	-	247
Japanese yen	2,297	-	(1,755)	542
Euro	45,155	69,073	24,931	1,013
Other currencies	56	-	-	56
	51,799,098	42,599,591	-	9,199,507

	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

43.4.2 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. 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.

43.4.3 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	2008 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	1.85%	1,507,632	252,285	-	-	-	-	-	-	-	-	1,255,347
Balances with other banks	10.55%	59,093	9,778	-	-	-	-	-	-	-	-	49,315
Lending to financial institutions and others	10.31%	556,455	545,892	-	-	-	-	-	-	10,563	-	-
Investments	11.20%	9,454,149	67,534	1,234,866	581,761	-	-	115,910	824,724	-	-	6,629,354
Advances												
Performing	12.73%	28,919,071	22,321,055	3,330,912	2,503,069	153,260	25,566	4,550	126,759	-	453,900	-
Non performing - net of provision		3,321,125	-	-	-	-	-	-	-	-	-	3,321,125
Other assets		1,456,966	-	-	-	-	-	-	-	-	-	1,456,966
		45,274,491	23,196,544	4,565,778	3,084,830	153,260	25,566	120,460	951,483	10,563	453,900	12,712,107
Liabilities												
Bills payable		217,520	-	-	-	-	-	-	-	-	-	217,520
Borrowings	12.75%	6,300,622	3,038,802	2,227,245	859,734	30,164	15,549	-	129,128	-	-	-
Deposits and other accounts	9.97%	35,087,477	17,954,502	3,372,186	4,894,182	3,556,077	602,883	747,689	2,280	-	-	3,957,678
Liabilities against assets subject to finance lease	15.06%	9,685	447	806	806	1,612	4,811	1,203	-	-	-	-
Other liabilities		788,324	-	-	-	-	-	-	-	-	-	788,324
		42,403,628	20,993,751	5,600,237	5,754,722	3,587,853	623,243	748,892	131,408	-	-	4,963,522
On-balance sheet gap		2,870,863	2,202,793	(1,034,459)	(2,669,892)	(3,434,593)	(597,677)	(628,432)	820,075	10,563	453,900	7,748,585
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		1,429,168	1,219,611	193,782	15,775							
Forward sale of foreign exchange		(676,238)	(306,788)	(69,825)	(299,625)							
Off-balance sheet gap		752,930	912,823	123,957	(283,850)	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			3,115,616	(910,502)	(2,953,742)	(3,434,593)	(597,677)	(628,432)	820,075	10,563	453,900	7,748,585
Cumulative Yield/Interest Risk Sensitivity Gap			3,115,616	2,205,114	(748,628)	(4,183,221)	(4,780,898)	(5,409,330)	(4,589,255)	(4,578,692)	(4,124,792)	3,623,793

	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

43.5 Liquidity risk

Liquidity Risk Management

Liquidity risk is the risk that the bank will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management function. The bank follows a comprehensive liquidity risk management policy duly reviewed & approved by the Risk Management Committee of the Board.

The bank’s approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage to business 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. A contingency funding plan is in place to ensure a systematic response in a crisis situation.

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

- Liquidity Gap Reports
- Stress Scenarios
- Various Liquidity Ratios
- Significant Funding Concentrations

43.5.1 Maturities of assets and liabilities

	2008									
	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	1,507,632	1,507,632	-	-	-	-	-	-	-	-
Balances with other banks	59,093	59,093	-	-	-	-	-	-	-	-
Lending to financial institutions and others	556,455	545,892	-	-	-	-	-	-	10,563	-
Investments	9,454,149	298,011	605,367	1,475,720	69,138	237,099	327,711	435,489	1,164,869	4,840,745
Advances										
Performing	28,919,071	8,554,627	6,932,616	5,823,258	2,237,590	1,129,848	796,507	2,184,664	515,706	744,255
Non performing - net of provisions	3,321,125	3,321,125								
Operating fixed assets	2,730,533	19,127	37,897	56,846	230,006	227,383	426,378	364,003	614,001	754,892
Deferred tax assets	1,488,096	174,030	505,602	97,653	163,612	782,222	4,162	(194,806)	(41,241)	(3,138)
Other assets	3,762,944	732,245	792,882	(8,676)	124,891	112,161	12,480	25,134	257,593	1,714,234
	51,799,098	15,211,782	8,874,364	7,444,801	2,825,237	2,488,713	1,567,238	2,814,484	2,521,491	8,050,988
Liabilities										
Bills payable	217,520	217,520								
Borrowings	6,300,622	3,152,863	1,768,979	859,734	197,720	15,549	77,325	228,452	-	-
Deposits and other accounts	35,087,477	21,912,180	3,372,186	4,894,182	3,556,077	602,883	747,689	2,280	-	-
Liabilities against assets subject to finance lease	9,685	447	806	806	1,612	4,811	1,203	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	984,287	586,696	26,061	5,170	8,199	61,317	61,317	235,527	-	-
	42,599,591	25,869,706	5,168,032	5,759,892	3,763,608	684,560	887,534	466,259	-	-
Net assets	9,199,507	(10,657,924)	3,706,332	1,684,909	(938,371)	1,804,153	679,704	2,348,225	2,521,491	8,050,988

Share capital	4,014,890
Subscription money received against proposed issue of right shares	
Reserves	151,287
Effect of fair value measurement of capital on amalgamation	13,775
Accumulated losses	(974,788)
	3,205,164
Shares to be issued	5,607,976
Surplus on revaluation of assets - net	386,367
	9,199,507

	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 and others	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 losses	(7,497)									
	4,172,455									
Surplus on revaluation of assets - net	111,537									
	4,283,992									

43.5.2 The above mentioned maturity profile has been prepared 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:

	2008	2007
	(Rupees in '000)	
Upto one month	7,463,245	7,738,705
One month to three months	4,707,573	7,789,526
Three months to six months	6,351,243	5,800,002
Six months to one year	5,013,138	3,322,222
One year to two years	1,695,679	2,022,337
Two years to three years	1,840,485	1,614,548
Three years to five years	2,187,871	4,844,433
Five years to ten years	5,828,243	-
Above ten years	-	-
	35,087,477	33,131,773

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.

43.6 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 is in the process of developing a comprehensive framework for managing and monitoring of Operational Risk in accordance with SBP guidelines. The bank has taken several major initiatives in developing a framework for internal controls, some of which are:

- The bank has decided to adopt the COSO Framework for internal controls. The process of adoption has been outsourced to an independent specialist. As a first step 'as-is' process documents have been prepared and the process of identification of gaps has been substantially completed. These gaps and appropriate control actions have been reviewed by management and are under implementation.

- Internal control policies and manuals have been approved by the Board of Directors. On a daily basis, all operations control officers report any operational lapses to the Head of Internal Control Unit (ICU) and ensure rectification and compliance with the approved policies.

- The bank with the help of independent consultant has developed IT Policies and Standard Framework that is aligned with the internationally recognized COBIT standards. The framework includes the IT Organizational Framework Policy, IT Human Resource Policy, Data and Information Security Management Policy, Physical Security Policy, Information Technology System Administration, Project & Acquisition, Incident & Problem Management Policy, Quality Assurance Management, Change Management, IT Operations and Communications Management and Third Party Contract Management policy. The bank is in the implementation phase of the aforementioned framework.

44. GENERAL

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

- Unlisted term finance certificates of KASHF Foundation, Azgard Nine Limited and Avari Hotel Limited amounting to Rs 40.972 million, Rs 175 million and Rs 152 million respectively, have been reclassified from available-for-sale investment to 'held to maturity' investments.

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

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 28, 2009 by the Board of Directors of the bank.

President and Chief Executive	Director	Director	Directc

Statement showing written-off loans or any other financial relief of five hundred thousands Rupees or above provided during the year ended December 31, 2008 Annexure - 1

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	Interest/ Mark-up	Others	Total	Principal written-off	Interest/ Markup written-off	Other financial relief provided	Total (9+10+11)
1	2	3	4	5	6	7	8	9	10	11	12
1	**International Tractors** Plot 27, Sector 15, Korangi Industrial Area, P.O. Box No. 8220, Karachi.	Mr. Asfand Abbas Khan Niazi 42301-3844943-3	Mr. Tariq Abbas Khan Niazi	7.268	0.284	-	7.552	2.180	0.284	-	2.464
		Mr. Tariq Abbas Khan Niazi 42301-9055447-7	Mr. Lutuf-ullah Khan Niazi								
		Mr. Usama Abbas Khan Niazi 42301-0971775-7	Mr. Lutuf-ullah Khan Niazi								
		Mr. Asad Abbas Khan Niazi 42301-7504631-3	Mr. Lutuf-ullah Khan Niazi								
		Mrs. Hamdia Fatin Niazi 61101-9476390-8	Mr. Asad Alam Niazi								
2	**Sharif Soap Factory** 15- D, Agha Siraj Complex, Circular Road Quetta.	Mohammad Aslam 601-88-194026	Ch. Mohammad Sharif	1.300	0.174	-	1.474	1.300	0.174	-	1.474
		Mrs. Ghulam Zahra 602-62-048474	Mr. Mohammad Aslam								
3	**Abdullah Tehseen** 67-G.T. Road, Hide Market, Lahore.	Sheikh Muhammad Ashiq 35202-6105019-5	Sh. Muhammad Abdullah	5.747	0.805	-	6.552	5.747	0.748	-	6.495
4	**Unity High School** Badian Road, Theater Village, Lahore.	Mr. Khalid Gulraiz Mir 35201-1490896-3	Mr. Noor Muhammad Mir	13.435	0.828	-	14.263	3.482	0.828	-	4.310
		Laila Khalid Mir 272-79-629022	Mr. Khalid Gulraiz Mir								
5	**MARK Tractors** 193, P, Model Town Extension, Model Town, Lahore.	Mr. Khalid Gulraiz Mir 35201-1490896-3	Mr. Noor Muhammad Mir	10.549	1.233	-	11.782	-	1.233	-	1.233
		Mst. Merun Khalid Mir 35201-5004844-4	Mr. Khalid Gulraiz Mir								
		Mr. Abid Pervaiz Mir 35202-5056742-5	Mr. Noor Muhammad Mir								
		Mst. Rubina Abid Pervaiz Mir 35202-2733541-0	Mr. Abid Pervaiz Mir								
6	**Mr. Garments** BS -1, Block 16, Federal "B" Area, Karachi.	Syed Shujaat Ali 42201-2006601-5	Syed Sharafat Ali	1.064	3.556	-	4.620	-	3.424	-	3.424
7	**VIVA International** Office at Second Floor, Zaman Plaza, The Mall Lahore.	Mr. Muhammad Usman 35201-1533441-1	Mr. Muhammad Rafique	41.990	3.030	-	45.020	-	2.030	-	2.030
		Mr. Muhammad Tariq 35202-5897014-7	Mr. Muhammad Rafique								
		Rabia Usman 35201-1435352-8	Mr. Muhammad Usman								
		Mr. Umer Usman 35201-9823648-7	Mr. Muhammad Usman								
		Mr. Ali Usman 35202-9186939-7	Mr. Muhammad Usman								
								12.71	**8.72**	**-**	**21.43**

A.F. FERGUSON & CO.

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of **KASB Bank Limited** (the Holding Company) and its subsidiaries as at December 31, 2008 and the related consolidated Profit and Loss Account, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. These consolidated financial statements include the unaudited certified returns from the branches of the Holding Company, except for twelve branches which have been audited by us. We have also expressed separate opinions on the financial statements of the Holding Company and its subsidiaries except for KASB International Limited which are unaudited and KASB Modaraba Management (Private) Limited which were subject to a limited scope review by another firm of chartered accountants whose report has been furnished to us and our opinion, in so far as it relates to the amounts included for the company, is based solely on the report of such other auditors. Our opinion, in so far as it relates to the amounts included for KASB International Limited, is based solely on information provided by the management. The details of modifications on the financial statements of KASB Modaraba and KASB Technology Services Limited are given in note 45 to the consolidated financial statements.

These consolidated financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements examined by us, based on the twelve branches audited by us and the returns referred to above received from the branches which have been found adequate for the purposes of our audit, present fairly the financial position of KASB Bank Limited and its subsidiaries as at December 31, 2008 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Chartered Accountants

Karachi

Date

KASB BANK LIMITED
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2008

	Note	2008	2007
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	1,507,650	3,001,928
Balances with other banks	8	59,112	806,967
Lendings to financial institutions and others	9	556,455	1,766,398
Investments (including investments amounting to Rs 1,138,020 thousand classified as held for sale)	10	6,400,669	7,280,455
Advances	11	32,240,196	25,123,721
Operating fixed assets	12	2,731,864	1,108,021
Deferred tax assets - net	13	1,589,042	657,897
Other assets - net (including assets amounting to Rs 3,309,354 thousand classified as held for sale)	14	8,609,419	1,202,493
		53,694,407	40,947,880
LIABILITIES			
Bills payable	16	217,520	879,152
Borrowings	17	6,300,622	1,746,375
Deposits and other accounts	18	35,080,800	33,130,112
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	19	9,685	1,428
Deferred tax liabilities		-	-
Other liabilities (including liabilities amounting to Rs 1,367,351 thousand classified as held for sale)	20	2,484,423	949,674
		44,093,050	36,706,741
NET ASSETS		9,601,357	4,241,139
REPRESENTED BY			
Share capital	21	4,014,890	3,106,978
Subscription money received against proposed issue of right shares		-	907,912
Revenue reserves		151,287	151,287
Proposed shares to be issued on amalgamation	6.1	5,607,976	-
Effect of fair value measurement of capital on amalgamation		13,775	13,775
Accumulated losses		(1,096,473)	(50,350)
		8,691,455	4,129,602
Non-controlling interests	6.3 & 6.3.5	523,535	-
Surplus on revaluation of assets - net of tax	22	386,367	111,537
		9,601,357	4,241,139
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes 1 to 47 and Annexure-I form an integral part of these financial statements.

President and Chief Executive	Director	Director	Director

KASB BANK LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008	2007
		(Rupees in '000)	
CONTINUING OPERATIONS			
Mark-up / return / interest earned	26	4,861,400	2,906,662
Mark-up / return / interest expensed	27	4,449,577	2,282,923
Net mark-up / return / interest income		411,823	623,739
Provision against loans and advances - net	11.4	2,034,196	214,718
Provision against other assets	14.3	144,848	-
Provision / (reversal of provision) for diminution in the value of investments - net	10.10	187,964	(1,742)
Bad debts written off directly	11.7	230	-
Investments written off directly		1,548	-
		2,368,786	212,976
Net mark-up / return / interest income after provisions		(1,956,963)	410,763
Non mark-up / return / interest income			
Fee, commission and brokerage income		162,362	129,031
Dividend income		86,835	10,504
Income from dealing in foreign currencies		191,766	79,152
Gain on sale of securities - net	28	163,835	128,931
Unrealised gain on revaluation of investments classified as held for trading - net	10.12	-	34,779
Other income	29	92,814	51,187
Total non mark-up / return / interest income		697,612	433,584
		(1,259,351)	844,347
Non mark-up / return / interest expenses			
Administrative expenses	30	1,812,869	1,183,251
Other provisions / write offs	31	19,000	246
Other charges	32	66,673	21,168
Total non mark-up / return / interest expenses		1,898,542	1,204,665
Share of losses of associates	10.17	(158,215)	2,580
Gain on derecognition of associate on amalgamation		314,852	-
Gain on remeasurement of previously held equity interest in associate and subsidiary arising upon amalgamation and acquisition	6.3.2	764,167	-
Loss before taxation from continuing operations		(2,237,089)	(357,738)
Taxation - Current year	33	25,282	20,528
- Prior years	33	26,506	-
- Deferred	33	(924,791)	(245,079)
		(873,003)	(224,551)
Net loss after taxation from continuing operations		(1,364,086)	(133,187)
Net profit after taxation from discontinued operations		-	161,334
		(1,364,086)	28,147
(Loss) / profit after taxation attributable to:			
Equity holders of the parent		(1,364,086)	47,950
Non-controlling interests		-	(19,803)
		(1,364,086)	28,147
		---------------- Rupees	----------------
Loss per share from continuing operations	34	(3.40)	(0.53)
Earning per share from discontinued operations	34	-	0.65
(Loss) / earning per share for the year	34	(3.40)	0.12

The annexed notes 1 to 47 and Annexure-I form an integral part of these financial statements.

President and Chief Executive **Director** **Director** **Director**

KASB BANK LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008	2007
		------------(Rupees in '000)------------	
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit before taxation		(2,237,089)	(84,778)
Less: dividend income		(86,835)	(11,775)
		(2,323,924)	(96,553)
Adjustments for non-cash and other items:			
Depreciation		153,754	120,759
Amortisation of intangible assets		27,151	7,439
Provision against loans and advances - net		2,034,196	214,718
Share of profit / (loss) from associates		158,215	(186)
Reversal of provision / (provision) against compensated absences		(1,329)	1,388
Provision for gratuity		39,205	23,816
Provision against other assets		144,848	
Gain on disposal of operating fixed assets - net		(3,903)	(645)
Financial charges on leased assets		152	1,839
Unrealised gain on revaluation of investments classified as held for trading		-	(42,171)
Gain on disposal of investment in subsidiary and associate		-	(41,438)
Gain on derecognition of associate on amalgamation		(314,852)	
Gain on remeasurement of previously held equity interest in associate and subsidiary		-	
arising upon amalgamation		(764,167)	-
Investments written off directly		1,548	-
Bad debts written off directly		230	(1,742)
Provision / (reversal of provision) for diminution in the value of investments		187,964	
Amortisation of premium on investments		27,021	35,899
		1,690,033	319,676
		(633,891)	223,123
(Increase) / decrease in operating assets			
Lendings to financial institutions		1,466,402	538,834
Held for trading securities		219,569	(24,001)
Advances		(9,112,903)	(10,734,570)
Others assets (excluding advance taxation)		(826,209)	(2,079,541)
		(8,253,141)	(12,299,278)
Increase / (decrease) in operating liabilities			
Bills payable		(661,632)	679,482
Borrowings		4,099,906	(668,138)
Deposits		1,950,688	11,938,632
Other liabilities (excluding current taxation)		(28,434)	2,194,663
		5,360,528	14,144,639
		(3,526,504)	2,068,484
Income tax paid -net		(5,628)	(81,631)
Gratuity benefits paid		(4,614)	(4,464)
Net cash (outflow on) / inflow from operating activities		(3,536,746)	1,982,389
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		2,994,627	(2,448,906)
Net investments in held to maturity securities		(403,076)	99,999
Investment in associate		(657,946)	
Dividend income received		86,005	12,300
Investments in operating fixed assets		(729,435)	(356,697)
Cash inflow on acquisition of International Housing Finance Limited		-	10,538
Cash inflow on acquisition of KASB Capital Limited		141,785	-
Cash inflow on acquisition of Network Leasing Corporation Limited		9,308	-
Cash inflow on acquisition of KASB Securities Limited		(76,937)	662,785
Sale proceeds realised from disposal of investment in subsidiary and associate		-	(680,000)
Investment in associate		-	8,959
Sale proceeds realised on disposal of operating fixed assets		35,340	-
Net cash outflow on investing activities		1,399,671	(2,691,022)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments against lease obligations - net		(1,133)	2,854
Proceeds from issue of right shares		-	229,271
Shares issue costs		-	(2,495)
Subscription money received against proposed right issue		-	907,912
Net cash inflow from financing activities		(1,133)	1,137,542
Net (decrease) / increase in cash and cash equivalents		(2,138,208)	428,909
Cash and cash equivalents at the beginning of the year	35	3,702,226	3,273,317
Cash and cash equivalents at the end of the year	35	1,564,018	3,702,226

The annexed notes 1 to 47 and Annexure-I form an integral part of these financial statements.

President and Chief Executive | Director | Director | Director

KASB BANK LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008

	Attributable to equity holders of the parent entity											
				Reserves								
	Share capital	Effect of fair value measurement of capital on amal-gamation	Subscription towards issue of right shares	Statutory reserve (a)	Revenue reserve	Total reserves	Proposed shares to be issued on amalgamation	Accumu-lated loss	Post acquisition changes in associate directly recognised in equity	Total	Non-controlling interests	Total
	(Rupees in '000)											
Balance as at December 31, 2006	2,292,707	(79,240)	-	111,364	384	111,748	-	(36,463)	-	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	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	-	-	-	-	-	-	-	47,950	-	47,950	-	47,950
Loss attributable to minority interest	-	-	-	-	-	-	-	(19,803)	-	(19,803)	19,803	-
Transfer from general reserve	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to statutory reserve	-	-	-	39,539	-	39,539	-	(39,539)	-	-	-	-
Non-controlling interest derecognised on disposal of a subsidiary company	-	-	-	-	-	-	-	-	-	-	(41,172)	(41,172)
Balance as at December 31, 2007	3,106,978	13,775	907,912	150,903	384	151,287	-	(50,350)	-	4,129,602	-	4,129,602
Right shares issued during the year	907,912	-	(907,912)			-	-	-	-	-	-	-
Loss after taxation for the year ended December 31, 2008	-	-	-	-	-	-	-	(1,364,086)	-	(1,364,086)	-	(1,364,086)
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation - net of tax	-	-	-	-	-	-	-	5,678	-	5,678	-	5,678
Transferred to statutory reserve during the period from January 1, 2008 to June 30, 2008	-	-	-	15,563	-	15,563	-	(15,563)	-	-	-	-
Transferred from statutory reserve to accumulated losses during the period from July 1, 2008 to December 31, 2008	-	-	-	(15,563)	-	(15,563)	-	15,563	-	-	-	-
Post acquisition changes in net assets of associates - note 10.17	-	-	-	-	-	-	-	-	627,137	627,137	-	627,137
Post acquisition changes in net assets of associate derecognised upon amalgamation of KCL into the holding company - note 10.17	-	-	-	-	-	-	-	312,285	(627,137)	(314,852)	-	(314,852)
Proposed shares to be issued on amalgamation - note 6.1	-	-	-	-	-	-	5,607,976	-	-	5,607,976	-	5,607,976
Non-controlling interest related to subsidiaries recognized upon amalgamation of KCL into the holding company - note 6.3 & 6.3.5	-	-	-	-	-	-	-	-	-	-	523,535	523,535
	4,014,890	13,775	-	150,903	384	151,287	5,607,976	(1,096,473)	-	8,691,455	523,535	9,214,990

(a) This represents reserve created under section 21(i)(a) of the Banking Companies Ordinance, 1962

The annexed notes 1 to 47 and Annexure-I form an integral part of these financial statements.

President and Chief Executive	Director	Director	Director

1 THE GROUP AND ITS OPERATIONS

The Group consists of:

Holding Company

- KASB Bank Limited (Holding Company)

Subsidiaries	Percentage holding held by the Holding Company
- KASB Technology Services Limited	100%
- KASB Securities Limited*	77.12%
- KASB Funds Limited*	67.18%
- KASB International Limited*	100%
- KASB Modaraba Management (Private) Limited*	99.63%
- KASB Modaraba*	50.50%

* including shares held by the nominee directors of the bank

1.1 In addition, the Group maintains significant influence in the following associates:

Name of the associates	Percentage holding
New Horizon Exploration and Production Limited *	40%
Shakarganj Food Products Limited *	42.78%
KASB Stock Market Fund	27.95%
KASB Balanced Fund	26%
KASB Islamic Fund	32%
Network Microfinance Bank Limited *	22.39%

* The investments / the assets and liabilities of the Group in these entities have been classified as Non-Current Assets Held for Sale as per the requirements of IFRS 5 as more fully explained in note 24 to these financial statements

1.2 The Holding Company 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 Holding Company obtained certificate of commencement of business on January 11, 1995 and is engaged in commercial banking, consumer banking and related services through 73 branches (including 20 sub-branches) [2007: 35 branches (including Nil sub-branches)] operating in different cities. The shares of the Holding Company are listed on the Karachi, Lahore and Islamabad stock exchanges.

1.3 During the year, in pursuance to the special resolution approved in the Extra Ordinary General Meeting (EOGM) held on December 27, 2008, the registered office of the Holding Company has been changed from Business and Finance Center, I.I. Chundrigar Road, Karachi to Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad. The change of registered address was approved by the Securities and Exchange Commission of Pakistan vide its letter 0033472/Add.Reg./Com/2008 dated January 27, 2009.

1.4 In accordance with BSD Circular No 19 dated September 05, 2008, the minimum paid-up capital requirement (net of losses) of the bank at December 31, 2008 is Rs 5 billion. The issued, subscribed and paid-up capital of the Holding Company as at December 31, 2008 is Rs 4.015 billion and the Holding Company has accumulated losses of Rs 974.788 million. This shortfall is being met through the proposed issue of 361,804,941shares consequent to the amalgamation of KASB Capital Limited and Network Leasing Company Limited as disclosed in notes 6 and 21.5 to the financial statements.

1.5 Based on the separate standalone financial statements of the Holding Company for the year ended December 31, 2007 and other related information, the Pakistan Credit Rating Agency Limited has determined the bank's long-term rating as 'A' and the short-term rating as 'A1'.

1.6 Brief description of the Group's subsidiaries and associates

(a) KASB Technology Services Limited

KASB Technology Services Limited is a public unlisted company registered under the Companies Ordinance 1984. KASB Technology Services Limited is engaged in providing internet and bandwidth services.

(b) KASB Securities Limited

The company is a public listed company engaged in equity sales and trading, securities and economic research, fixed income and money market broking and trading, inter-bank foreign exchange broking, investment advisory and investment banking businesses. With effect from 1 November 2007, the company shifted its investment banking business to KASB Capital Limited (now part of the Holding Company).

(c) KASB Funds Limited

The company has obtained licenses for Asset Management and Investment Advisory Services under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). The objective of the Company is to float and manage open-ended and closed-end mutual funds and to provide investment advisory services. The company is currently managing four open-ended unit trust schemes namely:

- KASB Liquid Fund
- KASB Stock Market Fund
- KASB Balanced Fund
- KASB Islamic Income Fund

(d) KASB International Limited

KASB International Limited was incorporated in Mauritius on June 24, 2008. Its registered office is situated at 4th Floor, Les Jamalacs Building, Vieux Conseil Street, Port Louis, Mauritius. The company is mainly involved in investment finance activities.

(e) KASB Modaraba Management (Private) Limited

KASB Modaraba Management (Private) Limited is registered under the Companies Ordinance 1984, and is engaged in the business of floating and managing modarabas. The company is currently managing KASB Modaraba.

