

KASB

[Contents]

VISION, VALUES & MISSION STATEMENT	02
SERVICES	03
THE GROUP	04
CORPORATE INFORMATION	05
MANAGEMENT COMMITTEES	06
DIRECTORS' REPORT TO THE SHAREHOLDERS	07
SUMMARY OF THE KEY FINANCIAL DATA	11
HORIZONTAL ANALYSIS	12
STATEMENT OF VALUE ADDITION	13
NOTICE OF SIXTEENTH ANNUAL GENERAL MEETING	14
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE	20
REVIEW REPORT TO THE MEMBERS ON STATEMENT OF CODE OF CORPORATE GOVERNANCE	22
STATEMENT OF INTERNAL CONTROLS	23

STANDALONE FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE MEMBERS	26
STATEMENT OF FINANCIAL POSITION	28
PROFIT AND LOSS ACCOUNT	29
STATEMENT OF COMPREHENSIVE INCOME	30
CASH FLOW STATEMENT	31
STATEMENT OF CHANGES IN EQUITY	32
NOTES TO THE FINANCIAL STATEMENTS	33
STATEMENT OF WRITTEN-OFF LOANS	80

CONSOLIDATED FINANCIAL STATEMENTS

DIRECTORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS	82
AUDITORS' REPORT TO THE MEMBERS	83
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	84
CONSOLIDATED PROFIT AND LOSS ACCOUNT	85
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	86
CONSOLIDATED CASH FLOW STATEMENT	87
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	88
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	89
STATEMENT OF WRITTEN-OFF LOANS	141
PATTERN OF SHAREHOLDING	142
BRANCH NETWORK	144
FORM OF PROXY	

[Vision]

Partnering Success

[Values]

Vision

Attitude

Leadership

Upright

Excellence

Synergy

Customer Oriented, Innovative

Proactive, based on Commitment & Respect

Based on Integrity, Trust & Teamwork

Credible & Reliable

In Customer Services with Quality

In Team Results

[Mission]

STATEMENT

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

[Services]

Commercial Banking

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

Corporate Banking

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

Consumer Financial Services

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

Investment Banking

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

Global Transactional Services

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

Value Added Services

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

[The Group]



KASB Bank is now serving clients through 104 branches in 42 cities of Pakistan, offering unique and innovative financial solutions to a large portfolio of investment, corporate and consumer banking customers. KASB Bank is regarded as the flagship entity of the group with state of the art technology providing wide scale financial services to a diversified client base. The Bank also provides a host of financial services offered by the KASB Group.



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



KASB Securities is one of the oldest and largest brokerage firms in Pakistan today which provides a full spectrum of investment and trading products and services including equity, fixed income, forex sales and trading as well as securities and economic research for a diversified client base. The efficient execution of our broking business has helped KASB acquire the status of being the only domestic brokerage house with a foreign affiliation on both the equities sales and research front.



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

Board of Directors**Chairman**

Nasir Ali Shah Bukhari

Acting President / Chief Executive Officer

Muneer Saleem

Directors

Irshad Ali Shaban Ali Kassim

Leon Seynave

Muneer Kamal

Syed Tariq Hussain Gilani

Tariq M. Rangoonwala

Waseem Haqqie

Chief Financial Officer

Sheikh Muhammed Moeen

Company Secretary

Muhammad Hamidullah

Auditors

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants

Legal Advisors

Mandviwalla & Zafar

Advocates & Legal Consultants

Registered Office

Razia Sharif Plaza,

Jinnah Avenue, 90-Blue Area, Islamabad

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

Fax: (92-51) 2270727

Principal Office

Business & Finance Centre

I.I. Chundrigar Road, Karachi

Tel: (92-21) 32446772-77

Fax: (92-21) 32446828 & 32446865

Website

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

Audit Committee

Irshad Ali Shaban Ali Kassim

Leon Seynave

Syed Tariq Hussain Gilani

Waseem Haqqie (Chairman)

Human Resource and Remuneration Committee

Irshad Ali Shaban Ali Kassim

Leon Seynave

Muneer Kamal

Nasir Ali Shah Bukhari (Chairman)

Waseem Haqqie

Risk Management and Recovery Committee

Irshad Ali Shaban Ali Kassim (Chairman)

Muneer Kamal

Syed Tariq Hussain Gilani

Tariq M. Rangoonwala

Waseem Haqqie

Regional Office, Lahore

KASB House

14-C, Jail Road, Gulberg,

Lahore.

Tel: (92-42) 35776723-4

Fax: (92-42) 35762192

Registrar and Share Transfer Office

Noble Computer Services (Pvt.) Limited

Mezzanine Floor, House of Habib Building,

(Siddiqsons Tower),

3-Jinnah Cooperative Housing Society,

Main Shahrah-e-Faisal,

Karachi - 75350.

Tel. # : (92-21) 34325482-87 (6 Lines)

Fax # : (92-21) 34325442

E-mail: ncsl@noble-computers.com

(All names in alphabetical order)

MANAGEMENT COMMITTEES

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

Management Committee (MANCOM):

Munir Saleem - Acting President & CEO
Waqar Ahmed Khan - Head of Operations
Shaban Butt - Head of Human Resources
Sheikh Muhammad Moeen - Chief Financial Officer
Tahir Ayub - Group Head SAMG
Mir Mujahid Ali Khan - Head of Corporate Banking
Khalid Mahmood Salim - Chief Compliance Officer
Shamim A. Naik - Country Credit Officer
Muhammad Hamidullah - Company Secretary
Muhammad Muzaffar Khan - Head of Treasury
Faisal Anwar - Chief Information Officer

Investment Committee:

Munir Saleem - Acting President & CEO
Sheikh Muhammad Moeen - Chief Financial Officer
Muhammad Muzaffar Khan - Head of Treasury
Mohammad Sadiq Sheikh - Head of Risk Management
Khaqan Saadullah Khan - Head of Investment Banking
Altaf Hasan Khan - Market Risk Manager (Non-Voting Member)

Assets & Liability Committee:

Munir Saleem - Acting President & CEO
Sheikh Muhammad Moeen - Chief Financial Officer
Muhammad Muzaffar Khan - Head of Treasury
Mir Mujahid Ali Khan - Head of Corporate Banking
Mohammad Sadiq Sheikh - Head of Risk Management
Khaqan Saadullah Khan - Head of Investment Banking

Human Resources Management Committee:

Munir Saleem - Acting President & CEO
Waqar Ahmed Khan - Head of Operations
Shaban Butt - Head of Human Resources
Sheikh Muhammad Moeen - Chief Financial Officer
Tahir Ayub - Group Head SAMG
Faisal Anwar - Chief Information Officer

Market Risk Policy Committee:

Munir Saleem - Acting President & CEO
Sheikh Muhammad Moeen - Chief Financial Officer
Muhammad Muzaffar Khan - Head of Treasury
Mohammad Sadiq Sheikh - Head of Risk Management
Altaf Hasan Khan - Market Risk Manager (Non-Voting Member)

Country Credit Committee:

Munir Saleem - Acting President & CEO
Shamim A. Naik - Country Credit Officer
Mir Mujahid Ali Khan - Head of Corporate Banking

Information Technology Steering Committee:

Munir Saleem - Acting President & CEO
Waqar Ahmed Khan - Head of Operations
Shaban Butt - Head of Human Resources
Sheikh Muhammad Moeen - Chief Financial Officer
Faisal Anwar - Chief Information Officer
Mujtaba Habib - Manager Software Development

DIRECTORS' REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors of KASB Bank Limited (Bank) I am pleased to present before you the sixteenth annual report of the Bank along with the audited standalone and consolidated financial statements for the year ended December 31, 2010.

Economic Overview

Economy has remained under stress during 2010 due to flashfloods, slow implementation of reforms, energy shortages and worsening law and order situation in the country. The government has continued deficit financing resulting in higher inflation. It forced the Central Bank to increase the discount rate by multiple notches in FY2010.

Key financial indicators

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

Balance Sheet	Dec 31, 2010	Dec 31, 2009
	----- Rupees in Million -----	
Paid-up Capital	9,509	9,509
Equity	2,182	4,959
Deposits	46,274	43,900
Advances - net	29,528	29,499
Investments - net	13,053	15,129
Profit and Loss Account		
Revenue	576	126
Non markup expenses	2,496	2,415
Operating (Loss)	(1,920)	(2,288)
Provisions	1,514	2,437
(Loss) before tax	(3,455)	(5,943)
(Loss) after tax	(2,711)	(4,228)
(Loss) per share - Rupees	(2.85)	(4.45)

Business review 2010

The bank continued to face challenges from its non-performing loan book and the non-earning strategic investments. Although the overall cost of deposits reduced by Rs 426m, the cumulative drag of the above two factors had adverse effect on bank's financial performance. The Bank's Net Interest Margin (NIM) as at the end of FY2010 closed as Rs -47.08m as compared to Rs -428.76m in FY2009, registering an YOY improvement of 89.02%.

During this year the expanded branch network of 100 branches performed for the first continuous period of 12 months. It has positively impacted to bring overall cost of deposits down to single digit. The bank also diversified its liability side composition while maintaining the increasing trend in its overall deposit base, which grew by 5.4% to close at Rs. 46,274m from Rs. 43,900m compared to previous year.

Main focus of attention during FY2010 has been recoveries and restructurings of infected loan portfolio. Your bank during the year under review continued to take prompt action and reassess risks in its loan book. The bank took effective measures to strengthen the security structure and initiated prompt rescheduling and restructurings to contain further infection of loan portfolio. In this regard the Credit, Risk Management and Specialized Asset Management units have been revamped.

Your bank continues to follow the State Bank's Prudential Regulations for making provisioning on its non-performing loan portfolio. As a result of this a net provision of Rs. 1,180.32m (after incorporating Rs. 617.18m provision reversal) was further charged to the profit and loss account during the year. This took the provisions held in books to Rs. 5,290.06m (FY2009: Rs. 4,104.98m) covering the non-performing loan portfolio by 55%, which as at the end of FY2010 amounted to Rs. 9,616.60m (FY2009: Rs. 7,354.40m).

In addition to this in line with the Bank's policy, the impairment testing exercise on strategic investments and goodwill was also performed, which also resulted in booking a further impairment charge of Rs 305.00m on account of an investment in a subsidiary company. It has further adversely affected the capital base of your bank.

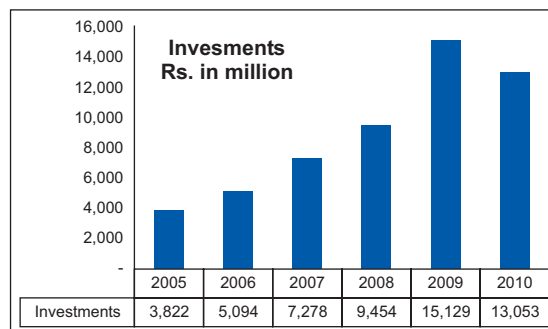
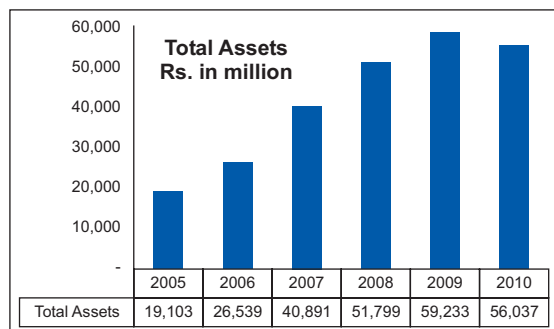
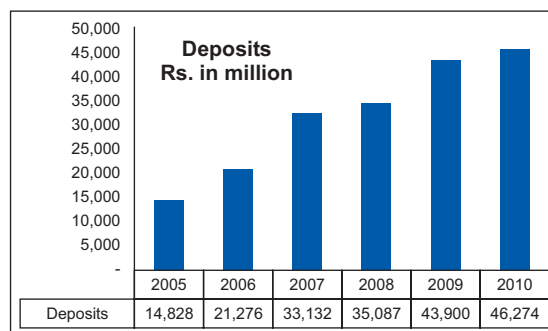
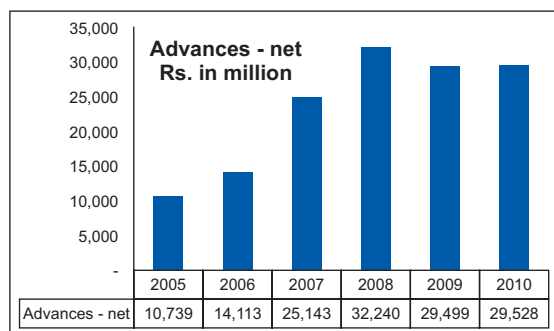
However, in a post balance sheet date positive development, your bank's investment in New Horizon Exploration and Production Limited has recorded a gas discovery, full economic impact of which is in process of being tabulated.

Despite the above pressures your Bank continued to make progress on increasing the overall volumes of business handled. Fee based income on the back of expanded branch network and growing business volumes registered an impressive growth of over 100% and stood at Rs. 327.51m from Rs. 149.285m during the year 2010. This coupled with other income sources and fresh revenues such as investment banking and home remittance subsidy registered an overall 12.26% growth in non-mark-up income pool.

Withstanding inflationary pressures and expanded business platform costs, your bank managed to run its operations for almost the same amount of administrative spent as was incurred last year. Consequently, the net loss of your bank after incorporating the impact of taxation for the financial year ended December 31, 2010 was Rs 2,710.67m as compared to Rs 4,227.75m last year, thus registering an improvement of 35.88% on YOY basis.

On the business side your bank continued to focus more on the Transactional Banking Business. A new Global Transactional Services Unit (GTS) has been established to cater needs of corporate and retail customers. This unit comprises of Home Remittance, Cash Management and Financial Institutions & Correspondent Banking services functions and is managed centrally by an experienced team.

With an operational network of 100 branches and 4 PRI (Pakistan Remittance Initiative) centers in 42 cities across the country, the bank is well positioned to service a wide variety of customers. It is this realignment that the bank was able to control the overall cost and composition of deposits and at the same time increase non markup income which is expected to be increased going forward also. Your bank continues to pay attention on expanding the avenues to increase the transaction banking business through its edge on technology and in this regard the bank has plans to utilize the alternate delivery channel platform for this larger objective.



The core focus on lending side remains on the Middle Market and SME businesses when it comes to fresh financings. On net basis, during FY2010 the overall loan book portfolio have remained range bound to Rs. 29,527m from Rs. 29,498m in FY2009. Additionally, with the recent initiatives taken on credit, risk management and recovery side, your bank plans to finance only those businesses which strictly qualify as per the criteria set by the credit and risk management unit. The objectives of Specialized Asset Management (SAM) are aligned to ensure that a considerable portion of infected loan book is either recovered or start performing in FY2011.

Your bank is one of the few in its peers to have ventured into some value added offerings. It has successfully enabled technology features that would add to the existing product offerings and making it possible for us to launch new innovative products in the year coming ahead. Today KASB Bank is also amongst one of the top performing banks in terms of State Bank led PRI Initiative and enjoys an excellent reputation on account of service quality.

Subsequent to the year end, the President Mr. Aftab Manzoor has left the bank. Mr. Munir Saleem - Group Executive Commercial Banking has been appointed by the Board as Acting President. Mr. Saleem is a career banker and carries with him rich experience of over 30 years of core banking and operations. On behalf of the Board please join me in thanking Mr. Manzoor for his contributions.

Changes in Board Composition

A great setback that the bank suffered was the sad demise of our beloved, Mr. N.K. Shahani, who left us on December 30, 2010. His services to your bank and its board can never be forgotten.

This vacancy on the Board after being unanimously approved has been offered to Syed Tariq Hussain Gilani. Mr. Gilani is a seasoned professional with diversified experience in managing financial institutions. On behalf of the Board I would like to welcome Mr. Tariq Gilani on the Board.

Shareholders' Equity

In line with the initially formalized Capital Enhancement Plan (CEP), the Group has executed an accord with Asia International Finance Limited (AIFL) for investing equity in the group holding company - KASB Finance (Pvt) Limited (KFIN). Recently, partial payments have been received and the transaction is expected to be concluded soon.

This plan includes increasing the Tier I Capital of your bank by a minimum of Rs.3,000m through rights shares, divestment of certain strategic investments and seeking long term Tier II Capital through issuance of a rated Term Finance Certificate. Implementation of the CEP is dependent on the conclusion of the above transaction between KFIN and AIFL.

The same plan has been submitted to the State bank of Pakistan along with a request to grant an exemption from compliance with the prescribed minimum capital requirements and maintaining the capital adequacy ratio till December 31, 2011.

Auditor's report

Auditors in their report have emphasized on the issue of non-compliance with the prescribed requirement of capital adequacy as on December 31, 2010. The Board and management of your bank is of the view that upon completion of the above capital injection plan the bank will be moving ahead for ensuring compliance with the above statutory requirements.

Related to this issue is another reference made by the auditors in their report, which relates to the realization of the deferred taxation in the future years. Management of your bank is confident that in absence of any unexpected circumstances, the forecasted future profits as per the financial projections approved by the Board of Directors would be sufficient enough to absorb the total amount of deferred tax assets booked in FY2010.

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

Employee Benefits Scheme

Your Bank operates two Employee Benefit Schemes, one Un-Funded Gratuity Scheme and the other Funded Employees' Provident Fund. The value of investments of Employees' Provident Fund based on its un-audited accounts for the period ended December 31, 2010 was Rs. 220 million.

Shareholding by Directors

No 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 2010.

Pattern of Shareholding

The Pattern of shareholding as at December 31, 2010 along with disclosure required under the Code of Corporate Governance included in this Annual Report.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Board of Directors Meetings

Eight (8) Board meetings were held during the financial year 2010. Information about the attendance is as under:

Name of Director	No. of meetings attended
Mr. Nasir Ali Shah Bukhari	8
Mr. Mohammad Aftab Manzoor (Director/ Chief Executive)	1*
Mr. Tariq M. Rangoonwala	6
Mr. Muneer Kamal (Director/ Chief Executive)	6**
Mr. N. K. Shahani	7
Mr. Irshad Ali Shaban Ali Kassim	7***
Mr. Waseem Haqqie	8
Mr. Leon Seynave	8

*Assumed president office on September 01, 2010.

**Relinquished president office on September 01, 2010.

***Became Director in February, 2010.

Leave of absence was duly granted to all members who were not present in the respective meetings.

Credit Rating

The Pakistan Credit Rating Agency Limited (PACRA) has revised the medium to long term rating to A- (Single A Minus) and a short term rating of A-2 (A Two). It is expected that the planned changes in the capital structure will have a positive impact on these ratings.

Future Prospects

With the introduction of equity and expectations of an improved economic climate in the country your bank's performance is expected to improve in FY2011. Your bank is focused on consolidating the existing resource base and infra-structure of the organization and plan to exploit its strengths to ensure that its resources are utilized in the most efficient manner to achieve the targets.

In 2011, the Bank plans to maintain careful focus on SME, Middle Market and Non-resident Pakistanis businesses. Additionally, with the formation of Global Transactional Services platform, your bank is poised to take the new initiatives of home remittance, cash management and alternate delivery channels to next level. Another key element of the 2011 strategy is to continue reinforcing the presence in the unbanked markets by launching new products and banking solutions and continue delivery of services with the traditional excellent services quality.

Considering the importance of capital adequacy for strengthening the balance sheet as well ensuring profitable operations the bank plans to execute the Capital Enhancement Plan as approved by the Board of Directors.

Corporate Social Responsibility

Responding to the recent flash flood situation your bank along with its employees contributed generously to the relief effort. In addition to this KASB Foundation also took active part in the rehabilitation of floods victims and engaged other group companies to the cause. Our partners AIFL generously donated 1000 tons of rice, which was distributed in the affected areas by bank's staff and KASB Foundation volunteers. Besides flood relief efforts, the Bank during the year has also contributed towards promotion of education.

Auditors

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

Acknowledgment

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

On behalf of the Board of Directors



Nasir Ali Shah Bukhari
Chairman

Karachi
April 04, 2011

KEY FINANCIAL DATA

Annual Report 2010

	2010	2009	2008	2007	2006	2005
	(Rupees in Millions)					
Paid-up Share Capital	9,509	9,509	7,633	4,015	2,293	2,015
Reserve Fund & Other Reserves	(7,678)	(5,005)	1,180	158	(131)	(268)
Shareholders' Equity	1,831	4,504	8,813	4,173	2,162	1,747
Total Assets (Excluding Contra)	56,429	59,223	51,799	40,891	26,539	19,103
Deposits	46,274	43,900	35,087	33,132	21,276	14,828
Advances-net	29,528	29,499	32,240	25,143	14,513	10,739
Investments-net	13,053	15,129	9,454	7,278	4,694	3,822
Imports & Export Business	31,478	25,399	28,501	21,434	16,798	10,895
Pre-tax Profit / (Loss)	(3,455)	(5,943)	(1,849)	66	53	(511)
Post-tax Profit / (Loss)	(2,711)	(4,228)	(973)	198	137	(273)
No.of Branches	104	100	73	35	35	35
No.of Employees	1,198	1,118	1,134	892	694	569
Bonus Shares	-	1,962	-	-	-	-
Earning / (Loss) per share - Rupees	(2.85)	(4.45)	(1.63)	0.90	0.62	(1.52)
Break up value per share - Rupees	2.30	5.22	12.05	13.78	9.43	8.70

HORIZONTAL ANALYSIS

Annual Report 2010

	2010 v 2009	2009 v 2008	2008 v 2007	2007 v 2006	2006 v 2005
Assets					
Cash and balances with treasury banks	14.76%	89.15%	-49.78%	30.24%	112.83%
Balances with other banks	7.20%	214.58%	-92.69%	1.00%	-2.08%
Lendings to financial institutions	-98.57%	405.91%	-68.49%	-23.38%	113.82%
Investments	-13.73%	60.03%	29.90%	42.87%	33.28%
Advances	0.10%	-8.50%	28.23%	78.15%	31.42%
Operating fixed assets	2.44%	20.81%	149.36%	62.70%	42.58%
Deferred tax assets	23.28%	116.23%	143.55%	24.95%	27.68%
Other assets	33.75%	-40.84%	216.75%	56.32%	7.19%
	-4.72%	14.33%	26.68%	54.08%	38.93%
Liabilities					
Bills payable	40.14%	77.49%	-75.25%	339.50%	57.48%
Borrowings	-25.11%	30.09%	260.86%	-19.76%	12.69%
Deposits and other accounts	5.41%	25.11%	5.90%	55.73%	43.48%
Sub-ordinated loans	0.00%	0.00%	0.00%	0.00%	0.00%
Liabilities against assets subject to finance lease	-64.00%	-37.77%	868.50%	-75.00%	-60.00%
Other liabilities	-27.28%	80.41%	16.07%	12.32%	60.30%
	-0.03%	27.38%	16.37%	49.96%	40.55%
NET ASSETS	<u>-55.99%</u>	<u>-46.10%</u>	<u>114.75%</u>	<u>101.22%</u>	<u>22.64%</u>
Represented by					
Share capital	0.00%	136.83%	29.22%	35.50%	13.80%
Reserves	0.00%	-96.96%	438.05%	3151.52%	560.00%
Accumulated losses	51.61%	431.38%	12084.85%	-95.09%	-40.29%
	-59.36%	-48.90%	111.25%	92.97%	23.76%
Surplus on revaluation of assets - net of tax	-22.65%	17.78%	244.97%	-439.39%	200.00%
	<u>-55.99%</u>	<u>-46.10%</u>	<u>114.75%</u>	<u>101.22%</u>	<u>22.64%</u>

STATEMENT OF VALUE ADDED

Annual Report 2010

Added as Follows	2010		2009	
	(Rupees in '000)	%	(Rupees in '000)	%
Markup/Return Earned - net of Provisions	3,481,736	72%	2,549,260	69%
Gain on Sale of Investment	110,475	2%	226,834	6%
Fee, Commission and Brokerage Income	327,511	7%	149,285	4%
Dividend Income	61,535	1%	101,253	3%
Income from Dealing in Foreign Currencies	64,389	1%	(16,065)	0%
Deferred Tax & Other Income	803,909	17%	676,745	18%
Total Value Added	<u>4,849,555</u>	<u>100%</u>	<u>3,687,312</u>	<u>100%</u>
Distributed as Follows				
To Employees as Remuneration	1,098,513	23%	1,067,979	29%
To Society as Donations	2,558	0%	1,254	0%
To Depositors as Profit on Investments	4,438,556	92%	4,879,532	132%
Interest on Borrowings	625,585	13%	610,865	17%
To Government as Income Tax	-	0%	10,145	0%
Administrative Expenses / Other Charges	1,395,012	29%	1,345,285	36%
Retained in Business	(2,710,669)	-56%	(4,227,748)	-115%
Total Value Distributed	<u>4,849,555</u>	<u>100%</u>	<u>3,687,312</u>	<u>100%</u>

NOTICE OF SIXTEENTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Sixteenth Annual General Meeting (AGM) of KASB Bank Limited (the Bank) will be held on Thursday, April 28, 2011 at 11:30 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 Annual General Meeting held on May 24, 2010.
2. To adopt the annual audited standalone and consolidated accounts of the Bank for the year ended December 31, 2010 together with the Directors' and Auditors' Reports thereon.
3. To appoint auditors for the year ending December 31, 2011 and to fix their remuneration. Present Auditors M/s. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants have offered their services for reappointment for the year ending December 31, 2011.
4. To elect seven directors as fixed by the Board in accordance with the provisions of Section 178 (1) of the Companies Ordinance, 1984 for a period of three years in place of the following retiring directors who are also eligible for election:

I. Mr. Nasir Ali Shah Bukhari	II. Mr. Tariq M. Rangoonwala
III. Mr. Waseem Haqqie	IV. Mr. Leon Seynave
V. Mr. Muneer Kamal	VI. Mr. Irshad Ali Shaban Ali Kassim
VII. Syed Tariq Hussain Gilani	

Special Business

5. To consider and if deemed fit, approve amendments in Articles 28 and 33 of the Articles of Association of the Bank and to pass, with or without modification, the following Special Resolutions:

"RESOLVED THAT pursuant to section 28 of the Companies Ordinance, 1984 the Articles 28 and 33 of Articles of Association of the Bank be and are hereby altered and amended whereby the said amended Articles shall read as under:

28. ANNUAL GENERAL MEETING

A general meeting, to be called Annual General Meeting shall be held, in accordance with the provisions of Section 158 of the Companies Ordinance, within eighteen (18) Months from the date of incorporation of the Bank and thereafter once at least in every calendar year within a period of four (4) Months or within such period as prescribed under the Banking Ordinance, which is applicable to the Bank as a banking company, following the close of its financial year and not more than fifteen (15) Months after the holding of its last preceding annual general meeting as may be determined by the Directors.

33. QUORUM

No business shall be transacted at any general meeting unless a quorum of members is present at that time when the meeting proceeds to business. Ten (10) members present personally who represent not less than twenty-five (25) percent of the total voting power, either on their own account or as proxies or any number of members and percentage of voting power that may be fixed from time to time under the Companies Ordinance or the Banking Ordinance, as applicable, shall be a quorum.

FURTHER RESOLVED THAT the President & CEO or Acting President and the Company Secretary of the Bank be and are hereby authorized to singly take all necessary actions required for the purpose of implementation of the above resolutions.

6. To consider and approve the proposed 105.16% rights issue of 1,000,000,000 ordinary shares of face value of Rs. 10/- each at discounted value of Rs.3/- per share with a Green Shoe Option of 15% of the Right Issue and for this purpose, if considered appropriate, to pass the following resolutions, with or without modifications, as special resolutions:

"RESOLVED THAT subject to further approval of the Securities and Exchange Commission of Pakistan (SECP) and State Bank of Pakistan (SBP), to the extent required under law, for the purpose of increasing the paid-up capital of the Bank in order to meet the minimum capital requirement of the State Bank of Pakistan, the Board of Directors (the Board) of the Bank be and is hereby authorized to offer 1,000,000,000 Ordinary Shares of face value of Rs. 10/- (Rupees Ten) each at a discounted price of Rs.3/- per share for the aggregate amount of Rs.3,000,000,000 (Rupees Three Billion Only), by way of rights offering to the existing shareholders of the Bank ("Right Issue") in the proportion of 105.16 Ordinary Shares for every 100 Ordinary Shares held ("New Shares") with a Green Shoe option of 15% of the Right Issue.

FURTHER RESOLVED THAT the President & Chief Executive or the Acting President, the Company Secretary and the Chief Financial Officer of the Bank be and are hereby authorized, severally and jointly, to undertake arrangements for the Right Issue and settle the terms and conditions with arranger(s), underwriter(s) and any and all other party(ies) concerned as and when necessary in this regards, and to take such actions as they may consider necessary or expedient with a view to obtaining their consent and for facilitating the eventual issue of all sanctions, approvals and permissions that may be required in connection with the aforesaid matter and in that connection to do all such acts, deeds and things as they may deem necessary."

NOTICE OF SIXTEENTH ANNUAL GENERAL MEETING

7. To consider and grant post facto approval for payment of remuneration to the non-executive Directors of the Bank for attending meetings of the Board and its Committees during the year as disclosed in Note No. 36 of the Audited Financial Statements and also to consider and approve reimbursement/payment of all official travelling expenses incurred by the members of the Board including the Chairman on actual basis and in that connection to pass the following resolution with or without modification, addition or deletion:

"RESOLVED THAT the remuneration paid to the non-executive Directors for attending meetings of the Board and its Committees during year 2010 as disclosed in Note 36 of the Audited Financial Statements for the year ended December 31, 2010 be and is hereby confirmed and approved post facto.

RESOLVED FURTHER THAT approval be and is hereby given for reimbursement and or payment of all official travelling expenses incurred by the members of the Board of Directors including Chairman of the Bank on actual basis effective January 1, 2011."

8. To consider and approve availment of Group Level Executive Services from KASB Finance (Private) Limited and if thought fit, to pass the following resolution, with or without modification, addition or deletion:

RESOLVED THAT the Service Level Agreement ("SLA") executed by KASB Bank Limited ("the Bank") with KASB Finance (Private) Limited ("KFIN") for availing of Group Executive Services ("GE Services") from KFIN, with effect from April 1, 2009 be and is hereby approved.

RESOLVED FURTHER THAT the Bank be and is hereby authorized to pay Fixed Monthly Engagement Fee of Rs.250,000/- to KFIN, or such other amount as may be revised by the Board of Directors of the Bank from time to time and to further reimburse to KFIN variable Monthly Cost Charged Back, Special Task Cost and other expenses to KFIN as provided in the SLA.

RESOLVED FURTHER THAT all payments made by the Bank to KFIN in terms of the SLA prior to the date of the passing of this resolution be and are hereby approved and ratified.

RESOLVED FURTHER THAT the President & Chief Executive or Acting President and the Chief Financial Officer of the Bank be and are hereby authorized to pay Fixed Monthly Engagement Fee to KFIN and to further approve and make reimbursements of Monthly Variable Cost Charged Back and Special Task Costs and other expenses to KFIN after verification from time to time, as provided under the SLA.

9. To consider and approve investment by way of Seed Capital to the extent of Rs. 50 million in KASB Cash Fund without increasing the existing overall investment exposure and if thought fit to pass the following special resolutions, with or without modifications, in compliance of the provisions of section 208 of the Companies Ordinance, 1984:

RESOLVED AND APPROVED THAT investment by way of Seed Capital of Rs.50 million (Rupees Fifty Million) be made in KASB Cash Fund (KCF), a Fund launched by KASB Funds Limited (KFL), on the terms and conditions as agreed and recommended by the Board of Directors of KASB Bank Limited.

RESOLVED FURTHER THAT The President & Chief Executive or the Acting President, the Chief Financial Officer and the Company Secretary of the Bank be and are hereby authorized and empowered severally and jointly, subject to compliance of all legal and regulatory requirements, to take any and all actions required for the purpose of giving effect to the purpose and intent of the above resolution.

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

By Order of the Board



Muhammad Hamidullah
Company Secretary

Place: Islamabad
Date: April 7, 2011

NOTICE OF SIXTEENTH ANNUAL GENERAL MEETING

NOTES:

1. The Share Transfer Books of the Bank will be closed from April 23, 2011 to April 28, 2011 (both days inclusive).
2. Any person who seeks to contest the Election of Directors shall file the following with Company Secretary of the Bank at Business & Finance Centre, I.I. Chundrigar Road, Karachi not later than fourteen days before the day of the above said meeting:-
 - (i) His/her intention to offer himself/herself for election of Directors in terms of Section 178(3) of the Companies Ordinance, 1984, together with (a) consent on Form-28 as prescribed by the Companies Ordinance, 1984 ("the Ordinance"), (b) a Declaration with consent to act as Director as prescribed vide clause (ii) of the Code of Corporate Governance ("the Code") of SECP confirming his/her awareness of the duties and powers of the Directors under the Ordinance, listing regulations of the Stock Exchanges and the Memorandum & Articles of Association of the Bank and (c) a Declaration in accordance with clauses (iii) and (iv) of the Code (d) a declaration about his/her being a candidate as an independent director as required in "Fit & Proper Test" criteria of State Bank of Pakistan besides declaring that he/she is not ineligible to become a Director of the Bank under any circular or directive of State Bank of Pakistan/SECP.
 - (ii) A specified affidavit as prescribed in State Bank of Pakistan BPRD Circular No.4 dated 23rd April, 2007 concerning "Fit & Proper Test" together with prescribed Questionnaire along with recent photograph and copy of NIC (Passport in case of foreign national). Copy of the circular may be obtained from the website of State Bank of Pakistan or from the office of the Company Secretary of the Bank before the last date.
 - (iii) As per the prescribed criteria of State Bank of Pakistan such person as Director has been considered undesirable and against public interest who is (a) associated with any illegal activity especially relating to banking affairs, (b) who in his/her individual capacity or a proprietary concern or any partnership firm or any private limited company or an unlisted public company or any listed public company (of which he/she has been a proprietor, partner, director or shareholder) has been in default of payment of dues owed to any financial institution and/or is/has been in default of payment of any taxes.
3. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend the meeting and vote for him/her. A proxy must be a member of the Bank. Proxies in order to be effective must be received by the Bank at its Registered Office Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad not less than forty-eight hours before the meeting.
4. Shareholders are requested to promptly notify the change of address, if any, and also for the consolidation of folio numbers, if any member holds more than one folio, to our Registrar, Noble Computer Services (Private) Limited, Mezzanine Floor, House of Habib Building (Siddiqsons Tower), 3-Jinnah C. H. Society, Main Shahrah-e-Faisal, Karachi.
5. CDC shareholders are requested to bring with them their National Identity Card along with the participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate identification of the respective shareholders.
6. Statements under Section 160(1)(b) of the Companies Ordinance, 1984 pertaining to Special Businesses are being sent to the shareholders with this Notice.

NOTICE OF SIXTEENTH ANNUAL GENERAL MEETING

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

Changes in the Articles of Association of the Bank

The Board of Directors of the Bank has proposed to align Article 28 and 33 of the Articles of Association of the Bank (the Articles) with the requirements of Companies Ordinance, 1984 (the Ordinance) and the Banking Companies Ordinance, 1962 (the BCO) in order to make regulatory compliance as also to cover any changes that may henceforth be made in the Ordinance and the BCO.

Comparison of Articles 28 and 33 of the Articles before and after the proposed amendments is given hereunder:

Existing Article	Proposed amended Article
<p>28. ANNUAL GENERAL MEETING A general meeting, to be called annual general meeting shall be held, in accordance with the provisions of Section 158 of the Companies Ordinance, within eighteen (18) Months from the date of incorporation of the Bank and thereafter once at least in every calendar year within a period of six (6) Months following the close of its financial year and not more than fifteen (15) Months after the holding of its last preceding annual general meeting as may determined by the Directors.</p>	<p>28. ANNUAL GENERAL MEETING A general meeting, to be called Annual General Meeting shall be held, in accordance with the provisions of Section 158 of the Companies Ordinance, within eighteen (18) Months from the date of incorporation of the Bank and thereafter once at least in every calendar year within a period of four (4) Months or within such period as prescribed under the Banking Ordinance, which is applicable to the Bank as a banking company, following the close of its financial year and not more than fifteen (15) Months after the holding of its last preceding annual general meeting as may be determined by the Directors.</p>
<p>33. QUORUM No business shall be transacted at any general meeting unless a quorum of members is present at that time when the meeting proceeds to business. Three (3) members present personally who represent not less than twenty-five (25) percent of the total voting power, either on their own account or as proxies shall be a quorum.</p>	<p>33. QUORUM No business shall be transacted at any general meeting unless a quorum of members is present at that time when the meeting proceeds to business. Ten (10) members present personally who represent not less than twenty-five (25) percent of the total voting power, either on their own account or as proxies or any number of members and percentage of voting power that may be fixed from time to time under the Companies Ordinance or the Banking Ordinance, as applicable, shall be a quorum.</p>

No Director of the Bank has any other interest in the above propositions except to the extent of their individual shareholding in the Bank.

Offer of Right Shares at Discount

In order to meet the capital requirement and in view of the present equity position of the Bank, the Board of Directors of the Bank has formalized a Capital Enhancement Plan. In accordance with this Plan the Board has recommended to issue ordinary shares at discount by way of Rights Issue in terms of Section 84 of the Companies Ordinance, 1984, subject to the approval by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan.

In the given circumstances various options including offering of Right Shares at par were considered, however, after exploring all possible available options, the Board decided to offer a reasonable discount on these right and make the same attractive for the shareholders and other investors.

The effect of the financial crisis in the banking sector has been far reaching on the share prices of almost all the banks quoted on stock exchanges which reduced drastically over a period of time. The share price of the Bank's shares also went down steeply and now is quoted at around Rs.1.5 per share. The break-up value of Bank's shares as per the audited financial statements for the year ended December 31, 2010 comes around Rs. 2.30 per share.

Consequently, the Board has decided to recommend Rights Issue at 70% discount by offering 1,000,000,000 shares of Rs.10/- each at a discounted price of Rs.3/- per share with Green Shoe option of 15% of the Right Issue. The discount amount would be treated as per the applicable accounting standards in the financials of the Bank. The price at which the Rights Issue is proposed to be undertaken has been fixed after taking into consideration the prevalent market price of KASB Bank shares and the interest taken by the foreign investors. If approved, the Bank shall make necessary arrangement for putting in place an underwriting agreement as required for issuing shares at a discount.

The increase in capital base as such will enable the Bank to achieve its target of turnaround in its business and to earn reasonable profit so as to share it with the stakeholders besides meeting the capital requirement.

NOTICE OF SIXTEENTH ANNUAL GENERAL MEETING

The Directors of the Bank have no interest in the issue of right shares except to the extent of their respective shareholding. The shares and percentage of personal shareholding of the Directors in shares of KASB Bank Limited are as under:

Name of Director	Holding
Nasir Ali Shah Bukhari	383,296,385
Tariq M. Rangoonwala	6,269
Munir Kamal	942
Irshad Ali Shaban Ali Kassim	31,512
Leon Seynave	1,902
Waseem Haqqie	1,902
Syed Tariq Hussain Gilani	500

The Bank has made the following additions to the capital during last five years:

- o 10 % Right Issue at par of 22,927,080 shares for the total amount of Rs. 22,9270,800 in 2007.
- o 58,500,000 shares were issued at par to the shareholders of International Housing Finance Limited on its merger with the Bank in year 2007.
- o 36 % Right Issue at par of 90,791,236 shares for the total amount of Rs. 907,912,360 in 2008.
- o 361,797,538 shares were issued at par to the shareholders of KASB Capital Limited in 2009.
- o 7,403 shares were issued at par to the shareholders of Network Leasing Corporation limited in 2009.

Post facto approval for payment of remuneration to non-executive Directors and Payment/reimbursement of official travelling expenses of the members of the Board and Chairman

- In terms of the requirements of Prudential Regulation G-1 (C) (2) the banks are permitted to pay during a calendar year a reasonable and appropriate remuneration for attending the meeting of the Board of Directors and those of Board committees which is to be made in accordance with the meetings attended by them. According to the said regulation, the scale of remuneration to be paid to the nonexecutive Directors and the Chairman shall be approved by the members on a pre or post facto basis.

The members of the Bank have already approved the scales of payment to the non-executive Directors/Chairman of the Bank for attending the meetings of the Board of Directors or those of the Board committees. Hence, shareholders' post facto approval is sought for the payments made accordingly during the year 2010 as reflected in Note 36 to the Annual Accounts.

- The Directors of the Bank have been incurring expenses on the business and affairs of the Bank, including traveling, boarding and lodging and other expenses and are required to be reimbursed. It is proposed that the reimbursement of such costs and expenses at actuals be made to them. Shareholders' approval is therefore solicited on this matter.

The interest of the Directors in getting the approval of the shareholders for reimbursement of expenses at actuals is limited to the extent of only their being Directors of KASB Bank.

