

# ANNUAL REPORT 2011



Pak Kuwait

**Pakistan Kuwait Investment Company (Private) Limited**

الشركة الباكستانية الكويتية للاستثمار (الخاصة) المحدودة

A joint venture between the Governments of Pakistan and Kuwait



## A JOINT VENTURE

The Company is a joint venture between the Governments of **Kuwait** and **Pakistan**



## COMPANY DESCRIPTION

Pakistan Kuwait Investment Company (Private) Limited (PKIC) is Pakistan's leading Development Financial Institution (DFI) engaged in investment and development banking activities in Pakistan. Established in 1979, the company initiated operations with a paid-up capital of Rs. 62.50 million. Over the years paid-up capital and reserves have increased manifold reflecting upon the company's impressive performance since inception.

PKIC continues to serve as a medium for catalyzing infrastructure development and enhancing real economic activity, helping the nation in achieving a steep yet sustainable growth trajectory.



Pak Kuwait

# VISION

To become the financial house of excellence focused on facilitating the expansion and modernization of industries in Pakistan

# MISSION

- ▲ Play a key role in the development of industrial and economic infrastructure of Pakistan
- ▲ Develop a team of quality professionals with a wide spectrum of expertise
  - ▲ Maintain high standards of Corporate Governance
- ▲ Provide value and optimize returns for all our stakeholders
  - ▲ Pursue our corporate values



Pak Kuwait

# CORPORATE VALUES

- ▲ Maintain highest standards of integrity and professionalism in all business transactions
- ▲ Provide innovative business solutions
- ▲ Attract, motivate and retain highly skilled professionals
  - ▲ Strive for continuous quality improvement
- ▲ Continue to be a socially responsible corporate citizen

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Salah Al-Muraikhi	Chairman
Mohammad Al-Hamad	Director
Mohammad Reyad Al-Mutawa	Director
Syed Atif Salman Hashmi	Director
Naveed Alauddin	Director

## OFFICIATING CHIEF EXECUTIVE

Rana Ahmed Humayun

## LEGAL ADVISOR

M/s. KMS Law Associate Advocates and  
Corporate Consultants

## AUDITORS

M/s. Ernst & Young Ford Rhodes Sidat Hyder

## REGISTERED OFFICE

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Fax: (92-21) 35630940 Tlx: 21396  
E-mail: info@pkic.com Website: www.pkic.com

## REPRESENTATIVE OFFICES

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# BOARD OF DIRECTORS



**Salah Al-Muraikhi**  
Chairman



**Mohammad Al-Hamad**  
Director



**Mohammad Reyad Al-Mutawa**  
Director



**Syed Atif Salman Hashmi**  
Director



**Naveed Alauddin**  
Director

## Executive Committee

Salah Al-Muraikhi  
Member  
Syed Atif Salman Hashmi  
Member

## Audit Committee

Syed Atif Salman Hashmi  
Chairman  
Mohammad Reyad Al-Mutawa  
Member  
Naveed Alauddin  
Member

## Risk Management Committee

Salah Al-Muraikhi  
Chairman  
Mohammad Al Hamad  
Member  
Naveed Alauddin  
Member



# MANAGEMENT



**Rana Ahmed Humayun**  
Deputy General Manager &  
Chief Financial Officer



**M. Tauseef Ansari**  
Head of Investment Banking &  
Corporate Finance



**Syed Ehsan Ahmed**  
Head of Capital Markets &  
Treasury



**Faisal Khan**  
Head of Risk Management



**Mazhar Sharif**  
Head of Internal Audit



**Mohammad Saeed Usmani**  
Head of Human Resource



**Syed Aquib Hashmi**  
Head of Compliance



**Aurangzeb M. Amin**  
Company Secretary

## Directors' Report

The Directors of Pakistan Kuwait Investment Company (Private) Ltd (the Company) are pleased to present their Annual Report and Audited Financial Statements, setting out the detailed financial results of the Company together with the Consolidated Financial Statements of the Group for the year ended December 31, 2011, together with Auditors' Reports thereon.

### Economic Review

Pakistan's economy struggled during the year 2011 due to the negative impact of floods, energy shortages and uncertain global economic environment. Average inflation for the year 2011 remained at 11.9% on the back of higher food and fuel prices, thereby making it the fourth consecutive year of double digit inflation. However, by the end of the year, inflation came down as international commodity prices declined along with normalization of essential food supplies from flood-affected areas. Consequently, the SBP has reduced interest rate by 200 bps from 14% to 12% during the year.

Unfavorable commodity prices leading to higher trade deficit and expected debt repayments have weakened the external outlook of Pakistan. Despite receiving highest ever remittances, Pak Rupee has depreciated by 5% against US Dollar during the year 2011.

Higher Government borrowing to fund the rising fiscal deficit crowded out private investment. As a result, the gross advances declined by 4% during January-November 2011 reducing the Advances to Deposits Ratio (ADR) of the banking system from 68% in Dec-10 to 61.9% in Nov-11.

As a consequence of weak economic performance, the NPLs (Non-Performing Loans) of the banking system increased to PKR 613 billion, thereby taking the infection ratio to 17%.

The equity market remained depressed during the year amid declining volumes and out-flows of foreign portfolio investment. KSE-100 index declined by 6% during 2011 against an increase of 28% during 2010 due to the above mentioned macroeconomic factors.

### Company Performance

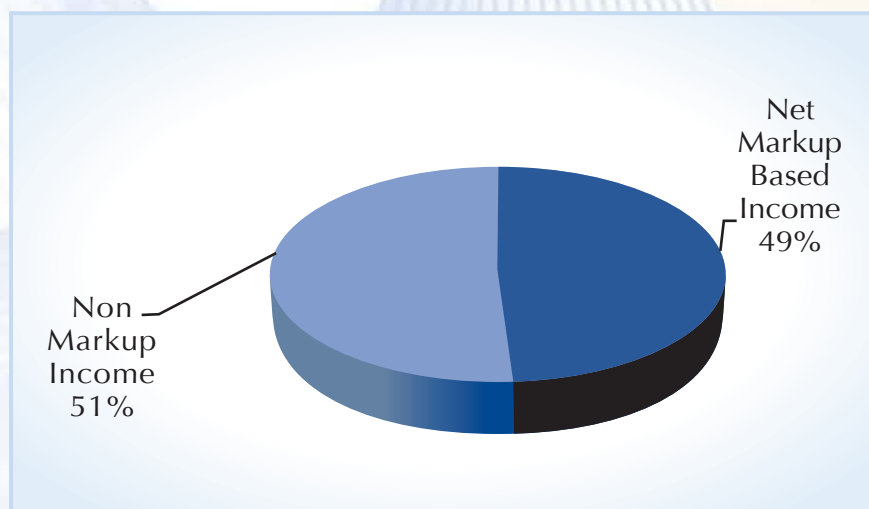
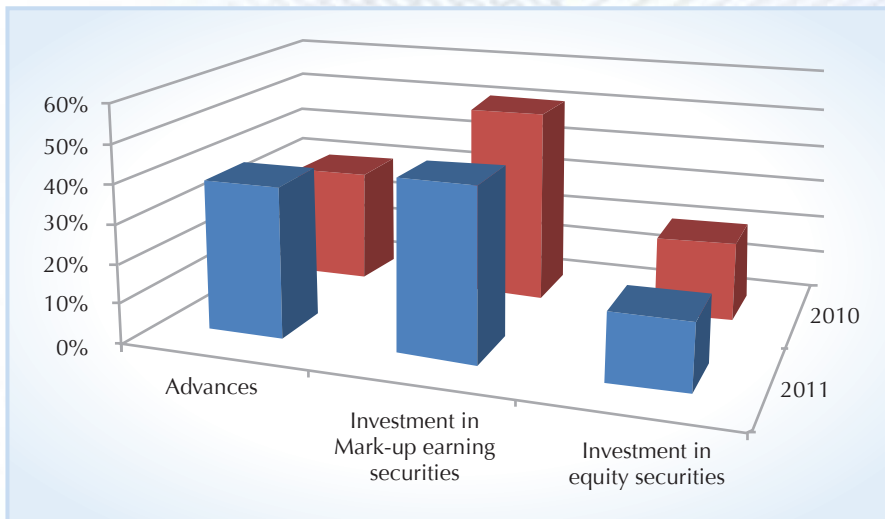
The Company recorded a Profit after Tax of PKR 613 million for 2011, which is 14% higher than PKR 537 million recorded in 2010. The balance sheet stood at PKR 20,807 million as of Dec 31, 2011 as compared to PKR 22,898 million for the previous year.

<b>For the Year (PKR million)</b>	<b>2011</b>	<b>2010</b>	<b>At Year end (PKR million)</b>	<b>2011</b>	<b>2010</b>
Net Markup Based Income	757	655	Total Assets	20,807	22,898
Non Markup Income	785	561	Liabilities	11,222	13,280
Total Income	1,542	1,216	Share Capital	6,000	6,000
Admin Expenses	462	412	Reserves	3,675	3,422
Profit before Provisions	1,080	804			
Provisions / (Reversal of Provisions)	208	(37)			
Profit Before Taxation	872	841			
Taxation	259	304			
Profit After Taxation	613	537			

Net-Mark-up income of the Company increased by 16% YoY from PKR 655 million to PKR 757 million as the Company increased its corporate loan portfolio by 32% YoY from PKR 4.96 billion to PKR 6.55 billion while managing its financial cost efficiently. Non markup based income rose by 40% YoY to PKR 785 million from PKR 561 million on the back of a significant 118% YoY increase in dividend income from PKR 235 million to PKR 513 million. Capital gains declined by 18% YoY from PKR 297 million to PKR 243 million.

Administrative expenses increased by 12% YoY from PKR 411 million to PKR 462 million due to the prevailing inflation.

In order to further enhance organizational efficiency, the Company continued to strive for betterment and improvements in its policies, procedures and technological platform.



## Dividend

The Board of Directors is pleased to recommend a cash dividend of PKR 360 million for the year ended December 31, 2011. With this declaration, the cumulative dividend (cash and stock) payout amount to PKR 10,796 million since the inception of the Company.

## Earnings Per Share

The basic and diluted earning per share has increased from PKR 2,237 to PKR 2,554 on share of PKR 25,000/- each.

## Future Outlook

The Company would continue with its strategy of financing commercially sound business propositions, especially projects in strategic sectors of the economy, to foster domestic economic growth, enhance interest income while improving asset quality. The Company would also maximize its income from subsidiaries and associates through vigilant monitoring and aiding the management in strategic decision making.

## Risk Management Framework

The ultimate responsibility of risk management and setting the risk management policy lies with the Board of Directors. The Board manages its responsibility through its subcommittees, namely Risk Management Committee (RMC) and Audit Committee. Prudent and effective risk management is and has always been a significant success factor in steering the Company's growth and profitability. The Company fully recognizes that the risk management function is fundamental to its business, an essential element of the Company's strategy and an important tool in the implementation of long term vision.

Risk exposures, trends, benchmarks, portfolio analysis are reported to Risk Management Committee of the Board on a quarterly basis by the Risk Management function. The Management has a clear understanding and appreciation of Credit, Market, Liquidity and Operational Risk and has synchronized the distinct risks into the operating parameters, in order to manage them within acceptable limits. The Company is fully compliant with Capital Adequacy Requirements of the State Bank of Pakistan under the Standardized Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk. The Company continues to invest in systems and people as part of its process of continuously strengthening the risk management function.

## Entity Rating of Pakistan Kuwait Investment Company

JCR-VIS Credit rating Company has reaffirmed the medium to long term entity rating of the Company at 'AAA' (Triple AAA) with stable outlook. The short term entity rating has also been reaffirmed at 'A1+' (A-One Plus). Pakistan Credit Rating Agency (PACRA) has upgraded the Company's entity rating to 'AAA' (Triple AAA) and maintained the short term rating at 'A1+' (A One Plus). The Company's rating derives strength from its low risk profile along with the support of the two governments.

The Company has been assigned a Corporate Governance Rating 'CGR-9' by JCR-VIS. The assigned rating denotes a high level of Corporate Governance.

## Compliance with Code of Corporate Governance

The Directors confirm the compliance of the requirements of the Code of Corporate Governance relevant for the year ended December 31, 2011 as practicably applicable. In this connection, the compliance of relevant clauses of the code is stated below:

- These financial statements present fairly the state of affairs of the Company, the result of its operations, cash flow and changes in equity.
- The Company has maintained proper books of accounts.



- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting 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. The controls which are in place are being continuously reviewed by the Internal Audit department and the process of review and monitoring will continue with the object to improve further.
- All liabilities in regard to the payment on account of taxes, duties, levies and charges have been fully provided and will be paid in due course or where claim was not acknowledged as liability the same is disclosed as contingent liabilities in the notes to the accounts.
- There is no doubt about the Company'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.
- The Board of Directors and employees of the Company have signed 'Statement of Ethics and Business Practices'.

### Board Meetings

Six meetings of the Board of Directors of the Company were held in the year 2011 as per following schedule:

1st Meeting	January 26, 2011
2nd Meeting	March 03, 2011
3rd Meeting	May 28, 2011
4th Meeting	July 28, 2011
5th Meeting	August 04, 2011
6th Meeting	October 13, 2011

### Details of Attendance are as Follows:

Name of Directors	Meetings Attended
Mr. Salah Al Muraikhi	6
Mr. Shamsul Hasan	5*
Mr. Mohammad Al Hamad	6
Mr. Asif Bajwa	6
Mr. Mohammad Reyad Al-Mutawa	5
Syed Atif Salman Hashmi	5

### Note:

\*Mr. Shamsul Hasan, Managing Director of the Company resigned from his office effective August 31, 2011.

## Summarized Operating and Financial Data for the Last Six Years

(Rs. in million)

	2011	2010	2009	2008	2007	2006
Paid up Capital	<b>6,000</b>	6,000	6,000	6,000	6,000	6,000
Reserves	<b>3,675</b>	3,422	2,885	2,369	6,951	5,865
Total Assets	<b>20,807</b>	22,898	24,206	15,469	24,406	28,638
Profit before tax	<b>872</b>	841	592	(4,072)	1,743	1,270
Net Profit after tax	<b>613</b>	537	516	(4,102)	1,449	1,210
Cash Dividend	<b>360</b>	360	-	-	480	364
Stock Dividend	-	-	-	-	-	-

### Statement of Investments of Provident and Gratuity Funds

Investments of Provident and Gratuity Funds as at December 31, 2011 according to their respective un-audited accounts were PKR 129.959 million and PKR 91.517 million, respectively. Investment of Provident Fund and Gratuity Fund amounted to PKR 88.944 million and PKR 17.42 million respectively, as at December 31, 2010 according to its audited accounts.

### Auditors

The present auditors M/s Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants retire and being eligible, offer themselves for reappointment. As required under the Code of Corporate Governance, the Audit Committee has recommended the appointment of M/s Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants as auditors of the Company for the year ending December 31, 2012.

### Acknowledgement

We would like to express our sincere appreciation to our shareholders for having reposed confidence in us with their consistent support and guidance. The board appreciates the contribution of the outgoing director Mr. Asif Bajwa and welcomes Mr. Naveed Alauddin to the Company. We are also grateful to the Government of Pakistan, the Ministry of Finance, the State Bank of Pakistan, and the Securities & Exchange Commission of Pakistan for their guidance to the Company at all times.

An institution cannot be successful without its people, who are to be complimented for performing well under difficult circumstances. We would like to place on record the appreciation of the Board for the role of the team members for their commitment and dedication to work.

On behalf of the Board of Directors



Chairman



Director

**Date: February 17, 2012**  
**Karachi**



## Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2011

This statement is being presented to comply with the Code of Corporate Governance framed by the Securities & Exchange Commission of Pakistan which was made applicable to the Company through Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan.

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

1. Except for the Managing Director, all other directors, including the Chairman are non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year 2011, the Managing Director Mr. Shamsul Hasan resigned from his position and in his place Ministry of Finance nominated Mr. Ashraf Mahmood Wathra as Director / Managing Director of the company. He was inducted as a Director and elected as Managing Director by the Board on January 06, 2012. However, Mr. Wathra declined to accept the position.
5. Statement of Ethics and Business Practices has been approved and signed by the Board of Directors and also signed by the employees of the company.
6. The Board has approved a vision / mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and other terms and conditions of the Managing Director have been taken by the Board.
8. The Board has approved the appointment of the Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the Managing Director.
9. The meetings of the Board were presided over by the Chairman. The Board met six times during the year. The written notices of the Meetings, along with the agenda and working papers, were circulated at least seven (7) days before the Meetings except in the case of emergency Meetings. The Minutes of the meetings were appropriately recorded and circulated.
10. The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

11. The financial statements of the company were duly endorsed by the Managing Director and Deputy General Manager/ Chief Financial Officer before approval of the Board.
12. The Directors, Managing Director and executives do not hold any interest in the shares of the company.
13. The Directors are well aware of their responsibilities and duties under the Code of Corporate Governance and in this respect had attended an Orientation Workshop on October 16, 2010, organized by Pakistan Institute of Corporate Governance.
14. The company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. All the three members of the Audit Committee are non-executive directors.
16. During the year, four Audit Committee meetings were held, which also included review of the half-yearly results and review of the annual financial results of the company as required by the Code.
17. The Board has set-up an effective internal audit function consisting of full time Internal Auditor who is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company.
18. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan. The auditors or any partners of the firm, their spouses or minor children do not hold shares of the company.
19. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors along with the pricing methodology for the transactions carried out on terms and conditions equivalent to those that prevail in the arms length transactions.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except permitted services and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.



The Chairman

**Dated: February 17, 2012**  
**Karachi**



## Review Report to the Members on Statement of Compliance with the Best Practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) for the year ended **31 December 2011** prepared by the Board of Directors of **Pakistan Kuwait Investment Company (Private) Limited (the Company)** to comply with the Regulation G-1 of Prudential Regulation for Corporate / Commercial Banking issued by the State Bank of Pakistan.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company 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 system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code, effective for the year ended **31 December 2011**.

Karachi: 17 February, 2012

*Ernst & Young Ford Rhodes Sidat Hyder*  
Chartered Accountants

## Statement on Internal Control

### REPORTING ON INTERNAL CONTROL SYSTEM

The company endeavors to follow the SBP's Internal Control Guidelines. It is the responsibility of the company's management to establish and maintain an adequate and effective system of internal control that could help in company's efforts to attain a professional and efficient working environment throughout the company. The Internal Control System comprises of various inter-related components including Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring.

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

Alongside this appropriate test of transactions, observation of control environment, sharing of findings of Internal Control System and ensuring relevant appropriate follow-ups / corrective actions are also being done by the management on regular basis.

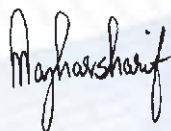
Internal Control System in the company is designed to manage, rather than eliminate the risk of failure to achieve the business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

### EVALUATION OF EXISTING INTERNAL CONTROL SYSTEM

The company has made efforts to ensure during the year 2011 that an effective and efficient Internal Control System is implemented and no compromise is made in implementing the desired control procedures and maintaining suitable control environment in general. However, it is an ongoing process that includes identification, evaluation and management of significant risks faced by the company.

The observations and weaknesses identified by the auditors, both internal and external, have been taken care of and necessary steps have been taken by the management in the due time so as to ensure non-repetition of those exceptions and eliminations of such weaknesses to the maximum possible level. The management has also given timely and satisfactory response to the recommendations and suggestions made by its auditors.

We assess that the internal control system, customer services and operations have been maintained as compared to previous year in all areas / departments of the company. Further, due attention and focus is to enhance competence level and knowledge of the employees.