(f) KASB Modaraba

The Modaraba is a multi-purpose perpetual modaraba and is primarily engaged in ijarah financing, musharika financing, murabaha financing, moraraba financing, issuing certificates of musharika and investing in listed securities. The Modaraba is listed on the Karachi and Lahore stock exchanges.

2 BASIS OF PRESENTATION

2.1 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.

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of KASB Bank Limited (Holding Company) and its subsidiary companies.

(a) Subsidiaries

(i) Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(ii) The assets and liabilities of the subsidiary companies other than those acquired by the Group have been consolidated on a line by line basis and the carrying value of investments held by the Holding Company is eliminated against the subsidiaries' share capital and pre-acquisition reserves in the consolidated financial statements. The Holding Company has acquired certain subsidiaries as at the close of December 31, 2008. Accordingly , the asset and liabilities of those acquired subsidiary companies have been measured at the fair value in accordance with the requirements of IFRS 3 " Business Combination ". The accounting policy followed at the time of acquisition of these entities is given note 5.1 to the financial statements.

(iii) Material Inter-company transactions, balances and unrealised gains / losses on transactions between group companies are eliminated. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Non-controlling interest

Non-controlling interest are the part of the results of the operations and net assets of the subsidiary companies attributable to interests which are not owned by the Group.

Changes in the Group's ownership interest in a subsidiary that do not result in loss of control are accounted for within equity. The accumulated components of equity are proportionately reallocated from the non-controlling interest to the Group and no gain / loss is recorded in the profit and loss account. When the Group loses control of a subsidiary it de-recognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss thereon is recognised in the profit or loss.

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 till further instructions. In addition, the Securities and Exchange Commission of Pakistan has deferred the applicability of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' vide SRO 411(I) / 2008 till further orders. 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 The Securities and Exchange Commission of Pakistan has notified the IFAS 2 - Ijarah issued by the Institute of Chartered Accountants of Pakistan. IFAS 2 was effective for financial periods beginning on or after July 1, 2007. Subsequently, in accordance with IBD Circular No. 1 dated January 27, 2009 the State Bank of Pakistan has deferred the implementation of IFAS 2 and it is now effective from January 1, 2009. This standard has not been adopted by the Group for initial and subsequent measurement of the balances relating to Holding Company's one of the subsidiary company namely KASB Modaraba pending resolution of certain issues.

3.4 These financial statements are the consolidated financial statements of the bank and its subsidiary companies. In addition to these financial statements, a separate standalone financial statements of the bank have also been prepared.

3.5 Standards early adopted by the Group

IFRS 3 (Revised 2008) "Business Combinations" and IAS 27 (Revised) "Consolidated and Separate Financial Statements" have been early adopted by the bank during the year ended December 31, 2008. The adoption of these standards has the following significant impacts on these financial statements:

IFRS 3 (Revised 2008) Business Combinations: The revised standard on business combinations was released in January 2008, accompanied by a revised standard on consolidated financial statements i.e. IAS 27 (Revised) - Consolidated and Separate Financial Statements. IFRS 3 is prospectively applicable for the financial periods beginning on or after July 1, 2009 and may be early adopted from period beginning on or after June 1, 2007. The revised standard has been applied by the Group to the acquisition of certain entities as more fully explained in note 6 to the financial statements on December 31, 2008. The revised standard continues to apply the acquisition method to business combination with some significant accounting changes and enhanced disclosures. As per the revised standard, acquisition related costs have been recognised in the financial statements, which would otherwise have been included in the consideration for the business combination. Further, consideration now includes the fair value of all interests that the acquirer may have held previously in the acquired business. This includes any interest in an associate or joint venture or other equity interests of the acquired business. As per the revised standard if the interests in the acquiree were not previously held at fair value, they are re-measured to fair value through the profit and loss account.

In addition to above revised standard has now given a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at the fair value or the non-controlling interest proportionate share of the acquiree's net assets.

The adoption of these standards has resulted in change in accounting policy of the Group in respect of business combination and transactions with minority interest. In accordance with the transitional provisions of Revised IFRS 3, the financial statements have not been restated due to exception to retrospective application (i.e. prospective application).

Significant implications arising as a consequence of early adoption of this standard are disclosed in notes 6.3, 6.3.2 and 6.3.5 to the financial statements.

IAS 27 (Revised), 'Consolidated and separate financial statements', applicable for financial periods beginning on or after July 1, 2009, was early adopted in 2008. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will not result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. In this case the retained interest is remeasured at the fair value and any gains or losses compared to the book value is recognised as part of the gain or loss on disposal of subsidiary. There is no significant implications as a consequence of early adoption of this standard on these financial statements.

3.6 Amendments to published standards and new interpretations effective in 2008

(a) IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' and IFRS 7 (Amendment), 'Financial Instruments: Disclosures' - Reclassification of Financial Assets (Effective from July 1, 2008). This amendment to the Standard permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available-for-sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. However as applicability of IAS 39 and IFRS 7 has been deferred on the bank and its subsidiaries and associates till further instructions, therefore the amendment has not affected the classification of financial assets in these financial statements.

(b) During the year ended December 31, 2008, IFRIC Interpretation 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction' became effective. The interpretation provides guidance on assessing the limit in IAS 19 - 'Employee Benefits' on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements as the gratuity scheme relating to Holding Company and one of its subsidiary company namely KASB Modaraba does not have any surplus requiring recognition of an asset.

(c) Other new standards, amendments and interpretations that were mandatory for accounting periods beginning on or after January 1, 2008 and are not considered relevant or have any significant effect on the Group's operations, are not detailed in these financial statements.

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

The following standards, interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2009:

(a) IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009), was issued in September 2007. The revised standard prohibits the presentation of items of income and expense (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial effective from the accounting year ended December 31, 2006. Accordingly, the management believes that the adoption of this standard will not at present affect the presentation of the financial statements.

(b) IAS 19 (Amendment), ‘Employee Benefits’ (effective from January 1, 2009)

- The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

- The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

- IAS 37, ‘Provisions, Contingent Liabilities and Contingent Assets', requires those contingent liabilities to be disclosed, which are not recognised. IAS 19 has been amended to be consistent with the above mentioned requirement..

- The management is in the process of assessing the impact of its adoption on the financial statements of the Group.

(c) IAS 23 (Amendment), ‘Borrowing costs’ (effective from January 1, 2009)

It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. Further, the definition of borrowing cost has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments Recognition and measurement'. The amendments will have an impact on the Group's financial statements to the extent of borrowing costs, if any, directly attributable to the acquisition of all construction of qualifying assets and the present accounting policy as disclosed in note 5.17 to the financial statements.

(d) IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009)

As per the new requirements, where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. This amendment is expected to have effect on the Group's financial statements to the extent of enhanced disclosures upon recognition of impairment, if any.

(e) IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009)

The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance for obtaining right of access to goods or receipt of services. This amendment is not expected to have a significant effect on the Group's financial statements.

(f) IFRS 2 (Amendment), ‘Share-based payment’ (effective from January 1, 2009)

The amended standard deals with vesting conditions and cancellations. It claries that vesting conditions includes service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The management is in the process of assessing the impacts of its adoption on the Group's financial statements.

(g) IFRS 8, ‘Operating segments’ (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment reporting'.

The new standard requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes. This may result in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements' effective from the accounting year ended December 31, 2006. Accordingly, the management believes that the adoption of this standard will not at present affect the presentation of the financial statements.

(h) There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 but are considered not to be relevant or to have any significant effect on the Group's operations and are therefore not detailed in these financial statements.

4 BASIS OF MEASUREMENT

4.1 Accounting convention

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

4.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the reported amounts of assets, liabilities, income and expenses. It also requires management to exercise judgment 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 judgments 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 5.11, 13 and 33)
iv) depreciation / amortisation of operating fixed assets (notes 5.7 and 12)
v) fair values of the net assets acquired in a business combination (notes 5.1 and 6)
vi) impairment of goodwill (notes 5.6 and 6)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise specified.

5.1 Business combinations

Business combination 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 acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement, if any. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisitions, the amount of any non-controlling interest in the acquiree, if any, and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the bank’s share of the 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 and any overdrawn nostro accounts.

5.3 Lendings to / borrowings from financial institutions

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

(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 accrued over the period of the agreement and recorded as an expense.

(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. These transactions are accounted for on the settlement date. The difference between the purchase and resale price is recognised as mark-up income on a time proportion basis over the period of the contract.

5.4 Investments

The Group classifies its investments as follows:

(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 making 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, that do not fall under the held for trading or held to maturity categories.

(d) Associates

Associates are those entities over which the Group has significant influence but no control.

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.

Investments other than those categorised as 'held for trading' are initially recognised at fair value which includes transaction costs associated with the investment. Investments classified as 'held for trading' are initially recognised at fair value and transaction costs are expensed in the profit and loss account.

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 associates are subsequently stated at market value. Investments classified as held to maturity are carried at amortised cost whereas investments in associates are carried at cost, less accumulated impairment losses, if any. 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.

Investments in associates where the Group has significant influence are accounted for using the equity method of accounting. Under the equity method of accounting, the investment in associates are initially recognised at cost and the carrying amount of investment is increased or decreased to recognise the investor's share of the post acquisition profits or losses in profit / loss accounts and its share of the post acquisition movement in reserves is recognised in reserves. Increase / decrease in share of profits and losses of associates is accounted for in the consolidated profit and loss account. The Group’s investment in associates includes goodwill, if any, identified on acquisition, net of any accumulated impairment loss. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealised losses also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising in investments in associates are recognised in the profit and loss account.

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.

Impairment loss in respect of investments classified as available-for-sale (except term finance certificates) and held to maturity is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of term finance certificates is made as per the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus on revaluation of securities on the balance sheet below equity is removed therefrom and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

Gain or loss on sale of investments is included in the profit and loss account currently.

5.5 Advances

(a) Loans, advances and bills payable

Advances are stated net of specific and general provisions. 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. Advances in respect of which the Group does not expect any recoveries in future years are written off.

(b) Net investment in finance lease and net investment in ijarah finance

Net investment in finance lease and net investment in ijarah finance are stated at net of provisions made against non-performing leases.

Ijarah / Leases where the Group transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognised on commencement of lease term at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. 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.

(c) Trade debts

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

5.6 Goodwill acquired in business combinations

Goodwill represents the excess of the cost of acquisition, the amount of non-controlling interest in the acquiree, if any, and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the Group's share of identifiable net assets acquired.

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at its cost less accumulated impairment losses, if any. Goodwill acquired in a business combination is 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'. Impairment charge in respect of goodwill is recognised in the profit and loss account.

5.7 Operating fixed assets and depreciation

(a) Tangible - owned

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for land and buildings that are stated at revalued amounts less any subsequent accumulated depreciation and subsequent impairment losses.

During the year the Group has changed its accounting policy in respect of measurement of the carrying amount of its land and buildings subsequent to initial recognition. In this respect the Group has decided to follow the revaluation model as allowed under International Accounting Standard 16: Property, Plant and Equipment. In accordance with the new policy the land and buildings of the Group shall be carried at revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluation of these assets shall be carried out with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Previously, the land and buildings were carried at their cost less accumulated depreciation and accumulated impairment losses. The impact of this change has been disclosed in note 12.3 to these financial statements.

Depreciation on fixed asset (excluding land which is not depreciated) is charged to income applying 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 significant. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on fixed assets is charged from the date on which an asset is put to use till the date of its disposal. The value assigned to the land is not depreciated as the leases are expected to be renewed for further periods on payment of relevant rentals. Annual lease rentals are charged to income and premium paid at the time of renewals, if any, is amortised over the remaining period of lease.

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

Surplus arising on revaluation is credited to the surplus on revaluation of fixed assets account. Deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the above mentioned surplus account as allowed under the provision of the Companies Ordinance, 1984. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets is transferred to unappropriated profit / accumulated losses.

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

(b) Tangible - leased

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inspection less accumulated depreciation and accumulated impairment losses, if any. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods.

The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability.

Depreciation on fixed assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the Group.

(c) Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when assets become available for use.

(d) 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.

Intangible assets having an indefinite useful life are stated at acquisition cost. Provisions are made for permanent diminution in the value of assets, if any. Gains and losses on disposals, if any, are taken to the profit and loss account.

5.8 Impairment

The carrying amount of assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or Group of assets. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognized immediately in the financial statements. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.9 Non-current assets held for sale

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset (or disposal group) held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognized through the profit and loss account for any initial or subsequent write down of the non-current asset (or disposal group) to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognized to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale or while part of a disposal group classified as held-for-sale.

5.10 Murabaha transactions

Murabaha transactions are reflected as receivable. Actual sale and purchase are not reflected as the goods are purchased by the customer as agent of the Modaraba and all documents relating to purchase are in customer's name as agent of the Modaraba.

5.11 Taxation

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

Current

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

Deferred

Deferred 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 substantively 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 carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized.

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

5.12 Borrowings / deposits and their cost

(a) Borrowings / deposits are recorded at the proceeds received.
(b) Borrowing / deposit costs are recognised as an expense in the period in which these are incurred using the effective mark-up / interest rate method.

5.13 Staff retirement and other benefits

(a) Defined contribution plan

The Group (excluding KASB International Limited) operates a contributory provident fund for all its permanent employees to which equal contributions are made by both the Group and the employees.

(b) Defined benefit scheme

KASB Bank Limited and KASB Modaraba operate approved unfunded gratuity schemes for all their 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.

(c) Compensated absences

KASB Bank Limited, KASB Securities Limited and KASB Funds Limited account for the liability in respect of employees' compensated absences in the year in which these are earned.

5.14 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.

5.15 Share issue cost

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

5.16 Revenue recognition

- 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. Interest / return / mark-up on rescheduled / restructured advances and investments is recognised as permitted by the SBP except where in the opinion of management it would not be prudent to do so.

- 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.

- Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of leases.

- 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 on letters of credit / guarantee and others is recognised on an accrual basis.

- Revenue from information technology services is recognized as and when such services are rendered i.e. on an accrual basis.

- Revenue on sale of IT equipment is recognized on despatch such equipment to customers.

  Brokerage income is recognized as and when such services are rendered on accrual basis.

- Financial advisory fees and other income is recognized on an accrual basis.

- Underwriting commission is recognized when the agreement is executed.

- Rent income from operating leases is recognised on a straight -line basis over the term of the relevant lease.

- Profit on musharika arrangements is recognized on the basis of the projected rate of profit. The effect of adjustments, if any, between actual rate and projected rate of profit is accounted for at the end of each year after determination of the actual rate.

- The Group follows the finance method in recognizing income on consumer morabaha finance. Under this method the unearned income i.e. the excess of aggregate morabaha installments over the cost of the asset under morabaha facility is deferred and then amortized over the term of the morabaha, so as to produce a constant rate of return on consumer morabaha finance. Documentation charges, front-end fee and other morabaha income are recognized as income on a receipt basis.

- Management fee from open-ended funds is recognized on a daily basis by applying the rates to the net asset value of unit trusts, at the close of business of each calendar day and is accrued at the month end. However, the maximum rate charged is restricted to the admissible rate under the NBFC Rules. In accordance with the NBFC rules and NBFC Regulations the management company is entitled to a remuneration of an amount not exceeding 3% per annum of the average annual net assets of the fund during the first five years of the fund's existence and thereafter of an amount equal to 2% per annum of the average annual net assets of the fund. Currently the company is charging management fee at the rate of 1.5% per annum from KASB Liquid Fund, 2.75% per annum from KASB Stock Market Fund, 2.0% per annum from KASB Balanced Fund and 1.25% per annum from KASB Islamic Income Fund.

- Modaraba Management fee is recognized on accrual basis.

5.17 Borrowing cost

Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalised as part of the cost of the relevant asset.

5.18 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in ‘Pak Rupees’ , which is the Holding Company’s functional and the Group’s presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a) assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;

b) income and expenses of items profit and loss account are translated at the exchange rate on the date of the transaction; and

c) all resulting exchange differences are recognised as a separate component of equity, called an exchange translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders’ equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

5.19 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.

5.20 Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

5.21 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.

5.22 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 financial statements in the year in which these are approved.

5.23 Earnings per share

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

5.24 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.

(a) 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.

Investment banking

Investment banking includes services provided in connection with mergers and acquisition, underwriting, privatisation, securitization, research, debts (government, high yield), equity, syndication, IPO and secondary private placements.

(b) Geographical segments

The operations of the Group are currently based in Pakistan and Mauritius

6 BUSINESS SEGMENT

6.1 The Holding Company had decided to amalgamate KASB Capital Limited (KCL) [an associate of the Holding Company and a company in which Mr. Nasir Ali Shah Bukhari (sponsor / director of the Holding Company) and the Holding company directly hold 37.48 percent shares and 27.5 percent shares respectively] and Network Leasing Corporation Limited (NLCL) [a Non-Banking Finance Company in which KCL directly hold 78.84 percent shares] , with and into the Holding Company. The proposal for the amalgamation and a scheme of amalgamation has been approved by the Board of Directors and the shareholders of the Holding Company in their meetings held on December 5, 2008 and December 27, 2008 respectively. The State Bank of Pakistan through its letter BPRD (LCGD-04)/625-93/2009/29 dated January 1, 2009 had also approved the scheme of amalgamation and granted sanction order for the amalgamation of KCL and NLCL with and into the Holding Company.

Pursuant to the aforementioned approvals and scheme of amalgamation duly approved by the State Bank of Pakistan, the entire undertaking of (KCL) and (NLCL) including all the properties, assets and liabilities and the rights and obligations of KCL and NLCL as at December 31, 2008, stand amalgamated with and vest in the Holding Company.

The Holding Company has acquired 72.5 percent shares of KCL as at December 31, 2008 in addition to the existing 27.5 percent shares of KCL purchased in prior year. The Holding Company has also acquired 78.84 percent shares of NLCL by virtue of amalgamation of KCL into the Holding Company. The remaining 21.16 percent shares of NLCL have been acquired by the Holding Company separately as at December 31, 2008 subsequent to which the NLCL has been amalgamated with and into the Holding Company.

In consideration for the amalgamation, the Holding Company intends to allot 361,797,538 fully paid ordinary shares to the shareholders of KCL and 7,403 fully paid ordinary shares to the shareholders of NLCL subsequent to the year ended December 31, 2008, which will rank pari passu with the existing shares of the Holding Company. The shares proposed to be issued are as under:

	Rupees in '000
Proposed shares to be issued on amalgamation	5,607,976

As a result of the aforementioned allotment of shares, the issued, subscribed and paid-up capital of the Holding Company subsequent to the year ended December 31, 2008 will be increased to Rs 7,632.939 million.

6.2 Consequent to the amalgamation of KCL and NLCL into the Holding Company, the Holding Company has obtained the control of and has directly or indirectly (i.e. through subsidiaries) exercised significant influence over certain entities. The details of the Holding Company's direct and indirect shareholding in various entities (now part of the Group) subsequent to the amalgamation of KCL and NLCL with and into the Holding Company are as under:

Particulars	Shareholding as at December 31, 2008						
	Direct			Indirect			Total
	Before amalgama-tion	Increased as a result of the amalgama-tion	Sub total	Before amalgama-tion	Increased as a result of the amalgama-tion	Sub total	
	A	B	C=A+B	D	E	F=D+E	G=C+F
	In percent						
Subsidiaries							
- KASB Securities Limited *	1.12	76.00	77.12	-	-	-	77.12
- KASB Funds Limited **	-	58.85	58.85	-	8.33	8.33	67.18
- KASB International Limited **	-	100.00	100.00	-	-	-	100.00
- KASB Modaraba Management (Private) Limited **	-	99.63	99.63	-	-	-	99.63
- KASB Technology Services Limited **	100.00	-	100.00	-	-	-	100.00
- KASB Modaraba *	-	36.95	36.95	-	13.55	13.55	50.50
Associates							
- New Horizon Exploration and Production Limited **	-	26.67	26.67	-	13.33	13.33	40.00
- Shakarganj Food Products Limited **	-	42.78	42.78	-	-	-	42.78
- KASB Stock Market Fund *	27.00	-	27.00	-	0.95	0.95	27.95
- KASB Balanced Fund *	26.00	-	26.00	-	-	-	26.00
- KASB Islamic Fund *	32.00	-	32.00	-	-	-	32.00
- Network Microfinance Bank	-	22.39	22.39	-	-	-	22.39

* Represents listed entities
** Represents unlisted entities

6.3 The business combination 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. Identified assets acquired, liabilities assumed or incurred have been carried at the provisional fair value at the acquisition date. The excess of the cost of acquisition, the acquisition date fair value of previously held equity interest of the Holding Company in the entities acquired and non controlling interest's proportionate share of the entities identifiable assets over the fair value of the Group's shares of the identifiable net assets acquired has been recorded as goodwill in the financial statements of the Group.

Details of the purchase consideration given, the acquisition date fair value of previously held equity interest of the Holding company, fair values of the net assets acquired, non controlling interest's proportionate share of identifiable net assets and goodwill are as follows:

	Note	Rupees in '000
Purchase consideration	6.3.1	5,607,976
Fair value of equity interest in KCL and KASB Securities held before the acquisition	6.3.2	1,992,606
Non-controlling interest's proportionate share of identifiable net assets	6.3.5	523,535
		8,124,117
Less: provisional fair value of net assets / (liabilities) acquired		
KASB Capital Limited	6.3.6	2,929,455
KASB Securities Limited	6.3.6	1,461,333
KASB Funds Limited	6.3.6	203,934
KASB International Limited	6.3.6	35,161
KASB Modaraba Management (Private) Limited	6.3.6	2,717
KASB Modaraba	6.3.6	238,858
Network Leasing Corporation Limited	6.3.6	(148,549)
		4,722,909
Goodwill	6.3.7	3,401,208
Acquisition-related costs (included in administrative expenses in the profit and loss account for the year ended December 31, 2008)		17,354

6.3.1 The fair values of the shares proposed to be issued to the shareholders of KCL and NLCL are based on the discounted cash flows method. These values have been determined by an independent valuer. The published quoted price of the Holding Company has not been used for determining the fair value of the consideration as it has been affected by the thinness of the market. Management of the Holding Company 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 amalgamation.

6.3.2 Upon amalgamation of KCL into the Holding Company and by virtue of acquisition of KASB Securities, the Group has recognised a gain amounting to Rs 764.167 million in accordance with the provisions of IFRS 3 (Revised), ‘Business Combinations’, as a result of measuring at fair value its 27.5% and 1.12% equity interest in KCL and KASB Securities Limited held before the acquisition of KCL and KASB Securities Limited. The details of the previously held carrying value of equity interest and its fair value as at December 31, 2008 are as under:

	Note	KASB Capital Limited	KASB Securities Limited	Total
		------------------	Rupees in '000	------------------
Fair value of the previously held equity interest as at December 31, 2008	6.3.3	1,958,400	34,206	1,992,606
Carrying value of the previously held equity interest	6.3.4	1,151,502	76,937	1,228,439
Net gain recognised in the profit and loss account of the Group		806,898	(42,731)	764,167

6.3.3 The fair value of the previously held equity interest in KASB Capital Limited and KASB Securities Limited has been determined by an independent valuer using the discounted cash flows at the acquisition date of KCL.

6.3.4 The carrying value of the previously held equity interest of KCL represents cost of investment in KCL, the Group's share of post acquisition profits / losses, the Group's share in post acquisition movement in reserves of KCL and other balances uptil the close of December 31, 2008. The aforementioned post acquisition changes in the value of investment have been accounted for on the basis of audited Group financial statements of KCL and its subsidiary companies as at the close of December 31, 2008. The carrying value of previously held equity interest in KASB securities limited represents the cost of investment of the Holding Company as at the date of acquisition.

6.3.5 The non-controlling interest in the entities acquired by the Holding Company are measured at the non controlling interest's proportionate share of the acquiree's net assets.

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

Particulars (Note 1)	KASB Capital Limited		KASB Securities Limited		KASB Funds Limited		KASB International Limited		KASB Modaraba Management Company (Private) Limited		KASB Modaraba		Network Leasing Company Limited		Total	Total
	Preliminary fair values	Acquiree's carrying amounts	Preliminary fair values	Acquiree's carrying amounts	Preliminary fair values	Acquiree's carrying amounts	Preliminary fair values	Acquiree's carrying amounts	Preliminary fair values	Acquiree's carrying amounts	Preliminary fair values	Acquiree's carrying amounts	Preliminary fair values	Acquiree's carrying amounts	Preliminary fair values	Acquiree's carrying amounts
	---------- Rupees in '000 ----------															
Cash and balances with treasury banks	3,191	3,191	64	64	30	30	-	-	3	3	34	34	214	214	3,536	3,536
Balances with other banks	138,594	138,594	14,708	14,708	2,511	2,511	1,845	1,845	1,520	1,520	75,406	75,406	9,094	9,094	243,678	243,678
Lendings to financial institutions	245,896	245,896	-	-	-	-	-	-	-	-	-	-	10,563	10,563	256,459	256,459
Investments	2,401,294	2,036,451	787,504	562,504	95,330	95,330	138,075	138,075	-	-	20,798	20,798	6,074	6,074	3,449,075	2,859,232
Advances	-	-	1,389,456	1,389,456	-	-	-	-	-	-	165,180	165,180	59,997	59,997	1,614,633	1,614,633
Operating fixed assets	365,152	419,140	310,587	271,087	99,286	99,286	-	-	471	471	1,968	1,968	4,596	4,596	782,060	796,548
Deferred tax assets - net	-	99,157	-	(58,587)	-	(4,689)	-	-	-	-	-	-	-	(21,875)	-	14,006
Other assets - net	27,425	27,425	165,803	165,803	29,021	29,021	3,775	3,775	793	793	5,186	5,186	1,786	1,786	233,789	233,789
Total assets	3,181,552	2,969,854	2,668,122	2,345,035	226,178	221,489	143,695	143,695	2,787	2,787	268,572	268,572	92,324	70,449	6,583,230	6,021,881
Bills payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	234,215	234,215	86,973	86,973	-	-	68,196	68,196	-	-	8,600	8,600	346,051	349,907	744,035	747,891
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	-	-	499,700	499,700	-	-	-	-	-	-	-	-	-	-	499,700	499,700
Liabilities against assets subject to finance lease	-	-	2,961	2,961	-	-	-	-	-	-	-	-	-	-	2,961	2,961
Deferred tax liabilities	(22,282)	-	151,162	-	4,689	-	-	-	-	-	-	-	(125,009)	-	8,560	-
Other liabilities	40,164	40,164	465,993	465,993	17,555	17,555	40,338	40,338	70	70	21,114	21,114	19,831	21,071	605,065	606,305
Total liabilities	252,097	274,379	1,206,789	1,055,627	22,244	17,555	108,534	108,534	70	70	29,714	29,714	240,873	370,978	1,860,321	1,856,857
Net assets acquired	2,929,455		1,461,333		203,934		35,161		2,717		238,858		(148,549)		4,722,909	
Cash and cash equivalents acquired		141,785		14,772		2,541		1,845		1,523		75,440		9,308		247,214
Direct cost settled in cash		-		-		-		-		-		-		-		-
Cash inflow on acquisition		141,785		14,772		2,541		1,845		1,523		75,440		9,308		247,214

* The intra group transactions between the Holding Company and the acquiree companies (now part of the Group) have not been eliminated as the acquiree entities have been classified as disposal group as more fully explained in note 24 to the financial statements.

