



**IN THE NAME OF Allah,
THE MOST BENEFICENT, THE MOST MERCIFUL**

Mission & Vision

To be Pakistan's leading financial group

To achieve the above vision by

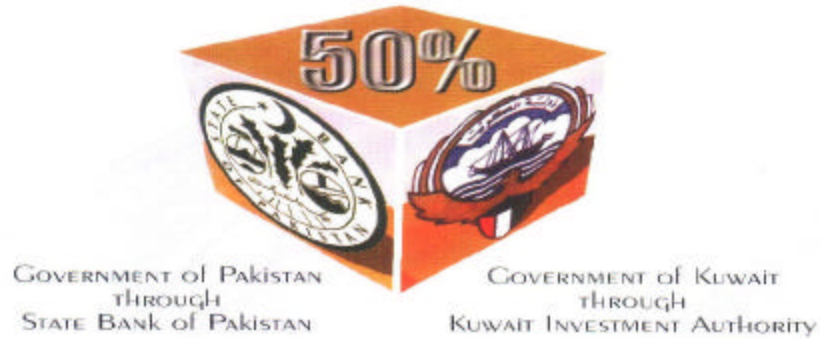
- ? Providing value to our **customers**
- ? Optimizing returns for our **shareholders**
- ? Attracting, motivating and retaining top quality **professionals**
- ? Pursuing our corporate **values**

A JOINT VENTURE

The Company is a joint venture between the Governments of

Pakistan and **Kuwait**

The respective shareholdings are as follows:



Pakistan Kuwait Investment Company (Private) Limited

Finance & Trade Centre, 4th Floor, Tower 'C', Shahrah-e-Faisal, G.P.O, Box 901, Karachi-74400, Pakistan. Tel: (92-21) 5660740-46. Fax: (92-21) 5683669, 5660752, Telex: 21396 PKIC PK. Cable: PAKUWAIT.

Five Year Financial Highlights

(Rs. in millions)

	2001	2000	1999	1998	1997
Paid-up-Capital	1,150	1,150	1,100	1,100	1,100
RESERVES	2,932	2,819	2,770	2,220	2,082
TOTAL ASSETS	10,787	9,882	11,420	21,169	35,947
Marketable Securities – At Cost	4,035	1,317	2,120	2,400	1,985
OPERATOPNAL PROFIT	984	685	442	764	882
NET PROFIT	314	298	*800	288	806
(after tax and provisions)					
Cash Dividend	200	200	250	150	275

* includes reversal of provisions

NOTE: As at December 31, 2001 US Dollar = PKR 60.2540

CONTENTS

Board of Directors & Executive Committee	6
Management & Senior Executives	7
Directors' Report	8
Operations Review	10
Auditors' Report	14
Balance Sheet	15
Profit & Loss Account	17
Statement of Changes in Equity	18
Cash Flow Statement	19
Notes to and Forming Part of the Accounts	20

BOARD OF DIRECTORS

(Representing Governments of Pakistan and Kuwait)

Abdulazim M.A. Al-Shamali
Chairman

Zaigham Mehmood Rizvi
Managing Director

Abu Shamim M. Ariff
Director

Emad Yousef Al- Monayea
Director

Javed sadiq Malik
Director

Abdullah Abdulwahab Al-Ramadhan
Director

Wamiq Rizvi
Director

EXECUTIVE COMMITTEE

Abdulazim M.A. Al-Shamali

Zaigham Mehmood Rizvi



MANAGEMENT

Zaigham Mehmood Rizvi	Managing Director
Irfan Siddiqui	General Manager

SENIOR EXECUTIVES

Mohammad Ali Qureshi	Senior Executive Vice President
Shahid Usman	Senior Executive Vice President
S. Fahim Ahmad	Credit Advisor
S. Mujahid Naqvi	Executive Vice President
Tasnimul Haq Farooqui	Senior Vice President
Fauzia Hasnain	Senior Vice President
Hina Akhlaq	Vice President
Shanul Haq	Vice President
Wamiq Rizvi	Vice President
MazHar Sharif	Vice President



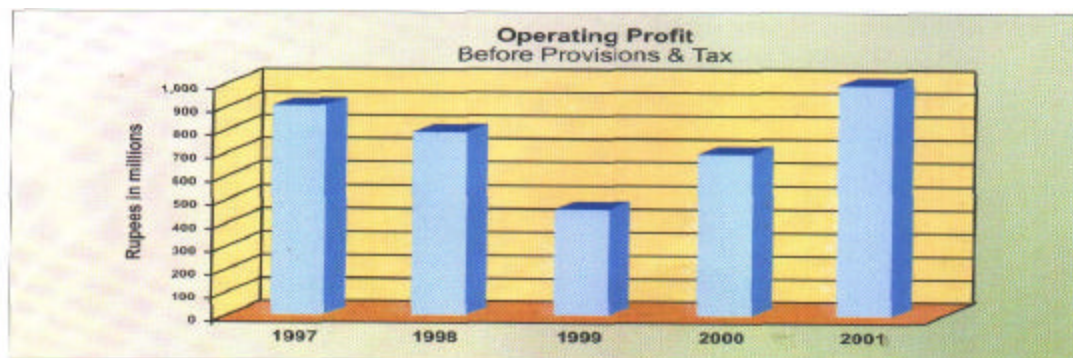
Directors' Report

I am pleased to present the 23rd Annual Report along with the financial statements for the year ended December 31, 2001. This year was a difficult period for the economy in general and the financial services industry in particular as economic growth declined for the third consecutive year and monetary policy remained tight for most of the period. The shock and aftermath of the events of September 11 poised a fresh challenge for Pakistan as exports declined and industrial activity slowed down even further. On balance, the stance adopted by the government allowed Pakistan to stabilize its external sector position, secure concessional financing agreements with multilateral and bilateral lenders, which will prove to be the cornerstone for Pakistan's economic revival over the coming years. Reflecting the improved macro economic environment, the benchmark KSE-100 index is up 46.70o in the first quarter 2002.

I am happy to report that your company fared well in this uncertain and challenging environment with an increase in net profit from Rs. 298 million in FY2000 to Rs. 314 million in the FY2001. Operating profits grew by **440o**, from Rs. 685 million in FY2000 to Rs. 984 million in FY2001 reflecting an improved performance by nearly all business segments - capital markets, treasury and credit. However, the Yo Y decline in equity prices necessitated higher provisions in the investment portfolio.

Another important achievement of 2001 is the reversal in the declining trend in assets as the asset base grew by 100/o from Rs. 9.9 billion to Rs. 10.8 billion. The stock market portfolio has been realigned in line with market conditions with a view to diversify risk and benefit from cheap valuations of the fundamentally strong stocks. At the same time, the focus has been on stocks with attractive dividend yields, which is likely to hedge against any adverse movement in stock prices.

Financial Highlights:	Rs. in millions	
	2001	2000
PROFITABILITY		
Net Operating Income	1,119	822
Administrative and general expenses	135	137
Operating profit	984	685
Provision for contingencies	613	331
Profit before taxation	371	354
Taxation	57	56
Net profit for the year after taxation	314	298
Appropriations:		
Transfer to compulsory reserve (reserve fund)	63	59
Transfer to general reserve	36	26
Transfer to contingencies reserve	15	13
Proposed dividend	200	200



Directors' Report

Business Strategy and Outlook for - 2002

A detailed business plan has been prepared by each of the departments, which lays down the future road map for Pak Kuwait. Under the business plan, there is a greater emphasis on financing activities in order to strengthen the core business of the Company.