Head of Internal Audit



Chief Financial Officer



Chairman Audit Committee

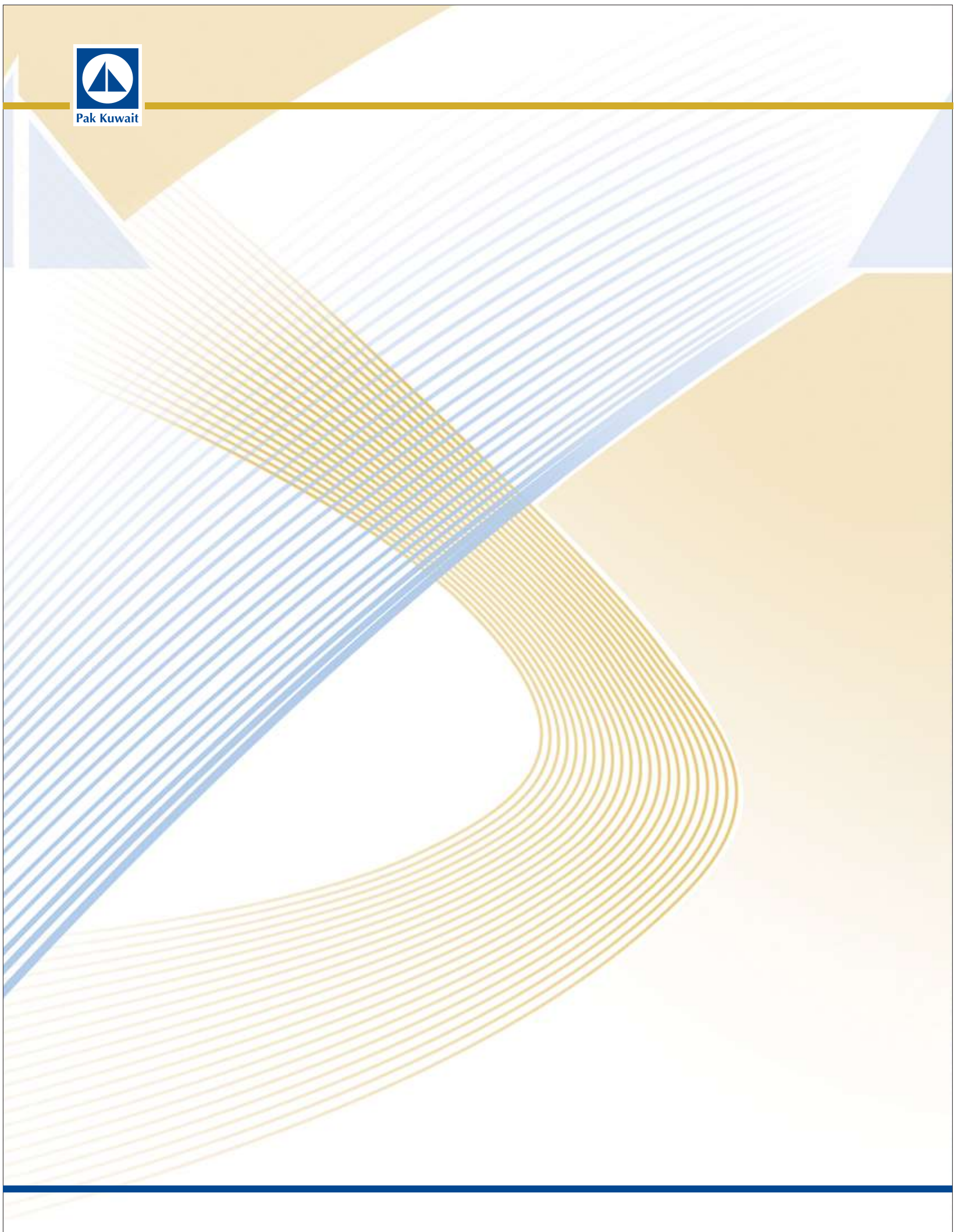


Director

Date: 17 February, 2012  
Karachi



Pak Kuwait



# Unconsolidated Financial Statements

For the year ended December 31, 2011

## Auditors' Report to the Members

We have audited the annexed unconsolidated statement of financial position of **Pakistan Kuwait Investment Company (Private) Limited (the Company)** as at **31 December 2011**, and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated cash flow statement together with the notes forming part thereof (here-in-after referred to as the 'financial statements') 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 purpose 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 approved accounting standards and 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 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 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 statement of financial position 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 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 unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated cash flow statement together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and 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 **31 December 2011** and of the profit, comprehensive income, changes in equity and its 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 (XVIII of 1980).

*Ernst & Young Ford Rhodes Sidat Hyder*  
Chartered Accountants

**Audit Engagement Partner:** Omer Chughtai

17 February, 2012  
**Karachi**

# Unconsolidated Statement of Financial Position

As at December 31, 2011

	Note	2011	2010
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with treasury banks	6	442,766	51,424
Balances with other banks	7	23,035	1,363,207
Lendings to financial institutions	8	-	250,000
Investments	9	12,609,173	15,207,224
Advances	10	6,554,035	4,969,190
Operating fixed assets	11	242,025	220,636
Deferred tax assets	12	275,407	279,633
Other assets	13	660,098	556,665
		<b>20,806,539</b>	<b>22,897,979</b>
<b>LIABILITIES</b>			
Bills payable		-	-
Borrowings	14	9,161,654	9,807,369
Deposits and other accounts	15	1,726,601	3,138,512
Subordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	16	333,971	334,007
		<b>11,222,226</b>	<b>13,279,888</b>
<b>NET ASSETS</b>			
		<b>9,584,313</b>	<b>9,618,091</b>
<b>REPRESENTED BY</b>			
Share capital	17	6,000,000	6,000,000
Reserves	17	3,114,865	2,992,287
Unappropriated profit		559,890	429,576
		<b>9,674,755</b>	<b>9,421,863</b>
(Deficit) / surplus on revaluation of 'available-for-sale' securities - net of tax	18	(90,442)	196,228
		<b>9,584,313</b>	<b>9,618,091</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	19		

The annexed notes 1 to 42 and annexure I and II form an integral part of these financial statements.


  
 Officiating Chief Executive


  
 Director


  
 Director

## Unconsolidated Profit and Loss Account

For the year ended December 31, 2011

	Note	2011 (Rupees in '000)	2010
Mark-up / return / interest earned	20	2,201,933	2,107,494
Mark-up / return / interest expensed	21	1,445,302	1,452,508
Net mark-up / interest income		756,631	654,986
Provision against non-performing loans and advances - net	10.4	157,175	24,959
Recovery against written off advances		(22,594)	-
Reversal of provision against non-performing lending to financial institutions	8.1	(18,000)	(129,178)
Provision for diminution / impairment in the value of investments	9.3	91,502	67,065
Bad debts written off directly		-	-
Net mark-up / interest income after provisions		208,083	(37,154)
		548,548	692,140
<b>NON MARK-UP / INTEREST INCOME</b>			
Fee, commission and brokerage income		3,535	7,857
Dividend income		512,823	234,621
Income from dealing in foreign currencies		-	-
Gain on sale of securities	22	243,346	297,159
Unrealised loss on revaluation of 'held-for-trading' securities	9.4	-	(880)
Other income	23	25,894	21,982
Total non mark-up / interest income		785,598	560,739
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	24	462,230	410,755
Other provisions / write offs		-	-
Other charges	25	-	1,149
Total non mark-up / interest expenses		462,230	411,904
Extra ordinary / unusual items		-	-
<b>PROFIT BEFORE TAXATION</b>		871,916	840,975
Taxation			
- Current	26	276,229	175,041
- Prior years		-	-
- Deferred	26	(17,205)	128,965
		259,024	304,006
<b>PROFIT AFTER TAXATION</b>		612,892	536,969
Unappropriated profit brought forward		429,576	-
Unappropriated profit carried forward		1,042,468	536,969
<b>Basic earnings per share</b> (On share of Rs. 25,000 each)	27	2,554	2,237
<b>Diluted earnings per share</b> (On share of Rs. 25,000 each)	28	2,554	2,237

The annexed notes 1 to 42 and annexure I and II form an integral part of these financial statements.

  
Officiating Chief Executive

  
Director

  
Director

# Unconsolidated Statement of Comprehensive Income

For the year ended December 31, 2011

	Note	2011 (Rupees in '000)	2010
Profit for the year		612,892	536,969
Other comprehensive income		-	-
<b>Comprehensive income transferred to equity</b>		<u>612,892</u>	<u>536,969</u>
<b>Component of comprehensive income not transferred to equity</b>			
Deficit on revaluation of 'available-for-sale' securities		(265,239)	(5,878)
Deferred tax on revaluation of 'available-for-sale' securities		(21,431)	26,415
<b>Total comprehensive income</b>		<u><u>326,222</u></u>	<u><u>557,506</u></u>

The annexed notes 1 to 42 and annexure I and II form an integral part of these financial statements.


  
 Officiating Chief Executive


  
 Director


  
 Director



## Unconsolidated Statement of Changes in Equity

For the year ended December 31, 2011

	Share capital	Reserve Statutory	Accumulated profit	Total
	(Rupees in '000)			
Balance as at January 1, 2010	6,000,000	2,884,894	-	8,884,894
Profit for the year ended December 31, 2010	-	-	536,969	536,969
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	536,969	536,969
Transfer to statutory reserve	-	107,393	(107,393)	-
<b>Balance as at December 31, 2010</b>	<b>6,000,000</b>	<b>2,992,287</b>	<b>429,576</b>	<b>9,421,863</b>
Profit for the year ended December 31, 2011	-	-	612,892	612,892
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	612,892	612,892
Final dividend for the year ended December 31, 2010 @ Rs. 1,500 per share approved subsequent to year end	-	-	(360,000)	(360,000)
Transfer to statutory reserve	-	122,578	(122,578)	-
<b>Balance as at December 31, 2011</b>	<b>6,000,000</b>	<b>3,114,865</b>	<b>559,890</b>	<b>9,674,755</b>

The annexed notes 1 to 42 and annexure I and II form an integral part of these financial statements.

  
Officiating Chief Executive

  
Director

  
Director

# Unconsolidated Cash Flow Statement

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		871,916	840,975
Less: Dividend income		(512,823)	(234,621)
		<u>359,093</u>	<u>606,354</u>
Adjustments for:			
Depreciation		15,228	14,067
Amortisation		1,783	513
Provision against non-performing loans and advances - net		157,175	24,959
Recovery against written off advances		(22,594)	-
Reversal of provision against non performing lending to financial institutions		(18,000)	(129,178)
Provision for diminution / impairment in the value of investments		91,502	67,065
Gain on disposal of operating fixed assets		(1,151)	(4,395)
Unrealised loss on revaluation of 'held-for-trading' securities		-	880
		<u>223,943</u>	<u>(26,089)</u>
		<b>583,036</b>	<b>580,265</b>
(Increase) / decrease in operating assets			
Lendings to financial institutions		268,000	557,805
'Held-for-trading' securities		(35,712)	203,496
Advances		(1,719,426)	(1,386,707)
Others assets (excluding advance taxation)		(42,948)	71,817
		<u>(1,530,086)</u>	<u>(553,589)</u>
(Decrease) / increase in operating liabilities			
Borrowings		(645,715)	(570,503)
Deposits		(1,411,911)	(937,439)
Other liabilities (excluding current taxation)		(36)	(111,805)
		<u>(2,057,662)</u>	<u>(1,619,747)</u>
		<u>(3,004,712)</u>	<u>(1,593,071)</u>
Income tax paid		(334,931)	(744,620)
<i>Net cash used in operating activities</i>		<u>(3,339,643)</u>	<u>(2,337,691)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investment in 'available-for-sale' securities / subsidiaries		2,275,239	1,607,397
Dividend income		512,823	253,372
Investments in operating fixed assets		(40,416)	(29,545)
Sale proceeds from sale of operating fixed assets		3,167	31,363
<i>Net cash inflow from investing activities</i>		<u>2,750,813</u>	<u>1,862,587</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Dividend paid		(360,000)	-
<i>Net cash used in financing activities</i>		<u>(360,000)</u>	<u>-</u>
<b>Decrease in cash and cash equivalents</b>		<b>(948,830)</b>	<b>(475,104)</b>
Cash and cash equivalents at beginning of the year		<u>1,414,631</u>	<u>1,889,735</u>
<b>Cash and cash equivalents at end of the year</b>	29	<u><u>465,801</u></u>	<u><u>1,414,631</u></u>

The annexed notes 1 to 42 and annexure I and II form an integral part of these financial statements



**Officiating Chief Executive**



**Director**



**Director**

# Notes to and Forming Part of the Unconsolidated Financial Statements

For the year ended December 31, 2011

## 1. STATUS AND NATURE OF BUSINESS

Pakistan Kuwait Investment Company (Private) Limited ("Company") was incorporated in Pakistan as a Private Limited Company on March 17, 1979. The registered office is situated at 4th Floor, Block 'C', Finance and Trade Centre, Shahrah-e-Faisal, Karachi. The Company has its representative offices in Islamabad and Lahore. The Company is a 50:50 joint venture between the Governments of Pakistan and Kuwait. The objective of the Company is to profitably promote industrial investments in Pakistan.

As of January 1, 2011, the Company had two 100% owned subsidiaries, First Choice Securities Limited (FCSL) and Pak Kuwait Financial Services Limited (PKFSL). FCSL principal business includes equity brokerage, money market and foreign exchange brokerage, equity research and corporate financial advisory services. FCSL has not started its operations. During the year PKFSL has been liquidated through Easy Exit Scheme of the Securities and Exchange Commission of Pakistan (SECP). PKFSL's liquidation was confirmed by the SECP under Easy Exit Scheme via notification in the official gazette dated January 10, 2011. The details of assets and liabilities of PKFSL at the time of liquidation are given in note 9.2.5. The principal business of PKFSL was to provide assets management services.

## 2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the requirements of the format prescribed by the State Bank of Pakistan's BSD Circular No. 4 dated February 17, 2006 and BSD Circular letter No. 07, dated 20 April 2010.

These financial statements are separate financial statements of the Company in which investments in subsidiaries and associates are accounted for on the basis of direct equity interest rather than on the basis of reported results. Consolidated financial statements are prepared separately.

## 3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and the directives issued by the State Bank of Pakistan (SBP). However, in case requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and the directives issued by the SBP shall prevail.

The SBP through its BSD Circular letter No. 11 dated September 11, 2002 has deferred the implementation of IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 40 'Investment Property' for Non-Banking Financial Institutions (NBFIs) in Pakistan. Further, SECP has deferred the implementation of IFRS 7 'Financial Instruments: Disclosures' through SRO 411(I)/ 2008. Accordingly, the requirements of these International Financial Reporting Standards (IFRSs) and their respective interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), have not been considered in preparation of these financial statements.

## 4. BASIS OF MEASUREMENT

These financial statements have been prepared on the historical cost basis as modified for revaluation of certain investments at market rates in accordance with the requirements of BSD Circular No. 10 dated July 13, 2004 as amended through BSD Circular No. 11 dated August 04, 2004 and BSD Circular No. 14 dated September 24, 2004.

The financial statements are presented in Pakistan Rupees which is Company's functional currency.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Standards, interpretations and amendments effective in current year

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

The Company has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year:

- IAS 24 – Related Party Disclosure (Revised)
- IFRIC 14 – Prepayments of a Minimum Funding Requirement (Amendment)
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments
- Improvements to various standards issued by IASB in 2010
- IFRS 3 – Business Combinations
- IAS 27 – Consolidated and Separate Financial Statements
- IAS 1 – Presentation of Financial Statements
- IAS 34 – Interim Financial Reporting
- IFRIC 13 – Customer Loyalty Programmes

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

### 5.2 Accounting standards not yet effective

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

<b>Standard or interpretation</b>	<b>Effective date (accounting periods) beginning</b>
IAS 1 – Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	01 July 2012
IAS 12 – Income Taxes (Amendment) – Deferred Taxes : Recovery of Underlying Assets	01 January 2012
IAS 19 – Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	01 January 2013

The Company expects that the adoption of the above revisions, amendments and interpretations of the standards will not materially affect the Company'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 which are yet to be notified by the SECP for the purpose of applicability in Pakistan. Such improvements are generally effective for accounting periods beginning on or after 01 January 2013.

### 5.3 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury and other banks in current and deposit account.

#### 5.4 Repurchase/resale agreements

The Company enters into securitised borrowing transactions of repurchase agreements (Repos) and reverse repurchase agreements (Reverse repos) at contracted rates for a specified period of time. These are recorded as under:

##### **Sale under repurchase agreement**

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repo agreement.

##### **Purchase under resale agreement**

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet. Amounts paid under these agreements are included in reverse repurchase agreement lendings. The difference between purchase and resale price is accrued as income over the term of the reverse repos agreement.

#### 5.5 Investments

##### **Classification**

The Company classifies its investments other than those in associates based on the criteria set out in BSD Circular Nos. 10, 11 and 14 dated July 13, 2004, August 04, 2004 and September 24, 2004 respectively. The investments are classified in the following categories as per SBP guidelines:

- Held for trading investments, investments which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and shall be sold within 90 days.
- Held-to-maturity investments, the Company classifies non derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Company evaluates its intention and ability to hold such investment to maturity.
- Available-for-sale investments, investments which are not eligible to be classified as 'held for trading' or 'held to maturity' are classified as 'available-for-sale'.
- Strategic investments, investments that meet the threshold as specified in prudential regulations issued by SBP shall be classified as strategic investments.

##### **Initial Recognition**

Investments that are 'Held for trading' are measured at their fair values in accordance with requirements of SBP. An investment (other than investment that is 'Held for trading') is measured at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the investment.

##### **Subsequent Recognition**

Investments in government securities and quoted investments, categorised as 'Held-for-trading' and 'Available-for-sale' are valued at rates quoted on PKRV (Reuters Page) and market values as at the balance sheet date respectively. Any surplus or deficit arising as a result of revaluation of securities categorised as 'Held-for-trading' is taken to profit and loss account and that of 'Available-for-sale' is taken to the balance sheet, and shown below equity.

Furthermore, investments classified as 'Held-to-maturity' are stated at their amortised cost less impairment in value, if any.

Unquoted investments are stated at lower of cost and break-up value based on latest available financial statements.

Investments in quoted subsidiaries and associates are stated at cost less impairment in value, if any. Unquoted associates and subsidiaries are stated at lower of cost and break-up value based on latest available financial statements.

Impairment loss is recognised whenever the carrying amount of an investment exceeds its recoverable amount. An impairment loss is taken to profit and loss account. Gain / loss on sale of investments during the year is included in profit and loss account.

Premium or discount on acquisition of government securities is amortised over the period to maturity under effective interest method.

### 5.6 Trade date accounting

All purchase and sale of investment that require delivery within the time frame established by regulations or market convention are recognized at trade date. Trade date is a date on which the Company commits to purchase and sell the investments.

### 5.7 Advances including net investment in finance leases

Advances are stated net of provision for doubtful debts. Provision for doubtful debts is determined on the basis of 'Prudential Regulations' issued by the State Bank of Pakistan and Credit policy of the Company. The provision is charged to the profit and loss account.

Advances are written off when there are no realistic prospects of recovery.

Leases, where substantially all risks and rewards incidental to ownership of an asset are transferred to the lessee, are classified as finance lease. A receivable is recognised at an amount equal to the present value of the lease payments. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

### 5.8 Operating fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment loss (if any) except leasehold land which is stated at cost.

Depreciation is charged to profit and loss account applying the straight line method whereby the cost of an asset is written off over its estimated useful life. Depreciation is charged in the month of purchase and no depreciation is charged in the month of disposal. Depreciation is charged at the rates stated in note 11.1.

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

Profit or loss on the sale or retirement of fixed assets is taken to profit and loss account.

### 5.9 Intangible assets

Intangible assets with definite useful lives are stated at cost less accumulated amortization and accumulated impairment loss (if any). Amortization is charged on a straight line basis over their estimated useful lives. Amortization is charged at the rates stated in note 11.2.

### 5.10 Revenue recognition

- i) Dividend income is recognised when the Company's right to receive payment is established.
- ii) Income from loans, term finance certificates, debentures, bank deposits, government securities and reverse repo transactions is recognised under effective interest method, except where recovery is considered doubtful, the income is recognised on receipt basis.
- iii) The Company follows the finance method in recognising 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.
- iv) Gain on sale of securities is recognised at the time of sale of relevant securities.
- v) Advisory income is recognised as the services are rendered.

### 5.11 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, and any adjustments to any tax payable relating to prior years.

#### *Deferred*

The Company accounts for deferred taxation using the balance sheet liability method providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the tax rates enacted or substantively enacted at balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits will be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **5.12 Staff retirement benefits**

##### *Defined benefit plan*

The Company operates a funded gratuity scheme for all its eligible permanent employees. 'Projected unit credit method' has been used for actuarial valuation. Actuarial gains or losses in excess of 10% of the present value of defined benefit obligation and fair value of plan assets, whichever is higher, are recognised over the expected average remaining working life of the employees.

The last actuarial valuation of the employees' defined benefit plan was conducted as of December 31, 2011.

##### *Defined contribution plan*

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 Salary.

#### **5.13 Employees' compensated absences**

Liability in respect of employees' compensated absences is recognised on the basis of actuarial valuation and is accounted for in the period in which these are earned. The actuarial valuation is carried out using 'Projected unit credit method'.

The last actuarial valuation of the employees' compensated absences was conducted as of December 31, 2011.

#### **5.14 Derivative financial instruments**

Derivative financial instruments are initially measured at fair value and subsequently remeasured at market value. The gain or loss on remeasurement to market value is recognised in profit and loss account.

#### **5.15 Impairment**

The carrying amount of the assets, other than deferred tax asset and investments, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are reversed when there is an indication that impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

#### **5.16 Provisions**

Provisions are recognized when the Company 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.

#### **5.17 Foreign currency**

Foreign currency transactions are recorded at the rates prevailing on the date of transactions. Monetary assets and liabilities in foreign currency are reported in Pakistan Rupees at the rates of exchange prevailing on the balance sheet date. Exchange gains and losses are included in income currently.

#### **5.18 Off-setting of financial assets and financial liabilities**

'Financial assets' and 'financial liabilities' are only offset and the net amount is reported in the balance sheet if the Company has a legal right to set-off the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 5.19 Earnings per share

The Company presents earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the year.

### 5.20 Dividend distribution

Dividends (including bonus dividend) are recognized in the period in which these are approved.

### 5.21 Segment information

A segment is distinguishable component of the Company that is engaged 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 Company's primary format of reporting is based on business segments.

#### Business segments

Following are the main segments of the Company:

Corporate Finance	Includes loans, advances, leases and other transactions with corporate customers.
Treasury	Undertakes Company's fund management activities through leveraging and investing in liquid assets such as short term placements, government securities and reverse repo activities. It carries out spread based activities in the inter bank market and manages the interest rate risk exposure of the Company.
Capital Market	Includes trading in listed securities with a view to trade and earn the benefit of market fluctuations and to hold securities for dividend income and capital gain.
Investment Banking	Undertakes advisory services including mergers and acquisitions, listed debt syndication, trustee activities and other investment banking activities.