Note-1: The fair value of assets and liabilities have been re-grouped to bring inline the presentation of these balances as per the format specified by the SBP.

6.3.7 Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. NLCL's license to operate as an NBFC and undertake leasing business had expired on June 14, 2007 and could not be renewed due to its negative equity. Consequently, no fresh lease disbursements were being made. In the given circumstances and considering the net liability status of the NLCL, the Group determined goodwill of Rs. 144.848 million (to the extent of negative net asset of NLCL assumed at the date of acquisition) allocated to leasing business acquired from NLCL for impairment and concluded that it stands impaired on the date of acquisition. The entire goodwill relating to the CGU has been derecognised and the impairment charge amounting to Rs 144.848 million has been taken to the profit and loss account of the Group. The goodwill arising on acquisition of the remaining entities is attributable to the significant synergies expected to arise from the amalgamation of these entities with and into the Holding Company. The management has not yet specifically allocated the amount of goodwill to cash generating units (including those held for sale) and the exercise for the allocation will be completed by the year ending December 31, 2009.

6.4 The acquired businesses of the entities did not contribute to the operating income of the Group for the current year as these entities were acquired by the Holding Company as at close of December 31, 2008. Had the acquisition of these entities' business occurred and been accounted for on January 1, 2008, the results of the entities would have contributed operating loss amounting to Rs 718.244 million and loss after taxation amounting to Rs 584.028 million in the results of the Group for the year ended December 31, 2008.

6.5 The provisional fair values of the receivables relating to these entities as at the acquisition date amount to Rs. 2,136.883 million. The gross contractual amount for the aforementioned receivables due is Rs. 2,437.805 million of which Rs. 300.922 million is expected to be uncollectible. These receivables mainly comprise of lendings, finance leases, loans and advances and other short-term receivables.

6.6 Network Leasing Corporation Limited [now merged with and into the Holding Company] has filed a claim for recovery of Rs 273.229 million against ex-directors of the company in respect of misappropriation of public money with the National Accountability Bureau (NAB), Sindh. The amount has been determined after a detailed exercise carried out by the management of Network Leasing Corporation Limited (now part of the management team of the Holding Company). The Holding Company has not assigned any value to these balances at the time of determining and recognition of the fair values of these assets. Details in respect of the total recovery claim filed with NAB for misappropriation of public money are as under:

	Rupees in 000
Advance against lease	105,732
Receivable from ex-director against leave fare assistance (LFA)	20,386
Minimum lease payments receivable	84,954
Write down of property, plant and equipment	3,158
	214,230
Claim against payments made for purchase of land	10,050
Operating lease machinery	48,949
	273,229

6.7 The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree’s identifiable assets, liabilities and contingent liabilities and the cost of the combination.

In connection with the above, the management is in the process of carrying out a detailed exercise for the identification and valuation of intangible assets required to be separately recognised under the initial accounting for the acquisition under International Financial Reporting Standard (IFRS) 3, 'Business Combinations', and the exercise is expected to be completed shortly. IFRS 3 envisages such a situation and allows the acquirer to account for the acquisition using provisional values if the initial accounting for the acquisition can be determined only provisionally by the year end. However, adjustments to these provisional values consequent to completion of the initial accounting of the acquisition is required, under IFRS 3, to be incorporated in the financial statements with effect from the acquisition date, within a period of twelve months from the acquisition date.

The management expects to finalize the determination and valuation of such intangible assets well before one year from the acquisition date, in compliance with the time frame envisaged in IFRS 3.

6.8 Due to the proximity of the acquisition to the year ended December 31, 2008, the fair value amounts contain some provisional balances. As allowed under IFRS 3, 'Business Combinations', the effects of adjustments, if any, in these values will be adjusted in the financial statements of the Group for the year ending December 31, 2009.

7	**CASH AND BALANCES WITH TREASURY BANKS**	**Note**	**2008**	**2007**
			(Rupees in '000)	
	In hand :			
	- Local currency	7.1	459,014	497,132
	- Foreign currency		180,772	67,280
	With State Bank of Pakistan in:			
	- Local currency current account	7.2	505,773	2,332,234
	- Foreign currency current account	7.3	1,011	11,768
	- Foreign currency deposit account	7.4	252,285	73,139
	With National Bank of Pakistan in local currency current account		108,795	20,375
			1,507,650	3,001,928

7.1 This includes National Prize Bonds of Rs 1.143 million (2007: Rs. 1.991 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 Holding Company's time and demand liabilities in Pakistan as may be prescribed by SBP.

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 20 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 15 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 0.9 percent per annum to 2.14 percent per annum (2007: 3.71 percent per annum to 4.72 percent per annum).

8 BALANCES WITH OTHER BANKS	**Note**	**2008**	**2007**
		(Rupees in '000)	
In Pakistan			
- On current account		38,504	361,733
- On deposit account		29	1,073
		38,533	362,806
Outside Pakistan			
- On current account		11,923	131,975
- On deposit account	8.1	8,656	312,186
		20,579	444,161
		59,112	806,967

8.1 This represents funds deposited with various banks at profit rates ranging from 3.9 percent per annum to 6 percent per annum (2007: 3.9 percent per annum to 5.3 percent per annum).

9 LENDINGS TO FINANCIAL INSTITUTIONS	**Note**	**2008**	**2007**
		(Rupees in '000)	
Clean placement	9.2 & 9.3	210,563	-
Repurchase agreement lendings (Reverse Repo)	9.4	299,996	1,766,398
Financing in respect of Continuous Funding System (CFS)	9.5	45,896	-
		556,455	1,766,398

9.1 All lendings to financial institutions are in local currency.

9.2 This includes short term placements in Crescent Standard Investment Bank Limited (CSIBL) amounting to Rs. 10.563 million. As per the terms of restructuring agreement between the CSIBL and Innovative Investment Bank Limited (formerly Innovative Housing Finance Limited which acquired CSIBL), the Innovative Investment Bank Limited has undertaken to pay-off CSIBL's liabilities. The repayment of the amount will commence from October, 2009 and the total amount of placement is repayable by July 1, 2014. The placement carries mark-up at the rate of 5% per annum.

9.3 These represents short-term lendings to financial institution at rates from 5 percent to 22 percent per annum (2007: Nil) with maturities upto January 5, 2009.

9.4 Securities held as collateral against lendings to financial institutions

	Note	**2008**			**2007**		
		Held by Group	**Further given as collateral**	**Total**	**Held by Group**	**Further given as collateral**	**Total**
		(Rupees in '000)					
Market Treasury Bills		-	-	-	1,766,398	-	1,766,398
Term Finance Certificates	9.4.1	299,996	-	299,996	-	-	-
		299,996	-	299,996	1,766,398	-	1,766,398

9.4.1 These represent short-term lendings to KASB Liquid Fund (an associate of the Group) against pledge of investment securities. These lendings carry mark-up at rates ranging from 15.7 percent to 16.4 percent per annum (2007: 9.40 percent per annum to 9.95 percent per annum) and are due to mature on January 20, 2009.

9.5 During December 2008, KCL (now merged into the Holding Company) had entered into a Voluntary Continuous Funding System Mark-II Square Up Program (the 'Program') with National Clearing Company of Pakistan Limited for squaring up of its outstanding exposure in CFS. The need for this program developed due to the large number of suspension of members in December 2008 following eight days of continuous market lower locks in the underlying CFS shares posing great difficulty in squaring up and the likelihood of systematic risk emanating therein. The aim of this program was to ensure the full repayment of financier funds and prevent mass scale broker defaults enabling a vast majority of them to return from suspension.

Under the terms of the Program, CFS shares and their associated margins in the form of exposure shares (i.e. those shares which were deposited as collateral against the specific shares financed in the CFS market by the relevant finance broker) were sold to the financiers at a discount of 12.5% and 15% respectively to their closing prices prevailing as at December 24, 2008. The financiers opting into the program have purchased shares of an amount equal to 30% of the total value they had financed in the CFS market at the aforementioned price. The remaining 70% that they had financed in the CFS market along with the mark-up accrued thereon was to be settled in cash and has been reflected under the 'Advances' at December 31, 2008. This balance along with the entire mark-up accrued thereon has been received subsequent to the year ended December 31, 2008.

10 INVESTMENTS

10.1 Investment by types

	Note	2008			2007		
		Held by Group	Given as collateral	Total	Held by Group	Given as collateral	Total
		(Rupees in '000)					
Held for trading securities							
Units of Mutual Funds	10.9	2,869	-	2,869	50,000	-	50,000
Commercial papers		-	-	-	66,710	-	66,710
Ordinary Shares of listed companies	10.5	258,715	-	258,715	14,422	-	14,422
		261,584	-	261,584	131,132	-	131,132
Available for sale securities							
Pakistan Investment Bonds	10.14	-	170,660	170,660	175,501	-	175,501
Market Treasury Bills	10.14	-	592,345	592,345	3,835,924	-	3,835,924
Listed Term Finance Certificates	10.7	376,535	-	376,535	123,092	-	123,092
Unlisted Term Finance Certificates	10.8	612,036	-	612,036	770,080	-	770,080
Commercial papers		-	-	-	102,992	-	102,992
Sukuk Bonds		-	-	-	-	-	-
Units of Mutual Funds	10.9	1,031,638	-	1,031,638	371,524	-	371,524
Ordinary Shares of listed companies	10.5	437,288	-	437,288	205,800	-	205,800
Ordinary Shares of unlisted companies	10.6	330,588	-	330,588	15,680	-	15,680
		2,788,085	763,005	3,551,090	5,600,593	-	5,600,593
Held to maturity securities							
Federal Investment Bonds		-	-	-	6,519	-	6,519
Pakistan Investment Bonds	10.14	2,000	686,826	688,826	711,002	-	711,002
Unlisted Term Finance Certificates	10.8	426,930	-	426,930	-	-	-
		428,930	686,826	1,115,756	717,521	-	717,521
Associates							
KASB Stock Market Fund	10.15	142,287	-	142,287	-	-	-
KASB Balanced Fund	10.15	298,424	-	298,424	-	-	-
KASB Islamic Income Fund	10.15	204,036	-	204,036	-	-	-
KASB Capital Limited*		-	-	-	682,580	-	682,580
Shakarganj Food Products Limited - held for sale					-	-	-
- Investment	10.15 & 24	568,442		568,442	-	-	-
- Advance against proposed issue of right shares	10.4	59,500	-	59,500	-	-	-
New Horizon Exploration and Production Limited - held for sale	10.15 & 24	500,000	-	500,000	-	-	-
Network Microfinance Bank Limited - held for sale	10.15, 24 & 10.5.5	10,078	-	10,078	-	-	-
		1,782,767	-	1,782,767	682,580	-	682,580
Investments at cost		5,261,366	1,449,831	6,711,197	7,131,826	-	7,131,826
Less: provision for diminution in the value of investments	10.10	(191,636)	-	(191,636)	(3,672)	-	(3,672)
Investments (net of provisions)		5,069,730	1,449,831	6,519,561	7,128,154	-	7,128,154
Surplus on revaluation of held for trading securities	10.12	-	-	-	34,779	-	34,779
(Deficit) / surplus on revaluation of available for sale securities	22.2	(77,115)	(41,777)	(118,892)	117,522	-	117,522
Total investments		4,992,615	1,408,054	6,400,669	7,280,455	-	7,280,455

*Merged with the Holding Company as at the close of December 31, 2008.

		Note	2008	2007
			(Rupees in '000)	
10.2	**Investments by segments**			
	Federal Government Securities			
	- Market treasury bills	10.14	592,345	3,835,924
	- Pakistan Investment Bonds	10.13 & 10.14	859,486	886,503
	- Federal Investment Bonds	10.14	-	6,519
			1,451,831	4,728,946
	Fully paid-up ordinary shares			
	- Listed companies	10.5	696,003	220,222
	- Unlisted companies	10.6	330,588	15,680
			1,026,591	235,902
	Term Finance Certificates			
	- Listed	10.7	376,535	123,092
	- Unlisted	10.8	1,038,966	770,080
			-	
			1,415,501	893,172
	Commercial papers		-	169,702
	Units of mutual funds	10.9	1,034,507	421,524
	Associates			
	KASB Stock Market Fund	10.15	142,287	-
	KASB Balanced Fund	10.15	298,424	-
	KASB Islamic Income Fund	10.15	204,036	-
	KASB Capital Limited		-	682,580
	Shakarganj Food Products Limited - held for sale			
	- Investment	10.4 & 24	568,442	-
	- Advance against proposed issue of right shares	10.4 & 24	59,500	-
	Network Microfinance Bank Limited - held for sale	24 & 10.5.5	10,078	-
	New Horizon Exploration and Production Limited - held for sale	24	500,000	-
			1,782,767	682,580
	Investments at cost		6,711,197	7,131,826
	Less: provision for diminution in the value of investments	10.10	(191,636)	(3,672)
	Investments (net of provisions)		6,519,561	7,128,154
	Surplus on revaluation of held for trading securities	10.12	-	34,779
	(Deficit) / surplus on revaluation of available for sale securities	22.2	(118,892)	117,522
	Total investments		6,400,669	7,280,455

10.2.1 These include investment in the seed capital of KASB Balanced Fund, KASB Islamic Income Fund and KASB Stock Market Fund amounting to Rs 250, Rs 100 and Rs 110 million respectively which have to be kept for a period of 2 years uptil May 2, 2010.

10.3 During the year the Karachi Stock Exchange (Guarantee) Limited (“KSE”) placed a “Floor Mechanism” on the market value of securities based on the closing prices of securities prevailing as on August 27, 2008. Under the “Floor Mechanism“, the individual security price of equity securities could vary within the normal circuit breaker limit, but not below the floor price level. The mechanism was effective from August 28, 2008. Consequent to the introduction of the above measures by the KSE, the market volume declined significantly. The “Floor Mechanism” was subsequently removed by the KSE on December 15, 2008 in order to rationalise the prices of equity securities. Subsequent to the removal of the “Floor Mechanism”, the KSE 100 index declined from 9,187.10 points at December 15, 2008 to 5,865.01 points at December 31, 2008 and the market remained generally inactive during this period due to low trading volumes.

In view of the above circumstances, the State Bank of Pakistan had been approached by the Pakistan Banks’ Association as well as individual banks on the matters relating to the determination and treatment of revaluation surplus / deficit on listed equity investments and term finance certificates. The State Bank of Pakistan vide its BSD Circular No. 2 of 2009 dated January 27, 2009 has clarified that the market price as quoted on the stock exchange on December 31, 2008 may be used as the fair value of securities as of that date for the purpose of preparation of financial statements for the period ended December 31, 2008. Accordingly, quoted securities have been valued at the market prices as quoted on the stock exchange on December 31, 2008.

International Accounting Standards require an entity to assess at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A significant or prolonged decline in the fair value of an investment in an equity security below its cost is an objective evidence of such impairment. When a decline in the fair value of an investment in equity securities classified as available-for-sale has been recognised directly in equity and there is an objective evidence that the investment is impaired, the cumulative loss that had been recognized directly in equity is removed from equity and recognised in the profit and loss account even though the investment has not been derecognised. Based on scrip wise analysis of the deficit arising on revaluation of quoted shares and open-end mutual funds (other than those held in associates and subsidiaries), the management has determined that an amount of Rs 158.075 million should be charged to the profit and loss account as impairment loss in accordance with the requirements of International Accounting Standards.

10.4 The Holding Company (through its acquisition of KCL) had entered into an agreement dated April 12, 2008 with Shakarganj Food Products Limited and the shareholders of Shakarganj Food Products Limited namely Shakarganj Mills Limited, Crescent Steel and Allied Products Limited and AKD Securities Limited for subscription towards the share capital of Shakarganj Food Products Limited. As per the terms of the agreement, the Holding Company had agreed to subscribe to the paid-up capital of the company to the extent of Rs 677 million. In consideration for the subscription, the company would issue 67.7 million ordinary shares to the Holding Company. As at December 31, 2008, the Holding Company has subscribed a sum of Rs 627.942 million (including Rs 59.5 million advanced by the Holding Company against which the company had not issued share certificates to the Holding Company by December 31, 2008). The remaining amount of Rs 50 million would be subscribed by the Holding Company by June 30, 2009.

10.5 Particulars of investments in ordinary shares of listed companies

2008	2007					2008		2007	
Number of shares / certificates held	Number of shares / certificates held	Company Name	Note	Paid up value per share / certificate (Rupees)	Total paid up value	Carrying Value	Market Value	Carrying Value	Market Value
					(Rupees in '000)				
10.5.1 Held for trading									
-	149,250	Pak Suzuki Motors Company Limited		10	1,493	-	-	14,422	49,201
1,111,576	-	United Bank Limited		10	11,116	41,028	41,028	-	-
558	-	Honda Atlas Cars (Pakistan) Limited		10	6	6	6	-	-
142	-	Indus Motor Company Limited		10	1	17	17	-	-
799,046	-	Pakistan Telecommunication Company Limited		10	7,990	13,496	13,496	-	-
315	-	Eye Television Network Limited		10	3	11	11	-	-
3,839	-	Netsol Technologies Limited		10	38	97	97	-	-
2,012	-	Telecard Limited		10	20	4	4	-	-
5,571	-	TRG Pakistan Limited		10	56	10	10	-	-
6,289	-	Worldcall Telecom Limited		10	63	19	19	-	-
574	-	Allied Bank Limited		10	6	18	18	-	-
3,401	-	Arif Habib Bank Limited		10	34	19	19	-	-
1,180	-	Askari Bank Limited		10	12	17	17	-	-
384	-	Bank Al Habib Limited		10	4	10	10	-	-
1,775	-	Bank Al-Falah Limited		10	18	30	30	-	-
1,002,232	-	Bank Islami Pakistan Limited		10	10,022	7,266	7,266	-	-
991	-	Faysal Bank Limited		10	10	11	11	-	-
169	-	Habib Bank Limited		10	2	13	13	-	-
3,343	-	JS Bank Limited		10	33	19	19	-	-
9,059	-	MCB Bank Limited		10	91	1,140	1,140	-	-
86	-	Meezan Bank Limited		10	1	2	2	-	-
50,323	-	National Bank of Pakistan		10	503	2,532	2,532	-	-
1,262	-	Saudi Pak Commercial Bank Limited		10	13	6	6	-	-
415	-	Soneri Bank Limited		10	4	5	5	-	-
3,497	-	The Bank of Punjab		10	35	46	46	-	-
1,755	-	Arif Habib Limited		10	18	150	150	-	-
4,038	-	Arif Habib Securities		10	40	170	170	-	-
394	-	Dawood Equities Limited		10	4	3	3	-	-
2,131	-	First National Equities Limited*		10	21	110	110	-	-
26	-	Invest & Finance Securities Limited		10	-	-	-	-	-
137,511	-	Jahangir Siddiqui & Co Limited		10	1,375	7,189	7,189	-	-
6,397	-	Javed Omer Vohra & Company Limited		10	64	58	58	-	-
626	-	JS Investments Limited		10	6	27	27	-	-
7,994	-	Pervez Ahmed Securities Limited		10	80	29	29	-	-
742	-	Crescent Steel & Allied Products Limited		10	7	13	13	-	-
3,145	-	Dost Steels Limited		10	31	25	25	-	-
6,441,055	-	Descon Oxychem Limited		10	64,411	50,884	50,884	-	-
99	-	BOC Pakistan Limited		10	1	11	11	-	-
2,703	-	Pakistan PTA Limited		10	27	4	4	-	-
767	-	Sitara Peroxide Limited		10	8	14	14	-	-
36,168	-	ICI Pakistan Limited		10	362	2,485	2,485	-	-
80	-	Packages Limited		10	1	6	6	-	-
		Bal c/f				127,000	127,000	14,422	49,201

2008 Number of shares / certificates held	2007 Number of shares / certificates held	Company Name	Note	Paid up value per share / certificate (Rupees)	Total paid up value	2008 Carrying Value	2008 Market Value	2007 Carrying Value	2007 Market Value
					-----------------------------(Rupees in '000)-------------------------				
		Bal b/f				127,000	127,000	14,422	49,201
116	-	Kot Addu Power Company Limited		10	1	4	4	-	-
107,717	-	The Hub Power Company Limited		10	1,077	1,518	1,518	-	-
775	-	Nishat Chunian Limited		10	8	7	7	-	-
735	-	Nishat Mills Limited		10	7	16	16	-	-
309	-	Dawood Lawrencepur Limited		10	3	17	17	-	-
325,129	-	Azgard Nine Limited		10	3,251	5,293	5,293	-	-
2,347	-	D.S Industries Limited		10	23	35	35	-	-
89	-	Pakistan International Container Terminal Limited		10	1	4	4	-	-
896	-	Al-Abbas Cement Industries Limited		10	9	3	3	-	-
128	-	Attock Cement Limited		10	1	5	5	-	-
1,239	-	D.G. Khan Cement Company Limited		10	12	26	26	-	-
2,941	-	Dewan Cement Limited		10	29	9	9	-	-
1,941	-	Fauji Cement Company Limited		10	19	9	9	-	-
391	-	Lucky Cement Limited		10	4	12	12	-	-
783	-	Maple Leaf Cement Factory Limited		10	8	3	3	-	-
6,576	-	Pakistan Cement Company Limited		10	66	21	21	-	-
1,662	-	Pioneer Cement Limited		10	17	40	40	-	-
10	-	Thatta Cement Company Limited*		10	-	-	-	-	-
243	-	Adamjee Insurance Company Limited		10	2	25	25	-	-
307	-	EFU General Insurance Limited		10	3	41	41	-	-
1,023	-	Pakistan Reinsurance Company Limited		10	10	24	24	-	-
203,804	-	Pak Elektron Limited		10	2,038	4,630	4,630	-	-
30,000	-	Pakistan State Oil Company Limited		10	300	4,337	4,337	-	-
89	-	Sui Northern Gas Pipelines Limited		10	1	2	2	-	-
515	-	Sui Southern Gas Company Limited		10	5	5	5	-	-
214,662	-	Pakistan Oilfields Limited		10	2,147	22,001	22,001	-	-
4	-	Mari Gas Company Limited*		10	-	-	-	-	-
192,500	-	Pakistan Petroleum Limited		10	1,925	19,370	19,370	-	-
344,000	-	Oil & Gas Development Company Limited		10	3,440	17,197	17,197	-	-
948	-	Attock Refinery Limited		10	9	57	57	-	-
4,933	-	Bosicor Pakistan Limited		10	49	23	23	-	-
7	-	National Refinery Limited*		10	-	1	1	-	-
200,150	-	Pakistan Refinery Limited		10	2,002	19,695	19,695	-	-
2,545	-	Dewan Salman Fibre Limited		10	25	4	4	-	-
287,258	-	Engro Chemical Pakistan Limited		10	2,873	27,709	27,709	-	-
160,903	-	Fauji Fertilizer Company Limited		10	1,609	9,450	9,450	-	-
6,742	-	Fauji Fertilizer Bin Qasim Limited		10	67	87	87	-	-
2,612	-	Pace (Pakistan) Limited		10	26	23	23	-	-
97	-	Tri-Pack Films Limited		10	1	12	12	-	-
						131,715	131,715	-	-
						258,715	**258,715**	**14,422**	**49,201**

10.5.2 Available for sale

2008 Number of shares / certificates held	2007 Number of shares / certificates held	Company Name	Note	Paid up value per share / certificate (Rupees)	Total paid up value	2008 Carrying Value	2008 Market Value	2007 Carrying Value	2007 Market Value
3,475,000	3,475,000	The Hub Power Company Limited	10.5.3	10	34,750	122,839	48,963	122,839	105,987
80,000	-	United Bank Limited		10	800	9,082	2,953	-	-
100,000	-	Oil and Gas Development Company Limited		10	1,000	12,956	4,999	-	-
25,000	-	National Bank of Pakistan		10	250	4,420	1,258	-	-
80,000	-	Engro Chemicals Pakistan		10	800	24,558	7,716	-	-
3,000,000	3,000,000	Karachi Electric Supply Corporation Limited Ordinary Shares		3.5	10,500	31,857	6,210	31,857	15,900
94,050	-	Pakistan Petroleum Limited		10	941	22,632	9,463	-	-
70,000	38,205	Fauji Fertilizers Bin Qasim Company Ltd		10	700	2,520	903	4,575	4,537
4,600,765	-	Descon Oxy Chemical Limited		10	46,008	46,008	36,346	-	-
3,905	3,905	Karachi Electric Supply Corporation Preferred Shares		3.5	14	22	8	22	39
8,641,942	-	KASB Bank Limited	10.5.4	10	86,419	160,394	160,394	-	-
9,318,267	-	KASB Modaraba (formerly First Mehran Modaraba)		10	93,183	-	-	-	-
-	2,930,200	Eye Television Network (Hum TV)		10	29,302	-	-	29,302	185,775
-	40,000	Pakistan Oilfields Limited		10	400	-	-	14,572	13,376
-	15,000	Bosicor Pakistan Limited		10	150	-	-	275	320
-	51,250	Callmate Tellips Telecom Limited		10	513	-	-	1,548	761
-	100,000	UTP Large Capital Fund		10	1,000	-	-	810	810
						437,288	279,213	205,800	327,505
						696,003	537,928	220,222	376,706

* Nil values due to rounding off.

** Market values before provision

10.5.3 The Holding Company's investment in 3,475,000 ordinary shares of Hub Power Company Limited has been classified as strategic investments under the guidelines provided in Regulation 'R-6' of the Prudential Regulations and BPRD Circular Letter No. 16 dated August 1, 2006, issued by the State Bank of Pakistan.