Service Level Agreement with KASB Finance Limited

- I. KASB Finance (Private) Limited ("KFIN") was established with a view to consolidating investments in KASB Group Companies in a unified structure and project the Group to a wide range of international investors from a single platform to ensure co-ordination and consistency in approach from an appropriate senior level for facilitating foreign investments.
- II. Within its first few months of existence, KFIN was successful in attracting multiple investors to invest in various sectors in Pakistan including KASB Bank Limited.
- III. Besides core-capital raising exercise for the Bank, KFIN through its Chief Executive, has also remained engaged with a lot of other investment corporations and business groups across the globe and have been effectively marketing various Pakistani corporations through the international business network.
- IV. Managing these relationships and maintaining these contacts requires certain costs and expenses, for this purpose KASB Bank has entered into a Service Level Agreement (SLA) with KFIN with the approval of its Board of Directors.
- V. No confidential information pertaining to the business and affairs of the Bank are disclosed to KFIN and the fidelity and secrecy obligation is maintained. Furthermore, KFIN is not authorized to negotiate or discuss with or represent KASB Bank to any potential investor and the provisions of the Banking Companies Ordinance, 1962, the Prudential Regulations for Corporate Commercial Banking and the Notifications and Circulars issued by the State Bank of Pakistan from time to time, including risk management criteria, and other Guidelines made by the State Bank of Pakistan, are being and shall continue to be honoured and implemented in true letter and spirit. KFIN is also not involved in any banking business or functions of KASB Bank.
- VI. The interest of the Chief Executive and Directors of KASB Bank in the SLA is to the extent of their respective shareholdings in KFIN and they being Chief Executive and Directors of KFIN. Presently KFIN is 100% owned by Mr. Nasir Ali Shah Bukhari. The SLA can be inspected at the Registered Office of KASB Bank located at Razia Sharif Plaza, 90-Blue Area, Islamabad between 10:00 a.m. to 01:00 p.m. on any working day.

NOTICE OF SIXTEENTH ANNUAL GENERAL MEETING

Investment by way of Seed Capital in KASB Cash Fund

KASB Cash Fund ("KCF") is an open ended unit trust scheme which is managed by KASB Funds Limited ("KFL") (subsidiary of KASB Bank Limited). KASB Cash Fund is a Money Market Fund as per the criteria of categorization stipulated by the Securities and Exchange Commission of Pakistan. Its portfolio comprises of 90 to 95% of Government securities while remaining is invested in TDRs and cash deposits with AA rated or above banks.

Following is the specific information in compliance of section 208 of the Companies Ordinance, 1984 in this respect:

1	Name of investee company or associated undertaking	KASB Cash Fund managed by KASB Funds Limited																
2	Nature, amount and extent of investment	Investment by way of Seed Capital to the extent of Rs. 50 million in KASB Cash Fund.																
3	Break-up value of shares intended to be purchased on the basis of annual published accounts	Not applicable. However, NAV of the fund is given hereunder: <table border="0"> <thead> <tr> <th>Date</th> <th>NAV/Unit</th> </tr> </thead> <tbody> <tr> <td>September 2009</td> <td>101.1270</td> </tr> <tr> <td>December 2009</td> <td>102.0586</td> </tr> <tr> <td>March 2010</td> <td>101.7589</td> </tr> <tr> <td>June 2010</td> <td>102.3398</td> </tr> <tr> <td>September 2010</td> <td>102.7400</td> </tr> <tr> <td>December 2010</td> <td>101.0069</td> </tr> <tr> <td>March 30, 2011</td> <td>101.8800</td> </tr> </tbody> </table>	Date	NAV/Unit	September 2009	101.1270	December 2009	102.0586	March 2010	101.7589	June 2010	102.3398	September 2010	102.7400	December 2010	101.0069	March 30, 2011	101.8800
Date	NAV/Unit																	
September 2009	101.1270																	
December 2009	102.0586																	
March 2010	101.7589																	
June 2010	102.3398																	
September 2010	102.7400																	
December 2010	101.0069																	
March 30, 2011	101.8800																	
4	Price at which shares will be purchased	At prevailing price to be determined at the date of investment; However, the applicable prices and Net Asset Value per unit of KASB Cash Fund at March 30, 2011 are as follows: <ul style="list-style-type: none"> • Offer Price: PKR 102.9091/- • Redemption Price: PKR 101.8800/- • Net Asset Value per unit: 101.8800/- 																
5	Earning per share of the investee company in last three years	Determination of weighted average number of units for calculating earnings per unit is not practicable. However, Return on KASB Cash Fund are given hereunder: <ul style="list-style-type: none"> • For the period from August 13, 2010 to June 30, 2010: 10.08% p.a.; • For the period from July 1, 2010 to December 31, 2010: 11.20% p.a. 																
6	Source of funds from which shares will be purchased	Through disinvestment of Rs.28 million from regular units of KASB Cash Fund (KCF) and further disinvestment of Rs.22 million from investment already made in Seed Capital of KASB Islamic Income Opportunity Fund. Thus virtually there will be neither cash outflow from Bank's books nor any additional financial exposure of the Bank in this transaction.																
7	Period for which investment will be made	The Seed Capital investment is not redeemable for a period of two years from the date of issue (KASB Cash Fund was launched on August 13, 2009) This investment. It cannot be redeemed before two years but is transferable to any other buyer with similar restriction. It is considered to be a long term investment.																
8	Purpose of investment	This investment in KCF is expected to result in dividend income and capital gain along with providing tax benefit on this investment as per the prevailing tax laws. It will be a better source of revenue generation than the existing funding for the Bank on its investment.																
9	Benefits likely to accrue to the company and the shareholders from the proposed investment	<ul style="list-style-type: none"> • To earn tax efficient yields. • Since the Fund have consistent track record of paying dividend therefore it is expected to fetch cash inflow in the form of dividends streams over a period of time and possibility of capital gain as well. • This investment will provide a diversified base of investment portfolio which may be helpful in avoiding concentration of risk. 																
10	Interest of Directors and their relatives in the investee company	KASB Bank Limited has 58.84%, KASB Securities Limited had 8.33% and Mr. Nasir Ali Shah Bukhari has 27.78% holding in KASB Funds Limited, management company of KASB Cash Fund. The directors and their relatives have no interests in the investee company except to the extent of their shareholdings in respective company.																

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

The Board of Directors reaffirms its commitments to implement the requirements of the Code of Corporate Governance (the Code). The Code is being complied with 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 comprises of seven Directors and includes independent and non executive directors, with the President & Chief Executive and one Director being the exception as executive members. None of the directors is serving as a director in more than ten listed companies including the Bank.

Casual vacancy occurred in the Board due to the sad demise of Mr. N.K. Shahani on 30th December, 2010. Syed Tariq Hussain Gilani, a banker and chartered accountant by profession with extensive experience in banking/financial sector, was co-opted as a Director on January 21, 2011 in compliance of the requirement contained in Code of Corporate Governance, the clearance of which was given by State Bank of Pakistan on February 24, 2011.

- 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 / NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- Statement of Ethics and Business Practices' has been signed by the Directors and employees of the Bank.
- The Board has formulated a 'Vision' and 'Mission' Statement and all corporate strategies and significant policies 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 thereto 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 Chief Financial Officer, Head of Internal Audit and Company Secretary, including their remuneration and terms and conditions 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 related party transactions have been placed before the Audit Committee and approved by the Board of Directors with necessary justifications for non-arm's length transactions, if any.
- The Directors' Report for the year ended December 31, 2010 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, 2010 were duly endorsed by Chief Executive and Chief Financial Officer before presenting to Audit Committee and then to the Board for approval.
- 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 prior to approval of the quarterly, half-yearly and final accounts of the Bank, as required by the Code.

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

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

- The Board has set up an effective internal audit function. The staff of Internal Audit Department are suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank and they are involved in the internal audit function on a full time basis.
- The system of sound internal control is in place and effectively monitored in the Bank.
- The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan.
- The statutory auditors of the Bank have confirmed that they or any partner in the firm of statutory auditors, 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 persons 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, 2010 have been audited and will be circulated in accordance with clause (xxii) of the Code.
- We confirm that all material principles contained in the Code have been complied with.



Nasir Ali Shah Bukhari
Chairman

Karachi: 4 April 2011

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

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



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

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

We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) for the year ended 31 December 2010 prepared by the Board of Directors of KASB Bank Limited (the Bank) to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges, where the Bank is listed.

The responsibility for compliance with the Code 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 reflects the status of the Bank's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiry of the Bank's personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control systems 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.

Further, Sub-Regulation (xiii a) of Listing Regulation 35 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular number KSE / N-269 dated 19 January 2009 requires the Bank to place before the Board of Directors for their consideration and approval related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedure to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Bank for the year ended 31 December 2010.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Date: 04 April 2011

Karachi

A member firm of Ernst & Young Global Limited

STATEMENT ON INTERNAL CONTROLS

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

Board of Directors of the Bank is responsible for establishing overall policies related to these controls and systems. The Board in this regard utilizes the services of Internal Audit Division to monitor compliance with Bank's policies, procedures and related controls and report significant deviations regularly to the Board Audit Committee. The Internal Audit Division also regularly assesses the adequacy of the Internal Control system and environment. The observations, weaknesses and suggestions made by the external auditors are also promptly addressed and necessary steps are taken by the management to eliminate weaknesses highlighted by them.

The Bank is currently in the process of adopting an internationally accepted COSO Internal Control - Integrated Framework, as envisaged under the State Bank of Pakistan's (SBP) Internal Control Guidelines. The Bank has devised a well-defined and comprehensive Internal Control Programme along the lines of staged roadmap, as suggested by SBP. In accordance with this Programme, the Bank has completed a detailed documentation of the existing processes and control, Gap Analysis and remediation plan is completed, Bank is in the process of implementing the remediation plan and is in the final stages of concluding the comprehensive management testing plans of key controls.

The work completed to date is available for review by the Bank's external auditors under the SBP Internal Control Guidelines. Going forward, the Bank plans to implement planned initiatives to adequately remediate the gaps in a timely manner identified during gap analysis. In addition, comprehensive management testing plans will be implemented to assess on-going operating effectiveness of key controls.

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

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



Munir Saleem
Acting President and
Chief Executive Officer

STANDALONE FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE MEMBERS

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



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

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

We have audited the annexed statement of financial position of KASB Bank Limited (the Bank) as at 31 December 2010, and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for fourteen branches (including eight sub-branches) which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. The financial statements of the Bank for the year ended 31 December 2009 were audited by another firm of chartered accountants, whose report dated 26 April 2010 expressed an unqualified opinion on those financial statements. However, the auditors' report included emphasis of matter paragraphs regarding the Bank's capital shortfall and recoverability of deferred tax asset.

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

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

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

A member firm of Ernst & Young Global Limited



Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

- (c) in our opinion, and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2010 and its true balance of the loss, its comprehensive loss, cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

We draw attention to:

- (i) notes 6.1 and 41.2 to the financial statements, which fully explain the Bank's capital deficiency in terms of the regulatory requirements as prescribed by the State Bank of Pakistan and the management's future plans and actions in relation thereto. Accordingly, the Board of Directors of the Bank is satisfied that the Bank has adequate resources to continue its business on a sustainable basis for the foreseeable future, and consequently, would be able to realise its assets and discharge its liabilities in the normal course of business;
- (ii) note 14.3 to the financial statements, which states that deferred tax asset has been recognized in these financial statements on the basis of Bank's financial projections for the future years as approved by the Board of Directors of the Bank. The preparation of financial projections involve management's assumptions regarding future business and economic conditions and therefore any significant change in such assumptions may have an effect on the realisability of the deferred tax asset.

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

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Audit Engagement Partner: Arslan Khalid
Date: 04 April 2011
Karachi

A member firm of Ernst & Young Global Limited

STATEMENT OF FINANCIAL POSITION

Annual Report 2010

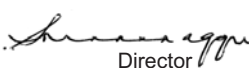
AS AT 31 DECEMBER 2010

	Note	2010	2009
(Rupees in '000)			
ASSETS			
Cash and balances with treasury banks	8	3,272,520	2,851,665
Balances with other banks	9	199,276	185,896
Lendings to financial institutions	10	40,000	2,804,596
Investments	11	13,052,504	15,129,090
Advances	12	29,527,698	29,498,752
Operating fixed assets	13	3,379,130	3,298,720
Deferred tax assets	14	3,966,880	3,217,743
Other assets	15	2,991,475	2,236,596
		56,429,483	59,223,058
LIABILITIES			
Bills payable	16	541,041	386,066
Borrowings	17	6,138,207	8,196,640
Deposits and other accounts	18	46,274,187	43,899,695
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	19	2,170	6,027
Deferred tax liabilities		-	-
Other liabilities	20	1,291,421	1,775,760
		54,247,026	54,264,188
NET ASSETS		<u>2,182,457</u>	<u>4,958,870</u>
REPRESENTED BY			
Share capital	21	9,508,617	9,508,617
Reserves		151,287	151,287
Accumulated losses		(7,853,152)	(5,179,823)
Share premium		23,724	23,724
		1,830,476	4,503,805
Surplus on revaluation of assets - net of tax	22	351,981	455,065
		<u>2,182,457</u>	<u>4,958,870</u>
CONTINGENCIES AND COMMITMENTS	23		

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


Acting President and Chief Executive


Director


Director


Director


Director

PROFIT AND LOSS ACCOUNT

Annual Report 2010

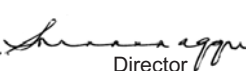
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010	2009
		(Rupees in '000)	
Mark-up / return / interest earned	25	5,017,060	5,061,633
Mark-up / return / interest expensed	26	(5,064,141)	(5,490,397)
Net mark-up / return / interest income		(47,081)	(428,764)
Provision against non-performing loans and advances	12.5	(1,180,328)	(1,294,517)
Provision for diminution in the value of investments	11.3	(333,491)	(1,142,717)
Bad debts written off directly	12.6.1	(21,505)	(1,156)
Investments written off directly		-	(73,983)
		(1,535,324)	(2,512,373)
Net mark-up / return / interest income after provisions		(1,582,405)	(2,941,137)
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		327,511	149,285
Dividend income		61,535	101,253
Income / (loss) from dealing in foreign currencies		64,389	(16,065)
Gain on sale / redemption of securities	27	110,475	226,834
Unrealised loss on revaluation of investments classified as held for trading		-	(76)
Other income	28	59,203	93,801
Total non mark-up / interest income		623,113	555,032
		(959,292)	(2,386,105)
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	29	(2,495,158)	(2,379,347)
Other provisions / write offs		-	(2,108)
Other charges	30	(925)	(33,063)
Total non mark-up / interest expenses		(2,496,083)	(2,414,518)
		(3,455,375)	(4,800,623)
Impairment of goodwill	15.2.1	-	(1,142,681)
LOSS BEFORE TAXATION		(3,455,375)	(5,943,304)
Taxation - Current		-	(10,145)
- Prior years		-	-
- Deferred		744,706	1,725,701
		744,706	1,715,556
LOSS AFTER TAXATION		(2,710,669)	(4,227,748)
Basic and diluted loss per share	31	(2.85)	(4.45)

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


Acting President and Chief Executive


Director


Director


Director


Director

STATEMENT OF COMPREHENSIVE INCOME

Annual Report 2010

FOR THE YEAR ENDED 31 DECEMBER 2010

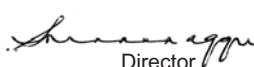
	2010	2009
	(Rupees in '000)	
Net loss for the year	(2,710,669)	(4,227,748)
Other comprehensive income	-	-
Total comprehensive loss for the year	<u>(2,710,669)</u>	<u>(4,227,748)</u>

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

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


Acting President and Chief Executive


Director


Director


Director


Director

CASH FLOW STATEMENT

Annual Report 2010

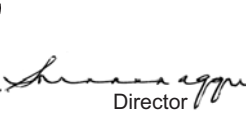
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010	2009
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(3,455,375)	(5,943,304)
Less: dividend income		(61,535)	(101,253)
		<u>(3,516,910)</u>	<u>(6,044,557)</u>
Adjustments:			
Depreciation		264,826	221,427
Amortisation		110,395	54,642
Provision against non-performing loans and advances		1,180,328	1,294,517
Provision for diminution in the value of investments		333,491	1,142,717
Bad debts written off directly		21,505	1,156
Investments written off directly		-	73,983
Unrealised loss on revaluation of investments classified as held for trading		-	76
Gain on disposal of fixed assets		(6,960)	(934)
Provision for gratuity		33,880	24,359
Financial charges on leased assets		506	1,228
Impairment of goodwill		-	1,142,681
Other provisions		-	681
		<u>1,937,971</u>	<u>3,956,533</u>
(Increase) / decrease in operating assets			
Lendings to financial institutions		2,764,596	(2,258,704)
Investments in held for trading securities		5,949	255,559
Advances		(1,230,779)	1,445,771
Others assets		(747,600)	206,695
		<u>792,166</u>	<u>(350,679)</u>
Increase / (decrease) in operating liabilities			
Bills payable		154,975	168,546
Borrowings		(2,070,430)	1,882,740
Deposits and other accounts		2,374,492	8,812,218
Other liabilities		(502,827)	775,853
		<u>(43,790)</u>	<u>11,639,357</u>
Income tax paid		(6,745)	(3,642)
Gratuity paid		(14,188)	(8,047)
Compensated absences paid		(1,204)	(692)
Net cash (used in) / inflow from operating activities		<u>(852,700)</u>	<u>9,188,273</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from / investments in available for sale securities		1,611,603	(5,902,703)
Investments in held to maturity securities		113,371	(897,823)
Investments in subsidiaries and associates		(58,000)	(363,585)
Dividend income received		61,000	103,605
Investments in fixed assets		(528,003)	(697,303)
Sale proceeds on disposal of fixed assets		79,330	31,980
Net cash inflow / (used in) from investing activities		<u>1,279,301</u>	<u>(7,725,829)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Payments against lease obligations		(4,363)	(4,886)
Net increase in cash and cash equivalents		422,238	1,457,558
Cash and cash equivalents at beginning of the year		3,021,539	1,563,981
Cash and cash equivalents at end of the year	32	<u><u>3,443,777</u></u>	<u><u>3,021,539</u></u>

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


Acting President and Chief Executive


Director


Director


Director


Director

STATEMENT OF CHANGES IN EQUITY

Annual Report 2010


FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital	Statutory reserve	General reserves	Shares issued on amalgamation	Share premium	Accumulated losses	Total
----- (Rupees in ' 000) -----							
Balance as at 31 December 2008	4,014,890	150,903	384	5,607,976	13,775	(974,788)	8,813,140
Issue of ordinary shares to the shareholders of KASB Capital Limited and Network Leasing Corporation Limited upon amalgamation	3,618,050	-	-	(5,607,976)	1,989,926	-	-
Share issue cost	-	-	-	-	(17,881)	-	(17,881)
Issue of bonus shares	1,962,096	-	-	-	(1,962,096)	-	-
Shares cancelled during the year	(86,419)	-	-	-	-	-	(86,419)
Transferred from surplus on revaluation of fixed assets-net of tax	-	-	-	-	-	22,713	22,713
Total comprehensive loss for the year	-	-	-	-	-	(4,227,748)	(4,227,748)
Balance as at 31 December 2009	<u>9,508,617</u>	<u>150,903</u>	<u>384</u>	<u>-</u>	<u>23,724</u>	<u>(5,179,823)</u>	<u>4,503,805</u>
Transferred from surplus on revaluation of fixed assets-net of tax	-	-	-	-	-	37,340	37,340
Total comprehensive loss for the year	-	-	-	-	-	(2,710,669)	(2,710,669)
Balance as at 31 December 2010	<u><u>9,508,617</u></u>	<u><u>150,903</u></u>	<u><u>384</u></u>	<u><u>-</u></u>	<u><u>23,724</u></u>	<u><u>(7,853,152)</u></u>	<u><u>1,830,476</u></u>

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


Acting President and Chief Executive


Director


Director


Director


Director

FOR THE YEAR ENDED 31 DECEMBER 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Bank Limited (the Bank) was incorporated in Pakistan on 13 October 1994 as a public limited company under the Companies Ordinance, 1984. The Bank received banking license from the SBP on 9 January 1995 and obtained certificate of commencement of business from Securities and Exchange Commission of Pakistan (SECP) on 11 January 1995. The Bank is engaged in commercial banking, consumer banking, corporate and investment banking and related services through 104 branches (including 34 sub branches) [31 December 2009: 100 branches (including 30 sub branches)] operating in 42 cities. The Bank is listed on all the Stock Exchanges in Pakistan.

2. BASIS OF PRESENTATION

- 2.1 These financial statements have been prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 04, dated 17 February 2006. Further, with effect from the current year, "balance sheet" has been renamed as "statement of financial position" keeping in view the requirement of BSD Circular letter No. 7 of 2010 dated 30 April 2010 issued by the SBP.
- 2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.
- 2.3 These are separate financials statements of the Bank in which investment in subsidiaries and associates are reported on the basis of direct equity interest and are not consolidated or accounted for by using equity method of accounting.

3. STATEMENT OF COMPLIANCE

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

4. BASIS OF MEASUREMENT

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

5. SIGNIFICANT ACCOUNTING POLICIES

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

The Bank has adopted the following new and amended IFRS and related interpretations and improvements which became effective during the year:

IFRS 2 - Share based Payments: Amendments relating to Group Cash-settled Share based Payment Transactions

IFRIC 17 - Distributions of Non-cash Assets to Owners

In May 2008 and April 2009, the IASB issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wordings. These improvements are listed below:

IFRS 2 – Share-based Payments
 IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations
 IFRS 8 – Operating Segments
 IAS 1 – Presentation of Financial Statements
 IAS 7 – Statement of Cash Flows
 IAS 17 – Leases
 IAS 36 – Impairment of Assets
 IAS 38 – Intangible Assets
 IFRIC 9 – Reassessment of Embedded Derivatives
 IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

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

5.2 Cash and cash equivalents

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

5.3 Lendings to / borrowings from financial institutions

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

Sale under repurchase contract

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

Purchase under resale contract

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

5.4 Investments (other than investments in subsidiaries and associates)

These are classified as follows:

Held-for-trading

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

Held-to-maturity

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

Available-for-sale

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

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

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

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

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

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

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

5.5 Investments in subsidiaries and associates

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

5.6 Advances

Loans and advances

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

Net investment in finance lease

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

5.7 Operating fixed assets

Tangible operating assets - owned

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

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

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

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

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

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

Tangible operating assets - leased

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

Intangible assets

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

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

Capital work-in-progress

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

5.8 Business combinations and goodwill

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

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

5.9 Non-banking assets acquired in satisfaction of claims

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

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

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

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

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

5.11 Financial instruments**Financial assets and financial liabilities**

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

Derivative financial instruments

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

Offsetting

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

5.12 Provisions

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

5.13 Provisions against off-balance sheet obligations

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

5.14 Taxation

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

Current

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

Deferred

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

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

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

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

5.15 Employees' benefits**Defined contribution plan**

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

Defined benefit scheme

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

5.16 Revenue recognition

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

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

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

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

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

Other income is recognised on accrual basis.

5.17 Foreign currencies transactions

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

5.18 Share issue cost

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

5.19 Dividends and transfers between reserves

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

5.20 Earnings per share

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

5.21 Segment reporting

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

(a) Business segments

Commercial banking

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

Retail banking

This includes mortgage finance and personal loans to individual customers.

Trading and sales

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

Corporate finance

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

(b) Geographical segments

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

6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

6.1 Basis of preparation of financial statements

During the year, the Bank has incurred a net loss of Rs. 2,710.669 million and as of 31 December 2010 the accumulated losses of the Bank amount to Rs. 7,853.152 million. The paid up capital (net of losses) and the Capital Adequacy Ratio (CAR) of the Bank fall short of the regulatory requirements as prescribed by the SBP as also referred to in note 41.2 to the financial statements. In view of the above regulatory capital requirements and the financial condition of the Bank, the sponsors of the Bank have entered into an agreement with a foreign investor whereby, equity investment will be made into the Bank. Accordingly, subsequent to the year end, the Board of Directors (the Board) in its meeting held on 4 April 2011 has resolved to issue right shares at a subscription price of Rs. 3/- per share to increase the paid up capital of the Bank by Rs. 3,000 million, subject to authorisation from the shareholders and requisite regulatory approvals. Further, the management of the Bank has prepared financial projections for a period of five years which is approved by the Board. The projections envisage additional capital injection through equity and sub-ordinated debt over a period of next two years into the Bank and indicates future profitable operations based on various assumptions such as growth of deposits and advances, investment returns, future loan losses, interest rates, cost of funds etc.

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

6.2 Provision against non-performing loans and advances

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

6.3 Impairment of investments

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

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

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

6.4 Goodwill and intangible assets having indefinite useful life

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

6.5 Deferred tax assets

These are recognized in respect of tax losses to the extent that it is probable that the taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The factors considered by the management in this respect are detailed in note 14.3 to the financial statements.

6.6 Defined benefit scheme

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

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

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

Standard, interpretation or amendment	Effective date (accounting periods beginning on or after)
IAS 32 - Financial Instruments: Presentation - Classification of Right Issues (Amendment)	01 February 2010
IAS 24 - Related Party Disclosures (Revised)	01 January 2011
IAS 12 - Income Taxes: Deferred Tax Amendment - Recognition of Underlying Assets	01 January 2012
IFRIC 14 - IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendments)	01 January 2011
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	01 July 2010

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

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2011. The Bank expects that such improvements to the standards will not have any material impact on the Bank's financial statements in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2010

	Note	2010	2009
(Rupees in '000)			
8. CASH AND BALANCES WITH TREASURY BANKS			
In hand:			
Local currency		895,588	802,364
Foreign currency		231,350	212,730
National Prize Bonds		3,113	6,678
		<u>1,130,051</u>	<u>1,021,772</u>
With State Bank of Pakistan in:			
Local currency current accounts	8.1	1,674,484	1,464,208
Foreign currency current account	8.2	3,437	785
Foreign currency deposit accounts	8.3	256,967	220,769
		<u>1,934,888</u>	<u>1,685,762</u>
With National Bank of Pakistan in :			
Local currency current accounts		207,581	144,131
		<u>3,272,520</u>	<u>2,851,665</u>

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

8.2 Represents US Dollar Settlement Account maintained with SBP.

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

	Note	2010	2009
(Rupees in '000)			
9. BALANCES WITH OTHER BANKS			
In Pakistan			
Current accounts		102,482	52,470
Outside Pakistan			
Current accounts		58,583	8,993
Deposit accounts	9.1	38,211	124,433
		<u>96,794</u>	<u>133,426</u>
		<u>199,276</u>	<u>185,896</u>

9.1 These carry profit rates ranging from 2.5% to 4% (2009: 0.15 % to 3.89 %) per annum.

10. LENDINGS TO FINANCIAL INSTITUTIONS

In local currency			
Clean placement	10.1	40,000	-
Repurchase agreement lendings (Reverse Repo)		-	2,804,596
		<u>40,000</u>	<u>2,804,596</u>

10.1 This carries mark-up rate of 15.5% per annum and will mature in February 2011.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2010

11. INVESTMENTS

11.1 Investments by types

	Note	2010			2009		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
-----Rupees in '000-----							
Held for trading securities							
Ordinary shares of listed companies		-	-	-	6,025	-	6,025
Available for sale securities							
Pakistan Investment Bonds		551,760	-	551,760	653,837	-	653,837
Market Treasury Bills		3,949,452	981,149	4,930,601	2,942,583	3,110,828	6,053,411
Ordinary shares of listed companies	11.6	66,939	-	66,939	320,773	-	320,773
Ordinary shares of unlisted companies	11.7	330,588	-	330,588	330,588	-	330,588
Listed Term Finance Certificates	11.8	381,635	-	381,635	420,651	-	420,651
Unlisted Term Finance Certificates	11.9	776,672	-	776,672	595,392	-	595,392
Open ended mutual funds	11.10	500,000	-	500,000	850,000	-	850,000
		6,557,046	981,149	7,538,195	6,113,824	3,110,828	9,224,652
Held to maturity securities							
	11.1.1						
Pakistan Investment Bonds		640,344	-	640,344	665,565	-	665,565
Unlisted Term Finance Certificates	11.9	1,236,604	-	1,236,604	1,324,752	-	1,324,752
		1,876,948	-	1,876,948	1,990,317	-	1,990,317
Associates	11.11	2,200,839	-	2,200,839	2,142,839	-	2,142,839
Subsidiaries	11.12	3,051,686	-	3,051,686	3,051,686	-	3,051,686
Investments at cost		13,686,519	981,149	14,667,668	13,304,691	3,110,828	16,415,519
Provision for diminution in the value of investments	11.3	(1,513,563)	-	(1,513,563)	(1,254,926)	-	(1,254,926)
Investments-net of provisions		12,172,956	981,149	13,154,105	12,049,765	3,110,828	15,160,593
Deficit on revaluation of held for trading investments		-	-	-	(76)	-	(76)
Deficit on revaluation of available-for-sale investments	22.2	(101,184)	(417)	(101,601)	(24,311)	(7,116)	(31,427)
Total investments after revaluation		12,071,772	980,732	13,052,504	12,025,378	3,103,712	15,129,090

11.1.1 The aggregate market value of held to maturity securities as on 31 December 2010 amounted to Rs.1,785.415 million (2009: Rs.1,878.353 million).

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2010

	Note	2010	2009
(Rupees in '000)			
11.2 Investments by segment:			
Federal Government Securities			
Market Treasury Bills	11.4	4,930,601	6,053,411
Pakistan Investment Bonds	11.5	1,192,104	1,319,402
		<u>6,122,705</u>	<u>7,372,813</u>
Fully paid-up ordinary shares			
Listed companies	11.6	66,939	326,798
Unlisted companies	11.7	330,588	330,588
		<u>397,527</u>	<u>657,386</u>
Term Finance Certificates			
Listed	11.8	381,635	420,651
Unlisted	11.9	2,013,276	1,920,144
		<u>2,394,911</u>	<u>2,340,795</u>
Units of mutual funds	11.10	500,000	850,000
Associates	11.11		
Listed			
KASB Asset Allocation Fund		298,424	298,424
KASB Capital Protected Gold Fund		71,039	100,000
KASB Cash Fund		28,961	-
KASB Income Opportunity Fund		328,794	328,794
KASB Islamic Income Opportunity Fund		103,525	103,525
KASB Stock Market Fund		142,287	142,287
Unlisted			
KASB International Limited		41,867	41,867
New Horizon Exploration and Production Limited		558,000	500,000
Shakarganj Food Products Limited		627,942	627,942
		<u>2,200,839</u>	<u>2,142,839</u>
Subsidiaries	11.12		
Listed			
KASB Modaraba		91,676	91,676
KASB Securities Limited		2,394,937	2,394,937
Unlisted			
KASB Funds Limited		432,302	432,302
KASB Modaraba Management (Private) Limited		28,000	28,000
KASB Technology Services Limited		104,771	104,771
		<u>3,051,686</u>	<u>3,051,686</u>
Investments at cost		<u>14,667,668</u>	<u>16,415,519</u>
Provision for diminution in the value of investments	11.3	(1,513,563)	(1,254,926)
Investments - net of provisions		<u>13,154,105</u>	<u>15,160,593</u>
Deficit on revaluation of held for trading investments		-	(76)
Deficit on revaluation of available for sale investments	22.2	(101,601)	(31,427)
Total investments after revaluation		<u><u>13,052,504</u></u>	<u><u>15,129,090</u></u>
11.3 Particulars of provision for diminution in the value of investments			
Opening balance		1,254,926	196,407
Charge for the year		333,491	1,142,717
Provision written off upon sale of available for sale investments		(74,854)	(84,198)
Closing balance		<u>1,513,563</u>	<u>1,254,926</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	2010	2009
(Rupees in '000)			
11.3.1 Particulars of provision in respect of type and segment			
Available for sale investments			
Unlisted Term Finance Certificates		120,761	99,983
Ordinary shares of listed companies		17,360	73,877
Ordinary shares of unlisted company		5,680	5,680
		143,801	179,540
Associates			
	11.3.2		
KASB Stock Market Fund		34,991	45,615
New Horizon Exploration and Production Limited		250,000	250,000
		284,991	295,615
Subsidiaries			
	11.3.2		
KASB Securities Limited		730,000	425,000
KASB Funds Limited		300,000	300,000
KASB Technology Services Limited		54,771	54,771
		1,084,771	779,771
		1,513,563	1,254,926

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

Value in use computations were performed using discounted cash flows methodology, covering cash flow projections for a period of 10 years and using a pre-tax discount rate of 24% per annum. The calculations of 'value in use' are most sensitive to the following assumptions:

Discount rate:

Discount rate reflects management estimates of the rate of return required for the business and is calculated using capital asset pricing model for computing cost of equity.

Key business assumptions:

These assumptions are important because, by using industry data and historical performance and trends for growth rates, management assess how business activity and its market share may impact the overall projected performance of the business.

Based on such impairment testing, an impairment loss of Rs. 305 million has been recognised during the year in these financial statements in respect of the Bank's investment in KASB Securities Limited.

11.4 Market Treasury Bills

These securities have a maturity period of three months to one year (2009: three months to one year), with yield ranging between 11.99% to 13.19% (2009: 11.84% to 12.02 %) per annum. These securities have an aggregate face value of Rs. 5,051 million (2009: Rs. 6,350 million).

11.5 Pakistan Investment Bonds

These securities have a maturity period of three, five and ten years (2009: three, five and ten years) with interest rates ranging between 8% to 13% (2009: 8% to 13%) per annum. These securities have an aggregate face value of Rs. 1,147 million (2009: Rs. 1,247 million).

NOTES TO THE FINANCIAL STATEMENTS

11.6 Ordinary shares of listed companies - Available for sale

Name of security	2010	2009	2010	2009	2010	2009	2010	2009
	Number of shares of Rs.10/- each		Rating		Cost		Market value	
	----- (Rupees in '000) -----							
Engro Chemical Pakistan Limited	100,000	45,000	AA	AA	19,999	8,230	19,381	8,247
Fauji Fertilizer Company Limited	-	30,000	-	Unrated	-	3,135	-	3,088
ICI Pakistan Limited	55,000	19,082	Unrated	Unrated	9,903	3,203	7,933	3,217
National Bank of Pakistan	-	35,000	-	AAA	-	3,007	-	2,603
Network Microfinance Bank Limited*	3,359,198	3,359,198	BBB+	BBB	10,078	10,078	5,374	9,036
Nishat Chunian Power Limited	-	5,995,000	-	AA	-	63,060	-	61,749
Nishat Power Limited	-	3,059,990	-	AA	-	38,251	-	38,954
Oil and Gas Development Company Limited	-	51,878	-	AAA	-	5,630	-	5,738
Pakistan Oil Fields Limited	-	30,000	-	Unrated	-	6,801	-	6,923
Pakistan Petroleum Limited	-	90,000	-	Unrated	-	16,933	-	17,063
Pakistan State Oil Company Limited	-	80,000	-	AA+	-	25,926	-	23,795
Shell Pakistan Limited	95,000	51,052	Unrated	Unrated	26,959	13,680	19,780	12,781
The Hub Power Company Limited	-	3,475,000	-	AA+	-	122,839	-	108,001
					66,939	320,773	52,468	301,195

* These shares have been blocked by the Central Depository Company of Pakistan Limited in compliance with BPRD Circular No. 4 dated 22 May 2008 issued by the SBP. 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 SBP.

11.7 Ordinary shares of unlisted companies - Available for sale

Name of security	2010	2009	2010	2009	2010	2009	2010	2009
	Number of shares		Rating		Cost		Market value	
	----- (Rupees in '000) -----							
Evolve Capital Limited - incorporated in British Virgin Islands (related party)	5,400,000	5,400,000	Unrated	Unrated	314,908	314,908	314,908	314,908
Face value per share : USD 0.0845/- Breakup value per share: USD 2.40/- (2009: USD 2.53/-) [based on audited financial statements of 31 March 2010] Chief Executive: Mr. Khaled Al Muhairy								
Khushhali Bank Limited	1,000,000	1,000,000	A-	A-	10,000	10,000	10,000	10,000
Face value per share : Rs. 10/- Breakup value per share: Rs. 12.18/- (2009: Rs. 12.15/-) [based on audited financial statements of 31 December 2009] Chief Executive: Mr. M Ghalib Nishtar								
Pakistan Export Finance Guarantee Agency Limited	568,044	568,044	Unrated	Unrated	5,680	5,680	-	-
Face value per share : Rs. 10/- Breakup value per share: Rs. 0.50/- (2009: Rs. 2.06/-) [based on un-audited financial statements of 30 June 2010] Chief Executive: Mr. S.M. Zaem								
					330,588	330,588	324,908	324,908

11.8 Listed Term Finance Certificates - Available for sale

Name of security	2010	2009	2010	2009	2010	2009	2010	2009
	No. of certificates of Rs. 5,000/- each		Rating		Cost		Market value	
	----- (Rupees in '000) -----							
Allied Bank Limited	2,000	2,000	AA-	A+	9,996	10,000	9,616	8,950
Telecard Limited	3,000	3,000	BBB	BBB	5,334	6,536	5,276	6,135
Trust Investment Bank Limited	9,000	9,000	BBB	A	32,051	42,400	32,010	40,284
United Bank Limited (2nd Issue)	16,232	16,232	AA	AA	81,141	81,144	71,097	69,855
United Bank Limited (4th Issue)	18,000	18,000	AA	AA	84,580	83,908	85,541	79,309
World Call Telecom Limited	39,348	39,348	A	A	168,533	196,663	163,754	185,416
					381,635	420,651	367,294	389,949

NOTES TO THE FINANCIAL STATEMENTS

11.8.1 Particulars of Listed Term Finance Certificates

Particulars	Profit rate per annum	Profit payment	Redemption terms	Maturity
Allied Bank Limited	Six months KIBOR + 0.85%	Semi-annually	Principal to be paid in 20 installments. First 19 installments of Re. 1 per certificate and subsequent installment of Rs 4,981 per certificate.	August 2019
Telecard Limited	Six months KIBOR + 3.75%	Semi-annually	Principal to be paid in 16 equal installments.	November 2013
Trust Investment Bank Limited	Six months KIBOR + 1.85%	Semi-annually	Principal to be paid in 10 installments. First 2 installments of Re. 1 per certificate and 8 subsequent installment of Rs. 625 per certificate.	July 2013
United Bank Limited (2nd Issue)	Fixed 9.49%	Semi-annually	Principal to be paid in 16 equal installments.	March 2013
United Bank Limited (4th Issue)	Six months KIBOR + 0.85%	Semi-annually	Principal to be paid in 20 installments. First 19 installments of Re. 1 per certificate and subsequent installment of Rs 4,981 per certificate.	February 2018
Worldcall Telecom Limited	Six months KIBOR + 1.6%	Semi-annually	Principal to be paid in 10 installments. First 3 installments of Re. 1 per certificate and 7 subsequent installments of Rs. 714 per certificate.	October 2013

11.9 Unlisted Term Finance Certificates

Name of security	Note	2010		2009		2010		2009	
		No. of certificates of Rs. 5,000/- each unless otherwise		Rating		Cost			
---- (Rupees in '000) ----									
Available for sale									
Agritech Limited	11.9.1	30,000	30,000	CCC	Unrated	150,097	150,225		
Azgard Nine Limited (3rd Issue)	11.9.1	5,614	5,614	CCC(RW)	AA-	28,066	28,103		
Engro Chemical Pakistan Limited		41,640	41,640	AA	AA	209,447	209,616		
New Khan Transport Company Limited*	11.9.1	140	140	Unrated	Unrated	70,762	74,983		
Nishat Chunian Limited		39,000	-	A+	-	195,000	-		
Pakistan Mobile Communication (Private) Limited		5,000	5,000	A+	AA-	20,800	24,965		
Shakarganj Mills Limited	11.9.1	20,000	20,000	D	Unrated	100,000	100,000		
Tandlianwala Sugar Mills Limited		5,000	5,000	Unrated	Unrated	2,500	7,500		
						776,672	595,392		
Held to maturity									
Avari Hotel International		60,000	60,000	A-	A-	254,744	300,000		
Azgard Nine Limited (3rd Issue)	11.9.1	34,986	34,986	CCC(RW)	AA-	174,860	174,895		
Kashaf Foundation		-	20,000	-	A-	-	42,857		
Power Holding (Private) Limited		-**	-**	Unrated	Unrated	807,000	807,000		
						1,236,604	1,324,752		
						2,013,276	1,920,144		

11.9.1 These securities have been classified as non-performing in accordance with the requirements of Prudential Regulations. However, in terms of SBP directives, the Bank has availed relaxation in respect of provisioning against certain non-performing securities to the extent of the Rs. 176.359 million.

* Face value of Rs.1,000,000 per certificate.