#### Geographical segments

All the Company's business segments operate in Pakistan only.

### 5.22 Accounting estimates and judgement

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form basis of making the judgements about carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods.

Judgements made by the management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 40.



<b>6. CASH AND BALANCES WITH TREASURY BANKS</b>	Note	<b>2011</b>	2010
<b>(Rupees in '000)</b>			
Cash in hand in local currency		<b>60</b>	60
With State Bank of Pakistan in - local currency current account	6.1	<b>42,593</b>	51,131
With National Bank of Pakistan in - local currency current account - local currency deposit account	6.2	<b>113</b> <b>400,000</b>	233 -
		<u><b>442,766</b></u>	<u>51,424</u>

**6.1** This includes Rs. 42.59 million (2010: Rs. 43.00 million) held as minimum cash reserve required to be maintained with the SBP in accordance with its requirements issued from time to time.

**6.2** The return on the placement is 12.75 (2010: nil) percent per annum and the placement will mature 30 days (2010: nil) after the balance sheet date.

<b>7. BALANCES WITH OTHER BANKS</b>	Note	<b>2011</b>	2010
<b>(Rupees in '000)</b>			
In Pakistan			
- current account		<b>171</b>	128
- deposit account		<b>22,864</b>	1,363,079
		<u><b>23,035</b></u>	<u>1,363,207</u>

<b>8. LENDINGS TO FINANCIAL INSTITUTIONS</b>	Note	<b>2011</b>	2010
Certificates of investment (COIs) in local currency	8.1	<b>2,822</b>	270,822
Provision against COI	8.1	<b>(2,822)</b>	(20,822)
		<u><b>-</b></u>	<u>250,000</u>

**8.1** This represents provision outstanding against clean lending under COI to an investment bank. The lending amounting to Rs. 150 million was made on September 20, 2008 and matured on December 20, 2008. On maturity the investment bank was unable to repay and the Company had initiated legal proceedings for recovery of the outstanding amount. Based on the principle of prudence the Company had fully provided the amount.

The Company has so far recovered Rs. 147.178 million from the investment bank. The recovery has been made in the form of property valuing Rs. 121.373 million and the balance amount in cash. The balance amount will be received in two installments in 2012.

## 9. INVESTMENTS

### 9.1 Investments by type

Note	2011			2010			
	Held by the Company	Given as collateral	Total	Held by the Company	Given as collateral	Total	
(Rupees in '000)							
<b>Held-for-trading securities</b>							
Shares of listed companies	-	-	-	36,592	-	36,592	
<b>Available-for-sale securities</b>							
Market treasury bills	831,191	6,031,097	6,862,288	3,547,284	5,008,370	8,555,654	
Pakistan investment bonds	1,640,304	-	1,640,304	449,199	1,175,573	1,624,772	
Shares of listed companies	1,392,625	-	1,392,625	1,921,289	-	1,921,289	
Shares of unlisted companies	136,926	-	136,926	125,122	-	125,122	
Listed preference shares	93,399	-	93,399	93,399	-	93,399	
Listed term finance certificates	121,109	-	121,109	153,687	-	153,687	
Unlisted term finance certificates	608,398	-	608,398	458,598	-	458,598	
	4,823,952	6,031,097	10,855,049	6,748,578	6,183,943	12,932,521	
Associates	2,112,507	-	2,112,507	2,270,560	-	2,270,560	
Subsidiaries	9.2.5	60,000	-	60,000	81,120	-	81,120
<b>Total investments - at cost</b>	<b>6,996,459</b>	<b>6,031,097</b>	<b>13,027,556</b>	<b>9,136,850</b>	<b>6,183,943</b>	<b>15,320,793</b>	
Provision for diminution / impairment in the value of investments	9.3 & 40.3	(308,074)	-	(308,074)	(267,620)	-	(267,620)
<b>Total investments - net of provisions</b>	<b>6,688,385</b>	<b>6,031,097</b>	<b>12,719,482</b>	<b>8,869,230</b>	<b>6,183,943</b>	<b>15,053,173</b>	
Deficit on revaluation of 'held-for-trading' securities	9.4	-	-	-	(880)	-	(880)
(Deficit) / surplus on revaluation of 'available-for-sale' securities	18	(97,006)	(13,303)	(110,309)	274,909	(119,978)	154,931
<b>Total investments at market value</b>	<b>6,591,379</b>	<b>6,017,794</b>	<b>12,609,173</b>	<b>9,143,259</b>	<b>6,063,965</b>	<b>15,207,224</b>	

## 9.2 Investments by segments

	Note	2011	2010
(Rupees in '000)			
<b>Federal Government Securities</b>			
- Market treasury bills	9.2.1	6,862,288	8,555,654
- Pakistan investment bonds	9.2.2	1,640,304	1,624,772
<b>Fully paid up Ordinary Shares</b>			
- Listed companies		1,392,625	1,957,881
- Unlisted companies	9.2.3	136,926	125,122
		1,529,551	2,083,003
<b>Preference Shares</b>			
- Listed companies		93,399	93,399
<b>Term Finance Certificates (TFCs)</b>			
- Listed		121,109	153,687
- Unlisted		608,398	458,598
		729,507	612,285
<b>Investments in Associates</b>			
Ordinary shares-listed companies			
- Meezan Bank Limited	9.2.4	1,519,905	1,519,905
- The General Tyre & Rubber Co. of Pakistan Ltd.		173,480	173,480
Mutual Funds			
- Al Meezan Mutual Fund		109,544	109,544
- Meezan Balanced Fund		110,578	110,578
Ordinary shares-unlisted companies			
- Al Meezan Investment Management Limited	9.2.3	27,750	27,750
- Plexus (Private) Limited		15,000	15,000
- Pak Kuwait Takaful Company Limited		120,000	120,000
- National Clearing Company of Pakistan Limited		11,250	11,250
- Pakistan Mercantile Exchange Limited (formerly National Commodity Exchange)		-	11,771
- Falcon Greenwood (Private) Limited		25,000	25,000
Preference shares-unlisted company			
- Falcon Greenwood (Private) Limited		-	146,282
		2,112,507	2,270,560
<b>Subsidiaries - unlisted ordinary shares</b>			
- First Choice Securities Limited	9.2.5	60,000	50,000
- Pak Kuwait Financial Services Limited		-	31,120
		60,000	81,120
<b>Total investments - at cost</b>		<b>13,027,556</b>	<b>15,320,793</b>
Provision for diminution / impairment in the value of investments	9.3 & 40.3	(308,074)	(267,620)
Total investments - net of provisions		12,719,482	15,053,173
Deficit on revaluation of 'held-for-trading' securities	9.4	-	(880)
(Deficit) / surplus on revaluation of 'available-for-sale' securities		(110,309)	154,931
		(110,309)	154,051
<b>Total investments</b>		<b>12,609,173</b>	<b>15,207,224</b>

- 9.2.1** The investments in market treasury bills are maturing between 20 September 2012 and 1 November 2012 (2010: 13 January 2011 and 16 June 2011) and the effective interest ranges between 11.80 and 12.80 percent per annum (2010: 12.20 and 12.41 percent per annum).
- 9.2.2** The investments in Pakistan investment bonds are maturing between 30 August 2013 and 03 September 2019 (2010: 30 August 2013 and 03 September 2019) and the effective interest ranges between 11.45 and 13.18 percent per annum (2010: 11.45 and 13.18 percent per annum).
- 9.2.3** The investments also include Faysal Management Services (Private) Limited and Al-Meezan Investment Management Limited which can be sold only with prior permission of SECP.
- 9.2.4** Investments in shares of Meezan Bank Limited costing Rs. 1,520 million and market value of Rs. 4,187 million (2010: Cost Rs. 1,520 million, market value Rs.3,540 million) are held as strategic investment in terms of Prudential Regulation applicable to Corporate / Commercial Banking which can be sold only with prior permission of SBP.
- 9.2.5** During the year one of the subsidiaries of the Company, PKFSL has been liquidated through Easy Exit Scheme of SECP. PKFSL's net assets at the time of liquidation are given below:

Balances with other banks	(Rupees in '000)
	35,162
<b>Net Assets</b>	<b>35,162</b>

**9.3 Particulars for impairment / diminution in the value of investments**

	2011	2010
	(Rupees in '000)	
Opening balance	267,620	383,487
Charge for the year	91,502	67,065
Reversals due to sale of impaired securities	(51,048)	(182,932)
	<b>40,454</b>	(115,867)
Closing balance	<b>308,074</b>	267,620

**9.3.1 Particulars of provision in respect of type and segment**

'Available-for-sale' securities	230,587	190,203
Associates	77,487	77,417
	<b>308,074</b>	267,620

**9.4 Unrealized (loss) / gain on revaluation of 'held-for-trading' securities**

Fully paid up ordinary shares	-	(880)
	-	(880)

- 9.5** Information relating to quality of 'available-for-sale' securities and investments in shares of listed and unlisted companies, redeemable capital required to be disclosed as part of the financial statements under the SBP's BSD Circular No. 4 dated February 17, 2006, are given in Annexure "I" and "II", which are an integral part of these financial statements.

## 10. ADVANCES

	Note	2011 (Rupees in '000)	2010
In Pakistan Advances		<b>6,622,329</b>	4,735,906
Net investment in finance leases	10.2	<b>1,509,496</b>	1,653,899
		<b>8,131,825</b>	6,389,805
Provision for non-performing advances	10.4	<b>(1,577,790)</b>	(1,420,615)
Advances net of provision		<b>6,554,035</b>	4,969,190

### 10.1 Particulars of gross advances

In local currency	<b>8,131,825</b>	6,389,805
Short term (for upto one year)	<b>2,261,669</b>	2,145,421
Long term (for over one year)	<b>5,870,156</b>	4,244,384
	<b>8,131,825</b>	6,389,805

### 10.2 Net investment in finance leases

	2011				2010			
	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	897,871	834,580	58,449	1,790,900	907,442	1,006,845	47,850	1,962,137
Residual value	48,215	32,967	717	81,899	56,888	63,747	1,878	122,513
Minimum lease payments	946,086	867,547	59,166	1,872,799	964,330	1,070,592	49,728	2,084,650
Financial charges for future periods	194,322	158,980	10,001	363,303	216,208	213,801	742	430,751
Present value of minimum lease payments	751,764	708,567	49,165	1,509,496	748,122	856,791	48,986	1,653,899

**10.2.1** The Company has entered into lease agreements with various companies for lease of vehicles and plant and machinery. The amount recoverable under these arrangements are receivable latest by the year 2020 and are subject to finance income at rates ranging between 7.0 and 21.83 (2010: 7.0 and 21.83) percent per annum.

**10.2.2** In respect of the aforementioned finance leases the Company holds an aggregate sum of Rs. 81.723 million (2010: Rs. 100.154 million) as security deposits on behalf of the lessees which are included under other liabilities (note 16).

**10.3** Advances include Rs. 1,723.232 million (2010: Rs 1,648.540 million) which have been placed under non-performing status as detailed below:

Category of classification	2011			2010		
	Classified Advances	Provision Required	Provision Held	Classified Advances	Provision Required	Provision Held
	(Rupees in '000)					
Substandard	4,167	1,042	1,042	121,725	30,431	30,431
Doubtful	284,633	142,316	142,316	273,262	136,631	136,631
Loss	1,434,432	1,434,432	1,434,432	1,253,553	1,253,553	1,253,553
	<b>1,723,232</b>	<b>1,577,790</b>	<b>1,577,790</b>	1,648,540	1,420,615	1,420,615

**10.4 Particulars of provision against non-performing advances - specific**

	2011	2010
	(Rupees in '000)	
Opening balance	1,420,615	1,395,656
Charge for the year	270,662	87,089
Reversals	(113,487)	(62,130)
	157,175	24,959
Amounts written off	-	-
Closing balance	1,577,790	1,420,615
<b>10.4.1 Local currency</b>	<b>1,577,790</b>	<b>1,420,615</b>
Foreign currency	-	-
	1,577,790	1,420,615

**10.5 Particulars of write offs**

The Company has not written off any loans and advances or allowed any financial relief during the year.

**10.6 Particulars of loans and advances to staff included in advances**

	Note	2011	2010
		(Rupees in '000)	
Opening balance		132,280	73,014
Disbursements during the year		35,761	86,053
Repayments during the year		(24,311)	(26,787)
		11,450	59,266
Balance at end of the year		143,730	132,280

**11. OPERATING FIXED ASSETS**

Property and equipment	11.1	229,332	215,811
Intangible assets	11.2	12,693	4,825
		242,025	220,636

## 11.1 Property and equipment

	2011							
	Cost			Depreciation			Net book value as at December 31, 2011	Rate of depreciation
	As at January 1, 2011	Additions / transfers / (disposals)	As at December 31, 2011	As at January 1, 2011	Charge / (disposals)	As at December 31, 2011		
	(Rupees in '000)							%
Leasehold land	100	-	100	-	-	-	100	-
Building on lease hold land	233,522	3,981	237,503	34,340	6,046	40,386	197,117	2.50 - 20.00
Furniture and fixtures	10,184	7,183	17,367	9,988	315	10,303	7,064	20.00
Motor vehicles	20,281	1,810 (9,093)	12,998	12,854	1,934 (7,077)	7,711	5,287	20.00
Office equipment	38,746	17,691 (6,316)	50,121	29,919	6,871 (6,316)	30,474	19,647	33.33
Electrical appliances	1,972	100	2,072	1,893	62	1,955	117	20.00
	<u>304,805</u>	<u>30,765</u> <u>(15,409)</u>	<u>320,161</u>	<u>88,994</u>	<u>15,228</u> <u>(13,393)</u>	<u>90,829</u>	<u>229,332</u>	

	2010							
	Cost			Depreciation			Net book value as at December 31, 2010	Rate of depreciation
	As at January 1, 2010	Additions / transfers / (disposals)	As at December 31, 2010	As at January 1, 2010	Charge / (disposals)	As at December 31, 2010		
	(Rupees in '000)							%
Leasehold land	100	-	100	-	-	-	100	-
Building on lease hold land	112,149	121,373	233,522	30,992	3,348	34,340	199,182	2.50
Furniture and fixtures	23,318	- (13,134)	10,184	22,977	145 (13,134)	9,988	196	20.00
Motor vehicles	67,333	14,752 (61,804)	20,281	40,526	7,164 (34,836)	12,854	7,427	20.00
Office equipment	34,806	9,761 (5,821)	38,746	32,402	3,338 (5,821)	29,919	8,827	33.33
Electrical appliances	3,051	54 (1,133)	1,972	2,954	72 (1,133)	1,893	79	20.00
	<u>240,757</u>	<u>145,940</u> <u>(81,892)</u>	<u>304,805</u>	<u>129,851</u>	<u>14,067</u> <u>(54,924)</u>	<u>88,994</u>	<u>215,811</u>	

11.1.1 Included in cost of property and equipment are fully depreciated items still in use having cost of:

	2011 (Rupees in '000)
Furniture and fixtures	9,844
Motor vehicles	4,479
Office equipment	20,845
Electrical appliances	1,726

**11.1.2** Details of disposals of fixed assets whose original cost or the book value exceeds Rs. 1 million or Rs. 250,000 which ever is less and assets disposed off to the chief executive or to a director or to executives or to any related party, irrespective of the value, are as follows:

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particular of purchaser
----- (Rupees in '000) -----						
1 Honda Civic	1,850	894	956	956	Company Policy	Shams-ul-Hasan (Former Chief Executive)
2 Honda Accord	1,846	1,846	-	-	Surrendered	Custom Authority
3 Toyota Crown	2,868	2,868	-	-	Surrendered	Custom Authority
4 Toyota Corolla	1,414	354	1,060	1,060	Company Policy	Asad Anwar (Employee)
5 Computers (forty five)	3,045	3,045	-	-	Donation	The Citizens Foundation
6 Computers (forty five)	3,045	3,045	-	-	Donation	SOS Village

## 11.2 Intangible assets

	2011							
	Cost			Amortization			Net book value	Rate of
	As at January 1, 2011	Additions	As at December 31, 2011	As at January 1, 2011	Charge	As at December 31, 2011	as at December 31, 2011	amortization
----- (Rupees in '000) -----								%
Software	5,378	9,651	15,029	553	1,783	2,336	12,693	20.00
	<u>5,378</u>	<u>9,651</u>	<u>15,029</u>	<u>553</u>	<u>1,783</u>	<u>2,336</u>	<u>12,693</u>	
	2010							
	Cost			Amortization			Net book value	Rate of
	As at January 1, 2010	Additions	As at December 31, 2010	As at January 1, 2010	Charge	As at December 31, 2010	as at December 31, 2010	amortization
----- (Rupees in '000) -----								%
Software	400	4,978	5,378	40	513	553	4,825	20.00
	<u>400</u>	<u>4,978</u>	<u>5,378</u>	<u>40</u>	<u>513</u>	<u>553</u>	<u>4,825</u>	

## 12. DEFERRED TAX ASSETS

	Balance January 01, 2011	Recognised in profit and loss	Recognised in equity	Balance December 31, 2011
----- (Rupees in '000) -----				
<b>Debit / (credit) balances arising on account of</b>				
Accelerated tax depreciation allowance	(11,830)	(26,363)	-	(38,193)
Provision for staff retirement gratuity and compensated absences	7,799	275	-	8,074
Finance lease arrangements	(270,143)	(5,331)	-	(275,474)
Provision against non-performing advances	512,421	48,712	-	561,133
Surplus / (deficit) on revaluation of 'held-for-trading' securities	88	(88)	-	-
Surplus / (deficit) on revaluation of 'available-for-sale' securities	41,298	-	(21,431)	19,867
	<u>279,633</u>	<u>17,205</u>	<u>(21,431)</u>	<u>275,407</u>



	Balance January 01, 2010	Recognised in profit and loss	Recognised in equity	Balance December 31, 2010
------(Rupees in '000)-----				
Debit / (credit) balances arising on account of				
Accelerated tax depreciation allowance	885	(12,715)	-	(11,830)
Provision for staff retirement gratuity and compensated absences	6,579	1,220	-	7,799
Other staff benefits	4,970	(4,970)	-	-
Finance lease arrangements	(194,032)	(76,111)	-	(270,143)
Provision against non-performing advances	548,898	(36,477)	-	512,421
Surplus / (deficit) on revaluation 'held-for-trading' securities	-	88	-	88
Surplus / (deficit) on revaluation of 'available-for-sale' securities	14,883	-	26,415	41,298
	<u>382,183</u>	<u>(128,965)</u>	<u>26,415</u>	<u>279,633</u>

### 13. OTHER ASSETS

	Note	2011	2010
(Rupees in '000)			
Income / mark-up accrued in local currency		219,656	167,967
Advances, deposits, prepayments and other receivables		57,779	64,737
Advance Tax		382,663	323,961
		<u>660,098</u>	<u>556,665</u>

### 14. BORROWINGS

In Pakistan		<u>9,161,654</u>	<u>9,807,369</u>
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#### 14.1 Particulars of borrowings with respect to currencies

In local currency		<u>9,161,654</u>	<u>9,807,369</u>
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#### 14.2 Details of borrowings secured / unsecured

##### Secured

Repurchase agreement borrowings - Government securities	14.2.1	6,025,238	6,067,160
TFCs	14.2.2	-	1,250,000
Borrowings from SBP			
Under Long Term Facility - Export Oriented Project (LTF-EOP)	14.2.3	116,044	188,757
Under Long Term Finance Facility (LTFF)	14.2.4	248,997	301,452
Under Finance Facility for Storage of Agricultural Produce (FFSAP)	14.2.5	21,375	-
Term Finance Facility	14.2.6	1,750,000	-

##### Unsecured

Murabaha	14.2.7	1,000,000	2,000,000
		<u>9,161,654</u>	<u>9,807,369</u>

#### 14.2.1 Repurchase agreement borrowings - Government Securities

The Company has arranged borrowings from various financial institutions against sale and repurchase of government securities. The mark-up on these finances range between 11.65 and 11.93 (2010: 12.60 and 13.90) percent per annum with maturity ranging from three days to thirty eight days (2010: three days to sixty days).

#### 14.2.2 TFCs (non-participatory)

The finance obtained through issue of privately placed TFC's of five years maturity, matured during the year. The mark-up was payable on quarterly basis and the principal was repayable in five equal semi annual installments commencing 36 months from the date of disbursement. The facility was secured by first hypothecation charge ranking pari passu, on existing and future assets of the Company. The rate of profit was 3 months KIBOR ask rate plus 65 basis points.

#### 14.2.3 LTF-EOP facility from SBP

This represents a one time swap facility option under the scheme LTF - EOP allowed by the SBP through their SMED Circular No. 19 of 2006. The loan is repayable over a maximum period of 7.5 years from the date of first disbursement with mark-up payable at maximum of 5 percent per annum. The sanctioned limit was Rs. 1,000 million.

#### 14.2.4 Borrowings from SBP under LTFF

Represents Long Term Finance Facility on concessional rates to promote industrial growth leading to exports. The loans availed under the facility shall be repayable within a maximum period of ten years including maximum grace period of two years with mark-up payable at maximum of 8.20 percent per annum. SBP allocates an overall yearly limit under the facility to individual PFI. The sanctioned limit was Rs. 500 million.