Earnings by Capital Market Operations are expected to show substantial improvement during the year 2002 with expected improvement in the economy, and increasing interest in the market by the investors.

Treasury Function is in the process of developing a stronger local currency balance sheet, since foreign currency deposits may no longer constitute bulk of business after dedollarization of the economy. This should lead to increased money market activities, repos, reverse repos and activities in other instruments. Strategy includes booking medium to long term deposits which would help in supporting long term lending activities undertaken by the Corporate Finance Department.

The focus has increased on Corporate Finance activities of the Company with increase in leasing and financing activities. The overall loan portfolio has been further diversified by developing business relationship with well-known business groups in the country. Some Islamic Banking products have also been designed to cater to the needs of the business houses which are interested in Shariah compatible modes of financing. This is in line with the long-term strategy of the Company.

Despite adverse economic trends, Pak Kuwait has, Al Hamdolillah, neither added any new problem loans to its portfolio nor was required to make any fresh provisions, with the exception of only one loan which has now been repaid. This has been possible due to a tight credit risk management and monitoring process. Generally loans to any one client are now capped at Rs. 100 million in order to reduce risk and diversify the portfolio, with exceptions made only for tier one clients. As part of new business initiatives, Micro Finance is being actively explored and a Micro finance cell has started operating in the Company.

I am happy to again report that, based on its overall performance, Pak Kuwait has been able to maintain its 'AAA' Rating awarded by ICR! VIS, an affiliate of Japan Credit Rating Company. In order to capitalize on this and to obtain funding at cheaper rates, Pak Kuwait plans to issue Term Finance Certificates in the near future, if justified by market conditions and long term interest rate outlook.

Pak Kuwait continues to fulfill its social obligations by making contributions to health, education and social sector projects. As an active proponent of professional investment and management practice, senior executives of the company regularly participate in seminars and conferences, which helps generate goodwill for Pak Kuwait.

An institution cannot be successful without its people - our team is to be complimented for performing well under difficult circumstances. We continue to adhere to our corporate philosophy of hiring, motivating and retaining some of the highest ranked professionals in the financial services industry by encouraging teamwork, conducting in-house and professional training programs. Mr. Zaigham Mahmood Rizvi joined us in March 2001 as the new Managing Director, and with his professional background is making an active contribution to Pak Kuwait activities. We look forward to his continued professional guidance in fulfilling Pak Kuwait's vision and corporate goals. I would like to express my thanks and appreciation to the outgoing Director Mr. M. Riyazul Haque, for his valuable contribution and support to Pak Kuwait and welcome Mr. Javed Sadiq Malik as incoming Director. I expect the Company will benefit and prosper further with his vast professional experience. I extend appreciation to my colleagues on the Board for their support and look forward to the continuing progress of Pak Kuwait in 2002.

Abdulazim MA. Al-Shamali
Chairman

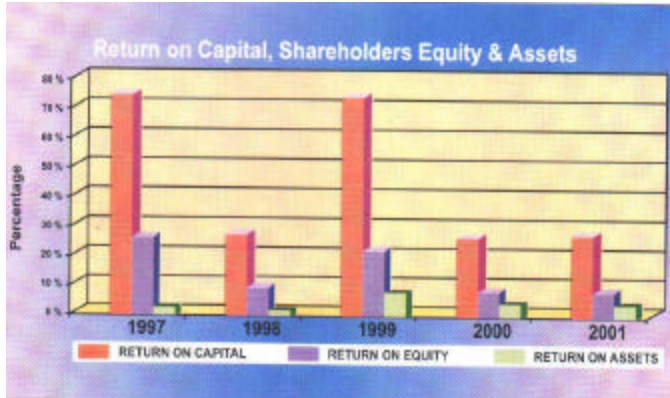
Operations Review

It is a pleasure to report that during the year under review, considerable progress has been made towards achieving our medium-term strategic objectives. Key achievements include balance sheet growth - both loan and deposit portfolios, successful implementation of an equity market investment strategy and prudent risk management. Driven by higher dividend earnings, income of foreign currency linked assets and exchange gains, operating profit increased 44% from Rs. 685 million in FY2000 to Rs. 984 million in FY2001.

The trend in balance sheet contraction started in 1998 when the government froze foreign currency deposits, which were an integral part of Pak Kuwait deposit base. Concerted efforts to reverse this trend bore fruit in 2001 with assets growing by 10% Yo Y from Rs. 9.9 billion in December 2000 to Rs. 10.8 billion in December 2001. Cognisant of the need to maintain and improve asset quality, particularly in view of the stagnant economic environment, efforts were made to diversify the client base and book new loans. Through carefully targeted marketing, our loan portfolio is well diversified.

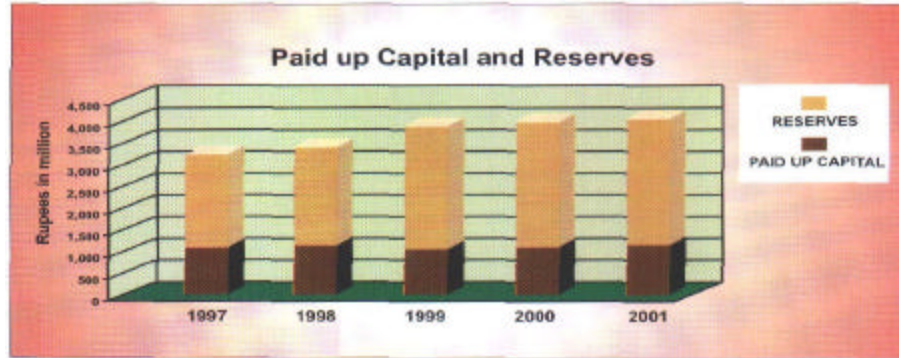
Loan portfolio

In a deviation from past practice, Pak Kuwait has started to lead manage syndicates for a variety of transactions - ranging from simple vanilla loan products to sophisticated investment banking products for clients such as Coronet Foods, ICI and Globe Textiles. This not only gives Pak Kuwait the desired visibility but also earns fee-based income. An Islamic Modarba financing transaction for a multinational was completed during the year and with the experience gained, a similar transaction is under process with a local corporate. In line with Pak Kuwait's strategy to develop Islamic banking products, Musharika and Jjarah transactions were also undertaken, besides pledge financing. During the year, loans worth Rs. 3,039 million were sanctioned and Rs. 2,609 million were disbursed.



Working Capital Financing and Participation in a Modaraba.

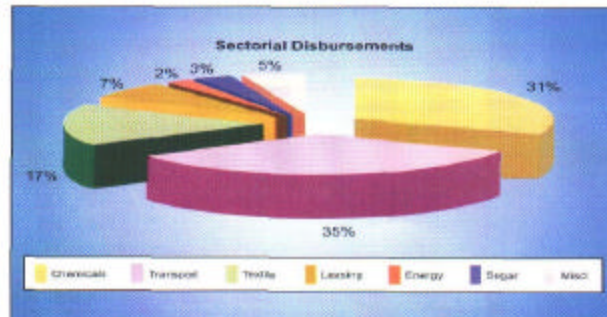
Operations Review



Due to strict credit controls and project monitoring, loan portfolio quality has been maintained despite the difficult economic environment. In line with a strategic lending policy decision, loans to any one client are now capped according to borrowing capacity in order to reduce risk and diversify the portfolio, with exceptions made where justified by the risk return profile of the particular transaction. As a result, no new problem loans were added or fresh loan loss provisions were required in FY2001.



Barrett Hodgson : Balance Sheet Restructuring.