** Represents Pre-IPO investment.

NOTES TO THE FINANCIAL STATEMENTS

11.9.2 Particulars of Unlisted Term Finance Certificates

Particulars	Profit rate per annum	Profit payment	Redemption terms	Maturity
Agritech Limited	Six months KIBOR + 1.75%	Semi-annually	Principal to be paid in 14 installments. First 4 installments of Re. 1 per certificate and 10 subsequent installments of Rs 499.6 per certificate.	November 2014
Azgard Nine Limited	Six months KIBOR + 1.00%	Semi-annually	Principal to be paid in 14 installments. First 4 installments of Re. 1 per certificate and 10 subsequent installments of Rs 499.6 per certificate.	December 2014
Engro Chemical Pakistan Limited	Six months KIBOR + 1.7%	Semi-annually	Bullet payment at the end of term.	September 2014
New Khan Transport Company	Six months KIBOR + 4.5%	Monthly	Principal to be paid in 64 variable monthly installments.	October 2013
Nishat Chunian Limited	Three months KIBOR + 2.25%	Quarterly	Principal to be paid in 16 equal quarterly installments.	September 2015
Pakistan Mobile Communication (Private) Limited	Six months KIBOR + 2.85%	Semi-annually	Principal to be paid in 14 installments. First 8 installments of Re. 1 per certificate and 6 subsequent installments of Rs. 832 per certificate.	June 2013
Shakarganj Mills Limited	Six months KIBOR + 2.75%	Semi-annually	Principal to be paid in 10 equal installments.	September 2014
Tandlianwala Sugar Mills Limited	Six months KIBOR + 2.75%	Annually	Principal to be paid in 10 equal installments amounting to Rs. 500 per certificate.	January 2011
Avari Hotel Limited	Six months KIBOR + 3.25%	Semi-annually	Principal to be paid in 10 installments. First installment will be of Rs 364.47 per certificate and 9 subsequent installments shall have an increment of 7% from the last installment.	October 2014
Power Holding (Private) Limited	Six months KIBOR + 2%	Semi-annually	Principal to be paid in after 30th month with 6 equal installments of Rs. 833 per certificate.	September 2014

11.10 Units of Mutual Funds - Available for sale

Name of fund	2010		2009		Rating	2010		2009	
	Number of units		Face value per unit			Cost		Net assets value	
			(Rupees)			(Rupees in '000)			
Askari Income Fund	-	1,971,220	100	-	5-star	-	200,000	-	209,384
Faysal Saving Growth Fund	-	1,468,716	100	-	A(f)	-	150,000	-	151,146
NAFA Cash Fund	46,474,448	46,474,448	10	A+(f)	A(f)	500,000	500,000	473,264	472,495
						<u>500,000</u>	<u>850,000</u>	<u>473,264</u>	<u>833,025</u>

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2010

	Note	2010		2009	
		Number of shares / units		Cost	
(Rupees in '000)					
11.11 Associates	11.3.2				
KASB Asset Allocation Fund	11.11.1	6,425,641	6,400,709	298,424	298,424
Par value per unit: Rs. 50 /-					
Net asset value per unit: Rs. 43.80 /- (2009: Rs. 44.98 /-) [based on reviewed financial statements for the period ended 31 December 2010]					
Percentage of holding: 66.52% (2009: 58.31%)					
Management Company - KASB Funds Limited					
KASB Capital Protected Gold Fund	11.11.2	730,948	1,000,000	71,039	100,000
Par value per unit: Rs. 100 /-					
Net asset value per unit: Rs. 105.26 /- (2009: Rs. 100 /-) [based on reviewed financial statements for the period ended 31 December 2010]					
Percentage of holding:					
- Direct: 15.80% (2009: 83.58%)					
- Indirect: 0.01% (2009: Nil)					
Management Company - KASB Funds Limited					
KASB Cash Fund		287,190	-	28,961	-
Par value per unit: Rs. 100 /-					
Net asset value per unit: Rs. 101.01 /- [based on reviewed financial statements for the period ended 31 December 2010]					
Percentage of holding:					
- Direct: 5.83% (2009: Nil)					
- Indirect: 24.38% (2009: 33.20%)					
Management Company - KASB Funds Limited					
KASB Income Opportunity Fund		3,361,101	3,361,101	328,794	328,794
Par value per unit: Rs. 100 /-					
Net asset value per unit: Rs. 83.92 /- (2009: Rs. 88.59 /-) [based on reviewed financial statements for the period ended 31 December 2010]					
Percentage of holding:					
- Direct: 38.42% (2009: 22.8%)					
- Indirect: Nil (2009: 0.2%)					
Management Company - KASB Funds Limited					
KASB Islamic Income Opportunity Fund		1,037,084	1,037,084	103,525	103,525
Par value per unit: Rs. 100 /-					
Net asset value per unit: Rs. 97.23 /- (2009: Rs. 97.82 /-) [based on reviewed financial statements for the period ended 31 December 2010]					
Percentage of holding: 47.94% (2009: 28.16%)					
Management Company - KASB Funds Limited					
KASB Stock Market Fund	11.11.1	3,608,482	2,454,946	142,287	142,287
Par value per unit: Rs. 50 /-					
Net asset value per unit: Rs. 29.73 /- (2009: Rs. 39.38 /-) [based on reviewed financial statements for the period ended 31 December 2010]					
Percentage of holding:					
- Direct: 40.53% (2009: 38.01%)					
- Indirect: 23.22% (2009: 28.91%)					
Management Company - KASB Funds Limited					
KASB International Limited - incorporated in Mauritius		283,000	283,000	41,867	41,867
Face value per share: USD 1 /-					
Break-up value per share: Rs. 177.24 /- (2009: Rs. 140.02 /-) [based on unaudited financial statements for the year ended 31 December 2010]					
Percentage of holding: 21.78% (2009: 21.78%)					
Chief Executive: Mr. Farid Masood					
New Horizon Exploration and Production Limited	11.11.1	61,600,000	50,000,000	558,000	500,000
Face value per share: Re. 1 /- and Rs. 10 /-					
Break-up value per share: Rs. 3.16 /- (2009: Rs. 2.71 /-) [based on unaudited financial statements for the period ended 31 December 2010]					
Percentage of holding:					
- Direct: 26.67% (2009: 26.67%)					
- Indirect: 16.28% (2009: 13.33%)					
Chief Executive: Syed Wamiq Abrar Bukhari					
Shakarganj Food Products Limited		60,950,000	60,950,000	627,942	627,942
Face value per share: Rs. 10 /-					
Break-up value per share: Rs. 2.54 /- (2009: Rs. 3.90 /-) [based on unaudited financial statements for the year ended 31 December 2010]					
Percentage of holding: 40.20% (2009: 45.31%)					
Chief Executive: Mr. Anjum Saleem					
				<u>2,200,839</u>	<u>2,142,839</u>
11.11.1	Includes 5,019,070 units of KASB Asset Allocation Fund, 2,429,696 units of KASB Stock Market Fund and 61,600,000 ordinary shares of New Horizon Exploration and Production Limited that have been classified by the Bank as strategic investment in accordance with the BPRD Circular Letter No. 16 dated 01 August 2006 issued by the SBP.				
11.11.2	Includes investment in seed capital of KASB Capital Protected Gold Fund amounting to Rs. 50 million (2009: Rs. 50 million) which is required to be held up till 19 March 2012.				

NOTES TO THE FINANCIAL STATEMENTS

	Note	2010		2009	
		Number of shares		Cost	
		(Rupees in '000)			
11.12 Subsidiaries					
KASB Modaraba	11.3.2	10,446,767	10,446,767	91,675	91,675
Face value per certificate: Rs. 10 /-					
Break-up value per certificate: Rs. 10.26 /- (2009: Rs. 9.42 /-) [based on reviewed financial statements for the period ended 31 December 2010]					
Percentage of holding:					
- Direct : 36.95% (2009: 36.95%)					
- Indirect : 14.26% (2009: 14.20%)					
Chief Executive: Syed Majeed Ullah Husaini					
KASB Securities Limited	11.12.1	77,121,500	77,121,500	2,394,937	2,394,937
Face value per share: Rs. 10 /-					
Break-up value per share: Rs. 10.63 /- (2009: Rs. 10.59 /-) [based on audited financial statements for the year ended 31 December 2010]					
Percentage of holding: 77.12% (2009: 77.12%)					
Chief Executive: Mr. Nadir Rahman					
KASB Funds Limited		14,123,622	14,123,622	432,302	432,302
Face value per share: Rs. 10 /-					
Break-up value per share: Rs. 5.85 /- (2009: Rs. 7.26 /-) [based on audited financial statements for the year ended 31 December 2010]					
Percentage of holding:					
- Direct : 58.85% (2009: 58.85%)					
- Indirect : 8.33% (2009: 8.33%)					
Chief Executive: Mr. Muhammad Imran Khalil					
KASB Modaraba Management (Private) Limited		3,985,000	3,985,000	28,000	28,000
Face value per share: Rs. 10 /-					
Break-up value per share: Rs. 9.26 /- (2009: Rs. 8.75 /-) [based on reviewed financial statements for the period ended 31 December 2010]					
Percentage of holding: 96.02% (2009: 96.02%)					
Chief Executive: Syed Majeed Ullah Husaini					
KASB Technology Services Limited	11.12.1	25,000,000	25,000,000	104,771	104,771
Face value per share: Rs. 10 /-					
Break-up value per share: Rs. 1.72 /- (2009: Rs. 1.54 /-) [based on unaudited financial statements for the period ended 31 December 2010]					
Percentage of holding: 100% (2009: 100%)					
Chief Executive: Mr. Muhammad Sabir					
				<u>3,051,685</u>	<u>3,051,685</u>

11.12.1 Represent investment classified by the Bank as strategic investment in accordance with the BPRD Circular Letter No. 16 dated 01 August 2006 issued by the SBP.

	Note	2010		2009	
		(Rupees in '000)			
12. ADVANCES					
Loans, cash credits, running finances, etc. - in Pakistan			32,908,517		31,737,539
Net investment in finance lease - in Pakistan	12.2		1,223,587		1,456,998
Bills discounted and purchased (excluding treasury bills)					
Payable in Pakistan			445,695		334,957
Payable outside Pakistan			260,200		106,563
			<u>705,895</u>		<u>441,520</u>
Advances - gross			<u>34,837,999</u>		<u>33,636,057</u>
Provision against non performing loans and advances					
Specific provision	12.3		(5,290,067)		(4,104,983)
General provision	12.4		(20,234)		(32,322)
	12.5		<u>(5,310,301)</u>		<u>(4,137,305)</u>
Advances - net of provisions			<u>29,527,698</u>		<u>29,498,752</u>
12.1 Particulars of advances - gross					
12.1.1 In local currency			34,577,799		33,529,494
In foreign currencies			260,200		106,563
			<u>34,837,999</u>		<u>33,636,057</u>
12.1.2 Short-term (upto one year)			28,678,865		28,141,518
Long-term (over one year)			6,159,134		5,494,539
			<u>34,837,999</u>		<u>33,636,057</u>

NOTES TO THE FINANCIAL STATEMENTS

12.2 Net investment in finance lease

	2010				2009			
	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	748,519	428,400	-	1,176,919	819,557	642,730	-	1,462,287
Residual value	100,390	113,018	-	213,408	109,255	118,524	-	227,779
Minimum lease payments	848,909	541,418	-	1,390,327	928,812	761,254	-	1,690,066
Finance charges for future periods	(111,554)	(55,186)	-	(166,740)	(137,160)	(95,908)	-	(233,068)
Present value of minimum lease payments	737,355	486,232	-	1,223,587	791,652	665,346	-	1,456,998

12.3 Particulars of non-performing loans and advances

Advances include Rs 9,617 million (2009: Rs 7,354 million) which have been placed under non-performing status as detailed below:

Category of classification	2010				
	Domestic	Overseas	Total	Provision required	Provision held
------(Rupees in '000)-----					
Substandard	941,780	-	941,780	129,645	129,645
Doubtful	2,166,675	-	2,166,675	722,989	722,989
Loss	6,508,144	-	6,508,144	4,437,433	4,437,433
	9,616,599	-	9,616,599	5,290,067	5,290,067
2009					
Category of classification	Domestic	Overseas	Total	Provision required	Provision held
------(Rupees in '000)-----					
Substandard	295,381	-	295,381	49,766	49,766
Doubtful	1,915,300	-	1,915,300	682,205	682,205
Loss	5,143,727	-	5,143,727	3,373,012	3,373,012
	7,354,408	-	7,354,408	4,104,983	4,104,983

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

12.5 Particulars of provision against non-performing loans and advances

Note	2010			2009		
	Specific	General	Total	Specific	General	Total
------(Rupees in '000)-----						
Opening balance	4,104,983	32,322	4,137,305	2,875,909	48,745	2,924,654
Charge for the year	1,797,509	-	1,797,509	2,158,238	-	2,158,238
Reversals	(605,093)	(12,088)	(617,181)	(847,298)	(16,423)	(863,721)
	1,192,416	(12,088)	1,180,328	1,310,940	(16,423)	1,294,517
Amounts written off	12.6 (7,332)	-	(7,332)	(81,866)	-	(81,866)
Closing balance	5,290,067	20,234	5,310,301	4,104,983	32,322	4,137,305

NOTES TO THE FINANCIAL STATEMENTS

12.5.1 In terms of SBP directives, the Bank has availed relaxation in respect of provisioning against non-performing facilities of certain borrowers aggregating to Rs.1,636.79 million (2009:Rs.1,328.736 million). Had the provision been made as per the requirements of Prudential Regulations, the provision against non-performing advances and loss before taxation for the year would have been higher by Rs. 495.102 million (2009:Rs. 242.967 million).

12.5.2 Provision against non performing advances has been calculated after taking the benefit of 40% of forced sales value of pledged stocks and mortgaged commercial, residential and industrial properties held as collateral against all non-performing advances for 3 years from the date of classification. The additional impact on profitability arising from availing such benefit would not be available for payment of cash or stock dividend. Had no such benefit been taken, the provision against non-performing advances and loss before taxation for the year would have been higher and advances (net of provisions) as at 31 December 2010 would have been lower by approximately Rs. 1,259.37 million (2009: Rs. 1,045.782 million).

12.5.3 Particulars of provision against non-performing loans and advances

	2010		2009	
	Specific	General	Specific	General
	----- (Rupees in '000) -----			
In local currency	5,290,067	20,234	4,104,983	32,322
In foreign currencies	-	-	-	-
	<u>5,290,067</u>	<u>20,234</u>	<u>4,104,983</u>	<u>32,322</u>

Note **2010** **2009**
(Rupees in '000)

12.6 Particulars of write-offs

12.6.1	Against provisions		7,332	81,866
	Directly charged to the profit and loss account		21,505	1,156
			<u>28,837</u>	<u>83,022</u>
12.6.2	Write-offs of Rs 500,000/- and above	12.6.3	22,961	81,779
	Write-offs of below Rs 500,000/-		5,876	1,243
			<u>28,837</u>	<u>83,022</u>

12.6.3 In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written off loans or any other financial relief of Rs.500,000 or above allowed to a person(s) during the year ended 31 December 2010 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.

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

	Note	2010	2009
		(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		798,839	635,125
Loans granted during the year		308,836	286,853
Repayments		<u>(307,505)</u>	<u>(123,139)</u>
Balance at end of the year		<u>800,170</u>	<u>798,839</u>
Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members			
Balance at beginning of the year		251,555	2,722
Adjustment during the year	40.1	(250,000)	-
Loans granted during the year		-	250,000
Repayments		<u>(1,167)</u>	<u>(1,167)</u>
Balance at end of the year		<u>388</u>	<u>251,555</u>
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		189,988	37,560
Loans granted during the year		539,935	610,745
Repayments		<u>(497,410)</u>	<u>(458,317)</u>
Balance at end of the year		<u>232,513</u>	<u>189,988</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	2010	2009
(Rupees in '000)			
13. OPERATING FIXED ASSETS			
Capital work-in-progress	13.1	813,942	664,253
Property and equipment	13.2	2,393,774	2,376,776
Intangible assets	13.3	171,414	257,691
		<u>3,379,130</u>	<u>3,298,720</u>
13.1 Capital work-in-progress			
Civil works		21,712	20,408
Equipment		1,443	34,812
Advances to suppliers and contractors		8,237	14,586
Advance for acquiring floor / office premises	13.1.1	721,903	562,286
Computer software		60,647	32,161
		<u>813,942</u>	<u>664,253</u>

13.1.1 The Bank had entered into an agreement with KASB Developers (Private) Limited (KDPL) for acquiring a commercial space, in KASB Altitude, (a project of KDPL). As per the terms of the agreement, KDPL has undertaken construction of a multi-storeyed building and would enter into a sub-lease agreement in respect of the floors being purchased by the Bank. Presently, the Bank intends to acquire four floors in KASB Altitude measuring approximately 52,668 square feet, at an aggregate consideration of Rs 947 million. As at 31 December 2010, the Bank has paid a total amount of Rs 721.903 million to KDPL. The project is expected to be completed within 48 months from the date of commencement of construction, that is, January 2008. The management believes that the project will not have any significant completion issues.

13.2 Property and equipment

	COST / REVALUATION					DEPRECIATION					BOOK VALUE	
	As at 1 January 2010	Additions	Deletions	Reclassifications	As at 31 December 2010	As at 1 January 2010	Charge for the year	Deletions	Reclassifications	As at 31 December 2010	As at 31 December 2010	Rate of depreciation (%)
(Rupees in '000)												
Owned												
Freehold land	236,036	38,546	(20,400)	-	254,182	-	-	-	-	-	254,182	-
Leasehold land	165,126	5,350	(3,672)	-	166,804	-	-	-	-	-	166,804	-
Buildings and leasehold improvements	1,512,641	72,188	-	(29,486)	1,555,343	146,159	75,855	(394)	(13,900)	207,720	1,347,623	5
Furniture and fixtures	163,795	23,950	(1,825)	24,547	210,467	41,677	17,909	(617)	17,141	76,110	134,357	10
Motor vehicles	252,132	68,852	(63,643)	-	257,341	57,565	37,336	(16,883)	-	78,018	179,323	20
Electrical, office and computer equipment	625,682	145,978	(3,197)	(8,408)	760,055	341,025	131,930	(2,473)	(15,918)	454,564	305,491	20-33.33
	<u>2,955,412</u>	<u>354,864</u>	<u>(92,737)</u>	<u>(13,347)</u>	<u>3,204,192</u>	<u>586,426</u>	<u>263,030</u>	<u>(20,367)</u>	<u>(12,677)</u>	<u>816,412</u>	<u>2,387,780</u>	
Leased												
Motor vehicles	2,433	-	-	-	2,433	365	365	-	-	730	1,703	20
Electrical, office and computer equipment	7,153	-	-	-	7,153	1,431	1,431	-	-	2,862	4,291	20-33.33
	<u>9,586</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,586</u>	<u>1,796</u>	<u>1,796</u>	<u>-</u>	<u>-</u>	<u>3,592</u>	<u>5,994</u>	
2010	<u>2,964,998</u>	<u>354,864</u>	<u>(92,737)</u>	<u>(13,347)</u>	<u>3,213,778</u>	<u>588,222</u>	<u>264,826</u>	<u>(20,367)</u>	<u>(12,677)</u>	<u>820,004</u>	<u>2,393,774</u>	

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2010

	COST / REVALUATION				DEPRECIATION					BOOK VALUE		
	As at 1 January 2009	Additions	Deletions	Reclassifications	As at 31 December 2009	As at 1 January 2009	Charge for the year	Deletions	Reclassifications	As at 31 December 2009	As at 31 December 2009	Rate of depreciation (%)
(Rupees in '000)												
Owned												
Freehold land	158,103	77,933	-	-	236,036	-	-	-	-	-	236,036	-
Leasehold land	110,126	55,000	-	-	165,126	-	-	-	-	-	165,126	-
Buildings and leasehold improvements	1,239,905	272,736	-	-	1,512,641	78,150	68,009	-	-	146,159	1,366,482	5
Furniture and fixtures	114,433	50,748	(1,386)	-	163,795	29,176	13,206	(705)	-	41,677	122,118	10
Motor vehicles	215,886	76,203	(43,557)	3,600	252,132	32,745	35,303	(12,755)	2,272	57,565	194,567	20
Electrical, office and computer equipment	487,006	139,594	(918)	-	625,682	238,682	103,017	(674)	-	341,025	284,657	20-33.33
	2,325,459	672,214	(45,861)	3,600	2,955,412	378,753	219,535	(14,134)	2,272	586,426	2,368,986	
Leased												
Motor vehicles	6,033	-	-	(3,600)	2,433	2,176	461	-	(2,272)	365	2,068	20
Electrical, office and computer equipment	7,153	-	-	-	7,153	-	1,431	-	-	1,431	5,722	20-33.33
	13,186	-	-	(3,600)	9,586	2,176	1,892	-	(2,272)	1,796	7,790	
2009	2,338,645	672,214	(45,861)	-	2,964,998	380,929	221,427	(14,134)	-	588,222	2,376,776	

2010 **2009**
(Rupees in '000)

13.2.1 Carrying amount of temporarily idle properties	132,120	133,784
13.2.2 Cost of fully depreciated assets still in use	219,098	200,238

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2010

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

Particulars	Cost	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
----- (Rupees in '000) -----					
Land	20,400	20,400	20,400	Negotiation	A to Z Construction Company
Building	3,672	3,278	5,230	Negotiation	A to Z Construction Company
Furniture and fixtures	500	437	358	Terms of employment	Imran Qureshi - Former employee
Furniture and fixtures	750	569	425	Terms of employment	Sami Aziz - Former employee
Motor vehicles	1,852	1,435	1,458	Terms of employment	Shehriyar Ali Shah - Former employee
Motor vehicles	1,725	1,164	1,164	Terms of employment	Munawar Jaffrani - Executive
Motor vehicles	1,725	1,164	1,272	Terms of employment	Sami Aziz - Former employee
Motor vehicles	1,568	1,156	1,156	Terms of employment	Farrukh Iqbal - Former employee
Motor vehicles	1,561	1,151	1,190	Terms of employment	Amir Zahoor - Former employee
Motor vehicles	1,561	1,034	1,034	Terms of employment	Laila Hamayun - Former employee
Motor vehicles	1,389	1,215	1,267	Terms of employment	Usman Hayat Noon - Former employee
Motor vehicles	1,389	1,163	1,198	Terms of employment	Shahzad Iqbal - Former employee
Motor vehicles	1,359	1,257	1,342	Terms of employment	Sami Aziz - Former employee
Motor vehicles	1,354	1,117	1,117	Terms of employment	Latif Khawar - Former employee
Motor vehicles	1,319	1,154	1,171	Terms of employment	Haider Karim - Former employee
Motor vehicles	1,312	1,050	1,099	Terms of employment	Sohail Sarfaraz - Former employee
Motor vehicles	1,209	1,013	1,028	Terms of employment	Andrew Peter Kenneth - Former employee
Motor vehicles	1,202	1,156	1,171	Terms of employment	Khurram Saleem - Former employee
Motor vehicles	1,100	701	770	Terms of employment	Asim Yaqoob - Former employee
Motor vehicles	1,100	688	715	Terms of employment	Raza Sayeed - Former employee
Motor vehicles	1,095	698	739	Terms of employment	Anwer Saeed - Former employee
Motor vehicles	1,086	829	843	Terms of employment	Kamran Khan - Former employee
Motor vehicles	1,081	786	799	Terms of employment	Mian M Khan - Executive
Motor vehicles	1,060	808	808	Terms of employment	Farrukh Iqbal - Former employee
Motor vehicles	1,053	724	724	Terms of employment	Laila Hamayun - Former employee
Motor vehicles	1,002	777	789	Terms of employment	Asim Sohail - Former employee
Motor vehicles	1,002	777	864	Terms of employment	Kashif Ejaz - Former employee
Motor vehicles	995	697	709	Terms of employment	Khalid Zafar - Former employee
Motor vehicles	988	766	790	Terms of employment	Shahzad Mehmood - Former employee
Motor vehicles	988	741	790	Terms of employment	Ramiz Hasan - Former employee
Motor vehicles	969	284	297	Terms of employment	Aftab Changi - Former employee
Motor vehicles	888	566	621	Terms of employment	Syed Farrukh Raza - Executive
Motor vehicles	888	621	632	Terms of employment	Sambreen Ahmed - Former employee
Motor vehicles	887	666	677	Terms of employment	Arzoo M Alam - Former employee
Motor vehicles	887	643	643	Terms of employment	Tariq Pasha - Former employee
Motor vehicles	887	599	621	Terms of employment	Farhad Imdad - Executive
Motor vehicles	881	617	661	Terms of employment	Khalid Rafique - Former employee
Motor vehicles	710	595	612	Terms of employment	Akhlaq Ahmed - Former employee
Motor vehicles	710	568	586	Terms of employment	Moazzam Bashir - Former employee
Motor vehicles	705	617	617	Terms of employment	Umar Farooq - Former employee
Motor vehicles	660	586	586	Terms of employment	Mustafa Haider - Former employee
Motor vehicles	652	571	579	Terms of employment	Junaid Iqbal - Former employee
Motor vehicles	647	582	582	Terms of employment	Mehdi Ali Syed - Former employee
Motor vehicles	642	602	626	Terms of employment	Jameel Ahmed - Former employee
Motor vehicles	642	594	602	Terms of employment	Shahid Raza - Former employee
Motor vehicles	642	562	562	Terms of employment	Asif Ali - Former employee
Motor vehicles	620	442	442	Terms of employment	Amanullah Shaikh - Former employee
Motor vehicles	590	443	450	Terms of employment	Shumaila Sarwar - Former employee
Motor vehicles	590	435	435	Terms of employment	Yasin Bhatti - Former employee
Motor vehicles	590	413	494	Terms of employment	Waheed Mustafa - Former employee
Motor vehicles	590	413	420	Terms of employment	Bilal Ahmed - Former employee
Motor vehicles	560	291	329	Terms of employment	Azhar Mehmood - Executive
Motor vehicles	559	391	391	Terms of employment	Imran Mirza - Executive
Motor vehicles	529	397	403	Terms of employment	Amjad Masih - Former employee
Motor vehicles	529	390	430	Terms of employment	Hasan Abu Bakar - Former employee
Motor vehicles	529	384	417	Terms of employment	Noman Ansari - Former employee
Motor vehicles	529	370	370	Terms of employment	Anil Henry - Executive
Motor vehicles	529	370	370	Terms of employment	Rehan Merchant - Executive
Motor vehicles	529	364	370	Terms of employment	Altaf Hasan - Executive
Motor vehicles	529	357	357	Terms of employment	Salman Ahmed - Executive
Motor vehicles	529	357	364	Terms of employment	Piyar Ali - Former employee
Motor vehicles	529	350	364	Terms of employment	Muhammad Shahzad - Former employee
Motor vehicles	1,546	1,217	1,302	Auction	Ahmed Ali Khan - Bidder
Motor vehicles	1,354	1,269	1,354	Auction	Adamjee Insurance Limited
Motor vehicles	886	331	760	Auction	Rao Altaf - Bidder
Motor vehicles	710	577	616	Auction	Muhammad Arif - Bidder
Motor vehicles	590	338	575	Auction	Muhammad Ali Khan - Bidder
Motor vehicles	590	443	550	Insurance claim	Adamjee Insurance Limited
Motor vehicles	560	283	534	Auction	Safdar Abbas - Bidder
Motor vehicles	341	256	800	Auction	KASB Modaraba - related party
	86,131	70,059	74,821		

NOTES TO THE FINANCIAL STATEMENTS

13.2.4 The land and buildings of the Bank were revalued in September 2008 by independent valuers 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 the assets as of the date of said revaluation. Had there been no revaluation, the net book value of land and buildings would have been lower by:

	2010	2009
	(Rupees in '000)	
Land	41,156	56,575
Buildings on leasehold land	603,162	639,118
	<u>644,318</u>	<u>695,693</u>

13.3 Intangible assets

	COST			AMORTISATION			BOOK VALUE		Rate of amortisation (%)	
	As at 1 January 2010	Additions	Reclassifications	As at 31 December 2010	As at 1 January 2010	Amortisation	Reclassifications	As at 31 December 2010		
----- (Rupees in '000) -----										
Computer software	155,765	23,448	13,347	192,560	78,667	40,305	12,677	131,649	60,911	33.33
Customer list	30,735	-	-	30,735	6,484	3,075	-	9,559	21,176	10
Foreign affiliate relationship (note 15.2.1)	89,327	-	-	89,327	-	-	-	-	89,327	indefinite useful life
Contracts and mandates	89,353	-	-	89,353	22,338	67,015	-	89,353	-	note 13.3.2
Total	<u>365,180</u>	<u>23,448</u>	<u>13,347</u>	<u>401,975</u>	<u>107,489</u>	<u>110,395</u>	<u>12,677</u>	<u>230,561</u>	<u>171,414</u>	

	COST			AMORTISATION			BOOK VALUE		Rate of amortisation (%)	
	As at 1 January 2009	Additions	Reclassifications	As at 31 December 2009	As at 1 January 2009	Amortisation	Reclassifications	As at 31 December 2009		
----- (Rupees in '000) -----										
Computer software	100,918	54,847	-	155,765	49,436	29,231	-	78,667	77,098	33.33 & 20
Customer list	30,735	-	-	30,735	3,411	3,073	-	6,484	24,251	10
Foreign affiliate relationship	89,327	-	-	89,327	-	-	-	-	89,327	indefinite useful life
Contracts and mandates	89,353	-	-	89,353	-	22,338	-	22,338	67,015	25
Total	<u>310,333</u>	<u>54,847</u>	<u>-</u>	<u>365,180</u>	<u>52,847</u>	<u>54,642</u>	<u>-</u>	<u>107,489</u>	<u>257,691</u>	

	2010	2009
	(Rupees in '000)	
13.3.1 Cost of fully amortised assets still in use	<u>35,147</u>	<u>31,302</u>

13.3.2 During the year, the management has reassessed the useful life of contracts and mandates. Accordingly, these have been fully amortised during the year, whereas, previously these were amortised at the rate of 25% per annum. Had there been no change in the accounting estimate, the accumulated amortisation and loss before taxation for the year would have been lower and intangible assets would have been higher by Rs. 44.677 million.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2010

14. DEFERRED TAX ASSETS

Deductible temporary differences arising in respect of:

		2010	2009
(Rupees in '000)			
Carry forward tax losses	14.2	2,608,856	2,237,795
Provision against non-performing loans and advances		1,443,159	1,096,112
Goodwill		330,311	390,882
Provision for diminution in the value of investments		75,815	77,310
Deficit on revaluation of available for sale investments		30,667	26,236
Provision for gratuity		38,749	31,856
Provision for compensated absences		2,262	2,684
Others		2,689	1,643
		4,532,508	3,864,518

Taxable temporary differences arising in respect of:

Surplus on revaluation of fixed assets		(221,403)	(235,437)
Accelerated tax depreciation		(149,213)	(157,245)
Fair value adjustments relating to net assets acquired upon amalgamation		(88,795)	(127,089)
Net investment in finance leases		(104,878)	(126,387)
Liabilities against assets subject to finance lease		(1,339)	(617)
		(565,628)	(646,775)
	14.3	3,966,880	3,217,743

14.1 Reconciliation of deferred tax

	Balance as at 31 December 2008	Recognised in profit and loss account	Recognised in deficit on revaluation of assets	Balance as at 31 December 2009	Recognised in profit and loss account	Recognised in deficit on revaluation of assets	Balance as at 31 December 2010
----- (Rupees in '000) -----							
Deductible temporary differences arising in respect of:							
Carry forward tax losses	1,156,885	1,080,910	-	2,237,795	371,061	-	2,608,856
Provision against non-performing loans and advances	738,479	357,633	-	1,096,112	347,047	-	1,443,159
Impairment of goodwill	-	390,882	-	390,882	(60,571)	-	330,311
Provision for diminution in the value of investments	40,140	37,170	-	77,310	(1,495)	-	75,815
Deficit on revaluation of available for sale investments	22,290	-	3,946	26,236	-	4,431	30,667
Provision for gratuity	26,147	5,709	-	31,856	6,893	-	38,749
Provision for compensated absences	2,926	(242)	-	2,684	(422)	-	2,262
Fair value adjustments relating to net assets acquired upon amalgamation	73,039	(73,039)	-	-	-	-	-
Others	4,004	(2,361)	-	1,643	1,046	-	2,689
	2,063,910	1,796,662	3,946	3,864,518	663,559	4,431	4,532,508
Taxable temporary differences arising in respect of:							
Surplus on revaluation of fixed assets	(247,667)	12,230	-	(235,437)	14,034	-	(221,403)
Accelerated tax depreciation	(146,346)	(10,899)	-	(157,245)	8,032	-	(149,213)
Fair value adjustments relating to net assets acquired upon amalgamation	-	(127,089)	-	(127,089)	38,294	-	(88,795)
Net investment in finance leases	(181,459)	55,072	-	(126,387)	21,509	-	(104,878)
Liabilities against assets subject to finance lease	(342)	(275)	-	(617)	(722)	-	(1,339)
	(575,814)	(70,961)	-	(646,775)	81,147	-	(565,628)
	1,488,096	1,725,701	3,946	3,217,743	744,706	4,431	3,966,880

14.2 As of the balance sheet date, the Bank has accumulated tax losses of Rs. 7,453.874 million (2009: Rs 6,394.724 million).

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

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2010

	Note	2010	2009
(Rupees in '000)			
15. OTHER ASSETS			
Mark-up / return / interest accrued in local currency		1,154,170	1,187,898
Advances, deposits and prepayments		205,945	194,006
Taxation (payments less provisions)		47,217	40,472
Stationery and stamps in hand		10,847	12,067
Non-banking assets acquired in satisfaction of claims	15.1	1,061,666	312,721
Branch adjustment account		2,721	6,773
Goodwill - net of impairment	15.2	431,391	431,391
Receivable against sale of securities		4,336	5,585
Dividend receivable		574	40
Commission receivable		17,709	2,785
Unrealised gain on forward foreign exchange contracts		18,726	1,463
Lease rental receivable		19,676	18,543
Others		21,870	27,559
		<u>2,996,848</u>	<u>2,241,303</u>
Provision against other assets		(5,373)	(4,707)
Other assets - net of provisions		<u>2,991,475</u>	<u>2,236,596</u>
15.1	Represent commercial and residential properties acquired by the Bank in satisfaction of borrowers liabilities. The market value of these assets as per the latest valuation carried out by independent valuer amounted to Rs.1,542.646 million (2009: Rs. 343.624 million).		
15.2 Goodwill			
Goodwill recognised on acquisition of:			
International Housing Finance Limited		35,362	35,362
KASB Capital Limited		1,538,710	1,538,710
Network Leasing Corporation Limited		144,848	144,848
		<u>1,718,920</u>	<u>1,718,920</u>
Less: Impairment of goodwill	15.2.1		
International Housing Finance Limited		17,681	17,681
KASB Capital Limited		1,125,000	1,125,000
Network Leasing Corporation Limited		144,848	144,848
		<u>1,287,529</u>	<u>1,287,529</u>
		<u>431,391</u>	<u>431,391</u>

15.2.1 During the year, the management has carried out annual impairment tests in respect of goodwill and intangible assets having indefinite useful lives as required by IAS - 36 "Impairments of Assets". Goodwill and foreign affiliate relationship (intangibles) were allocated (note 13.3) to the Investment Banking Group, a CGU. Based on the impairment testing, the management has determined that the recoverable amount of the CGU exceeds its carrying value and accordingly, no further impairment is recognised in the carrying value of such CGU.

The recoverable amount of the CGU has been determined using discounted cash flow methodology, covering cash flow projections for a period of 5 years, using a pre-tax discount rate of 24% per annum. Management believes that the assumptions used in estimating the future performance of the CGU are consistent with past performance, market position, deals in hand and anticipated market conditions. The growth rate used to extrapolate the cash flows beyond the five year period is 7%.

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

Discount rate

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

Terminal growth rate

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

Key business assumptions

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

NOTES TO THE FINANCIAL STATEMENTS

Sensitivity

The changes in key business assumptions may affect the recoverable amount of the CGU and related goodwill and intangibles:

	10% reduction in revenue	10% increase in cost	1% reduction in long- term growth rates	1% increase in discount rate
	----- (Rupees in '000) -----			
Impairment of Goodwill and intangibles	(57,873)	(13,144)	(12,554)	(24,561)

	2010	2009
	(Rupees in '000)	
16. BILLS PAYABLE		
In Pakistan	541,041	386,066
17. BORROWINGS		
In Pakistan	6,110,188	8,180,618
Outside Pakistan	28,019	16,022
	<u>6,138,207</u>	<u>8,196,640</u>
17.1 Particulars of borrowings with respect to currencies		
In local currency	6,110,188	8,180,618
In foreign currencies	28,019	16,022
	<u>6,138,207</u>	<u>8,196,640</u>
17.2 Details of borrowings		
Secured		
Borrowings from the SBP		
- Export refinance scheme	17.2.1 3,665,636	3,793,330
- Long term financing for export oriented projects	17.2.2 124,896	620,626
- Long term finance for imported and locally manufactured plant and machinery	17.2.3 <u>370,628</u>	<u>-</u>
	4,161,160	4,413,956
Repurchase agreement borrowings	17.2.4 980,276	3,088,311
Borrowings from financial institutions	17.2.5 <u>68,752</u>	<u>103,351</u>
	5,210,188	7,605,618
Unsecured		
Call money borrowings from financial institutions	17.2.6 <u>900,000</u>	<u>575,000</u>
Overdrawn nostros	28,019	16,022
	<u>928,019</u>	<u>591,022</u>
	<u>6,138,207</u>	<u>8,196,640</u>

17.2.1 These carry mark-up rates ranging from 7.5% to 9.0% (2009: 6.5% to 7.0%) per annum with maturities upto June 2011.

17.2.2 These carry mark-up rates ranging from 5% (2009: 6.5% to 7.0%) per annum with maturities upto May 2013.

17.2.3 These carry mark-up rates ranging from 6.5% to 9.5% per annum with maturities upto December 2014.

17.2.4 These carry mark-up rates ranging from 12.8% to 13.5% (2009: 3.0% to 15%) with maturities upto January 2011.

17.2.5 These carry mark-up rates ranging from 1.5% to 8.3% (2009: 1.5% to 17%) per annum with maturities upto September 2013.

17.2.6 These carry mark-up rates ranging from 14.0% to 14.5% (2009: 10% to 20%) per annum with maturities upto January 2011.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2010

	2010	2009
	(Rupees in '000)	
18. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	23,584,498	26,108,643
Savings deposits	13,991,606	9,516,526
Current accounts- Non-remunerative	6,818,860	5,325,218
Margin deposits - Non -remunerative	383,388	323,238
	44,778,352	41,273,625
Financial Institutions		
Remunerative deposits	1,474,219	2,601,312
Non-remunerative deposits	21,616	24,758
	1,495,835	2,626,070
	46,274,187	43,899,695
18.1 Particulars of deposits		
In local currency	44,951,590	42,799,220
In foreign currencies	1,322,597	1,100,475
	46,274,187	43,899,695

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2010			2009		
	Minimum lease payments	Financial charge for future periods	Principal outstanding	Minimum lease payments	Financial charge for future periods	Principal outstanding
	------(Rupees in '000)-----					
Not later than one year	692	32	660	4,401	548	3,853
Later than one year and not later than five years	1,510	-	1,510	2,210	36	2,174
	2,202	32	2,170	6,611	584	6,027

The Bank has entered into various lease agreements with leasing companies for the lease of equipment and vehicles. Monthly lease rentals include financial charges ranging between 15.23% to 16.24% (2009:16.7% to 19.7%) per annum. The Bank has the option to purchase the assets upon completion of the lease period and has the intention to exercise the option.

	Note	2010	2009
		(Rupees in '000)	
20. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		764,605	1,245,015
Mark-up / return / interest payable in foreign currencies		1,230	2,630
Accrued expenses		101,049	67,135
Security deposits against lease		211,274	231,710
Provision for compensated absences	20.1	6,464	7,668
Provision for gratuity	35	110,710	91,018
Unclaimed dividends		604	604
Unearned commission income		12,666	10,895
Withholding tax payable		14,907	6,189
Federal excise duty payable		4,402	2,592
Others		63,510	110,304
		1,291,421	1,775,760
20.1	Represents provision for compensated absences made in respect of the liability of the Bank towards leaves accumulated by its employees as at December 2005. No further provision is made pursuant to the decision of the management to discontinue this benefit from that date.		

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL

Authorised capital

2010 (Number of Shares)	2009	Note	2010 (Rupees in '000)	2009
<u>2,500,000,000</u>	<u>2,500,000,000</u>	Ordinary shares of Rs. 10/- each	<u>25,000,000</u>	<u>25,000,000</u>

Issued, subscribed and paid-up capital

2010	2009	Note	2010	2009
Ordinary shares of Rs. 10/- each fully paid				
263,642,172	263,642,172	Issued for cash	2,636,422	2,636,422
207,809,549	207,809,549	Issued as bonus shares	2,078,095	2,078,095
518,141,783	518,141,783	Issued on amalgamations for consideration other than cash	5,181,418	5,181,418
<u>(38,731,842)</u>	<u>(38,731,842)</u>	Cancelled shares	<u>(387,318)</u>	<u>(387,318)</u>
<u>950,861,662</u>	<u>950,861,662</u>		<u>9,508,617</u>	<u>9,508,617</u>

21.1 Represents shares issued on amalgamations are as follows ;

	2010 (Number of Shares)	2009
International Housing Finance Limited	58,500,000	58,500,000
KASB & Company	89,001,900	89,001,900
KASB Capital Limited	361,797,538	361,797,538
KASB Leasing	8,834,942	8,834,942
Network Leasing Corporation Limited	7,403	7,403
	<u>518,141,783</u>	<u>518,141,783</u>

21.2 As of 31 December 2010, 493,260,171 (2009: 493,471,210) ordinary shares of Rs. 10/- each were held by the related parties of the Bank.

21.3 As per section 14 of the Banking Companies Ordinance, 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. While the authorized capital of the Bank as at 31 December 2010 amounted to Rs 25 billion, the paid-up capital amounts to Rs 9.508 billion and is lower than the prescribed requirement by Rs 2.992 billion. In order to comply with the above requirement, the shareholders of the Bank in their Extraordinary General Meeting dated 02 October 2009 had approved the reduction of authorised share capital to Rs 18 billion. In accordance with the requirements of the Companies Ordinance, 1984, the Bank through its letters dated 07 October 2009 and 12 October 2009 had written to the SECP informing it about the above reduction. The SECP through its letter ADR-I/1198 dated 20 October 2009 informed the Bank that there is no provision in the law for the reduction in authorized share capital and the provisions contained in the Companies Ordinance, 1984 applies only to the reduction in paid-up capital of the companies. The management of the Bank is of the view that Section 92(1)(d) deals with the situation of cancellation of shares which have not been taken up or subscribed and are not part of the paid-up share capital and the same is applicable for reduction of authorized share capital. However, the SECP has not yet issued the certificate for alteration of Memorandum of Association for the reduction of authorised share capital of the Bank.