#### 14.2.5 Borrowings from SBP under FFSAP

This represents Financing Facility for Storage of Agricultural Produce (FFSAP) on concessional rates to develop the agricultural produce marketing and enhance storage capacity. The loans availed under the facility shall be repayable within a maximum period of seven years including a maximum grace period of six months with mark-up payable at maximum of 6.50 percent per annum. SBP allocates an overall yearly limit to individual PFI. The sanctioned limit was Rs. 500 million.

#### 14.2.6 Term Finance Facility

The Company has availed long term finance facilities from two banks. The interest rates on these facilities range between 12.35 and 12.47 percent per annum (December 31, 2010: Nil) and are due for maturity between November 29, 2014 and January 1, 2015 (December 31, 2010: Nil).

#### 14.2.7 Murabaha

This represents finance obtained from an Islamic bank. The profit rate on the finance is 12.50 (2010: 12.75 and 13.00) percent per annum with maturity on 16 January 2012 (2010: 03 January 2011 and 14 January 2011).

### 15 DEPOSITS AND OTHER ACCOUNTS

	2011	2010
	(Rupees in '000)	
Certificates of investment (COI) / deposits	<u>1,726,601</u>	<u>3,138,512</u>
<b>15.1 Particulars of deposits</b>		
In local currency	<u>1,726,601</u>	<u>3,138,512</u>

The profit rates on these COIs / deposits ranges between 11.40 and 13.90 (2010: 11.50 and 13.75) percent per annum. The COIs / deposits are due for maturity between January 13, 2012 and March 22, 2015 (2010: January 11, 2011 and March 22, 2015). Included in COIs / deposits is an amount of Rs. 1,724.101 million (2010: Rs. 3,106.012 million) payable within twelve months.

## 16. OTHER LIABILITIES

	Note	2011 (Rupees in '000)	2010
Mark-up / return / interest payable in local currency		126,859	135,584
Accrued liabilities		85,399	71,702
Retention money payable		-	22
Staff retirement gratuity	31.1.4	3,868	12,415
Security deposits against finance lease	10.2.2	81,723	100,154
Employees' compensated absences		11,362	9,611
Payable on account of purchase of marketable securities		23,292	-
Other liabilities		1,468	4,519
		<u>333,971</u>	<u>334,007</u>

## 17. SHARE CAPITAL

### 17.1 Authorised Share Capital

	2011 (Number of shares)	2010 (Number of shares)		2011	2010
	<u>400,000</u>	<u>400,000</u>	Ordinary shares of Rs. 25,000 each	<u>10,000,000</u>	<u>10,000,000</u>

### 17.2 Issued, Subscribed and Paid-up Share Capital

	2011 (Number of shares)	2010 (Number of shares)		2011	2010
	25,950	25,950	Ordinary shares of Rs. 25,000 each issued for cash	648,750	648,750
	214,050	214,050	Ordinary shares of Rs. 25,000 each issued as bonus shares	5,351,250	5,351,250
	<u>240,000</u>	<u>240,000</u>		<u>6,000,000</u>	<u>6,000,000</u>

The SBP on behalf of the Government of Pakistan (GOP) and Kuwait Investment Authority (KIA) on behalf of Government of Kuwait each hold 120,000 (2010 : 120,000) ordinary shares of the Company as at December 31, 2011.

### 17.3 Reserves

	Note	2011 (Rupees in '000)	2010
Statutory reserve	17.3.1	<u>3,114,865</u>	<u>2,992,287</u>

#### 17.3.1 Statutory reserve - compulsory reserve

At beginning of the year	2,992,287	2,884,894
Add: Transfer during the year	122,578	107,393
	<u>3,114,865</u>	<u>2,992,287</u>

According to BPD Circular No. 15 dated May 31, 2004 issued by the SBP, an amount not less than 20% of the after tax profits shall be transferred to create a reserve fund till such time the reserve fund equals the amount of the paid-up capital and after that a sum not less than 5% of profit after tax shall be credited to the statutory reserve. The Company has transferred 20% of its after tax profit for the year to this reserve amounting to Rs. 122.578 million (2010: Rs. 107.393 million).

**18. (DEFICIT) / SURPLUS ON REVALUATION  
OF 'AVAILABLE-FOR-SALE' SECURITIES-NET OF TAX**

	2011	2010
	(Rupees in '000)	
Federal government securities	(51,504)	(167,798)
Shares of listed companies	(58,997)	323,793
Listed term finance certificates	192	(1,065)
	<u>(110,309)</u>	<u>154,930</u>
Deferred tax	19,867	41,298
	<u>(90,442)</u>	<u>196,228</u>

**19. CONTINGENCIES AND COMMITMENTS**
**19.1 Other Contingencies**

The Income Tax Department has amended the deemed assessment orders for the tax years from 2004 to 2010, raising a tax demand of Rs. 1,856 million, mainly due to additions in respect of allocation of expenses against exempt capital gains and dividend income subject to tax at reduced rate.

The Additional Commissioner Inland Revenue (ACIR) has not accepted the Company's contention on the matter of allocation of expenses on exempt capital gains and dividend income for the tax years 2004 to 2010. The total additions made in tax years 2004 to 2010 under this head amounts to Rs. 3,612 million.

In tax year 2003, the same issue has been set aside by the Appellate Tribunal Inland Revenue (ATIR), with direction to the tax authorities that the allocation of financial cost has to be made taking into account the 'cost of investment' rather than 'gross turnover'. Further, the Company has made representation before Federal Board of Revenue for necessary clarification and has also referred the above matter to Alternate Dispute Resolution Committee (ADRC) a mechanism available to provide an opportunity to tax payers for an easy and efficient resolution of disputes.

Relying on the above decision of ATIR, the Commissioner Inland Revenue (Appeals)(CIR(A)) through his order dated September 23, 2011 for tax years 2004 to 2007 has set aside the issue for re-examination. The action was however maintained by the CIR(A) in the tax years 2008 and 2009 and appeals are currently pending before the ATIR.

The appeal for the tax year 2010 is still pending before the CIR(A) . The Company has already made provision of Rs. 723 million against the demand for the above-mentioned years based on cost of investment. The management is confident that the ultimate outcome of the appeal would be in favor of the Company inter alia on the basis of the advice of the tax consultants and the relevant law and the facts.

**19.2 Other Commitment**

	2011	2010
	(Rupees in '000)	
Commitment - acquisition of software	10,452	15,634
Undisbursed sanctions for financial assistance in the form of:		
- equity participation	-	16,220
- loans and advances	417,000	161,287
	<u>427,452</u>	<u>193,141</u>

**20. MARK - UP / RETURN / INTEREST EARNED**

On loans and advances	855,832	601,966
On investments in:		
- 'Available-for-sale' securities	1,304,213	1,353,346
- 'Held-for-trading' securities	-	498
On lendings to financial institutions	39,089	138,698
On securities purchased under resale agreements - government securities	2,799	12,986
	<u>2,201,933</u>	<u>2,107,494</u>

**21. MARK-UP / RETURN / INTEREST EXPENSED**

Deposits / COI	430,202	396,956
Borrowings	237,182	333,572
Securities sold under repurchase agreements - government securities	777,918	721,980
	<u>1,445,302</u>	<u>1,452,508</u>

## 22. GAIN ON SALE OF SECURITIES

	Note	2011	2010
(Rupees in '000)			
Federal government securities			
- Market treasury bills		-	501
- Pakistan investment bonds		-	1,024
Shares - listed securities - net	22.1	239,339	295,634
Shares - unlisted securities - net		4,007	-
		<u>243,346</u>	<u>297,159</u>

22.1 It includes reversal of impairment on sale of impaired securities as disclosed in note 9.3.

## 23. OTHER INCOME

Profit on sale of operating fixed assets		1,151	4,395
Others		24,743	17,587
		<u>25,894</u>	<u>21,982</u>

## 24. ADMINISTRATIVE EXPENSES

Salaries, allowances and employees' benefits		221,339	188,864
Directors' remuneration (including remuneration of Chief Executive)		27,819	26,969
Provision for gratuity	31.1.5	64,505	12,414
Employer's contribution to the provident fund		14,832	8,414
Travelling and conveyance		4,543	4,530
Rent and rates		9,479	6,976
Utilities		3,061	2,317
Communication		6,984	7,246
Professional training and staff welfare		1,454	1,072
Advertisements, periodicals and membership dues		2,090	2,520
Printing and stationery		3,014	2,912
Depreciation	11.1	15,228	14,067
Amortization	11.2	1,783	513
Auditor's remuneration	24.1	3,052	2,743
Legal, consultancy and other professional services		36,688	33,228
Repairs and maintenance		21,336	13,307
Motor vehicle expenses		1,644	6,493
Insurance		1,158	2,494
Donations	24.2	-	25,000
Workers' Welfare Fund		17,438	41,096
Entertainment		270	274
Bank charges		139	138
Miscellaneous		4,374	7,168
		<u>462,230</u>	<u>410,755</u>

### 24.1 Auditor's remuneration

Audit fee		1,188	1,110
Fee for half yearly review		428	400
Special certifications and sundry advisory services		1,222	1,124
Out of pocket expenses		214	109
		<u>3,052</u>	<u>2,743</u>

24.2 During the year, the Company donated fully depreciated computers to the following:

Description	Cost	Accumulated depreciation (Rupees in '000)	Net book value	Donee
Computers (forty five)	3,045	3,045	-	The Citizens Foundation
Computers (forty five)	3,045	3,045	-	SOS Village

None of the directors or their spouse had any interest in the donations made.

## 25. OTHER CHARGES

	Note	2011 (Rupees in '000)	2010
Penalties imposed by the SBP		-	1,149

## 26. TAXATION

For the year			
- Current		276,229	175,041
- Deferred		(17,205)	128,965
		<u>259,024</u>	<u>304,006</u>

### 26.1 Relationship between tax expense and accounting profit

Profit before taxation		<u>871,916</u>	<u>840,975</u>
Tax at the applicable rate of 35% (2010: 35%)		305,171	294,342
Net tax effect on income taxed at reduced rates		(129,684)	(59,553)
Net tax effect of expenses not subject to tax		32,026	21,740
Others		51,511	47,477
		<u>259,024</u>	<u>304,006</u>

## 27. BASIC EARNINGS PER SHARE

Profit for the year		<u>612,892</u>	<u>536,969</u>
		(Number in '000)	
Weighted average number of ordinary shares		<u>240</u>	<u>240</u>
		(Rupees)	
Basic earnings per share		<u>2,554</u>	<u>2,237</u>

## 28. DILUTED EARNINGS PER SHARE

Profit for the year		<u>612,892</u>	<u>536,969</u>
		(Number in '000)	
Weighted average number of ordinary shares		<u>240</u>	<u>240</u>
		(Rupees)	
Diluted earnings per share		<u>2,554</u>	<u>2,237</u>

28.1 There were no convertible potential ordinary shares outstanding as on December 31, 2011 and December 31, 2010.

29. CASH AND CASH EQUIVALENTS	Note	2011	2010
		(Rupees in '000)	
Cash and balances with treasury banks	6	442,766	51,424
Balances with other banks	7	23,035	1,363,207
		<u>465,801</u>	<u>1,414,631</u>
		(Number)	
<b>30. STAFF STRENGTH</b>			
Permanent		83	79
Temporary / on contractual basis		3	5
Own staff strength at the end of the year		<u>86</u>	<u>84</u>
Outsourced		31	31
Total staff strength		<u>117</u>	<u>115</u>
<b>31. DEFINED BENEFIT PLAN</b>			
<b>31.1 Staff retirement gratuity</b>			
<b>31.1.1</b> The Company operates a funded gratuity scheme for all its eligible permanent employees. 'Projected unit credit method' has been used for actuarial valuation.			
<b>31.1.2 Principal actuarial assumptions</b>			
		2011	2010
		(% per annum)	
Discount rate		<u>13.00</u>	<u>14.50</u>
Expected rate of increase in salaries		<u>13.00</u>	<u>14.50</u>
Expected rate of return on investments		<u>11.50</u>	<u>12.00</u>
Normal retirement age		<u>60 years</u>	<u>60 years</u>
<b>31.1.3 Reconciliation of payable to defined benefit plan</b>			
		2011	2010
		(Rupees in '000)	
Present value of defined benefit obligations	31.1.6	106,149	43,568
Fair value of plan assets	31.1.7	<u>(92,594)</u>	<u>(17,517)</u>
		13,555	26,051
Unrecognised actuarial losses		<u>(9,687)</u>	<u>(13,636)</u>
		<u>3,868</u>	<u>12,415</u>
<b>31.1.4 Movement in payable to defined benefit plan</b>			
Opening balance		12,415	10,471
Expense charged in the current year	31.1.5	64,505	12,414
Company's contribution to gratuity fund		<u>(73,052)</u>	<u>(10,470)</u>
Closing balance		<u>3,868</u>	<u>12,415</u>

**31.1.5 Charge for defined benefit plan**

	2011	2010
	(Rupees in '000)	
Current service cost	11,229	7,501
Interest cost	11,159	5,752
Expected return on plan assets	(2,809)	(1,799)
Recognized prior service cost	44,083	-
Actuarial loss amortised	843	960
	<u>64,505</u>	<u>12,414</u>

**31.1.6 Reconciliation of present value of defined benefit obligation**

Opening balance of defined benefit obligation	43,568	42,248
Current service cost	11,229	7,501
Interest cost	11,159	5,752
Actuarial benefits paid during the year	(1,698)	(8,626)
Recognized prior service cost	44,083	-
Actuarial gain on obligation	(2,192)	(3,307)
Closing balance of defined benefit obligation	<u>106,149</u>	<u>43,568</u>

**31.1.7 Reconciliation of fair value of plan assets**

Opening fair value of plan assets	17,517	14,111
Expected return on plan assets during the year	2,809	1,800
Actual contributions made by the employer	73,052	10,470
Actual benefits paid during the year	(1,698)	(8,626)
Actuarial loss on plan assets	914	(238)
Closing fair value of plan assets	<u>92,594</u>	<u>17,517</u>

Actual return on plan assets is 12.70 % as at December 31, 2011 (12.20% as at December 31, 2010).

**31.1.8 Historical information of defined benefit plan**

	Present value of the defined benefit plan	Fair value of the plan assets	Deficit in the plan	Gain / (loss) on plan liabilities due to experience	Gain / (loss) on plan assets due to experience
	(Rupees in '000)				
<b>2011</b>	<b>106,149</b>	<b>92,594</b>	<b>(13,555)</b>	<b>1,490</b>	<b>914</b>
2010	43,568	17,517	(26,051)	3,307	(238)
2009	42,248	14,111	(28,137)	3,655	(473)
2008	40,136	9,620	(30,516)	(10,335)	126
2007	27,370	7,198	(20,172)	(2,247)	(53)
2006	44,720	6,243	(38,477)	(3,461)	(221)

**31.1.9 Break up of investments**

	2011	2010
	(%)	
Bank balances	-	1
Market treasury bills	100	-
Certificate of Investment (COI)	-	99
	<u>100</u>	<u>100</u>

**31.1.10** The expected gratuity expense for the year ending December 31, 2012 works out to be Rs.15.433 million.



### 32. DEFINED CONTRIBUTION PLAN

The Company operates an approved funded contributory provident fund for all its permanent employees to which monthly contributions are made both by the Company (at 10 % of Salary), and by the employees (at the rate of 10 % - 30 %) of Salary.

### 33. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	(Rupees in '000)					
Fee	-	-	10,991	11,210	-	-
Managerial remuneration	9,360	12,000	-	-	128,153	80,336
Charge for defined benefit plan	-	-	-	-	41,591	6,379
Contribution to defined contribution plan	-	-	-	-	14,292	7,655
Rent and house maintenance	1,404	1,800	-	-	-	22,849
Utilities	1,174	1,263	-	-	-	4,995
Medical	46	167	-	-	1,724	3,546
Bonus paid	9,786	7,000	-	-	28,509	20,170
Others	808	529	-	-	-	5,161
	<b>22,578</b>	<b>22,759</b>	<b>10,991</b>	<b>11,210</b>	<b>214,269</b>	<b>151,091</b>
No. of persons	<b>1</b>	<b>1</b>	<b>5</b>	<b>5</b>	<b>49</b>	<b>55</b>

33.1 The compensation for 2011 includes remuneration and final settlement of the outgoing Chief Executive till August 31, 2011.

33.2 The Chief Executive and one executive are also provided with other facilities, including the free use of Company maintained car.

### 34. FAIR VALUE OF FINANCIAL INSTRUMENTS

#### 34.1 On balance sheet financial instruments

	2011		2010	
	Book value	Fair value	Book value	Fair value
	(Rupees in '000)			
<b>Financial Assets</b>				
- Cash balances with treasury banks	442,766	442,766	51,424	51,424
- Balances with other banks	23,035	23,035	1,363,207	1,363,207
- Lendings to financial institutions	-	-	250,000	250,000
- Investments	12,609,173	15,556,056	15,207,224	17,485,838
- Advances	6,554,035	6,554,035	4,969,190	4,969,190
- Other assets	219,656	219,656	167,967	167,967
	<b>19,848,665</b>	<b>22,795,548</b>	<b>22,009,012</b>	<b>24,287,626</b>
<b>Financial Liabilities</b>				
- Borrowings	9,161,654	9,161,654	9,807,369	9,807,369
- Deposits and other accounts	1,726,601	1,726,601	3,138,512	3,138,512
- Other liabilities	330,103	330,103	321,592	321,592
	<b>11,218,358</b>	<b>11,218,358</b>	<b>13,267,473</b>	<b>13,267,473</b>

The fair value of investments in listed securities is based on market rates of the Karachi Stock Exchange. Fair value of unquoted equity investments is determined on the basis of break-up value based on the latest available financial statements.

Fair value of fixed term loans and advances, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments.

### 35. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2011					Total
	Corporate Finance	Treasury	Investment Banking	Capital Markets	Others	
	(Rupees in '000)					
Total income - gross	953,979	1,282,873	860	729,495	20,324	2,987,531
Total mark-up / return / interest expense	(70,459)	(1,374,843)	-	-	-	(1,445,302)
Segment provision / impairment / unrealised losses	(139,638)	18,000	-	(86,445)	-	(208,083)
Net operating income	(210,097)	(1,356,843)	-	(86,445)	-	(1,653,385)
Administrative expenses and other charges	743,882	(73,970)	860	643,050	20,324	1,334,146
Profit before taxation						(462,230)
						871,916
Segment assets - net	7,212,202	9,005,931	-	3,218,906	1,369,500	20,806,539
Segment non-performing loans	1,723,232	-	-	-	-	1,723,232
Segment provision required and held	1,577,790	-	-	-	-	1,577,790
Segment liabilities	2,218,139	8,751,839	-	-	252,248	11,222,226
Segment return on net assets (ROA) %	14.68	12.54	-	21.02	1.48	-
Segment cost of funds (%)	11.48	12.67	-	-	-	-
	2010					
	Corporate Finance	Treasury	Investment Banking	Capital Markets	Others	Total
	(Rupees in '000)					
Total income - gross	657,219	1,488,198	7,812	495,785	20,099	2,669,113
Total mark-up / return / interest expense	(202,789)	(1,249,719)	-	-	-	(1,452,508)
Segment provision / impairment / unrealised gains	(30,464)	129,178	-	(62,440)	-	36,274
Net operating income	(233,253)	(1,120,541)	-	(62,440)	-	(1,416,234)
Administrative expenses and other charges	423,966	367,657	7,812	433,345	20,099	1,252,879
Profit before taxation						(411,904)
						840,975
Segment assets - net	5,689,274	11,820,169	-	4,142,823	1,245,713	22,897,979
Segment non-performing loans/financings	1,648,540	-	-	-	-	1,648,540
Segment provision required and held	1,420,615	-	-	-	-	1,420,615
Segment liabilities	1,852,024	11,329,595	-	-	98,269	13,279,888
Segment return on net assets (ROA) %	13.62	12.53	-	12.49	2.32	-
Segment cost of funds (%)	10.65	12.11	-	-	-	-

35.1 Under the Company policy, capital market department assets are financed through equity funds.

### 36. RELATED PARTY TRANSACTIONS

The Company has related party relationship with its associates, associated undertakings, subsidiary companies, employee benefit plans, key management personnel and its directors.

The Company enters into transactions with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates.