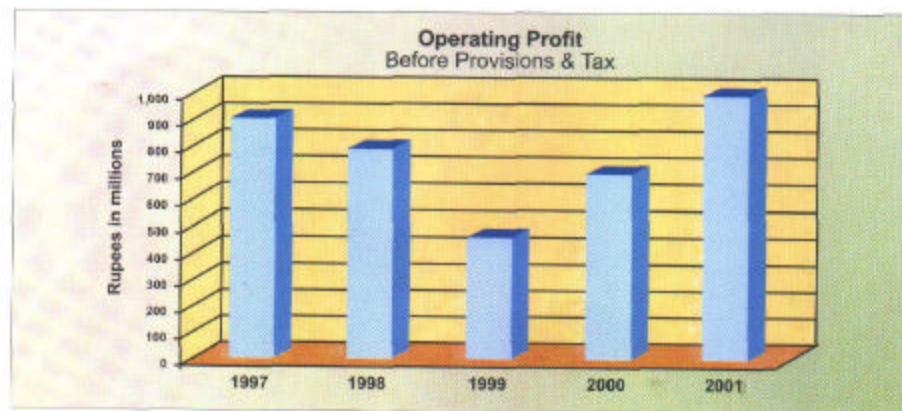


In view of the policy decision by the Government of Pakistan to encourage small and medium sized businesses, we have set-up a Micro Finance Cell as a pilot project to survey the market, in addition to expanding financing to small and medium enterprises. Once operational on a larger scale, this unit would help further diversify the loan portfolio.

Operations Review

Equity market operations

Stock market investments have been realigned with a view to diversify risk by bifurcating the portfolio into value stocks and income stocks. Taking advantage of inexpensive market valuations, we increased investments in fundamentally sound stocks, while maintaining our exposure to high dividend yielding stocks in order to hedge against adverse stock price movements. As a result of this strategy, dividend income showed a substantial increase from Rs. 334 million in FY2000 to Rs. 437 million in FY2001. Despite these efforts, provisions worth Rs. 537 million were required to be made to account for the decline in portfolio value, in line with the 160/o slide in benchmark KSE-100 index in 2001. The outlook for FY2002 appears promising with the economic scenario - the external account in particular - having stabilised, net inflows of foreign institutional investment, increased domestic institutional activity and brighter prospects for privatisation - all of which should positively contribute to the performance of the equity portfolio.



Treasury operations

Following the depletion in foreign currency deposits, the Treasury division started to actively grow the local currency component of the balance sheet. Both long term and short term Rupees deposits have been booked which provide funding for Corporate Finance activities. Treasury continues to play an active role in the Asset-Liability Committee (ALCO) and the credit process to ensure spreads are maximized and funding risks addressed. Pak-Kuwait has started to be an active participant in the interbank funds market, which has helped improve spreads on borrowing and lending activities. In an effort to mobilise relatively inexpensive medium term financing, a TFC issue is also planned, which should help make Pak Kuwait more competitive in its financing activities.

Business Strategy and Plan

A detailed two-day offsite Business Plan meeting was held towards the end of last year with input from all departments, which laid down the future business strategy for Pak Kuwait. The Business Strategy aims at making Pak Kuwait a proactive financial institution of the country determined to enhance benchmarking standards for 'AAA' rating.



Operations Review

Risk Management

The Credit Committee and ALCO primarily manage risk in co-ordination, along-with the regular function of Risk Management.

Human Resources

No organisation can be successful in the absence of motivated and professional human resources. We adhere to our corporate philosophy of hiring, motivating and retaining some of the most experienced and well respected professionals in the financial services industry by encouraging teamwork, conducting in-house and professional training programs. Given the importance attached to the Human Resource function, an experienced professional Human Resource expert was hired to add depth to the Human Resource Department. We continue our policy of providing staff training - with staff members being sent on training programs at all levels both in the country and abroad in an effort to improve the skill base and productivity.

Social contributions

Pak-Kuwait has continued to make contributions to the health and education sectors as part of its social responsibilities. As an active proponent of professional investment and management practice, senior executives of Pak Kuwait regularly participate in seminars and conferences, which helps generate goodwill and publicity for Pak Kuwait.

Auditors' Report to the Members

We have audited the annexed balance sheet of Pakistan Kuwait Investment Company (Private) Limited as at December 31, 2001 and the related profit and loss account, statement of changes in equity and the cash flow statement together with the notes forming part hereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

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

- a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with the accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 2001 and of the profit, changes in equity and cash flows for the year then ended; and
- d) in our opinion no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

A.F. Ferguson & Co.

Chartered Accountants

April 13, 2002

Karachi.

Balance Sheet
as at December 31, 2001

	Note	2001 (Rupees '000)	2000
SHARE CAPITAL			
Authorised capital			
80,000 ordinary shares of Rs. 25,000/- each		<u>2,000,000</u>	<u>2,000,000</u>
Issued, subscribed and paid up capital	3	1,150,000	1,150,000
RESERVES			
Total shareholders funds	4	2,932,386	2,818,832
		4,082,386	3,968,832
LONG TERM LOAN AND FINANCE			
	5	801,200	837,186
LONG TERM LIABILITIES			
Certificates of investment		331,000	60,000
Foreign currency deposits	6	2,076,367	2,592,140
Security deposits	13.1	11,169	1,328
DEFERRED LIABILITIES			
Other staff benefits		16,841	11,491
CURRENT LIABILITIES			
Current maturity of long term loan and finance	5	91,811	56,983
Current maturity of other staff benefits		4,966	1,851
Staff retirement gratuity	7	12,155	8,629
Foreign currency deposits	6	1,235,501	967,505
Certificates of investment		555,000	750,000
Creditors, accrued expenses and other liabilities	8	1,110,630	280,914
Taxation		257,831	145,396
Proposed dividend		200,000	200,000
		3,467,894	2,411,278
CONTINGENT LIABILITIES AND COMMITMENTS			
	9	<u>10,786,857</u>	<u>9,882,255</u>

The annexed notes form an integral part of these accounts.

Balance Sheet
as at December 31, 2001

	Note	2001 (Rupees '000)	2000
TANGIBLE FIXED ASSETS	10	52,874	60,531
LONG TERM INVESTMENTS	11	215,984	240,571
LONG TERM LOANS AND ADVANCES	12	2,018,821	2,162,823
AMOUNTS RECOVERABLE UNDER			
FINANCE LEASES	13	248,875	37,072
LONG TERM DEPOSITS, PREPAYMENTS			
AND DEFERRED COST	14	293	122,166
DEFERRED TAXATION	15	226,714	104,047
CURRENT ASSETS			
Marketable securities	16	3,252,634	3,070,768
Investment in government securities	17	50,741	49,780
Certificates of investment		175,000	200,000
Current maturities	18	1,420,921	884,984
Short term financings	19	678,537	1,487,302
Advances, deposits, prepayments and other receivables	20	1,109,778	666,849
Cash and bank balances	21	1,335,685	795,362
		8,023,296	7,155,045
		<u>10,786,857</u>	<u>9,882,255</u>

Zaigham Mahmood Rizvi
 Chief Executive

Abdulazim M. A. Al-Shamali
 Chairman

Profit and Loss Account
for the year ended December 31, 2001

	Note	2001 (Rupees '000)	2000
Operating income — gross	22	2,121,232	1,839,443
Financial charges	23	<u>1,002,707</u>	<u>1,017,249</u>
Net operating income		1,118,525	822,194
Administrative and general expenses	24	134,926	137,274
Operating profit		983,599	684,920
Provision for contingencies	25	612,953	330,631
Profit before taxation		370,646	354,289
Taxation	26	<u>57,092</u>	55,793
Profit after taxation		313,554	298,496
Appropriations:			
Transfer to compulsory reserve (reserve fund)	4.1	62,711	59,699
Transfer to general reserve	4.2	35,554	25,823
Transfer to contingencies reserve	4.2	15,289	12,974
Proposed dividend		200,000	200,000
		<u>313,554</u>	<u>298,496</u>
Basic earnings per share	27	---	---
		<u>Rs. 6,816</u>	<u>Rs. 6,489</u>

The annexed notes form an integral part of these accounts.