	Note	2010 (Rupees in '000)	2009
22. SURPLUS ON REVALUATION OF ASSETS - net of tax			
Operating fixed assets	22.1	422,915	460,256
Available for sale investments	22.2	<u>(70,934)</u>	<u>(5,191)</u>
		<u>351,981</u>	<u>455,065</u>
22.1 Operating fixed assets			
Balance at the beginning of the year		695,693	730,636
Transfer to accumulated loss in respect of incremental depreciation charged during the year		<u>(51,375)</u>	<u>(34,943)</u>
		644,318	695,693
Related deferred tax liability:			
Balance at the beginning of the year		235,437	247,667
Transfer to accumulated loss in respect of incremental depreciation charged during the year		<u>(14,034)</u>	<u>(12,230)</u>
		<u>221,403</u>	<u>235,437</u>
		<u>422,915</u>	<u>460,256</u>

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2010

	2010	2009
	(Rupees in '000)	
22.2 Available for sale investments		
Federal Government Securities	(63,413)	(38,050)
Ordinary shares of listed companies	2,889	54,300
Listed Term Finance Certificates	(14,341)	(30,702)
Units of open ended mutual funds	(26,736)	(16,975)
	(101,601)	(31,427)
Related deferred tax asset	30,667	26,236
	<u>(70,934)</u>	<u>(5,191)</u>
23. CONTINGENCIES AND COMMITMENTS		
23.1 Direct credit substitutes	-	-
23.2 Transaction-related contingent liabilities		
Includes performance bonds, bid bonds, warranties advance payment guarantees and shipping guarantees related to particular transactions issued in favour of:		
Government	9,044,031	7,984,114
Others	1,226,744	1,530,282
	<u>10,270,775</u>	<u>9,514,396</u>
23.3 Trade-related contingent liabilities		
Letters of credit	2,867,131	2,306,118
Acceptances	1,657,589	912,872
	<u>4,524,720</u>	<u>3,218,990</u>
23.4 Taxation		

- (i) The income tax returns of the Bank have been filed and tax assessments have been made by the tax authorities upto and including the tax year 2010.

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

For tax years 2005 to 2009, the assessments of the Bank have been amended by the Taxation Officer by disallowing certain expenses / deductions including income from carry over transactions, provision for non performing advances, concessional loans to employees, amortisation of goodwill and impairment of investments having an aggregate tax impact of Rs. 785.953 million. The Bank has preferred appeals before the CIT Appeals against the above referred amendments of the Taxation Officer.

Income tax assessments of IHFL (amalgamated into the Bank during the year ended 31 December 2007) for tax years 2005 and 2006 have also been amended by the Taxation Officer by disallowing certain deductions including income from carry over transactions, gain on sale of investments, provision for doubtful debts and certain other items having an aggregate tax impact of Rs 35.974 million. The Bank has preferred appeals before the CIT Appeals and ITAT for tax year 2005 and 2006 respectively against the above referred disallowances.

The aggregate financial impact of the above matters works out to be Rs. 855.675 million. The management, based on the opinion of its tax advisor, expects a favourable outcome of the above tax matters, however, as a matter of prudence, tax impact to the extent of Rs. 554.435 million has been recognised in these financial statements by reducing the related deferred tax asset.

- (ii) The income tax returns of the Bank for Azad Jammu Kashmir (AJK) region have been filed and tax assessments have been made by the tax authorities upto and including tax year 2010.

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

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

NOTES TO THE FINANCIAL STATEMENTS

	Note	2010	2009
(Rupees in '000)			
23.5 Commitments in respect of forward exchange contracts			
Purchase		3,547,188	2,786,649
Sale		2,429,361	2,343,089
23.6 Commitments for the acquisition of operating fixed assets	23.6.1	275,029	413,714
23.6.1	Includes Rs 226.121 million committed to KDPL (as more fully explained in note 13.1.1 to the financial statements).		

23.7 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.

23.8 Commitment in respect of forward sale / purchase of shares

The Bank has entered into a forward sale agreement to dispose of 6 million ordinary shares of Shakarganj Food Products Limited to KASB International Limited. The settlement of these shares would take place not later than July 2011.

24. DERIVATIVE FINANCIAL INSTRUMENTS

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

	2010	2009
(Rupees in '000)		
25. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances		
Customers	3,854,733	3,905,135
Financial institutions	69,133	9,969
	3,923,866	3,915,104
On investments		
Available for sale securities	899,363	905,142
Held to maturity securities	59,070	59,070
	958,433	964,212
On deposits with financial institutions	9,743	2,150
On securities purchased under resale agreements	124,247	179,999
On call money lendings	771	168
	5,017,060	5,061,633
26. MARK-UP/ RETURN / INTEREST EXPENSED		
Deposits	4,438,556	4,879,532
Borrowings from the SBP	309,864	232,306
Securities sold under repurchase agreements	151,419	171,506
Call borrowings	130,502	172,018
Other borrowings	5,015	6,698
Amortisation of premium on securities	28,785	28,337
	5,064,141	5,490,397
27. GAIN ON SALE / REDEMPTION OF SECURITIES		
Federal Government securities	9	52,387
Term finance certificates	375	7,729
Open-end mutual funds	10,528	(4,770)
Ordinary shares of listed companies	99,563	171,488
	110,475	226,834

NOTES TO THE FINANCIAL STATEMENTS

	Note	2010	2009
(Rupees in '000)			
28. OTHER INCOME			
Rent on property		4,195	9,564
Gain on disposal of fixed assets		6,960	934
Locker rent		12,478	17,680
Processing fee and cheque return charges		13,147	11,440
Others		22,423	54,183
		<u>59,203</u>	<u>93,801</u>
29. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits		1,036,209	1,021,837
Charge in respect of defined benefit scheme	35.2	33,880	24,359
Contribution to defined contribution plan		35,774	30,183
Rent, taxes, insurance and electricity		416,998	370,910
Legal and professional charges		129,690	149,867
Communication charges		95,987	125,437
Repairs and maintenance		111,774	64,247
Finance charge on lease obligations		506	1,228
Stationery and printing		37,669	28,183
Advertisement and publicity		50,267	84,974
Depreciation		264,826	221,427
Amortisation		110,395	54,642
Auditors' remuneration	29.1	13,320	15,920
Vehicle running expenses		9,081	10,423
Brokerage and commission		2,950	3,941
Security charges		63,568	52,359
Fee and subscription		32,709	56,493
Entertainment		16,848	16,790
Travelling expenses		22,900	32,516
Donations	29.2	2,558	1,254
Others		7,249	12,357
		<u>2,495,158</u>	<u>2,379,347</u>
29.1 Auditors' remuneration			
Audit fee		2,300	2,300
Fee for half yearly review		700	700
Special certifications and sundry services		9,100	11,375
Tax services		-	443
Out-of-pocket expenses		1,220	1,102
		<u>13,320</u>	<u>15,920</u>
Auditors' remuneration in the year 2009 pertains to the previous auditors of the Bank.			
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:		
		2010	2009
(Rupees in '000)			
KASB Foundation (Flood Relief)		1,232	-
Peking University Education Foundation		686	666
SIF PAF Base Faisal (Flood Relief)		500	-
		<u>2,418</u>	<u>666</u>
30. OTHER CHARGES			
Penalties imposed by the SBP		925	32,784
Others		-	279
		<u>925</u>	<u>33,063</u>

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2010

	Note	2010	2009			
(Rupees in '000)						
31. BASIC AND DILUTED LOSS PER SHARE						
Loss for the year after taxation		(2,710,669)	(4,227,748)			
Number of shares						
Weighted average number of ordinary shares		950,861,662	950,861,662			
(Rupees)						
Basic and diluted loss per share		(2.85)	(4.45)			
(Rupees in '000)						
32. CASH AND CASH EQUIVALENTS						
Cash and balances with treasury banks	8	3,272,520	2,851,665			
Balances with other banks	9	199,276	185,896			
Overdrawn nostro accounts	17.2	(28,019)	(16,022)			
		<u>3,443,777</u>	<u>3,021,539</u>			
33. STAFF STRENGTH		Number of employees				
Permanent		1,147	1,076			
Temporary / on contractual basis		51	42			
Bank's own staff strength at the end of the year		<u>1,198</u>	<u>1,118</u>			
Outsourced		528	538			
Total staff strength		<u>1,726</u>	<u>1,656</u>			
34. DEFINED CONTRIBUTION PLAN						
The general description of the defined contribution plan is included in note 5.12						
35. DEFINED BENEFIT SCHEME						
The Bank operates an approved unfunded gratuity scheme for all its permanent employees. Latest actuarial valuation of the gratuity scheme was carried out as at 31 December 2010 using the Projected Unit Credit Method. The following significant assumptions were used for the valuation of the scheme:						
		2010	2009			
		%				
Discount rate		14	14			
Expected rate of salary increase		14	14			
35.1 Movement in liability		(Rupees in '000)				
Opening balance		91,018	74,706			
Charge for the year		33,880	24,359			
Payments made during the year		(14,188)	(8,047)			
Closing balance		<u>110,710</u>	<u>91,018</u>			
35.2 Charge for the year						
Current service cost		24,270	27,554			
Interest cost		12,743	11,206			
Actuarial losses recognised		(3,133)	(14,401)			
		<u>33,880</u>	<u>24,359</u>			
35.3 Historical information						
		2010	2009	2008	2007	2006
		(Rupees in '000)				
Present value of obligations		<u>110,710</u>	<u>91,018</u>	<u>74,706</u>	<u>40,115</u>	<u>20,763</u>
35.4	Based on actuarial advice, the management estimates that the charge to defined benefit scheme for the year ending 31 December 2011 would be Rs. 46.648 million.					

36. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2010	2009	2010	2009	2010	2009
------(Rupees in '000)-----						
Managerial remuneration	13,067	11,600	3,867	-	274,634	249,676
Fees	-	-	7,350	8,400	-	-
Contribution to defined contribution plan	1,121	966	322	-	18,912	18,594
Contribution to defined benefit scheme	1,508	740	391	-	25,381	10,291
Rent and house maintenance	3,920	3,480	1,160	-	82,391	74,903
Utilities	1,307	1,160	387	-	27,463	24,968
Medical	1,307	1,160	387	-	27,466	24,969
Others	1,251	780	260	-	45,548	40,789
	<u>23,481*</u>	<u>19,886</u>	<u>14,124</u>	<u>8,400</u>	<u>501,795</u>	<u>444,190</u>
Number of persons	<u>1</u>	<u>1</u>	<u>7</u>	<u>8</u>	<u>306</u>	<u>278</u>

* This includes remuneration of the Chief Executive resigned during the year.

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

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2010		2009	
	Book value	Fair value	Book value	Fair value
----- (Rupees in '000) -----				
On-balance sheet financial instruments				
Assets				
Cash and balances with treasury banks	3,272,520	3,272,520	2,851,665	2,851,665
Balances with other banks	199,276	199,276	185,896	185,896
Lendings to financial institutions	40,000	40,000	2,804,596	2,804,596
Investments	13,052,504	12,960,971	15,129,090	15,017,126
Advances	29,527,698	29,527,698	29,498,752	29,498,752
Other assets	1,148,621	1,148,621	1,593,562	1,593,562
	<u>47,240,619</u>	<u>47,149,086</u>	<u>52,063,561</u>	<u>51,951,597</u>
Liabilities				
Bills payable	541,041	541,041	386,066	386,066
Borrowings	6,138,207	6,138,207	8,196,640	8,196,640
Deposits and other accounts	46,274,187	46,274,187	43,899,695	43,899,695
Other liabilities	1,054,724	1,054,724	1,775,760	1,775,760
	<u>54,008,159</u>	<u>54,008,159</u>	<u>54,258,161</u>	<u>54,258,161</u>
Off-balance sheet financial instruments				
Forward purchase of foreign exchange contracts	<u>3,547,188</u>	<u>3,524,878</u>	<u>2,786,649</u>	<u>2,786,649</u>
Forward sale of foreign exchange contracts	<u>2,429,361</u>	<u>2,388,023</u>	<u>2,343,089</u>	<u>2,343,089</u>

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

Federal Government Securities	PKRV rates
Listed securities	Market prices
Mutual funds	Net asset values
Unlisted equity investments	Break-up value as per latest available audited financial statements.

Fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities. The provision for impairment of loans and advances and debt securities has been calculated in accordance with the Bank's accounting policies as stated in note 5.6 and 6.

NOTES TO THE FINANCIAL STATEMENTS

38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

2010	Commercial banking	Retail banking	Trading and sales	Corporate finance	Total
----- (Rupees in '000) -----					
Total income	4,068,627	370,197	1,098,628	102,721	5,640,173
Total expenses	(7,105,910)	(746,972)	(1,188,926)	(53,740)	(9,095,548)
Loss before taxation	<u>(3,037,283)</u>	<u>(376,775)</u>	<u>(90,298)</u>	<u>48,981</u>	<u>(3,455,375)</u>
Segment assets (gross)	50,211,251	3,570,929	9,260,253	216,287	63,258,720
Segment non-performing loans	8,322,347	1,294,252	-	-	9,616,599
Segment provision required	5,173,604	456,932	1,198,701	-	6,829,237
Segment liabilities	51,315,898	304,863	2,626,265	-	54,247,026
----- % -----					
Segment return on assets	(6%)	(11%)	(1%)	23%	
Segment cost of funds	9%	13%	15%	13%	
2009	Commercial banking	Retail banking	Trading and sales	Corporate finance	Total
----- (Rupees in '000) -----					
Total income	3,803,220	440,722	1,342,567	30,156	5,616,665
Total expenses	(6,471,004)	(978,142)	(2,774,554)	(1,336,269)	(11,559,969)
Loss before taxation	<u>(2,667,784)</u>	<u>(537,420)</u>	<u>(1,431,987)</u>	<u>(1,306,113)</u>	<u>(5,943,304)</u>
Segment assets (gross)	36,344,822	3,875,978	22,506,469	1,892,727	64,619,996
Segment non-performing loans	6,439,442	914,966	-	-	7,354,408
Segment provision required	3,736,513	405,499	1,254,926	-	5,396,938
Segment liabilities	50,588,859	4,114	3,671,215	-	54,264,188
----- % -----					
Segment return on assets	(7%)	(14%)	(6%)	(69%)	
Segment cost of funds	12%	12%	9%	0%	

39. TRUST ACTIVITIES

The Bank is not engaged in any trust activities.

40. RELATED PARTY TRANSACTIONS

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

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

	As at 31 December 2010					Total
	Subsidiaries	Associates	Directors	Key management personnel	Other related parties (note 40.1)	
------(Rupees in '000)-----						
Deposits						
As at 01 January 2010	329,891	177,498	2,567	20,987	215,216	746,159
Adjustment during the year	-	9,783	-	-	(51,170)	(41,387)
Received during the year	77,149,980	2,888,409	185,605	333,351	346,252	80,903,597
Withdrawals during the year	(77,341,448)	(2,855,017)	(185,204)	(318,432)	(293,306)	(80,993,407)
As at 31 December 2010	<u>138,423</u>	<u>220,673</u>	<u>2,968</u>	<u>35,906</u>	<u>216,992</u>	<u>614,962</u>
Loan and advances						
As at 01 January 2010	99,988	90,000	19,123	62,147	251,555	522,813
Adjustment during the year	-	-	-	-	(250,000)	(250,000)
Disbursements during the year	254,254	285,681	4,959	31,025	-	575,919
Repayments during the year	(251,374)	(246,036)	(8,502)	(43,676)	(1,167)	(550,755)
As at 31 December 2010	<u>102,868</u>	<u>129,645</u>	<u>15,580</u>	<u>49,496</u>	<u>388</u>	<u>297,977</u>
Other assets	2,822	4,319	-	-	22	7,163
Other liabilities	52	3,045	21	252	-	3,370
Contingencies and commitments	-	404,001	-	-	2,141	406,142
As at 31 December 2009						
Deposits						
As at 01 January 2009	20,929	55,234	6,622	11,528	93,659	187,972
Received during the year	43,935,454	7,439,551	268,611	171,422	1,361,169	53,176,207
Withdrawals during the year	(43,626,492)	(7,317,287)	(272,666)	(161,963)	(1,239,612)	(52,618,020)
As at 31 December 2009	<u>329,891</u>	<u>177,498</u>	<u>2,567</u>	<u>20,987</u>	<u>215,216</u>	<u>746,159</u>
Loan and advances						
As at 01 January 2009	37,560	-	22,488	66,676	2,722	129,446
Disbursements during the year	495,745	115,000	15,039	59,779	250,000	935,563
Repayments during the year	(433,317)	(25,000)	(18,404)	(64,308)	(1,167)	(542,196)
As at 31 December 2009	<u>99,988</u>	<u>90,000</u>	<u>19,123</u>	<u>62,147</u>	<u>251,555</u>	<u>522,813</u>
Other assets	9,044	2,664	30	21	571,778	583,537
Other liabilities	452	6	9	116	98	681
Contingencies and commitments	-	338,250	-	-	29,171	367,421
For the year ended 31 December 2010						
Mark-up earned	16,590	18,970	873	2,693	150	39,276
Mark-up expensed	21,195	18,758	45	1,507	21,474	62,979
Group executive services (note 40.2)	-	52,473	-	-	-	52,473
Other administrative expenses	21,978	-	25,981	82,414	-	130,373
Contribution to staff provident fund	-	-	-	-	35,774	35,774
Other income	4,631	20,120	-	-	5	24,756
Investments during the year - net	-	58,000	-	-	-	58,000
Others	4,235	-	-	-	-	4,235
For the year ended 31 December 2009						
Mark-up earned	6,532	6,364	781	2,173	25,160	41,010
Mark-up expensed	20,329	28,424	114	545	19,226	68,638
Shared services income	10,021	-	-	-	-	10,021
Shared services expense	23,612	-	-	-	-	23,612
Group executive services	-	40,949	-	-	-	40,949
Other administrative expenses	47,458	-	-	96,428	-	143,886
Contribution to staff provident fund	-	-	-	-	30,183	30,183
Other income	449	22,826	-	-	235	23,510
Investments during the year - net	35,302	293,788	-	-	-	329,090
Advance for acquisition of office premises	-	-	-	-	159,617	159,617

40.1 During the year, the Board reassessed the Bank's relationship with Mr. Arif Ali Shah Bukhari, who was earlier classified as a related party by the Bank. The Board considers that Mr. Arif Ali Shah Bukhari does not meet the criteria under the applicable accounting standards and regulations for such classification as he is an individual independent of the Bank. Also, the Bank has obtained a legal opinion on this matter which supports the Board's view and hence effective from the current year Mr. Arif Ali Shah Bukhari is not reported as a related party in these financial statements.

40.2 Include Rs. 3 million (2009: Rs. 2 million) paid against fixed monthly fee and reimbursement of actual costs of Rs. 49.47 million (2009: Rs. 38.95 million) to KASB Finance (Private) Limited as per Group Executive Services Agreement.

41. CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

41.1 Capital management

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

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

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

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

41.2 Regulatory capital requirements

The SBP vide BSD Circular No.7 dated 15 April 2009 has set the Minimum Capital Requirement (MCR) for Banks up to Rs.10 billion to be achieved in a phased manner by 31 December 2013. The required MCR (free of losses) as of 31 December 2010 is Rs. 7 billion. Further, the Bank is also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of the risk weighted assets of the Bank.

The paid up capital of the Bank (net of losses) as of 31 December 2010 amounts to Rs. 1,655.465 million while CAR stands at negative 3.56% as of that date. In view of the above capital deficiencies, the sponsors of the Bank have entered into an agreement with a foreign investor whereby equity investment will be made into the Bank. Accordingly, subsequent to the year end, the Board in its meeting held on 4 April 2011 has resolved to issue right shares at a subscription price of Rs. 3/- per share to increase the paid up capital of the Bank by Rs. 3,000 million subject to authorisation from the shareholders and requisite regulatory approvals. Additionally, the Bank has plans to augment its Tier II capital through subordinated debt upto Rs. 1,500 million.

Keeping in view the fact that the above initiatives would partially address the regulatory capital requirements, the Bank has sought an extension of time from SBP till 31 December 2011 for compliance with MCR and CAR and expects a favourable response from SBP in this regard.

41.3 Capital structure

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2010

	Note	2010	2009
(Rupees in '000)			
Tier I capital			
Share capital		9,508,617	9,508,617
Share premium		23,724	23,724
Accumulated losses		(7,853,152)	(5,179,823)
Reserves		151,287	151,287
		<u>1,830,476</u>	<u>4,503,805</u>
Less: book value of goodwill		(431,391)	(431,391)
book value of intangibles		(231,603)	(257,691)
other deductions:			
- 50% investments in subsidiaries and associates	41.5	(1,293,362)	(1,131,892)
- relaxation in provisions against non-performing loans and advances	12.5.1	(495,102)	(242,967)
		<u>(620,982)</u>	<u>2,439,864</u>
Tier II capital			
General provisions subject to 1.25% of total risk weighted assets		20,234	32,322
Revaluation reserve (upto 45%)		242,922	272,352
Less: other deductions:			
- 50% investments in subsidiaries and associates	41.5	(1,293,362)	(1,131,891)
		<u>(1,030,206)</u>	<u>(827,217)</u>
Eligible Tier III capital			
		-	-
Total regulatory capital			
		<u>(1,651,188)</u>	<u>1,612,647</u>

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

	2010	2009	2010	2009
	Capital requirements		Risk weighted assets	
----- (Rupees in '000) -----				
Credit risk				
Portfolios subject to standardized approach				
Claim on				
Corporate portfolio	2,179,337	2,327,819	21,793,370	23,278,182
Retail portfolio	126,920	176,353	1,269,198	1,763,529
Banks	19,276	25,845	192,762	258,452
Residential property	43,981	45,967	439,813	459,666
Past due loans	478,588	293,402	4,785,880	2,934,022
Investment in fixed assets	314,753	304,103	3,147,530	3,041,029
Other assets	750,370	605,116	7,503,704	6,051,155
	<u>3,913,225</u>	<u>3,778,605</u>	<u>39,132,257</u>	<u>37,786,035</u>
Off balance sheet				
Non market related	487,639	465,197	4,876,387	4,651,965
Market related	9,466	5,406	94,661	54,062
	<u>497,105</u>	<u>470,603</u>	<u>4,971,048</u>	<u>4,706,027</u>
	<u>4,410,330</u>	<u>4,249,208</u>	<u>44,103,305</u>	<u>42,492,062</u>
Market risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	29,587	47,042	369,839	588,025
Equity position risk	7,535	30,416	94,190	380,200
Foreign exchange risk	27,893	354	348,667	4,425
	<u>65,015</u>	<u>77,812</u>	<u>812,696</u>	<u>972,650</u>
Operational risk				
Capital requirement for operational risks	140,252	182,437	1,402,521	2,280,462
Total	<u>4,615,597</u>	<u>4,509,457</u>	<u>46,318,522</u>	<u>45,745,174</u>
Capital Adequacy Ratio				
Total eligible regulatory capital held	(1,651,188)	1,612,647		
Total risk weighted assets	46,318,522	45,745,174		
CAR	(3.56%)	3.53%		

41.5 The CAR calculation does not include the impact of deduction of investments in open ended mutual funds amounting to Rs 927.415 million (2009:Rs 927.415 million) based on the clarification issued by the SBP through its letter BSD/BAI-1/220/452/2009 dated 27 April 2009.

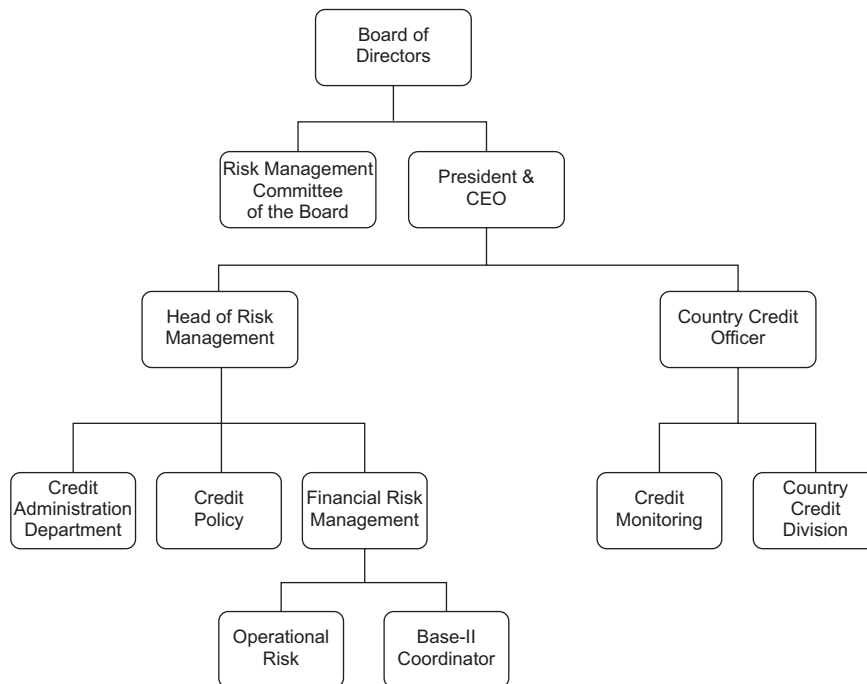
42. RISK MANAGEMENT

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

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

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

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



42.1.1 Credit risk

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

The aims of credit risk management are principally as follows:

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

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

Credit risk organization and structure

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

Credit approval authorities and standardised procedures

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

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

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

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

Credit risk portfolio management

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

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

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

Risk rating

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

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

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

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

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

Mitigants

The following initiatives are used to mitigate credit risk:

(a) Credit principles and policy

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

(b) Counter party limits and credit scoring

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

(c) Concentration risk

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

(d) Collateral

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

(e) Risk Acceptance Criteria (RAC)

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

Special Assets Management (SAM)

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

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

Credit concentration risk

The 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.

Risk Asset Review

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

42.1.2 Credit risk – General Disclosure Basel II Specific

The Bank has adopted the Standardised Approach, under Basel II. According to the regulatory statement submitted under the Standardised Approach, the portfolio has been divided into claims on corporate portfolio 53.51%, claims on retail portfolio 4.13%, claims on banks 1.60%, claims on residential property 2.70%, past due loans 9.38%, investments in fixed assets 6.76% and all other assets 21.91%.

42.1.3 Credit Risk: Standardised Approach

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

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

Credit exposure subject to Standardised Approach.

Risk buckets	2010		
	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation deduction	Net amount
	----- (Rupees in '000) -----		
0%	3,943,471	-	3,943,471
20%	491,160	-	491,160
35%	1,256,608	-	1,256,608
50%	3,810,782	500,000	3,310,782
75%	1,923,085	246,440	1,676,645
100%	33,478,525	1,399,037	32,079,488
150%	2,335,226	-	2,335,226
	<u>47,238,857</u>	<u>2,145,477</u>	<u>45,093,380</u>
	----- (Rupees in '000) -----		
	2009		
Risk buckets	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation deduction	Net amount
	----- (Rupees in '000) -----		
0%	3,554,435	-	3,554,435
20%	2,398,393	1,217,993	1,180,400
35%	1,313,332	-	1,313,332
50%	6,268,840	1,733,582	4,535,258
75%	2,503,182	168,788	2,334,394
100%	31,147,425	1,197,456	29,949,969
150%	2,014,638	-	2,014,638
	<u>49,200,245</u>	<u>4,317,819</u>	<u>44,882,426</u>

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

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

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

42.1.5 Segmental information

42.1.5.1 Segments by class of business

	2010					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Agriculture, Forestry, Hunting and Fishing	465,872	1.34	1,810,131	3.91	-	-
Automobile and transportation equipment	120,235	0.35	948,345	2.05	-	-
Cement	1,522,646	4.37	-	-	458,752	2.18
Chemical and Pharmaceuticals	1,196,946	3.44	598,817	1.29	387,534	1.84
Construction	2,055,678	5.90	3,561,374	7.70	3,042,434	14.46
Electronics and electrical appliances	1,704,107	4.88	123,891	0.27	306,480	1.46
Exports / Imports	1,074,555	3.08	188,735	0.41	100,719	0.48
Financial	1,714,103	4.92	1,477,148	3.19	10,219,469	48.56
Food and Beverages	1,646,815	4.73	722,313	1.56	-	-
Footwear and Leather garments	353,301	1.01	78,138	0.17	-	-
Individuals	5,655,972	16.24	17,313,901	37.42	-	-
Insurance	-	-	18,687	0.04	-	-
Manufacturing	2,695,396	7.74	1,417,510	3.06	-	-
Mining and Quarrying	-	-	184,986	0.40	-	-
Power (electricity), Gas, Water, Sanitary	288,093	0.83	190,892	0.41	1,610,457	7.65
Production and transmission of energy	-	-	-	-	338,358	1.61
Public / Government	900,000	2.58	7,100,231	15.34	-	-
Services	1,158,884	3.33	4,809,808	10.39	1,004,115	4.77
Sugar	1,402,277	4.03	40,473	0.09	10	-
Textile	6,350,761	18.23	677,714	1.46	821,243	3.90
Transport, Storage and Communication	351,027	1.01	527,982	1.14	-	-
Wholesale and Retail Trade	1,819,687	5.22	3,470,326	7.51	-	-
Others	2,361,644	6.77	1,012,785	2.19	2,757,502	13.10
	<u>34,837,999</u>	<u>100</u>	<u>46,274,187</u>	<u>100</u>	<u>21,047,073</u>	<u>100</u>

Segments by class of business

	2009					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Agriculture, Forestry, Hunting and Fishing	457,951	1.36	1,299,121	2.96	5,723	0.03
Automobile and transportation equipment	120,215	0.36	117,527	0.27	-	-
Cement	1,899,999	5.65	121,210	0.28	440,044	2.41
Chemical and Pharmaceuticals	1,510,869	4.49	559,459	1.27	582,544	3.19
Construction	1,703,165	5.06	2,668,899	6.08	1,674,591	9.16
Electronics and electrical appliances	1,558,896	4.63	139,818	0.32	872,375	4.77
Exports / Imports	999,206	2.97	154,013	0.35	23,898	0.13
Financial	1,067,677	3.17	2,595,084	5.91	10,123,339	55.39
Food and Beverages	1,600,546	4.76	755,234	1.72	-	-
Footwear and Leather garments	328,159	0.98	27,138	0.06	21,757	0.12
Individuals	5,584,682	16.60	12,647,749	28.81	25,000	0.14
Insurance	-	-	30,986	0.07	-	-
Manufacturing	2,735,251	8.13	701,829	1.60	-	-
Mining and Quarrying	-	-	161,582	0.37	-	-
Power (electricity), Gas, Water, Sanitary	120,086	0.36	49,599	0.11	122,947	0.67
Production and transmission of energy	-	-	-	-	846,366	4.63
Public / Government	900,000	2.68	14,257,213	32.48	-	-
Services	952,242	2.83	2,810,482	6.40	801,788	4.39
Sugar	1,507,546	4.48	10,594	0.02	51,465	0.28
Textile	5,940,742	17.66	970,031	2.21	1,038,736	5.68
Transport, Storage and Communication	344,091	1.02	365,071	0.83	13,447	0.07
Wholesale and Retail Trade	1,958,592	5.82	2,141,414	4.88	-	-
Others	2,346,142	6.98	1,315,642	3.00	1,632,818	8.93
	<u>33,636,057</u>	<u>100</u>	<u>43,899,695</u>	<u>100</u>	<u>18,276,838</u>	<u>100</u>

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

	2010		2009	
	Classified advances	Specific provision held	Classified advances	Specific provision held
----- (Rupees in '000) -----				
Automobile and Transportation equipment	108,239	104,191	100,358	100,358
Cement	904,885	455,999	723,000	406,977
Chemical and Pharmaceuticals	923	923	672	672
Construction	1,071,039	424,527	169,714	54,424
Electronics and electrical appliances	7,520	2,181	950,373	468,032
Exports / Imports	21,675	9,115	4,691	4,691
Financial	504,715	328,963	416,195	222,761
Food and Beverages	135,005	45,330	561,410	164,682
Footwear and Leather garments	2,475	2,475	36,985	11,093
Individuals	1,300,018	578,468	1,547,489	667,571
Power (electricity), Gas, Water, Sanitary Services	49,826	26,253	34,415	21,798
Sugar	-	-	-	-
Textile	2,773,842	1,810,845	1,940,830	1,370,996
Transport, Storage and Communication	293,603	282,085	277,316	273,430
Wholesale / Retail Trade	985,611	391,626	343,452	230,021
Others	1,457,223	827,086	247,340	107,309
	<u>9,616,599</u>	<u>5,290,067</u>	<u>7,354,408</u>	<u>4,104,983</u>

42.1.7 Segments by sector

	2010					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	900,000	2.58	7,100,231	15.34	-	-
Private	33,937,999	97.42	39,173,956	84.66	21,047,073	100
	<u>34,837,999</u>	<u>100</u>	<u>46,274,187</u>	<u>100</u>	<u>21,047,073</u>	<u>100</u>

	2009					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	900,000	2.68	14,257,213	32.48	-	-
Private	32,736,057	97.32	29,642,482	67.52	18,276,838	100
	<u>33,636,057</u>	<u>100</u>	<u>43,899,695</u>	<u>100</u>	<u>18,276,838</u>	<u>100</u>

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

	2010		2009	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
----- (Rupees in '000) -----				
Public / Government	-	-	-	-
Private	9,616,599	5,290,067	7,354,408	4,104,983
	<u>9,616,599</u>	<u>5,290,067</u>	<u>7,354,408</u>	<u>4,104,983</u>

42.2 Market risk

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

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

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

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

The scope of market risk management is as follows:

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

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

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

(i) Foreign exchange risk

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

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----			
Pakistan rupee	55,580,734	52,895,180	(1,117,827)	1,567,727
United States dollar	580,859	910,986	880,417	550,290
Great Britain pound	70,754	195,847	126,542	1,449
Canadian dollar	-	132	-	(132)
Japanese yen	3,438	-	(3,677)	(239)
Euro	191,890	244,881	114,545	61,554
Other currencies	1,808	-	-	1,808
	<u>56,429,483</u>	<u>54,247,026</u>	<u>-</u>	<u>2,182,457</u>

	2009			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----			
Pakistan rupee	58,548,783	53,145,061	(443,560)	4,960,162
United States dollar	526,204	778,727	245,716	(6,807)
Great Britain pound	58,681	179,381	122,792	2,092
Canadian dollar	110	-	-	110
Japanese yen	1,806	1,089	(699)	18
Euro	85,386	158,831	74,542	1,097
Other currencies	2,088	1,099	1,209	2,198
	<u>59,223,058</u>	<u>54,264,188</u>	<u>-</u>	<u>4,958,870</u>

(ii) Equity price risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

(iii) Interest rate / yield risk

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

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

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

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

Mismatch of interest rate sensitive assets and liabilities

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

		2010										
Effective Yield/ Interest Rate	Total	Exposed to Yield/ Interest risk								Non-interest bearing financial instruments		
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years		Above 10 Years	
-----Rupees in '000-----												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	3,272,520	256,967	-	-	-	-	-	-	-	-	-	3,015,553
Balances with other banks	199,276	38,211	-	-	-	-	-	-	-	-	-	161,065
Lending to financial institutions	12,77%	40,000	40,000	-	-	-	-	-	-	-	-	-
Investments	11.14%	13,052,504	832,662	3,072,460	1,438,532	195,645	774,217	829,790	683,135	442,659	-	4,783,404
Advances	13.87%	29,527,698	17,301,712	3,641,912	2,824,543	22,875	354,248	50,107	432,055	162,636	431,312	4,306,298
Other assets	-	1,159,081	-	-	-	-	-	-	-	-	-	1,159,081
		47,281,079	18,469,552	6,714,372	4,263,075	218,520	1,128,465	879,897	1,115,190	605,295	431,312	13,425,401
Liabilities												
Bills payable	-	541,041	-	-	-	-	-	-	-	-	-	541,041
Borrowings	9.64%	6,138,207	1,698,318	3,061,574	876,523	101,444	162,406	167,110	70,832	-	-	-
Deposits and other accounts	9.59%	46,274,167	21,043,398	7,040,009	3,825,595	6,758,496	381,945	200	680	-	-	7,223,864
Liabilities against assets subject to finance lease	-	2,170	-	508	152	-	-	1,510	-	-	-	-
Other liabilities	12.05%	1,053,213	-	-	-	-	-	-	-	-	-	1,053,213
		54,008,818	22,741,716	10,102,091	4,702,270	6,859,940	544,351	168,820	71,512	-	-	8,818,118
On-balance sheet gap		(6,757,739)	(4,272,164)	(3,387,719)	(439,195)	(6,641,420)	584,114	711,077	1,043,678	605,295	431,312	4,607,283
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		3,547,188	1,715,172	1,100,258	641,458	90,300	-	-	-	-	-	-
Forward sale of foreign exchange		(2,429,361)	(1,835,114)	(189,182)	(405,065)	-	-	-	-	-	-	-
Off-balance sheet gap		1,117,827	(119,942)	911,076	236,393	90,300	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			(4,392,106)	(2,476,643)	(202,802)	(6,551,120)	584,114	711,077	1,043,678	605,295	431,312	4,607,283
Cumulative Yield / Interest Risk Sensitivity Gap			(4,392,106)	(6,868,749)	(7,071,551)	(13,622,671)	(13,038,557)	(12,327,480)	(11,283,802)	(10,678,507)	(10,247,195)	(5,639,912)

		2009										
Effective Yield/ Interest Rate	Total	Exposed to Yield/ Interest risk								Non-interest bearing financial instruments		
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years		Above 10 Years	
-----Rupees in '000-----												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	2,851,665	220,769	-	-	-	-	-	-	-	-	-	2,630,896
Balances with other banks	185,696	124,433	-	-	-	-	-	-	-	-	-	61,463
Lending to financial institutions	12.84%	2,804,596	1,886,499	44,000	874,097	-	-	-	-	-	-	-
Investments	8.81%	11,009,951	93,810	4,580,901	813,001	2,701,875	108,809	378,309	406,940	482,386	-	1,443,920
Advances	13.22%	29,498,752	17,307,864	4,403,771	3,232,973	95,887	34,488	59,645	485,736	213,453	415,510	3,249,425
Other assets	-	1,204,086	-	-	-	-	-	-	-	-	-	1,204,086
		47,554,946	19,633,375	9,028,672	4,920,071	2,797,762	143,297	437,954	892,676	695,839	415,510	8,589,790
Liabilities												
Bills payable	-	386,066	-	-	-	-	-	-	-	-	-	386,066
Borrowings	12.76%	8,196,640	3,831,828	2,563,245	1,122,653	157,514	159,409	159,574	101,209	101,208	-	-
Deposits and other accounts	12.83%	43,899,695	20,189,516	8,556,284	3,281,863	5,072,410	743,413	380,895	2,100	-	-	5,673,214
Liabilities against assets subject to finance lease	-	6,027	-	903	941	2,009	664	1,510	-	-	-	-
Other liabilities	19.33%	1,549,151	-	-	-	-	-	-	-	-	-	1,549,151
		54,037,579	24,021,344	11,120,432	4,405,457	5,231,933	903,486	541,979	103,309	101,208	-	7,608,431
On-balance sheet gap		(6,482,633)	(4,387,969)	(2,091,760)	514,614	(2,434,171)	(760,189)	(104,025)	789,367	594,631	415,510	981,359
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		2,786,649	2,118,598	229,634	175,677	262,740	-	-	-	-	-	-
Forward sale of foreign exchange		(2,343,089)	(1,570,239)	(174,600)	(598,250)	-	-	-	-	-	-	-
Off-balance sheet gap		443,560	548,359	55,034	(422,573)	262,740	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			(3,839,610)	(2,036,726)	92,041	(2,171,431)	(760,189)	(104,025)	789,367	594,631	415,510	981,359
Cumulative Yield / Interest Risk Sensitivity Gap			(3,839,610)	(5,876,336)	(5,784,295)	(7,955,726)	(8,715,915)	(8,819,940)	(8,030,573)	(7,435,942)	(7,020,432)	(6,039,073)

42.3 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 and approved by the RMC of the Board.

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

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

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

42.3.2 Maturities of assets and liabilities

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities at the year end have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and also takes into account the effective maturities as indicated by the Bank's deposit retention history. Current and saving deposits are repayable on demand, however management has determined the maturity buckets, based on its judgment and experience. Assets and liabilities not having a contractual maturity are assumed to mature on the expected date on which the assets / liabilities will be realised / settled.