	2011	2010
	(Rupees in '000)	
<b>Expenses charged to a related party</b>	<b>15,736</b>	14,988
<b>Expenses charged by</b>		
- associates	1,652	3,140
- other related party	17,026	13,089
<b>Dividend income from</b>		
- associates	340,200	85,867
<b>Mark-up earned on bank deposit with an associate</b>	<b>818</b>	1,054
<b>Mark-up earned on loans and advances</b>		
- key management personnel	1,063	496
<b>Loans and advances to key management personnel</b>		
Balance as at January 1,	47,223	22,523
Disbursement during the year	2,175	34,421
Recovery during the year	(5,480)	(9,721)
	(3,305)	24,700
<b>Balance as at December 31,</b>	<b>43,918</b>	<b>47,223</b>
<b>Mark-up expense on COI</b>		
- associates	10,437	14,348
- other related party	1,063	1,215
<b>Deposits / COIs</b>		
- associates	50,000	125,000
- other related party	12,500	2,500
<b>Bank balances with an associate</b>	<b>2,194</b>	11,611
<b>Mark-up receivable on bank deposit with an associate</b>	<b>44</b>	75
<b>Mark-up payable to related party</b>		
- associates	2,650	5,041
- other related party	1,302	239
<b>Investments in</b>		
- quoted, at market values		
- associates	4,810,857	4,142,589
- unquoted, at cost		
- subsidiary companies	60,000	81,120
- associates	199,000	357,053
- other related party	500	500
<b>Commitments for investment in equity of / loan to associates</b>	<b>-</b>	16,220
<b>Contribution made to provident fund</b>	<b>14,832</b>	8,414
<b>Contribution made to gratuity fund</b>	<b>73,052</b>	10,470
<b>Key management personnel</b>		

Key management personnel include the Managing Director, Deputy General Manager / Chief Financial Officer, Head of Corporate Finance & Investment Banking, Head of Risk Management, Head of Capital Markets & Treasury, Head of Compliance, Head of Internal Audit, Head of Wealth Management and Head of Human Resources. Their salaries and other benefits amount to Rs. 65.793 million (2010: Rs. 67.783 million) and staff retirement benefits amount to Rs. 17.419 million (2010: Rs. 5.313 million).

### 37. ASSOCIATES

The investments in associates are valued as stated in note 5.5 above. The Company's associates are those companies in which it holds more than 20% of the equity or has significant influence and have common directorship. These include Al-Meezan Mutual Fund Limited (12%), Al-Meezan Investment Management Limited (30%), Meezan Bank Limited (30%), The General Tyre and Rubber Company of Pakistan Limited (28%), Plexus (Private) Limited (50%), Falcon Greenwood (Private) Limited (25%), Pak Kuwait Takaful Company Limited (30%), National Clearing Company of Pakistan Limited (18%) and Meezan Balanced Fund (9.21%).

### 38. CAPITAL ADEQUACY

**38.1** State Bank of Pakistan (SBP) sets and monitors capital requirements for the Company as a whole. In implementing current capital requirements, SBP requires Banks/DFIs to maintain a total capital to total risk-weighted assets ratio of 10% on standalone as well as on consolidated basis. Standardized Approach of Basel – II is used for calculating risk weighted assets for Credit and Market Risk, whereas, Basic Indicator Approach (BIA) is used for calculating Operational Risk weighted assets.

#### Objectives of Capital Management

The capital management objectives of the Company are as follows:

- To maintain sufficient capital to support overall business strategy, expansion and growth;
- To integrate capital allocation decisions with the strategic and financial planning process;
- To meet the regulatory capital adequacy ratios as defined by SBP;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide adequate return to shareholders; and
- To have a prudent buffer to protect the Company under different economic and stress scenarios caused by unexpected and unforeseeable events.

#### Capital Management

The Company maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company has complied with all externally imposed capital requirements throughout the year.

The Company's regulatory capital is analyzed in following tiers:

- Tier 1 Capital which includes fully paid up capital (including the bonus shares), balances in share premium account, general reserves and net un-appropriated profits etc. after deduction for deficit on revaluation of available for sale investments and 50% deduction for investment in the subsidiary companies and significant minority investments in entities engaged in banking and financial activities.
- Tier 2 Capital, which includes general provisions for loan losses (up to a maximum of 1.25% of risk weighted assets), reserves on revaluation of fixed assets and equity investments up to a maximum of 45% balance, foreign exchange translation reserves etc. after 50 % deduction for investment in the equity of subsidiary companies and significant minority investments in entities engaged in banking and financial activities.

#### Statutory Capital Requirement

The capital of Company is managed keeping in the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 30 dated November 25, 2008. The adequacy of the capital is tested with reference to risk weighted assets of the Company. The total risk-weighted exposures comprise the credit, market and operational risk.

The calculation of capital adequacy enables the Company to assess the long-term soundness. It is crucial to continuously monitor the exposure across entire organization and aggregate risk so as to take an integrated approach/view. Maximization of the return on risk adjusted capital is the principal basis to be used in determining how capital is allocated within the Company to particular operations or activities.

The Company also stress tests its capital adequacy to various risks as per SBP stress testing guidelines.

### 38.2 Capital adequacy ratio

	2011	2010
	(Rupees in '000)	
<b>CAP 1</b>		
<b>Tier 1 Capital</b>		
Fully paid-up share capital	6,000,000	6,000,000
General Reserves as disclosed on the balance sheet	3,114,865	2,992,287
Unappropriated profit	559,890	429,576
<b>Sub-Total</b>	<b>9,674,755</b>	<b>9,421,863</b>
<b>Deductions:</b>		
Book value of Goodwill and Intangibles	12,693	-
Deficit on account of revaluation of investments held AFS category	110,309	-
Other deductions (50% of the amount as calculated on CAP 2)	863,827	874,387
<b>Sub-Total</b>	<b>986,829</b>	<b>874,387</b>
<b>Total eligible Tier 1 Capital</b>	<b>8,687,926</b>	<b>8,547,476</b>
<b>Supplementary Capital</b>		
<b>Tier 2 Capital</b>	-	88,303
<b>Deductions</b>		
Other deductions (50% of the amount as calculated on CAP 2)	863,827	874,387
Total deductions	863,827	874,387
<b>Total supplementary capital eligible for capital adequacy ratio</b>	<b>(863,827)</b>	<b>(786,084)</b>
(Maximum upto 100% of Total eligible Tier 1 capital)		
<b>Total eligible capital</b>	<b>(A) 7,824,099</b>	<b>7,761,392</b>

Risk weighted exposures	Capital Requirements		Risk Weighted Assets	
	2011	2010	2011	2010
	(Rupees in '000)			
<b>Credit risk</b>				
PSE's	29,038	7,773	290,377	77,726
Banks	8,471	27,306	84,711	273,058
Corporates	326,712	293,353	3,267,117	2,933,531
Retail portfolio	3,124	2,571	31,240	25,713
Secured by residential property	3,573	3,430	35,727	34,299
Past due loans	14,544	22,793	145,442	227,925
Listed equity investments	118,754	107,863	1,187,537	1,078,633
Unlisted equity investments	14,155	36,798	141,547	367,981
Investments in fixed assets	22,933	22,064	229,332	220,636
Other assets	33,319	66,833	333,186	668,332
	<b>574,623</b>	<b>590,784</b>	<b>5,746,216</b>	<b>5,907,834</b>
<b>Credit risk on off balance sheet</b>				
Non market related	163,250	133,204	1,632,500	1,332,042
<b>Market Risk</b>				
Equity position risk	230,791	425,744	2,307,912	4,257,444
<b>Operational risk</b>	<b>188,236</b>	<b>146,345</b>	<b>1,882,359</b>	<b>1,463,453</b>
(B)	<b>1,156,900</b>	<b>1,296,077</b>	<b>11,568,987</b>	<b>12,960,773</b>
<b>Capital adequacy ratios</b>				
<b>Total eligible regulatory capital</b>	(A)	<b>7,824,099</b>	<b>7,761,392</b>	
<b>Total risk weighted assets</b>	(B)	<b>11,568,987</b>	<b>12,960,773</b>	
<b>TOTAL CAPITAL ADEQUACY RATIO</b>	(A)/(B) * 100	<b>67.63%</b>	<b>59.88%</b>	

### 38.3 Types of exposures and ECAI's used

Exposures	JCR-VIS	PACRA
PSE's	-	-
Banks	✓	✓
Corporates	✓	✓
Sovereigns and GOP other than PKR	-	-

### 38.4 Credit exposures subject to standardised approach

Exposures	Rating Category	Amount Outstanding	Deduction CRM (Rupees in '000)	Net amount
Banks	1	423,554	-	423,554
Corporates	1	2,346,415	-	2,346,415
	2	1,285,886	-	1,285,886
	Unrated	2,155,077	-	2,155,077
		<u>6,210,932</u>	<u>-</u>	<u>6,210,932</u>

## 39. RISK MANAGEMENT

Risk taking is central to all financing activities. The Company evaluated business opportunities in terms of the risk-reward relationship. The risks that the Company takes are reasonable, controlled within its financial resources and credit competence. The primary objective of this risk management is to ensure that the process of achieving an appropriate balance between risks the Company wishes to accept (at a price that is commensurate to that risk) and risks the Company wishes to mitigate, or whenever capital is put at risk, is done in an objective, documented and transparent fashion and also to ensure that these risks are taken within predefined and pre-approved tolerance limits/levels.

The ultimate responsibility for risk management and setting of the risk management policy rests with the Board of Directors. The Board of Directors approves a policy framework and oversees Risk Management Function of the Company through Risk Management Committee (RMC). Risk Management policy was approved by Board of Directors in its 116th meeting held in December 2010. The RMC is updated on quarterly basis by an independent Risk Management Function on the risk exposures, trends and benchmarks for each risk type covered within the scope of risk policy. Functional level committees oversee the implementation of risk management practices and exposure levels. Market and Liquidity Risks are managed by a well-represented Asset Liability Committee (ALCO) and the Credit Committee oversees Credit Risk.

The Head of Risk Management and the Risk Management Function works with the Senior Management, ALCO and Credit Committee on a day to day basis to address issues directly related to the policy as well as improve and refine the policy based on experiences and market conditions.

The risk management framework is based on prudent risk identification, measurement, monitoring and management process which are closely aligned with all activities of the Company so as to ensure that risks are kept within an acceptable level.

The Company has developed Internal Capital Adequacy Assessment Process (ICAAP) document as per the SBP guidelines. In the ICAAP document, the company recognized risks other than the pillar 1 risks e.g. Strategic risk, Liquidity Risk, Reputational Risk and Interest Rate Risk in Banking Book.

Company is also in the process of implementing Risk Management System ORACLE REVELEUS. The system will cater all the major risk areas which include Credit, Market, Operational and Liquidity Risks. The system once implemented will facilitate in achieving requirements of developing advance risk models, improving risk reporting frequency, improving the overall control environment by developing system in-built controls, towards implementation of advance approaches of Basel - II.

### 39.1 Credit risk

Credit risk is the risk of loss due to the failure of counterparty to meet its credit obligations in accordance with the agreed contract terms.

Credit Risk is the predominant risk type faced by the Company in its lending activities. Credit risk is actively managed and monitored in accordance with well-defined credit policy approved by the Board of Directors. Company's credit risk management process takes place both at pre and post-disbursement stages. The objective to manage credit risk is to reduce future credit losses by creating effective standards for assessing and processing new credit and credit renewal applications. The credit evaluation system comprises of well-designed credit appraisal, review and approval procedures to ensure high quality asset portfolio. Prior to approval, a detailed risk assessment of each credit proposal is carried out which includes an analysis of the obligor's financial condition, cashflows, market position, industry dynamics, quality of management. Each credit proposal is evaluated on standalone basis as well as its implication on company's portfolio in terms of portfolio pricing and rating is also assessed. The risk assessment generates an internal credit risk rating for each exposure which affects the credit approval decision. All the credit applications and reviews are thoroughly analyzed by Risk Management Function. The application approval process is further supplemented by regular review of the existing credit limits, overall credit portfolio and the monitoring of early warning indicators that can trigger a tightening of lending standards and an increase in the frequency and depth of credit portfolio review.

Internal Credit Risk Rating System developed by the Company is capable of quantifying credit risk pertinent to specific counterparty as well as the risk inherent in the facility structure. It takes into consideration various qualitative and quantitative factors and generates an internal rating. The rating models have been internally tested, validated and checked for compliance with SBP guidelines for Internal Credit Rating System. The Risk Rating Models, both Obligor Risk Rating (ORR) and Facility Risk Rating (FRR), are regularly reviewed based on day to day working experience and changes in market dynamics.

Credit risk management process adopted various concentration limits, counterparty and group level limits. Sectoral concentration limits are set for extending credit to a specific industry sector. The Company monitors the concentration to any given sector to ensure that the loan portfolio is well diversified. ORR is also used on aggregate group level to determine the amount of credit exposure; Company is willing to take on a particular group.

Various analysis and reports are also performed on periodic basis and are reported to the Risk Management Committee of the Board. These analyses mainly include past due analysis, transition matrix & migration analysis, risk premium analysis, sector-wise and rating-wise portfolio distribution analysis etc. The Company performs stress testing on its credit portfolio as per SBP stress testing guidelines.

The disbursement and administration of credit facilities is managed by Credit Administration Department (CAD).

To manage non-performing customers Special Asset Management (SAM) Department is functional and is responsible to recover overdue exposures. Rigorous recovery efforts are made to recover outstanding dues from non-performing clients.

The Company is using Basel-II standardized approach to calculate risk weighted assets against credit risk.

### 39.1.1 Segment Information

#### 39.1.1.1 Segment by class of business

	2011					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Textile	2,397,285	29.48	-	-	417,000	97.55
Chemical and pharmaceutical	1,302,790	16.01	-	-	-	-
Cement	93,333	1.15	-	-	-	-
Sugar	420,346	5.17	-	-	-	-
Footwear and leather garments	22,933	0.28	-	-	-	-
Automobile and transportation equipment	9,837	0.12	-	-	-	-
Electronics and electrical appliances	11,111	0.14	-	-	-	-
Construction	383,851	4.72	-	-	-	-
Transport, storage and communication	722,580	8.89	-	-	-	-
Financial and Insurance	-	-	-	-	-	-
Power	1,693,170	20.82	-	-	-	-
Trusts	-	-	1,264,411	73.23	-	-
Services	350,586	4.31	162,190	9.39	10,452	2.45
Individuals	143,730	1.77	-	-	-	-
Others	580,274	7.14	300,000	17.38	-	-
	<b>8,131,826</b>	<b>100.00</b>	<b>1,726,601</b>	<b>100.00</b>	<b>427,452</b>	<b>100.00</b>

	2010					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Textile	2,698,316	42.23	-	-	9,580	4.96
Chemical and pharmaceutical	889,450	13.92	75,000	2.39	-	-
Cement	93,333	1.46	-	-	-	-
Sugar	183,375	2.87	-	-	-	-
Footwear and leather garments	31,286	0.49	-	-	-	-
Automobile and transportation equipment	-	-	-	-	-	-
Electronics and electrical appliances	11,679	0.18	-	-	-	-
Construction	446,766	6.99	-	-	16,220	8.40
Transport, storage and communication	279,510	4.37	-	-	-	-
Financial and Insurance	-	-	400,000	12.74	-	-
Power	1,052,070	16.47	-	-	149,062	77.18
Trusts	-	-	1,786,012	56.91	-	-
Services	230,104	3.60	377,500	12.03	15,634	8.09
Individuals	132,280	2.07	-	-	-	-
Others	341,636	5.35	500,000	15.93	2,645	1.37
	<b>6,389,805</b>	<b>100.00</b>	<b>3,138,512</b>	<b>100.00</b>	<b>193,141</b>	<b>100.00</b>



### 39.1.2 Segment by sector

	2011					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	555,137	6.83	300,000	17.38	-	-
Private	7,576,688	93.17	1,426,601	82.62	427,452	100.00
	<u>8,131,825</u>	<u>100.00</u>	<u>1,726,601</u>	<u>100.00</u>	<u>427,452</u>	<u>100.00</u>
	2010					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	152,070	2.38	-	-	149,062	77.18
Private	6,237,735	97.62	3,138,512	100.00	44,079	22.82
	<u>6,389,805</u>	<u>100.00</u>	<u>3,138,512</u>	<u>100.00</u>	<u>193,141</u>	<u>100.00</u>

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

	2011		2010	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	(Rupees in '000)			
Textile	1,022,718	1,022,718	1,163,045	971,370
Construction	186,297	176,662	214,944	180,569
Cement	93,333	93,333	93,333	93,333
Others	420,884	285,077	177,218	175,343
	<u>1,723,232</u>	<u>1,577,790</u>	<u>1,648,540</u>	<u>1,420,615</u>

### 39.1.4 Details of non-performing advances and specific provisions sector - wise

	2011		2010	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	(Rupees in '000)			
Public / government	-	-	-	-
Private	1,723,232	1,577,790	1,648,540	1,420,615
	<u>1,723,232</u>	<u>1,577,790</u>	<u>1,648,540</u>	<u>1,420,615</u>

## 39.2 Liquidity risk

Liquidity Risk is the risk that the Company is unable to fund its current obligations and operations in the most cost effective manner.

To limit this risk the Company maintains statutory deposits with the central bank. The ALCO is primarily responsible for the formulation of the overall strategy and oversight of the asset liability function. The Company's key funding source is the inter-bank money market. Changes in government monetary policy and market expectations of interest rate are the factors that can affect the Company's key funding source. Comprehensive gap analysis is done on monthly basis to evaluate match/mismatch between assets and liabilities. ALCO reviews gap analysis and devise the liquidity management strategy. During the year gap limits for each maturity bucket were implemented for effective monitoring of liquidity positions. These limits are monitored by Risk Management Department and reviewed by ALCO on monthly basis.

Major findings of liquidity ratios & Gaps reports are also reported to the Risk Management Committee of the Board on quarterly basis.

### 39.2.1 Maturities of assets and liabilities

	2011									
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years
	(Rupees in 000)									
<b>Assets</b>										
Cash and balances with treasury banks	442,766	442,766	-	-	-	-	-	-	-	-
Balances with other banks	23,035	23,035	-	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	12,609,173	-	-	115	8,155,648	763,342	1,563,039	212,436	1,914,593	-
Advances	6,554,035	124,367	93,581	716,316	1,265,513	960,136	1,065,972	1,597,102	695,237	35,811
Operating fixed assets	242,025	1,375	2,751	4,126	8,256	16,513	16,513	19,926	24,652	147,913
Deferred tax assets	275,407	99,552	5,305	8,804	31,347	-	-	-	130,399	-
Other assets	660,098	37,080	147,713	83,633	4,801	383,038	-	3,833	-	-
	20,806,539	728,175	249,350	812,994	9,465,565	2,123,029	2,645,524	1,833,297	2,764,881	183,724
<b>Liabilities</b>										
Borrowings	9,161,654	6,118,058	935,551	18,523	55,127	80,552	829,976	1,071,589	52,278	-
Deposits and other accounts	1,726,601	412,245	265,000	678,856	368,000	-	-	2,500	-	-
Other liabilities	333,971	173,168	39,432	61,509	8,448	7,223	28,187	15,287	717	-
	11,222,226	6,703,471	1,239,983	758,888	431,575	87,775	858,163	1,089,376	52,995	-
<b>Net assets</b>	<b>9,584,313</b>	<b>(5,975,296)</b>	<b>(990,633)</b>	<b>54,106</b>	<b>9,033,990</b>	<b>2,035,254</b>	<b>1,787,361</b>	<b>743,921</b>	<b>2,711,886</b>	<b>183,724</b>
Share capital	6,000,000									
Reserves	3,114,865									
Accumulated profit	559,890									
Surplus on revaluation of 'available-for-sale' securities - net of tax	(90,442)									
	<u>9,584,313</u>									
	2010									
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years
	(Rupees in 000)									
<b>Assets</b>										
Cash and balances with treasury banks	51,424	51,424	-	-	-	-	-	-	-	-
Balances with other banks	1,363,207	463,207	900,000	-	-	-	-	-	-	-
Lendings to financial institutions	250,000	-	250,000	-	-	-	-	-	-	-
Investments	15,207,224	2,038,874	1,407,871	5,166,722	2,243,227	83,684	2,380,529	203,333	1,682,984	-
Advances	4,969,190	163,800	321,077	249,067	334,683	765,326	740,681	1,456,179	895,481	42,896
Operating fixed assets	220,636	870	1,738	2,606	5,216	10,430	10,430	14,975	24,910	149,461
Deferred tax assets	279,633	14,782	18,329	29,838	-	-	-	-	216,684	-
Other assets	556,665	30,241	130,140	62,680	4,889	324,357	674	3,684	-	-
	22,897,979	2,763,198	3,029,155	5,510,913	2,588,015	1,183,797	3,132,314	1,678,171	2,820,059	192,357
<b>Liabilities</b>										
Borrowings	9,807,369	6,987,157	2,370,030	39,830	51,207	93,108	76,993	120,843	68,201	-
Deposits and other accounts	3,138,512	142,354	603,558	497,000	1,863,100	30,000	-	2,500	-	-
Other liabilities	334,007	68,004	124,754	16,795	65,228	14,062	6,852	27,322	10,991	-
	13,279,888	7,197,515	3,098,342	553,625	1,979,535	137,170	83,845	150,665	79,192	-
<b>Net assets</b>	<b>9,618,091</b>	<b>(4,434,317)</b>	<b>(69,187)</b>	<b>4,957,288</b>	<b>608,480</b>	<b>1,046,627</b>	<b>3,048,469</b>	<b>1,527,506</b>	<b>2,740,867</b>	<b>192,357</b>
Share capital	6,000,000									
Reserves	2,992,287									
Accumulated profit	429,576									
Surplus on revaluation of 'available-for-sale' securities - net of tax	196,228									
	<u>9,618,091</u>									

### 39.3 Market risk

It is the risk that the value of on and off – balance sheet positions of a financial institution will be adversely affected by movements in market variables, such as interest rates, foreign exchange rates, equity prices and credit spreads.