10.5.4 These shares came into the possession of the Group at the time of acquisition of KASB Capital Limited (KCL) as at the acquisition date of December 31, 2008. The management of the Holding Company has written to the State Bank of Pakistan (SBP) for retaining these shares till disposal and the reply of the SBP on this matter is pending to date. In addition to the above shares, 13,292,500 shares of the Holding Company have also came into possession of the Group at the time of acquisition of KASB Securities which are included in assets classified as disposal group as more fully explained in note 24 to the financial statements.

10.5.5 3,359,198 shares of Network Microfinance Bank Limited and 21,934,442 shares of the Holding Company have been blocked by the Central Depository Company of Pakistan Limited in compliance with BPRD Circular No. 4 dated May 22, 2008 issued by the State Bank of Pakistan. According to the circular, ownership of sponsors / majority shareholding in banks are required to be deposited in a blocked account with Central Depository Company of Pakistan Limited. Further, no activity (including pledge and withdrawal) in these shares would be allowed without prior written permission of the State Bank of Pakistan.

10.6 Particulars of investments in ordinary shares of unlisted companies

----2008----

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 the Chief Executive
		(Rupees)	----(Rupees in '000)----			
Shareholding upto 10 percent						
- Khushhali Bank Limited - Note 10.6.1	1,000,000	10	10,000	10,940	September 30, 2008 (un-audited)	Mr. M Ghalib Nishtar
- Pakistan Export Finance Guarantee Agency Limited	568,044	10	5,680	1,523	June 30, 2008 (un-audited)	Mr. S.M Zaeem
- Evolvence Capital Limited	5,400,000	8 *	314,908	314,908	December 31, 2008 (un-audited)	Mr. Khaled Al Muhairy
			330,588	327,371		

* Paid-up value per share is US$ 10 cent which has been translated using spot rate of December 31, 2008

----2007----

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 the 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		

10.6.1 This represents the Holding Company's initial subscription towards the paid-up capital of Khushhali Bank Limited. Under the scheme of transfer of assets and liabilities of the Khushhali bank to Khushhali Bank Limited, as approved by the State Bank of Pakistan, vide sanction order dated March 18, 2008 and by the shareholders in their Second Extra Ordinary General Meeting held on December 17, 2007, the Khushhali Bank Limited has been granted license to operate under the Micro Finance Institution Ordinance, 2001. Further, as required under BPRD Circular No. 4 dated May 22, 2008 the shares owned by the Group have been deposited in a blocked account with the Central Depository Company of Pakistan Limited.

10.7 Particulars of investments in listed term finance certificates

----2008----

Company name	Number of certificates held	Face value per certificate	Unredeemed face value per certificate	Cost	Market value	Name of Chief Executive Officer
		-----(Rupees)-----		-----(Rupees in '000)-----		
United Bank Limited (2nd Issue)	16,232	5,000	4,999	81,147	81,147	Atif R. Bukhari
United Bank Limited (4th Issue)	18,000	5,000	4,950	83,944	83,944	Atif R. Bukhari
Telecard Limited	3,000	5,000	2,794	8,380	7,919	Shahid Firoz
Al-Zamin Leasing Modaraba	1,136	5,000	63	72	72	Bashir Ahmed Chowdhry
World Call Telecom	39,348	5,000	5,000	196,742	196,742	Salman Taseer
Azgard Nine Limited	5,000	5,000	1,250	6,250	6,886	Ahmed Humayun Shaikh
				376,535	376,710	

Company name	Number of certificates held	Face value per certificate	Unredeemed face value per certificate	Cost	Market value	Name of Chief Executive Officer
		2007				
		-----(Rupees)-----		-----(Rupees in '000)-----		
- Azgard Nine Limited	5,000	5,000	3,000	12,500	13,773	Ahmed Humayun Shaikh
- Chanda Oil and Gas Company Limited	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 (Pakistan) 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	

10.8 **Particulars of investments in unlisted term finance certificates**

Company name	Note	Number of certificates held	Face value per certificate	Unredeemed face value per certificate	Cost	Name of Chief Executive Officer
			2008			
			----(Rupees)----		(Rupees in '000)	
New Khan Transport Company Limited		140	1,000,000	546,970	76,576	Shaikh Muhammad Ashraf
Tandlianwala Sugar Mills Limited	10.8.2	5,000	5,000	2,500	12,500	Haroon Akhtar Khan
Pakistan Mobile Communications Limited		5,000	5,000	4,995	24,980	Zouhair Khaliq
KASHF Foundation	10.8.1 & 10.8.2	20,000	5,000	5,000	100,000	Ms Roshanah
Avari Hotel International	10.8.1 & 10.8.2	30,400	5,000	5,000	152,000	Byram D.Avari
Shakarganj Mills Ltd.	10.8.1 & 10.8.2	20,000	5,000	5,000	100,000	Ehsan M.Saleem
Engro Chemical Pakistan Limited		41,640	5,000	5,000	209,616	Asad Umar
Pak American Fertilizers Limited		30,000	5,000	4,998	150,255	Ahmed Judad Bilal
Azgard Nine Ltd (3rd Issue)		40,600	5,000	4,998	203,039	Ahmed Humayun Shaikh
Allied Bank Limited		2,000	5,000	5,000	10,000	Aftab Manzoor
					########	

Company name	Note	Number of certificates held	Face value per certificate	Unredeemed face value per certificate	Cost	Name of Chief Executive
			2007			
			----(Rupees)----		(Rupees in '000)	
New Khan Transport Company Limited		140	1,000,000	593,000	82,956	Shaikh Muhammad Ashraf
Dominion Fertilizer Limited		40,000	5,000	5,000	191,666	Ahmed Joudat Bilal
Tandlianwala Sugar Mills Limited		1	22,666,667	17,500,000	17,500	Haroon Akhtar Khan
Pakistan Mobile Communication Limited		5,000	5,000	5,000	24,985	Zouhair Khaliq
KASHF Foundation	10.8.1	-	-	-	40,972	Sadaf Abid
Avari Hotel Limited	10.8.1	-	-	-	152,000	Byram D Avari
Azgard Nine Limited (Second issue)		35,000	5,000	4,000	175,000	Ahmed Humayun Shaikh
Associate Builders		20,000	5,000	4,000	85,001	Shamsuddin Ibrahim
					770,080	

10.8.1 These represent amounts privately placed under an agreement to invest in term finance certificates of the investee company.

10.8.2 These companies had not issued certificate of investments by December 31, 2008 against the amount advanced by the bank for investment in these term finance certificates.

10.9 Particulars of investments in units of Mutual Funds

2008				
Mutual Fund	Number of units held	Face value per unit	Carrying Value	Market Value
		(Rupees)	----(Rupees in '000)----	
Held for trading				
KASB Liquid Fund	31,492	100	2,857	2,857
JS Value Fund Limited	1,400	10	6	6
Pakistan Premier Fund Limited	1,089	10	2	2
PICIC Growth Fund (SEMF)	746	10	4	4
			2,869	2,869
Available for sale				
Faysal Savings Growth Fund	1,468,716	100	150,000	152,130
KASB Liquid Fund	335,728	100	31,638	30,456
Askari Income Fund	1,971,220	100	200,000	185,354
United Money Market Fund	1,468,626	100	150,000	140,741
NAFA Cash Fund	46,474,448	10	500,000	445,667
			1,031,638	954,348
			1,034,507	957,217

2007				
Mutual Fund	Number of units held	Face value per unit	Carrying Value	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

10.10 Particulars of provision for diminution in the value of investments

	Note	2008	2007
		(Rupees in '000)	
Opening balance at January 1		3,672	5,414
Impairment on			
- Available for sale securities		158,075	-
- Associates		19,881	-
Charge for the year			
- in respect of certain investments carried at lower of cost or break-up value		2,008	1,554
- others		8,000	-
Reversals during the year		-	(3,296)
Net (reversal) / charge for the year		187,964	(1,742)
Closing balance at December 31		191,636	3,672

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

	2008	2007
Available for sale securities		
Term finance certificates - unlisted	8,000	-
Fully paid-up ordinary shares - listed	158,075	
Fully paid-up ordinary shares - unlisted	5,680	3,672
	171,755	3,672
Associates		
KASB Stock Market Fund	19,881	-
		-
	191,636	3,672

10.11 Quality of available for sale securities

	2008 Amount (Rupees in '000)	2008 Rating	2007 Amount (Rupees in '000)	2007 Rating
Pakistan Investment Bonds	132,288	Unrated	156,184	Unrated
Market Treasury Bills	588,940	Unrated	3,829,148	Unrated
Term Finance Certificates - listed				
- Worldcall Communication Limited	196,742	AA-	-	-
- Azgard Nine Limited	6,886	AA-	13,773	AA-
- United Bank Limited (2nd issue)	81,147	AA	81,150	AA
- United Bank Limited (4th issue)	83,944	AA	-	-
- Chanda Oil and Gas Company Limited	-	-	14,400	A+
- Standard Chartered Bank (Pakistan) Limited	-	-	121	AAA
- Trust Leasing Corporation Limited	-	-	361	AA
- Al Zamin Leasing Modaraba	72	A-	3,934	A
- Telecard Limited	7,919	BBB	10,046	BBB
	376,710		123,785	
Term Finance Certificates - unlisted				
- New Khan Transport Company Limited	76,576	Unrated	82,956	Unrated
- Tandlianwala Sugar Mills	12,500	Unrated	17,500	Unrated
- Associate Builders	-	-	85,001	Unrated
- Dominon Fertilizer (Pvt) Limited	-	-	191,666	AA-
- Pakistan Mobile Communication Limited	24,980	AA-	24,985	AA-
- Azgard Nine Limited	28,109	A1++	-	Unrated
- Engro Chemical Pakistan Limited	209,616	AA	-	-
- Pak American Fertilizers Limited	150,255	Unrated	-	-
- Allied Bank Limited	10,000	Unrated	-	-
- Shakarganj Mills Limited	100,000	A-	-	-
	612,036		402,108	
Units of mutual funds				
- KASB Liquid Fund	30,456	5-star	11,804	AM3+
- KASB Balanced Fund	-	-	250,017	AM3+
- KASB Stock Market Fund	-	-	130,920	AM3+
- Faysal Savings Growth Fund	152,130	A(F)	-	-
- Askari Income Fund	185,354	5-star	-	-
- United Money Market Fund	140,741	4-star	-	-
- NAFA Cash Fund	445,667	A(F)	-	-
	954,348		392,741	
Ordinary shares of listed companies				Unrated
- The Hub Power Company Limited	48,963	Unrated	105,987	Unrated
- United Bank Limited	2,953	AA+	-	
- Oil and Gas Development Company Limited	4,999	AAA	-	
- National Bank of Pakistan	1,258	AAA	-	
- Engro Chemicals Pakistan Limited	7,716	AA/A1+	-	
- Karachi Electric Supply Corporation Limited	6,210	Unrated	15,900	Unrated
- Pakistan Petroleum Limited	9,463	Unrated	-	
- Fauji Fertilizers Bin Qasim Company Ltd	903	Unrated	4,537	Unrated
- Descon Oxy Chemical Limited	36,346	Unrated	-	
- KESC Preferred Shares	8	Unrated	39	Unrated
- KASB Bank Limited	160,394	A/A1	-	
- Eye Television Network (Hum TV)	-	-	185,775	Unrated
- Pakistan Oil Fields Limited	-	-	13,376	Unrated
- Bosicor Pakistan Limited	-	-	320	Unrated
- Callmate Tellips Telecom Limited	-	-	761	Unrated
- UTP Large Capital Fund	-	-	810	Unrated
	279,213		327,505	
Ordinary shares of unlisted companies	330,588	Unrated	15,680	Unrated
Commercial papers	-	-	102,992	Unrated
Total	3,274,123		5,350,143	

10.12 Unrealised gain / (loss) on revaluation of investments classified as held for trading

	2008 (Rupees in '000)	2007 (Rupees in '000)
Ordinary shares / units of listed companies / mutual funds		
- Pak Suzuki Motor Company Limited	-	34,779

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

10.14 Significant particulars relating to government securities and term finance certificates are as follows:

Particulars of investment	Maturity	Principal payments	Coupon rate / Discount rate	Coupon payments
2008				
Market Treasury Bills	February 2009 to March 2009	On Maturity	9.04% to 9.17%	Not Applicable
Pakistan Investment Bond	October 2011 to October 2013	On Maturity	8.00% to 13.00%	Semi-annually
Term Finance Certificates	August 2009 to July 2014	Various	8.00% to 19.04%	Various

Particulars of investment	Maturity	Principal payments	Coupon rate / Discount rate	Coupon payments
2007				
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 applicable

10.15 Investments in associates

Details of the Group's associates are as follows:

Particulars of investments in associates

The paid up value of these shares / units is Rs.10 except where stated.

2008	2007		2008	2007
(Number of shares / units)			(Rupees in '000)	
50,000,000	-	**New Horizon Exploration and Production Limited** Percentage of holding : 40.00% Break-up value per share: Rs. 2.65 Date of audited financial statements : December 31, 2008 Chief Executive : Mr. Wamiq Bukhari	500,000	-
6,375,640	-	**KASB Balanced Fund** Percentage of holding : 26% Net Asset Value per unit: Rs. 35.87 Date of reviewed financial statements : December 31, 2008 Investment Adviser - KASB Funds Limited (Paid-up value of each unit is Rs. 50)	298,424	-
2,434,724	-	**KASB Stock Market Fund** Percentage of holding : 27% Net Asset Value per unit: Rs. 22.46 Date of reviewed financial statements : December 31, 2008 Investment Adviser - KASB Funds Limited (Paid-up value of each unit is Rs. 50)	142,287	-
2,043,410	-	**KASB Islamic Income Fund** Percentage of holding : 32% Net Asset Value per unit: Rs. 91.50 Date of reviewed financial statements : December 31, 2008 Investment Adviser - KASB Funds Limited (Paid-up value of each unit is Rs. 100)	204,036	-
55,000,000	-	**Shakarganj Food Products Limited** Percentage of holding : 42.78% Break-up value per share: Rs. 4.61 Date of audited financial statements : September 30, 2008 Chief Executive : Mr Anjum Saleem	627,942	-
3,359,198	-	**Network Microfinance Bank Limited** Percentage of holding : 22.39% Break-up value per share: Rs. 0.59 Date of audited financial statements : 31 December 2008 Chief Executive : Mr Moazzam Khan	10,078	-
			1,782,767	-

10.16 During the current period, an impairment loss amounting to Rs 19.881 million has been charged to the profit and loss account in respect of the Group's investment in certain associates.

10.17 Movement of cost of associates and its related post acquisition changes

Particulars	KASB Capital Limited	Shakarganj Food Products Limited	New Horizon Exploration and Production Limited	Network Microfinance Bank Limited	KASB Liquid Fund	KASB Balanced Fund	KASB Islamic Fund	KASB Stock Market Fund	Total
	Rupees in '000								
At January 1	682,580	-	-	-	-	-	-	-	682,580
Recognized on acquisition - note 10.17.1	-	627,942 *	500,000	14,923	-	298,424	204,036	142,287	1,787,612
Post-acquisition changes during the year:									
Recognized in the profit and loss account	(158,215)	-	-	-	-	-	-	-	(158,215)
Recognized directly in equity	627,137	-	-	-	-	-	-	-	627,137
	468,922	-	-	-	-	-	-	-	468,922
	1,151,502	627,942	500,000	14,923	-	298,424	204,036	142,287	2,939,114
Provision for permanent diminution in the value of investment	-	-	-	-	-	-	19,881	-	19,881
Derecognized during the year - note 10.17.2									
Cost and post acquisition changes recognized in the profit and loss account	(524,365)	-	-	-	-	-	-	-	(524,365)
Post acquisition changes recognized directly in equity	(627,137)	-	-	-	-	-	-	-	(627,137)
	(1,151,502)	-	-	-	-	-	-	-	(1,151,502)
At December 31	-	627,942	500,000	14,923	-	298,424	184,155	142,287	1,767,731

* This includes an amount of Rs 59.5 million representing advance against issue of shares.

10.17.1 Amount recognized on acquisition represent provisional fair values of investments in associates as at the date of acquisition.

10.17.2 Amount derecognized represents cost of investment and post acquisition changes uptil December 31, 2008 which has been derecognized upon amalgamation of KCL into the Holding Company .

10.17.3 The Group applies equity method of accounting for its investment in mutual funds where significant influence exists. Subsequent to the acquisition of KASB Funds Limited (the management company) the direct investment of the Holding Company in these entities have been classified by the Group as investment in associates.

Particulars of the assets and liabilities of the associates

	Assets**	Liabilities**	Revenue**	Profit/ (Loss)**
	As at December 31		From acquisition to December 31	
	Rupees in '000			
2008				
KASB Capital Limited *	-	-	1,550,210	826,726
Shakarganj Food Products Limited	1,340,903	840,963	-	-
New Horizon Exploration and Production Limited	746,718,059	249,453,541	-	-
Network Microfinance Bank Limited	193,118,316	104,768,553	-	-
KASB Balanced Fund	689,648	5,424	-	-
KASB Islamic Fund	587,814	3,403	-	-
KASB Stock Market Fund	205,144	1,218	-	-
2007				
KASB Capital Limited	3,130,018	15,821	61,534	(3,280)

* Merged into the Holding Company
** As per the results of the standalone financial statements

10.17.4 KASB Funds Limited, one of the subsidiary companies of the Holding Company holds investments in KASB Stock Market Fund and KASB Liquid Fund. However, these investments have not been classified as investments in associates as KASB Funds Limited has been classified as a disposal group.

11 ADVANCES

	Note	2008	2007
		(Rupees in '000)	
Loans, cash credits, running finances, etc. - in Pakistan		32,634,426	23,825,071
Net investment in finance lease - in Pakistan	11.2	1,796,965	1,898,315
Bills discounted and purchased (excluding government treasury bills)			
- Payable in Pakistan		678,054	128,901
- Payable outside Pakistan		55,405	175,049
		733,459	303,950
		35,164,850	26,027,336
Provision against advances - specific	11.4	(2,875,909)	(870,746)
- general	11.4	(48,745)	(32,869)
		(2,924,654)	(903,615)
		32,240,196	25,123,721

	2008	2007
	(Rupees in '000)	

11.1 Particulars of advances (Gross)

		2008	2007
11.1.1	In local currency	35,109,445	25,852,287
	In foreign currencies	55,405	175,049
		35,164,850	26,027,336
11.1.2	Short-term (upto one year)	28,475,012	20,949,132
	Long-term (over one year)	6,689,838	5,078,204
		35,164,850	26,027,336

11.2 Net Investment in finance lease

	2008				2007			
	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	952,517	892,481	9,643	1,854,641	911,031	986,343	41,267	1,938,641
Residual value	111,558	162,968	2,566	277,092	101,817	170,108	9,920	281,845
Minimum lease payments	1,064,075	1,055,449	12,209	2,131,733	1,012,848	1,156,451	51,187	2,220,486
Finance charge for future periods	(178,455)	(155,747)	(566)	(334,768)	(163,398)	(157,010)	(1,763)	(322,171)
Present value of minimum lease payments	885,620	899,702	11,643	1,796,965	849,450	999,441	49,424	1,898,315

11.3 Advances include Rs 6,245.779 million (2007: Rs. 1,069.872 million) which have been placed under non-performing status as detailed below:

Category of classification	2008				
	Domestic	Overseas	Total	Provision required	Provision held
	(Rupees in '000)				
Substandard	766,778	-	766,778	148,188	148,188
Doubtful	3,439,490	-	3,439,490	1,094,688	1,094,688
Loss	2,039,511	-	2,039,511	1,633,033	1,633,033
	6,245,779	-	6,245,779	2,875,909	2,875,909

	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

11.4 Particulars of provision against non-performing advances

	Note	2008			2007		
		Specific	General	Total	Specific	General	Total
		(Rupees in '000)					
Opening balance at January 1		870,746	32,869	903,615	693,484	1,577	695,061
Charge for the year *		2,235,616	15,876	2,251,492	248,365	31,292	279,657
Reversals		(217,296)	-	(217,296)	(64,939)	-	(64,939)
Net charge		2,018,320	15,876	2,034,196	183,426	31,292	214,718
Amounts written off	11.7	(13,157)	-	(13,157)	(6,164)	-	(6,164)
Closing balance at December 31		2,875,909	48,745	2,924,654	870,746	32,869	903,615

* Charge for the year includes provision amounting to Rs 1,113.314 million which has been made as per the subjective evaluation of the customers and is in accordance with the Prudential Regulations issued by the State Bank of Pakistan.

11.4.1 General provision against consumer loans represents provision maintained at 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 loans 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

	2008		2007	
	Specific	**General**	**Specific**	**General**
	---------------------------- (Rupees in '000)	----------------------------		
In local currency	2,875,909	48,745	870,746	32,869
In foreign currencies	-	-	-	-
	2,875,909	48,745	870,746	32,869

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

During the current 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. 2 dated January 27, 2009. Under the revised guidelines issued by SBP, banks have been allowed to avail the benefit of 30% of forced sale value of pledged stocks and mortgaged commercial and residential properties held as collateral against all non-performing loans for three years from the date of classification for calculating provisioning requirement with effect from December 31, 2008. However, as per the circular the additional impact on profitability arising from availing the benefit of forced sale value against pledged stocks and mortgaged residential and commercial properties would not be available for payment of cash or stock dividend. Under the previous guidelines issued by SBP which were effective from December 31, 2007, banks could not avail the benefit of discounted forced sale value of mortgaged assets held as collateral against all non-performing loans (except for housing finance) for calculating provisioning requirement.

11.6 Had the provision against non-performing loans and advances been determined in accordance with requirements previously laid down by the SBP, the specific provision against non-performing loans and loss before taxation would have been higher and consequently advances (net of provisions) as at December 31, 2008 would have been lower by approximately Rs 368.194 million.

11.6.1 Although the Group has made provision against its non-performing portfolio as per the category of classification of the loan, however, the Group still holds enforceable collateral in the event of recovery through litigation. These securities comprise of charge against various tangible assets of the borrower including land, building and machinery, stock in trade, etc.

		Note	2008	2007
			(Rupees in '000)	
11.7	**Particulars of write offs**			
11.7.1	Against provisions	11.4	13,157	6,164
	Directly charged to the profit and loss account		230	-
			13,387	6,164
11.7.2	Write offs of Rs 500,000 and above	11.8	12,709	5,340
	Write offs of below Rs 500,000		678	824
			13,387	6,164

11.8 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, 2008 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.

	2008	2007
	(Rupees in '000)	

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

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

	2008	2007
Balance at beginning of the year	325,854	176,015
Loans granted during the year	545,762	185,234
Repayments during the year	236,491	35,395
Balance at end of the year	635,125	325,854

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

	2008	2007
Balance at beginning of the year	-	-
Loans granted during the year	38,974	-
Repayments during the year	36,252	-
Balance at end of the year	2,722	-

Debts due by controlled firms, managed modarabas and other related parties

	2008	2007
Balance at beginning of the year	54,831	5,129
Loans granted during the year	93,315	33,668
Repayments during the year	110,586	3,398
Balance at end of the year	37,560	35,399

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

	Note	2008	2007
		(Rupees in '000)	

12 OPERATING FIXED ASSETS

	Note	2008	2007
Capital work-in-progress	12.1	694,011	201,833
Tangible fixed assets	12.2	1,959,047	868,878
Intangibles	12.4	78,806	37,310
		2,731,864	1,108,021

12.1 Capital work-in-progress

	Note	2008	2007
Civil works		116,990	78,724
Equipment		15,451	-
Advances to suppliers and contractors		57,748	123,109
Advance for acquiring floor / office premises	12.1.1	402,669	
Others		101,153	-
		694,011	201,833

12.1.1 The Holding Company and KASB Capital Limited (KCL) (now merged into the Holding Company) had entered into an agreement with KASB Developers (Private) Limited for acquiring a commercial space, being paid in installments, in KASB Altitude, [a project of KASB Developers (Private) Limited]. As per the terms of the agreement, KASB Developers (Private) Limited would undertake construction of multi-storeyed building on Plot No Com 2/4, Block 1, Scheme 5, Clifton, Karachi and would enter into a sub-lease agreement with the Holding Company and KASB Capital Limited in respect of the floors being purchased by them. Presently, the Holding Company intends to acquire four floors in KASB Altitude at an aggregate consideration of Rs. 947 million. The project is expected to be completed within forty two months from the date of commencement of the construction i.e. January 2008 and the aforementioned floors would be available for use after completion and final payments of the above amounts. As at December 31, 2008, the Holding Company has paid a total amount of Rs 402.669 million (including Rs 203.159 million paid by KCL before amalgamation into the bank) to KASB Developers (Private) Limited.

12.2 Tangible fixed assets

2008

	COST					DEPRECIATION						
	As at January 1, 2008	Additions/ Revalua-tion* /Acquired assets**	Reclassif i-cation	Deletions / Adjust-ments	As at December 31, 2008	As at January 1, 2008	Adjustments / Revaluations *	Reclassifi-cation	Charge for the year / (Deletions)*	As at December 31, 2008	Book value at December 31, 2008	Rate of Depreciation (%)
	(Rupees in 000)											
Freehold land	127,500	40,516 *	100,213	-	268,229	-	-	-	-	-	268,229	-
Bank premises - note 12.2.1	629,025	95,181 623,186 *	(100,213)	(5,902) (227) *	1,241,050	120,955	(75,670) **	-	39,475 (5,772) *	78,988	1,162,062	5
Furniture and fixtures	64,618	52,999 2,651 **	(44)	(2,499) (490) *	117,235	24,959	-	-	14,555 (1,161) *	38,353	78,882	10
Motor vehicles	94,704	170,952 5,565 **	1,894	(55,851) (30) *	217,234	32,605	-	1,546	25,970 (26,115) *	34,006	183,228	20
Electrical, office and computer equipment	409,473	175,074 26,350 **	9,662	(5,823) (1,723) *	613,013	280,314	(101)	9,618	73,133 (5,589) *	357,375	255,638	20-33.33
	1,325,320	494,206 663,702 * 34,566 **	11,512	(70,075) (2,470) *	2,456,761	458,833	(101) (75,670) **	11,164	153,133 (38,637) *	508,722	1,948,039	
Assets held under finance lease												
Motor vehicles	5,493	2,433 **	(1,894)	-	6,032	3,102	-	(1,546)	621	2,177	3,855	20
Electrical, office and computer equipment	9,618	7,153 **	(9,618)	-	7,153	9,618	-	(9,618)	-	-	7,153	20-33.33
	15,111	9,586 **	(11,512)	-	13,185	12,720	-	(11,164)	621	2,177	11,008	
Total	1,340,431	494,206 663,702 * 44,152 **	-	(70,075) (2,470) *	2,469,946	471,553	(101) (75,670) **	-	153,754 (38,637) *	510,899	1,959,047	

** Acquired assets represents transfer of assets from KASB Capital Limited and Network Leasing Corporation Limited consequent to amalgamation of these companies with and into bank.