Zaigham Mahmood Rizvi
 Chief Executive

Abdulazim M. A. Al-Shamali
 Chairman

Statement of Changes in Equity
for the year ended December 31, 2000

	Issued. subscribed and paid up capital	Capital reserves			Revenue reserves		Unappro- priated profit	Total
		Compulsory reserve	Reserve for Issue of bonus shares	Special reserve	General	Contin. gencies		
	----- Rupees '000 -----							
Balance as at January 1, 1999	1,100,000	786,880	50,000	—	1,383,008	—	—	3,319,888
Profit for the year ended December 31, 1999	—	—	—	—	—	—	800.448	800.448
Transfer to compulsory reserve	—	160,090	—	—	—	—	(160,090)	—
Transfer to special reserve	—	—	—	80,045	—	—	(80,045)	—
Transfer to general reserve	—	—	—	—	310,313	—	(310,313)	—
Proposed dividend	—	—	—	—	—	—	(250,000)	(250,000)
Balance as at December 31, 1999	1,100,000	946,970	50,000	80,045	1,693,321	—	—	3,870,336
Profit for the year ended December 31, 2000	—	—	—	—	—	—	298,496	298,496
Transfer to compulsory reserve	—	59,699	—	—	—	—	(59,699)	—
Transfer from reserve for issue of bonus shares	50,000	—	(50,000)	—	—	—	—	—
Transfer to general reserve	—	—	—	—	25,823	—	(25,823)	—
Transfer to contingencies reserve	—	—	—	—	—	12,974	(12,974)	—
Proposed dividend	—	—	—	—	—	—	(200,000)	(200,000)
Balance as at December 31, 2000	1,150,000	1,006,669	—	80,045	1,719,144	12,974	—	3,968,832

Cash Flow Statement
for the year ended December 31, 2001

	Note	2001 (Rupees '000)	2000
CASH FLOW FROM OPERATING ACTIVITIES			
Net cash flow from operating activities representing cash generated from operations	28	775,558	345,653
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(4,815)	(8,183)
Proceeds from sale of fixed assets		2,048	1,953
Long term staff loans (net)		3,518	(9,244)
Net cash inflow / (outflow) from investing activities		751	(15,474)
CASH FLOW FROM FINANCING ACTIVITIES			
Long term loan and finance		(35,986)	41,061
Dividend paid		(200,000)	(250,000)
Net cash outflow from financing activities		<u>(235,986)</u>	<u>(208,939)</u>
Net increase in bank balances		540,323	121,240
Cash and bank balances at the beginning of the year		<u>795,362</u>	<u>674,122</u>
Cash and bank balances at the end of the year	21	<u>1,335,685</u>	<u>795,362</u>

The annexed notes form an integral part of these accounts.

Zaigham Mahmood Rizvi
 Chief Executive

Abdulazim M. A. Al-Shamali
 Chairman

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

1. LEGAL STATUS AND OPERATIONS

The company was incorporated in Pakistan as a Private Limited Company on March 17, 1979.. It is a joint venture between the Governments of Pakistan and Kuwait. The objective of the company is to profitably promote industrial investments in Pakistan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Staff retirement benefits

The company operates a funded gratuity scheme for all its permanent and contract employees. Contribution to the fund is made every year. The scheme was approved by the Commissioner of Income Tax effective May 1, 2000.

The projected unit credit method, as allowed under the International Accounting Standard No 19 'Employee Benefits' (revised 1998) was used for actuarial valuation based on the following significant assumptions.

- discount rate —10% per annum
- expected rate of increase in salaries —10% per annum
- expected rate of return on investment —10% per annum

Actuarial gains or losses are recognised in accordance with the actuary's recommendation. The last actuarial valuation of the scheme was conducted as at December 31, 2001.

The company also operates a recognised provident fund scheme for its employees. Equal monthly contributions are made, both by the company and the employees, to the fund at the rate of 10% of the basic pay.

2.3 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation except leasehold land which is stated at cost.

Depreciation is charged to the profit and loss account applying the straight line method whereby the cost of an asset is written off over its estimated service life.

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

The full annual rate of depreciation is applied on the cost of additions while no depreciation is charged on assets deleted during the year.

Maintenance and normal repairs are charged to income as and when incurred.

Profit or loss on sale or retirement of fixed assets is included in income currently.

2.4 Long term investments

Long term investments are stated at cost less provision for diminution in the value of investments.

2.5 Long term advances and income receivable

Long term advances and income receivable thereon are stated at cost less provision for doubtful items.

2.6 Marketable securities and investment in government securities

Marketable securities and investment in government securities are stated at the lower of cost and market value determined on an aggregate portfolio basis. Cost is determined on a moving average basis.

2.7 Taxation

Current

The charge for current taxation is based on taxable income at the current rates of taxation after taking into account the tax credits and tax rebates available, if any.

Deferred

Deferred tax is accounted for by using the liability method on all major timing differences, excluding the tax effect of those timing differences which are not likely to reverse in the foreseeable future.

2.8 Foreign currencies

Assets and liabilities in foreign currencies are reported in rupees at the rates of exchange prevailing on the balance sheet date except those covered by forward exchange contracts which are reported at the contracted rates.

Exchange gains and losses are included in income currently.

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

2.9 Revenue recognition

- (i) Dividend income is recognised on declaration of dividend by investee companies upto the balance sheet date.
- (ii) Gain on sale of shares and income from loans, term finance certificates, debentures, bank deposits and government securities are recognised on accrual basis, except where recovery is considered doubtful income is recognised on receipt basis.
- (iii) The company follows the finance method in recognizing income on lease contracts. Under this method the unearned income i.e. the excess of aggregate lease rentals and the estimated residual value over the cost of the leased asset is deferred and then amortised over the term of the lease, so as to produce a constant rate of return on net investment in the lease.

3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2001	2000		2001	2000
			(Rupees '000)	
25,950	25,950	ordinary shares of Rs 25,000 each issued for cash	648,750	648,750
20,050	20,050	ordinary shares of Rs 25,000 each issued as bonus shares	<u>501,250</u>	<u>501,250</u>
46,000	46,000		<u>1,150,000</u>	<u>1,150,000</u>

The State Bank of Pakistan (SBP) on behalf of the Government of Pakistan (GoP) and the Kuwait Investment Authority (KIA) on behalf of the Government of Kuwait each held 23,000 (2000: 23,000) ordinary shares of the company as at December 31, 2001.

4. RESERVES

	2001	2000
(Rupees '000)		
Capital reserves—note 4.1	1,149,425	1,086,714
Revenue reserves —note 4.2	<u>1,782,961</u>	<u>1,732,118</u>
	<u>2,932,386</u>	<u>2,818,832</u>

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

4.1 Capital reserves

	2001	2000
	(Rupees '000)	
Compulsory reserve (reserve fund) — note 4.1.1		
As at January 1	1,006,669	946,970
Add: Transfer from profit and loss appropriation account	62,711	59,699
	1,069,380	1,006,669
Special reserve — note 4.1.2		
Reserve for issue of bonus shares	80,045	80,045
As at January 1	---	50,000
Less: Bonus shares issued	---	50,000
	<u>1,149,425</u>	<u>1,086,714</u>

4.1.1 Compulsory reserve (reserve fund)

In terms of article 67(1) of the Articles of Association of the company, an amount equal to 10% of the net profit for the year shall be made and set aside for the formation of a compulsory reserve. Such percentage ceases to be compulsory when the said reserve exceeds 25% of the paid up share capital of the company.