The Company is exposed to interest rate risk and equity price risk. Market Risk is managed by the Risk Management Function which makes sure that exposure in Money Market and Equity Market adheres with the risk tolerance levels and matches with overall business goals set by Board of Directors (BOD), Risk Management Committee of the Board (RMC) and ALCO.

Market Risk is pertinent to the Trading Book which consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. The trading book includes equity and money market securities classified as 'Held for Trading'. These positions are actively managed by the capital market and money market desks.

All investments excluding trading book are considered as part of banking book. Banking book includes:

- Available-for-sale Securities
- Held-to-maturity Securities
- Other Strategic Investments

Due to diversified nature of investments in banking book, it is subject to interest rate risk and equity price risk.

A well-defined limits structure is in place to effectively manage market risk. These limits are reviewed, adjusted and approved periodically by ALCO. Middle Office monitors these limits on daily basis.

The Company is using Basel-II Standardized approach to calculate risk weighted assets against market risk exposures

To manage market risk, the Company carries out stress testing of its balance sheet by varying sources of market risk as per SBP guidelines.

#### 39.3.1 Interest rate risk

Interest Rate Risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specific period. The Company manages its interest rate risk by entering into floating rate agreements with its customers. The interest rate risk strategy is discussed in ALCO meetings on periodic basis. The risk management function carries out stress testing to ascertain the interest rate risk on the balance sheet and also prepares the interest rate risk profile on monthly basis.

The proceedings of ALCO are reported to the Risk Management Committee of the Board on quarterly basis.

Effective yield / interest rate %	2011											
	Total	Exposed to yield / profit risk									Not exposed to yield/interest rate risk	
		Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years		
----- (Rupees in '000) -----												
<b>On balance sheet financial instruments</b>												
<b>Financial Assets</b>												
Cash and balances with treasury banks	12.75	442,766	400,000	-	-	-	-	-	-	-	-	42,766
Balances with other banks	5.00	23,035	22,864	-	-	-	-	-	-	-	-	171
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	12.34	12,609,173	-	36,932	659,127	6,850,426	246,915	-	13,265	1,340,483	-	3,462,025
Advances	14.47	6,554,035	894,844	1,271,165	2,959,102	1,002,781	95,428	93,389	72,454	65,319	14,659	84,894
Other assets	-	219,656	-	-	-	-	-	-	-	-	-	219,656
		<b>19,848,665</b>	<b>1,317,708</b>	<b>1,308,097</b>	<b>3,618,229</b>	<b>7,853,207</b>	<b>342,343</b>	<b>93,389</b>	<b>85,719</b>	<b>1,405,802</b>	<b>14,659</b>	<b>3,809,512</b>
<b>Financial Liabilities</b>												
Borrowings	11.75	9,161,654	6,118,058	2,685,551	18,523	55,127	80,552	79,976	71,589	52,278	-	-
Deposits and other accounts	12.61	1,726,601	412,245	265,000	678,856	368,000	-	-	2,500	-	-	-
Other liabilities	-	330,103	-	-	-	-	-	-	-	-	-	330,103
		<b>11,218,358</b>	<b>6,530,303</b>	<b>2,950,551</b>	<b>697,379</b>	<b>423,127</b>	<b>80,552</b>	<b>79,976</b>	<b>74,089</b>	<b>52,278</b>	<b>-</b>	<b>330,103</b>
<b>On balance sheet gap</b>		<b>8,630,307</b>	<b>(5,212,595)</b>	<b>(1,642,454)</b>	<b>2,920,850</b>	<b>7,430,080</b>	<b>261,791</b>	<b>13,413</b>	<b>11,630</b>	<b>1,353,524</b>	<b>14,659</b>	<b>3,479,409</b>

Effective yield / interest rate %	2011											
	Total	Exposed to yield / profit risk									Not exposed to yield/interest rate risk	
		Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years		
----- (Rupees in '000) -----												
<b>On balance sheet financial instruments</b>												
<b>Financial Assets</b>												
Cash and balances with treasury banks		51,424	-	-	-	-	-	-	-	-	-	51,424
Balances with other banks	12.50	1,363,207	463,079	900,000	-	-	-	-	-	-	-	128
Lendings to financial institutions	12.68	250,000	-	250,000	-	-	-	-	-	-	-	-
Investments	12.26	15,207,224	2,009,654	1,372,160	5,166,721	92	33,684	326,975	340	1,682,484	-	4,615,114
Advances	14.22	4,969,190	659,456	749,930	1,286,068	1,810,642	92,763	86,889	136,044	47,059	15,329	85,010
Other assets	-	167,967	-	-	-	-	-	-	-	-	-	167,967
		<b>22,009,012</b>	<b>3,132,189</b>	<b>3,272,090</b>	<b>6,452,789</b>	<b>1,810,734</b>	<b>126,447</b>	<b>413,864</b>	<b>136,384</b>	<b>1,729,543</b>	<b>15,329</b>	<b>4,919,643</b>
<b>Financial Liabilities</b>												
Borrowings	12.03	9,807,369	6,987,157	2,370,030	39,830	51,207	93,108	76,993	120,843	68,201	-	-
Deposits and other accounts	12.33	3,138,512	142,354	603,558	497,000	1,863,100	30,000	-	2,500	-	-	-
Other liabilities	-	321,592	-	-	-	-	-	-	-	-	-	321,592
		<b>13,267,473</b>	<b>7,129,511</b>	<b>2,973,588</b>	<b>536,830</b>	<b>1,914,307</b>	<b>123,108</b>	<b>76,993</b>	<b>123,343</b>	<b>68,201</b>	<b>-</b>	<b>321,592</b>
<b>On balance sheet gap</b>		<b>8,741,539</b>	<b>(3,997,322)</b>	<b>298,502</b>	<b>5,915,959</b>	<b>(103,573)</b>	<b>3,339</b>	<b>336,871</b>	<b>13,041</b>	<b>1,661,342</b>	<b>15,329</b>	<b>4,598,051</b>

### 39.3.2 Currency risk

Foreign exchange risk arises in case of an on balance sheet / off balance sheet asset or liability position when there is adverse exchange rate movement. The Company's exposure to this category of market risk is negligible.

	2011			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	(Rupees in '000)			
Pakistan Rupees	20,805,452	11,222,226	427,452	9,155,774
United States Dollars	1,087	-	-	1,087
	<u>20,806,539</u>	<u>11,222,226</u>	<u>427,452</u>	<u>9,156,861</u>
	2010			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	(Rupees in '000)			
Pakistan Rupees	22,896,568	13,279,888	193,141	9,423,539
United States Dollars	1,411	-	-	1,411
	<u>22,897,979</u>	<u>13,279,888</u>	<u>193,141</u>	<u>9,424,950</u>

### 39.3.3 Equity price risk

It is the risk to earnings or capital that results from adverse changes in the value/price of equity related portfolios.

ALCO is responsible for making investment decisions in the capital market and setting limits that are a component of the risk management framework. Equity Price Risk is monitored and controlled through various regulatory and internal limits. Portfolio, sector and scrip-wise limits are assigned by the ALCO such as overall exposure limits in capital market HFT and AFS portfolio, mark-to-market limit on trading portfolio, sector-wise Investment limits in various sectors to guard against concentration risk. These limits are monitored on daily basis and are reviewed and revised periodically by ALCO. The ALCO approves exposure limits applicable to investments and meets on regular basis to discuss equity investments related strategy. Risk management function ensures compliance of portfolio, sector and scrip-wise limits set by ALCO and regulatory authority. Value at Risk (VaR) is also calculated against the capital market exposure and the findings are reported to Risk Management Committee of the Board on quarterly basis.

### 39.4 Operational risk

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and system failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets etc.

Risk Management Policy sets out the guidelines to identify, assess, monitor, control and report operational risk. Risk Management Department is in the process of implementing operational risk assessment tools, risk controls and reporting framework. Operational Risk Loss Data including Loss Events, Near Misses and Transactions in Difficulty are being collected, throughout the year, from all the respective departments / units on monthly basis. These operational losses occurring across the Company are reported to Risk Management Department where they are aggregated into an internally developed Operational Loss Database. For the purpose of monitoring of the occurrences of key operational risks, Key Risk Indicators (KRIs) have been identified during the year and KRI reporting has also been initiated on monthly basis.

Company is using Basic Indicator Approach to calculate Operational risk weighted assets as per Basel II requirements for capital adequacy calculation.

## 40. ACCOUNTING ESTIMATES AND JUDGEMENTS

### 40.1 Provision against non-performing advances

The management reviews the loan and lease portfolio to assess non-performing accounts and expected recovery on a monthly basis. In determining the non-performing accounts and provision requirements, the relevant Prudential Regulations issued by the State Bank of Pakistan, payment status of mark-up and principal, expected future cash flows of the business, security position and personal wealth of the directors and owners are taken into account.

### 40.2 Classification of investments

In classifying investments as 'held-for-trading' the Company has determined securities which are acquired with the intention to trade by taking advantage of taking short term market / interest rate movements and are to be sold within 90 days.

In classifying investments as 'held-to-maturity' the Company follows the guidance provided in SBP circulars on classifying non derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgement, the Company evaluates its intention and ability to hold such investment to maturity.

The investments which are not classified as 'held-for-trading' or 'held-to-maturity' are classified as 'available-for-sale'.

### 40.3 Impairment of 'available-for-sale' equity instruments

The management determines that 'available-for-sale' equity investments are impaired when there has been a significant or prolonged decline in market value / fair value below its cost. In making this judgement, the management considers among other factors, the decline in market price below cost by 30% as significant and if the decline in market price persists for 9 months as prolonged.

### 40.4 Income taxes

In making the estimates for income taxes currently payable by the Company, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues as described in note 19 and the appeals of the department pending at various levels of authorities.

### 40.5 Gratuity

The Company has adopted certain actuarial assumptions as disclosed in note 31.1.2 to the financial statements for determining present value of defined benefit obligations and fair value of plan assets, based on actuarial advice. Any change in the assumptions from actual results would change the amount of unrecognised gains and losses.

### 40.6 Useful life and residual value of property and equipment

Estimates of useful life and residual value of property and equipment are based on the management's best estimate.

## 41. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue in the Board of Directors meeting held on February 17, 2012.

## 42. GENERAL AND NON-ADJUSTING EVENT

42.1 The JCR-VIS Credit Rating Company Limited on June 28, 2011 has maintained long term credit ratings of AAA (Triple A) and the short term rating of A1+(A one plus) for the Company. The Pakistan Credit Rating Agency (PACRA) on July 6, 2011 has upgraded the long-term entity rating to AAA (Triple A) and maintained the short term rating at A1+(A one plus), the highest level.

42.2 The Board of Directors of the Company has proposed cash dividend of Rs. 360 million (2010: Rs. 360 million) for the year ended December 31, 2011 in their meeting held on February 17, 2012. These financial statements do not include the effect of this appropriation which will be accounted for subsequent to the year end.

42.3 Corresponding figures have been rearranged and reclassified in note 39.2.1 and 39.3.1 for the purpose of better presentation and comparison.

42.4 Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.



Officiating Chief Executive



Director



Director

## Quality of Available for Sale Securities

As Referred to in Note 9.5 to the financial statements

Sr. No.	Name of Company	2011		2010	
		Market Value	Rating	Market Value	Rating
		(Rupees in '000)		(Rupees in '000)	
<b>AVAILABLE FOR SALE PORTFOLIO</b>					
<b>PKIC STRATEGIC PORTFOLIO</b>					
1	MEEZAN BANK LIMITED	<u>4,186,807</u>	AA-/A-1+	<u>3,540,153</u>	AA-/A-1
	<b>TOTAL</b>	<u>4,186,807</u>		<u>3,540,153</u>	
<b>PKIC GENERAL PORTFOLIO</b>					
<b>OIL AND GAS</b>					
2	ATTOCK PETROLEUM LIMITED	-	-	70,107	Unrated
3	NATIONAL REFINERY LIMITED	-	-	9,993	AAA / A1+
4	PAKISTAN STATE OIL COMPANY LIMITED	<u>194,492</u>	AA+/A1+	<u>182,968</u>	AA+/A1+
5	PAKISTAN OILFIELDS LIMITED	-	-	267,844	Unrated
6	PAKISTAN PETROLEUM LIMITED	-	-	<u>96,054</u>	Unrated
	<b>TOTAL</b>	<u>194,492</u>		<u>626,966</u>	
<b>CHEMICALS</b>					
7	ENGRO CORPORATION LIMITED (FORMERLY ENGRO CHEMICAL PAKISTAN)	-	-	62,019	AA/A1+
8	FAUJI FERTILIZER BIN QASIM LIMITED	<u>156,991</u>	Unrated	-	-
9	FAUJI FERTILIZER COMPANY LIMITED	<u>155,979</u>	Unrated	<u>203,335</u>	Unrated
	<b>TOTAL</b>	<u>312,970</u>		<u>265,354</u>	
<b>CONSTRUCTION AND MATERIALS</b>					
10	CHERAT CEMENT COMPANY LIMITED	<u>196</u>	Unrated	293	Unrated
11	D.G.KHAN CEMENT COMPANY	-	-	16,595	Unrated
12	LUCKY CEMENT LIMITED	-	-	<u>67,002</u>	Unrated
	<b>TOTAL</b>	<u>196</u>		<u>83,890</u>	
<b>GENERAL INDUSTRIALS</b>					
13	PACKAGES LIMITED	-	-	<u>38,583</u>	AA/A1+
	<b>TOTAL</b>	-		<u>38,583</u>	
<b>AUTOMOBILE AND PARTS</b>					
14	THE GENERAL TYRE & RUBBER CO. OF PAKISTAN LTD.	<u>350,750</u>	Unrated	<u>379,099</u>	Unrated
	<b>TOTAL</b>	<u>350,750</u>		<u>379,099</u>	
<b>PERSONAL GOODS</b>					
15	NISHAT (CHUNIAN) LIMITED	<u>31,558</u>	Unrated	17,968	A / A-2
16	NISHAT MILLS LIMITED	<u>18,202</u>	AA-/A1+	<u>64,170</u>	A+/A1
	<b>TOTAL</b>	<u>49,760</u>		<u>82,138</u>	
<b>FIXED LINE TELECOMMUNICATION</b>					
17	PAKISTAN TELECOMMUNICATION COMPANY LIMITED (A)	<u>44,266</u>	Unrated	<u>107,736</u>	Unrated
	<b>TOTAL</b>	<u>44,266</u>		<u>107,736</u>	

Sr. No.	Name of Company	2011		2010	
		Market Value	Rating	Market Value	Rating
		(Rupees in '000)		(Rupees in '000)	
<b>ELECTRICITY</b>					
18	THE HUB POWER COMPANY LIMITED	116,315	AA+/A1+	214,453	AA+/A1+
19	KOT ADDU POWER CO. LTD.	85,524	AA+/A1+	64,912	Unrated
20	NISHAT CHUNIAN POWER LTD	147,483	AA-/A1+	271,878	AA-/A1+
21	NISHAT POWER LIMITED	77,700	AA-/A1+	64,059	AA-/A1+
	<b>TOTAL</b>	<b>427,022</b>		<b>615,302</b>	
<b>GAS AND WATER MULTIUTILITIES</b>					
22	SUI NORTHERN GAS PIPELINES LIMITED	-	-	6,430	AA/A1+
	<b>TOTAL</b>	<b>-</b>		<b>6,430</b>	
<b>BANKS</b>					
23	BANK ALFALAH LIMITED	-	-	17,546	AA/A1+
24	BANK AL-HABIB LIMITED	5,126	AA+/A1+	21,756	AA+/A1+
25	BANKISLAMI PAKISTAN LIMITED	-	-	998	A/A1
26	NATIONAL BANK OF PAKISTAN	-	-	120,927	AAA/A-1+
27	UNITED BANK LIMITED	119,336	AA+/A1+	102,345	AA+/A-1+
	<b>TOTAL</b>	<b>124,462</b>		<b>263,572</b>	
<b>FINANCIAL SERVICES</b>					
28	SME LEASING LIMITED	787	BBB+/A-3	3,026	BBB+/A-3
29	DADABHOY LEASING COMPANY LIMITED	-	-	13	Unrated
	<b>TOTAL</b>	<b>787</b>		<b>3,039</b>	
<b>EQUITY INVESTMENT INSTRUMENTS</b>					
30	AL MEEZAN MUTUAL FUND LIMITED	172,674	Unrated	140,403	Unrated
31	MEEZAN BALANCED FUND	100,626	Unrated	82,933	Unrated
32	NAMCO BALANCED FUND	21,462	MFR-1 Star	16,254	Unrated
33	PAK OMAN ADVANTAGE FUND	45,509	AA-(f)	51,647	AA-(f)
	<b>TOTAL</b>	<b>340,271</b>		<b>291,237</b>	
<b>PREFERENCE SHARES</b>					
34	MASOOD TEXTILE MILLS LIMITED (CUMULATIVE PREFERENCE SHARES) 12.1%	50,000	Unrated	50,000	Unrated
35	PAKISTAN INTERNATIONAL CONTAINER TERMINAL LIMITED (PREFERENCE SHARES) 10%	22,475	Unrated	25,000	Unrated
36	CHENAB LIMITED - NON VOTING CUMULATIVE PREFERENCE SHARES 9.25%	2,533	Unrated	3,725	Unrated
37	SECURITY LEASING CORPORATION LIMITED (PREFERENCE SHARES) 9.1%	-	-	3,500	Unrated
	<b>PREFERENCE SHARES TOTAL</b>	<b>75,008</b>		<b>82,225</b>	
	<b>GRAND TOTAL</b>	<b>6,106,791</b>		<b>6,385,724</b>	



As Referred to in Note 9.5 to the financial statements  
**Quality of Available for Sale Securities**

Sr. No.	Particulars	2011		2010	
		Market Value	Rating	Market Value	Rating
		(Rupees in '000)		(Rupees in '000)	
<b>Government Securities</b>					
1	MARKET TREASURY BILLS - Six months - Twelve months	- 6,850,426	GOVERNMENT SECURITIES	1,984,520 6,533,804	GOVERNMENT SECURITIES
2	PAKISTAN INVESTMENT BONDS - Five years - Ten years	260,182 1,340,481	GOVERNMENT SECURITIES	235,930 1,258,374	GOVERNMENT SECURITIES
	Sub Total	8,451,089		10,012,628	
<b>Listed Term Finance Certificates</b>					
1	STANDARD CHARTERED BANK (PAKISTAN) LIMITED (20-01-2004) Certificate of Rs. 5,000 each Mark up : 10.6416% (PIB 5 Years rate +0.75% with Floor 5.00 % , Cap 10.75%) Redemption : Half Yearly Installments commencing from Jan - 2004 Maturity : Jan, 2011	-	-	23,201	AAA
2	FAYSAL BANK LIMITED (FORMERLY ROYAL BANK OF SCOTLAND) -TFCs (10-02-2005) Certificate of Rs. 5,000 each Mark up : 15.26% (6-Months KIBOR Ask Rate + 1.90%) Redemption : Half yearly Installments commencing from Feb -2005 Maturity : Dec, 2012	10,022	AA-	14,897	AA-
3	BANK AL FALAH - TFC-2 (23-11-2004) Certificate of Rs. 5,000 each Mark up : 13.43% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2011 Maturity : Nov, 2012	9,170	AA-	13,608	AA-
4	BANK AL FALAH - TFC-3 (25-11-2005) Certificate of Rs. 5,000 each Mark up : 13.42% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2012 Maturity : Nov, 2013	75,197	AA-	74,132	AA-
5	ASKARI COMMERCIAL BANK LIMITED -TFCs (04-02-2005) Certificate of Rs. 5,000 each Mark up : 13.50% (6-Months Kibor + 1.5%) Redemption : Feb-2013 Maturity : Feb, 2013	26,908	AA-	26,790	AA-
	Sub Total	121,297		152,628	

As Referred to in Note 9.5 to the financial statements

## Quality of Available for Sale Securities

Sr. No.	Particulars	2011		2010	
		Cost	Rating	Cost	Rating
		(Rupees in '000)		(Rupees in '000)	
<b>Unlisted Term Finance Certificates</b>					
1	BANK AL FALAH LIMITED (02-12-2009) Certificate of Rs. 5,000 each Mark up : 14.43% (6-Months KIBOR Ask Rate + 2.50%) Redemption : Half yearly from Dec - 2016 Maturity : Nov, 2017 CEO of the company : Mr. Atif Bajwa	99,920	AA-	99,960	AA-
2	NEW ALLIED ELECTRONICS INDUSTRIES (PRIVATE) LIMITED Certificate of Rs. 5,000 each Mark up : 16.37% (KIBOR 3-Months Ask Rate + 2.75%) Redemption : Quarterly Installments commencing from Aug - 2007 Maturity : May, 2011 CEO of the company : Mr. Mian Pervez Akhtar	21,138	Unrated	21,138	Unrated
3	DEWAN FAROOQUE SPINNING MILLS LIMITED Certificate of Rs. 5,000 each Mark up : 19.43% (KIBOR 6-Months Ask Rate + 3.75%) Redemption : Half yearly Installments commencing from Dec - 2004 Maturity : Dec , 2009 CEO of the company : Mr. Dewan Abdul Baqi Farooqui	12,500	Unrated	12,500	Unrated
4	FAYSAL BANK LIMITED Certificate of Rs. 5,000 each Mark up : 14.25% (KIBOR 6-Months Ask Rate + 2.25%) Redemption : Half yearly Installments commencing from June - 2011 Maturity : Oct, 2017 CEO of the company : Mr. Naveed A. Khan	324,870	AA-	325,000	AA-
5	BANK AL HABIB Certificate of Rs. 5,000 each Mark up : 15.00% - 15.50% Redemption : Half yearly Installments commencing from December - 2011 Maturity : June, 2021 CEO of the company : Mr. Abbas D. Habib	149,970	AA	-	-
Sub Total		608,398		458,598	