2007

	COST					DEPRECIATION						
	As at January 1, 2007	Additions/ Transfers	Reclassif i-cation	Deletions / Adjustments	As at December 31, 2007	As at January 1, 2007	Charge for the year	Reclassifi cations	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	53,961	(1,927) (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	(53,961)	(1,124) (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) (100,564)	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) (110,595)	471,553	868,878	

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

12.2.1 This includes leasehold improvement amounting to Rs 299.971 million (2007: 210.919 million) which was not part of the revaluation carried out by the independent valuer and have been carried at cost.

12.3 The land and buildings of the bank were revalued on September 30, 2008 by independent valuers namely Harvester Services (Private) Limited, Projects (Private) Limited and Prime Engineering Consultants on the basis of professional assessments of the market values. The revaluation resulted in a surplus of Rs 739.372 million over the book value of Rs 544.461 million. Had there been no revaluation, the net book value of land and buildings as at December 31, 2008 and the loss after taxation for the year ended December 31, 2008 would have been lower by Rs 730.636 million and Rs 5.678 million (net of deferred tax) respectively. The details relating to location of revalued asset with respect to the cities are as under:

City	**Land**	**Building**	**Total**
	------------- Rupees in '000		-------------
Karachi	80,526	897,990	978,516
Lahore	121,934	41,944	163,878
Islamabad	15,769	-	15,769
Multan	50,000	-	50,000
	268,229	939,934	1,208,163

12.4 **Intangible assets**

	COST				**AMORTISATION**					
	As at January 1, 2008	**Additions**	**Deletions / Adjust-ments**	**As at December 31, 2008**	**As at January 1, 2008**	**Amortis - ation**	**Deletions / Adjustments**	**As at December 31, 2008**	**Book value at December 31, 2008**	**Rate of Amortisation (%)**
	----------------------------(Rupees in 000)----------------------------									
Computer software	32,271	68,647	-	100,918	25,359	24,077	-	49,436	51,482	33.33
			-				-			
Customer list	30,735	-	-	30,735	337	3,074	-	3,411	27,324	10
2008	63,006	68,647	-	131,653	25,696	27,151	-	52,847	78,806	
		-				-				
		-	-							
2007	50,126	41,135	(28,255)	63,006	18,264	9,466	(2,034)	25,696	37,310	

		2008	**2007**
		(Rupees in '000)	
12.5	Carrying amount of temporarily idle properties	50,000	Nil
12.6	The cost of fully depreciated assets that are still in use is:		
	Bank premises	11,806	15,069
	Furniture and fixtures	12,975	9,139
	Electrical, office and computer equipment	114,188	239,789
	Motor vehicles	2,419	3,853
	Computer software	22,956	12,921
		164,344	280,771
12.7	The carrying amount of tangible fixed assets that have retired from active use and are held for disposal	Nil	Nil

12.8 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	Accumu-lated depreci-ation	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
	----------------(Rupees '000)------------------					
Bank premises						
Items having cost of more than Rs 1,000,000	4,583	4,583	-	30	Negotiation	Ashraf Masih
(note 12.8.2)	4,583	4,583	-	30		
Motor Vehicles						
Items having book value of more than Rs 250,000 or cost of less than Rs 1,000,000						
Honda City	831	399	432	431	Terms of employment	Muhammad Iqbal Haroon - Executive
Honda City	888	22	866	865	Terms of employment	Javed Allana - Executive
Honda City DSI-1300	831	410	421	431	Terms of employment	Naeem Khan - Executive
Honda City DSI-1300	886	354	532	794	Auction	Rehan Mehtani
Honda City DSI-1300	886	343	543	602	Terms of employment	Liaqat Saeed - Executive
Honda City DSI-1300	886	307	579	602	Terms of employment	Amir Zahoor - Executive *
Honda City-DSI	831	410	421	421	Terms of employment	Anwer Saeed - Executive
Honda City-DSI-1300	831	410	421	443	Terms of employment	Salim Paracha - Executive
Suzuki Alto	529	20	509	516	Terms of employment	Nadeem Abbas - Executive
Suzuki Alto	529	20	509	516	Terms of employment	Ubaidullah Noshahi - Executive
Suzuki Alto	529	20	509	516	Terms of employment	Shahzad Ghouri - Executive
Suzuki Cultus VXR	560	202	358	358	Terms of employment	Nasir Mansoor - Executive
Suzuki Cultus VXR	560	202	358	358	Terms of employment	Anjum Amin - Executive
Suzuki Cultus VXR	560	209	351	351	Terms of employment	Raza Saeed - Executive
Suzuki Cultus VXR	560	209	351	351	Terms of employment	Amir Iqbal Saifi - Executive
Suzuki Cultus VXR	560	189	371	371	Terms of employment	Mian Khurram Saleem - Executive
Suzuki Cultus VXR	560	217	343	358	Terms of employment	Huma Kamani - Executive
Suzuki Cultus VXR	560	194	366	366	Terms of employment	Kamran Khan - Executive *
Suzuki Cultus VXR	560	224	336	405	Auction	Ejaz Khan
Suzuki Cultus VXR	560	217	343	343	Terms of employment	Syed Khaleeq Najam - Executive
Suzuki Cultus VXR	560	105	455	455	Terms of employment	Nadeem Ghani - Executive
Suzuki Cultus VXR	560	68	492	500	Terms of employment	Mehboob Afridi - Executive
Suzuki Cultus VXR	560	60	500	507	Terms of employment	Saulat Qadri - Executive
Suzuki Cultus VXR	560	254	306	306	Terms of employment	Mirza Waqar Ahmed - Executive
Suzuki Cultus VXR	560	299	261	261	Terms of employment	Akhtar Hussain - Executive
Suzuki Cultus VXR	560	252	308	323	Terms of employment	Adnan Dada - Executive
Suzuki Cultus VXR	560	291	269	308	Terms of employment	Farhad Imdad Sheikh - Executive
Suzuki Cultus VXR	560	261	299	299	Terms of employment	Sajjad Ali Qureshi - Executive
Suzuki Cultus VXR	560	211	349	349	Terms of employment	Zafar Ahmad Khan - Executive
Suzuki Cultus VXR	560	253	307	448	Auction	Muhammad Kamran
Suzuki Cultus VXR	560	215	345	352	Terms of employment	Kashif Ejaz - Executive
Suzuki Cultus-VXR	560	252	308	308	Terms of employment	Raheel Abbas - Executive
Suzuki Cultus-VXR	560	291	269	276	Terms of employment	Muhammad Rizwan - Executive
Suzuki Cultus-VXR	560	282	278	278	Terms of employment	Javed Allana - Executive
Suzuki Cultus-VXR	560	289	271	271	Terms of employment	Najam ud Din Siddiqui - Executive
Suzuki Cultus-VXR	560	310	250	453	Auction	Adnan Khan
Suzuki Cultus-VXR	560	241	319	327	Terms of employment	Meer Jamali - Executive
Suzuki Cultus-VXR	560	233	327	335	Terms of employment	Malik Zahid Bashir - Executive
Suzuki Cultus-VXR	560	246	314	454	Insurance Claim	EFU General Insurance Limited
Suzuki Cultus-VXR	560	284	276	276	Terms of employment	Masood Naqvi - Executive
Suzuki Cultus-VXR	560	306	254	401	Auction	Rehan Mehtani
Suzuki Cultus-VXR	560	255	305	305	Terms of employment	Naveed Baz Khan - Executive
Suzuki Cultus-VXR	560	213	347	347	Terms of employment	Basheer Wasan - Executive
Suzuki Cultus-VXR	560	217	343	460	Auction	Noman Hasan Khan
Suzuki Cultus-VXR	560	209	351	358	Terms of employment	Syed Farrukh Raza - Executive
Suzuki Cultus-VXR	560	260	300	308	Terms of employment	Munawar Masood Naqvi - Executive
Suzuki Cultus-VXR	560	194	366	373	Terms of employment	Asima Haider - Executive
Suzuki Cultus-VXR	560	202	358	366	Terms of employment	Shahzad Mahmood - Executive
Suzuki Cultus-VXR	560	187	373	373	Terms of employment	Fawad Yousuf - Executive
Suzuki Cultus-VXR	560	85	475	475	Terms of employment	Rizwan Rafique - Executive
Suzuki Cultus-VXR	590	63	527	527	Terms of employment	Jamil Gurawara - Executive
Suzuki Cultus VXR	560	321	239	262	Auction	Imran Ahmad
Toyota Corolla GLI	969	362	607	906	Auction	Irfan Rasheed
Toyota Corolla XLI 1300	849	555	294	306	Terms of employment	Khalid Mahmud Salim - Executive *
Toyota Corolla XLI -1300	849	498	351	351	Terms of employment	Nadeem Mahdi Qureshi - Executive
Toyota Corolla-XLI-1300	849	571	278	278	Terms of employment	Muhammad Aslam - Executive
Toyota Corolla-XLI-1300	849	540	309	309	Terms of employment	Sohail Siddiqui - Executive
Toyota Corolla-XLI-1300	849	575	274	274	Terms of employment	Asim Sohail - Executive
Toyota Corolla-XLI-1300	849	558	291	291	Terms of employment	Mian Muhammad Khan - Executive
Toyota Corolla-XLI-1300	849	545	304	304	Terms of employment	Sameer Nisar Ahmad - Executive
	42,942	20,574	22,368	24,088		

Particulars	Cost	Accumu-lated depreci-ation	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
	-----------------(Rupees '000)-------------------					
Motor Vehicles						
Items having book value of less than Rs 250,000 or cost of more than Rs 1,000,000						
Honda Civic (Saloon)	1,155	924	231	505	Terms of employment	Qasim Rizvi - Executive
Honda Civic EXI	1,043	473	570	812	Auction	Rehan Mithani
Honda Civic VTI	1,283	718	565	728	Auction	Muhammad Ejaz Khan
Honda Civic VTI	1,328	637	691	691	Terms of employment	Arif Sirhindi - Executive *
Honda Civic VTI	1,309	337	972	1,178	Insurance Claim	EFU General Insurance Limited
Toyota Corolla			-			
(Saloon)1600	1,079	820	259	550	Auction	Syed M Iqbal
Toyota Corolla GLI 1.3	1,100	41	1,059	1,086	Terms of employment	Atiq Ur Rehman - Executive
Toyota Corolla GLI 1.3	1,014	25	989	1,014	Terms of employment	Sohail Siddiqi - Executive
	9,311	3,975	5,336	6,564		
2008	52,253	24,549	27,704	30,652		
2007	22,961	14,647	8,314	8,959		

* Disposals to Key Management Personnel.

12.8.1 Disposal as per the terms of employment represents assets disposed of to employees as per the bank's policy and in accordance with the terms of employment contract.

12.8.2 Represents scrapped leasehold improvement disposed of for Rs 30 thousand.

13 DEFERRED TAX ASSETS - NET

	Note	2008	2007
		(Rupees in '000)	
Deferred debits arising due to:			
Net deficit on revaluation of available for sale securities		22,290	-
Provision for diminution in the value of investments		40,140	2,955
Provision against non-performing loans and advances and mark-up in suspense		149,588	144,946
Provision for compensated absences		2,926	3,391
Provision against other assets		1,647	1,647
Provision for gratuity		26,147	14,040
Fair value adjustments relating to net asset acquired upon amalgamation		129,644	-
Minimum tax		41,283	41,553
Unused tax losses (including unabsorbed depreciation)	13.1	1,748,834	690,166
Other deductible temporary differences		2,357	35,614
		2,164,856	934,312
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)
Accelerated tax depreciation		(146,346)	(62,927)
Liabilities against assets subject to finance lease		(342)	(338)
Surplus on revaluation of fixed assets		(247,667)	-
Net investment in finance leases		(181,459)	(203,687)
		(575,814)	(276,415)
		1,589,042	657,897

13.1 The Group has an aggregate amount of Rs 4,996.669 million in respect of unabsorbed tax losses as at December 31, 2008 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 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 Group for the next five years.

13.2 Through the Finance Act, 2007, 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.

The Schedule does not contain transitory provisions to deal with the disallowances made upto December 31, 2007 and certain other matters including treatment relating to leases disbursed by the Holding Company. This issue has been taken up with the tax authorities through the Pakistan Banks' Association for formulation of transitory provisions to deal with the items which were previously treated differently under the applicable provisions.

The deferred tax asset on the deductible temporary differences disallowed as a deduction in the past upto December 31, 2007 is being kept as an asset whereas deferred tax liability on certain balances (including deferred tax liability amounting to Rs 181.459 million on net investment in finance lease) is being kept as liability as the Group is confident that transitory provisions would be introduced to set out the mechanism of claiming where benefit for these allowances can be claimed.

14 OTHER ASSETS

	Note	2008	2007
		(Rupees in '000)	
Income / mark-up accrued in local currency		1,334,295	894,617
Income / mark-up accrued in foreign currencies		158	-
Advances, deposits, advance rent and other prepayments		364,920	93,164
Taxation (payments less provisions)		33,467	78,709
Stationery and stamps in hand		12,770	11,500
Non banking assets acquired in satisfaction of claim		211,642	-
Branch adjustment account		906	43,421
Goodwill	14.2	3,436,570	35,362
Trade debts - unsecured - considered good		3,528	3,932
Long term deposits		-	844
Assets held for sale	14.5 & 24	3,309,354	-
Receivable against sale of units of mutual funds and listed equity securities		-	32,734
Dividend receivable		830	-
Others		50,534	12,917
		8,758,974	1,207,200
Provision held against other assets	14.3	(149,555)	(4,707)
Other assets - net of provision		8,609,419	1,202,493

14.1 The market value of non-banking assets acquired in satisfaction of claims as per the valuation report dated January 18, 2008 amounted to Rs 220 million.

14.2 Goodwill

	Note	2008	2007
		(Rupees in '000)	
Goodwill recognised on acquisition of IHFL		35,362	35,362
Goodwill on acquisition of entities	6.3.7 & 14.6	3,401,208	-
		3,436,570	35,362

14.3 Provision against other assets

	Note	2008	2007
Opening balance at January 1		4,707	4,707
Charge for the year	14.4	144,848	-
Closing balance at December 31		149,555	4,707

14.4 This represents impairment charge in respect of goodwill arising on acquisition of Network Leasing Corporation Limited as more fully explained in note 6.5.5 to the financial statements.

14.5 Assets held for sale include credit link note amounting to Rs 68.196 million issued by KASB International Limited (a subsidiary of the Group) to Lasmer SA (a company incorporated in Belgium). As per the terms of the agreement Lasmer has paid the aforementioned amount to KIL which represents its corresponding interest in Shakarganj Food Products Limited (SFPL an associate of the Group classified as held for sale) equivalent to six million shares of SFPL. KIL has issued the above unsecured equity linked note to Lasmer through which KIL promises to distribute the proceeds due to Lasmer from sale of SFPL shares as per the terms agreed between Lasmer and KIL.

14.6 Out of total amount of goodwill, certain portion of goodwill is related to assets of the disposal Group (as more fully explained in note 24 to the financial statements). The management has not yet specifically allocated the amount of goodwill relating to the disposal Group (as more fully explained in note 6.3.7 to the financial statements) and the exercise for the allocation and it's inclusion in the disposal Group will be completed by the next year.

		Note	2008	2007
15	**CONTINGENT ASSETS**		**(Rupees in '000)**	
	There were no contingent assets of the Group as at December 31, 2008.			
16	**BILLS PAYABLE**		217,520	879,152
	These represent bills payable in Pakistan.			
17	**BORROWINGS**			
	In Pakistan		6,297,878	1,640,274
	Outside Pakistan		2,744	106,101
			6,300,622	1,746,375
17.1	**Particulars of borrowings**			
	In local currency		6,297,878	1,640,274
	In foreign currencies		2,744	106,101
			6,300,622	1,746,375
17.2	**Details of borrowings secured / unsecured**			
	Secured			
	Borrowing from the State Bank of Pakistan under export refinance scheme	17.2.1	2,475,309	1,254,061
	Borrowing from the State Bank of Pakistan under Long Term Finance (LTF) for export oriented projects	17.2.2	203,400	285,645
	Repurchase agreement borrowings	17.2.3	1,210,903	-
	Borrowing from banks and financial institutions		558,266	568
			4,447,878	1,540,274
	Unsecured			
	Call money borrowing			
	- State Bank of Pakistan	17.4	800,000	-
	- Other financial institutions	17.4	1,050,000	100,000
	Overdrawn nostro accounts		2,744	106,101
			1,852,744	206,101
			6,300,622	1,746,375

17.2.1 The Holding Company has entered into agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreement, the Holding Company has granted SBP the right to recover the outstanding amount from the bank at the date of maturity of the finance by directly debiting the current account maintained by the bank with the SBP. Borrowing from the SBP under the export refinance scheme is secured by the bank's cash and security balances held by the SBP. The mark-up rate on this facility is 6.5 percent per annum (2007: 6.5 percent per annum) payable on quarterly basis.

17.2.2 These borrowings have been obtained from SBP for providing financing facilities to customers for import of machinery, plant, equipment and accessories thereof (not manufactured locally) by export oriented units. The mark-up rate on this facility is 6.5 percent per annum (2007: 6.5 percent per annum) payable on quarterly basis.

17.2.3 Repurchase agreement borrowings and call borrowings carry mark-up at rates ranging from 10.09 percent to 15.01percent and 18 percent to 21 percent respectively (2007: Nil and 11 percent respectively).

17.3 This includes financing facilities amounting to Rs. 624.622 million (provisional fair value amounting to Rs. 558.266 million) obtained by Network Leasing Corporation Limited and KASB Capital Limited (both now part of the Holding Company) from banks and Non-Banking Finance Companies (NBFC). Out of the total carrying value of financing facilities, facilities having carrying value amounting to Rs 378.236 million are secured by a first hypothecation charge on specific leased assets, pledge of shares and the related lease rentals receivable. Mark-up on these facilities is payable at rates ranging from 1.5 percent to 17 percent per annum.

In respect of certain outstanding financing facilities taken by the NLCL , the management of the Holding Company has approached the selected finance providers, i.e. banks and NBFCs, for early settlement of the outstanding amount of principal. Out of the twenty banks and financial institutions, eight banks and financial institutions have acceded to the proposal uptil December 31, 2008. The effects of these acceded proposals have been adjusted by the management of the Holding Company at the time of recognition of these liabilities at their respective fair values in the books of the Holding Company. The management intends to approach the remaining banks and financial institutions for early settlement of the liabilities and believes that this will be formalized in the financial year ending December 31, 2009.

17.4 These carries mark-up rate of 18 percent to 21 percent.

18 DEPOSITS AND OTHER ACCOUNTS

	2008	2007
	(Rupees in '000)	
Customers		
Remunerative		
Fixed deposits	18,430,574	15,165,536
Savings deposits	8,928,113	8,723,263
	27,358,687	23,888,799
Non-Remunerative		
Current accounts	3,671,559	3,424,258
Margin deposits	364,014	374,262
	4,035,573	3,798,520
	31,394,260	27,687,319
Financial Institutions		
Remunerative deposits		
Savings deposits	1,959,495	857,256
Term deposits	1,715,600	4,498,500
Non-remunerative deposits		
Current accounts	11,445	87,037
	3,686,540	5,442,793
	35,080,800	33,130,112

18.1 Particulars of deposits and other deposits

	2008	2007
In local currency	33,854,983	32,464,967
In foreign currencies	1,225,817	665,145
	35,080,800	33,130,112

19 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2008			2007		
	Minimum lease payments	Finance charge for future periods	Principal outstanding	Minimum lease payments	Finance charge for future periods	Principal outstanding
	(Rupees in '000)					
Not later than one year	4,845	1,174	3,671	1,068	86	982
Later than one year and not later than five years	6,604	590	6,014	447	1	446
	11,449	1,764	9,685	1,515	87	1,428

The Holding Company 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 13.93% to 18.24% (2007: 9.14% to 14.74%) per annum which has been used as discounting factor and are payable monthly. The Holding Company 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	2008	2007
		(Rupees in '000)	
Mark-up / return / interest payable in local currency		463,150	331,017
Mark-up / return / interest payable in foreign currencies		10,545	8,931
Advance against leases		1,727	20,562
Advance from customers		3,055	
Accrued expenses		94,623	64,481
Security deposit against lease	20.1	287,572	285,776
Security deposit		552	-
Provision for compensated absences	20.2	8,360	9,689
Provision for gratuity	37.4	74,706	40,115
Advances from customers		-	2,464
Creditors		-	18,600
Liabilities Held for Sale	24	1,367,351	-
Loans from director		-	73,896
Unrealised loss on forward foreign exchange contracts		1,576	522
Others		171,206	93,621
		2,484,423	949,674

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 Holding Company towards leaves accumulated by its employees as at December 31, 2008. The provision has been determined on the basis of basic salaries of employees for the month of December 2005 pursuant to the decision of the management to freeze this benefit as at this date.

21 SHARE CAPITAL

21.1 Authorised Capital

2008	2007		2008	2007
(Number of shares)			(Rupees in '000)	
2,500,000,000	600,000,000	Ordinary shares of Rs. 10 each	25,000,000	6,000,000

Issued, subscribed and paid up

172,850,902	172,850,902	Ordinary shares fully paid in cash	1,728,509	1,728,509
11,600,000	11,600,000	Ordinary shares issued as fully paid bonus shares	116,000	116,000
89,001,900	89,001,900	Ordinary shares issued on amalgamation of investment segment of KASB & Co.	890,019	890,019
8,834,942	8,834,942	Ordinary shares issued on amalgamation of KASB Leasing	88,349	88,349
(30,089,900)	(30,089,900)	Ordinary shares of the bank cancelled previously held by KASB & Co.	(300,899)	(300,899)
58,500,000	58,500,000	Ordinary shares issued on amalgamation of International Housing Finance Limited	585,000	585,000
90,791,236	-	Right shares issued during 2008	907,912	-
401,489,080	310,697,844		4,014,890	3,106,978

21.2 In accordance with Section 14 of the Banking Companies Ordinance (BCO), 1962, the issued subscribed and paid-up capital of the Holding Company should not at any point in time be less than one half of the authorised capital of the Holding Company. The authorised capital of the Holding Company as at December 31, 2008 amounted to Rs 25 billion based on which the issued, subscribed and paid-up capital of the Holding Company should have been Rs 12.5 billion (without considering the effect of profits / losses or any other reserves). The management of the Holding Company has approached the SBP for seeking relaxation in respect of the applicability of Section 14 of the BCO and a reply on this matter is pending to date.

21.3 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	310,697,844	3,106,978
Right shares issued during the year	90,791,236	907,912
Closing balance at December 31	401,489,080	4,014,890

21.4 Shares held by the related parties of the Group

Name of shareholder	2008	2007
	Number of shares	
Mr. Nasir Ali Shah Bukhari	117,117,141	94,776,425
Ms. Ambreen Bukhari	14,140,450	10,397,390
Mr. Muzzaffar Ali Shah Bukhari	14,123,736	10,385,100
Mr. Mahmood Ali Shah Bukhari	14,122,240	10,384,000
Mr. H. U. Beg	1,058,603	778,385
Mr. Sohail Wajahat H. Siddiqui	1,162	855
Mr. Tariq M. Rangoonwala	4,976	3,659
Mr. N.K. Shahani	74,080	22,500
Ms. Syeda Mubashira Bukhari	14,122,240	10,384,000
Mr. Irtiza Hussain	-	1,962
Mr. Syed Asghar Ali Shah	500	-
Mr. Muneer Kamal	748	27,850
21.4.1 Key Management Personnel	44,795	40,189

21.5 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. 19 dated September 05, 2008. As per the requirements, the minimum paid-up capital (net of losses) requirement for locally incorporated banks was raised to Rs 23 billion (net of losses), to be achieved in a phased manner by December 31, 2013. The minimum paid-up capital requirement (net of losses) to be achieved by December 31, 2008 is Rs 5 billion. The paid-up capital of the Holding Company as at December 31, 2008 amounts to Rs 4,014.890 million and the Holding Company has accumulated losses of Rs 974.788 million.

As more fully explained in note 6 to the financial statements, in order to comply with the minimum capital requirements prescribed by the State Bank of Pakistan (SBP) pursuant to the scheme of amalgamation, the entire undertaking of KASB Capital Limited (KCL) and Network Leasing Corporation Limited (NLCL) including properties, assets, liabilities and the rights and obligations of KCL and NLCL as at December 31, 2008 have been amalgamated into and vested with the Holding Company as at that date. In consideration for the amalgamation, the Holding Company intends to allot 361,797,538 fully paid ordinary shares to the shareholders of KCL and 7,403 fully paid ordinary shares to the shareholders of NLCL subsequent to the year ended December 31, 2008, which will rank pari passu with the existing shares of the bank.

Consequent to the aforementioned further issue of capital upon amalgamation of the entities into the Holding Company, the issued, subscribed and paid-up capital of the Group subsequent to the year ended December 31, 2008 will be increased to Rs. 7,632.940 million.

21.6 EMPLOYEE STOCK OPTION PLAN

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

The plan will be administered by a Committee constituted by the Board of Directors of the Holding Company which shall allocate share options not exceeding 4 percent of the Holding Company's paid-up share capital. The plan entitles eligible employees, who are granted share options, to purchase shares of the Holding Company's 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 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, 2008.