	2010								
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	3,272,520	3,272,520	-	-	-	-	-	-	-
Balances with other banks	199,276	199,276	-	-	-	-	-	-	-
Lending to financial institutions	40,000	40,000	-	-	-	-	-	-	-
Investments	13,052,504	891,802	2,864,262	2,075,929	933,780	835,369	861,421	1,039,733	650,860
Advances	29,527,698	6,415,201	8,224,688	4,351,956	4,376,719	2,045,339	851,466	1,648,525	1,021,335
Operating fixed assets	3,379,130	24,586	49,171	73,757	147,514	295,027	295,027	505,191	907,568
Deferred tax assets	3,966,880	-	-	-	-	812,326	541,191	1,982,816	630,547
Other assets	2,991,475	1,272,936	34,816	52,226	236,396	143,797	-	-	45,841
	56,429,483	12,116,321	11,172,937	6,553,868	5,694,409	4,131,858	2,692,902	5,176,265	4,271,976
									4,618,947
Liabilities									
Bills payable	541,041	541,041	-	-	-	-	-	-	-
Borrowings	6,138,207	1,698,318	3,061,574	876,523	101,444	162,406	167,110	70,832	-
Deposits and other accounts	46,274,187	7,078,335	8,946,540	5,128,682	9,876,019	3,093,267	3,319,869	5,311,722	3,519,753
Liabilities against assets subject to finance lease	2,170	-	508	152	-	-	1,510	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-
Other liabilities	1,291,421	847,177	121,655	5,859	46,930	58,647	93,859	117,294	-
	54,247,026	10,164,871	12,130,277	6,011,216	10,024,393	3,314,320	3,582,348	5,499,848	3,519,753
									-
Net assets	2,182,457	1,951,450	(957,340)	542,652	(4,329,984)	817,538	(889,446)	(323,583)	752,223
Share capital	9,508,617								
Reserves	151,287								
Accumulated losses	(7,853,152)								
Share premium	23,724								
	1,830,476								
Surplus on revaluation of assets - net	351,981								
	<u>2,182,457</u>								

NOTES TO THE FINANCIAL STATEMENTS

	2009									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
-Rupees in '000-										
Assets										
Cash and balances with treasury banks	2,851,665	2,851,665	-	-	-	-	-	-	-	-
Balances with other banks	185,896	185,896	-	-	-	-	-	-	-	-
Lending to financial institutions	2,815,159	1,897,062	44,000	874,097	-	-	-	-	-	-
Investments	15,129,090	24,267	4,084,229	473,514	2,762,874	336,681	883,551	1,692,881	751,954	4,119,139
Advances	29,498,752	8,116,470	7,317,250	4,774,621	3,795,872	891,596	1,585,560	1,572,736	739,941	704,706
Operating fixed assets	3,298,720	24,274	48,549	72,823	145,646	286,360	291,292	513,175	718,208	1,198,393
Deferred tax assets	3,217,743	1,489,344	32,317	12,849	(70,573)	532,295	675,620	792,598	(89,577)	(157,130)
Other assets	2,226,033	1,312,479	30,807	46,212	92,423	-	-	-	312,721	431,391
	59,223,058	15,901,457	11,557,152	6,254,116	6,726,242	2,046,932	3,436,023	4,571,390	2,433,247	6,296,499
Liabilities										
Bills payable	386,066	386,066	-	-	-	-	-	-	-	-
Borrowings	8,196,640	3,831,828	2,666,596	1,122,653	54,163	159,409	159,574	202,417	-	-
Deposits and other accounts	43,899,695	10,234,204	9,866,578	4,219,582	7,154,250	5,270,293	2,965,855	2,587,061	1,601,872	-
Liabilities against assets subject to finance lease	6,027	-	903	941	2,009	664	1,510	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,775,760	1,447,007	3,290	4,934	9,869	58,356	58,356	193,948	-	-
	54,264,188	15,899,105	12,537,367	5,348,110	7,220,291	5,488,722	3,185,295	2,983,426	1,601,872	-
Net assets	4,958,870	2,352	(980,215)	906,006	(494,049)	(3,441,790)	250,728	1,587,964	831,375	6,296,499
Share capital	9,508,617									
Reserves	151,287									
Accumulated losses	(5,179,823)									
Share premium	23,724									
	4,503,805									
Surplus on revaluation of assets - net	455,065									
	4,958,870									

42.4 Operational risk

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

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

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

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

43. GENERAL

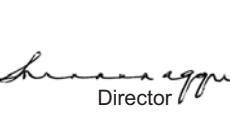
- 43.1 Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparison. However, there are no material reclassifications to report.
- 43.2 Captions, as prescribed by BSD Circular No. 04, dated 17 February 2006, in respect of which there are no amounts have not been reproduced in these financial statements, except for the captions of the statement of financial position and profit and loss account.
- 43.3 Figures have been rounded off to the nearest thousand rupees.

44. DATE OF AUTHORISATION

These financial statements were authorized for issue in the Board of Directors' meeting held on 04 April 2011.


Acting President and Chief Executive


Director


Director


Director


Director

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RUPEES 500,000 OR ABOVE DURING THE YEAR ENDED DECEMBER 31, 2010

(Rupees in million)

S. No.	Name and address of the borrowers	Name of individuals/ Partners/ directors with (NIC No.)	Father's Husband's Name	Outstanding liabilities at beginning of the year			Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total (9+10+11)	
				Principal	Interest/ Mark-up	Others					
1	2	3	4	5	6	7	8	9	10	11	12
1	Babar Ali House # 192, Phase-II, Gujranwala Cantt., Gujranwala.	Babar Ali 34101-1894454-3	Lal Din	9.297	0.959	-	10.256	1.797	1.872	-	3.669
2	Fatima Sajjad & Syed Ali Sajjad Rizvi House # C-16, Block-I, North Nazimabad, Karachi.	Fatima Sajjad 42101-1559324-0 Syed Ali Sajjad Rizvi 42101-1674532-6	Syed Ali Sajjad Rizvi Syed Manzoor	14.494	0.825	-	15.319	0.994	1.418	0.009	2.421
3	Tanveer Afzal House No. 18, 37th Street, Darakshan Phase VI, Survey No. 26, Pakistan Defence Officers Housing Authority, Karachi.	Tanveer Afzal 42301-3369348-5	Afzal Hussain Butt	24.491	1.517	-	26.008	3.491	3.085	0.491	7.067
4	Faisal Vawda A-21, Street No. 7, Gulshan-e- Faisal, Bath Island, Clifton, Karachi.	Faisal Vawda 42201-5998288-5	Omer Vawda	5.530	0.204	-	5.734	1.060	0.642	0.073	1.775
5	Jahanzaib Munir 213/A, Shadman Colony No.1, Lahore	Jahanzaib Muneer 35200-1456863-1	Mian Muneer Ahmed	11.297	0.236	-	11.533	0.796	1.591	0.226	2.613
6	Sawera Framing & Decoration House No. 99-A, Sunat Nagar, Feroz Colony Noor Street, Out Fall Road, Lahore.	Ghulam Mustafa 35202-4828619-1 Muhammad Afzaal 35202-2998169-4	Muhammad Bilal Muhammad Siddique	3.226	0.781	-	4.007	0.645	0.950	0.017	1.612
7	Muhammad Haroon Flat # M-21, Apsara Apartment, Phase III, Block-16, Gulshan-e- Iqbal, Karachi.	Mohammad Haroon 42201-9624309-7	Abdul Sattar	3.974	0.851	-	4.825	0.974	1.434	0.040	2.448
8	AAA Enterprises 40, Darual Aman Co-Operative Housing Society, Shahrah-e- Faisal, Karachi	Mrs. Tasneem Arshad 42201-0465901-2 Mrs. Sumbliin Amjad 42201-0350277-4 Mr. Abid Farooq 35202-0485641-3 Mr. Asad Amjad Farooq 42000-0397565-5	Mr. Arshad Farooq Mr. Amjad Farooq Mr. S.M. Farooq Mr. Amjad Farooq	13.634	3.024	-	16.658	3.134	3.024	-	6.158
9	Mohammad Ali Transport Office No. H-308, Marine Centre, Block-2, Clifton, Karachi	Haji Muhammad Ali 21202-1344686-7	Haji Zar Hussain	4.760	-	-	4.760	2.143	-	-	2.143
10	Lala Electronics Shop # 2, Ground Floor, Raja Chambers, Abid Market, Queens Road, Lahore	Mr. Muhammad Yaqoob Bhatti 35202-6781222-3 Mst. Razia Yaqoob 35202-6992277-8 Mr. Naveed Yousaf 35202-2637150-09	Mr. Muhammad Yousuf Bhatti Mr. Muhammad Yaqoob Bhatti Mr. Muhammad Yaqoob Bhatti	10.053	2.226	-	12.279	1.977	2.225	-	4.202
11	Raja Dall & Oil Factory Plot No. E-13, Near Nara Jail, SITE Area, Hyderabad	Mr. Khoob Chand 41303-5266229-1 Mr. Chulo Mal 41303-2648483-5 Mr. Mohan Mal 41303-8277063-7 Mr. Dileep Kumar 42301-1197903-1 Mr. Gawaskar 41303-6183449-3 Ms. Mohani Bai 41207-4274455-2 Ms. Jamana Bai 41207-4758112-8 Ms. Dhalan Bai 41207-7324062-0	Mr. Hasa Nand Mr. Basa Nand Mr. Mangho Mal Mr. Mangho Mal Mr. Mangho Mal Mr. Mangho Mal Mr. Khoob Chand Mr. Chulo Mal	30.000	3.841	-	33.841	1.890	3.841	-	5.731
12	Abdul Qadir Room No. 09, Raffai Markaz, Ram Bharti Street, Jodia Bazar, Karachi	Mr. Abdul Qadir 42301-2734858-3	Mr. Abdul Sattar	1.702	-	-	1.702	1.702	-	-	1.702
13	Adam Transport Services Sanaullah Avenue, BS-17, Shop No. 41-42, Block No. 21, F.B. Area, Karachi	Mr. Badshahi Khan 42201-0785728-5	Mr. Niaz Bukhat Khan	2.077	0.058	-	2.135	0.777	-	-	0.777
14	Abdul Qadir B-81, Block-10/A, Gulshan-e- Iqbal, Karachi.	Mr. Abdul Qadir 42201-0797361-7	Mr. M. Tajammul Hussain	4.490	0.181	-	4.671	1.580	0.181	-	1.761
				139.025	14.703	-	153.728	22.960	20.263	0.856	44.079

CONSOLIDATED FINANCIAL STATEMENTS

DIRECTORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2010

On behalf of the Board of Directors, I take this opportunity of presenting before you the audited consolidated financial statements of KASB Bank Limited and its Subsidiaries for the year ended 31 December 2010.

Financials

The consolidated financials of the bank and its subsidiaries for the year ended 31 December 2010 under review are summarized as follows:

	2010	2009
	(Rupees in '000)	
Operating loss before provision and taxation	(1,978,213)	(2,535,602)
Provisions and Impairments	(1,508,971)	(3,328,475)
Loss before taxation	(3,487,184)	(5,864,077)
Reversals of provision for taxation	759,839	1,545,328
Loss after taxation	(2,727,345)	(4,318,749)
Loss attributable to equity holders	(2,741,315)	(4,223,926)
Accumulated loss brought forward	(5,296,811)	(1,096,473)
Transfer from surplus on revaluation	37,340	22,713
Effect of change in ownership interest of subsidiaries and associates	-	875
Transfer to statutory reserve	(11,440)	-
Accumulated loss carried forward	(8,012,226)	(5,296,811)
Loss per share - basic and diluted (Rupees)	(2.88)	(4.44)

Pattern of Shareholding

The pattern of shareholding as at 31 December 2010 along with disclosure required under Code of Corporate Governance is annexed to the report.

On behalf of the Board of Directors



Nasir Ali Shah Bukhari
Chairman

Karachi
4 April 2011

AUDITORS' REPORT TO THE MEMBERS

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



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

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

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of KASB Bank Limited (the Holding Company) and its subsidiaries (together referred to as Group) as at 31 December 2010 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof for the year then ended. These consolidated financial statements include the unaudited certified returns from the branches of the Holding Company, except for fourteen branches (including eight sub-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 Technology Services Limited which are unaudited and KASB Modaraba Management (Private) Limited (the Company) 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 auditor. The consolidated financial statements of the Holding Company for the year ended 31 December 2009 were audited by another firm of chartered accountants, whose report dated 26 April 2010 expressed an unqualified opinion on those consolidated financial statements. However, the auditors' report included emphasis of matter paragraphs regarding the Holding Company's capital shortfall and recoverability of deferred tax asset.

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 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 consolidated financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

We draw attention to:

- (i) notes 6.1 and 42.2 to the consolidated financial statements which fully explain the Holding Company's capital deficiency in terms of the regulatory requirements as prescribed by the State Bank of Pakistan and the management's future plans and actions in relation thereto. Accordingly, the Board of Directors of the Holding Company is satisfied that the Holding Company has adequate resources to continue its business on a sustainable basis for the foreseeable future, and consequently, would be able to realise its assets and discharge its liabilities in the normal course of business;
- (ii) note 14.3 to the consolidated financial statements, which fully explains that deferred tax asset has been recognized in these consolidated financial statements on the basis of Holding Company's financial projections for the future years as approved by its Board of Directors. The preparation of financial projections involve management's assumptions regarding future business and economic conditions and therefore any significant change in such assumptions may have an effect on the realisability of the deferred tax asset.

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

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Audit Engagement Partner: Arslan Khalid
Date: 04 April 2011
Karachi

A member firm of Ernst & Young Global Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Annual Report 2010

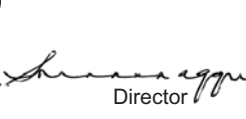
AS AT 31 DECEMBER 2010

	Note	2010	2009
(Rupees in '000)			
ASSETS			
Cash and balances with treasury banks	8	3,272,624	2,851,783
Balances with other banks	9	360,306	235,121
Lendings to financial institutions	10	40,000	2,804,596
Investments	11	12,019,099	13,580,973
Advances	12	30,209,384	29,916,446
Operating fixed assets	13	4,541,778	4,027,676
Deferred tax assets	14	3,810,399	3,037,071
Other assets	15	4,306,772	4,545,921
		58,560,362	60,999,587
LIABILITIES			
Bills payable	16	541,041	386,066
Borrowings	17	6,636,645	8,696,140
Deposits and other accounts	18	46,694,675	43,807,061
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	19	2,170	6,105
Deferred tax liabilities		-	-
Other liabilities	20	1,989,290	2,687,394
		55,863,821	55,582,766
NET ASSETS		<u>2,696,541</u>	<u>5,416,821</u>
REPRESENTED BY			
Share capital	21	9,508,617	9,508,617
Reserves		162,727	151,287
Accumulated losses		(8,012,226)	(5,296,811)
Share premium		23,724	23,724
		1,682,842	4,386,817
Non-controlling interest		534,801	524,694
		2,217,643	4,911,511
Surplus on revaluation of assets - net of tax	22	478,898	505,310
		<u>2,696,541</u>	<u>5,416,821</u>
CONTINGENCIES AND COMMITMENTS		23	

The annexed notes 1 to 45 form an integral part of these consolidated financial statements.


Acting President and Chief Executive


Director


Director


Director


Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Annual Report 2010

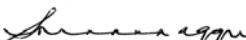
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010	2009
(Rupees in '000)			
Mark-up / return / interest earned	25	5,158,566	5,120,943
Mark-up / return / interest expensed	26	(5,169,142)	(5,569,707)
Net mark-up / return / interest income		(10,576)	(448,764)
Provision against non-performing loans and advances	12.7	(1,180,012)	(1,294,517)
Provision for diminution in the value of investments	11.3	(105,742)	(601,634)
Bad debts written off directly	12.8.1	(21,505)	(1,156)
Investments written off directly		-	(73,983)
		(1,307,259)	(1,971,290)
Net mark-up / return / interest income after provisions		(1,317,835)	(2,420,054)
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		594,068	564,165
Dividend income		47,828	122,734
Income / (loss) from dealing in foreign currencies		64,421	(16,065)
Gain on sale / redemption of securities	27	152,377	322,340
Unrealised loss on revaluation of investments classified as held for trading		3,615	7,519
Other income	28	109,192	110,764
Total non mark-up / interest income		971,501	1,111,457
		(346,334)	(1,308,597)
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	29	(2,989,039)	(2,796,425)
Other reversals / (provisions and write offs)		177,255	(226,713)
Other charges	30	(3,409)	(35,241)
Total non mark-up / interest expenses		(2,815,193)	(3,058,379)
		(3,161,527)	(4,366,976)
Share of loss from associates	11.12.3	(123,945)	(129,369)
Impairment of goodwill	15.3.1	(201,712)	(1,357,185)
Loss on deemed disposal of a subsidiary		-	(10,547)
LOSS BEFORE TAXATION		(3,487,184)	(5,864,077)
Taxation - Current		(9,058)	(59,658)
- Prior years		-	5,225
- Deferred		768,897	1,599,761
	31	759,839	1,545,328
LOSS AFTER TAXATION		(2,727,345)	(4,318,749)
Loss after taxation attributable to:			
Equity holder of the Holding Company		(2,741,315)	(4,223,926)
Non-controlling interest		13,970	(94,823)
		(2,727,345)	(4,318,749)
----- Rupees -----			
Basic and diluted loss per share	32	(2.88)	(4.44)

The annexed notes 1 to 45 form an integral part of these consolidated financial statements.


Acting President and Chief Executive


Director


Director


Director


Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Annual Report 2010

FOR THE YEAR ENDED 31 DECEMBER 2010

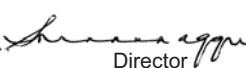
	2010	2009
	(Rupees in '000)	
Net loss for the year	(2,727,345)	(4,318,749)
Other comprehensive income	-	-
Total comprehensive loss for the year	<u>(2,727,345)</u>	<u>(4,318,749)</u>

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

The annexed notes 1 to 45 form an integral part of these consolidated financial statements.


Acting President and Chief Executive


Director


Director


Director


Director

CONSOLIDATED CASH FLOW STATEMENT

Annual Report 2010

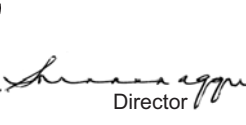
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010	2009
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(3,487,500)	(5,864,077)
Less: dividend income		(47,828)	(122,734)
		<u>(3,535,328)</u>	<u>(5,986,811)</u>
Adjustments:			
Depreciation		289,505	252,335
Amortisation		128,613	72,688
Provision against non-performing loans and advances		1,180,328	1,294,517
Share of loss from associates		123,945	129,369
Provision for diminution in the value of investments		105,742	601,634
Bad debts written off directly		21,505	1,156
Investments written off directly		-	73,983
Unrealised loss on revaluation of investments classified as held for trading		(3,615)	(7,519)
Loss on deemed disposal of a subsidiary		-	10,547
Gain on disposal of fixed assets		(7,972)	(2,130)
Provision for gratuity		34,042	24,382
Financial charges on leased assets		509	1,591
Impairment on intangible assets		-	19,250
Impairment of goodwill		201,712	1,357,185
Other provisions		-	681
		<u>2,074,314</u>	<u>3,829,669</u>
(Increase) / decrease in operating assets			
Lendings to financial institutions		2,764,596	(2,258,704)
Investments in held for trading securities		(243,125)	124,977
Advances		(1,494,195)	2,581,835
Others assets		46,143	(756,025)
		<u>1,073,419</u>	<u>(307,917)</u>
Increase / (decrease) in operating liabilities			
Bills payable		154,975	168,546
Borrowings		(2,071,492)	1,795,767
Deposits and other accounts		2,887,614	8,717,661
Other liabilities		(716,778)	982,882
		<u>254,319</u>	<u>11,664,856</u>
Income tax paid		(51,103)	(28,759)
Gratuity paid		(14,206)	(7,812)
Compensated absences paid		(1,204)	(692)
Net cash (used in) / inflow from operating activities		<u>(199,789)</u>	<u>9,162,534</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from / investments in available for sale securities		1,763,841	(5,899,217)
Investments in held to maturity securities		111,201	(897,754)
Investments in associates		(296,115)	(321,223)
Dividend income received		80,907	112,469
Investments in fixed assets		(1,008,579)	(697,470)
Acquisition of certificates of KASB Modaraba		-	811
Sale proceeds on disposal of fixed assets		87,007	33,857
Net cash inflow / (used in) from investing activities		<u>738,262</u>	<u>(7,668,527)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Payments against lease obligations		(4,444)	(8,132)
Proceeds from right issue of subsidiaries to non-controlling interest		-	21,189
Redemption of subordinated loan		-	(200)
		<u>(4,444)</u>	<u>12,857</u>
Net increase in cash and cash equivalents		<u>534,029</u>	<u>1,506,864</u>
Cash and cash equivalents at beginning of the year		3,070,882	1,564,018
Cash and cash equivalents at end of the year	33	<u>3,604,911</u>	<u>3,070,882</u>

The annexed notes 1 to 45 form an integral part of these consolidated financial statements.


Acting President and Chief Executive


Director


Director


Director


Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Annual Report 2010

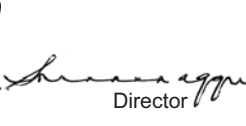
FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital	Statutory reserves	General reserves	Shares issued on amalgamation	Share premium	Accumulated losses	Total	Non-controlling interest	Total
	----- (Rupees in ' 000) -----								
Balance as at 31 December 2008	4,014,890	150,903	384	5,607,976	13,775	(1,096,473)	8,691,455	600,005	9,291,460
Issue of ordinary shares to the shareholders of KASB Capital Limited and Network Leasing Corporation Limited upon amalgamation	3,618,050	-	-	(5,607,976)	1,989,926	-	-	-	-
Share issue cost	-	-	-	-	(17,881)	-	(17,881)	-	(17,881)
Issue of bonus shares	1,962,096	-	-	-	(1,962,096)	-	-	-	-
Shares cancelled during the year	(86,419)	-	-	-	-	-	(86,419)	-	(86,419)
Transferred from surplus on revaluation of fixed assets-net of tax	-	-	-	-	-	22,713	22,713	-	22,713
Effect of change in ownership interest in subsidiaries and associates without loss of control - net	-	-	-	-	-	875	875	19,512	20,387
Total comprehensive loss for the year	-	-	-	-	-	(4,223,926)	(4,223,926)	(94,823)	(4,318,749)
Balance as at 31 December 2009	<u>9,508,617</u>	<u>150,903</u>	<u>384</u>	<u>-</u>	<u>23,724</u>	<u>(5,296,811)</u>	<u>4,386,817</u>	<u>524,694</u>	<u>4,911,511</u>
Transferred from surplus on revaluation of fixed assets-net of tax	-	-	-	-	-	37,340	37,340	-	37,340
Transfer to statutory reserve	-	11,440	-	-	-	(11,440)	-	-	-
Total comprehensive loss / (income) for the year	-	-	-	-	-	(2,741,315)	(2,741,315)	13,970	(2,727,345)
Dividends	-	-	-	-	-	-	-	(3,863)	(3,863)
Balance as at 31 December 2010	<u>9,508,617</u>	<u>162,343</u>	<u>384</u>	<u>-</u>	<u>23,724</u>	<u>(8,012,226)</u>	<u>1,682,842</u>	<u>534,801</u>	<u>2,217,643</u>

The annexed notes 1 to 45 form an integral part of these consolidated financial statements.


Acting President and Chief Executive


Director


Director


Director


Director

FOR THE YEAR ENDED 31 DECEMBER 2010

1. THE GROUP AND ITS OPERATIONS

1.1 KASB Bank Limited (the Holding Company) was incorporated in Pakistan on 13 October 1994 as a public limited company under the Companies Ordinance, 1984. The Holding Company received banking license from the SBP on 9 January 1995 and obtained certificate of commencement of business from Securities and Exchange Commission of Pakistan (SECP) on 11 January 1995. The Holding Company is engaged in commercial banking, consumer banking, corporate and investment banking and related services through 104 branches (including 34 sub branches) [2009: 100 branches (including 30 sub branches)] operating in 42 cities. The Holding Company is listed on all the Stock Exchanges in Pakistan.

The Group comprises of:

Holding Company

KASB Bank Limited

Subsidiaries

	Percentage of holding
KASB Technology Services Limited	100
KASB Securities Limited	77.12
KASB Funds Limited	67.18
KASB Modaraba Management (Private) Limited	96.02
KASB Modaraba	51.21
Structured Venture (Private) Limited	100

Associates

New Horizon Exploration and Production Limited	42.95
Shakarganj Food Products Limited	40.20
KASB International Limited	21.78
KASB Stock Market Fund	70.64
KASB Asset Allocation Fund	66.52
KASB Islamic Income Opportunity Fund	47.94
KASB Income Opportunity Fund	38.42
KASB Capital Protected Gold Fund	15.81
KASB Cash Fund	39.32

1.2 Brief description of subsidiaries

KASB Technology Services Limited

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

KASB Securities Limited

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

KASB Funds Limited

The Company is an unlisted public company licensed to carry out Asset Management and Investment Advisory Services under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulation, 2008. The objective of the Company is to float and manage open-end and closed-end mutual funds and to provide investment advisory services. The Company is currently managing the following funds:

- KASB Stock Market Fund
- KASB Asset Allocation Fund
- KASB Islamic Income Opportunity Fund
- KASB Income Opportunity Fund
- KASB Capital Protected Gold Fund
- KASB Cash Fund

KASB Modaraba Management (Private) Limited

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

KASB Modaraba

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

Structured Venture (Private) Limited

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

2. BASIS OF PRESENTATION

2.1 These consolidated financial statements have been prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 04, dated 17 February 2006. Further, with effect from the current year, "balance sheet" has been renamed as "statement of financial position" keeping in view the requirement of BSD Circular letter No. 7 of 2010 dated 30 April 2010 issued by the SBP.

2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing includes purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchase and resale arising under these arrangements are not reflected in these consolidated financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon. However, murabaha financing arrangements undertaken by a subsidiary are accounted for as a purchase and sale transaction of the underlying goods in these consolidated financial statements in accordance with the accounting policies of the Group.

2.3 Basis of consolidation

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

- The financial statements of the subsidiaries are included in the consolidated financial statements from the date the control commences until the date the control ceases. In preparing consolidated financial statements, the financial statements of the Holding Company and subsidiaries are consolidated on a line by line basis by adding together like items of assets, liabilities, income and expenses. Significant intercompany transactions have been eliminated.
- Non-controlling interest are the part of the results of the operations and net assets of the subsidiary companies attributable to interests which are not owned by the Group. Interest in the equity of subsidiaries not attributable to the Holding Company is reported in the consolidated statement of changes in equity as non-controlling interest. Profit or loss attributable to non-controlling interest is reported in the consolidated profit and loss account as profit or loss attributable to non-controlling interest.

3. STATEMENT OF COMPLIANCE

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

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

4. BASIS OF MEASUREMENT

4.1 These consolidated financial statements have been prepared under the historical cost convention except for land and buildings, certain investments and derivative financial instruments which are revalued as referred to in notes 5.4, 5.8 and 5.12 below.

4.2 These consolidated financial statements are presented in Pak Rupees which is the Group's functional currency and presentation currency.

5. SIGNIFICANT ACCOUNTING POLICIES

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

The Group has adopted the following new and amended IFRS and related interpretations and improvements which became effective during the year:

IFRS 2 - Share-based Payments: Amendments relating to Group Cash-settled Share based Payment Transactions

IFRIC 17 - Distributions of Non-cash Assets to Owners

In May 2008 and April 2009, the IASB issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wordings. These improvements are listed below:

IFRS 2 – Share-based Payments

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

IFRS 8 – Operating Segments

IAS 1 – Presentation of Financial Statements

IAS 7 – Statement of Cash Flows

IAS 17 – Leases

IAS 36 – Impairment of Assets

IAS 38 – Intangible Assets

IFRIC 9 – Reassessment of Embedded Derivatives

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

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

5.2 Cash and cash equivalents

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

5.3 Lendings to / borrowings from financial institutions

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

Sale under repurchase contract

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

Purchase under resale contract

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

5.4 Investments

5.4.1 Investment in associates

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

5.4.2 Other investments are classified as follows:

Held-for-trading

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

Held-to-maturity

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

Available-for-sale

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

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

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

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

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

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

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

5.5 Advances

Loans and advances

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

Net investment in finance lease

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

Ijarah

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

Murabaha

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

5.6 Trade debts

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

5.7 Biological assets

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

5.8 Operating fixed assets

Tangible operating assets - owned

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

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

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

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

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

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

Tangible operating assets - leased

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

Intangible assets

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

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

Capital work-in-progress

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

5.9 Business combinations and goodwill

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

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

5.10 Non-banking assets acquired in satisfaction of claims

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

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

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

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

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

5.12 Financial instruments

Financial assets and financial liabilities

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

Derivative financial instruments

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

Offsetting

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

5.13 Provisions

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

5.14 Provisions against off-balance sheet obligations

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

5.15 Taxation

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

Current

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

Deferred

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

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

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

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

5.16 Employees' benefits

Defined contribution plan

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

Defined benefit scheme

The Group operates 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 valuation is carried out using the Projected Unit Credit Method. The actuarial gains and losses arising at each valuation date are recognised as income or expense in the profit and loss account.

5.17 Revenue recognition

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

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

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

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

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

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

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

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

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

Other income is recognised on accrual basis.

5.18 Foreign currencies transactions

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

5.19 Share issue cost

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

5.20 Dividends and transfers between reserves

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

5.21 Earnings / loss per share

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

5.22 Segment reporting

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

(a) Business segments

Commercial banking

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

Retail banking

This includes mortgage finance and personal loans to individual customers.

Trading and sales

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

Corporate finance

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

Asset management

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

(b) Geographical segments

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

6. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

6.1 Basis of preparation of consolidated financial statements

During the year, the Holding Company has incurred a net loss of Rs. 2,710.669 million and as of 31 December 2010 the accumulated losses of the Holding Company amount to Rs. 7,853.152 million. The paid up capital (net of losses) and the Capital Adequacy Ratio (CAR) of the Holding Company fall short of the regulatory requirements as prescribed by the SBP as also referred to in note 42.2 to the consolidated financial statements. In view of the above regulatory capital requirements and the financial condition of the Holding Company, the sponsors of the Holding Company have entered into an agreement with a foreign investor whereby, equity investment will be made into the Holding Company. Accordingly, subsequent to the year end, the Board of Directors (the Board) in its meeting held on 4 April 2011 has resolved to issue right shares at a subscription price of Rs. 3/- per share to increase the paid up capital of the Holding Company by Rs. 3,000 million, subject to authorisation from the shareholders and requisite regulatory approvals. Further, the management of the Holding Company has prepared financial projections for a period of five years which is approved by the Board. The projections envisage additional capital injection through equity and sub-ordinated debt over a period of next two years into the Holding Company and indicates future profitable operations based on various assumptions such as growth of deposits and advances, investment returns, future loan losses, interest rates, cost of funds etc.

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

6.2 Provision against non-performing loans and advances

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

6.3 Impairment of investments

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

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

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

6.4 Goodwill and intangible assets having indefinite useful life

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

6.5 Deferred tax assets

These are recognized in respect of tax losses to the extent that it is probable that the taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits. The factors considered by the management in this respect are detailed in note 14.3 to the consolidated financial statements.

6.6 Defined benefit scheme

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

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

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

Standard, interpretation or amendment	Effective date (accounting periods beginning on or after)
IAS 32 - Financial Instruments: Presentation - Classification of Right Issues (Amendment)	01 February 2010
IAS 24 - Related Party Disclosures (Revised)	01 January 2011
IAS 12 - Income Taxes: Deferred Tax Amendment - Recognition of Underlying Assets	01 January 2012
IFRIC 14 - IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendments)	01 January 2011
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	01 July 2010

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

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2011. The Group expects that such improvements to the standards will not have any material impact on the Group's financial statements in the period of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Note	2010	2009
(Rupees in '000)			
8. CASH AND BALANCES WITH TREASURY BANKS			
In hand:			
Local currency		895,679	802,470
Foreign currency		231,350	212,730
National Prize Bonds		3,113	6,678
		<u>1,130,142</u>	<u>1,021,878</u>
With State Bank of Pakistan in:			
Local currency current accounts	8.1	1,674,497	1,464,220
Foreign currency current account	8.2	3,437	785
Foreign currency deposit accounts	8.3	256,967	220,769
		<u>1,934,901</u>	<u>1,685,774</u>
With National Bank of Pakistan in :			
Local currency current accounts		207,581	144,131
		<u>3,272,624</u>	<u>2,851,783</u>
8.1	Represent accounts maintained with the SBP as per the requirements of Section 36 of the SBP Act, 1956. This section requires banking companies to maintain a local currency cash reserve in a current account with SBP at a sum not less than such percentage of the Bank's time and demand liabilities in Pakistan as may be prescribed by SBP.		
8.2	Represents US Dollar Settlement Account maintained with SBP.		
8.3	Represent foreign currency cash reserves maintained with SBP equivalent to at least 20 percent of the Holding Company's foreign currency deposits mobilised under the FE-25 scheme.		
9. BALANCES WITH OTHER BANKS			
In Pakistan			
Current accounts		51,442	65,449
Deposit accounts		212,070	36,246
		<u>263,512</u>	<u>101,695</u>
Outside Pakistan			
Current accounts		58,583	8,993
Deposit accounts	9.1	38,211	124,433
		<u>96,794</u>	<u>133,426</u>
		<u>360,306</u>	<u>235,121</u>
9.1	These carry profit rates ranging from 1% to 16.28% (2009: 0.15 % to 12.5 %) per annum.		
10. LENDINGS TO FINANCIAL INSTITUTIONS			
In local currency			
Clean placement	10.1	40,000	-
Repurchase agreement lendings (Reverse Repo)		-	2,804,596
		<u>40,000</u>	<u>2,804,596</u>
10.1	This carry mark-up rate of 15.5% per annum and has matured in February 2011.		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INVESTMENTS

11.1 Investments by types

	Note	2010			2009		
		Held by Group	Given as collateral	Total	Held by Group	Given as collateral	Total
-----Rupees in '000-----							
Held for trading securities							
Ordinary shares of listed companies	11.6	156,634	-	156,634	172,287	-	172,287
Listed term finance certificates	11.8	180,169	-	180,169	-	-	-
Open ended mutual funds	11.11	86,128	-	86,128	-	-	-
		422,931	-	422,931	172,287	-	172,287
Available for sale securities							
Pakistan Investment Bonds		551,760	-	551,760	653,837	-	653,837
Market Treasury Bills		3,949,452	981,149	4,930,601	2,942,583	3,110,828	6,053,411
Ordinary shares of listed companies	11.6	183,411	-	183,411	670,361	-	670,361
Ordinary shares of unlisted companies	11.7	514,785	-	514,785	481,788	-	481,788
Listed Term Finance Certificates	11.8	381,635	-	381,635	420,651	-	420,651
Unlisted Term Finance Certificates	11.9	776,672	-	776,672	595,392	-	595,392
Open ended mutual funds	11.11	500,000	-	500,000	850,000	-	850,000
		6,857,715	981,149	7,838,864	6,614,612	3,110,828	9,725,440
Held to maturity securities							
Pakistan Investment Bonds	11.1.1	640,344	-	640,344	665,565	-	665,565
Unlisted Term Finance Certificates	11.9	1,236,604	-	1,236,604	1,324,752	-	1,324,752
Sukuk Bonds	11.10	19,347	-	19,347	17,179	-	17,179
		1,896,295	-	1,896,295	2,007,496	-	2,007,496
Associates	11.12	2,548,177	-	2,548,177	2,376,007	-	2,376,007
Investments at cost		11,725,118	981,149	12,706,267	11,170,402	3,110,828	14,281,230
Provision for diminution in the value of investments	11.3	(589,182)	-	(589,182)	(707,972)	-	(707,972)
Investments-net of provisions		11,135,936	981,149	12,117,085	10,462,430	3,110,828	13,573,258
Deficit on revaluation of held for trading investments		3,615	-	3,615	7,519	-	7,519
Deficit on revaluation of available-for-sale investments	22.2	(101,184)	(417)	(101,601)	7,312	(7,116)	196
Total investments after revaluation		11,038,367	980,732	12,019,099	10,477,261	3,103,712	13,580,973

11.1.1 The aggregate market value of held to maturity securities as on 31 December 2010 amounted to Rs.1,804.762 million (2009: Rs.1,895.532 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2010

	Note	2010	2009
(Rupees in '000)			
11.2 Investments by segment:			
Federal Government Securities			
Market Treasury Bills	11.4	4,930,601	6,053,411
Pakistan Investment Bonds	11.5	1,192,104	1,319,402
		6,122,705	7,372,813
Fully paid-up ordinary shares			
Listed companies	11.6	340,045	842,648
Unlisted companies	11.7	514,785	481,788
		854,830	1,324,436
Term Finance Certificates			
Listed	11.8	561,804	420,651
Unlisted	11.9	2,013,276	1,920,144
		2,575,080	2,340,795
Sukuk Bonds			
	11.10	19,347	17,179
Units of mutual funds			
	11.11	586,128	850,000
Associates			
<i>Listed</i>			
KASB Asset Allocation Fund		281,443	287,904
KASB Capital Protected Gold Fund		77,009	100,000
KASB Cash Fund		195,548	87,432
KASB Income Opportunity Fund		282,073	300,368
KASB Islamic Income Opportunity Fund		100,840	101,443
KASB Stock Market Fund		187,010	170,209
<i>Unlisted</i>			
KASB International Limited		40,238	37,305
New Horizon Exploration and Production Limited		876,692	753,754
Shakarganj Food Products Limited		507,324	537,592
		2,548,177	2,376,007
Investments at cost			
		12,706,267	14,281,230
Provision for diminution in the value of investments	11.3	(589,182)	(707,972)
Investments - net of provisions			
		12,117,085	13,573,258
Surplus on revaluation of held for trading investments		3,615	7,519
(Deficit) / surplus on revaluation of available for sale investments	22.2	(101,601)	196
Total investments after revaluation			
		12,019,099	13,580,973

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2010

	Note	2010	2009
(Rupees in '000)			
11.3 Particulars of provision for diminution in the value of investments			
Opening balance		707,972	191,636
Charge for the year		105,742	601,634
Provision written off upon sale of investment during the year		(224,532)	(85,298)
Closing balance		589,182	707,972
11.3.1 Particulars of provision in respect of type and segment			
Available for sale investments			
Unlisted Term Finance Certificates		120,762	99,983
Ordinary shares of listed companies		83,986	223,555
Ordinary shares of unlisted company		5,680	5,680
		210,428	329,218
Associates			
New Horizon Exploration and Production Limited	11.3.2	378,754	378,754
		589,182	707,972

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

Value in use computations were performed using discounted cash flows methodology, covering cash flow projections for a period of 10 years and using a pre-tax discount rate of 24% per annum. The calculations of 'value in use' are most sensitive to the following assumptions:

Discount rate:

Discount rate reflects management estimates of the rate of return required for the business and is calculated using capital asset pricing model for computing cost of equity.

Key business assumptions:

These assumptions are important because, by using industry data and historical performance and trends for growth rates, management assess how business activity and its market share may impact the overall projected performance of the business.

Based on the impairment testing, the management has determined that the recoverable amount of the investments in associates exceed their carrying value and accordingly, no further impairment is recognised in the carrying value of such investments.

11.4 Market Treasury Bills

These securities have a maturity period of three months to one year (2009: three months to one year), with yield ranging between 11.99% to 13.19% (2009: 11.84% to 12.02 %) per annum. These securities have an aggregate face value of Rs. 5,051 million (2009: Rs. 6,350 million).

11.5 Pakistan Investment Bonds

These securities have a maturity period of three, five and ten years (2009: three, five and ten years) with interest rates ranging between 8% to 13% (2009: 8% to 13%) per annum. These securities have an aggregate face value of Rs. 1,147 million (2009: Rs. 1,247 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11.6 Ordinary shares of listed companies

Name of security	2010	2009	2010	2009	2010	2009	2010	2009
	Number of shares of Rs.10/- each		Rating		Cost		Market value	
----- (Rupees in '000) -----								
Held for trading								
Allied Bank Limited	103,313	-	AA	-	7,283	-	7,247	-
BankIslami Pakistan Limited	-	200,000	-	A	-	1,450	-	1,174
MCB Bank Limited	-	450	-	AA+	-	82	-	99
United Bank Limited	50,000	203,125	AA+	AA+	3,515	10,040	3,412	11,873
Adamjee Insurance Company Limited	-	100,000	-	AA	-	12,944	-	12,330
Azgard Nine Limited	-	150,000	-	A+	-	2,033	-	3,119
D. G. Khan Cement Company Limited	189,000	-	Unrated	-	5,942	-	5,702	-
Lucky Cement Limited	75,000	-	Unrated	-	5,836	-	5,684	-
Milat Tractors Limited	10,000	-	Unrated	-	5,001	-	4,998	-
Tri Pack Films Limited	20,000	-	A+	-	2,527	-	2,443	-
Kot Addu Power Company Limited	1,445,690	150,000	Unrated	Unrated	58,037	7,606	58,811	6,880
Nishat Chunian Power Limited	-	1,500,000	-	AA	-	15,000	-	15,450
Hub Power Company Limited	-	750,000	-	AA+	-	22,268	-	23,310
Pakistan Petroleum Limited	-	120,032	-	Unrated	-	21,379	-	22,757
Pakistan Oilfields Limited	17,000	157,000	Unrated	Unrated	5,083	35,201	5,031	36,231
Pakistan State Oil Company Limited	-	20,000	-	AA+	-	6,025	-	5,949
Oil & Gas Development Company Limited	5,744	-	AAA	-	984	-	981	-
Agritech Limited	654,000	-	SD	-	19,553	-	15,631	-
Descon Oxychem Limited	-	40,000	-	Unrated	-	320	-	291
Engro Corporation Limited	200,000	105,000	AA	AA	38,726	18,359	38,762	19,243
Fauji Fertilizer Company Limited	-	205,000	-	Unrated	-	19,580	-	21,100
ICI Pakistan Limited	28,500	-	Unrated	-	4,147	-	4,111	-
					<u>156,634</u>	<u>172,287</u>	<u>152,813</u>	<u>179,806</u>
Available for sale								
Descon Oxychem Limited	-	1,800,403	-	Unrated	-	13,303	-	13,089
Engro Chemical Pakistan Limited	100,000	45,000	AA	AA	19,999	8,230	19,381	8,247
Fauji Fertilizer Company Limited	-	30,000	-	Unrated	-	3,135	-	3,088
ICI Pakistan Limited	55,000	19,082	Unrated	Unrated	9,903	3,203	7,933	3,217
KASB Bank Limited	19,858,649	19,858,649	A-	A	116,472	287,756	49,845	146,755
Maple Leaf Cement Factory Limited	-	85,937	-	SD	-	352	-	323
National Bank of Pakistan	-	35,000	-	AAA	-	3,007	-	2,603
Network Microfinance Bank Limited*	3,359,198	3,359,198	BBB+	BBB	10,078	9,875	5,374	9,036
Nishat Chunian Power Limited	-	5,995,000	-	AA	-	63,060	-	61,749
Nishat Power Limited	-	3,059,990	-	AA	-	38,251	-	38,954
Oil & Gas Development Company Limited	-	51,878	-	AAA	-	5,630	-	5,738
Pak Suzuki Motor Company Limited	-	389,000	-	Unrated	-	30,968	-	34,606
Pakistan International Airlines Corporation	-	4,960,500	-	Unrated	-	17,412	-	12,947
Pakistan Oil Fields Limited	-	30,000	-	Unrated	-	6,801	-	6,923
Pakistan Petroleum Limited	-	90,000	-	Unrated	-	16,933	-	17,063
Pakistan State Oil Company Limited	-	80,000	-	AA+	-	25,926	-	23,795
Shell Pakistan Limited	95,000	51,052	Unrated	Unrated	26,959	13,680	19,780	12,781
The Hub Power Company Limited	-	3,475,000	-	AA+	-	122,839	-	108,001
					<u>183,411</u>	<u>670,361</u>	<u>102,313</u>	<u>508,915</u>

* These shares have been blocked by the Central Depository Company of Pakistan Limited in compliance with BPRD Circular No. 4 dated 22 May 2008 issued by the SBP. According to the circular, ownership of sponsors / majority shareholding in Groups 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 SBP.