## Particulars of Investment Held in Shares of Listed Companies

Sr No.	Name of Company	2011	2010	2011			2010		
		Total Shares		Cost	Impairment	Cost after Impairment	Cost	Impairment	Cost after Impairment
----- (Rupees in '000) -----									
<b>AVAILABLE FOR SALE PORTFOLIO</b>									
<b>PKIC STRATEGIC PORTFOLIO</b>									
1	MEEZAN BANK LIMITED	240,897,991	209,476,514	1,519,905	-	1,519,905	1,519,905	-	1,519,905
	<b>TOTAL</b>	<b>240,897,991</b>	<b>209,476,514</b>	<b>1,519,905</b>	<b>-</b>	<b>1,519,905</b>	<b>1,519,905</b>	<b>-</b>	<b>1,519,905</b>
<b>PKIC GENERAL PORTFOLIO</b>									
<b>OIL AND GAS</b>									
2	ATTOCK PETROLEUM LIMITED	-	209,574	-	-	-	64,232	-	64,232
3	NATIONAL REFINERY LIMITED	-	36,499	-	-	-	9,839	-	9,839
4	PAKISTAN STATE OIL COMPANY LIMITED	856,000	619,853	245,182	-	245,182	174,745	-	174,745
5	PAKISTAN OILFIELDS LIMITED	-	905,000	-	-	-	211,546	-	211,546
6	PAKISTAN PETROLEUM LIMITED	-	442,338	-	-	-	91,803	-	91,803
	<b>TOTAL</b>	<b>856,000</b>	<b>2,213,264</b>	<b>245,182</b>	<b>-</b>	<b>245,182</b>	<b>552,165</b>	<b>-</b>	<b>552,165</b>
<b>CHEMICALS</b>									
7	ENGRO CORPORATION LIMITED (FORMERLY ENGRO CHEMICAL PAKISTAN)	-	320,000	-	-	-	58,572	-	58,572
8	FAUJI FERTILIZER BIN QASIM LIMITED	3,700,000	-	160,833	-	160,833	-	-	-
9	FAUJI FERTILIZER COMPANY LIMITED	1,043,057	1,615,563	174,627	-	174,627	170,375	-	170,375
	<b>TOTAL</b>	<b>4,743,057</b>	<b>1,935,563</b>	<b>335,460</b>	<b>-</b>	<b>335,460</b>	<b>228,947</b>	<b>-</b>	<b>228,947</b>
<b>CONSTRUCTION AND MATERIALS</b>									
10	CHERAT CEMENT COMPANY LIMITED	27,217	27,217	1,116	920	196	1,116	865	251
11	D.G.KHAN CEMENT COMPANY	-	550,052	-	-	-	16,708	-	16,708
12	LUCKY CEMENT LIMITED	-	884,054	-	-	-	64,878	-	64,878
	<b>TOTAL</b>	<b>27,217</b>	<b>1,461,323</b>	<b>1,116</b>	<b>920</b>	<b>196</b>	<b>82,702</b>	<b>865</b>	<b>81,837</b>
<b>GENERAL INDUSTRIALS</b>									
13	PACKAGES LIMITED	-	300,000	-	-	-	47,780	17,480	30,300
	<b>TOTAL</b>	<b>-</b>	<b>300,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>47,780</b>	<b>17,480</b>	<b>30,300</b>
<b>AUTOMOBILE AND PARTS</b>									
14	THE GENERAL TYRE & RUBBER CO. OF PAKISTAN LTD.	16,774,292	16,774,292	173,480	-	173,480	173,480	-	173,480
	<b>TOTAL</b>	<b>16,774,292</b>	<b>16,774,292</b>	<b>173,480</b>	<b>-</b>	<b>173,480</b>	<b>173,480</b>	<b>-</b>	<b>173,480</b>
<b>PERSONAL GOODS</b>									
15	NISHAT (CHUNIAN) LIMITED	1,766,957	790,849	45,758	14,200	31,558	18,108	-	18,108
16	NISHAT MILLS LIMITED	449,999	1,000,000	26,230	8,028	18,202	59,138	-	59,138
	<b>TOTAL</b>	<b>2,216,956</b>	<b>1,790,849</b>	<b>71,988</b>	<b>22,228</b>	<b>49,760</b>	<b>77,246</b>	<b>-</b>	<b>77,246</b>
<b>FIXED LINE TELECOMMUNICATION</b>									
17	PAKISTAN TELECOMMUNICATION COMPANY LIMITED (A)	4,260,430	5,547,705	88,046	43,781	44,265	114,649	-	114,649
	<b>TOTAL</b>	<b>4,260,430</b>	<b>5,547,705</b>	<b>88,046</b>	<b>43,781</b>	<b>44,265</b>	<b>114,649</b>	<b>-</b>	<b>114,649</b>
<b>ELECTRICITY</b>									
18	THE HUB POWER COMPANY LIMITED	3,401,028	5,732,512	106,981	-	106,981	170,749	-	170,749
19	KOT ADDU POWER CO. LTD.	2,069,801	1,595,662	89,166	-	89,166	67,407	-	67,407
20	NISHAT CHUNIAN POWER LTD	11,567,302	16,897,319	123,780	-	123,780	177,746	-	177,746
21	NISHAT POWER LIMITED	5,999,999	3,946,935	96,561	-	96,561	60,259	-	60,259
	<b>TOTAL</b>	<b>23,038,130</b>	<b>28,172,428</b>	<b>416,488</b>	<b>-</b>	<b>416,488</b>	<b>476,161</b>	<b>-</b>	<b>476,161</b>

Sr No.	Name of Company	2011	2010	2011			2010		
		Total Shares		Cost	Impairment	Cost after Impairment	Cost	Impairment	Cost after Impairment
(Rupees in '000)									
<b>GAS AND WATER MULTIUTILITIES</b>									
22	SUI NORTHERN GAS PIPELINES LIMITED	-	240,469	-	-	-	7,780	-	7,780
	<b>TOTAL</b>	-	240,469	-	-	-	7,780	-	7,780
<b>BANKS</b>									
23	BANK ALFALAH LIMITED	-	1,565,171	-	-	-	20,219	7,385	12,834
24	BANK AL-HABIB LIMITED	179,653	600,000	5,267	2,768	2,499	21,107	11,093	10,014
25	BANKISLAMI PAKISTAN LIMITED	-	275,000	-	-	-	4,398	3,515	883
26	NATIONAL BANK OF PAKISTAN	-	1,574,158	-	-	-	112,562	-	112,562
27	UNITED BANK LIMITED	2,277,841	1,500,000	137,338	-	137,338	83,828	-	83,828
	<b>TOTAL</b>	2,457,494	5,514,329	142,605	2,768	139,837	242,114	21,993	220,121
<b>FINANCIAL SERVICES</b>									
28	SME LEASING LIMITED	225,000	225,000	2,475	1,687	788	2,475	-	2,475
29	DADABHOY LEASING COMPANY LIMITED	10,750	10,750	13	13	-	13	-	13
	<b>TOTAL</b>	235,750	235,750	2,488	1,700	788	2,488	-	2,488
<b>EQUITY INVESTMENT INSTRUMENTS</b>									
30	AL MEEZAN MUTUAL FUND LIMITED	16,895,690	16,895,690	109,543	17,463	92,080	109,543	17,463	92,080
31	MEEZAN BALANCED FUND	11,057,791	11,057,791	110,578	32,068	78,510	110,578	32,068	78,510
32	NAMCO BALANCED FUND	4,249,884	3,935,667	39,357	26,369	12,988	39,357	26,369	12,988
33	PAK OMAN ADVANTAGE FUND	4,990,000	4,990,000	49,900	17,465	32,435	49,900	17,465	32,435
	<b>TOTAL</b>	37,193,365	36,879,148	309,378	93,365	216,013	309,378	93,365	216,013
<b>PREFERENCE SHARES</b>									
34	MASOOD TEXTILE MILLS LIMITED (CUMULATIVE PREFERENCE SHARES) 12.1%	5,000,000	5,000,000	50,000	-	50,000	50,000	-	50,000
35	PAKISTAN INTERNATIONAL CONTAINER TERMINAL LIMITED (PREFERENCE SHARES) 10%	2,500,000	2,500,000	25,000	-	25,000	25,000	-	25,000
36	CHENAB LIMITED - NON VOTING CUMULATIVE PREFERENCE SHARES 9.25%	1,490,000	1,490,000	13,370	10,837	2,533	13,370	9,645	3,725
37	SECURITY LEASING CORPORATION LIMITED (PREFERENCE SHARES) 9.1%	500,000	500,000	5,029	5,029	-	5,029	1,529	3,500
	<b>PREFERENCE SHARES TOTAL</b>	9,490,000	9,490,000	93,399	15,866	77,533	93,399	11,174	82,225
	<b>GRAND TOTAL</b>	342,190,682	320,031,634	3,399,535	180,628	3,218,907	3,928,194	144,877	3,783,317

Sr No.	Name of Company	2011	2010	2011			2010		
		Total Shares		Cost	Impairment	Cost after Impairment	Cost	Impairment	Cost after Impairment
(Rupees in '000)									
<b>HELD FOR TRADING PORTFOLIO</b>									
<b>CONSTRUCTION AND MATERIALS</b>									
1	D.G.KHAN CEMENT COMPANY LIMITED	-	250,000	-	-	-	8,012	-	8,012
	<b>TOTAL</b>	-	250,000	-	-	-	8,012	-	8,012
<b>FIXED LINE TELECOMMUNICATION</b>									
2	PAKISTAN TELECOMMUNICATION LIMITED (A)	-	1,000,000	-	-	-	19,691	-	19,691
	<b>TOTAL</b>	-	1,000,000	-	-	-	19,691	-	19,691
<b>NON LIFE INSURANCE</b>									
3	ADAMJEE INSURANCE COMPANY LIMITED	-	100,000	-	-	-	8,889	-	8,889
	<b>TOTAL</b>	-	100,000	-	-	-	8,889	-	8,889
	<b>TOTAL - HELD FOR TRADING PORTFOLIO</b>	-	1,350,000	-	-	-	36,592	-	36,592

As Referred to in Note 9.5 to the financial statements

## Particulars of Investment in Term Finance Certificates

Sr. No.	Name of TFCs	2011	2010	2011	2010
		Number of TFCs		COST (Rupees in '000)	
<b>Particulars of investments held in listed term finance certificates (TFCs)</b>					
1	STANDARD CHARTERED BANK (PAKISTAN) LIMITED (20-01-2004) Certificate of Rs. 5,000 each Mark up : 10.6416% (PIB 5 Years rate +0.75% with Floor 5.00% , Cap 10.75%) Redemption : Half Yearly Installments commencing from Jan - 2004 Maturity : Jan, 2011	-	18,587	-	23,234
2	FAYSAL BANK LIMITED (FORMERLY ROYAL BANK OF SCOTLAND) -TFCs (10-02-2005) Certificate of Rs. 5,000 each Mark up : 15.26% (6-Months KIBOR Ask Rate + 1.90%) Redemption : Half yearly Installments commencing from Feb -2005 Maturity : Dec , 2012	3,000	4,000	9,980	14,976
3	BANK AL FALAH - TFCs (23-11-2004) Certificate of Rs. 5,000 each Mark up : 13.43% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2011 Maturity : Nov, 2012	2,760	2,760	9,123	13,659
4	BANK AL FALAH - TFCs (25-11-2005) Certificate of Rs. 5,000 each Mark up : 13.42% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2012 Maturity : Nov, 2013	15,127	15,127	75,133	74,990
5	ASKARI COMMERCIAL BANK LIMITED -TFCs (04-02-2005) Certificate of Rs. 5,000 each Mark up : 13.50% (6-Months Kibor + 1.5%) Redemption : Feb-2013 Maturity : Feb, 2013	5,400	5,400	26,870	26,828
	<b>TOTAL</b>	<b>26,287</b>	<b>45,874</b>	<b>121,106</b>	<b>153,687</b>

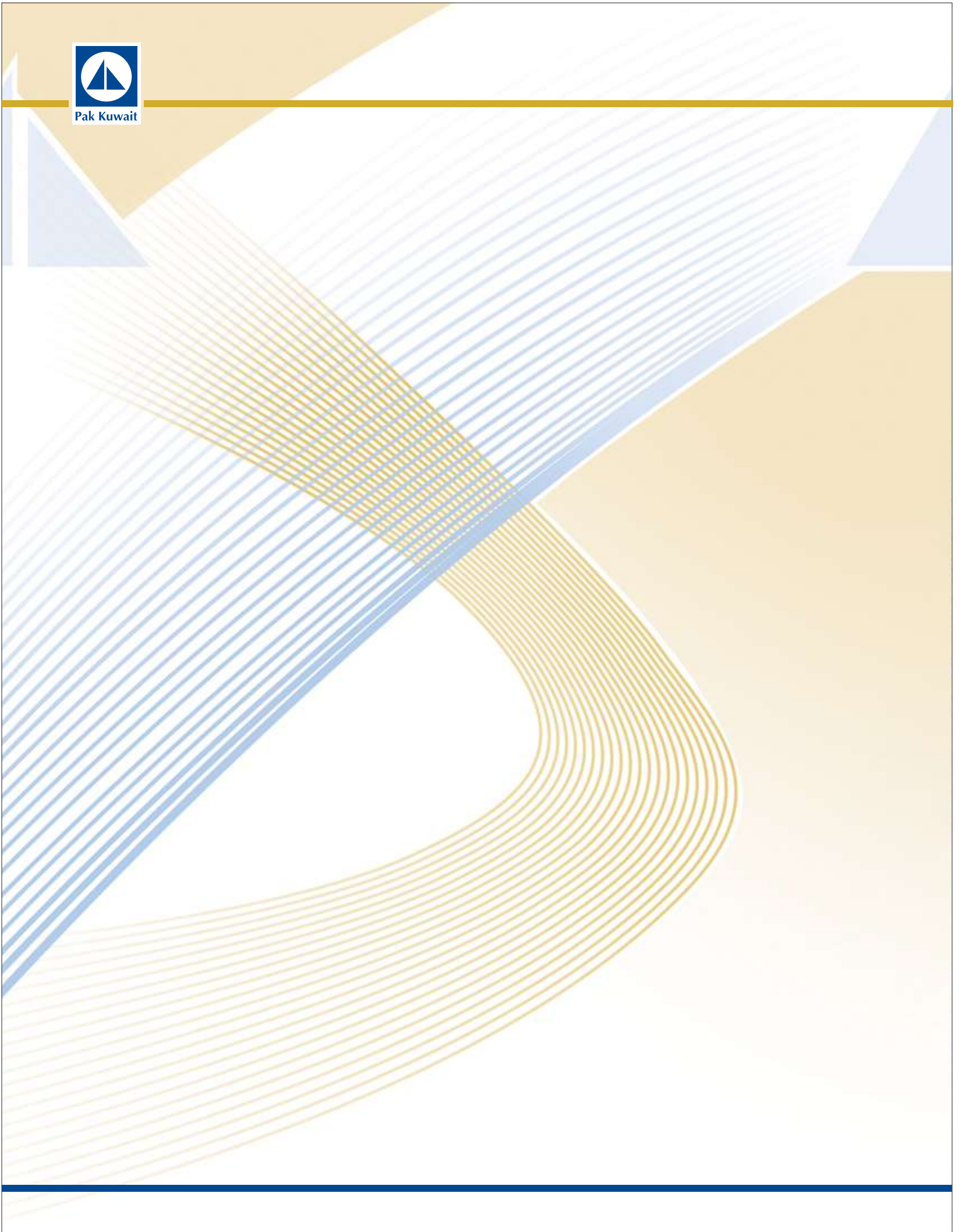
As Referred to in Note 9.5 to the financial statements

## Particulars of Investment in Term Finance Certificates

Sr. No.	Name of TFCs	2011	2010	2011	2010
		Number of TFCs		COST (Rupees in '000)	
<b>Particulars of investments held in unlisted term finance certificates (TFCs)</b>					
1	BANK AL FALAH LIMITED (02-12-2009) Certificate of Rs. 5,000 each Mark up : 14.43% (6-Months KIBOR + 2.50%) Redemption : Half yearly from Dec - 2016 Maturity : Nov, 2017	19,984	19,992	99,920	99,960
2	NEW ALLIED ELECTRONICS INDUSTRIES (PRIVATE) LIMITED Certificate of Rs. 5,000 each Mark up : 16.37% (3-Months KIBOR Ask Rate + 2.75%) Redemption : Quarterly Installments commencing from Aug - 2007 Maturity : May, 2011	10,000	10,000	21,138	21,138
3	DEWAN FAROOQUE SPINNING MILLS LIMITED Certificate of Rs. 5,000 each Mark up : 19.43% (6-Months KIBOR Ask Rate + 3.75%) Redemption : Half yearly Installments commencing from Dec - 2004 Maturity : Dec, 2009	10,000	10,000	12,500	12,500
4	FAYSAL BANK LIMITED Certificate of Rs. 5,000 each Mark up : 14.25% (6-Months KIBOR Ask Rate + 2.25%) Redemption : Half yearly Installments commencing from June - 2011 Maturity : Oct, 2017	64,974	65,000	324,870	325,000
5	BANK AL HABIB Certificate of Rs. 5,000 each Mark up : 15.00% - 15.50% Redemption : Half yearly Installments commencing from December - 2011 Maturity : June, 2021	29,994	-	149,970	-
<b>TOTAL</b>		<b>134,952</b>	<b>104,992</b>	<b>608,398</b>	<b>458,598</b>



Pak Kuwait





# Consolidated Financial Statements

For the year ended December 31, 2011



## Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of **Pakistan Kuwait Investment Company (Private) Limited (the Holding Company)** and its subsidiary company (together referred to as Group) as at **31 December 2011** and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement together with the notes forming part thereof for the year then ended. We have also expressed separate opinion/review reports on the financial statements of the Holding Company and its subsidiary company, First Choice Securities Limited.

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 2011** and the results of its operations, its comprehensive income, its changes in equity and its cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

*Ernst & Young Ford Rhodes Sidat Hyder*  
Chartered Accountants

**Audit Engagement Partner:** Omer Chughtai

17 February, 2012  
Karachi

# Consolidated Statement of Financial Position

As at December 31, 2011

	Note	2011	2010
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with treasury banks	6	442,766	51,424
Balances with other banks	7	24,653	1,409,688
Lendings to financial institutions	8	-	250,000
Investments	9	15,966,871	17,521,580
Advances	10	6,554,035	4,969,190
Operating fixed assets	11	282,125	260,736
Deferred tax assets	12	-	3,539
Other assets	13	660,108	556,774
		<b>23,930,558</b>	<b>25,022,931</b>
<b>LIABILITIES</b>			
Bills payable		-	-
Borrowings	14	9,161,654	9,807,369
Deposits and other accounts	15	1,726,601	3,138,512
Subordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	12	119,981	-
Other liabilities	16	334,203	334,277
		<b>11,342,439</b>	<b>13,280,158</b>
<b>NET ASSETS</b>		<b>12,588,119</b>	<b>11,742,773</b>
<b>REPRESENTED BY</b>			
Share capital	17	6,000,000	6,000,000
Reserves	17	3,114,865	2,992,287
Unappropriated profit		3,388,567	2,510,618
		<b>12,503,432</b>	<b>11,502,905</b>
Surplus on revaluation of 'available-for-sale' securities - net of tax	18	84,687	239,868
		<b>12,588,119</b>	<b>11,742,773</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	19		

The annexed notes 1 to 41 and annexure I and II form an integral part of these financial statements.


  
 Officiating Chief Executive


  
 Director


  
 Director

## Consolidated Profit and Loss Account

For the year ended December 31, 2011

	Note	2011 (Rupees in '000)	2010
Mark-up / return / interest earned	20	2,204,036	2,111,019
Mark-up / return / interest expensed	21	1,445,302	1,452,508
Net mark-up / interest income		758,734	658,511
Provision against non-performing loans and advances - net	10.4	157,175	24,959
Recovery against written off advances		(22,594)	-
Reversal of provision against non-performing lending to financial institutions	8.1	(18,000)	(129,178)
Provision for diminution / impairment in the value of investments	9.3	91,502	67,119
Bad debts written off directly		-	-
Net mark-up / interest income after provisions		208,083	(37,100)
		550,651	695,611
<b>NON MARK-UP / INTEREST INCOME</b>			
Fee, commission and brokerage income		3,535	7,857
Dividend income		172,623	148,754
Income from dealing in foreign currencies		-	-
Gain on sale of securities	22	239,304	297,159
Unrealised loss on revaluation of 'held-for-trading' securities	9.4	-	(880)
Share in results of associates - net		1,196,967	563,802
Other income	23	25,894	21,982
Total non mark-up / interest income		1,638,323	1,038,674
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	24	462,723	411,259
Other provisions / write offs		-	-
Other charges	25	-	1,149
Total non mark-up / interest expenses		462,723	412,408
Extra ordinary / unusual items		-	-
<b>PROFIT BEFORE TAXATION</b>		1,726,251	1,321,877
Taxation			
- Current	26	276,665	176,089
- Prior years		-	-
- Deferred	26	89,059	177,056
<b>PROFIT AFTER TAXATION</b>		365,724	353,145
Unappropriated profit brought forward		1,360,527	968,732
Unappropriated profit carried forward		2,510,618	1,649,279
		3,871,145	2,618,011
<b>Basic earnings per share</b> (On share of Rs. 25,000 each)	27	5,669	4,036
<b>Diluted earnings per share</b> (On share of Rs. 25,000 each)	28	5,669	4,036

The annexed notes 1 to 41 and annexure I and II form an integral part of these financial statements.