	Note	2008	2007
		(Rupees in '000)	
22 SURPLUS ON REVALUATION OF ASSETS - NET OF TAX			
Surplus on revaluation of fixed assets - net of tax	22.1	482,969	-
(Deficit) / surplus on revaluation of securities - net of tax	22.2	(96,602)	111,537
		386,367	111,537
22.1 Surplus on revaluation of fixed assets - net of tax			-
Surplus on revaluation of fixed assets as at January 01		-	-
Surplus arising on revaluation of fixed assets during the year		739,372	-
Transferred to accumulated loss in respect of incremental depreciation charge on related assets - net of deferred tax		(5,678)	-
Related deferred tax liability		(3,058)	-
		(8,736)	-
Surplus on revaluation of fixed assets as at December 31		730,636	-
Less: Related deferred tax liability on:			
- revaluation		250,725	-
- incremental depreciation charged during the year transferred to profit and loss account		(3,058)	-
		247,667	-
		482,969	-
22.2 Surplus / (deficit) on revaluation of available for sale securities			
Federal Government securities		(41,777)	(26,093)
Term Finance Certificates - listed		175	693
Units of Mutual Funds		(77,290)	21,217
Ordinary shares - listed		(158,075)	121,705
		(276,967)	117,522
Amount of impairment losses on investment classified as available for sale transferred to profit and loss account	10.3	158,075	-
		(118,892)	117,522
Related deferred tax liability		22,290	(5,985)
		(96,602)	111,537
23 CONTINGENCIES AND COMMITMENTS			
23.1 Direct credit substitutes			
Acceptances		1,843,971	1,935,011
23.2 Transaction-related contingent liabilities			
Guarantees issued favouring:			
- Government		8,081,693	2,392,925
- Others		1,417,875	967,549
		9,499,568	3,360,474
23.3 Trade-related contingent liabilities			
Letters of credit		817,726	3,488,493

23.4 Taxation matters have been disclosed in note 23.8 to these financial statements.

23.5 Commitments in respect of forward exchange contracts	2008	2007
	(Rupees in '000)	
Purchase		
From the State Bank of Pakistan	8,930	7,064
From other banks	1,369,656	405,900
From other customers	50,582	60,667
	1,429,168	473,631
Sale		
To banks	676,238	694,642
To customers	-	-
	676,238	694,642
	2,105,406	1,168,273
23.6 Commitments for the acquisition of operating fixed assets	700,508	422,999

23.6.1 This includes an amount of Rs. 545.354 million committed to KASB Developers (Private) Limited (as more fully explained in note 12.1.1 to the consolidated financial statements) for acquiring a commercial space, being paid in installments, in KASB Altitude. The amount payable in each of the next 4 years is as under:

	Rupees in '000
2009	159,617
2010	159,617
2011	159,617
2012	66,503
	545,354

23.7 Other commitments

23.7.1 Commitment to extend credits

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

23.7.2 Payment in respect of purchase of shares in Shakarganj Food Products Limited amounting to Rs 50 million (as more fully explained in note 10.4 to the financial statements).

23.8 Taxation

23.8.1 Taxation excluding Azad Jammu and Kashmir

(a) The income tax returns of the Holding Company have been filed under the self assessment scheme upto and including the tax year 2008. The assessment of the bank for the tax years 2003 and 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. The above-mentioned disallowances for the tax year 2003 and 2004 have resulted in an additional tax liability of Rs 17.935 million and Rs 55.023 million respectively. The Commissioner of Income Tax Appeals (CIT - Appeals), through the order dated May 31, 2006, has decided the matters relating to tax year 2004 against the Holding Company and has maintained the above-mentioned disallowances made by the Taxation Officer. Presently, the Holding Company has filed an appeal before the Income Tax Appellate Tribunal (ITAT) in respect of tax year 2004 which is pending to date. The Holding Company has also filed an appeal with the CIT-Appeals in connection with the above amendments made by the Taxation Officer in respect of additions relating to tax year 2003 which is pending to date.

(b) Income tax assessments of International Housing Finance Limited (amalgamated into the Holding Company during the year ended December 31, 2007) for tax years 2003-2006 have also been amended by the Taxation Officer on account of income from carry over transactions, gain on sale of units of mutual funds, provision for doubtful debts, gain on sale of property and certain other items resulting in a tax demand of Rs 35.973 million. The Holding Company has filed an appeal with the CIT Appeals in respect of the above-mentioned disallowances which is pending to date.

On a prudent basis, in connection with items (a) and (b) above, tax impact of Rs 48.362 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 amounting to Rs 60.569 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.

23.8.2 Taxation - Azad Jammu and Kashmir

Income tax assessments of the Azad Jammu Kashmir Region (AJK) in respect of the operations of the Holding Company had been finalised upto the tax year 2008 (including tax years 2006 to 2008 which have been finalised under Self Assessment Scheme and have not yet been selected for audit). While finalising tax year 2003, 2004 and 2005 the income tax authorities of AJK region had arbitrarily increased the taxable income of the Holding Company mainly on account of excessive additions to Azad Kashmir region's shadow cost of funds resulting in an additional tax demand of Rs 17.314 million. The Holding Company has filed reference with the Azad Kashmir High Court against such additions for tax years 2003 and 2004. For tax year 2005, the Holding Company's appeal is pending before the Commissioner Appeals.

No provision for the above tax demand of Rs 17.314 million has been recognised in these financial statements. Further, no provision has also been made in respect of the tax year 2006 to 2009 as the management is hopeful of a favorable decision on the issues pending in appeals.

24 ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE

The Group has incorporated a company with the name of KASB Finance (Private) Limited (incorporated under the Companies Ordinance, 1984 as on October 8, 2008). The Group intends to transfer its substantial holding in all subsidiaries and associates acquired on amalgamation of KASB Capital Limited and Network Leasing Corporation Limited into the Holding Company to KASB Finance (Private) Limited during the year ending December 31, 2009. KASB Finance (Private) Limited (majority shareholding of which will be held by the sponsor shareholder of the Holding Company in compliance with the requirements of section 59B of the Income Tax Ordinance, 2001) shall directly hold at least 55 percent shareholding in the Holding Company (by virtue of transfer of shareholding held by the sponsor shareholder of the Holding Company to KASB Finance (Private) Limited) as well as greater than 55 percent shareholding and 75 percent shareholding in listed and unlisted subsidiaries which will be transferred to this company by the Group. The sponsor shareholder of the Group also plans to introduce third-party investors in KASB Finance (Private) Limited, however, it is envisaged that the ownership structure of KASB Finance (Private) Limited other terms of the restructuring shall be in compliance with the requirements of section 59B of the Income Tax Ordinance, 2001 (the Ordinance) and qualify for approval of the relevant regulatory authorities for formation of a "Group".

In view of the above, net assets of subsidiaries and associates has been classified as "held for sale" in the financial statements for the year ended December 31, 2008 and valued at lower of cost and fair value less costs to sell. In addition, the management believes that this Group restructuring would not result in a taxable event under section 59B of the Ordinance and therefore, has not recognised the related deferred tax liability arising on difference between fair value of assets (subject to transfer under the above Group restructuring which are eligible for special tax treatment under section 59B of the Ordinance) and its tax base.

24.1 Analysis of profit and loss account, cash flow and others

Analysis of cash flows, cumulative income or expense recognised directly in equity relating to disposal Group classified as held for sale and the results of the discontinued operations have not been presented as these entities were acquired by the Holding Company on December 31, 2008. Further, the management estimates that the carrying amounts of net assets approximately equate to the fair values, and costs to sell if any would be immaterial.

24.2 Analysis of the assets and liabilities of the disposal group

An analysis of the fair value and carrying values of the assets and liabilities of the disposal group is given in note 6 to 6.6 to the financial statements.

25 DERIVATIVE INSTRUMENTS

The Group at present does not offer structured derivative products such as Interest Rate Swaps, Forward Rate Agreements or FX Options. However, Holding Company's treasury division buys and sells derivative instruments such as:

- Forward Foreign Exchange Contracts
- Foreign Exchange Swaps

Forward Foreign Exchange Contracts:

Forward foreign exchange contract is a product offered to customer backed by international trading contract. These customers use this product to hedge themselves from unfavourable movements in foreign currencies.

In order to mitigate the risk of adverse exchange rate movements, the Holding Company hedges its exposure by taking forward position in the inter bank market. In addition to this, the exposure is also managed by matching the maturities and fixing the counter parties, dealers, intra-day and overnight limits.

Foreign Exchange Swaps:

A foreign exchange Swap (FX Swap) is used by the Holding Company if it has a need to exchange one currency for another currency on one day and then re-exchange those currencies at a later date. Exchange rates and forward margins are determined in the "interbank" market and fluctuate according to supply and demand.

		2008	2007
		(Rupees in '000)	
26	**MARK-UP / RETURN / INTEREST EARNED**		
	On loans and advances		
	- Customers	4,051,966	2,264,656
	- Financial Institutions	9,323	10,859
	On investments in:		
	- available for sale securities	496,998	383,301
	- held to maturity securities	59,261	73,157
	- held for trading	-	4,130
	On deposits with financial institutions	14,176	61,304
	On securities purchased under resale agreements	222,612	82,878
	On call money lending	7,064	5,629
	On listed equity securities purchased under resale agreements	-	20,748
		4,861,400	2,906,662
27	**MARK-UP/ RETURN / INTEREST EXPENSED**		
	Deposits	3,829,792	2,064,414
	Securities sold under repurchase agreements	70,510	1,446
	Borrowing from the State Bank of Pakistan under export refinance	106,474	122,510
	Call borrowing	414,364	52,316
	Short term borrowings	-	6,049
	Long term borrowings	1,137	7
	Forward cover fee	279	282
	Amortization of premium on securities	27,021	35,899
		4,449,577	2,282,923
28	**GAIN ON SALE OF SECURITIES - NET**		
	Ordinary shares - listed	127,199	128,931
	Mutual funds	36,636	-
		163,835	128,931
29	**OTHER INCOME**		
	Rent on property	297	-
	Gain on disposal of fixed assets - net	3,903	197
	Revenue from rendering technology services	36,503	6,578
	Others	52,111	44,412
		92,814	51,187

		Note	2008	2007
			(Rupees in '000)	
30	**ADMINISTRATIVE EXPENSES**			
	Salaries, allowances and other benefits		812,766	513,690
	Contribution to defined gratuity scheme		39,205	23,816
	Contribution to defined contribution plan		25,935	17,694
	Directors Fee		5,625	4,767
	Rent, taxes, insurance and electricity		231,075	123,296
	Legal and professional charges		63,933	25,396
	Communication		89,107	47,412
	Repairs and maintenance		37,375	34,658
	Software and IT service charges		45,642	14,594
	Finance charge on lease obligations		152	289
	Stationery and printing		26,708	18,253
	Advertisement and publicity		85,453	123,635
	Depreciation	12.2	153,754	106,895
	Amortisation	12.4	27,151	5,686
	Auditors' remuneration	30.1	10,619	4,437
	Vehicle running expenses		15,608	20,966
	Brokerage and commission		4,207	682
	Security charges		29,111	17,169
	Fee and subscription		49,466	38,358
	Correspondence charges		14,059	5,023
	Entertainment		13,098	8,455
	Travelling expenses		19,658	16,892
	Royalty		135	-
	Donations	30.2	3,091	80
	Others		9,936	11,108
			1,812,869	1,183,251

		2008	2007
30.1	**Auditors' remuneration**		
	Audit fee - Holding Company	1,300	900
	Audit fee - KASB Technologies Services Limited	233	200
	Fee for half yearly review	500	350
	Special certifications and sundry advisory services	8,000	1,500
	Tax services	371	730
	Out-of-pocket expenses	215	757
		10,619	4,437

30.2 None of the directors or their spouses had any interest in the donees. The details of the donations paid in excess of Rs 100,000 during the year are as under:

	2008	2007
	(Rupees in '000)	
CSD Super Market	2,900	-

		2008	2007
31	**OTHER PROVISIONS / WRITE OFFS**		
	Fixed assets written off	1,347	-
	Others	17,653	246
		19,000	246

		2008	2007
32	**OTHER CHARGES**		
	Penalties imposed by the State Bank of Pakistan	9,561	12,193
	Balances no longer receivable written off	45,044	-
	Others	12,068	8,975
		66,673	21,168

33 TAXATION

	2008	2007
	(Rupees in '000)	
For the year		
Current	25,282	20,528
Deferred	(924,791)	(97,444)
	(899,509)	(76,916)
For the prior years		
Current	26,506	-
Deferred	-	(147,635)
	(873,003)	(224,551)

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

	2008	2007
Loss before taxation from continuing operations	(2,237,089)	(357,738)
Profit from discontinued operations	-	272,960
Profit before taxation	(2,237,089)	(84,778)
Tax at the applicable tax rate of 35 percent	(782,981)	(29,672)
Tax effect on deferred tax expense of subsidiary and impact of minimum losses	3,227	-
Tax effect on separate block of income	108,759	(32,617)
Tax effect on exempt income	135,762	(33,012)
Tax effect on permanent differences	(392,321)	18,325
Tax effect of goodwill on sale of subsidiary and associate	-	91,875
Minimum tax	-	(178)
Reversal of prior year tax	-	(9,485)
Deferred tax - prior years	26,506	(86,299)
Others	28,045	(12,059)
	(873,003)	(93,122)

34 (LOSS) / EARNINGS PER SHARE

	2008			2007		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	(Rupees in '000)					
(Loss) / profit for the year after taxation	(1,364,086)	-	(1,364,086)	(133,187)	161,334	28,147
	Number of shares					
Weighted average number of ordinary shares outstanding during the year	400,662,876	-	400,662,876	249,323,388	249,323,388	249,323,388
	(Rupees)					
(Loss) / earnings per share	(3.40)	-	(3.40)	(0.53)	0.65	0.12

34.1 A diluted earnings per share has not been presented as the Holding Company does not have any convertible instruments in issue at December 31, 2007 and 2008 which would have any effect on the earnings per share if the option to convert is exercised.

35 CASH AND CASH EQUIVALENTS

	Note	2008	2007
		(Rupees in '000)	
Cash and balances with treasury banks	7	1,507,650	3,001,928
Balances with other banks	8	59,112	806,967
Overdrawn nostro accounts	17	(2,744)	(106,101)
Short term borrowings - running finance		-	(568)
		1,564,018	3,702,226

36 STAFF STRENGTH

	2008	2007
	Number	
Permanent	1,273	884
Temporary / on contractual basis	101	27
Group's own staff strength at the end of the year	1,374	911
Outsourced*	668	428
Total staff strength**	2,042	1,339

* 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.

** Including relating to the subsidiary companies

37 STAFF RETIREMENT BENEFITS

37.1 Defined contribution plan

The Group (excluding KASB International Limited) operates a recognised provident fund scheme for all its permanent employees which is administered by the Board of Trustees. The Holding Company 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.

37.2 Defined benefit scheme

The Holding Company and KASB Modaraba operate an approved unfunded gratuity scheme for all their permanent employees. The charge in respect of KASB Modaraba is computed on the management best estimates as it does not have any material impact on the Group's financial statements. The actuarial valuation of the gratuity scheme of the Holding Company was carried out as at December 31, 2008 using the Projected Unit Credit Method. The following significant assumptions were used for the valuation of the scheme:

	2008	2007
Discount rate	15%	10%
Expected rate of salary increase	15%	10%

37.3 Reconciliation of liability recognised by the Holding Company

	2008	2007
	(Rupees in '000)	
Present value of unfunded obligations	74,706	42,132
Unrecognised past service cost	-	(2,017)
Liability recognised by the bank	74,706	40,115

37.4 Movement in liability recognised by the Holding Company

	2008	2007
Balance as at January 1	40,115	20,763
Charge for the year	39,205	23,816
Payments made during the year	(4,614)	(4,464)
Balance as at December 31	74,706	40,115

37.5 Charge for the year

	2008	2007
Current service cost	22,267	12,079
Interest cost	4,213	2,682
Actuarial losses recognised	10,708	4,120
Past service cost recognised	2,017	4,035
Liability of employees previously not entitled for gratuity	-	900
	39,205	23,816

37.6 Historical information

	2008	2007	2006	2005	2004
	Rupees in '000				
Defined benefit obligation	74,706	40,115	20,763	-	-
Fair value of plan assets	-	-	-	-	-
Deficit	(74,706)	(40,115)	(20,763)	-	-
Experience adjustments on plan liabilities	-	-	-	-	-
Experience adjustments on plan assets	-	-	-	-	-

37.6.1 An approved unfunded gratuity scheme was introduced for all permanent employees during the year ended December 31, 2006. Accordingly, the above details do not contain information relating to 2004 and 2005.

37.6.2 All actuarial gains / losses arising at each valuation date are recognised as income and expense immediately. Accordingly, there has been no effect of experience adjustments on plan liability during the years from 2006 to 2008.

37.6.3 Based on actuarial advice, the Holding Company intends to charge an amount of approximately Rs 33.080 million in respect of gratuity fund in the financial statements for the year ending December 31, 2009.

37.6.4 The information provided in notes 37.2 to 37.6.3 has been obtained from the valuation carried out by independent actuaries as at December 31, 2008.

38 COMPENSATION OF DIRECTORS AND EXECUTIVES OF THE HOLDING COMPANY

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

	President / Chief Executive		Directors		Executives	
	2008	2007	2008	2007	2008	2007
	(Rupees in '000)					
Fees	-	-	5,625	4,767	-	-
Managerial remuneration	17,067	15,467	-	426	179,552	82,288
Contribution to defined contribution plan	966	655	-	-	13,041	6,069
Contribution to defined benefit plan	1,740	740	-	-	21,126	7,380
Rent and house maintenance	4,280	1,700	-	178	53,866	24,686
Utilities	1,601	567	-	73	17,955	8,229
Medical	1,426	619	-	-	17,955	8,229
Others	224	13,045	-	71	-	15,996
	27,304	32,793	5,625	5,515	303,495	152,877
Number of persons	2	4	6	11	173	170

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

39 FAIR VALUE OF FINANCIAL INSTRUMENTS

39.1 On-balance sheet financial instruments

The fair value of traded investments is based on quoted market prices, except for marketable 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 922.721 million (2007: Rs 598.270 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 Group'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 43.4.3 and 43.5.1 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.

39.2 Off-balance sheet financial instruments

	2008			2007		
	Book value	Fair value	Gain / (loss)	Book value	Fair value	Gain / (loss)
	(Rupees in '000)					
Forward purchase of foreign exchange	1,429,168	1,409,244	(19,924)	473,631	479,234	5,603
Forward agreements for borrowings	-	-	-	-	-	-
Forward sale of foreign exchange	676,238	694,586	18,348	694,642	705,435	10,793
Forward agreements for lendings	-	-	-	-	-	-

40 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					
	Corporate finance	Trading and sales	Retail banking	Commercial banking	Others	Total	Corporate finance	Retail brokerage	Asset management	Trading and sales	Others	Total
	(Rupees in '000)											
December 31, 2008												
Total income (net of interest expense and provisions) *	486,839	(344,510)	(860,202)	305,708	73,618	(338,547)	-	-	-	-	-	-
Administrative and other expenses	14,058	299,319	244,443	45,441	1,295,281	1,898,542	-	-	-	-	-	-
Net income / (loss) before tax	472,781	(643,829)	(1,104,645)	260,267	(1,221,663)	(2,237,089)	-	-	-	-	-	-
Segment assets (gross)	18,548,542	7,233,077	4,754,404	13,468,392	9,646,483	53,650,898	268,572	2,668,122	226,178	143,695	2,787	3,309,354
Segment non-performing loans	-	-	756,406	5,489,373	-	6,245,779	-	-	-	-	-	-
Segment provision required	-	191,636	258,504	2,666,150	149,555	3,265,845	-	-	-	-	-	-
Segment liabilities	4,689,886	3,423,687	24,923,489	4,268,446	5,420,191	42,725,699	29,714	1,206,789	22,244	108,534	70	1,367,351
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 required	-	3,672	40,191	863,424	4,707	911,994	-	-	-	-	-	-
Segment liabilities	-	107,037	721,391	35,648,187	230,126	36,706,741	-	-	-	-	-	-

* Net of gain on remeasurement of previously held equity interest in associate arising upon amalgamation.

40.1 The above analysis includes allocation of items as per approved mapping policy of the Group.

40.2 The Holding Company 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, 2008.
- 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".

41 TRUST ACTIVITIES

The Group is not engaged in any trust activities.

42 RELATED PARTY TRANSACTIONS

The Group has a related party relationship with its associated undertakings / associates, employee benefit plans, and its key management personnel.

Usual transactions with related parties other than executives include deposits, advances, acceptances and provision of other banking services. Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk. Transactions with the executives are undertaken at terms in accordance with employment agreements and services rules and includes provision of advances on terms softer than those offered to the customers of the Group. Contributions to and accruals in respect of staff retirement benefit plan are made in accordance with the actuarial valuation / terms of benefit plan.

Contributions to the contributory provident fund scheme are made in accordance with the terms of the contribution plan.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Group considers all members of the management team of Holding Company and subsidiaries, including the Chief Executive and Directors of these companies to be key management personnel.

Details of loans and advances to the companies or firms in which the directors of the Holding Company are interested as directors, partners or in case of private companies as members, are given in note 11.9 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 37 to these financial statements.

	2008				2007			
	Directors	Key Management Personnel	Associates	Other related parties	Directors	Key Management Personnel	Associates	Other related parties
	---------(Rupees in '000)---------							
Balances outstanding as at the period end								
Loans and advances								
Balance as at January 1	21,000	19,365	-	35,399	-	25,904	5,129	-
Disbursed during the year	3,604	56,895	-	3,575	-	18,726	33,668	-
Repayments during the year	2,116	9,478	-	36,252	-	4,265	3,398	-
Balance as at December 31	22,488	66,782	-	2,722	-	40,365	35,399	
Deposit accounts								
Balance as at January 1	3,078	5,662	355,270	62,555	4,109	6,485	2,565	-
Disbursed during the year	753,715	138,345	11,491,644	5,459,578	1,040,400	67,670	6,169,147	-
Withdrawals during the year	747,317	132,479	11,731,815	5,428,474	1,041,798	68,126	5,753,746	-
Balance as at December 31	9,476	11,528	115,099	93,659	2,711	6,029	417,966	
Unearned mark-up	-	-	-	-	-	-	469	-
Investments	-	-	40,000	40,560	-	-	-	-
Security Deposits	-	-	-	-	-	-	1,031	-
Receivable against expenses	-	-	538	351	-	-	169	-
Creditors - Trading	-	1,521	-	719	-	-	-	-
Bank profit payable	11	118	129	16	1	16	281	-
Receivables - Trading	-	489,327	1	48	-	-	838	-
Advance for acquisition of office	-	-	-	402,669	-	-	-	-
Redeemable capital	-	-	-	49,970	-	-	-	-
Underwriting commission payable	-	-	113	-	-	-		-
Prepayments	-	-	1,702	-	-	-	-	-
Payables against expenses	-	-	68		-	-	-	-
Distribution income and facilitation commission	-	-	-	-	-	-	535	-
Rent receivable	-	-	1,415	-	-	-	-	-
Ijarah rentals	-	-	9,663	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-	968	-
Mark-up receivable	-	-	-	120	-	-	257	-
Liabilities against assets subject to finance lease	-	-	-	570	-	-	-	
Management fee receivable		-	-	5,558	-	-	-	-
Preliminary expenses and floatation cost receivable	-	-	-	4,200	-	-	-	-
Other receivables	-	-	-	22	-	-	-	-
Other payables	-	-	-	464	-	-	-	-
Purchase of office equipment and machinery				3,399				
Loan to employees	-	-	361	-	-	-	-	-
Deposit accounts of other key management personnel of group companies		20,110						

	2008				2007			
	Directors	Key Management Personnel	Associates	Other related parties	Directors	Key Management Personnel	Associates	Other related parties
	---------(Rupees in '000)---------							
Profit / expense for the year	-	64	-	-				
Brokerage income	-	-	-	-	-	38	945	
Interest income on advances	640	1,492	-	904	-	3,247	3,176	
Interest expense on deposits	225	452	68,615	9,268	180	114	10,689	
Capital gain					-	-	-	
Communication expenses	-	-	-	-	-	-	9,127	
Advertisement sponsorship	-	-	-	-	-	-	1,220	
Management fee	-	-	-	-	-	-	-	
Remuneration paid	-	74,319	-	-	748	119,291	-	
Brokerage expenses paid	-	-	-	-	-	-	-	
Payment made to KASB Funds in respect	-	-	-	-				
of purchase of shares	-	-	-	-	-	-	-	
Payment made to KASB Funds in respect	-	-	-	-				
of reverse repurchase	-	-	-	-				
of listed securities					-	-	-	
Directors fees	5,625	-	-	-	4,767	-	-	
Financial advisory fee	-	-	-	-	-	-	47	
Proceed from sale of property	-	-	-	-	-	-	-	
Purchase of fixed assets	-	-	-	-	-	-	894	
Donations	-	-	-	-	-	-	600	
Bank charges	-	-	-	-	-	-	3	
Lease documentation income					-	-	-	
Distribution and facilitation income	-	-	-	-	-	-	733	
Reimbursement of expenses incurred by KASB	-	-	-	-				
securities on behalf KASB Funds	-	-	-	-	-	-	-	
IT service charges	-	-	-	-	-	-	18	
Administrative expenses	-	-	-	-	-	-	169	
Data communication and networking expenses	-	-	-	-	-	-	9,865	
Markup income	-	-	-	-	-	-	418	
Repair and maintenance	-	-	-	-	-	-	559	
Salary expense	-	-	-	-	-	-	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	
Advance for acquisition of office premises	-	-	-	402,669				

	2008	2007
	(Rupees in '000)	
Contribution to staff provident fund	25,935	20,143
Charge in respect of gratuity scheme	39,205	23,816

43 CAPITAL ADEQUACY

43.1 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. 19 dated September 5, 2008 requires the minimum paid-up capital (net of losses) for banks / Development Finance Institutions to be raised to Rs 23 billion by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs 5 billion paid-up capital (net of losses) by the end of the financial year 2008. The paid-up capital (net of losses) of the Holding Company for the year ended December 31, 2008 stood at Rs 2.918 billion (net of accumulated losses) and the remaining shortfall will be met through amalgamation of KASB Capital Limited (KCL) and Network Leasing Corporation Limited (NLCL) (as more fully discussed in note 6.2 to the financial statements). In addition, the Group is also required to maintain a minimum Capital Adequacy Ratio (CAR) of 9 percent of the risk weighted exposure of the Group. The Group's CAR as at December 31, 2008 was approximately 11.63 percent of its risk weighted exposure.

Group's regulatory capital analysed in two tiers.

Tier I capital, which includes fully paid up capital (including the bonus shares), effect of fair value measurement of capital upon amalgamation, reserves as per the financial statements minority interest and net un-appropriated profits / accumulated losses, etc, after deductions for investments in the equity of subsidiary (upto 50% of the equity investment in subsidiary companies) engaged in banking and financial activities, goodwill and intangibles.

Tier II 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 45 percent of the balance in the related revaluation reserves gross of any deferred tax liability) after deduction of 50% of the equity investment of the subsidiary company, etc.

Tier III supplementary capital, which consists of short term subordinated debt, is solely for the purpose of meeting a proportion of the capital requirements for market risks. The Group currently does not have any Tier III capital.

The total of Tier II and Tier III capital has to be limited to Tier I capital.