According to NBFIs' circular No. I dated December 5, 1991 issued by the SBP, an amount not less than 20% of the profit shall be transferred to create a reserve fund till such time the reserve fund equals the amount of the paid up capital. The company has transferred Rs 62.711 million (2000: Rs 59.699 million) out of its 'profit after taxation' for the year to the compulsory reserve.

4.1.2 Special reserve

This 'special reserve' was created during the year 1999 under section 23 (1) (ix) of the Income Tax Ordinance, 1979 by transferring Rs 80.045 million out of the 'profit after taxation' for the year to the special reserve. However, as the said subsection has been omitted by the Finance Ordinance, 2000, therefore a similar amount has not been transferred to this account.

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

4.2 Revenue reserves

	2001	2000
	(Rupees '000)	
General reserve		
As at January 1	1,719,144	1,693,321
Add: Transfer from profit and loss appropriation account	<u>35,554</u>	25,823
	1,754,698	1,719,144
Contingencies reserve —note 4.2.1		
As at January 1	12,974	---
Add: Transfer from profit and loss appropriation account	15,289	12,974
	<u>28,263</u>	12,974
	<u>1,782,961</u>	1,732,118

4.2.1 Contingencies reserve

Effective December 31, 2000 the company has set up a separate 'contingencies reserve' to which an amount equal to 1% of the outstanding balance as at the year end, of loans, advances, leases and TFCs considered good, excluding balances relating to back to back lendings and financings against sovereign guarantees, is appropriated from the profit.

5. LONG TERM LOAN AND FINANCE

	2001	2000
	(Rupees '000)	
Long term loan		
Asian Development Bank (ADB) — note 5.1	870,827	868,870
Less: Current maturity	88,696	53,868
	782,131	815,002
Long term finance		
Unsecured		
SBP— note 5.2	22,184	25,299
Less: Current maturity	3,115	3,115
	<u>19,069</u>	<u>22,184</u>
	<u>801,200</u>	<u>837,186</u>

- 5.1** As an approved Participating Financial Institution (PFI), the company has utilized amounts aggregating US\$ 14.852 million (2000: US\$ 14.852 million), out of a US\$ 100 million credit line available to other PFIs as well, for financing the foreign exchange component of projects. Further drawdowns from this facility are no longer available. Interest on the loan was payable at the rate of 5.68% and 6.70% per annum (2000: 6.24% and 6.46% per annum) during the year,

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

which is based on the Ordinary Capital Resources rate of the ADB. Other charges were also payable at the rate of 0.75% per annum (2000: 0.75% per annum) on this facility. The loan is repayable over a period not exceeding fifteen years or as may be agreed by the ADB including a grace period not exceeding three years. This loan is covered under the loan agreement (Financial Sector Intermediation Loan Project) dated October 6, 1995 between The Islamic Republic of Pakistan and ADB.

- 5.2** This long term local currency finance has been acquired from the SBP under lines of credit for refinancing purchases of locally manufactured machinery (LMM). This finance is repayable in seventeen equal half yearly installments commencing upto maximum four years after the date of first draw down. However, at no time the outstanding finance from SBP should exceed the outstanding amount of the finance extended by the company under this scheme. The SBP will share in the overall profit (before tax) earned on funds during an accounting year subject to a maximum of 12% of the amount of refinance facility availed on annual basis.

6. FOREIGN CURRENCY DEPOSITS

The foreign currency deposits have maturity periods ranging from three months to eight years. Such foreign currency deposits with maturity periods ranging from three to twelve months are shown as a part of current liabilities.

7. STAFF RETIREMENT GRATUITY

	2001	2000
	(Rupees '000)	
7.1 Movement in liability		
Opening balance	8,629	12,953
Expense charged in the current year — note 24.1	3,526	2,722
Company's contribution to the gratuity fund	—	<u>(7,046)</u>
Closing balance		
7.2 Balance sheet reconciliation		
Obligation	20,914	15,675
Plan assets	(5,401)	(7,046)
Unrecognised actuarial losses — note 7.3	<u>(3,358)</u>	—
	<u>12,155</u>	<u>8,629</u>

- 7.3** In accordance with the actuarial valuation the recognisable loss will be recorded over a period of eleven years beginning January 1,2002.

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

8. CREDITORS, ACCRUED EXPENSES AND OTHER LIABILITIES

	2001	2000
	(Rupees '000)	
Accrued liabilities	24,710	22,191
Return accrued on term deposits	130,085	142,644
Interest accrued on long term loan	45,623	29,257
Return accrued on certificates of investment	16,877	19,693
Arrangement fee and commitment charges payable to financial institutions	31,875	20,427
Security deposits — note 13.1	15,610	19,441
Retention money payable	104	135
Provision for loss on currency swap arrangements — note 8.1	134,328	---
Payable on account of purchase of marketable securities	700,054	6,784
Other liabilities	<u>11,364</u>	<u>20,342</u>
	<u>1,110,630</u>	<u>280,914</u>

8.1 As stated in notes 14.1.1 and 14.1.2 at each anniversary of the foreign currency deposits with SBP under swap arrangements the company will pay or receive the difference between the rate at which the deposit was booked (or the rate applicable at the last rollover date) and the official rate applicable for the conversion of US dollars deposit prevailing on the date of such anniversary. However, in view of the recent appreciation in the value of the rupee viz a viz the US dollar the company has as a matter of prudence provide for the loss on currency swap arrangements. The loss represents the difference between the official rates prevailing on the rollover dates and the rate prevailing on the balance sheet date.

9. CONTINGENT LIABILITIES AND COMMITMENTS

9.1 Contingent liabilities

9.1.1 In terms of the joint venture agreement between the Governments of Pakistan and Kuwait, the company was granted exemption from payment of central excise duty (CED) in respect of loans and advances made to any person vide SRO No. 1064 (I)/91 dated October 6, 1991. The said exemption was withdrawn by the Central Board of Revenue (CBR) vide SRO dated June 28, 1995. The CED was subsequently withdrawn by the Government of Pakistan (GOP) on loans and advances made by the banking companies/financial institutions through SRO No. 418 (I) / 97 and SRO No. 419 (I) / 97 dated June 13, 1997.

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

The company made representation to the GOP requesting it to restore the specific exemption earlier available to the company for the period for which the exemption was withdrawn. The GOP vide its letter No. 2291—JS (IF) / 09 dated June 26, 1998 turned down the representation and advised the company to deposit the CED with the Collector Excise, Karachi as it maintained that the CED was payable by the borrowers and it was not an incidence of tax on the company. An amount of Rs 200.802 million was accordingly deposited under protest.

The Additional Collector, Excise has through his letter dated November 16, 1999 lodged a claim of Rs. 24.885 million (comprising CED due from leasing companies and from such other companies who had earlier obtained stay orders from the courts) and a penalty of Rs 0.200 million. The company had filed an appeal with the Collector Appeals, Customs, Central Excise and Sales Tax to set aside the above claim, which was decided against it. The company had filed an appeal with the Appellate Tribunal against the decision. The Appellate Tribunal has stayed the payment of Rs 15 million out of the above and the company deposited the balance amount of Rs 10.085 million under protest on December 13, 1999 until the case is decided. Out of the foregoing amount a sum of Rs 2.219 million (2000: Rs 2.219 million) is shown as CED receivable under note 20. The company has not made any provision for the amounts claimed as the matter is still pending with the Appellate Tribunal and based on the appeal filed, on its behalf, by the management, the company is confident that eventually no liability will be attached to it.