11.7 Ordinary shares of unlisted companies - Available for sale

Name of security	2010	2009	2010	2009	2010	2009	2010	2009
	Number of shares		Rating		Cost		Carrying value	
----- (Rupees in '000) -----								
Al Jomiah Power Limited								
Face value per share : USD 1,000/-	3,370	3,000	Unrated	Unrated	184,197	151,200	184,197	151,200
Evolve Capital Limited - incorporated in British Virgin Islands (related party)								
Face value per share : USD 0.0845/-	5,400,000	5,400,000	Unrated	Unrated	314,908	314,908	314,908	314,908
Breakup value per share: USD 2.23/- (based on un-audited financial statements of 31 December 2010)								
Chief Executive: Mr. Khaled Al Muhairy								
Khushhali Bank Limited								
Face value per share : Rs. 10/-	1,000,000	1,000,000	A-	A-	10,000	10,000	10,000	10,000
Breakup value per share: Rs. 12.18/- (based on audited financial statements of 31 December 2009)								
Chief Executive: Mr. M Ghalib Nishtar								
Pakistan Export Finance Guarantee Agency Limited								
Face value per share : Rs. 10/-	568,044	568,044	Unrated	Unrated	5,680	5,680	-	-
Breakup value per share: Rs. 0.50/- (based on un-audited financial statements of 30 June 2010)								
Chief Executive: Mr. S.M. Zaem								
					<u>514,785</u>	<u>481,788</u>	<u>509,105</u>	<u>476,108</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11.8 Listed Term Finance Certificates

Name of security	2010	2009	2010	2009	2010	2009	2010	2009
	No. of certificates of Rs. 5,000/- each		Rating		Cost		Market value	
	----- (Rupees in '000) -----							
Held for trading								
NIB Bank Limited	22,030	-	AA / A1+	-	107,949	-	107,960	-
Pace (Pakistan) Limited	10,000	-	AA / A1+	-	45,339	-	45,389	-
Soneri Bank Limited	2,000	-	A+	-	9,952	-	9,952	-
United Bank Limited (3rd Issue)	3,400	-	AA	-	16,929	-	16,929	-
					180,169	-	180,230	-
Available for sale								
Allied Bank Limited	2,000	2,000	AA-	A+	9,996	10,000	9,616	8,950
Telecard Limited	3,000	3,000	BBB- / A3	BBB	5,334	6,536	5,276	6,135
Trust Investment Bank Limited	9,000	9,000	BBB	A	32,051	42,400	32,010	40,284
United Bank Limited (2nd Issue)	16,232	16,232	AA	AA	81,141	81,144	71,097	69,855
United Bank Limited (4th Issue)	18,000	18,000	AA	AA	84,580	83,908	85,541	79,309
World Call Telecom Limited	39,348	39,348	A	A	168,533	196,663	163,754	185,416
					381,635	420,651	367,294	389,949
					561,804	420,651	547,524	389,949

11.8.1 Particulars of Listed Term Finance Certificates - Available for sale

Particulars	Profit rate per annum	Profit payment	Redemption terms	Maturity
Allied Bank Limited	Six months KIBOR + 0.85%	Semi-annually	Principal to be paid in 20 installments. First 19 installments of Re. 1 per certificate and subsequent installment of Rs 4,981 per certificate.	August 2019
Telecard Limited	Six months KIBOR + 3.75%	Semi-annually	Principal to be paid in 16 equal installments.	November 2013
Trust Investment Bank Limited	Six months KIBOR + 1.85%	Semi-annually	Principal to be paid in 10 installments. First 2 installments of Re. 1 per certificate and 8 subsequent installment of Rs. 625 per certificate.	July 2013
United Bank Limited (2nd Issue)	Fixed 9.49%	Semi-annually	Principal to be paid in 16 equal installments.	March 2013
United Bank Limited (4th Issue)	Six months KIBOR + 0.85%	Semi-annually	Principal to be paid in 20 installments. First 19 installments of Re. 1 per certificate and subsequent installment of Rs 4,981 per certificate.	February 2018
Worldcall Telecom Limited	Six months KIBOR + 1.6%	Semi-annually	Principal to be paid in 10 installments. First 3 installments of Re. 1 per certificate and 7 subsequent installments of Rs. 714 per certificate.	October 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11.9 Unlisted Term Finance Certificates

Name of security	Note	2010	2009	2010	2009	2010	2009
		No. of certificates of Rs. 5,000/- each unless otherwise specified		Rating		Cost	
(Rupees in '000)							
Available for sale							
Agritech Limited	11.9.1	30,000	30,000	CCC	Unrated	150,097	150,225
Azgard Nine Limited (3rd Issue)	11.9.1	5,614	5,614	CCC(RW)	AA-	28,066	28,103
Engro Chemical Pakistan Limited		41,640	41,640	AA	AA	209,447	209,616
New Khan Transport Company Limited*	11.9.1	140	140	Unrated	Unrated	70,762	74,983
Nishat Chunian Limited		39,000	-	A+	-	195,000	-
Pakistan Mobile Communication (Private) Limited		5,000	5,000	A+	AA-	20,800	24,965
Shakarganj Mills Limited	11.9.1	20,000	20,000	D	Unrated	100,000	100,000
Tandlianwala Sugar Mills Limited		5,000	5,000	Unrated	Unrated	2,500	7,500
						776,672	595,392
Held to maturity							
Avari Hotel International		60,000	60,000	A-	A-	254,744	300,000
Azgard Nine Limited (3rd Issue)	11.9.1	34,986	34,986	CCC(RW)	AA-	174,860	174,895
Kashf Foundation		-	20,000	-	A-	-	42,857
Power Holding (Private) Limited		- **	- **	Unrated	Unrated	807,000	807,000
						1,236,604	1,324,752
						2,013,276	1,920,144

11.9.1 These securities have been classified as non-performing in accordance with the requirements of Prudential Regulations. However, in terms of SBP directives, the Group has availed relaxation in respect of provisioning against non-performing securities to the extent of the Rs. 176.359 million.

* Face value of Rs.1,000,000 per certificate.

** Represents Pre-IPO investment.

11.9.2 Particulars of Unlisted Term Finance Certificates - Available for sale

Particulars	Profit rate per annum	Profit payment	Redemption terms	Maturity
Agritech Limited	Six months KIBOR + 1.75%	Semi-annually	Principal to be paid in 14 installments. First 4 installments of Re. 1 per certificate and 10 subsequent installments of Rs 499.6 per certificate.	November 2014
Azgard Nine Limited	Six months KIBOR + 1.00%	Semi-annually	Principal to be paid in 14 installments. First 4 installments of Re. 1 per certificate and 10 subsequent installments of Rs 499.6 per certificate.	December 2014
Engro Chemical Pakistan Limited	Six months KIBOR + 1.7%	Semi-annually	Bullet payment at the end of term.	September 2014
New Khan Transport Company	Six months KIBOR + 4.5%	Monthly	Principal to be paid in 64 variable monthly installments.	October 2013
Nishat Chunian Limited	Three months KIBOR + 2.25%	Quarterly	Principal to be paid in 16 equal quarterly installments.	September 2015
Pakistan Mobile Communication (Private) Limited	Six months KIBOR + 2.85%	Semi-annually	Principal to be paid in 14 installments. First 8 installments of Re. 1 per certificate and 6 subsequent installments of Rs. 832 per certificate.	June 2013
Shakarganj Mills Limited	Six months KIBOR + 2.75%	Semi-annually	Principal to be paid in 10 equal installments.	September 2014
Tandlianwala Sugar Mills Limited	Six months KIBOR + 2.75%	Annually	Principal to be paid in 10 equal installments amounting to Rs. 500 per certificate.	January 2011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11.10 Sukuk Bonds - Held to maturity

	2010	2009	2010	2009	2010	2009
	No. of certificates of Rs. 5,000/- each		Rating		Cost	
					---(Rupees in '000)---	
Kohat Cement Company Limited	2,000	2,000	Unrated	Unrated	8,980	7,179
Maple Leaf Cement Factory Limited	2,000	2,000	BBB	SD	10,000	10,000
Maple Leaf Cement Factory Limited	75	-	BBB	SD	367	-
					<u>19,347</u>	<u>17,179</u>

11.11 Units of mutual funds

Name of fund	2010	2009	Face value per unit (Rupees)	2010	2009	2010	2009	2010	2009
	Number of units			Rating	Cost		Net assets value		
Held for trading									
MCB Cash Management Optimizer Fund	554,735	-	100	AA (f)	-	51,128	-	56,698	-
BMA Empress Cash Fund	1,031,821	-	10	AM2-	-	10,000	-	10,914	-
ABL Cash Fund	2,584,318	-	10	AA+(f)	-	25,000	-	25,866	-
						<u>86,128</u>	<u>-</u>	<u>93,478</u>	<u>-</u>
Available for sale									
Askari Income Fund	-	1,971,220	100	-	5-star	-	200,000	-	209,384
Faysal Saving Growth Fund	-	1,468,716	100	-	A(f)	-	150,000	-	151,146
NAFA Cash Fund	46,474,448	46,474,448	10	A+(f)	A(f)	500,000	500,000	473,264	472,495
						<u>500,000</u>	<u>850,000</u>	<u>473,264</u>	<u>833,025</u>

Note	2010	2009	2010	2009
	Number of shares / units		Carrying value (Rupees in '000)	

11.12 Associates (under equity method of accounting)

KASB Asset Allocation Fund Par value per unit: Rs 50 /- Net asset value per unit: Rs. 43.80 /- (based on reviewed financial statements for the period ended 31 December 2010) Percentage of holding: 66.52% (2009: 58.31%) Management Company - KASB Funds Limited	11.12.1	6,425,641	6,400,709	281,443	287,904
KASB Capital Protected Gold Fund Par value per unit: Rs 100 /- Net asset value per unit: Rs. 105.26 /- (based on reviewed financial statements for the period ended 31 December 2010) Percentage of holding: 15.81% (2009: 83.58%) Management Company - KASB Funds Limited	11.12.2	731,634	1,000,000	77,009	100,000
KASB Cash Fund Par value per unit: Rs 100 /- Net asset value per unit: Rs. 101.01 /- (based on reviewed financial statements for the period ended 31 December 2010) Percentage of holding: 30.21% (2009: 33.20%) Management Company - KASB Funds Limited		1,375,982	856,683	195,548	87,432
KASB Income Opportunity Fund Par value per unit: Rs 100 /- Net asset value per unit: Rs. 83.92 /- (based on reviewed financial statements for the period ended 31 December 2010) Percentage of holding: 38.42% (2009: 23.00%) Management Company - KASB Funds Limited		3,361,101	3,390,596	282,073	300,368
KASB Islamic Income Opportunity Fund Par value per unit: Rs 100 /- Net asset value per unit: Rs. 97.23 /- (based on reviewed financial statements for the period ended 31 December 2010) Percentage of holding: 47.94% (2009: 28.16%) Management Company - KASB Funds Limited		1,037,084	1,037,084	100,840	101,443

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Note	2010		2009	
		Number of shares / units		Carrying value	
		(Rupees in '000)			
KASB Stock Market Fund	11.12.1	6,289,271	6,400,709	187,010	170,209
Par value per unit: Rs 50 /-					
Net asset value per unit: Rs. 29.73 /- (based on reviewed financial statements for the period ended 31 December 2010)					
Percentage of holding: 63.75% (2009: 66.92%)					
Management Company - KASB Funds Limited					
KASB International Limited - incorporated in Mauritius		283,000	283,000	40,238	37,305
Face value per share: USD 1 /-					
Break-up value per share: Rs. 177.24 /- (based on unaudited financial statements for the year ended 31 December 2010)					
Percentage of holding: 21.78% (2009: 21.78%)					
Chief Executive: Mr. Farid Masood					
New Horizon Exploration and Production Limited	11.12.1	99,200,000	75,000,000	876,692	753,754
Face value per share: Rs 1 /-					
Break-up value per share: Rs. 3.16 /- (based on unaudited financial statements for the period ended 31 December 2010)					
Percentage of holding: 42.95% (2009: 40.00%)					
Chief Executive: Mr. Syed Wamiq Abrar Bukhari					
Shakarganj Food Products Limited		60,950,000	60,950,000	507,324	537,592
Face value per share: Rs 10 /-					
Break-up value per share: Rs. 2.54 /- (based on unaudited financial statements for the year ended 31 December 2010)					
Percentage of holding: 40.20% (2009: 45.31%)					
Chief Executive: Mr. Anjum Saleem					
				<u>2,548,177</u>	<u>2,376,007</u>

11.12.1 Includes 5,019,070 units of KASB Asset Allocation Fund, 2,429,696 units of KASB Stock Market Fund and 61,600,000 ordinary shares of New Horizon Exploration and Production Limited that have been classified by the Group as strategic investment in accordance with the BPRD Circular Letter No. 16 dated 01 August 2006 issued by the SBP.

11.12.2 Includes investments in seed capital of KASB Capital Protected Gold Fund amounting to Rs. 50 million which is required to be held up till 19 March 2010.

11.12.3 Reconciliation of investments in associates

Particulars	2010										Total
	Shakarganj Food Products Limited	New Horizon Exploration and Production Limited	Network Microfinance Bank Limited	KASB Income Opportunity Fund	KASB Asset Allocation Fund	KASB Islamic Income Opportunity Fund	KASB Stock Market Fund	KASB Cash Fund	KASB Capital Protected Gold Fund	KASB International Limited	
(Rupees in '000)											
As at 1 January 2010	537,592	375,000	-	300,368	287,904	101,443	170,209	87,432	100,000	37,305	1,997,253
Net investments during the year	-	121,000	-	(32,809)	684	2,134	30,261	96,399	(28,896)	-	188,773
Post-acquisition changes during the year:											
Recognized in the profit and loss account	(30,268)	1,938	-	(115,125)	10,868	(392)	(13,460)	13,656	5,905	2,933	(123,945)
Recognized in surplus / deficit on revaluation of assets	-	-	-	129,639	(377)	(2,345)	-	-	-	-	126,917
	(30,268)	1,938	-	14,514	10,491	(2,737)	(13,460)	13,656	5,905	2,933	2,972
	<u>507,324</u>	<u>497,938</u>	<u>-</u>	<u>282,073</u>	<u>299,079</u>	<u>100,840</u>	<u>187,010</u>	<u>197,487</u>	<u>77,009</u>	<u>40,238</u>	<u>2,188,998</u>
Less: Dividend income received during the year	-	-	-	-	(17,636)	-	-	(1,939)	-	-	(19,575)
As at 31 December 2010	<u>507,324</u>	<u>497,938</u>	<u>-</u>	<u>282,073</u>	<u>281,443</u>	<u>100,840</u>	<u>187,010</u>	<u>195,548</u>	<u>77,009</u>	<u>40,238</u>	<u>2,169,423</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2010

Reconciliation of investments in associates

Particulars	2009										Total
	Shakarganj Food Products Limited	New Horizon Exploration and Production Limited	Network Microfinance Bank Limited	KASB Income Opportunity Fund	KASB Asset Allocation Fund	KASB Islamic Income Opportunity Fund	KASB Stock Market Fund	KASB Cash Fund	KASB Capital Protected Gold Fund	KASB International Limited	
	(Rupees in '000)										
As at 1 January 2009	627,942	500,000	10,078	-	298,424	204,036	122,406	-	-	-	1,762,886
Net investments during the year	-	250,000	(9,875)	331,416	-	(100,511)	43,061	85,408	100,000	25,484	724,983
Post-acquisition changes during the year:											
Recognized in the profit and loss account	(90,350)	3,754	(203)	(57,034)	(9,836)	15,347	(6,392)	3,524	-	11,821	(129,369)
Recognized in surplus / deficit on revaluation of assets	-	-	-	30,187	(684)	(2,134)	(8,747)	-	-	-	18,622
	(90,350)	3,754	(203)	(26,847)	(10,520)	13,213	(15,139)	3,524	-	11,821	(110,747)
Less: Dividend income received during the year	537,592	753,754	-	304,569	287,904	116,738	150,328	88,932	100,000	37,305	2,377,122
	-	-	-	(4,201)	-	(15,295)	-	(1,500)	-	-	(20,996)
	537,592	753,754	-	300,368	287,904	101,443	150,328	87,432	100,000	37,305	2,356,126
(Provision) / reversal of permanent diminution in the value of investment	-	(378,754)	-	-	-	-	19,881	-	-	-	(358,873)
As at 31 December 2009	537,592	375,000	-	300,368	287,904	101,443	170,209	87,432	100,000	37,305	1,997,253

	Note	2010	2009
(Rupees in '000)			
12. ADVANCES			
Loans, cash credits, running finances, etc. - in Pakistan	12.2	33,533,900	32,017,841
Net investment in finance lease - in Pakistan	12.3	1,234,836	1,516,778
Ijarah financing	12.4	45,683	78,557
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		445,695	334,957
Payable outside Pakistan		260,200	106,563
		705,895	441,520
Advances - gross		35,520,314	34,054,696
Provision against non performing loans and advances			
Specific provision	12.5	(5,290,696)	(4,105,928)
General provision	12.6	(20,234)	(32,322)
	12.7	(5,310,930)	(4,138,250)
Advances - net of provisions		30,209,384	29,916,446
12.1 Particulars of advances - gross			
12.1.1 In local currency		35,260,114	33,948,066
In foreign currencies		260,200	106,563
		35,520,314	34,054,629
12.1.2 Short-term (upto one year)		29,361,180	28,420,345
Long-term (over one year)		6,159,134	5,634,284
		35,520,314	34,054,629
12.2 Include following islamic financing facilities given by KASB Modaraba:			
Murabaha finance	12.2.1	338,336	239,201
Modaraba finance		34,699	2,190
Musharaka finance		47,699	87,222
Diminishing musharaka finance	12.2.2	232,129	51,677
		652,863	380,290
12.2.1 Murabaha finance			
Murabaha receivables - gross		413,086	246,503
Less: unearned income		(74,750)	(7,302)
		338,336	239,201
12.2.2 Diminishing musharaka finance			
Diminishing musharaka receivable-gross		300,988	66,755
Less: Unearned income		(68,859)	(15,078)
		232,129	51,677

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12.3 Net investment in finance lease

	2010			2009				
	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	759,204	430,579	-	1,189,783	866,366	646,679	-	1,513,045
Residual value	98,143	114,319	-	212,462	112,785	129,739	-	242,524
Minimum lease payments	857,347	544,898	-	1,402,245	979,151	776,418	-	1,755,569
Finance charge for future periods	(112,132)	(55,277)	-	(167,409)	(142,200)	(96,591)	-	(238,791)
Present value of minimum lease payments	745,215	489,621	-	1,234,836	836,951	679,827	-	1,516,778

12.4 Ijarah financing

	2010			
	Plant & Machinery	Motor vehicles	Computers and accessories	Total
----- (Rupees in '000) -----				
As at 31 December 2009				
Cost	46,868	46,114	738	93,720
Accumulated depreciation	(7,362)	(7,738)	(63)	(15,163)
Net book value	39,506	38,376	675	78,557
Additions during the year - at cost	-	449	-	449
Disposals during the year				
Cost	-	(16,805)	(28)	(16,833)
Accumulated depreciation	-	7,529	25	7,554
Depreciation charge for the year	(12,181)	(11,669)	(194)	(24,044)
As at 31 December 2010				
Cost	46,868	29,758	710	77,336
Accumulated depreciation	(19,543)	(11,878)	(232)	(31,653)
Net book value	27,325	17,880	478	45,683
----- (Rupees in '000) -----				
2009				
	Plant & Machinery	Motor vehicles	Computers and accessories	Total
----- (Rupees in '000) -----				
As at 31 December 2008				
Cost	-	8,611	28	8,639
Accumulated depreciation	-	(777)	(7)	(784)
Net book value	-	7,834	21	7,855
Additions during the year - at cost	47,578	39,211	-	86,789
Disposals during the year				
Cost	-	(1,709)	-	(1,709)
Accumulated depreciation	-	384	-	384
Depreciation charge for the year	(7,400)	(7,345)	(17)	(14,762)
As at 31 December 2009				
Cost	47,578	46,113	28	93,719
Accumulated depreciation	(7,400)	(7,738)	(24)	(15,162)
Net book value	40,178	38,375	4	78,557

12.5 Particulars of non-performing loans and advances

Advances include Rs 9,618 million (2009: Rs 7,354 million) which have been placed under non-performing status as detailed below:

Category of classification	2010			Provision required	Provision held
	Domestic	Overseas	Total		
------(Rupees in '000)-----					
Substandard	941,780	-	941,780	129,645	129,645
Doubtful	2,190,455	-	2,190,455	723,618	723,618
Loss	6,485,644	-	6,485,644	4,437,433	4,437,433
	<u>9,617,879</u>	<u>-</u>	<u>9,617,879</u>	<u>5,290,696</u>	<u>5,290,696</u>

Category of classification	2009			Provision required	Provision held
	Domestic	Overseas	Total		
------(Rupees in '000)-----					
Substandard	295,381	-	295,381	49,766	49,766
Doubtful	1,915,300	-	1,915,300	682,205	682,205
Loss	5,144,672	-	5,144,672	3,373,957	3,373,957
	<u>7,355,353</u>	<u>-</u>	<u>7,355,353</u>	<u>4,105,928</u>	<u>4,105,928</u>

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

12.7 Particulars of provision against non-performing loans and advances

Note	2010			2009		
	Specific	General	Total	Specific	General	Total
------(Rupees in '000)-----						
Opening balance	4,105,928	32,322	4,138,250	2,875,909	48,745	2,924,654
Charge for the year	1,797,509	-	1,797,509	2,158,238	-	2,158,238
Reversals	(605,409)	(12,088)	(617,497)	(847,298)	(16,423)	(863,721)
	1,192,100	(12,088)	1,180,012	1,310,940	(16,423)	1,294,517
Transfer	-	-	-	945	-	945
Amounts written off	(7,332)	-	(7,332)	(81,866)	-	(81,866)
Closing balance	<u>5,290,696</u>	<u>20,234</u>	<u>5,310,930</u>	<u>4,105,928</u>	<u>32,322</u>	<u>4,138,250</u>

12.7.1 In terms of SBP directives, the Holding Company has availed relaxation in respect of provisioning against non-performing facilities of certain borrowers aggregating to Rs.1,636.79 million (2009:Rs.1,328.736 million). Had the provision been made as per the requirements of Prudential Regulations, the provision against non-performing advances and loss before taxation for the year would have been higher by Rs. 495.1 million (2009:Rs. 242.967 million).

12.7.2 Provision against non performing advances has been calculated after taking the benefit of 40% of forced sales value of pledged stocks and mortgaged commercial, residential and industrial properties held as collateral against all non-performing advances for 3 years from the date of classification. The additional impact on profitability arising from availing such benefit would not be available for payment of cash or stock dividend. Had no such benefit been taken, the provision against non-performing advances and loss before taxation for the year would have been higher and advances (net of provisions) as at 31 December 2010 would have been lower by approximately Rs. 1,259.37 million (2009: Rs. 1,045.782 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12.7.3 Particulars of provision against non-performing loans and advances

	2010		2009	
	Specific	General	Specific	General
	----- (Rupees in '000) -----			
In local currency	5,290,696	20,234	4,105,928	32,322
In foreign currencies	-	-	-	-
	<u>5,290,696</u>	<u>20,234</u>	<u>4,105,928</u>	<u>32,322</u>

	Note	2010	2009
		(Rupees in '000)	
12.8 Particulars of write-offs			
12.8.1 Against provisions		7,332	81,866
Directly charged to the profit and loss account		<u>21,505</u>	<u>1,156</u>
		<u>28,837</u>	<u>83,022</u>
12.8.2 Write-offs of Rs 500,000/- and above	12.8.3	22,961	81,779
Write-offs of below Rs 500,000/-		<u>5,876</u>	<u>1,243</u>
		<u>28,837</u>	<u>83,022</u>
12.8.3 In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written off loans or any other financial relief of Rs.500,000 or above allowed to a person(s) during the year ended 31 December 2010 is given in 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.			

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

	Note	2010	2009
		(Rupees in '000)	
Debts due by directors, executives or officers of the Group or any of them either severally or jointly with any other persons			
Balance at beginning of the year		800,006	635,125
Adjustment during the year		-	112
Loans granted during the year		308,836	288,243
Repayments		<u>(307,505)</u>	<u>(123,474)</u>
Balance at end of the year		<u>801,337</u>	<u>800,006</u>
Debts due by companies or firms in which the directors of the Group are interested as directors, partners or in the case of private companies as members			
Balance at beginning of the year		251,555	2,722
Adjustment during the year	41.1	<u>(250,000)</u>	-
Loans granted during the year		-	250,000
Repayments		<u>(1,167)</u>	<u>(1,167)</u>
Balance at end of the year		<u>388</u>	<u>251,555</u>
Debts due by associates and other related parties			
Balance at beginning of the year		90,000	-
Loans granted during the year		285,681	115,000
Repayments		<u>(246,036)</u>	<u>(25,000)</u>
Balance at end of the year		<u>129,645</u>	<u>90,000</u>
13. OPERATING FIXED ASSETS			
Capital work-in-progress	13.1	1,280,303	664,253
Property and equipment	13.2	2,552,546	2,553,385
Intangible assets	13.3	<u>708,929</u>	<u>810,038</u>
		<u>4,541,778</u>	<u>4,027,676</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Note	2010	2009
(Rupees in '000)			
13.1 Capital work-in-progress			
Civil works		21,713	20,408
Equipment		1,443	34,812
Advances to suppliers and contractors		8,237	14,586
Advance for acquiring properties			
Office premises	13.1.1	721,903	562,286
Land	13.1.2	466,360	-
		1,188,263	562,286
Computer software		60,647	32,161
		1,280,303	664,253

13.1.1 The Holding Company had entered into an agreement with KASB Developers (Private) Limited (KDPL) for acquiring a commercial space, in KASB Altitude, (a project of KDPL). As per the terms of the agreement, KDPL has undertaken construction of a multi-storeyed building and would enter into a sub-lease agreement in respect of the floors being purchased by the Holding Company. Presently, the Holding Company intends to acquire four floors in KASB Altitude measuring approximately 52,668 square feet, at an aggregate consideration of Rs 947 million. As at 31 December 2010, the Holding Company has paid a total amount of Rs 721.903 million to KDPL. The project is expected to be completed within 48 months from the date of commencement of construction, that is, January 2008. The management believes that the project will not have any significant completion issues.

13.1.2 During the year, a subsidiary company has acquired approved housing scheme land consisting of 375 residential plots for an aggregate purchase consideration of Rs. 300 million. Under the agreement, the subsidiary has also paid a sum of Rs. 75 million as development charges to the developers for completion of all development work on the aforementioned land.

In addition, the subsidiary has also purchased 26 residential plots from a related party through a separate agreement entered into between the subsidiary and the related party. In this respect the subsidiary has paid Rs. 91 million to acquire such plots.

The subsidiary is in the process of completing the legal formalities for the transfer of ownership title of these properties in the name of the subsidiary. The above properties are held mainly for capital appreciation and sale in due course of business and accordingly have been classified as investment properties.

The market value of the above stated properties as per the valuation of independent professional valuer amounted to Rs. 498.600 million at the time of the acquisition of plots.

13.2 Property and equipment

	COST / REVALUATION				DEPRECIATION					BOOK VALUE		
	As at 1 January 2010	Additions	Deletions	Reclassifications	As at 31 December 2010	As at 1 January 2010	Charge for the year	Deletions	Reclassifications	As at 31 December 2010	As at 31 December 2010	Rate of depreciation (%)
------(Rupees in '000)-----												
Owned												
Freehold land	236,036	38,546	(20,400)	-	254,182	-	-	-	-	-	254,182	-
Leasehold land	165,126	5,350	(3,672)	-	166,804	-	-	-	-	-	166,804	-
Buildings and leasehold improvements	1,661,456	72,188	-	(29,486)	1,704,158	167,439	83,277	(394)	(13,900)	236,422	1,467,736	5
Furniture and fixtures	197,288	24,638	(1,873)	24,547	244,600	60,201	20,817	(645)	17,141	97,514	147,086	10
Motor vehicles	266,040	73,152	(68,219)	1,815	272,788	65,281	38,728	(20,972)	(782)	82,255	190,533	20
Electrical, office and computer equipment	879,729	151,819	(7,347)	(8,408)	1,015,793	568,227	144,832	(3,124)	(15,918)	694,017	321,776	20-33.33
	3,405,675	365,693	(101,511)	(11,532)	3,658,325	861,148	287,654	(25,135)	(13,459)	1,110,208	2,548,117	
Leased												
Motor vehicles	4,248	-	-	(1,815)	2,433	1,111	402	-	782	2,295	138	20
Electrical, office and computer equipment	7,153	-	-	-	7,153	1,431	1,431	-	-	2,862	4,291	20-33.33
	11,401	-	-	(1,815)	9,586	2,542	1,833	-	782	5,157	4,429	
2010	3,417,076	365,693	(101,511)	(13,347)	3,667,911	863,690	289,487	(25,135)	(12,677)	1,115,365	2,552,546	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2010

	COST / REVALUATION				DEPRECIATION					BOOK VALUE		
	As at 1 January 2009	Additions	Deletions	Reclassifications	As at 31 December 2009	As at 1 January 2009	Charge for the year	Deletions	Reclassifications	As at 31 December 2009	As at 31 December 2009	Rate of depreciation (%)
(Rupees in '000)												
Owned												
Freehold land	158,103	77,933	-	-	236,036	-	-	-	-	-	236,036	-
Leasehold land	110,126	55,000	-	-	165,126	-	-	-	-	-	165,126	-
Buildings and leasehold improvements	1,241,050	272,736	-	147,670	1,661,456	78,988	75,330	-	13,121	167,439	1,494,017	5
Furniture and fixtures	117,235	50,748	(1,386)	30,691	197,288	38,353	15,969	(705)	6,584	60,201	137,087	10
Motor vehicles	217,234	76,203	(43,557)	16,160	266,040	34,006	37,282	(12,755)	6,748	65,281	200,759	20
Electrical, office and computer equipment	613,013	139,761	(918)	127,873	879,729	357,375	120,321	(674)	91,205	568,227	311,502	20-33.33
	2,456,761	672,381	(45,861)	322,394	3,405,675	508,722	248,902	(14,134)	117,658	861,148	2,544,527	
Leased												
Motor vehicles	6,032	-	-	(1,785)	4,247	2,177	2,002	-	(3,068)	1,111	3,136	20
Electrical, office and computer equipment	7,153	-	-	-	7,153	-	1,431	-	-	1,431	5,722	20-33.33
	13,185	-	-	(1,785)	11,400	2,177	3,433	-	(3,068)	2,542	8,858	
2009	2,469,946	672,381	(45,861)	320,609	3,417,075	510,899	252,335	(14,134)	114,590	863,690	2,553,385	

2010 **2009**
(Rupees in '000)

13.2.1 Carrying amount of temporarily idle properties	<u>132,120</u>	<u>134,782</u>
13.2.2 Cost of fully depreciated assets still in use	<u>219,098</u>	<u>433,424</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2010

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

Particulars	Cost	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
(Rupees in '000)					
Land	20,400	20,400	20,400	Negotiation	A to Z Construction Company
Building	3,672	3,278	5,230	Negotiation	A to Z Construction Company
Furniture and fixtures	500	437	358	Terms of employment	Imran Qureshi - Former employee
Furniture and fixtures	750	569	425	Terms of employment	Sami Aziz - Former employee
Motor vehicles	2,750	1,459	1,476	Terms of employment	Farrukh Sabzwari - Former employee
Motor vehicles	1,852	1,435	1,458	Terms of employment	Shehriyar Ali Shah - Former employee
Motor vehicles	1,725	1,164	1,164	Terms of employment	Munawar Saleem - Former employee
Motor vehicles	1,725	1,164	1,272	Terms of employment	Sami Aziz - Former employee
Motor vehicles	1,568	1,156	1,156	Terms of employment	Farrukh Iqbal - Former employee
Motor vehicles	1,561	1,151	1,190	Terms of employment	Amir Zahoor - Former employee
Motor vehicles	1,561	1,034	1,034	Terms of employment	Laila Hamayun - Former employee
Motor vehicles	1,389	1,215	1,267	Terms of employment	Usman Hayat Noon - Former employee
Motor vehicles	1,389	1,163	1,198	Terms of employment	Shahzad Iqbal - Former employee
Motor vehicles	1,359	1,257	1,342	Terms of employment	Sami Aziz - Former employee
Motor vehicles	1,354	1,117	1,117	Terms of employment	Latif Khawar - Former employee
Motor vehicles	1,336	723	723	Terms of employment	Kamran Ansari Former employee
Motor vehicles	1,319	1,154	1,171	Terms of employment	Haider Karim - Former employee
Motor vehicles	1,312	1,050	1,099	Terms of employment	Sohail Sarfaraz - Former employee
Motor vehicles	1,209	1,013	1,028	Terms of employment	Andrew Peter Kenneth - Former employee
Motor vehicles	1,202	1,156	1,171	Terms of employment	Khurram Saleem - Former employee
Motor vehicles	1,100	701	770	Terms of employment	Asim Yaqoob - Former employee
Motor vehicles	1,100	688	715	Terms of employment	Raza Sayeed - Former employee
Motor vehicles	1,095	698	739	Terms of employment	Anwer Saeed - Former employee
Motor vehicles	1,086	829	843	Terms of employment	Kamran Khan - Former employee
Motor vehicles	1,081	786	799	Terms of employment	Mian M Khan - Former employee
Motor vehicles	1,060	808	808	Terms of employment	Farrukh Iqbal - Former employee
Motor vehicles	1,053	724	724	Terms of employment	Laila Hamayun - Former employee
Motor vehicles	1,002	777	789	Terms of employment	Asim Sohail - Former employee
Motor vehicles	1,002	777	864	Terms of employment	Kashif Ejaz - Former employee
Motor vehicles	995	697	709	Terms of employment	Khalid Zafar - Former employee
Motor vehicles	988	766	790	Terms of employment	Shahzad Mehmood - Former employee
Motor vehicles	988	741	790	Terms of employment	Ramiz Hasan - Former employee
Motor vehicles	969	284	297	Terms of employment	Aftab Changi - Former employee
Motor vehicles	888	666	677	Terms of employment	Arzoo M Alam - Former employee
Motor vehicles	888	643	643	Terms of employment	Tariq Pasha - Former employee
Motor vehicles	888	621	632	Terms of employment	Sambreen ahmed - Former employee
Motor vehicles	888	599	621	Terms of employment	Farhad Imdad - Former employee
Motor vehicles	888	566	621	Terms of employment	Syed Farrukh Raza - Executive
Motor vehicles	881	617	661	Terms of employment	Khalid Rafique - Former employee
Motor vehicles	879	498	501	Terms of employment	Waqas Usmani - Former employee
Motor vehicles	710	595	612	Terms of employment	Akhlaq Ahmed - Former employee
Motor vehicles	710	568	586	Terms of employment	Moazzam Bashir - Former employee
Motor vehicles	705	617	617	Terms of employment	Umar Farooq - Former employee
Motor vehicles	660	586	586	Terms of employment	Mustafa Haider - Former employee
Motor vehicles	652	571	579	Terms of employment	Junaid Iqbal - Former employee
Motor vehicles	647	582	582	Terms of employment	Mehdi Ali Syed - Former employee
Motor vehicles	642	602	626	Terms of employment	Jameel Ahmed - Former employee
Motor vehicles	642	594	602	Terms of employment	Shahid Raza - Former employee
Motor vehicles	642	562	562	Terms of employment	Asif Ali - Former employee
Motor vehicles	620	442	442	Terms of employment	Amanullah Shaikh - Former employee
Motor vehicles	590	443	450	Terms of employment	Shumaila Sarwar - Former employee
Motor vehicles	590	435	435	Terms of employment	Yasin Bhatti - Former employee
Motor vehicles	590	413	494	Terms of employment	Waheed Mustafa - Former employee
Motor vehicles	590	413	420	Terms of employment	Bilal Ahmed - Former employee
Motor vehicles	560	291	329	Terms of employment	Azhar Mehmood - Executive
Motor vehicles	560	259	282	Terms of employment	Imran Hameed - Former employee
Motor vehicles	559	391	391	Terms of employment	Imran Mirza - Former employee
Motor vehicles	529	397	403	Terms of employment	Amjad Masih - Former employee
Motor vehicles	529	390	430	Terms of employment	Hasan Abu Bakar - Former employee
Motor vehicles	529	384	417	Terms of employment	Noman Ansari - Former employee
Motor vehicles	529	370	370	Terms of employment	Anil Henry - Executive
Motor vehicles	529	370	370	Terms of employment	Rehan Merchant - Executive
Motor vehicles	529	364	370	Terms of employment	Ataf Hasan - Former employee
Motor vehicles	529	357	357	Terms of employment	Salman Ahmed - Former employee
Motor vehicles	529	357	364	Terms of employment	Piyar Ali - Former employee
Motor vehicles	529	350	364	Terms of employment	Muhammad Shahzad - Former employee
Motor vehicles	590	443	550	Insurance Claim	Adamjee Insurance Limited
Motor vehicles	1,354	1,269	1,354	Insurance Claim	Adamjee Insurance Limited
Motor vehicles	1,546	1,217	1,302	Auction	Ahmed Ali Khan
Motor vehicles	886	331	760	Auction	Rao Altaf
Motor vehicles	710	577	616	Auction	Muhammad Arif
Motor vehicles	560	283	534	Auction	Safdar Abbas
Motor vehicles	533	365	743	Auction	Fateh Motors
Motor vehicles	341	256	800	Auction	KASB Modaraba
2010	91,602	73,025	77,971		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13.2.4 The land and buildings of the Holding Company were revalued in September 2008 by independent valuers 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 the assets as of the date of said revaluation. Had there been no revaluation, the net book value of land and buildings would have been lower by:

	2010	2009
	(Rupees in '000)	
Land	41,156	56,575
Buildings on leasehold land	603,162	639,118
	644,318	695,693

13.3 Intangible assets

	COST			AMORTISATION			BOOK VALUE		Rate of amortisation (%)	
	As at 1 January 2010	Additions	Reclassifications	As at 31 December 2010	As at 1 January 2010	Amortisation	Reclassifications	As at 31 December 2010		
(Rupees in '000)										
Computer software	170,050	26,834	13,347	210,231	87,474	44,317	12,677	144,468	65,763	33.33 & 20
Customer list	30,735	-	-	30,735	6,484	3,075	-	9,559	21,176	10
Foreign affiliate relationship (note 15.2.1)	438,190	-	-	438,190	-	-	-	-	438,190	indefinite useful life
Contracts and mandates	89,353	-	-	89,353	22,338	67,015	-	89,353	-	note 13.3.2
Membership cards of KSE and NCEL	73,250	-	-	73,250	11,250	-	-	11,250	62,000	indefinite useful life
Rooms at KSE	37,500	-	-	37,500	7,500	-	-	7,500	30,000	indefinite useful life
Booths at KSE	3,000	-	-	3,000	500	-	-	500	2,500	indefinite useful life
Management rights	28,513	-	-	28,513	-	-	-	-	28,513	indefinite useful life
Brands	22,084	-	-	22,084	-	-	-	-	22,084	indefinite useful life
Customer relationships	63,929	-	-	63,929	14,206	14,206	-	28,412	35,517	22.22
Research intangibles	3,186	-	-	3,186	-	-	-	-	3,186	indefinite useful life
Total	959,790	26,834	13,347	999,971	149,752	128,613	12,677	291,042	708,929	

	COST			AMORTISATION			BOOK VALUE		Rate of amortisation (%)	
	As at 1 January 2009	Additions	Reclassifications	As at 31 December 2009	As at 1 January 2009	Amortisation	Reclassifications	As at 31 December 2009		
(Rupees in '000)										
Computer software	100,918	54,847	14,285	170,050	49,436	33,071	4,967	87,474	82,576	33.33 & 20
Customer list	30,735	-	-	30,735	3,411	3,073	-	6,484	24,251	10
Foreign affiliate relationship	89,327	348,863	-	438,190	-	-	-	-	438,190	indefinite useful life
Contracts and mandates	89,353	-	-	89,353	-	22,338	-	22,338	67,015	25
Membership cards of KSE and NCEL	-	73,250	-	73,250	-	11,250	-	11,250	62,000	indefinite useful life
Rooms at KSE	-	37,500	-	37,500	-	7,500	-	7,500	30,000	indefinite useful life
Booths at KSE	-	3,000	-	3,000	-	500	-	500	2,500	indefinite useful life
Management rights	-	28,513	-	28,513	-	-	-	-	28,513	indefinite useful life
Brands	-	22,084	-	22,084	-	-	-	-	22,084	indefinite useful life
Customer relationships	-	63,929	-	63,929	-	14,206	-	14,206	49,723	22.22
Research intangibles	-	3,186	-	3,186	-	-	-	-	3,186	indefinite useful life
Total	310,333	635,172	14,285	959,790	52,847	91,938	4,967	149,752	810,038	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010	2009
	(Rupees in '000)	
13.3.1 Cost of fully amortised assets still in use	35,147	31,302

13.3.2 During the year, the management has reassessed the useful life of contracts and mandates. Accordingly, these have been fully amortised during the year, whereas, previously these were amortised at the rate of 25% per annum. Had there been no change in the accounting estimate, the accumulated amortisation and loss before taxation for the year would have been lower and intangible assets would have been higher by Rs. 44.677 million.