The capital of the Group is managed keeping in view the minimum “Capital Adequacy Ratio” required by SBP through BSD Circular No. 30 dated November 25, 2008. The adequacy of the capital is tested with reference to the risk-weighted assets of the bank.

The capital adequacy ratio has been monitored by the bank through continuous improvements in risk management & decision making processes. Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined according to the requirements specified by 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, market and operational risk.

On and off-balance sheet assets in the banking book are broken down to various asset classes for calculation of credit risk requirement. External ratings for assets, where available, are applied using the assessments by various External Credit Assessment Institutions (ECAIs) and aligned with appropriate risk buckets. Otherwise, the exposures are treated as unrated and relevant risk weights applied. In addition, there are fixed risk weights for certain types of exposures such as retail portfolio and residential mortgage finance for which external ratings are not applicable. Collaterals if any, are used as credit risk mitigant using simple approach. Risk weights notified, are hence applied to adjusted exposures, wherever credit risk mitigation is available. Collaterals used include: Government of Pakistan guarantees, cash, lien on deposits, shares and government securities that fall within the definition of eligible collaterals and also fulfil other specified criteria under the relevant capital adequacy guidelines.

The calculation of Capital Adequacy enables the Group to assess the long-term soundness. As the Group (mainly Holding Company) carries on the business on a wide area 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.

43.2 Capital Adequacy Ratio

The capital to risk weighted assets ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy, using Basel II standardised approaches for credit and market risks and basic indicator approach for operational risk is presented below. Comparative information for 2007 is provided in note 43.3 which has been prepared based on Basel I requirements which were then applicable.

Regulatory capital base	**Note**	**2008 Rupees in '000**
Tier I capital		
Issued, subscribed and paid-up capital		4,014,890
Shares proposed to be issued	6.1	5,607,976
Effect of fair value measurement of capital upon amalgamation of entities		13,775
Reserves		151,287
Accumulated losses	43.2.1	(1,096,473)
Minority interest		523,535
Less: Book value of goodwill and intangibles		(3,555,918)
Other deductions (represents 50% of significant minority investment in financial entities)	43.2.2	(5,039)
Total Tier I Capital		5,654,033
Tier II Capital		
General provisions of loan losses subject to 1.25% of total risk weighted assets		48,745
Revaluation reserve (upto 45%)		275,285
Less: Other deductions (represents 50% of significant minority investment in financial entities)	43.2.2	(5,039)
Total Tier II capital		318,991
Eligible Tier III capital		-
Total regulatory capital	(a)	5,973,024

Risk-weighted exposures	**2008**	
	Capital Requirement	**Risk adjusted value**
Credit risk	**--------- Rupees in '000 ----------**	
Portfolios subject to standardised approach (Simple approach for CRM)		
Claims on:		
Banks and securities firms	25,095	313,688
Corporate portfolio	2,063,065	25,788,308
Retail non mortgages	143,090	1,788,630
Mortgages – residential	38,041	475,508
Securitized assets	-	-
Equities	316,327	3,954,090
Fixed assets	230,398	2,879,980
Other assets	175,108	2,188,848
Past due exposures	433,146	5,414,327
Off balance sheet items:		
Non-market related:		

Risk-weighted exposures	Note	2008 Capital Requirement	2008 Risk adjusted value
		--------- Rupees in '000 ---------	
Direct credit substitutes		244,124	3,051,550
Performance-related contingencies		162,583	2,032,283
Trade-related contingencies		40,636	507,953
Lending of securities or posting of securities as collateral		-	-
Other commitments		-	-
Market related:			
Outstanding foreign exchange contracts		3,359	41,984
Equity exposure risk in the banking book			
Market Risk			
Capital requirement for portfolios subject to Standardised Approach			
Interest rate risk		5,200	65,000
Equity position risk		78,234	977,925
Foreign exchange risk		2,360	29,500
Operational risk	43.2.5		
Capital requirement for operational risks (Basic indicator approach)		149,163	1,864,538
TOTAL	(b)	4,109,929	51,374,112
Capital adequacy ratio			
Total eligible regulatory capital held	(a)	5,973,024	
Total risk weighted assets	(b)	51,374,112	
Capital adequacy ratio	[(a / b)*100]	11.63%	

43.2.1 The Group does not consider the benefit of Force Sale Valuation (FSV) amounting to Rs 368.194 million (as more fully explained in note 11.6 to the financial statements) as a relaxation allowed by the SBP. Accordingly, the above benefit has not been deducted from Tier I Capital in the computation of capital adequacy ratio of the Group. The Group is aware that a clarification to the contrary was issued by the State Bank of Pakistan. However the management of the Group believes that this benefit is available to the Group as a result of an amendment in the regulatory framework and therefore this cannot be treated as a special relaxation allowed by the State Bank of Pakistan. The Group intends to take up this matter directly with the regulator and through the forum of Pakistan Banks Association (PBA) along with other banks operating in Pakistan. The management is confident that the matter will be resolved in line with the Group’s interpretation. Had this benefit been deducted from Tier 1 Capital, the capital adequacy ratio of the Group would be reduced by 0.50%.

43.2.2 The CAR calculation does not include the impact of deduction of significant minority investments in mutual funds of an associated asset management company which amount to Rs 762.569 million (2007: Nil). The Group has not deducted this amount as there is a difference in opinion between the Group and regulator's interpretation on the treatment. The Group's interpretation is based on the adoption of the Basel II guidelines in several other countries and is also in line with the interpretation used by some of the other banks operating in Pakistan. The Group intends to take up this matter directly with the regulator and through the forum of the Pakistan Banking Association (PBA) along with other banks operating in Pakistan. The management of the Group is extremely hopeful that the matter will be resolved in line with the Group's interpretation of the aforementioned circular. Had this deduction been incorporated in the CAR calculation the CAR for the year ended December 31, 2008 would have reduced by 1.34% (2007: Nil).

43.2.3 Cash margin and government securities amounting to Rs 1,547.531 million have been deducted from gross advances using simple approach to credit risk mitigation under Basel II. Advances are not net off with general provision amounting to Rs 48.745 million which is reported separately in Tier II (supplementary) capital as per BSD Circular Letter No 03 dated May 20, 2006.

43.2.4 Cash margin and government securities amounting to Rs 191.213 million have been deducted from off-balance sheet items.

43.2.5 The capital charge for operational risk is a fixed percentage of average positive annual gross income of the Holding Company over past three years (including year 2008).

43.3 Capital adequacy ratio as at December 31, 2007

As at December 31, 2007, the capital to risk weighted assets ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

Regulatory capital base		2007 (Rupees in '000)
Tier I capital		
Share capital		4,014,890
Reserves		183,813
Accumulated losses		(69,101)
Less: Adjustments		(61,455)
Tier I capital		4,068,147
Tier II capital		
General provisions subject to 1.25% of total risk weighted assets		32,869
Eligible surplus on revaluation of securities		71,461
Total Tier II capital		104,330
		4,172,477
Eligible Tier III capital		-
Total regulatory capital	(a)	4,172,477

Risk-weighted exposures		2007	
		Book Value	**Risk Adjusted Value**
Credit risk		(Rupees in '000)	
Balance sheet items:			
Cash and balances with treasury banks		3,001,928	4,075
Balances with other banks		806,967	161,393
Lendings to financial institutions and others		1,766,398	353,280
Investments		7,280,455	2,465,025
Advances		24,662,071	23,215,930
Operating fixed assets		1,108,021	1,108,021
Deferred tax assets - net		657,897	657,897
Other assets		1,202,493	885,635
		40,486,230	28,851,256
Off balance sheet items			
Loan repayment guarantees		1,935,011	1,935,011
Performance Bonds etc		3,046,267	1,523,133
Stand by letters of credit		3,465,371	1,732,685
Outstanding foreign exchange contracts			
-Purchase		261,769	2,017
-Sale		508,234	2,033
		9,216,652	5,194,879
Credit risk-weighted exposures			34,046,135
Market risk			
General market risk			103,663
Specific market risk			111,512
Market risk-weighted exposures			215,175
Total risk-weighted exposures	(b)		34,261,310
Capital Adequacy Ratio [(a) / (b) x 100]			12.18%

44 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 implemented a risk management framework which is designed to ensure sound risk management practices guided by best industry practices. The cornerstone of this risk management framework is a strong risk management culture, supported by a robust enterprise-wide set of policies, procedures and guidelines, which involve the bank's risk management professionals and business segments. This partnership is designed to ensure the ongoing alignment of business strategies and activities with the bank's risk appetite. The primary risks associated with the Group's are:

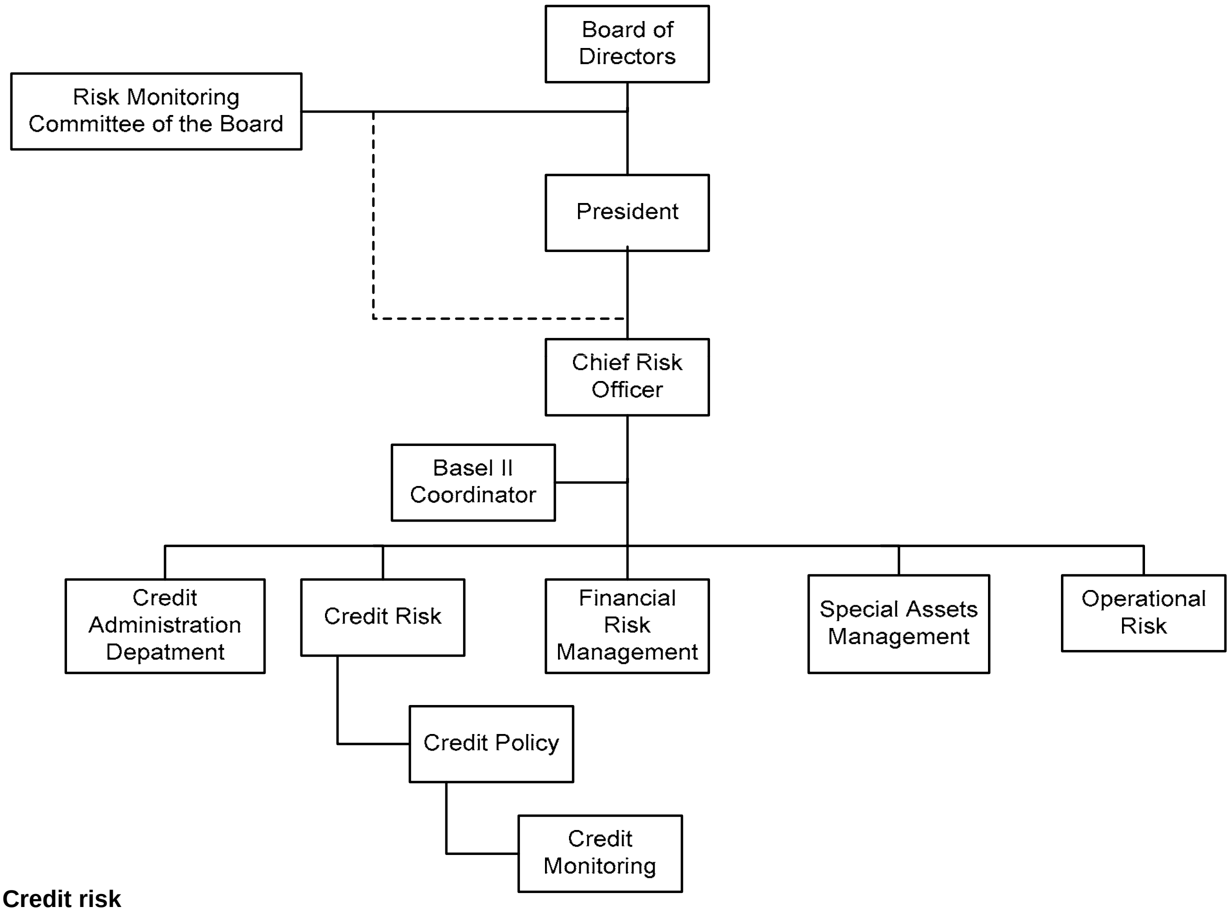
- Credit risk - the risk of loss resulting from client or counter party default
- Market risk - exposure to market variables such as interest rates, exchange rates and equity indices

- Liquidity risk - the risk that the bank may be unable to meet its payment obligations when due

- Operational risk - 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, business process re-engineering and inventorying the risks and controls within the Group's existing business and process units. All of these initiatives will have a direct impact on the risk management function within the Group.

The Risk Management structure of the Holding Company has been reorganised to have centralised Credit Administration, Financial Risk, Credit Policy, Consumer and Retail Credit, Credit Risk Management and Operational Risk and Basel II functions reporting directly to the Chief Risk Officer. The Holding Company is endeavouring to develop a dedicated risk management team which is capable of developing and maintaining a sound risk management culture at the Holding Company.



44.1 Credit risk

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

The aims of credit risk management are principally as follows:

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

The wholesale portfolio, which includes corporate, Middle Market and SME loans are generally collateralised by cash equivalents, fixed and current assets including stocks, property plant and equipment and mortgages. Loans to individuals are typically secured by cash equivalents, residential mortgage & selected listed shares.

Credit risk organization and structure:

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

Credit Approval Authorities and Standardised Procedures:

A system of checks and balances has been established around the extension of credit which is based on an independent risk management function and multiple credit approvers linked to the internal risk rating of an obligor. Every extension of credit is required to be approved by at least three authorised Credit Officers.

Credit Approval Process, Credit Policy & Procedure Manual, Credit Bulletins and the Enterprise Wide Risk Policy have been approved by the Risk Management Committee of the Board of Directors (BOD) and includes:

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

Quarterly reporting is made to the Risk Management Committee of the BOD on all credit exposures approved during the quarter, all changes in classification, provisions and write-offs taken during the quarter.

Credit Risk Portfolio Management:

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

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

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

Risk rating:

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

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

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

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

Mitigants:

A range of initiatives are used to mitigate credit risk.

(a) Credit Principles and Policy:

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

(b) Counter Party Limits and Credit Scoring:

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

(c) Concentration Risk:

The Credit Policy provides limits for industry sector concentrations and through the regular meetings of Credit Risk Monitoring Committee on the portfolio composition, exposures are monitored to prevent excessive concentration of risk.

(d) Collateral:

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

(e) Marginal Accounts:

The Group has set up a mechanism to identify marginal accounts. The basis on which accounts are identified and reported as marginal is irregular mark-up payments and frequent overdue trade bills, etc. The accounts are monitored and reviewed by the Credit Risk Management Committee and the Risk Management Committee of the Board on a quarterly basis.

(f) Risk Acceptance Criteria (RAC):

Generic RACs have been approved and put in place as basic guiding rules.

Special Assets Management (SAM)

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

The SAM portfolio is regularly reviewed by the Credit Risk Management Committee and the Risk Management Committee of the Board and all working plans, recoveries, waivers and write-offs are approved.

44.1.1 Credit Concentration Risk

The Group manages limits and controls concentration of credit risk as identified, in particular to individual counter parties and groups, and to industries, where appropriate. Concentration of credit risk exists if clients are engaged in similar activities or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The bank sets limits on its credit exposure to counter party groups, by industry, product, and counter party, in line with SBP directions / guidelines. Limits are also applied in a variety of forms to portfolios or sectors where the Group considers it appropriate to restrict credit risk concentration or areas of higher risk, or to control the rate of portfolio growth.

44.1.2 Risk Asset Review

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

44.1.3 Segmental information

44.1.3.1 Segments by class of business

	2008					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	390,811	1.11%	748,438	2.13%	35,051	0.23%
Mining and Quarrying	-	-	1,267,335	3.61%	684,006	4.57%
Textile	6,063,622	17.24%	917,265	2.61%	-	-
Chemical and Pharmaceuticals	1,280,155	3.64%	552,269	1.57%	38,581	0.26%
Cement	1,685,614	4.79%	340,933	0.97%	759,920	5.08%
Sugar	1,469,038	4.18%	25,631	0.07%	81,852	0.55%
Footwear and Leather garments	257,100	0.73%	200,231	0.57%	-	-
Automobile and transportation equipment	120,288	0.34%	47,741	0.14%	76,353	0.51%
Electronics and electrical appliances	553,392	1.57%	49,764	0.14%	528,707	3.53%
Construction	1,964,151	5.59%	2,563,023	7.31%	965,985	6.45%
Power (electricity), Gas, Water, Sanitary	-	-	30,390	0.09%	17,877	0.12%
Production & transmission of energy	122,757	0.35%	-	-	117,378	0.78%
Wholesale and Retail Trade	4,044,868	11.50%	1,601,018	4.57%	-	-
Exports / Imports	1,379,620	3.92%	324,227	0.92%	-	-
Food & Beverages	-	-	238,487	0.68%	-	-
Manufacturing	-	-	1,104,723	3.15%	-	-
Transport, Storage and Communication	1,306,873	3.72%	339,477	0.97%	150,362	1.00%
Financial	331,866	0.94%	3,216,665	9.17%	7,049,204	47.10%
Insurance	-	-	322,843	0.92%	-	-
Services	1,331,018	3.79%	2,401,001	6.84%	1,219,344	8.15%
Individuals	5,326,489	15.14%	12,241,445	34.90%	-	-
Others	7,537,188	21.45%	6,547,894	18.67%	3,242,559	21.67%
	35,164,850	100.00%	35,080,800	100.00%	14,967,179	100.00%

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%

44.1.3.2 Segment by sector

	2008					
	Advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	500,000	1.42%	2,017,783	5.75%	8,090,623	54.06%
Private	34,664,850	98.58%	33,063,017	94.25%	6,876,556	45.94%
	35,164,850	100.00%	35,080,800	100.00%	14,967,179	100.00%

	2007					
	Advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	0.00%	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%

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

	2008		2007	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	--------------------------(Rupees in '000)--------------------------			
Chemical & Pharmaceuticals	1,722	1,388	8,893	1,863
Cement	540,000	119,250	-	-
Textile	1,350,272	827,353	402,299	352,204
Sugar	249,900	84,950	-	-
Footwear & Leather garments	2,459	2,459	13,292	13,292
Automobile & Transportation equipment	398,622	344,875	7,268	7,268
Electronics and electrical appliances	1,136,693	848,812	20,650	20,400
Construction	224,087	43,296	10,706	4,333
Wholesale / Retail Trade	473,838	127,335	62,681	57,791
Exports / Imports	4,691	4,691	23,415	22,523
Food & Beverages	180,000	90,000	-	-
Transport, Storage and Communication	-	-	338,631	306,671
Financial	5,460	5,460	5,460	5,460
Services	36,100	21,514	-	-
Individuals	1,277,462	187,128	110,968	31,008
Others	364,473	167,398	65,609	47,933
	6,245,779	2,875,909	1,069,872	870,746

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

	2008		2007	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	--------------------------(Rupees in '000)--------------------------			
Public / Government	-	-	-	-
Private	6,245,779	2,875,909	1,069,872	870,746
	6,245,779	2,875,909	1,069,872	870,746

44.1.3.5 Geographical segment analysis

	2008			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	--------(Rupees in '000)--------			
Pakistan - continuing operations	(2,237,089)	50,385,053	7,654,206	14,966,217
- discontinued operations	-	3,165,659	1,911,990	962
Others - discontinued operations	-	143,695	35,161	-
	(2,237,089)	53,694,407	9,601,357	14,967,179

	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
- Discontinued operations	275,354	-	-	-
Others	-	-	-	-
	(82,384)	40,947,880	4,241,139	10,375,250

44.2 Credit Risk – General Disclosures, Basel II Specific

The Holding Company has adopted the Standardised Approach, under Basel II. According to the regulatory statement submitted under the Standardised Approach, the portfolio has been divided into claims on Public Sector Entities in Pakistan (PSEs), claims on corporate (excluding equity exposure) and claims categorized as retail portfolio. Claims on corporate constitute 59.46% of the total exposure, 1.02% represents claims on PSEs and 5.27% exposure pertains to claims categorized as retail portfolio.

44.3 Credit Risk: Standardised Approach

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

Following are the types of exposure for which each agency is used:

Exposure	JCR-VIS	PACRA	Fitch & Moody's
- Corporate	✔	✔	-
- Banks	✔	✔	✔
- Sovereigns	-	-	-
- SME's	-	-	-
- Securitizations	-	-	-

For exposure amounts after risk mitigation subject to the standardised approach, amount of bank's outstandings (rated & unrated) in each risk bucket as well as those that are deducted are as follows:

Exposure	Rating category No.	Amount outstanding	Deduction CRM*	Net Amount
- Corporate	1	654,651	-	654,651
	2	3,280,436	791,971	2,488,465
	3,4	940,293	-	940,293
	5,6	2	-	2
- Banks	1	165,268	-	165,268
	2,3	271,711	-	271,711
	4,5	9,500	-	9,500
	6	-	-	-
- Unrated (corporate / retail / banks)		26,979,681	1,157,658	25,822,023
Total		32,301,542	1,949,629	30,351,913

* CRM= Credit Risk Mitigation

Eligible financial collateral and other eligible collateral after the application of haircuts

The Holding Company has adopted simple approach to credit risk mitigation under Basel II. For the purpose of CRM, the Holding Company uses cash margin, deposits in the name of the borrower under lien and government securities. Also identified as eligible collateral are rated equities held as collateral and satisfying the conditions required for CRM.

Main types of collateral taken by the Holding Company are:-

- Charge on current assets and receivables (stocks)
- Charge on fixed assets
- Mortgage of residential, commercial and industrial property
- Equities and shares held
- Cash, deposits under lien and government securities

44.4 Market risk

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

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

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

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

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 and processes. It has to ensure monitoring and implementation of market risk and other policies. Any deviations are escalated to the Market Risk Policy Committee which comprises of senior management.

The scope of market risk management is as follows:

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

The Holding Company follows guidelines provided by the State Bank of Pakistan under the Basel-II framework in separating its trading and banking book.

Trading Book

- Positions that are held for trading intent or to hedge other elements of the trading book

- Only those positions in the Available-for-Sale (AFS) and Held for Trading (HFT) portfolios are considered a part of the trading book that are managed on a trading desk with appropriate limit structures

- They are marked-to-market on a daily basis

Banking Book

- All other positions are considered part of the banking book

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

44.4.1 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.

	2008			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan rupee	52,773,587	42,853,944	(751,037)	9,168,606
United States dollar	834,704	1,000,618	599,564	433,650
Great Britain pound	38,361	169,415	128,297	(2,757)
Canadian Dollar	247	-	-	247
Japanese yen	2,297	-	(1,755)	542
Euro	45,155	69,073	24,931	1,013
Other currencies	56	-	-	56
	53,694,407	44,093,050	-	9,601,357

	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
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
	40,947,880	36,706,741	-	4,241,139

44.4.2 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 equity trading book comprises of Held for Trading (HFT) and Available-for-Sale (AFS) portfolios. 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.

44.4.3 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:

	Effective yield / Interest rate	Total	2008 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 instrument
		-----(Rupees in '000)-----										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	1.85%	1,507,650	252,285	-	-	-	-	-	-	-	-	1,255,365
Balances with other banks	10.55%	59,112	9,797	-	-	-	-	-	-	-	-	49,315
Lending to financial institutions and others	10.31%	556,455	545,892	-	-	-	-	-	-	10,563	-	-
Investments	11.20%	6,400,669	67,534	1,234,866	581,761	-	-	115,910	824,724	-	-	3,575,874
Advances												
Performing	12.73%	28,919,071	22,321,055	3,330,912	2,503,069	153,260	25,566	4,550	126,759	-	453,900	-
Non performing - net of provision		3,321,125	-	-	-	-	-	-	-	-	-	3,321,125
Other assets		8,609,419	-	-	-	-	-	-	-	-	-	8,609,419
		49,373,501	23,196,563	4,565,778	3,084,830	153,260	25,566	120,460	951,483	10,563	453,900	16,811,098
Liabilities												
Bills payable		217,520	-	-	-	-	-	-	-	-	-	217,520
Borrowings	12.75%	6,300,622	3,038,802	2,227,245	859,734	30,164	15,549	-	129,128	-	-	-
Deposits and other accounts	9.97%	35,080,800	17,954,502	3,372,186	4,894,182	3,556,077	602,883	747,689	2,280	-	-	3,951,001
Liabilities against assets subject to finance lease	15.06%	9,685	447	806	806	1,612	4,811	1,203	-	-	-	-
Other liabilities		2,484,423	-	-	-	-	-	-	-	-	-	2,484,423
		44,093,050	20,993,751	5,600,237	5,754,722	3,587,853	623,243	748,892	131,408	-	-	6,652,944
On-balance sheet gap		5,280,451	2,202,812	(1,034,459)	(2,669,892)	(3,434,593)	(597,677)	(628,432)	820,075	10,563	453,900	10,158,154
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		1,429,168	1,219,611	193,782	15,775							
Forward sale of foreign exchange		(676,238)	(306,788)	(69,825)	(299,625)							
Off-balance sheet gap		752,930	912,823	123,957	(283,850)	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			3,115,635	(910,502)	(2,953,742)	(3,434,593)	(597,677)	(628,432)	820,075	10,563	453,900	10,171,910
Cumulative Yield/Interest Risk Sensitivity Gap			3,115,635	2,205,133	(748,609)	(4,183,202)	(4,780,879)	(5,409,311)	(4,589,236)	(4,578,673)	(4,124,773)	6,047,137

	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 instrument
		-----(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 provision		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 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			(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

44.5 Liquidity risk

Liquidity Risk Management

Liquidity risk is the risk that the Group will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management function of the Holding Company. The Group follows a comprehensive liquidity risk management policy duly reviewed & approved by the Risk Management Committee of the Board.

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 centralised approach is adopted, based on an integrated framework incorporating an assessment of all material known and expected cash flows and the availability of high-grade collateral which could be used to secure additional funding, if required. The framework entails careful monitoring and control of the daily liquidity position. A contingency funding plan is in place to ensure a systematic response in a crisis situation.