- 9.1.2** The company had lodged Special US Dollar Bonds (SLTSOBs) of US\$ 9.86 million with the SBP on October 18, 2001 for encashment in equivalent Rs. 612.122 million. These SUSDBs were issued by the company in the capacity of an 'office of the issue' of SBP, registered in the name of Crescent Investment Bank Limited (CIBL) and were under lien of Muslim Commercial Bank Limited (MCB). The company issued a SBP cheque for the aforementioned rupee amount favouring MCB against the encashment proceeds of SUSDBs. The cheque was returned unpaid as the funds were not credited in the company's account. Later the SBP gave credits aggregating Rs. 271.893 million only as against Rs. 612.122 million after deducting Rs. 340.229 million from company's account instead of CIBL account.

Subsequently, the company has issued cheques of Rs 268.591 million and Rs. 3.302 million being the proceeds received from SBP on encashment of the SUSDBs. The CIBL has also transferred, to MCB through the company, marketable securities aggregating Rs. 108.265 million in part settlement of the differential.

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

MCB has filed a suit in the High Court of Sind against CIBL and the company for the recovery of Rs. 237.563 million, inclusive of the balance Rs. 231.964 million, alongwith markup at a rate of 18% per annum.

The company has not recognised any liability in these accounts as it does not accept the claim made by MCB and based on the advice of its legal advisor the company is confident that it is unlikely that any decree will be passed by the Banking Court against the company in view of the lack of jurisdiction of the Banking Court.

	2001 (Rupees '000)	2000 (Rupees '000)
9.1.3 Guarantee issued	<u>205,267</u>	<u>205,267</u>
The amount utilised under this guarantee, as at December 31, 2001 was Rs 205.267 million (2000: Rs 205.267 million)		

	2001 (Rupees '000)	2000 (Rupees '000)
9.2 Commitments		
Undisbursed sanctions for financial assistance in the form of loans	<u>374,000</u>	<u>108,454</u>

10. TANGIBLE FIXED ASSETS

Following is a statement of operating assets

	Cost as at January 1,2000	Additions/ deletions	Cost as at December 31,2000	Accumulated depreciation as at December 31,2000	Net book value as at December 31,2000	Depreciation for the year	
						Amount	Rate%
	(Rupees '000)						
Leasehold lands	1,600	—	1,600	—	1,600	—	—
Buildings on leasehold lands	49,171	134	49,305	12,369	36,936	1,233	2.5
Furniture and fixtures	13,912	935 (267)	14,580	8,940	5,640	1,932	20
Motor vehicles	22,416	5,495 (3,515)	24,396	13,262	11,134	4,016	20
Office equipment	12,249	1,356	13,438	9,337	4,101	1,912	20
Electrical appliances	3,016	275 (242)	3,049	1,929	1,120	447	20
2000	102,364	8,195 (4,191)	106,368	45,837	60,531	9,540	
1999	81,511	23,864 (3,011)	102,364	38,723	63,641	9,157	

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

10.1 In view of frequent technological changes, the company has revised its estimate of useful life of office equipment effective January 1, 2001 from five years (i.e. 20% per annum) to three years (i.e. 33.33% per annum). The effect of this revision is not material on the profit after tax for the year and the net book value of assets as at December 31, 2001.

11. LONG TERM INVESTMENTS

	2001	2000
	(Rupees '000)	
Unquoted ordinary shares	200,457	175,108
Less: Provision for diminution in the value of investments	<u>107,966</u>	<u>107,966</u>
	92,491	67,142
Investment in redeemable capital — note 11.1	52,589	82,420
Investment in marketable bonds in foreign currency — note 11.2	<u>70,904</u>	<u>91,009</u>
	<u>215,984</u>	<u>240,571</u>
11.1 Investment in redeemable capital		
Term finance certificates	112,718	144,167
Less: Current maturity— considered good	13,979	15,597
— considered doubtful	16,000	16,000
	<u>29,979</u>	<u>31,597</u>
	82,739	112,570
Less: Provision for diminution in the value of redeemable capital	<u>30,150</u>	<u>30,150</u>
	<u>52,589</u>	<u>82,420</u>
11.2 Investment in marketable bonds in foreign currency		
Marketable bonds in foreign currency — note 11.2.1	94,539	91,009
Less: Current maturity	<u>23,635</u>	---
	<u>70,904</u>	<u>91,009</u>

11.2.1 These represent investment in Islamic Republic of Pakistan 10% Notes (bonds in foreign currency). These are held by a foreign bank outside Pakistan and carry interest at a rate of 10 percent per annum payable semi annually in arrears. The outstanding principal amount of each of the bonds, which are intended to be held till their maturities, will be repaid in four equal installments during the period 2002 to 2005. These bonds are stated at cost (US\$ 1.569 million) which is reported at the rate prevailing on the balance sheet date. The market value of these bonds as at December 31, 2001 was US\$ 2.153 million (2000: US\$ 1.512 million).

**Notes to and Forming Part of the Accounts
for the year ended December 31, 2001**

12. LONG TERM LOANS AND ADVANCES

	2001	2000
	(Rupees '000)	
Advances	3,551,684	3,130,862
Staff loans	<u>29,465</u>	<u>32,873</u>
Total advances— note 12.1	3,581,149	3,163,735
Less: Current maturity — considered good	1,335,927	854,266
— considered doubtful	157,988	48,550
	<u>1,493,915</u>	<u>902,816</u>
	<u>2,087,234</u>	<u>2,260,919</u>
Considered good	2,018,821	2,162,823
Considered doubtful	<u>68,413</u>	<u>98,096</u>
	2,087,234	2,260,919
Less: Provision for doubtful long term advances	<u>68,413</u>	<u>98,096</u>
	<u>2,018,821</u>	<u>2,162,823</u>

12.1 Included in the total advances are amounts aggregating Rs 994.858 million (2000: Rs 1,128.822 million) which are outstanding for over three years.

13. AMOUNTS RECOVERABLE UNDER FINANCE LEASES

	2001	2000
	(Rupees '000)	
Minimum lease payments receivable	413,525	80,940
Less: Unearned income — considered good	117,270	20,075
— considered doubtful	---	1,093
	<u>117,270</u>	<u>21,168</u>
Net investment in leases	296 255	59,772
Less: Current maturity — considered good	47,380	15,121
— considered doubtful	---	7,579
	<u>47,380</u>	<u>22,700</u>
Considered good	248,875	37,072

13.1 In respect of the aforementioned finance leases the company holds an aggregate sum of Rs 11.169 million (2000: Rs 1.328 million) and Rs 15.610 million (2000: Rs 19.441 million) as security deposits on behalf of the lessees which are included as a part of long term liabilities, and in current liabilities under 'creditors, accrued expenses and other liabilities' (note 8), respectively.