	2010	2009
	(Rupees in '000)	

14. DEFERRED TAX ASSETS

Deductible temporary differences arising in respect of:

Carry forward tax losses	14.2	2,703,256	2,310,220
Provision against non-performing loans and advances		1,443,159	1,096,112
Provision against other assets		334,784	392,323
Provision for diminution in the value of investments		56,645	58,140
Deficit on revaluation of available for sale investments		30,667	26,236
Provision for gratuity		38,749	31,856
Provision for compensated absences		2,262	2,684
Minimum Tax		2,139	1,391
Others		6,747	1,643
		4,618,408	3,920,605

Taxable temporary differences arising in respect of:

Surplus on revaluation of fixed assets		(221,403)	(235,437)
Accelerated tax depreciation		(149,495)	(151,637)
Fair value adjustments relating to net assets acquired upon amalgamation		(330,894)	(369,188)
Net investment in finance leases		(104,878)	(126,387)
Liabilities against assets subject to finance lease		(1,339)	(885)
		(808,009)	(883,534)
	14.3	3,810,399	3,037,071

14.1 Reconciliation of deferred tax

	Balance as at 31 December 2008	Recognised in profit and loss account	Recognised in deficit on revaluation of assets	Balance as at 31 December 2009	Recognised in profit and loss account	Recognised in deficit on revaluation of assets	Balance as at 31 December 2010
------(Rupees in '000)-----							
Deductible temporary differences arising in respect of:							
Carry forward tax losses	1,156,885	1,153,335	-	2,310,220	393,036	-	2,703,256
Provision against non-performing loans and advances	738,479	357,633	-	1,096,112	347,047	-	1,443,159
Impairment of goodwill	-	392,323	-	392,323	(57,539)	-	334,784
Provision for diminution in the value of investments	40,140	18,000	-	58,140	(1,495)	-	56,645
Deficit on revaluation of available for sale investments	22,290	-	3,946	26,236	-	4,431	30,667
Provision for gratuity	26,147	5,709	-	31,856	6,893	-	38,749
Provision for compensated absences	2,926	(242)	-	2,684	(422)	-	2,262
Fair value adjustments relating to net assets acquired upon amalgamation	73,039	(73,039)	-	-	-	-	-
Minimum Tax	41,283	(39,892)	-	1,391	748	-	2,139
Others	4,004	(2,361)	-	1,643	5,104	-	6,747
	2,105,193	1,811,466	3,946	3,920,605	693,372	4,431	4,618,408
Taxable temporary differences arising in respect of:							
Surplus on revaluation of fixed assets	(247,667)	12,230	-	(235,437)	14,034	-	(221,403)
Accelerated tax depreciation	(146,346)	(5,291)	-	(151,637)	2,142	-	(149,495)
Fair value adjustments relating to net assets acquired upon amalgamation	-	(369,188)	-	(369,188)	38,294	-	(330,894)
Net investment in finance leases	(181,459)	55,072	-	(126,387)	21,509	-	(104,878)
Liabilities against assets subject to finance lease	(342)	(543)	-	(885)	(454)	-	(1,339)
	(575,814)	(307,720)	-	(883,534)	75,525	-	(808,009)
	1,529,379	1,503,746	3,946	3,037,071	768,897	4,431	3,810,399

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14.2 As of the balance sheet date, the Group has accumulated tax losses of Rs. 7,723.588 million (2009: Rs 6,600.628 million).

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

	2010	2009
	(Rupees in '000)	
15. OTHER ASSETS		
Mark-up / return / interest accrued in local currency	1,168,719	1,193,587
Advances, deposits and prepayments	288,901	389,134
Taxation (payments less provisions)	61,175	19,130
Stationery and stamps in hand	10,855	12,085
Non-banking assets acquired in satisfaction of claims	15.1 1,061,666	312,721
Branch adjustment account	2,721	6,773
Trade debts	15.2 386,234	1,056,481
Goodwill - net of impairment	15.3 1,249,716	1,451,428
Receivable against sale of securities	4,336	5,585
Dividend receivable	574	33,653
Biological assets	-	3,338
Commission receivable	17,709	2,785
Unrealised gain on forward foreign exchange contracts	18,726	1,463
Lease rental receivable	19,676	18,543
Others	21,137	49,069
	<u>4,312,145</u>	<u>4,555,775</u>
Provision against other assets	(5,373)	(9,854)
Other assets - net of provisions	<u>4,306,772</u>	<u>4,545,921</u>

15.1 Represent commercial and residential properties acquired by the Holding Company in satisfaction of borrowers liabilities. The market value of these assets as per the latest valuation carried out by independent valuer amounted to Rs.1,542.646 million (2009: Rs. 343.624 million).

15.2 Trade debts

Considered good	385,104	813,908
Considered doubtful	130,947	653,095
	<u>516,051</u>	<u>1,467,003</u>
Less: Provision for doubtful trade debts	15.2.1 (129,817)	(416,417)
	<u>386,234</u>	<u>1,050,586</u>

15.2.1 Reconciliation of provision against trade debts

Opening balance	416,417	194,540
Written off during the year	15.2.2 (110,020)	-
Provision for the year	32,852	272,062
Reversal of provision during the year	15.2.2 (209,432)	(50,185)
	<u>(176,580)</u>	<u>221,877</u>
Closing balance	<u>129,817</u>	<u>416,417</u>

15.2.2 An aggregate amount of Rs. 384.731 million was due from Mr. Arif Ali Shah Bukhari (the customer) against which a provision of Rs. 289.726 million was held by the subsidiary. During the year, the subsidiary has entered into a settlement agreement with the customer, whereby the subsidiary has agreed to reduce the customer's liability to the extent of Rs. 110 million comprising commission and a portion of losses on securities transactions. Accordingly, the customer has paid the remaining balance of Rs. 274.731 million to the subsidiary as a full and final settlement of its outstanding liability.

In view of the above settlement, the subsidiary has written off Rs. 110 million against the provision held in respect of the customer's balance. The remaining balance of the provision held against the said customer of Rs. 179.726 million has, therefore, been reversed during the year and included in the total reversal of provision as shown under note 15.2.1 above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

		2010	2009
		(Rupees in '000)	
15.3	Goodwill		
	Goodwill recognised on acquisition of:		
	International Housing Finance Limited	35,362	35,362
	KASB Capital Limited and its subsidiaries	<u>2,918,099</u>	<u>2,918,099</u>
		2,953,461	2,953,461
	Less: accumulated impairment of goodwill	15.3.1 <u>(1,703,745)</u>	<u>(1,502,033)</u>
		<u>1,249,716</u>	<u>1,451,428</u>

15.3.1 During the year, the management has carried out annual impairment tests in respect of goodwill and intangible assets having indefinite useful lives as required by IAS - 36 "Impairments of Assets".

For the purposes of impairment testing, the recoverable amount of respective business segments (CGU) has been determined using discounted cash flow methodology, covering cash flow projections for a period of 5 years, using a pre-tax discount rate of 27% per annum. Management believes that the assumptions used in estimating the future performance of the CGU are consistent with past performance, market position, deals in hand and anticipated market conditions. The growth rate used to extrapolate the cash flows beyond the five year period is 7%.

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

Discount rate

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

Terminal growth rate

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

Key business assumptions

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

As a result of the impairment testing, an aggregate impairment charge of Rs. 201.712 million has been recognised in these consolidated financial statements.

		2010	2009
		(Rupees in '000)	
16.	BILLS PAYABLE		
	In Pakistan	<u>541,041</u>	<u>386,066</u>
17.	BORROWINGS		
	In Pakistan	6,608,626	8,680,118
	Outside Pakistan	<u>28,019</u>	<u>16,022</u>
		<u>6,636,645</u>	<u>8,696,140</u>
17.1	Particulars of borrowings with respect to currencies		
	In local currency	6,608,626	8,680,118
	In foreign currencies	<u>28,019</u>	<u>16,022</u>
		<u>6,636,645</u>	<u>8,696,140</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2010

	Note	2010 (Rupees in '000)	2009
17.2 Details of borrowings			
Secured			
Borrowings from the SBP			
- Export refinance scheme	17.2.1	3,665,636	3,793,330
- Long term financing for export oriented projects	17.2.2	124,896	620,626
- Long term finance for imported and locally manufactured plant and machinery	17.2.3	370,628	-
		<u>4,161,160</u>	<u>4,413,956</u>
Repurchase agreement borrowings	17.2.4	980,276	3,088,311
Borrowings from financial institutions	17.2.5	567,190	602,851
		<u>5,708,626</u>	<u>8,105,118</u>
Unsecured			
Call money borrowings from financial institutions	17.2.6	900,000	575,000
Overdrawn nostros		28,019	16,022
		<u>928,019</u>	<u>591,022</u>
		<u>6,636,645</u>	<u>8,696,140</u>

17.2.1 These carry mark-up rates ranging from 7.5% to 9.0% (2009: 6.5% to 7.0%) per annum with maturities upto June 2011.

17.2.2 These carry mark-up rates ranging from 5% (2009: 6.5% to 7.0%) per annum with maturities upto May 2013.

17.2.3 These carry markup rates ranging from 6.5% to 9.5% per annum with maturities upto December 2014.

17.2.4 These carry mark-up rates ranging from 12.8% to 13.5% (2009: 3.0% to 15%) with maturities upto January 2011.

17.2.5 These carry mark-up rates ranging from 1.5% to 8.3% (2009: 1.5% to 17%) per annum with maturities upto September 2013. These include term finance certificates issued by a subsidiary to various institutional and other investors carrying markup rate of six months' KIBOR + 1.90% per annum.

17.2.6 These carry mark-up rates ranging from 14.0% to 14.5% (2009: 10% to 20%) per annum with maturities upto January 2011.

	2010 (Rupees in '000)	2009
18. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	23,584,498	26,108,643
Savings deposits	13,962,193	9,204,247
Certificates of Musharaka	558,910	219,645
Current accounts- Non-remunerative	6,763,439	5,325,218
Margin deposits - Non-remunerative	383,388	323,238
	<u>45,252,428</u>	<u>41,180,991</u>
Financial Institutions		
Remunerative deposits	1,424,774	2,601,312
Non-remunerative deposits	17,473	24,758
	<u>1,442,247</u>	<u>2,626,070</u>
	<u>46,694,675</u>	<u>43,807,061</u>
18.1 Particulars of deposits		
In local currency	45,372,078	42,706,586
In foreign currencies	1,322,597	1,100,475
	<u>46,694,675</u>	<u>43,807,061</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2010			2009		
	Minimum lease payments	Financial charge for future periods	Principal outstanding	Minimum lease payments	Financial charge for future periods	Principal outstanding
------(Rupees in '000)-----						
Not later than one year	692	32	660	4,482	551	3,931
Later than one year and not later than five years	1,510	-	1,510	2,210	36	2,174
	<u>2,202</u>	<u>32</u>	<u>2,170</u>	<u>6,692</u>	<u>587</u>	<u>6,105</u>

The Group has entered into various lease agreements with leasing companies for the lease of equipment and vehicles. Monthly lease rentals include financial charges ranging between 15.23% to 16.24% (2009:16.7% to 19.7%) per annum. The Group has the option to purchase the assets upon completion of the lease period and has the intention to exercise the option.

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
20. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		763,558	1,250,898
Mark-up / return / interest payable in foreign currencies		1,230	2,630
Advance against leases		-	2,661
Advance from customers		589	2,564
Accrued expenses		119,716	91,002
Security deposits against lease		226,114	255,837
Security deposits		552	552
Provision for compensated absences	20.1	6,464	7,668
Provision for gratuity	35	111,154	91,276
Unclaimed dividends		1,952	1,690
Unearned commission income		12,666	10,895
Withholding tax payable		14,907	6,189
Federal excise duty payable		4,402	2,592
Unrealised losso on forward foreign exchange contracts		-	560
Trade creditors		452,098	733,641
Others		273,888	226,739
		<u>1,989,290</u>	<u>2,687,394</u>

20.1 Represents provision for compensated absences made in respect of the liability of the Holding Company towards leaves accumulated by its employees as at December 2005. No further provision is made pursuant to the decision of the management to discontinue this benefit from that date.

21. SHARE CAPITAL

Authorised capital

2010 (Number of shares)	2009 (Number of shares)	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
<u>2,500,000,000</u>	<u>2,500,000,000</u>	Ordinary shares of Rs. 10/- each	<u>25,000,000</u>	<u>25,000,000</u>

Issued, subscribed and paid-up capital

2010	2009	Ordinary shares of Rs. 10/- each fully paid	2010	2009
263,642,172	263,642,172	Issued for cash	2,636,422	2,636,422
207,809,549	207,809,549	Issued as bonus shares	2,078,095	2,078,095
518,141,783	518,141,783	Issued on amalgamations for consideration other than cash	5,181,418	5,181,418
(38,731,842)	(38,731,842)	Cancelled shares	(387,318)	300,899
<u>950,861,662</u>	<u>950,861,662</u>		<u>9,508,617</u>	<u>10,196,834</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2010

	2010	2009
	(Number of Shares)	
21.1 Represents shares issued on amalgamations as follows;		
International Housing Finance Limited	58,500,000	58,500,000
KASB & Company	89,001,900	89,001,900
KASB Capital Limited	361,797,538	361,797,538
KASB Leasing	8,834,942	8,834,942
Network Leasing Corporation Limited	7,403	7,403
	<u>518,141,783</u>	<u>518,141,783</u>

21.2 As of 31 December 2010, 493,260,171 (2009: 493,471,210) ordinary shares of Rs. 10/- each were held by the related parties of the Holding Company.

21.3 As per section 14 of the Banking Companies Ordinance, 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. While the authorized capital of the Holding Company as at 31 December 2010 amounted to Rs 25 billion, the paid-up capital amounts to Rs 9.508 billion and is lower than the prescribed requirement by Rs 2.992 billion. In order to comply with the above requirement, the shareholders of the Holding Company in their Extraordinary General Meeting dated 02 October 2009 had approved the reduction of authorised share capital to Rs 18 billion. In accordance with the requirements of the Companies Ordinance, 1984, the Holding Company through its letters dated 07 October 2009 and 12 October 2009 had written to the SECP informing it about the above reduction. The SECP through its letter ADR-I/1198 dated 20 October 2009 informed the Holding Company that there is no provision in the law for the reduction in authorized share capital and the provisions contained in the Companies Ordinance, 1984 applies only to the reduction in paid-up capital of the companies. The management of the Holding Company is of the view that Section 92(1)(d) deals with the situation of cancellation of shares which have not been taken up or subscribed and are not part of the paid-up share capital and the same is applicable for reduction of authorized share capital. However, the SECP has not yet issued the certificate for alteration of Memorandum of Association for the reduction of authorised share capital of the Holding Company.

	Note	2010	2009
		(Rupees in '000)	
22. SURPLUS ON REVALUATION OF ASSETS - net of tax			
Operating fixed assets	22.1	422,915	460,256
Available for sale investments	22.2	(70,934)	26,432
Share of surplus of associates classified as available for sale accounted for by the equity method	11.12.3	126,917	18,622
		<u>478,898</u>	<u>505,310</u>
22.1 Operating fixed assets			
Balance at the beginning of the year		695,693	730,636
Transfer to accumulated loss in respect of incremental depreciation charged during the year		(51,375)	(34,943)
		<u>644,318</u>	<u>695,693</u>
Related deferred tax liability:			
Balance at the beginning of the year		235,437	247,667
Transfer to accumulated loss in respect of incremental depreciation charged during the year		(14,034)	(12,230)
		<u>221,403</u>	<u>235,437</u>
		<u>422,915</u>	<u>460,256</u>
22.2 Available for sale investments			
Federal Government Securities		(63,413)	196
Ordinary shares of listed companies		2,889	-
Listed Term Finance Certificates		(14,341)	-
Units of open ended mutual funds		(26,736)	-
		<u>(101,601)</u>	<u>196</u>
Related deferred tax asset		30,667	26,236
		<u>(70,934)</u>	<u>26,432</u>
23. CONTINGENCIES AND COMMITMENTS			
23.1 Direct credit substitutes		-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2010

	Note	2010	2009
(Rupees in '000)			
23.2 Transaction-related contingent liabilities			
Includes performance bonds, bid bonds, warranties advance payment guarantees and shipping guarantees related to particular transactions issued in favour of:			
Government		9,044,031	7,984,114
Others		1,250,296	1,530,282
		<u>10,294,327</u>	<u>9,514,396</u>
23.3 Trade-related contingent liabilities			
Letters of credit		2,867,131	2,306,118
Acceptances		1,657,589	912,872
		<u>4,524,720</u>	<u>3,218,990</u>
23.4 Taxation			

- (i) The income tax returns of the Group have been filed and tax assessments have been made by the tax authorities upto and including the tax year 2010.

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

For tax years 2005 to 2009, the assessments of the Holding Company have been amended by the Taxation Officer by disallowing certain expenses / deductions including income from carry over transactions, provision for non performing advances, concessional loans to employees, amortisation of goodwill and impairment of investments having an aggregate tax impact of Rs. 785.953 million. The Holding Company has preferred appeals before the CIT Appeals against the above referred amendments of the Taxation Officer.

Income tax assessments of IHFL (amalgamated into the Holding Company during the year ended 31 December 2007) for tax years 2005 and 2006 have also been amended by the Taxation Officer by disallowing certain deductions including income from carry over transactions, gain on sale of investments, provision for doubtful debts and certain other items having an aggregate tax impact of Rs 35.974 million. The Holding Company has preferred appeals before the CIT Appeals and ITAT for tax year 2005 and 2006 respectively against the above referred disallowances.

The aggregate financial impact of the above matters works out to be Rs. 819.701 million and therefore on a prudent basis, a tax impact of Rs. 231.518 million has been made in these consolidated financial statements. However, no provision for certain other items amounting to Rs. 554.435 million has been recognised and their resultant effects on deferred tax asset is maintained as the management, based on the opinion of its tax advisor, is confident about the favourable outcome on such items.

- (ii) The income tax returns of the Holding Company for Azad Jammu Kashmir (AJK) region have been filed and tax assessments have been made by the tax authorities upto and including tax year 2010.

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

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

	Note	2010	2009
(Rupees in '000)			
23.5 Commitments in respect of commodity futures / forward exchange contracts			
Purchase		3,550,272	2,786,649
Sale		2,454,438	2,343,089
23.6 Commitments for the acquisition of operating fixed assets	23.6.1	275,029	413,714

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23.6.1 Includes Rs. 226.121 million committed to KDPL (as more fully explained in note 13.1.1 to the financial statements)

23.7 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.

23.8 Commitment in respect of forward sale / purchase of shares

The Holding Company has entered into a forward sale agreement to dispose of 6 million ordinary shares of Shakarganj Food Products Limited to KASB International Limited. The settlement of these shares would take place not later than July 2011.

24. DERIVATIVE FINANCIAL INSTRUMENTS

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

	2010	2009
	(Rupees in '000)	
25. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances		
Customers	3,972,257	3,940,760
Financial institutions	52,755	9,969
	4,025,012	3,950,729
On investments		
Available for sale securities	899,363	905,158
Held to maturity securities	61,838	62,033
Held for trading	20,432	-
	981,633	967,191
On deposits with financial institutions	26,903	20,331
On securities purchased under resale agreements	124,247	182,524
On call money lendings	771	168
	5,158,566	5,120,943
26. MARK-UP/ RETURN / INTEREST EXPENSED		
Deposits	4,471,884	4,860,067
Borrowings from the SBP	309,864	232,306
Securities sold under repurchase agreements	151,419	171,506
Call borrowings	130,502	172,018
Other borrowings	5,046	24,179
Long term borrowing	71,642	81,045
Forward cover fee	-	249
Amortisation of premium on securities	28,785	28,337
	5,169,142	5,569,707
27. GAIN ON SALE / REDEMPTION OF SECURITIES		
Federal Government securities	9	52,387
Term finance certificates	375	7,729
Open-end mutual funds	12,839	(4,770)
Ordinary shares of listed companies	139,154	266,994
	152,377	322,340
28. OTHER INCOME		
Rent on property	6,279	9,563
Gain on disposal of fixed assets	7,972	2,130
Revenue from rendering technology services	23,357	573
Locker rent	12,478	17,680
Processing fee and cheque return charges	13,147	11,440
Others	45,959	69,378
	109,192	110,764

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2010

	Note	2010	2009
(Rupees in '000)			
29. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits		1,290,856	1,216,769
Charge in respect of defined benefit scheme	36.2	34,042	24,382
Contribution to defined contribution plan		42,380	36,097
Rent, taxes, insurance and electricity		435,179	383,626
Legal and professional charges		146,870	152,864
Communication charges		123,253	133,206
Repairs and maintenance		127,378	88,156
Finance charge on lease obligations		509	1,591
Stationery and printing		44,541	34,589
Advertisement and publicity		69,207	97,418
Depreciation		289,505	252,335
Amortisation		128,613	72,688
Impairment on intangible assets		-	19,250
Auditors' remuneration	29.1	15,454	17,579
Vehicle running expenses		9,147	10,530
Brokerage and commission		13,787	2,492
Security charges		63,587	52,378
Fee and subscription		71,318	93,697
Entertainment		18,693	18,755
Travelling expenses		34,443	40,735
Donations	29.2	3,819	2,654
Others		26,458	44,634
		2,989,039	2,796,425
29.1 Auditors' remuneration			
Audit fee		3,577	3,199
Fee for half yearly review		1,265	1,060
Special certifications and sundry services		9,140	11,485
Tax services		-	443
Out-of-pocket expenses		1,472	1,392
		15,454	17,579
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:		
	Note	2010	2009
(Rupees in '000)			
KASB Foundation (Flood Relief)		2,432	1,100
Peking University Education Foundation		686	666
SIF PAF Base Faisal (Flood Relief)		500	-
		3,618	1,766
30. OTHER CHARGES			
Penalties imposed by the SBP		925	32,784
Others		2,484	2,457
		3,409	35,241
31. TAXATION			
For the year			
- Current		9,058	59,658
- Deferred		(768,897)	(1,813,366)
		(759,839)	(1,753,708)
For the prior years			
- Current		-	(5,225)
- Deferred		-	213,605
		(759,839)	(1,545,328)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Note	2010	2009
(Rupees in '000)			
32. BASIC AND DILUTED LOSS PER SHARE			
Loss for the year after taxation attributable to equity holders of the Holding Company		<u>(2,741,315)</u>	<u>(4,223,926)</u>
Number of shares			
Weighted average number of ordinary shares		<u>950,861,662</u>	<u>950,861,662</u>
(Rupees)			
Basic and diluted loss per share		<u>(2.88)</u>	<u>(4.44)</u>
33. CASH AND CASH EQUIVALENTS			
(Rupees in '000)			
Cash and balances with treasury banks	8	3,272,624	2,851,783
Balances with other banks	9	360,306	235,121
Overdrawn nostro accounts	17.2	<u>(28,019)</u>	<u>(16,022)</u>
		<u>3,604,911</u>	<u>3,070,882</u>
Number of employees			
34. STAFF STRENGTH			
Permanent		1,367	1,289
Temporary / on contractual basis		101	71
Group's own staff strength at the end of the year		<u>1,468</u>	<u>1,360</u>
Outsourced		528	538
Total staff strength		<u>1,996</u>	<u>1,898</u>
35. DEFINED CONTRIBUTION PLAN			
The general description of the defined contribution plan is included in note 5.12			
36. DEFINED BENEFIT SCHEME			
The Group operates approved unfunded gratuity scheme for all its permanent employees. Latest actuarial valuation of the gratuity scheme was carried out as at 31 December 2010 using the Projected Unit Credit Method. The following significant assumptions were used for the valuation of the scheme:			
		Holding Company	Subsidiary
		2010	2009
		2010	2009
		----- % -----	
Discount rate		14	14
Expected rate of salary increase		14	13
		----- (Rupees in '000) -----	
36.1 Movement in liability			
Opening balance		91,018	74,706
Charge for the year		33,880	24,359
Payments made during the year		<u>(14,188)</u>	<u>(8,047)</u>
Closing balance		<u>110,710</u>	<u>91,018</u>
		<u>420</u>	<u>258</u>
36.2 Charge for the year			
Current service cost		24,270	27,554
Interest cost		12,743	11,206
Actuarial losses recognised		<u>(3,133)</u>	<u>(14,401)</u>
		<u>33,880</u>	<u>24,359</u>
		<u>162</u>	<u>23</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36.3 Historical information

	2010	2009	2008	2007	2006
	----- (Rupees in '000) -----				
Present value of obligations	111,130	91,276	74,706	40,115	20,763

36.4 Based on actuarial advice, the management estimates that the charge to defined benefit scheme for the year ending 31 December 2011 would be Rs. 46.815 million.

37. COMPENSATION OF DIRECTORS AND EXECUTIVES OF THE GROUP

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

	President / Chief Executive		Directors		Executives	
	2010	2009	2010	2009	2010	2009
	----- (Rupees in '000) -----					
Fees	-	-	7,350	8,400	1,920	1,215
Managerial remuneration	13,067	11,600	3,867	-	415,542	344,023
Contribution to defined contribution plan	1,121	966	322	-	23,297	20,932
Contribution to defined benefit plan	1,508	740	391	-	25,381	11,786
Rent and house maintenance	3,920	3,480	1,160	-	89,287	83,936
Utilities	1,307	1,160	387	-	29,169	27,081
Medical	1,307	1,160	387	-	28,273	25,961
Others	1,251	780	260	-	54,639	49,795
	23,481	19,886	14,124	8,400	667,508	564,729
Number of persons	1	1	7	8	373	331

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2010		2009	
	Book value	Fair value	Book value	Fair value
	----- (Rupees in '000) -----			
On-balance sheet financial instruments				
Assets				
Cash and balances with treasury banks	3,272,624	3,272,624	2,851,783	2,851,783
Balances with other banks	360,306	360,306	235,121	235,121
Lendings to financial institutions	40,000	40,000	2,804,596	2,804,596
Investments	12,019,099	11,927,566	13,580,973	13,469,009
Advances	30,209,384	30,209,384	29,916,446	29,916,446
Other assets	1,184,685	1,184,685	1,593,562	1,593,562
	47,086,098	46,994,565	50,982,481	50,870,517
Liabilities				
Bills payable	541,041	541,041	386,066	386,066
Borrowings	6,636,645	6,636,645	8,696,140	8,696,140
Deposits and other accounts	46,694,675	46,694,675	43,807,061	43,807,061
Other liabilities	1,073,151	1,073,151	2,687,394	2,687,394
	54,945,512	54,945,512	55,576,661	55,576,661
Off-balance sheet financial instruments				
Forward purchase of foreign exchange contracts	3,550,272	3,524,878	2,786,649	2,775,335
Forward sale of foreign exchange contracts	2,454,438	2,388,023	2,343,089	2,332,335

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

Federal Government Securities	PKRV rates
Listed securities	Market prices
Mutual funds	Net asset values
Unlisted equity investments	Break-up value as per latest available audited financial statements.

Fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities. The provision for impairment of loans and advances and debt securities has been calculated in accordance with the Group's accounting policies as stated in note 5.5 and 6.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

2010	Asset Management	Commercial banking	Retail banking	Trading and sales	Corporate finance	Total
	(Rupees in '000)					
Total income	59,137	370,197	1,098,628	415,761	4,186,344	6,130,067
Total expenses	(120,225)	(746,972)	(1,188,926)	(309,993)	(6,925,478)	(9,291,594)
Loss before taxation	(61,088)	(376,775)	(90,298)	105,768	(2,739,134)	(3,161,527)
Segment assets (gross)	1,193,145	3,570,929	8,260,941	467,703	50,973,445	64,466,163
Segment non-performing loans	-	1,294,252	-	-	8,323,292	9,617,544
Segment provision required	-	456,932	274,320	-	5,174,549	5,905,801
Segment liabilities	128,607	304,863	2,626,265	917,848	51,886,238	55,863,821
	----- % -----					
Segment return on assets	(5%)	(11%)	(1%)	23%	(5%)	
Segment cost of funds	0%	9%	13%	16%	13%	
	----- % -----					
2009	Asset Management	Commercial banking	Retail banking	Trading and sales	Corporate finance	Total
	(Rupees in '000)					
Total income	84,791	3,793,708	440,722	325,847	90,231	4,735,299
Total expenses	(128,885)	(6,468,893)	(978,142)	(1,644,598)	(1,378,858)	(10,599,376)
Loss before taxation	(44,094)	(2,675,185)	(537,420)	(1,318,751)	(1,288,627)	(5,864,077)
Segment assets (gross)	208,943	37,133,852	3,972,737	22,979,501	1,918,007	66,213,040
Segment non-performing loans	-	6,440,104	915,249	653,095	-	8,008,448
Segment provision required	-	3,737,175	405,783	1,070,495	-	5,213,453
Segment liabilities	2,395	50,774,004	79,398	4,625,447	101,502	55,582,746
	----- % -----					
Segment return on assets	(21%)	(7%)	(14%)	(6%)	(67%)	
Segment cost of funds	0%	10%	11%	11%	0%	

40. TRUST ACTIVITIES

The Group is not engaged in any trust activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. RELATED PARTY TRANSACTIONS

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

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

	2010				Total
	Associates	Directors	Key management personnel	Other related parties (note 41.1)	
------(Rupees in '000)-----					
Deposits					
As at 01 January 2010	177,498	2,567	20,987	215,216	416,268
Adjustment during the year	9,783	-	-	(51,170)	(41,387)
Received during the year	2,888,409	185,605	333,351	346,252	3,753,617
Withdrawals during the year	(2,855,017)	(185,204)	(318,432)	(293,306)	(3,651,959)
As at 31 December 2010	<u>220,673</u>	<u>2,968</u>	<u>35,906</u>	<u>216,992</u>	<u>476,539</u>
Loan and advances					
As at 01 January 2010	90,000	19,123	62,148	251,555	422,826
Adjustment during the year	-	-	-	(250,000)	(250,000)
Disbursements during the year	285,681	4,959	31,025	-	321,665
Repayments during the year	(246,036)	(8,502)	(43,676)	(1,167)	(299,381)
As at 31 December 2010	<u>129,645</u>	<u>15,580</u>	<u>49,497</u>	<u>388</u>	<u>195,110</u>
Other assets	4,319	-	-	22	4,341
Other liabilities	3,045	21	252	-	3,318
Contingencies and commitments	404,001	-	-	2,141	406,142
Deposits					
As at 01 January 2009	55,234	6,622	24,401	93,659	179,916
Received during the year	7,439,551	268,611	155,896	1,361,169	9,225,227
Withdrawals during the year	(7,317,287)	(272,666)	(159,310)	(1,239,612)	(8,988,875)
As at 31 December 2009	<u>177,498</u>	<u>2,567</u>	<u>20,987</u>	<u>215,216</u>	<u>236,352</u>
Loan and advances					
As at 01 January 2009	-	22,488	62,750	2,722	87,960
Disbursements during the year	115,000	15,039	38,520	250,000	418,559
Repayments during the year	(25,000)	(18,404)	(39,122)	(1,167)	(83,693)
As at 31 December 2009	<u>90,000</u>	<u>19,123</u>	<u>62,148</u>	<u>251,555</u>	<u>422,826</u>
Other assets	12,166	-	1,730	22	13,917
Other liabilities	5,943	21	3,214	-	9,178
Contingencies and commitments	404,001	-	-	2,141	406,142
2010					
Mark-up earned	18,970	873	2,693	150	22,686
Mark-up expensed	18,758	45	1,507	21,474	41,784
Group executive services (note 40.2)	57,991	-	-	-	57,991
Other administrative expenses	5,688	-	-	1,200	6,888
Contribution to staff provident fund	-	-	-	42,380	42,380
Other income	45,374	-	129	-	45,504
Investments during the year - net	20,000	-	-	-	20,000
Disposal of Fixed Assets	-	-	2,216	-	2,216
Bonus Units Issued	960	-	-	-	960
2009					
Mark-up earned	6,364	1,688	2,173	25,160	35,385
Mark-up expensed	34,569	122	551	19,226	54,468
Group executive services	-	-	-	49,985	49,985
Other administrative expenses	375	9,615	196,774	4,528	211,292
Contribution to staff provident fund	-	-	-	36,097	36,097
Other income	73,604	-	380	235	74,219
Investments during the year - net	223,379	-	-	-	223,379
Advance for acquisition of office premises	-	-	-	159,617	159,617
Disposal of Fixed Assets	-	-	913	-	913
Bonus Units Issued	561	-	-	-	561

41.1 During the year, the Board reassessed the Group's relationship with Mr. Arif Ali Shah Bukhari, who was earlier classified as a related party by the Group. The Board considers that Mr. Arif Ali Shah Bukhari does not meet the criteria under the applicable accounting standards and regulations for such classification as he is an individual independent of the Group. Also, the Group has obtained a legal opinion on this matter which supports the Board's view and hence effective from the current year Mr. Arif Ali Shah Bukhari is not reported as a related party in these financial statements.

41.2 Include Rs. 3 million (2009: Rs. 2 million) paid against fixed monthly fee and reimbursement of actual costs of Rs. 49.47 million (2009: Rs. 38.95 million) to KASB Finance (Private) Limited as per Group Executive Services Agreement.

42. CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

42.1 Capital management

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

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

- To be an appropriately capitalised institution, as defined by regulatory authorities and comparable to the peers;
- Maintain strong ratings and to protect the Group against unexpected events;
- Availability of adequate capital at a reasonable cost so as to enable the Group to expand and achieve low overall cost of capital with appropriate mix of capital elements.
- The Holding Company has developed a capital management plan as part of its Internal Capital Adequacy Assessment Process (ICAAP). This plan documents the Holding Company's risk management structures, financial projections and its capital management plan for the next 5 years. The plan has been submitted to the SBP and is subject to periodic review.

42.2 Regulatory capital requirements

The SBP vide BSD Circular No.7 dated 15 April 2009 has set the MCR for Banks up to Rs.10 billion to be achieved in a phased manner by 31 December 2013. The required MCR (free of losses) as of 31 December 2010 is Rs. 7 billion. Further, the Holding Company is also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of the risk weighted assets of the Holding Company.

The paid up capital of the Holding Company (net of losses) as of 31 December 2010 amounts to Rs. 1,655.465 million while CAR stands at negative 3.56% as of that date. In view of the above capital deficiencies, the sponsors of the Holding Company have entered into an agreement with a foreign investor whereby equity investment will be made into the Holding Company. Accordingly, subsequent to the year end, the Board in its meeting held on 4 April 2011 has resolved to issue right shares at a subscription price of Rs. 3/- per share to increase the paid up capital of the Holding Company by Rs. 3,000 million, subject to authorisation from the shareholders and requisite regulatory approvals. Additionally, the Holding Company has plans to augment its Tier II capital through subordinated debt upto Rs. 1,500 million.

Keeping in view the fact that the above initiatives would partially address the regulatory capital requirements, the Holding Company has sought an extension of time from SBP till 31 December 2011 for compliance with MCR and CAR and expects a favourable response from SBP in this regard.

42.3 Capital structure

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2010

	2010	2009
	(Rupees in '000)	
Tier I capital		
Share capital	9,508,617	9,508,617
Share premium	23,724	23,724
Reserves	162,727	151,287
Accumulated losses	(8,012,226)	(5,296,811)
Non-controlling Interest	534,801	524,694
	<u>2,217,643</u>	<u>4,911,511</u>
Less: book value of goodwill	(1,249,716)	(1,451,428)
book value of intangibles	(769,118)	(810,038)
other deductions:		
- 50% investments in associates	(20,119)	(18,653)
- significant minority and majority investments in commercial entities exceeding 15% of Bank's capital	(502,631)	-
- relaxation in provisions against non-performing loans and advances	(495,101)	(242,967)
	<u>(819,042)</u>	<u>2,388,425</u>
Tier II capital		
General provisions subject to 1.25% of total risk weighted assets	20,234	32,322
Revaluation reserve (upto 45%)	242,923	286,582
Less: other deductions:		
- 50% investments in associates	(20,119)	(18,653)
- significant minority and majority investments in commercial entities exceeding 15% of Bank's capital		
- significant minority and majority investments in commercial entities exceeding 15% of banks capital	(502,631)	-
	<u>(259,593)</u>	<u>300,251</u>
Eligible Tier III capital	-	-
Total regulatory capital	<u>(1,078,635)</u>	<u>2,688,676</u>

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

	Capital requirements		Risk weighted assets	
	2010	2009	2010	2009
	----- (Rupees in '000) -----			
Credit risk				
Portfolios subject to standardized approach				
Claim on				
Corporate portfolio	2,232,292	2,480,901	22,322,923	24,809,010
Retail portfolio	142,484	176,353	1,424,839	1,763,529
Banks	22,497	26,830	224,968	268,297
Residential property	43,981	45,967	439,813	459,666
Past due loans	478,588	293,402	4,785,880	2,934,022
Investment in fixed assets	377,266	321,764	3,772,660	3,217,638
Other assets	788,935	637,245	7,889,350	6,372,448
	<u>4,086,043</u>	<u>3,982,462</u>	<u>40,860,433</u>	<u>39,824,610</u>
Off balance sheet				
Non market related	487,639	465,197	4,876,387	4,651,965
Market related	9,466	5,406	94,661	54,062
	<u>497,105</u>	<u>470,603</u>	<u>4,971,048</u>	<u>4,706,027</u>
	<u>4,583,148</u>	<u>4,453,065</u>	<u>45,831,481</u>	<u>44,530,637</u>
Market risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	29,587	47,042	369,839	588,025
Equity position risk	39,965	95,280	499,557	1,191,000
Foreign exchange risk	27,893	354	348,667	4,425
	<u>97,445</u>	<u>142,676</u>	<u>1,218,063</u>	<u>1,783,450</u>
Operational risk				
Capital requirement for operational risks				
	117,011	123,716	1,462,637	1,546,449
Total	<u>4,797,604</u>	<u>4,719,457</u>	<u>48,512,181</u>	<u>47,860,536</u>
Capital Adequacy Ratio				
Total eligible regulatory capital held	(1,078,635)	2,688,676		
Total risk weighted assets	48,512,181	47,860,536		
CAR	(2.22%)	5.62%		

42.5 The CAR calculation does not include the impact of deduction of investments in open ended mutual funds amounting to Rs 927.415 million (2009:Rs 927.415 million) based on the clarification issued by the SBP through its letter BSD/BAI-1/220/452/2009 dated 27 April 2009.

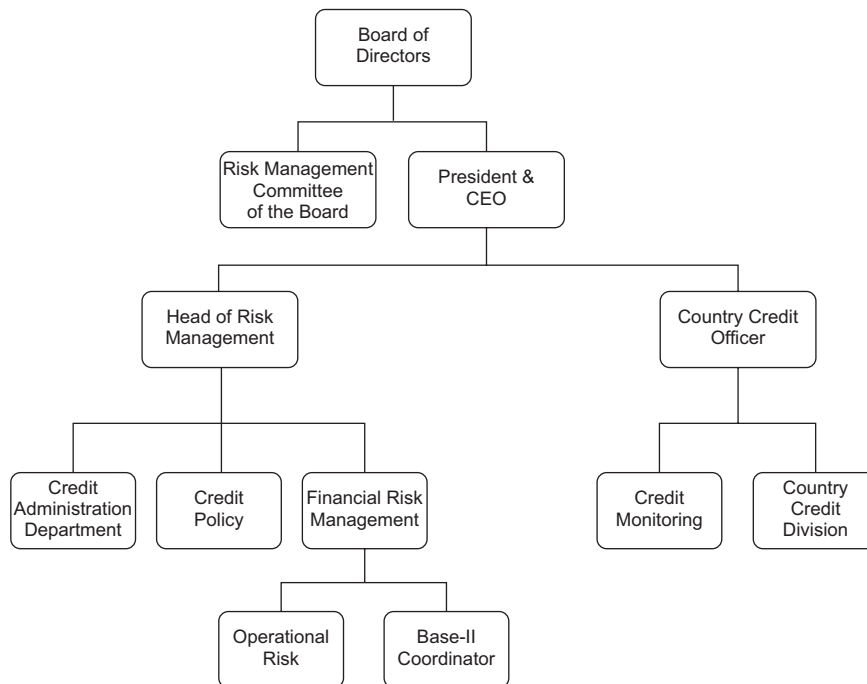
43. RISK MANAGEMENT

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

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

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

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



43.1.1 Credit risk

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

The aims of credit risk management are principally as follows:

- Participation in portfolio planning and management.
- Establishment of credit policies and standards that conform to regulatory requirements and the Holding Company's overall objectives.
- Working with business groups in keeping aggregate credit risk well within the Holding Company'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 Holding Company.
- Organising portfolio reviews focusing on quality assessment, risk profiles, industry concentrations, etc.
- Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

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

Credit risk organization and structure:

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

Credit approval authorities and Standardised Procedures:

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

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

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

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

Credit Risk Portfolio Management:

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

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

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

Risk rating:

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

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

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

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

A Risk Rating System for the Consumer Portfolio is also being developed.