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

- Liquidity Gap Reports
- Stress Scenarios
- Various Liquidity Ratios
- Significant Funding Concentrations

44.5.1 Maturities of assets and liabilities

	2008									
	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	1,507,650	1,507,650	-	-	-	-	-	-	-	-
Balances with other banks	59,112	59,112	-	-	-	-	-	-	-	-
Lending to financial institutions and others	556,455	545,892	-	-	-	-	-	-	10,563	-
Investments	6,400,669	298,011	605,367	1,475,720	69,138	237,099	327,711	435,489	1,164,869	1,787,265
Advances										
Performing	28,971,071	6,048,640	5,953,879	7,982,617	563,069	1,935,067	1,934,933	3,880,913	354,952	317,001
Non performing - net of provisions	3,269,125	3,269,125								
Operating fixed assets	2,731,864	19,127	37,897	56,846	230,006	227,383	426,378	365,334	614,001	754,892
Deferred tax assets	1,589,042	174,030	505,602	97,653	177,018	816,138	17,568	(181,400)	(27,835)	10,268
Other assets	8,609,419	732,245	792,882	(8,676)	4,971,366	112,161	12,480	25,134	257,593	1,714,234
	53,694,407	12,653,832	7,895,627	9,604,160	6,010,597	3,327,848	2,719,070	4,525,470	2,374,143	4,583,660
Liabilities										
Bills payable	217,520	217,520								
Borrowings	6,300,622	3,152,863	1,768,979	859,734	197,720	15,549	77,325	228,452	-	-
Deposits and other accounts	35,080,800	21,905,503	3,372,186	4,894,182	3,556,077	602,883	747,689	2,280	-	-
Liabilities against assets subject to finance lease	9,685	447	806	806	1,612	4,811	1,203	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,484,423	586,696	26,061	5,170	245,602	61,317	61,317	235,527	-	1,262,733
	44,093,050	25,863,029	5,168,032	5,759,892	4,001,011	684,560	887,534	466,259	-	1,262,733
Net assets	9,601,357	(13,209,197)	2,727,595	3,844,268	2,009,586	2,643,288	1,831,536	4,059,211	2,374,143	3,320,927
Share capital	4,014,890									
Subscription money received against proposed issue of right shares										
Reserves	151,287									
Shares to be issued	5,607,976									
Effect of fair value measurement of capital on amalgamation	13,775									
Minority Interest	523,535									
Accumulated losses	(1,096,473)									
	9,214,990									
Surplus on revaluation of assets - net	386,367									
	9,601,357									

	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	3,001,928	3,001,928	-	-	-	-	-	-	-	-
Balances with other banks	806,967	806,967	-	-	-	-	-	-	-	-
Lending to financial institutions and others	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 provisions	166,257	166,257	-	-	-	-	-	-	-	-
Operating fixed assets	1,108,021	21,273	18,246	27,369	54,737	109,475	110,598	218,950	547,373	-
Deferred tax assets	657,897	146,027	189,649	224,044	133,788	(10,464)	(10,464)	(38,365)	23,682	-
Other assets	1,202,493	387,274	607,048	11,866	106,551	30,055	7,831	15,663	35,362	843
	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	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	949,674	491,937	6,039	2,490	6,590	57,590	58,249	250,883	-	75,896
	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	151,287									
Effect of fair value measurement of capital on amalgamation	13,775									
Minority interest	-									
Accumulated losses	(50,350)									
	4,129,602									
Surplus on revaluation of assets - net	111,537									
	4,241,139									

44.5.2 The above mentioned maturity profile has been prepared 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:

	2008	2007
	(Rupees in '000)	
Upto one month	7,456,568	7,738,705
One month to three months	4,707,573	7,789,526
Three months to six months	6,351,243	5,800,002
Six months to one year	5,013,138	3,322,222
One year to two years	1,695,679	2,022,337
Two years to three years	1,840,485	1,614,548
Three years to five years	2,187,871	4,842,772
Five years to ten years	5,828,243	-
Above ten years	-	-
	35,080,800	33,130,112

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.

44.6 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 Group is in the process of developing a comprehensive framework for managing and monitoring of Operational Risk in accordance with SBP guidelines. The Group has taken several major initiatives in developing a framework for internal controls, some of which are:

- The Holding Company has decided to adopt the COSO Framework for internal controls. The process of adoption has been outsourced to an independent specialist. As a first step 'as-is' process documents have been prepared and the process of identification of gaps has been substantially completed. These gaps and appropriate control actions have been reviewed by management and are under implementation.

- Internal control policies and manuals have been approved by the Board of Directors. On a daily basis, all operations control officers report any operational lapses to the Head of Internal Control Unit (ICU) and ensure rectification and compliance with the approved policies.

- The Holding Company with the help of independent consultant has developed IT Policies and Standard Framework that is aligned with the internationally recognized COBIT standards. The framework includes the IT Organizational Framework Policy, IT Human Resource Policy, Data and Information Security Management Policy, Physical Security Policy, Information Technology System Administration, Project & Acquisition, Incident & Problem Management Policy, Quality Assurance Management, Change Management, IT Operations and Communications Management and Third Party Contract Management policy. The Holding Company is in the implementation phase of the aforementioned framework.

45 DETAILS OF MODIFIED REPORTS OF THE SUBSIDIARY COMPANIES

(a) KASB Modaraba

The external auditors of KASB Modaraba have expressed an adverse conclusion on the financial statements of KASB Modaraba (a subsidiary of the Holding Company) for the six months ended December 31, 2008 on the fact that the Modaraba has not adopted IFAS 2 "Ijarah: in the preparation of the financial statements. IFAS 2 is applicable on the financial statements covering periods beginning on or after July 1, 2007 and is required to be followed on those Ijarahs which commence after the above mentioned effective date. IFAS 2 does not permit recognition of an Ijarah transaction as a finance lease and requires Ijarah transactions to be accounted for in the following manner:

a) Muj'ir (lessors) shall present the assets subject to Ijarah in their balance sheet according to the nature of the asset, distinguished form the assets in own use.

b) Costs, including depreciation on the assets given on Ijarah, incurred in earning the Ijarah income shall be recognised as an expense.

c) Ijarah income shall be recognised in income on an accrual basis as and when the rental becomes due, unless another systematic basis is more representative of the time pattern in which the benefit of the sue derived from the leased asset is diminished.

However, consistent with prior years, the Modaraba has continued to account for Ijarah transactions entered after July 1, 2007 as finance lease in accordance with the requirements set out in IAS 17, 'Leases' and these transactions are shown as 'Net investment in ijarah finance' at an amount equal to the present value of lease payments, Finance income is recognised over the term of ijarah so as to produce a constant rate of return on the net investment in ijarah.

The above matter does not have any impact on these consolidated financial statements as the State Bank of Pakistan vide its circular No. 02 dated January 27, 2009 has deferred the applicability of IFAS 2 on the Group upto January 1, 2009. Accordingly, IFAS 2 will be applicable on the financial statements of the Group for the year ending December 31, 2009.

(b) KASB Technology Services Limited

The external auditors of KASB Technology Services Limited have added an emphasis matter of paragraph on the financial statements concerning the company's ability to continue as a going concern. The auditors have highlighted the fact that the company has been incurring significant operational losses over the past many years and its accumulated losses as at December 31, 2008 amounted to Rs 207.774 million. This indicates the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern.

During the current year, the Board of Directors of KTSL have prepared a new business plan for the revival of the company based on (a) introduction of additional segment namely "Mobile Banking Unit" and (b) strengthening of existing operational segments namely Bandwidth and Network Management, Database management,. Application Management and ATM Business.

The management of KTSL believe that after implementation of the above plan the company will start generating profits and it is expected that the results of the company will improve in future periods.

46 GENERAL

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

- Unlisted term finance certificates of KASHF Foundation, Azgard Nine Limited and Avari Hotel Limited amounting to Rs 40.972 million, Rs 175 million and Rs 152 million respectively, have been reclassified from available for sale investment to 'Held to maturity' investments.

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

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

47 DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue on March 28, 2009 by the Board of Directors of the Holding Company.

President and Chief Executive	Director	Director	Directc

Statement showing written-off loans or any other financial relief of five hundred thousands Rupees or above provided during the year ended December 31, 2008 Annexure - 1

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	Interest/ Mark-up	Others	Total	Principal written-off	Interest/ Markup written-off	Other financial relief provided	Total (9+10+11)
1	2	3	4	5	6	7	8	9	10	11	12
1	**International Tractors** Plot 27, Sector 15, Korangi Industrial Area, P.O. Box No. 8220, Karachi.	Mr. Asfand Abbas Khan Niazi 42301-3844943-3	Mr. Tariq Abbas Khan Niazi	7.268	0.284	-	7.552	2.180	0.284	-	2.464
		Mr. Tariq Abbas Khan Niazi 42301-9055447-7	Mr. Lutuf-ullah Khan Niazi								
		Mr. Usama Abbas Khan Niazi 42301-0971775-7	Mr. Lutuf-ullah Khan Niazi								
		Mr. Asad Abbas Khan Niazi 42301-7504631-3	Mr. Lutuf-ullah Khan Niazi								
		Mrs. Hamdia Fatin Niazi 61101-9476390-8	Mr. Asad Alam Niazi								
2	**Sharif Soap Factory** 15- D, Agha Siraj Complex, Circular Road Quetta.	Mohammad Aslam 601-88-194026	Ch. Mohammad Sharif	1.300	0.174	-	1.474	1.300	0.174	-	1.474
		Mrs. Ghulam Zahra 602-62-048474	Mr. Mohammad Aslam								
3	**Abdullah Tehseen** 67-G.T. Road, Hide Market, Lahore.	Sheikh Muhammad Ashiq 35202-6105019-5	Sh. Muhammad Abdullah	5.747	0.805	-	6.552	5.747	0.748	-	6.495
4	**Unity High School** Badian Road, Theater Village, Lahore.	Mr. Khalid Gulraiz Mir 35201-1490896-3	Mr. Noor Muhammad Mir	13.435	0.828	-	14.263	3.482	0.828	-	4.310
		Laila Khalid Mir 272-79-629022	Mr. Khalid Gulraiz Mir								
5	**MARK Tractors** 193, P, Model Town Extension, Model Town, Lahore.	Mr. Khalid Gulraiz Mir 35201-1490896-3	Mr. Noor Muhammad Mir	10.549	1.233	-	11.782	-	1.233	-	1.233
		Mst. Merun Khalid Mir 35201-5004844-4	Mr. Khalid Gulraiz Mir								
		Mr. Abid Pervaiz Mir 35202-5056742-5	Mr. Noor Muhammad Mir								
		Mst. Rubina Abid Pervaiz Mir 35202-2733541-0	Mr. Abid Pervaiz Mir								
6	**Mr. Garments** BS -1, Block 16, Federal "B" Area, Karachi.	Syed Shujaat Ali 42201-2006601-5	Syed Sharafat Ali	1.064	3.556	-	4.620	-	3.424	-	3.424
7	**VIVA International** Office at Second Floor, Zaman Plaza, The Mall Lahore.	Mr. Muhammad Usman 35201-1533441-1	Mr. Muhammad Rafique	41.990	3.030	-	45.020	-	2.030	-	2.030
		Mr. Muhammad Tariq 35202-5897014-7	Mr. Muhammad Rafique								
		Rabia Usman 35201-1435352-8	Mr. Muhammad Usman								
		Mr. Umer Usman 35201-9823648-7	Mr. Muhammad Usman								
		Mr. Ali Usman 35202-9186939-7	Mr. Muhammad Usman								
								12.71	**8.72**	**-**	**21.43**

No. of Shareholders	Shareholding		Total No. of Shares held	Percentage
	From	To		
2,686	1	100	115,124	0.03%
2,418	101	500	485,172	0.12%
1,798	501	1,000	1,228,848	0.31%
910	1,001	5,000	1,880,525	0.47%
132	5,001	10,000	928,058	0.23%
40	10,001	15,000	494,077	0.12%
20	15,001	20,000	362,092	0.09%
17	20,001	25,000	382,906	0.10%
11	25,001	30,000	314,266	0.08%
12	30,001	35,000	394,911	0.10%
5	35,001	40,000	183,546	0.05%
2	40,001	45,000	88,006	0.02%
1	45,001	50,000	49,737	0.01%
2	50,001	55,000	100,848	0.03%
1	55,001	60,000	55,640	0.01%
3	60,001	65,000	192,310	0.05%
3	65,001	70,000	200,293	0.05%
3	70,001	75,000	219,052	0.05%
1	75,001	80,000	76,587	0.02%
1	85,001	90,000	90,000	0.02%
1	100,001	105,000	103,547	0.03%
2	120,001	125,000	245,538	0.06%
1	140,001	145,000	140,140	0.03%
1	145,001	150,000	150,000	0.04%
2	150,001	155,000	301,500	0.08%
1	155,001	160,000	159,255	0.04%
1	160,001	165,000	163,020	0.04%
1	170,001	175,000	173,038	0.04%
1	195,001	200,000	195,500	0.05%
1	205,001	210,000	210,000	0.05%
1	210,001	215,000	212,687	0.05%
1	255,001	260,000	260,000	0.06%
1	260,001	265,000	264,000	0.07%
1	300,001	305,000	300,150	0.07%
1	305,001	310,000	310,000	0.08%
2	400,001	405,000	802,087	0.20%
1	425,001	430,000	429,000	0.11%
1	450,001	455,000	452,074	0.11%
1	455,001	460,000	457,776	0.11%
1	470,001	475,000	471,547	0.12%
1	485,001	490,000	489,485	0.12%
1	835,001	840,000	838,150	0.21%
1	885,001	890,000	888,540	0.22%
1	1,055,001	1,060,000	1,058,603	0.26%
1	1,115,001	1,120,000	1,115,374	0.28%
1	1,120,001	1,125,000	1,125,000	0.28%
1	1,395,001	1,400,000	1,396,500	0.35%
1	1,435,001	1,440,000	1,438,548	0.36%
1	1,545,001	1,550,000	1,548,000	0.39%
1	1,770,001	1,775,000	1,773,696	0.44%
1	2,545,001	2,550,000	2,550,000	0.64%
1	3,485,001	3,490,000	3,488,000	0.87%
1	3,660,001	3,665,000	3,664,117	0.91%
1	3,985,001	3,990,000	3,990,000	0.99%
1	4,010,001	4,015,000	4,010,441	1.00%
1	4,215,001	4,220,000	4,217,000	1.05%
1	4,750,001	4,755,000	4,750,033	1.18%
1	4,945,001	4,950,000	4,950,000	1.23%
1	5,440,001	5,445,000	5,442,941	1.36%
1	7,395,001	7,400,000	7,400,000	1.84%
1	7,790,001	7,795,000	7,790,387	1.94%
1	8,045,001	8,050,000	8,045,037	2.00%
1	8,640,001	8,645,000	8,641,942	2.15%
1	9,285,001	9,290,000	9,285,100	2.31%
1	10,150,001	10,155,000	10,152,284	2.53%
1	10,485,001	10,490,000	10,488,284	2.61%
1	11,410,001	11,415,000	11,412,070	2.84%
1	12,755,001	12,760,000	12,758,000	3.18%
1	13,290,001	13,295,000	13,292,500	3.31%
3	14,120,001	14,125,000	42,366,720	10.55%
1	14,140,001	14,145,000	14,140,450	3.52%
1	16,530,001	16,535,000	16,535,000	4.12%
1	23,165,001	23,170,000	23,168,900	5.77%
1	26,515,001	26,520,000	26,518,014	6.60%
1	32,715,001	32,720,000	32,718,879	8.15%
1	84,395,001	84,400,000	84,398,262	21.02%
8,127			**401,489,114**	**100.00%**

CATEGORIES OF SHAREHOLDERS	SHARES HELD
INDIVIDUALS	79,566,548
INVESTMENT COMPANIES	8,108,744
JOINT STOCK COMPANIES	95,075,844
DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSE AND MINOR CHILDREN	
NASIR ALI SHAH BUKHARI	117,117,141
MRS. AMBREEN BUKHARI (SPOUSE OF MR. NASIR ALI SHAH BUKHARI)	14,140,450
HABIBULLAH BEG (H.U. BEG)	1,058,603
MUNIR KAMAL	748
N.K. SHAHANI	74,080
TARIQ MUHAMMAD ALI RANGOONWALA	4,976
SYED ASGHAR ALI SHAH	500
SOHAIL WAJAHAT H. SIDDIQUI	1,162
EXECUTIVES	
KHALID M. SHEIKH	650
MIR MUJAHID ALI KHAN	650
MIAN SHAUKET ALI ARIF SIRHANDI	650
SHAUKAT ALI	1,162
MUHAMMAD RIAZ BUTT	1,221
MAQBOOL AHMAD	1,221
MUHAMMAD HAMIDULLAH	2,241
MR. WAQAR AHMED KHAN (IN THE NAME OF SON MANSOOR AHMED KHAN)	13,600
NOMAN AHMAD	23,400
NIT / ICP	
NATIONAL BANK OF PAKISTAN , TRUSTEE DEPTT.	929,323
IDBP (ICP UNIT)	1,157
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	
KASB CAPITAL LIMITED	8,641,942
KASB SECURITIES LIMITED	13,292,500
PUBLIC SECTOR COMPANIES AND CORPORATIONS	
BANKS, DFIs, NBFIs, INSURANCE COMPANIES,	1,473,544
MODARABAS & MUTUAL FUNDS	
FOREIGN INVESTORS	61,480,932
CO-OPERATIVE SOCIETIES	
CHARITABLE TRUSTS	63
OTHERS	476,062

PARTICULARS	SHAREHOLDERS	SHAREHOLDING	PERCENTAGE
INDIVIDUALS	7,944	79,566,548	19.82%
INVESTMENT COMPANIES	5	8,108,744	2.02%
JOINT STOCK COMPANIES	92	95,075,844	23.68%
DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSE AND MINOR CHILDREN	9	132,397,660	32.98%
EXECUTIVES	9	44,795	0.01%
NIT / ICP	3	930,480	0.23%
ASSOCIATED COMPANIES, UNDERTAKINGS AND	2	21,934,442	5.46%
BANKS, DFIs, NBFIs, INSURANCE COMPANIES,	13	1,473,544	0.37%
FOREIGN INVESTORS	44	61,480,932	15.31%
CHARITABLE TRUSTS	1	63	0.00%
OTHERS	5	476,062	0.12%
	8,127	**401,489,114**	**100.00%**

KARACHI BRANCHES

Main Branch
Tel: (021) 2446005-10 / 2446772-77
Fax: (021) 2446781
UAN: 111 555 666

Jodia Bazar Branch
Tel: (021) 2423310-2420567
Fax: (021) 2433519

Clifton Branch
PABX No.: (021)5879207-5879170-5879215
Fax: (021) 5879134

Korangi Branch
Tel: (021) 5078922-25
Fax (021) 5078926

Preedy Street Branch
PABX No (021) 2724121-2724135-2724178
Fax (021) 2725175
Electronic Market Sadar Branch (Sub Branch)
PABX No. (021) 2700561-63
Fax No. 021-2700567

DHA Shahbaz Branch
PABX No. (021) 5349154-7
Fax No.(021) 5349149
DHA Phase VI Branch (Sub Branch)
PABX (021) 5242734-37
FAX No. 021-5242739
Defence Phase IV Branch (Sub Branch)
PABX (021) 5312961-4
Fax No. 021 5312966

Shahrah-e-Faisal Branch
Tel: (021) 4313236-38
Fax: (021) 4538638
Muhammad Ali Society Branch (Sub Branch)
PABX No. (021) 4306061-3
FAX No. 021-4306066

Gulshan-e-Iqbal Branch
Tel: (021) 4981330-31
Fax: (021) 4981334
Gulshan Chowrangi Branch (Sub Branch)
PABX No. (021) 4832541-3
FAX No. 021-4832548

SITE Branch
PABX No (021) 2550391-3
Fax (021) 2550395

North Karachi Branch
PABX No (021) 6950195-7
Fax (021) 6997178

Shaheed-e-Millat Road Branch
PABX No (021) 4145183-84-86
Fax No. (021) 4145187
Dohraji Branch (Sub Branch)
PABX No. (021) 4860180-2
Fax No. 021 4860184
Khalid Bin Waleed Branch (Sub Branch)
PABX (021) 4302806-8
Fax No. 021 4302813

Hyderi Branch
PABX (021) 6724280-3-4
Fax No. 021 6724282
Nazimabad (Sub Branch)
PABX No. (021) 6611912-3-908
Fax 021 6611909.
F.B.Area Karimabad Branch (Sub Branch)
PABX No. (021) 6826728/31/35
FAX No. 021-6826805

Karachi Stock Exchange Branch
Tel: (021)2473560-62
Fax (021) 2473564

DHA Phase 1 Branch
PABX No. (021) 5314121-3
Fax No. 021 5314127

Gulistan-e-Johar Branch
PABX No. 4029901-3
Fax No. 4029902

Malir City Branch
PABX No. (021) 4117381-71
FAX No. 021-4117452

Garden Branch
PABX No. (021) 2292041-43
FAX No. 021-2292046

LAHORE BRANCHES

Defence Branch
PABX No: (042) 5731811,5740083
Fax: (042) 5722228
DHA-G Branch (Sub Branch)
PABX (042) 5690987-8
Fax No. 042 5690986

Johar Town Branch
PABX (042) 5220813-5
Fax No. 042 5220819

Baghbanpura Branch
PABX No. (042) 6820445-6
FAX No. 042-6820447

Gulberg Branch
PABX No: (042) 5764288-9
Fax No: (042) 5755358

Gulshan-e-Ravi Branch
PABX No. (042) 7415063-83-86
FAX No. 042-7414892

Raiwind Road Branch
PABX No:(042) 5426923,5437893
Fax (042) 5426926

Abbot Road Branch
PABX No: (042) 6305143-44
Fax: (042) 6305142
Shadman Town Branch (Sub Branch)
PABX No. (042) 7569488-9
Fax 042 7569487

Lahore Stock Exchange Branch
PABX No: (042) 6367794-97
Fax No : (042) 6280804

Peco Road Branch
PABX No:(042) 5144951-3
FAX NO:(042) 5144955

Shah Alam Branch
PABX No: (042)7656501,7658221
FAX NO:(042)7658275

Allama Iqbal Town Branch
PABX (042) 5424951-3
Fax No. 042 5436226
Wahdat Raod Branch (Sub Branch)
PABX (042) 5912863-4
Fax No. 042 5912862

Circular Road Branch
PABX No: (042) 7639040-42
Fax: (042) 7660649
Shadbagh Branch (Sub Branch)
PABX No. (042) 7600953/986
FAX No. 042-7600960

ISLAMABAD BRANCHES

Islamabad Branch
PABX No: (051) 2826181- 82
Fax: (051) 2826184
UAN: 111 555 666
G-10 Markaz Branch (Sub Branch)
PABX No. (051) 2819211-3
Fax No. 051 2819214
I-9 Markaz Branch (Sub Branch)
PABX No. (051) 4858395-97
FAX No. 051-4858401

F-11 Markaz Branch
PABX No. (051) 2111533-4
Fax No. 051 2111532

Rawat Branch
PABX No. (051) 4612413-5
FAX No. 051-4612418

SIALKOT BRANCHES

Sialkot Branch
PABX No: (052) 3241671-74
Fax (052) 3241679

Sialkot Branch (Sub Branch)
PABX No. (052) 3242650
Fax No. 052-3242658

MULTAN BRANCHES

Multan Branch
PABX No: (061) 4587701-3
Fax No: (061) 4587705

Bosan Road Multan Branch (Sub Branch)
PABX No. (061) 6210213-4
Fax No. 061-6210219

HYDERABAD BRANCHES

Hyderabad Branch
Tel: (022) 2729917-18
Fax: (022) 2785977
UAN: 111 555 666

Hyderabad Market Branch (Sub Branch)
PABX (022) 2636660-2
Fax 022 2636275

RAWALPINDI BRANCHES

Rawalpindi Branch
PABX No: (051) 5527840-43
Fax: (051) 5527844

Raja Bazar Branch (Sub Branch)
PABX No. (051) 5777451-2
Fax No. 051 5777453

Bahria Town Rawalpindi Branch
PABX No: (051)5730371-3
Fax: (051) 5730376

Chandni Chowk Branch
PABX No. (051) 4417049-50
Fax No. 051 4417051

PESHAWAR BRANCHES

Peshawar Branch
PABX No: (091) 5279432 / 5279425
Fax: (091) 5279838
UAN: 111 555 666

University Road Branch (Sub Branch)
PABX No. (091) 5711526-7
Fax No. 091 5711529

Hayatabad Branch
PABX No. (091) 5830024-8
Fax No. 091 5830025

OTHER CITIES

Faisalabad Branch
PABX NO (041) 2649667-70
Fax: (041) 2649672

Sargodha Branch
PABX No. (048) 3768121-3
Fax No. 048 3768122

Sukkur Branch
Tel: (071) 5619083-4
Fax No. (071) 5619088

Quetta Branch
Tel: (081) 2842531. 2836518
Fax: (081) 2842531
UAN: 111 555 666

Fateh Jang Branch
PABX No. (051) 2210244-6
Fax No. 051-2210249

Gujrat Branch
PABX:(053)-3517966-69
Fax (053) 3517965

Jhelum Branch
PABX No. (0544) 622385/6
Fax No. 0544-622938

Mirpur (A.K.) Branch
PABX No: (058610) 42841 / 44877
Fax: (058610) 42742
UAN: 111 555 666

Gujranwala Branch
PABX No: (055) 3252348 / 3252353
Fax: (055) 3254529

Mirpurkhas Branch
PABX (0233) 874612-3
Fax No. 0233 87415

Jacobabad Branch
PABX No. (0722) 654804/5
FAX No. (0722)654801

Rahimyarkhan Branch
PABX No. (068) 5871901-3
Fax No. 068 5871908

Nawabshah Branch
PABX No (024) 4330304-5
FAX No (024)-4330307

FORM OF PROXY
FOURTEENTH ANNUAL GENERAL MEETING

The Company Secretary,
KASB Bank Limited
Razia Sharif Plaza (Basement),
Jinnah Avenue, 90-Blue Area,
Islamabad

I/We ____
of ____ being member(s)
of KASB Bank Limited holding ____
Ordinary share 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 Fourteenth Annual General Meeting of the Bank to be held on Monday, April 20, 2009 at 10:30 AM at the Registered Office of the Bank at Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad and/or any adjournment thereof.

As witness my/our hand this _______________ day of _________________ 2009

Signature on
Five Rupee
Revenue Stamp

Shareholder Folio No. [ ]
Or
CDC Participant I.D. No. [ ]
&
Sub Account No. [ ]

The signature should
agree with the
specimen registered
with the Company

NOTES:

1. This proxy form, duly completed and signed, must be received at the Registered Office of the Bank, Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad, not less the 48 hours before the time of holding the meeting.

2. No person shall act as proxy unless he/she himself/herself is a member of the Bank, except that a corporation may appoint a person who is not a member.

3. If a member appoints more than one proxy, and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

4. CDC shareholders and their proxies are each requested to attach an attested photocopy of their National Identity Card or passport with this proxy form before submission to the Company.