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

14. LONG TERM DEPOSITS, PREPAYMENTS AND DEFERRED COST

	2001	2000
	(Rupees '000)	
Security deposits	293	291
Deferred cost— note 14.1	---	<u>121,875</u>
	<u>293</u>	<u>122,166</u>

14.1 Deferred cost

Cost incurred on arranging foreign currency deposits— note 14.1.1		
Total cost	131,412	131,412
Less: Amounts amortised	131,412	85,236
	---	46,176
Cost incurred on arranging foreign currency deposits— note 14.1.2		
Total cost	96,900	96,900
Less: Amounts amortised	96,900	21,201
	---	75,699
	---	121,875

14.1.1 This represented the 'excess amount' at which foreign currency was acquired at market rates over the respective rates at which such foreign currency deposits were placed with the SBP under swap arrangements (deposits). Such deposits aggregated US \$ 48.500 million as at December 31, 2001 (2000: US \$ 75.257 million) and have been netted off in these accounts with the equivalent rupees received thereagainst. The foreign currency surrendered to the SBP was to be withdrawn by the company on various maturity dates at the rates at which it had been surrendered or at rates ruling on subsequent rollover dates for which forward cover contracts have been executed with the SBP. The foreign currency to be made available at the time of maturity was to be sold in the market at the then prevailing rates. On each anniversary of such deposits the company pays or receives the difference between the rate at which the deposit was booked (or the rate applicable at the last rollover date) and the official rate applicable for the conversion of US dollars deposits prevailing on the date of such anniversary.

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

However, the SBP through its FE circular no.31 dated July 2, 1998, has imposed restrictions on the withdrawals in foreign exchange from foreign currency accounts. As a result it is therefore evident that at the maturity of the subject forward cover contracts, the company can either rollover the deposit, convert the deposits into Special US Dollar Bonds or obtain rupees in lieu of the deposits at the SBP rate prevailing on such date. The expected gain which would have arisen from the sale of the US dollars in the market at the prevailing rates, and which would have been used to offset the cost carried in the balance sheet may now not be available. Therefore, the amount of Rs 131.412 million was being amortised over the actual period of the related deposits. Such periods range from two (2) years to ten (10) years. However, due to the volatility in exchange rates which has been experienced since the outset of the transaction the company has as a matter of prudence charged the entire balance of the unamortised cost as at January 1, 2001 fully in these accounts instead of amortising it over the actual periods of the related deposits. Had the company not changed its estimate and continued to amortise the subject cost over the actual periods of related deposits the profit after taxation for the year would have increased by Es 34.859 million.

- 14.1.2.** The company has made another foreign currency deposit with the State Bank of Pakistan (SBP) under a swap arrangement. Under the original arrangement, the company acquired and deposited foreign currency to the SBP for a period of seven years. On each anniversary of this foreign currency deposit under swap arrangement (deposit) the company will pay or receive the difference between the official (inter bank) rate at which the deposit was booked (or the rate applicable at the last rollover date) and the official rate applicable for the conversion of US dollars deposit prevailing on the date of such anniversary. At the end of the deposit period, the SBP was to make available to the company US dollars at the rate which prevailed on the last anniversary immediately preceding the final maturity date. However, under the revised arrangements stipulated by the SBP the company will now receive or pay the rupee equivalent instead of buying back the US dollars from the SBP.

The total cost of Es 96.900 million represented the excess of the cost of acquisition of US \$30 million over the proceeds received on the deposit of those US dollars with the SBP which has been netted off in these accounts. The company expected to realise its net cost over the period of this arrangement and therefore was amortising this cost over a maximum period of seven years.

However, in view of the revisions in the arrangements stipulated by SBP during the year and the volatility in exchange rates which has been experienced since the outset of the transaction the company has as a matter of prudence charged the balance of the unamortised cost as at January 1, 2001 fully in these accounts instead of amortising it over seven years. Had the company not changed its estimate and continued to amortise the subject cost over a maximum period of seven years the profit after taxation for the year would have increased by Es. 61.294 million.

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

14.1.3. The income on currency swap arrangements of Rs. 972.722 million (2000: Rs. 386.934 million) is similar to income on foreign currency deposits which are exempt from income tax under the Protection of Economic Reforms Act, 1992.

15. DEFERRED TAXATION

	2001	2000
	(Rupees '000)	
Debit/(credit) balances arising on account of:		
Accelerated tax depreciation allowances	2,436	(858)
Provision for staff retirement gratuity	5,470	618
Other staff benefits	4,359	2,052
Leasing activities	26,505	23,985
Exchange difference	96,285	64,330
Deferred cost	—	(26,230)
Provision for contingencies	<u>91,659</u>	<u>40,150</u>
	<u>226,714</u>	<u>104,047</u>

16. MARKETABLE SECURITIES

Listed companies, modarabas, TFCs and mutual funds — at cost	4,035,317	3,316,802
Less: Provision for diminution in the value of marketable securities	<u>782,683</u>	<u>246,034</u>
	<u>3,252,634</u>	<u>3,070,768</u>
Aggregate market value as at December 31	<u>3,252,634</u>	<u>3,070,768</u>

16.1 Marketable securities of a cost of Es 164.728 million (2000: Rs 233.110 million) are pledged with banks against running finance facilities under mark-up arrangements amounting to Rs 120 million (2000: Rs 120 million). The marketable securities pledged had a market value as at December 31, 2001 of Es 139.328 million (2000: Rs 207.536 million). The company did not have any amounts outstanding under these facilities as at December 31, 2001.

17. INVESTMENT IN GOVERNMENT SECURITIES

	2001	2000
	(Rupees '000)	
Federal Investment Bonds	25,000	25,000
Special US Dollar Bonds		
[US\$ 427,200 (2000: US\$ 427,200)]	<u>25,741</u>	<u>24,780</u>
	<u>50,741</u>	<u>49,780</u>

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

18. CURRENT MATURITIES

	2001	2000
	(Rupees '000)	
Long term investments		
Investment in redeemable capital — note 11.1		
Considered good	13,979	15,597
Considered doubtful	16,000	16,000
	29,979	31,597
Marketable bonds in foreign currency — note 11.2	23,635	---
Long term loans and advances — note 12		
Considered good	1,335,927	854,266
Considered doubtful	157,988	48,550
	1,493,915	902,816
Amounts recoverable under finance leases — note 13		
Considered good	47,380	15,121
Considered doubtful	---	7,579
	<u>47,38</u>	<u>22,700</u>
	1,594,909	957,113
Less: Provision for doubtful items	<u>173,988</u>	<u>72,129</u>
	<u>1,420,921</u>	<u>884,984</u>

19. SHORT TERM FINANCINGS

Considered good and secured by:		
— lien on foreign currency deposits	1,603	987,302
other securities	264,500	
— others	<u>412,434</u>	<u>500,000</u>
	<u>678,537</u>	<u>1,487,302</u>

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

20. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2001	2000
	(Rupees '000)	
Unsecured, considered good		
— advances to employees	54	139
— advances to suppliers	<u>985</u>	—
	1,039	139
Short term prepayments		
— forward exchange risk cover fee paid to the SBP	98,244	153,105
— arrangement fee paid to financial institutions	—	742
— others	820	681
	99,064	154,528
Central excise duty —note 9.1.1	2,219	2,219
Principal amount of lease rentals and salvage value due but not received —note 20.1	16,330	21,829
Other receivables — note 20.2	<u>991,126</u>	<u>488,134</u>
	<u>1,109,778</u>	<u>666,849</u>
20.1 Principal amount of lease rentals and salvage value due but not received		
— Considered good	16,330	21,829
— Considered doubtful	<u>57,045</u>	<u>61,385</u>
	73,375	83,214
Less: Provision for doubtful receivables	<u>57,045</u>	<u>61,385</u>
	<u>16,330</u>	<u>21,829</u>