Mitigants:

The following initiatives are used to mitigate credit risk:

(a) Credit principles and policy

To ensure consistency and standardisation across the Corporate and Commercial Banking Group, standard credit procedures and 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 CRMC on the portfolio composition, exposures are monitored to prevent excessive concentration of risk.

(d) Collateral

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

(e) Risk Acceptance Criteria (RAC)

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

Special Assets Management (SAM)

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

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

Credit concentration risk

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

Risk Asset Review

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

43.1.2 Credit risk – General Disclosure Basel II Specific

The Holding Company has adopted the Standardised Approach, under Basel II. According to the regulatory statement submitted under the Standardised Approach, the portfolio has been divided into claims on corporate portfolio 51.8%, claims on retail portfolio 4.3%, claims on banks 1.8%, claims on residential property 2.5%, past due loans 8.8%, investments in fixed assets 7.6% and all other assets 23%.

43.1.3 Credit Risk: Standardised Approach

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

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

Credit exposure subject to Standardised Approach.

Risk buckets	2010		
	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation deduction	Net amount
	----- (Rupees in '000) -----		
0%	3,943,575	-	3,943,575
20%	745,669	-	745,669
35%	1,256,608	-	1,256,608
50%	3,856,171	500,000	3,356,171
75%	2,130,606	246,440	1,884,166
100%	35,298,808	1,399,037	33,899,771
150%	2,120,998	-	2,120,998
	<u>49,352,435</u>	<u>2,145,477</u>	<u>47,206,958</u>
	----- (Rupees in '000) -----		
	2009		
Risk buckets	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation deduction	Net amount
	----- (Rupees in '000) -----		
0%	3,554,553	-	3,554,553
20%	2,466,175	1,217,993	1,248,182
35%	1,313,332	-	1,313,332
50%	6,269,313	1,733,582	4,535,731
75%	2,503,182	168,788	2,334,394
100%	32,968,432	1,197,456	31,770,976
150%	2,150,488	-	2,150,488
	<u>51,225,475</u>	<u>4,317,819</u>	<u>46,907,656</u>

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

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

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

43.1.5 Segmental information

43.1.5.1 Segments by class of business

	2010					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
	(Rupees in '000)					
Agriculture, Forestry, Hunting and Fishing	474,085	1.33	1,810,131	3.88	-	-
Automobile and transportation equipment	164,601	0.46	948,345	2.03	-	-
Cement	1,522,646	4.29	-	-	458,752	2.17
Chemical and Pharmaceuticals	1,286,505	3.62	598,817	1.28	387,534	1.84
Construction	2,115,231	5.95	3,561,374	7.63	3,042,434	14.42
Electronics and electrical appliances	1,720,330	4.88	123,891	0.27	306,480	1.45
Exports / Imports	1,074,555	3.03	188,735	0.40	100,719	0.48
Financial	1,614,870	4.55	1,343,810	2.88	10,247,660	48.57
Food and Beverages	1,646,815	4.64	722,313	1.55	-	-
Footwear and Leather garments	460,776	1.30	78,138	0.17	-	-
Individuals	5,713,412	16.08	17,833,836	38.19	-	-
Insurance	-	-	18,687	0.04	-	-
Manufacturing	2,695,396	7.59	1,417,510	3.04	-	-
Mining and Quarrying	-	-	184,986	0.40	-	-
Power (electricity), Gas, Water, Sanitary	341,251	0.96	190,892	0.41	1,610,457	7.63
Production and transmission of energy	-	-	-	-	338,358	1.61
Public / Government	900,000	2.53	7,100,231	15.21	-	-
Services	1,274,999	3.59	4,809,808	10.30	1,004,115	4.76
Sugar	1,408,121	3.96	40,473	0.09	10	-
Textile	6,459,558	18.19	677,714	1.45	821,243	3.89
Transport, Storage and Communication	416,078	1.17	540,482	1.16	-	-
Wholesale and Retail Trade	1,819,687	5.12	3,470,326	7.41	-	-
Others	2,411,398	6.76	1,034,176	2.21	2,781,024	13.18
	<u>35,520,314</u>	<u>100.00</u>	<u>46,694,675</u>	<u>100.00</u>	<u>21,098,786</u>	<u>100.00</u>

Segments by class of business

	2009					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
	(Rupees in '000)					
Agriculture, Forestry, Hunting and Fishing	457,951	1.34	1,299,121	2.97	5,723	0.03
Automobile and transportation equipment	123,381	0.36	117,527	0.27	-	-
Cement	1,899,999	5.58	121,210	0.28	440,044	2.41
Chemical and Pharmaceuticals	1,596,637	4.69	559,459	1.28	582,544	3.19
Construction	1,715,572	5.04	2,668,899	6.09	1,674,591	9.16
Electronics and electrical appliances	1,575,147	4.63	139,918	0.32	872,375	4.77
Exports / Imports	999,206	2.93	154,013	0.35	23,898	0.13
Financial	970,702	2.85	2,282,805	5.21	10,123,339	55.39
Food and Beverages	1,669,128	4.90	755,234	1.72	-	-
Footwear and Leather garments	394,098	1.16	27,138	0.06	21,757	0.12
Individuals	5,584,792	16.40	12,844,044	29.32	25,000	0.14
Insurance	-	-	30,986	0.07	-	-
Manufacturing	2,735,251	8.03	701,829	1.60	-	-
Mining and Quarrying	-	-	161,582	0.37	-	-
Power (electricity), Gas, Water, Sanitary	191,400	0.56	55,099	0.12	122,947	0.67
Production and transmission of energy	-	-	-	-	846,366	4.63
Public / Government	900,000	2.64	14,257,213	32.55	-	-
Services	952,242	2.80	2,810,482	6.42	801,788	4.39
Sugar	1,507,546	4.43	10,594	0.02	51,465	0.28
Textile	5,977,673	17.55	970,031	2.21	1,038,736	5.68
Transport, Storage and Communication	360,562	1.06	375,071	0.86	13,447	0.08
Wholesale and Retail Trade	2,040,018	5.99	2,141,414	4.89	-	-
Others	2,403,324	7.06	1,323,392	3.02	1,632,818	8.93
	<u>34,054,629</u>	<u>100.00</u>	<u>43,807,061</u>	<u>100.00</u>	<u>18,276,838</u>	<u>100.00</u>

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

	2010		2009	
	Classified advances	Specific provision held	Classified advances	Specific provision held
----- (Rupees in '000) -----				
Automobile and Transportation equipment	108,239	104,191	100,358	100,358
Cement	904,885	455,999	723,000	406,977
Chemical and Pharmaceuticals	923	923	672	672
Construction	1,071,039	424,527	169,714	54,424
Electronics and electrical appliances	7,520	2,181	950,373	468,032
Exports / Imports	21,675	9,115	4,691	4,691
Financial	504,715	328,963	416,195	222,761
Food and Beverages	135,005	45,330	561,410	164,682
Footwear and Leather garments	2,475	2,475	36,985	11,093
Individuals	1,301,298	579,097	1,547,489	668,516
Power (electricity), Gas, Water, Sanitary Services	49,826	26,253	35,360	21,798
Sugar	-	-	-	-
Textile	2,773,842	1,810,845	1,940,830	1,370,996
Transport, Storage and Communication	293,603	282,085	277,316	273,430
Wholesale / Retail Trade	985,611	391,626	343,452	230,021
Others	1,457,223	827,086	247,340	107,309
	<u>9,617,879</u>	<u>5,290,696</u>	<u>7,355,353</u>	<u>4,105,928</u>

43.1.5.3 Segments by sector

	2010					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
----- (Rupees in '000) -----						
Public / Government	900,000	2.53	7,100,231	15.21	-	-
Private	34,620,314	97.47	39,594,444	84.79	21,098,786	100.00
	<u>35,520,314</u>	<u>100.00</u>	<u>46,694,675</u>	<u>100.00</u>	<u>21,098,786</u>	<u>100.00</u>

	2009					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
----- (Rupees in '000) -----						
Public / Government	900,000	2.64	14,257,213	32.55	-	-
Private	33,154,629	97.36	29,549,848	67.45	18,276,838	100.00
	<u>34,054,629</u>	<u>100.00</u>	<u>43,807,061</u>	<u>100.00</u>	<u>18,276,838</u>	<u>100.00</u>

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

	2010		2009	
	Classified advances	Specific provision held	Classified advances	Specific provision held
----- (Rupees in '000) -----				
Public / Government	-	-	-	-
Private	9,617,879	5,290,696	7,355,353	4,105,928
	<u>9,617,879</u>	<u>5,290,696</u>	<u>7,355,353</u>	<u>4,105,928</u>

43.2 Market risk

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

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

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

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

The scope of market risk management is as follows:

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

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

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

(i) Foreign exchange risk

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

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----			
Pakistan rupee	57,711,613	54,511,975	(1,117,827)	2,081,811
United States dollar	580,859	910,986	880,417	550,290
Great Britain pound	70,754	195,847	126,542	1,449
Canadian dollar	-	132	-	(132)
Japanese yen	3,438	-	(3,677)	(239)
Euro	191,890	244,881	114,545	61,554
Other currencies	1,808	-	-	1,808
	<u>58,560,362</u>	<u>55,863,821</u>	<u>-</u>	<u>2,696,541</u>

	2009			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----			
Pakistan rupee	58,548,783	53,145,061	(443,560)	4,960,162
United States dollar	526,204	778,727	245,716	(6,807)
Great Britain pound	58,681	179,381	122,792	2,092
Canadian dollar	110	-	-	110
Japanese yen	1,806	1,089	(699)	18
Euro	85,386	158,831	74,542	1,097
Other currencies	2,088	1,099	1,209	2,198
	<u>59,223,058</u>	<u>54,264,188</u>	<u>-</u>	<u>4,958,870</u>

(ii) Equity price risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(iii) Interest rate / yield risk

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

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

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

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

Mismatch of interest rate sensitive assets and liabilities

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

		2010											
Effective Yield/ Interest Rate	Total	Exposed to Yield/ Interest risk								Above 10 Years	Non-interest bearing financial instruments		
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years				
Rupees in '000													
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	-	3,272,624	192,740	-	-	-	-	-	-	-	-	-	3,079,884
Balances with other banks	1% - 16.28%	360,306	250,281	-	-	-	-	-	-	-	-	-	110,025
Lending to financial institutions and others	12.77%	40,000	40,000	-	-	-	-	-	-	-	-	-	-
Investments	12.91% - 17.02%	12,019,099	1,212,069	3,072,462	1,438,534	195,649	775,096	833,262	691,737	449,044	-	-	3,351,246
Advances	7.5% - 28%	30,209,384	17,366,838	3,832,514	2,949,432	(21,165)	437,907	111,019	502,945	165,641	431,467	-	4,432,786
Other assets	-	1,184,685	-	-	-	-	-	-	-	-	-	-	1,184,685
		47,086,098	19,061,928	6,904,976	4,387,966	174,484	1,213,003	944,281	1,194,682	614,685	431,467	-	12,158,626
Liabilities													
Bills payable	-	541,041	-	-	-	-	-	-	-	-	-	-	541,041
Borrowings	9.63%	6,636,645	1,697,456	3,061,574	1,042,923	267,844	328,908	167,110	70,832	-	-	-	-
Deposits and other accounts	9.59%	46,694,675	6,176,343	7,129,964	3,980,235	6,943,191	388,070	24,900	680	2,000	-	-	22,049,292
Liabilities against assets subject to finance lease	12.08%	2,170	-	508	152	-	-	1,510	-	-	-	-	-
Other liabilities	-	1,073,151	-	-	-	-	-	-	-	-	-	-	1,073,151
		54,947,682	7,873,799	10,192,046	5,023,310	7,211,035	716,876	193,520	71,512	2,000	-	-	23,663,484
		(7,861,584)	11,188,129	(3,287,070)	(635,344)	(7,036,551)	496,027	750,761	1,123,170	612,685	431,467	-	(11,504,858)
Off-balance sheet financial instruments													
Forward purchase of foreign exchange	-	3,547,188	1,715,172	1,100,258	641,458	90,300	-	-	-	-	-	-	-
Forward sale of foreign exchange	-	(2,429,361)	(1,835,114)	(189,182)	(405,065)	-	-	-	-	-	-	-	-
Off-balance sheet gap		1,117,827	(119,942)	911,076	236,393	90,300	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap		11,068,187	(2,375,994)	(398,951)	(6,946,251)	496,027	750,761	1,123,170	612,685	431,467	-	-	(11,504,858)
Cumulative Yield / Interest Risk Sensitivity Gap		11,068,187	8,692,193	8,293,242	1,346,991	1,843,018	2,593,779	3,716,949	4,329,634	4,761,101	-	-	(6,743,577)

		2009											
Effective Yield/ Interest Rate	Total	Exposed to Yield/ Interest risk								Above 10 Years	Non-interest bearing financial instruments		
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years				
Rupees in '000													
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	-	2,851,783	220,769	-	-	-	-	-	-	-	-	-	2,631,014
Balances with other banks	5% - 12.5%	235,121	160,640	-	-	-	-	-	-	-	-	-	74,481
Lending to financial institutions	12.84%	2,804,596	1,886,499	44,000	-	874,097	-	-	-	-	-	-	-
Investments	8.81% - 15.44%	13,580,973	93,810	4,580,901	813,001	2,701,875	107,767	378,809	413,664	492,341	-	-	3,998,805
Advances	12.70% - 28.00%	29,916,446	17,293,973	4,563,700	3,340,364	145,706	89,048	89,313	497,813	218,048	415,683	-	3,262,798
Other assets	-	2,299,936	-	-	-	-	-	-	-	-	-	-	2,299,936
		51,688,855	19,655,691	9,188,601	4,153,365	3,721,678	196,815	468,122	911,477	710,389	415,683	-	12,267,034
Liabilities													
Bills payable	-	386,066	-	-	-	-	-	-	-	-	-	-	386,066
Borrowings	12.76% - 14.08%	8,696,140	3,831,828	2,563,245	1,122,653	157,714	492,209	326,074	101,209	101,208	-	-	-
Deposits and other accounts	12.83% - 16.00%	43,807,061	19,896,902	8,608,929	3,370,023	5,131,585	743,413	380,895	2,100	-	-	-	5,673,214
Liabilities against assets subject to finance lease	15.25% - 19.33%	6,105	-	981	941	2,009	664	1,510	-	-	-	-	-
Other liabilities	-	2,344,353	-	-	-	-	-	-	-	-	-	-	2,344,353
		55,239,725	23,728,730	11,173,155	4,493,617	5,291,308	1,236,286	708,479	103,309	101,208	-	-	8,403,633
		(3,550,870)	(4,073,039)	(1,984,554)	(340,252)	(1,569,630)	(1,039,471)	(240,357)	808,168	609,181	415,683	-	3,863,401
Off-balance sheet financial instruments													
Forward purchase of foreign exchange	-	2,786,649	2,118,598	229,634	175,677	262,740	-	-	-	-	-	-	-
Forward sale of foreign exchange	-	(2,343,089)	(1,570,239)	(174,600)	(598,250)	-	-	-	-	-	-	-	-
Off-balance sheet gap		443,560	548,359	55,034	(422,573)	262,740	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap		(3,524,680)	(1,929,520)	(762,825)	(1,306,890)	(1,039,471)	(240,357)	808,168	609,181	415,683	-	-	3,863,401
Cumulative Yield / Interest Risk Sensitivity Gap		(3,524,680)	(5,454,200)	(6,217,025)	(7,523,915)	(8,563,386)	(8,803,743)	(7,995,575)	(7,386,394)	(6,970,711)	-	-	(3,107,310)

43.3 Liquidity risk

43.3.1 Liquidity Risk Management

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

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

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

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

43.3.2 Maturities of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities at the year end have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and also takes into account the effective maturities as indicated by the Holding Company's deposit retention history. Current and saving deposits are repayable on demand, however management has determined the maturity buckets, based on its judgment and experience. Assets and liabilities not having a contractual maturity are assumed to mature on the expected date on which the assets / liabilities will be realised / settled.

	2010									
	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	3,272,624	3,272,624	-	-	-	-	-	-	-	-
Balances with other banks	360,306	360,306	-	-	-	-	-	-	-	-
Lending to financial institutions	40,000	40,000	-	-	-	-	-	-	-	-
Investments	12,019,099	1,508,096	2,864,264	2,075,931	990,349	836,248	864,893	1,048,335	1,466,564	364,419
Advances	30,209,384	6,480,327	8,415,290	4,476,845	4,332,679	2,128,998	912,378	1,719,415	1,024,340	719,112
Operating fixed assets	4,541,778	37,423	74,844	112,266	224,531	449,062	449,062	761,682	1,351,619	1,081,289
Deferred tax assets	3,810,399	-	-	-	762,080	762,080	762,080	1,524,159	-	-
Other assets	4,306,772	1,659,439	49,959	74,939	583,610	416,572	416,572	-	1,061,666	44,015
	58,560,362	13,358,215	11,404,357	6,739,981	6,893,249	4,592,960	3,404,985	5,053,591	4,904,189	2,208,835
Liabilities										
Bills payable	541,041	541,041	-	-	-	-	-	-	-	-
Borrowings	6,636,645	1,697,456	3,061,574	1,042,923	267,844	328,906	167,110	70,832	-	-
Deposits and other accounts	46,694,675	28,225,635	7,129,964	3,980,235	6,943,191	388,070	24,900	680	2,000	-
Liabilities against assets subject to finance lease	2,170	-	508	152	-	-	1,510	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,989,290	1,060,551	590,336	5,881	49,539	61,301	99,079	122,603	-	-
	55,863,821	31,524,683	10,782,382	5,029,191	7,260,574	778,277	292,599	194,115	2,000	-
Net assets	2,696,541	(18,166,468)	621,975	1,710,790	(367,325)	3,814,683	3,112,386	4,859,476	4,902,189	2,208,835
Share capital	9,508,617									
Reserves	162,727									
Accumulated losses	(8,012,226)									
Share premium	23,724									
	1,682,842									
Non-controlling interest	534,801									
Surplus on revaluation of assets - net	478,898									
	<u>2,696,541</u>									

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Annual Report 2010

	2009									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000										
Assets										
Cash and balances with treasury banks	2,851,783	2,851,783	-	-	-	-	-	-	-	-
Balances with other banks	235,121	235,121	-	-	-	-	-	-	-	-
Lending to financial institutions	2,804,596	1,876,024	44,176	874,361	528	1,056	1,056	2,113	5,282	-
Investments	13,580,973	65,049	4,085,068	473,514	3,280,080	335,639	884,051	1,699,605	1,235,222	1,522,745
Advances	29,916,446	8,108,583	7,477,180	4,882,012	3,814,320	984,828	1,615,228	1,584,813	744,536	704,946
Operating fixed assets	4,027,676	24,862	50,586	74,587	149,174	294,232	298,347	534,216	741,402	1,860,270
Deferred tax assets	3,037,071	1,218,146	13,147	57,913	(70,573)	530,248	758,264	792,598	(89,577)	(173,095)
Other assets	4,545,921	2,539,094	79,688	47,984	104,728	4,542	161	153	318,058	1,451,513
	60,999,587	16,918,662	11,749,845	6,410,371	7,278,257	2,150,545	3,557,107	4,613,498	2,954,923	5,366,379
Liabilities										
Bills payable	386,066	386,066	-	-	-	-	-	-	-	-
Borrowings	8,696,140	3,840,153	2,683,246	1,147,628	104,113	259,309	259,474	402,217	-	-
Deposits and other accounts	43,807,061	25,570,116	8,608,929	3,370,023	5,131,585	743,413	380,895	2,100	-	-
Liabilities against assets subject to finance lease	6,105	26	955	941	2,009	664	1,510	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,687,394	2,220,114	3,293	6,221	20,195	69,190	67,163	195,244	100	105,874
	55,582,766	32,016,475	11,296,423	4,524,813	5,257,902	1,072,576	709,042	599,561	100	105,874
Net assets	5,416,821	(15,097,813)	453,422	1,885,558	2,020,355	1,077,969	2,848,065	4,013,937	2,954,823	5,260,505
Share capital	9,508,617									
Reserves	151,287									
Accumulated losses	(5,179,823)									
Share premium	23,724									
	4,503,805									
Non-controlling interest	524,694									
Surplus on revaluation of assets - net	455,065									
	5,483,564									

43.4 Operational risk

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

Key Risk Indicators have been developed for identifying, assessing and controlling operational risk in people, processes and systems of the Holding Company. Further, Risk and Control Self-Assessments are being developed for creating awareness, identification of operational risk and compliance with the regulatory guidelines in the light of international best practices.

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

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

44. GENERAL

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

44.2 Captions, as prescribed by BSD Circular No. 04, dated 17 February 2006, in respect of which there are no amounts have not been reproduced in these consolidated financial statements, except for the captions of the consolidated statement of financial position and consolidated profit and loss account.

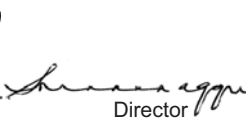
44.3 Figures have been rounded off to the nearest thousand rupees.

45. DATE OF AUTHORISATION

These consolidated financial statements were authorized for issue in the Board's meeting held on 04 April 2011.


Acting President and Chief Executive


Director


Director


Director


Director

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF RUPEES 500,000 OR ABOVE DURING THE YEAR ENDED DECEMBER 31, 2010

(Rupees in million)

S. No.	Name and address of the borrowers	Name of individuals/ Partners/ directors with (NIC No.)	Father's Husband's Name	Outstanding liabilities at beginning of the year			Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total (9+10+11)	
				Principal	Interest/ Mark-up	Others					
1	2	3	4	5	6	7	8	9	10	11	12
1	Babar Ali House # 192, Phase-II, Gujranwala Cantt., Gujranwala.	Babar Ali 34101-1894454-3	Lal Din	9.297	0.959	-	10.256	1.797	1.872	-	3.669
2	Fatima Sajjad & Syed Ali Sajjad Rizvi House # C-16, Block-I, North Nazimabad, Karachi.	Fatima Sajjad 42101-1559324-0 Syed Ali Sajjad Rizvi 42101-1674532-6	Syed Ali Sajjad Rizvi Syed Manzoor	14.494	0.825	-	15.319	0.994	1.418	0.009	2.421
3	Tanveer Afzal House No. 18, 37th Street, Darakshan Phase VI, Survey No. 26, Pakistan Defence Officers Housing Authority, Karachi.	Tanveer Afzal 42301-3369348-5	Afzal Hussain Butt	24.491	1.517	-	26.008	3.491	3.085	0.491	7.067
4	Faisal Vawda A-21, Street No. 7, Gulshan-e- Faisal, Bath Island, Clifton, Karachi.	Faisal Vawda 42201-5998288-5	Omer Vawda	5.530	0.204	-	5.734	1.060	0.642	0.073	1.775
5	Jahanzaib Munir 213/A, Shadman Colony No.1, Lahore	Jahanzaib Muneer 35200-1456863-1	Mian Muneer Ahmed	11.297	0.236	-	11.533	0.796	1.591	0.226	2.613
6	Sawera Framing & Decoration House No. 99-A, Sunat Nagar, Feroz Colony Noor Street, Out Fall Road, Lahore.	Ghulam Mustafa 35202-4828619-1 Muhammad Afzaal 35202-2998169-4	Muhammad Bilal Muhammad Siddique	3.226	0.781	-	4.007	0.645	0.950	0.017	1.612
7	Muhammad Haroon Flat # M-21, Apsara Apartment, Phase III, Block-16, Gulshan-e- Iqbal, Karachi.	Mohammad Haroon 42201-9624309-7	Abdul Sattar	3.974	0.851	-	4.825	0.974	1.434	0.040	2.448
8	AAA Enterprises 40, Darual Aman Co-Operative Housing Society, Shahrah-e- Faisal, Karachi	Mrs. Tasneem Arshad 42201-0465901-2 Mrs. Sumbliin Amjad 42201-0350277-4 Mr. Abid Farooq 35202-0485641-3 Mr. Asad Amjad Farooq 42000-0397565-5	Mr. Arshad Farooq Mr. Amjad Farooq Mr. S.M. Farooq Mr. Amjad Farooq	13.634	3.024	-	16.658	3.134	3.024	-	6.158
9	Mohammad Ali Transport Office No. H-308, Marine Centre, Block-2, Clifton, Karachi	Haji Muhammad Ali 21202-1344686-7	Haji Zar Hussain	4.760	-	-	4.760	2.143	-	-	2.143
10	Lala Electronics Shop # 2, Ground Floor, Raja Chambers, Abid Market, Queens Road, Lahore	Mr. Muhammad Yaqoob Bhatti 35202-6781222-3 Mst. Razia Yaqoob 35202-6992277-8 Mr. Naveed Yousaf 35202-2637150-09	Mr. Muhammad Yousuf Bhatti Mr. Muhammad Yaqoob Bhatti Mr. Muhammad Yaqoob Bhatti	10.053	2.226	-	12.279	1.977	2.225	-	4.202
11	Raja Dall & Oil Factory Plot No. E-13, Near Nara Jail, SITE Area, Hyderabad	Mr. Khoob Chand 41303-5266229-1 Mr. Chulo Mal 41303-2648483-5 Mr. Mohan Mal 41303-8277063-7 Mr. Dileep Kumar 42301-1197903-1 Mr. Gawaskar 41303-6183449-3 Ms. Mohani Bai 41207-4274455-2 Ms. Jamana Bai 41207-4758112-8 Ms. Dhalan Bai 41207-7324062-0	Mr. Hasa Nand Mr. Basa Nand Mr. Mangho Mal Mr. Mangho Mal Mr. Mangho Mal Mr. Mangho Mal Mr. Khoob Chand Mr. Chulo Mal	30.000	3.841	-	33.841	1.890	3.841	-	5.731
12	Abdul Qadir Room No. 09, Raffai Markaz, Ram Bharti Street, Jodia Bazar, Karachi	Mr. Abdul Qadir 42301-2734858-3	Mr. Abdul Sattar	1.702	-	-	1.702	1.702	-	-	1.702
13	Adam Transport Services Sanaullah Avenue, BS-17, Shop No. 41-42, Block No. 21, F.B. Area, Karachi	Mr. Badshahi Khan 42201-0785728-5	Mr. Niaz Bukhat Khan	2.077	0.058	-	2.135	0.777	-	-	0.777
14	Abdul Qadir B-81, Block-10/A, Gulshan-e- Iqbal, Karachi.	Mr. Abdul Qadir 42201-0797361-7	Mr. M. Tajammul Hussain	4.490	0.181	-	4.671	1.580	0.181	-	1.761
				139.025	14.703	-	153.728	22.960	20.263	0.856	44.079

PATTERN OF SHAREHOLDING

Annual Report 2010

Number of Share Holders	Shareholding		Total Shares Held
	From	To	
3,194	1	100	120,800
2,220	101	500	430,762
1,755	501	1,000	1,342,266
1,227	1,001	5,000	2,490,745
208	5,001	10,000	1,458,482
70	10,001	15,000	866,110
39	15,001	20,000	680,524
24	20,001	25,000	539,119
21	25,001	30,000	576,250
8	30,001	35,000	256,861
11	35,001	40,000	418,766
12	40,001	45,000	513,080
11	45,001	50,000	530,717
3	50,001	55,000	159,298
3	55,001	60,000	173,886
3	60,001	65,000	187,145
2	70,001	75,000	150,000
3	75,001	80,000	230,944
3	80,001	85,000	250,543
3	90,001	95,000	279,212
4	95,001	100,000	400,000
1	100,001	105,000	100,001
1	115,001	120,000	117,840
1	120,001	125,000	124,910
2	130,001	135,000	261,469
1	145,001	150,000	146,862
1	155,001	160,000	155,232
2	170,001	175,000	345,905
3	185,001	190,000	566,487
2	190,001	195,000	383,873
1	195,001	200,000	200,000
2	200,001	205,000	404,972
1	205,001	210,000	210,000
2	220,001	225,000	442,356
1	240,001	245,000	242,551
1	305,001	310,000	308,279
1	325,001	330,000	327,892
1	375,001	380,000	378,189
1	385,001	390,000	385,267

PATTERN OF SHAREHOLDING

Annual Report 2010

Number of Share Holders	Shareholding		Total Shares Held
	From	To	
1	450,001	455,000	452,421
1	495,001	500,000	500,000
1	540,001	545,000	540,540
1	550,001	555,000	553,000
1	565,001	570,000	569,613
1	705,001	710,000	710,000
1	780,001	785,000	783,810
1	915,001	920,000	917,520
1	1,115,001	1,120,000	1,119,560
1	1,130,001	1,135,000	1,134,000
1	1,330,001	1,335,000	1,333,839
1	1,405,001	1,410,000	1,405,371
1	1,835,001	1,840,000	1,837,416
1	1,860,001	1,865,000	1,864,800
1	1,950,001	1,955,000	1,950,480
1	2,870,001	2,875,000	2,874,942
1	3,200,001	3,205,000	3,200,400
1	3,210,001	3,215,000	3,213,000
1	4,540,001	4,545,000	4,543,250
1	4,595,001	4,600,000	4,600,000
1	4,650,001	4,655,000	4,652,697
1	5,105,001	5,110,000	5,106,024
1	8,340,001	8,345,000	8,343,000
1	9,340,001	9,345,000	9,340,465
1	11,695,001	11,700,000	11,699,226
1	14,875,001	14,880,000	14,877,417
1	15,980,001	15,985,000	15,984,990
1	17,280,001	17,285,000	17,280,900
3	17,790,001	17,795,000	53,382,066
1	17,815,001	17,820,000	17,816,967
1	19,855,001	19,860,000	19,858,649
1	19,970,001	19,975,000	19,972,062
1	33,285,001	33,290,000	33,286,769
1	41,225,001	41,230,000	41,225,787
1	106,340,001	106,345,000	106,341,810
1	117,830,001	117,835,000	117,832,848
1	166,865,001	166,870,000	166,869,640
1	235,725,001	235,730,000	235,728,788
8,889			950,861,662

KARACHI BRANCHES

<p>Main Branch Tel: (021) 32446005-10 / 32446772-77 Fax: (021) 32446781 UAN: 111 555 666</p>	<p>Gulshan-e-Iqbal Branch Tel: (021) 34981330-31 Fax: (021) 34981334</p> <p>Gulshan Chowrangi Branch (Sub Branch) PABX No. (021) 34832541-3 FAX No. (021) 34832548</p>	<p>Hyderi Branch PABX (021) 36724280-3-4 Fax No. (021) 36724282</p> <p>Nazimabad (Sub Branch) PABX No. (021) 36611909-12-13 Fax (021) 36611909</p> <p>F.B.Area Karimabad Branch (Sub Branch) PABX No. (021) 36826728/31/35 FAX No. (021) 36826805</p>
<p>Jodia Bazar Branch Tel: (021) 32521351-4 Fax: (021) 32521357</p> <p>Cochinwala Branch (Sub Branch) PABX No. (021) 32462703-5 FAX No. (021) 32467643</p>	<p>New Challi Branch PABX No. (021) 32601231-33 Fax No. (021) 32601337</p>	<p>Karachi Stock Exchange Branch Tel: (021) 32473560-63 Fax (021) 32473564</p>
<p>Korangi Branch Tel: (021) 35078922-25 Fax (021) 35078926</p>	<p>Shaheed-e-Millat Road Branch PABX No (021) 34145183-84-86 Fax No. (021) 34145187</p> <p>Dohraji Branch (Sub Branch) PABX No. (021) 34860180-2 Fax No. (021) 34860184</p> <p>Khalid Bin Waleed Branch (Sub Branch) PABX (021) 34302806-9 Fax No. (021) 34302813</p>	<p>DHA Phase 1 Branch PABX No. (021) 35314121-3 Fax No. (021) 35314127</p>
<p>Preedy Street Branch PABX No (021) 32724121, 32724135, 32724178 Fax (021) 32725175</p> <p>Electronic Market Sadar Branch (Sub Branch) PABX No. (021) 32700561-63 Fax No. (021) 32700567</p>	<p>SITE Branch PABX No (021) 32550391-3 Fax (021) 32550395</p> <p>Orangi Town (Sub Branch) PABX No. (021) 36760060-2 FAX No. (021) 36760063</p>	<p>Gulistan-e-Johar Branch PABX No. 34029901-3 Fax No. 34029902</p>
<p>DHA Shahbaz Branch PABX No. (021) 35349154-7 Fax No.(021) 35349149</p> <p>DHA Phase VI Branch (Sub Branch) PABX (021) 35242734-37 FAX No. (021) 35242739</p> <p>Defence Phase IV Branch (Sub Branch) PABX (021) 35312961-4 Fax No. (021) 35312966</p>	<p>Shahrah-e-Faisal Branch Tel: (021) 34313236-38 Fax: (021) 34538638</p> <p>Muhammad Ali Society Branch (Sub Branch) PABX No. (021) 34306061-3 FAX No. (021) 34306066</p> <p>Manzoor Colony Branch (Sub Branch) PABX No. (021) 35392805-7 FAX No. (021) 35392810</p>	<p>Malir City Branch PABX No. (021) 34117381, 34110812 / 822 FAX No. (021) 34117452</p>
<p>Garden Branch PABX No. (021) 32292041-43 FAX No. (021) 32292046</p>		<p>Clifton Branch PABX No.: (021) 35879207, 35879170, 35879215 Fax: (021) 35879134</p> <p>Clifton (Shireen Jinnah) (Sub Branch) PABX No. (021) 35305581-3 FAX No. (021) 35374579</p>

LAHORE BRANCHES

<p>Defence Branch PABX No: (042) 35731811, 35740083 Fax: (042) 35722228</p> <p>DHA-G Branch (Sub Branch) PABX (042) 35690987-8 Fax No. (042) 35690986</p>	<p>Raiwind Road Branch PABX No:(042) 35426923, 35437893 Fax (042) 35426926</p> <p>Abbot Road Branch PABX No: (042) 36305143-44 Fax: (042) 36305142</p> <p>Mozang Branch (Sub Branch) PABX No. (042) 36371254-6 Fax No. (042) 36371504</p> <p>Shadman Town Branch (Sub Branch) PABX No. (042) 37569488-9 Fax: (042) 37569487</p>	<p>Allama Iqbal Town Branch PABX (042) 35424951-3 Fax No. (042) 35436226</p> <p>Wahdat Raod Branch (Sub Branch) PABX (042) 35912863-4 Fax No. (042) 35912862</p>
<p>Johar Town Branch PABX (042) 35220813-5 Fax No. (042) 35220819</p>	<p>Lahore Stock Exchange Branch PABX No: (042) 36367794-97 Fax No : (042) 36280804</p>	<p>Circular Road Branch PABX No: (042) 37639040-42 Fax: (042) 37660649</p> <p>Shadbagh Branch (Sub Branch) PABX No. (042) 37600953/986 FAX No. (042) 37600960</p>
<p>Baghbanpura Branch PABX No. (042) 36820445-6 FAX No. (042) 36820447</p> <p>Mughalpura Branch (Sub Branch) PABX No. (042) 36524880-3 FAX No. (042) 36524887</p>	<p>Peco Road Branch PABX No:(042) 35144951-4 FAX NO:(042) 35144955</p>	<p>Gulberg Branch PABX No: (042) 35764288-9 Fax No: (042) 35755358</p> <p>KASB House (Jail Road) (Sub Branch) PABX No. (042) 35776723-5 FAX No. (042) 35875013</p> <p>Model Town Branch (Sub Branch) PABX No. (042) 35915673-6 FAX No. (042) 35915677</p>
<p>Gulshan-e-Ravi Branch PABX No. (042) 37415063-83-86 FAX No. (042) 37414892</p>	<p>Shah Alam Branch PABX No: (042) 37656501, 37658221 FAX NO:(042) 37658275</p>	

BRANCH NETWORK

ISLAMABAD BRANCHES

Islamabad Branch
PABX No: (051) 2826181- 83
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

**Bahria Town Phase VIII Branch
(Sub Branch)**
PABX No. (051) 5705651-5705652-5705653
FAX No. (051) 5705658

SIALKOT BRANCH

Sialkot Branch
PABX No: (052) 3241671-74
Fax (052) 3241679

Sialkot Branch (Sub Branch)
PABX No. (052) 3242650-3
Fax No. 052-3242658

MULTAN BRANCH

Multan Branch
PABX No: (061) 4587701-3
Fax No: (061) 4587705

Bosan Road Multan Branch (Sub Branch)
PABX No. (061) 6210213-4
Fax No. 061-6210219

GUJRANWALA

Gujranwala Branch
PABX No: (055) 3252348 / 3252353
Fax: (055) 3254529

Gujranwala G.T. Road Branch (Sub Branch)
PABX No. (055) 4294014-6
FAX No. (055) 4274016

RAWALPINDI BRANCHES

Rawalpindi Branch
PABX No: (051) 5527840-43
Fax: (051) 5527844

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

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

HYDERABAD BRANCH

Hyderabad Branch
Tel: (022) 2729917-18
Fax: (022) 2785977
UAN: 111 555 666

Hyderabad Market Branch (Sub Branch)
PABX (022) 2636660-2
Fax 022 2636275

MIRPUR (AJK)

Mirpur (A.K.) Branch
PABX No: (058610) 42841 / 44877
Fax: (058610) 42742
UAN: 111 555 666

Chaksawari Branch
PABX No. 05827-454810-11
FAX No. 05827-454814

GUJRAT BRANCHES

Gujrat Branch
PABX:(053)-3517966-69
Fax (053) 3517965

Lala Musa (Sub branch)
PABX No. (053) 751905-8

BRANCH NETWORK

OTHER CITIES

Faisalabad Branch PABX NO (041) 2649667-70 Fax: (041) 2649672	Jhelum Branch PABX No. (0544) 622385/6 Fax No. 0544-622938 Kharian (Sub Branch) PABX No. (053) 7610629-36 Dina (Sub Branch) PABX No. (0544) 631171-3 / 80 Dinga (Sub Branch) PABX No. (0537) 405061-62	Sargodha Branch PABX No. (048) 3768121-3 Fax No. 048 3768122
Sukkur Branch Tel: (071) 5619083-4 Fax No. (071) 5619088	Kamoki Branch PABX No. (055) 6814580-2 FAX No. (055) 6814584	Jacobabad Branch PABX No. (0722) 654804/5 FAX No. (0722)654801
Quetta Branch Tel: (081) 2842531. 2836518 Fax: (081) 2842531 UAN: 111 555 666	Jhang Branch PABX No. (047) 7651670-2 FAX No. (047) 7651676	Rahimyarkhan Branch PABX No. (068) 5871901-3 Fax No. 068 5871908
Fateh Jang Branch PABX No. (051) 2210244-6 Fax No. 051-2210249	KandhkotBranch PABX No.(0722) 570041-43 FAX No. (0722) 570044	D.G.Khan Branch PABX No. (064) 2471560-2 FAX No. (064) 2471566
Nawabshah Branch PABX No (024) 4330304-5 FAX No (024)-4330307	Ghourghashti Branch PABX No. 057-2871291-2871292 FAX No. 057-2871393	Mirpurkhas Branch PABX (0233) 874612-4 Fax No. (0233) 874615
Sadiqabad Branch PABX No. (068) 5800067-69 FAX No. (068) 5709114	Mehar Branch PABX No. (0254) 730375 FAX No. (0254) 730376	Gujjar Khan Branch PABX No. (0571) 3511903-5 FAX No. (0571) 3511913
Mandi Bahaudin Branch PABX No. (054) 6507207-9 FAX No. (054) 6507210	Vehari Branch PABX No. (067) 3360515-7 FAX No. (067) 3360519	Sambriyal Branch PABX No. (052) 6521003-5 FAX No. (052) 6521006
Bhawalpur Branch PABX No. (062) 2880701-3 FAX No. (062) 2880704	Okara Branch PABX No. (044) 2520526-8 FAX No. (044) 2520590	Sheikhupura Branch PABX No. (056) 3780984-6 FAX No. (056) 3780987
Kasur Branch PABX No. (049) 2720697-98-2763823 FAX No. (049) 2763824		Sanghar Branch PABX No. (023) 5541479-80-5541478 FAX No.

FORM OF PROXY

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

SIXTEENTH 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 Sixteenth Annual General Meeting of the Bank to be held on Thursday, April 28, 2011 at 11:30 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 _____ 2011

Shareholder Folio No.

Or

CDC Participant I.D. No.

&

Sub Account No.

Signature on
Five Rupee
Revenue Stamp

The signature should
agree with the
specimen registered
with the Company

NOTES:

1. This proxy form, duly completed and signed, must be received at the Registered Office of the Bank, Razia Sharif Plaza, Jinnah Avenue, 90-Blue Area, Islamabad, not less the 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he/she himself/herself is a member of the Bank, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy, and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.
4. CDC shareholders and their proxies are requested to attach an attested photocopy of their Computerized National Identity Card or passport with this proxy form before submission to the Company.

Annual Report 2010



Business & Finance Centre, I. I. Chundrigar Road, Karachi - 74000, Pakistan.

UAN: 111-555-666, Toll free: 0800 5272 1

Website: www.kasb.com