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

20.2 Other receivables

	2001	2000
	(Rupees '000)	
Income and markup receivable on long term advances, term finance certificates, finance leases and others — secured		
— Considered good	239,749	192,630
— Considered doubtful	<u>57,174</u>	<u>57,174</u>
	296,923	249,804
Less: Provision for doubtful income receivable	<u>57,174</u>	<u>57,174</u>
	239,749	192,630
Income receivable on short term financings, government securities and guarantees —secured	11,799	103,560
Income receivable on certificates of investment	1,073	3,804
Dividends	160,436	114,135
Receivable on account of sale of marketable securities	569,609	67,066
Others	<u>8,460</u>	<u>6,939</u>
	<u>991,126</u>	<u>488,134</u>

21. CASH AND BANK BALANCES

Balances with banks in:

— Current accounts — notes 21.1	71,453	28,689
— Savings accounts	223,816	92,255
— Call deposits	36,007	20,300
— Term deposits	328,500	111,662
Special deposit with the SBP — note 21.2	650,909	534,456
Cash reserve with the SBP — note 21.3	<u>25,000</u>	8,000
	<u>1,335,685</u>	<u>795,362</u>

21.1 These include amounts aggregating Rs 56.776 million (2000: Rs 113.944 million) deposited with banks which under agreements with the related foreign currency depositors can only be withdrawn on various specific dates on February 22 and March 29, 2002 for restricted purposes only.

21.2 This represents liquidity generated from a foreign currency deposit and placed with the SBP under a special deposit scheme.

21.3 This represents the amount required to be maintained with the SBP by the company in

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

22. OPERATING INCOME — GROSS

	2001	2000
	(Rupees '000)	
Income on loans and advances	523,477	563,991
Dividends	436,773	333,944
Income from term finance certificates	20,901	27,143
Income from bank deposits	112,886	102,525
Income from short term financings, government securities and guarantees	131,731	208,516
Income on finance leases	26,309	11,757
Income on certificates of investment	18,002	3,804
Income on marketable bonds in foreign currency	15,525	617
Commission and fees	22,003	33,504
Net (loss) / gain on stock exchange operations	(17,083)	172,411
Exchange gain— net	816,329	313,387
Profit on sale of fixed assets	351	188
Income from other financings		46,129
Other income	<u>14,028</u>	<u>21,527</u>
	<u>2,121,232</u>	<u>1,839,443</u>

23. FINANCIAL CHARGES

Profit on LMM refinance facility	2,922	3,170
Return on term deposits	205,989	307,499
Interest on long term loan	57,384	52,623
Return on long term finance		11,063
Return on COL deposit and short term borrowings	130,560	43,001
Amortisation of deferred cost	121,875	28,292
Forward exchange risk cover fee	449,890	537,643
Brokerage and commission	307	223
Arrangement fee and commitment charges to financial institutions	<u>33,780</u>	33,735
	<u>1,002,707</u>	<u>1,017,249</u>

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

24. ADMINISTRATIVE AND GENERAL EXPENSES

	2001	2000
	(Rupees '000)	
Salaries, allowances and employees' benefits	65,322	59,130
Directors' remuneration (including remuneration of chief executive)	14,866	16,370
Provision for gratuity —note 24.1	3,526	2,722
Employer's contribution to provident fund	2,169	1,988
Travelling and conveyance	2,904	4,934
Rent and rates	454	1,431
Utilities	1,220	1,144
Communications	3,544	2,309
Professional training and staff welfare	451	417
Advertisements, periodicals and membership dues	2,823	4,608
Printing and stationery	2,016	2,269
Depreciation	10,775	9,540
Audit fee	500	500
Legal, consultancy and other professional services	8,498	15,821
Repairs and maintenance	5,230	5,523
Motor vehicle expenses	2,128	2,185
Insurance	834	1,901
Donations	3,900	—
Entertainment	603	1,225
Software development expenses	138	691
Bank charges	274	233
Miscellaneous	<u>2,751</u>	<u>2,333</u>
	134,926	
24.1 Provision for gratuity		
Current service cost	2,227	1,447
Interest cost	1,875	1,266
Expected return on plan assets	(576)	(209)
Transitional obligation	---	<u>218</u>
	<u>3,526</u>	<u>2,722</u>

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

25. PROVISION FOR CONTINGENCIES

	2001	2000
	(Rupees '000)	
Provision for diminution in the value of long term unquoted investments and redeemable capital	---	14,400
Provision for doubtful loans and advances	79,755	63,658
(Reversal)/provision for doubtful finance lease receivables	(3,451)	6,539
Provision for diminution in the value of quoted investments	<u>536,649</u>	<u>246,034</u>
Charge for the year	<u>612,953</u>	<u>330,631</u>

26. TAXATION

Current

— For the year	117,182	114,357
— For prior years	62,577	
	179,759	114,357
Deferred	<u>(122,667)</u>	<u>(58,564)</u>
	57,092	55,793

27. BASIC EARNINGS PER SHARE

Profit after taxation (Rupees in thousand) (a)	313,554	298,496
Number of ordinary shares (in thousand) (b)	46,000	46,000
Basic earnings per share (a / b)	<u>Rs. 6.816</u>	<u>Rs. 6.489</u>

Notes to and Forming Part of the Accounts
for the year ended December 31, 2001

28. CASH GENERATED FROM OPERATIONS

	2001	2000
	(Rupees '000)	
Profit before taxation	370,646	354,289
Adjustments for:		
Depreciation	10,775	9,540
Provision for staff retirement gratuity	3,526	2,722
Other staff benefits	5,350	4,086
Amortisation of deferred cost	121,875	28,292
Profit on sale of fixed assets	(351)	(188)
Dividend income	(436,773)	(333,944)
Income from other financings		(1,045)
Financial income	(862,859)	(984,964)
Financial charges	846,745	954,999
Staff retirement gratuity paid		(7,046)
Dividends received	390,472	252,415
Financial charges paid	(790,893)	(890,723)
Financial income received	910,232	1,042,583
Long term investments	24,587	190,062
Long term loans and advances	140,484	1,446,891
Amounts recoverable under finance leases	(211,803)	(6,120)
Long term deposits and prepayments	(2)	736
Certificates of investment	271,000	60,000
Long term foreign currency deposits	(515,773)	(1,561,054)
Taxes paid	(67,324)	(14,376)
Security deposits	9,841	(3,683)
Working capital changes — note 28.1	<u>555,803</u>	<u>(197,819)</u>
	<u>775,558</u>	<u>345,653</u>

Notes to and Forming Part of the Accounts

for the year ended December 31, 2001

28.1 Working capital changes

	2001	2000
	(Rupees '000)	
(Increases) / decreases in current assets		
Marketable securities	(181,866)	(750,359)
Investment in government securities	(961)	438,516
Certificates of investment	25,000	(200,000)
Current maturities	(535,937)	40,483
Short term financings	808,765	(180,877)
Advances, deposits, prepayments and other receivables	(498,862)	704,617
	(383,861)	52,380
Increases / (decreases) in current liabilities		
Current maturity of long term loan and finance	34,828	(94,199)
Current maturity of other staff benefits	3,115	1,851
Foreign currency deposits	267,996	(513,253)
Certificates of investment	(195,000)	361,625
Creditors, accrued expenses and other liabilities	828,725	(6,223)
	<u>939,664</u>	<u>(250,199)</u>
	<u>555,803</u>	<u>(197,819)</u>

29. CORRESPONDING FIGURES

Prior year's figures have been reclassified, wherever necessary, for the purposes of comparison.

Zaigham Mahmood Rizvi
Chief Executive

Abdulazim M. A. Al-Shamali
Chairman