Officiating Chief Executive



Director



Director

# Consolidated Statement of Comprehensive Income

For the year ended December 31, 2011

	Note	2011 (Rupees in '000)	2010
Profit for the year		1,360,527	968,732
Other comprehensive income		-	-
<b>Comprehensive income transferred to equity</b>		<u>1,360,527</u>	<u>968,732</u>
<b>Component of comprehensive income not transferred to equity</b>			
Deficit on revaluation of 'available-for-sale' securities		(120,721)	(7,502)
Deferred tax on revaluation of 'available-for-sale' securities		(34,461)	26,000
<b>Total comprehensive income</b>		<u><u>1,205,345</u></u>	<u><u>987,230</u></u>

The annexed notes 1 to 41 and annexure I and II form an integral part of these financial statements.



Officiating Chief Executive



Director



Director

## Consolidated Statement of Changes in Equity

For the year ended December 31, 2011

	Share capital	Reserve Statutory	Accumulated profit	Total
	(Rupees in '000)			
Balance as at January 1, 2010	6,000,000	2,884,894	1,649,279	10,534,173
Profit for the year ended December 31, 2010	-	-	968,732	968,732
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	968,732	968,732
Transfer to statutory reserve	-	107,393	(107,393)	-
<b>Balance as at December 31, 2010</b>	<b>6,000,000</b>	<b>2,992,287</b>	<b>2,510,618</b>	<b>11,502,905</b>
Profit for the year ended December 31, 2011	-	-	1,360,527	1,360,527
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	1,360,527	1,360,527
Final dividend for the year ended December 31, 2010 @ Rs. 1,500 per share approved subsequent to year end	-	-	(360,000)	(360,000)
Transfer to statutory reserve	-	122,578	(122,578)	-
<b>Balance as at December 31, 2011</b>	<b>6,000,000</b>	<b>3,114,865</b>	<b>3,388,567</b>	<b>12,503,432</b>

The annexed notes 1 to 41 and annexure I and II form an integral part of these financial statements.



Officiating Chief Executive



Director



Director

# Consolidated Cash Flow Statement

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		1,726,251	1,321,877
Less: Dividend income		(172,623)	(148,754)
		<u>1,553,628</u>	<u>1,173,123</u>
Adjustments for:			
Depreciation		15,228	14,067
Amortisation		1,783	513
Provision against non-performing loans and advances - net		157,175	24,959
Recovery against written off advances		(22,594)	-
Reversal of provision against non performing lending to financial institutions		(18,000)	(129,178)
Provision for diminution / impairment in the value of investments		91,502	67,119
Gain on disposal of operating fixed assets		(1,151)	(4,395)
Share in results of associates - net		(1,196,967)	(563,802)
Unrealised loss on revaluation of 'held-for-trading' securities		-	880
		<u>(973,024)</u>	<u>(589,837)</u>
		<b>580,604</b>	<b>583,286</b>
(Increase) / decrease in operating assets			
Lendings to financial institutions		268,000	557,805
'Held-for-trading' securities		(35,712)	203,496
Advances		(1,719,426)	(1,386,707)
Others assets (excluding advance taxation)		(42,957)	71,763
		<u>(1,530,095)</u>	<u>(553,643)</u>
(Decrease) / increase in operating liabilities			
Borrowings		(645,715)	(570,503)
Deposits		(1,411,911)	(937,439)
Other liabilities (excluding current taxation)		196	(113,902)
		<u>(2,057,430)</u>	<u>(1,621,844)</u>
		<u>(3,006,921)</u>	<u>(1,592,201)</u>
Income tax paid		(334,931)	(744,620)
<i>Net cash used in operating activities</i>		<u>(3,341,852)</u>	<u>(2,336,821)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investment in 'available-for-sale' securities		2,232,585	1,607,397
Dividend income		512,823	253,372
Investments in operating fixed assets		(40,416)	(29,545)
Sale proceeds from sale of operating fixed assets		3,167	31,363
<i>Net cash inflow from investing activities</i>		<u>2,708,159</u>	<u>1,862,587</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Dividend paid		(360,000)	-
<i>Net cash used in financing activities</i>		<u>(360,000)</u>	<u>-</u>
<b>Decrease in cash and cash equivalents</b>		<b>(993,693)</b>	<b>(474,234)</b>
Cash and cash equivalents at beginning of the year		1,461,112	1,935,346
<b>Cash and cash equivalents at end of the year</b>	29	<u>467,419</u>	<u>1,461,112</u>

The annexed notes 1 to 41 and annexure I and II form an integral part of these financial statements.


  
 Officiating Chief Executive


  
 Director


  
 Director

# Notes to and Forming Part of the Consolidated Financial Statements

For the year ended December 31, 2011

## 1. STATUS AND NATURE OF BUSINESS

Pakistan Kuwait Investment Company (Private) Limited ("the holding company") was incorporated in Pakistan as a Private Limited Company on March 17, 1979. The registered office is situated at 4th Floor, Block 'C', Finance and Trade Centre, Shahrah-e-Faisal, Karachi. The holding company is a 50:50 joint venture between the Governments of Pakistan and Kuwait. The holding company has its representative offices in Islamabad and Lahore. The objective of the holding company is to profitably promote industrial investments in Pakistan.

The Group as at January 1, 2011 had two 100% owned subsidiaries, First Choice Securities Limited (FCSL) and Pak Kuwait Financial Services Limited (PKFSL). FCSL principal business includes equity brokerage, money market and foreign exchange brokerage, equity research and corporate financial advisory services. FCSL has not started its operations. During the period, PKFSL has been liquidated through Easy Exit Scheme of the Securities and Exchange Commission of Pakistan (SECP). PKFSL's liquidation was confirmed by the SECP under Easy Exit Scheme via notification in the official gazette dated January 10, 2011. The details of assets and liabilities of PKFSL at the time of liquidation are given in note 9.2.5.

The Group's associates are as follows:

Entity / Fund	Nature of Business	Percentage holding	
		2011	2010
Meezan Bank Limited (MBL)	Scheduled Islamic Commercial Bank engaged in commercial, consumer and investment banking activities	30.00	30.00
Plexus (Private) Limited	Business of development and export of IT enabled services and internet solution	50.00	50.00
Pak Kuwait Takaful Company Limited (PKTCL)	To undertake Takaful (insurance) business	30.00	30.00
Falcon Greenwood (Private) Limited (FGL)	Engaged in business of real estate	25.45	25.45
The General Tyre and Rubber Company of Pakistan Limited (GTR)	Manufacturing of tyres and tubes for automobiles	28.06	28.06
Al Meezan Investment Management Limited (AMIML)	Investment advisory, portfolio management, equity research, under-writing and corporate finance	30.00	30.00
Al Meezan Mutual Fund Limited (AMMFL)*	Open end mutual fund. Converted from closed end mutual fund during 2011. Formed under the Investment Companies and Investment Advisor Rules, 1971.	12.28	12.28
Meezan Balanced Fund (MBF)*	Closed-end scheme established under a trust deed executed between AMIML as the investment advisor and the Central Depository Company of Pakistan Limited (CDC) as the trustee	9.21	9.21
National Clearing Company Limited (NCCL)*	Business of clearing and settlement of securities through the National Clearing and Settlement System (NCSS)	17.65	17.65

All of the associates are incorporated in Pakistan.

\*These have been treated as associates due to Group's representation on their Board of Directors.

## 2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the requirements of the format prescribed by the State Bank of Pakistan's BSD Circular No. 4 dated February 17, 2006 and BSD Circular letter No. 07, dated 20 April 2010.

## 3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and the directives issued by the State Bank of Pakistan (SBP). However, in case requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and the directives issued by the SBP shall prevail.

The SBP through its BSD Circular letter No. 11 dated September 11, 2002 has deferred the implementation of IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 40 'Investment Property' for Non-Banking Financial Institutions (NBFIs) in Pakistan. Further, SECP has deferred the implementation of IFRS 7 'Financial Instruments: Disclosures' through SRO 411(I)/ 2008. Accordingly, the requirements of these International Accounting Standards (IASs) and their respective interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), have not been considered in preparation of these financial statements.

## 4. BASIS OF MEASUREMENT

These financial statements have been prepared on the historical cost basis as modified for revaluation of certain investments at market rates in accordance with the requirements of BSD Circular No. 10 dated July 13, 2004 as amended through BSD Circular No. 11 dated August 04, 2004 and BSD Circular No. 14 dated September 24, 2004.

The financial statements are presented in Pakistan Rupees which is the Group's functional currency.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Basis of Consolidation

#### 5.1.1 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. This in general is evidenced when the company directly or indirectly controls, beneficially owns or holds more than 50 percent of the voting securities or otherwise has power to elect and appoint more than 50 percent of its directors. The financial statements of the subsidiary are prepared, using consistent accounting policies, for the same reporting year. These financial statements are included in the consolidated financial statements from the date the control commences until the date the control ceases.

#### 5.1.2 Associates

Associates are those entities in which the Group has significant influence, but does not have control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounting basis, from the date significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligation.

#### 5.1.3 Transactions eliminated on consolidation

Intra group balances and any unrealized gains and losses or income and expenses arising from intra group transactions are eliminated in preparing consolidated financial statements.



## 5.2 Standards, interpretations and amendments effective in current year

The accounting policies adopted in the preparation of these 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 IFRIC interpretations which became effective during the year:

- IAS 24 – Related Party Disclosures (Revised)
- IFRIC 14 – Prepayments of a Minimum Funding Requirement (Amendment)
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments
- Improvements to various standards issued by IASB in 2010
- IFRS 3 – Business Combinations
- IAS 27 – Consolidated and Separate Financial Statements
- IAS 1 – Presentation of Financial Statements
- IAS 34 – Interim Financial Reporting
- IFRIC 13 – Customer Loyalty Programmes

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

## 5.3 Accounting standards not yet effective

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

<b>Standard or interpretation</b>	<b>Effective date (accounting periods) beginning</b>
IAS 1 – Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	01 July 2012
IAS 12 – Income Taxes (Amendment) – Deferred Taxes : Recovery of Underlying Assets	01 January 2012
IAS 19 – Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	01 January 2013

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 which are yet to be notified by the SECP for the purpose of applicability in Pakistan. Such improvements are generally effective for accounting periods beginning on or after 01 January 2013.

## 5.3 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury and other banks in current and deposit account.

## 5.5 Repurchase / resale agreements

The holding company enters into securitised borrowing transactions of repurchase agreements (Repos) and reverse repurchase agreements (Reverse repos) at contracted rates for a specified period of time. These are recorded as under:

### Sale under repurchase agreement

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repo agreement.

### Purchase under resale agreement

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet. Amounts paid under these agreements are included in reverse repurchase agreement lendings. The difference between purchase and resale price is accrued as income over the term of the reverse repos agreement.

## 5.6 Investments

### Classification

The Group classifies its investments other than those in associates based on the criteria set out in BSD Circular Nos. 10, 11 and 14 dated July 13, 2004, August 04, 2004 and September 24, 2004 respectively. The investments are classified in the following categories as per SBP guidelines:

- Held for trading investments, investments which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and shall be sold within 90 days.
- Held-to-maturity investments, the Group classifies non derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Group evaluates its intention and ability to hold such investment to maturity.
- Available-for-sale investments, investments which are not eligible to be classified as 'held for trading' or 'held to maturity' are classified as 'available-for-sale'.
- Strategic investments, investments that meet the threshold as specified in prudential regulations issued by SBP shall be classified as strategic investments.

### Initial Recognition

Investments that are held for trading are measured at their fair values in accordance with requirements of SBP. An investment (other than investment that is held for trading) is measured at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the investment.

### Subsequent Recognition

Investments in government securities and quoted investments, categorised as 'held-for-trading' and 'available-for-sale' are valued at rates quoted on PKRV (Reuters Page) and market prices as at the balance sheet date respectively. Any surplus or deficit other than impairment arising as a result of revaluation of securities categorised as 'held-for-trading' is taken to profit and loss account and that of 'available-for-sale' is taken to the balance sheet, and shown below equity.

Furthermore, investments classified as 'held-to-maturity' are stated at their amortised cost less impairment in value, if any.

Unquoted investments are stated at lower of cost and break-up value based on latest available financial statements.

Impairment loss is recognised whenever the carrying amount of an investment exceeds its recoverable amount. An impairment loss is taken to profit and loss account. Profit and loss on sale of investments during the year is included in profit and loss account.

Premium or discount on acquisition of government securities is amortised over the period to maturity under effective interest method.

Companies where there are common directors but the Group does not have significant influence are classified as 'Investment in associated undertakings'. These are stated in accordance with their classification either as 'held-for-trading' or 'available-for-sale' securities.

### **5.7 Trade date accounting**

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

### **5.8 Advances including net investment in finance leases**

Advances are stated net of provision for doubtful debts. Provision for doubtful debts is determined on the basis of 'Prudential Regulations' issued by the State Bank of Pakistan and Credit policy of the holding company. The provision is charged to the profit and loss account.

Advances are written off when there are no realistic prospects of recovery.

Leases, where substantially all risks and rewards incidental to ownership of an asset are transferred to the lessee, are classified as finance lease. A receivable is recognised at an amount equal to the present value of the lease payments. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

### **5.9 Operating fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and impairment loss (if any) except leasehold land which is stated at cost.

Depreciation is charged to profit and loss account applying the straight line method whereby the cost of an asset is written off over its estimated useful life. Depreciation is charged in the month of purchase and no depreciation is charged in the month of disposal. Depreciation is charged at the rates stated in note 11.1

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

Profit or loss on the sale or retirement of fixed assets is included in profit and loss account.

### **5.10 Intangible assets**

Intangible assets with definite useful lives are stated at cost less accumulated amortization and accumulated impairment loss (if any). Amortization is charged on a straight line basis over their estimated useful lives. Amortization is charged at the rates stated in note 11.3.

### 5.11 Revenue recognition

- i) Dividend income is recognised when the Group's right to receive payment is established.
- ii) Income from loans, term finance certificates, debentures, bank deposits, government securities and reverse repo transactions is recognised under effective interest method, except where recovery is considered doubtful, the income is recognised on receipt basis.
- iii) The holding company follows the finance method in recognising 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.
- iv) Gain on sale of securities is recognised at the time of sale of relevant securities.
- v) Advisory income is recognised as the services are rendered.
- vi) Brokerage, commission, advisory fees and other income of FCSL are accrued as and when due.

### 5.12 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, and any adjustments to any tax payable relating to prior years.

#### *Deferred*

The Group accounts for deferred taxation using the balance sheet liability method providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the tax rates enacted or substantively enacted at balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits will be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### 5.13 Staff retirement benefits

#### *Defined benefit plan*

The holding company operates a funded gratuity scheme for all its eligible permanent employees. 'Projected unit credit method' has been used for actuarial valuation. Actuarial gains or losses in excess of 10% of the present value of defined benefit obligation and fair value of plan assets, whichever is higher, are recognised over the expected average remaining working lives of the employees.

The last actuarial valuation of the employees' defined benefit plan was conducted as of December 31, 2011.

#### *Defined contribution plan*

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

### 5.14 Employees' compensated absences

Liability in respect of employees' compensated absences is recognised on the basis of actuarial valuation and is accounted for in the period in which these are earned. The actuarial valuation is carried out using 'Projected unit credit method'.

The last actuarial valuation of the employees' compensated absences of the holding company was conducted as of December 31, 2011.

### 5.15 Derivative financial instruments

Derivative financial instruments are initially measured at fair value and subsequently remeasured at fair value. The gain or loss on remeasurement to fair value is recognised in profit and loss account.

### 5.16 Impairment

The carrying amount of the assets, other than deferred tax asset and investments, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are reversed when there is an indication that impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

### 5.17 Provisions

Provisions are recognized 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.

### 5.18 Foreign currency

Foreign currency transactions are recorded at the rates prevailing on the date of transactions. Monetary assets and liabilities in foreign currency are reported in Pakistan Rupees at the rates of exchange prevailing on the balance sheet date. Exchange gains and losses are included in income currently.

### 5.19 Off-setting of financial assets and financial liabilities

'Financial assets' and 'financial liabilities' are only offset and the net amount is reported in the balance sheet if the Group has a legal right to set-off the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 5.20 Earnings per share

The Group presents earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the holding company by weighted average number of ordinary shares outstanding during the year.

### 5.21 Dividend distribution

Dividends (including bonus dividend) are recognized in the period in which these are approved.

### 5.22 Segment information

A segment is distinguishable component of the Group that is engaged 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 Group's primary format of reporting is based on business segments.

#### Business segments

Following are the main segments of the Group:

Corporate Finance	Includes loans, advances, leases and other transactions with corporate customers.
Treasury	Undertakes holding company's fund management activities through leveraging and investing in liquid assets such as short term placements, government securities and reverse repo activities. It carries out spread based activities in the inter bank market and manages the interest rate risk exposure of the holding company.
Capital Market	Includes trading in listed securities with a view to trade and earn the benefit of market fluctuations and to hold securities for dividend income and capital gain.
Investment Banking	Undertakes advisory services including mergers and acquisitions, listed debt syndication, trustee activities and other investment banking activities.

#### Geographical segments

All the Group's business segments operate in Pakistan only.

### 5.23 Accounting estimates and judgement

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form basis of making the judgements about carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods.

Judgements made by the management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 39.

### 6. CASH AND BALANCES WITH TREASURY BANKS

	Note	2011 (Rupees in '000)	2010
Cash in hand in local currency		60	60
With State Bank of Pakistan in - local currency current account	6.1	42,593	51,131
With National Bank of Pakistan in - local currency current account - local currency deposit account	6.2	113 400,000	233 -
		<u>442,766</u>	<u>51,424</u>

**6.1** This includes Rs. 42.59 million (2010: Rs. 43.00 million) held as minimum cash reserve required to be maintained with the SBP in accordance with its requirements issued from time to time. The balance amount is available to the holding company for its operation.

**6.2** The return on the placement is 12.75 (2010: nil) percent per annum and the placement will mature within 30 days (2010: nil) after the balance sheet date.

### 7. BALANCES WITH OTHER BANKS

	Note	2011 (Rupees in '000)	2010
In Pakistan - current account - deposit account	7.1	171 24,482	35,290 1,374,398
		<u>24,653</u>	<u>1,409,688</u>

### 8. LENDINGS TO FINANCIAL INSTITUTIONS

Certificates of investment (COIs) in local currency	8.1	2,822	270,822
Provision against COI	8.1	( 2,822)	(20,822)
		<u>-</u>	<u>250,000</u>

**8.1** This represents provision outstanding against clean lending by the holding company under COI to an investment bank. The lending amounting to Rs. 150 million was made on September 20, 2008 and matured on December 20, 2008. On maturity the investment bank was unable to repay and the holding company had initiated legal proceedings for recovery of the outstanding amount. Based on the principle of prudence the holding company had fully provided the amount.

The holding company has so far recovered Rs. 147.178 million from the investment bank. The recovery has been made in the form of property valuing Rs. 121.373 million and the balance amount in cash. The balance amount will be received in two installments in 2012.

## 9. INVESTMENTS

### 9.1 Investments by type

Note	2011			2010			
	Held by the Group	Given as collateral	Total	Held by the Group	Given as collateral	Total	
----- (Rupees in '000) -----							
<b>Held-for-trading securities</b>							
Shares of listed companies	-	-	-	36,592	-	36,592	
<b>Available-for-sale securities</b>							
Market treasury bills	852,049	6,031,097	6,883,146	3,547,284	5,008,370	8,555,654	
Pakistan investment bonds	1,640,304	-	1,640,304	449,199	1,175,573	1,624,772	
Shares of listed companies	1,393,125	-	1,393,125	1,921,789	-	1,921,789	
Shares of unlisted companies	125,155	-	125,155	125,122	-	125,122	
Listed preference shares	93,399	-	93,399	93,399	-	93,399	
Listed term finance certificates	121,109	-	121,109	153,687	-	153,687	
Unlisted term finance certificates	608,398	-	608,398	458,598	-	458,598	
	4,833,539	6,031,097	10,864,636	6,749,078	6,183,943	12,933,021	
<b>Associates</b>	5,443,111	-	5,443,111	4,587,944	-	4,587,944	
<b>Total investments - at cost</b>	<b>10,276,650</b>	<b>6,031,097</b>	<b>16,307,747</b>	<b>11,373,614</b>	<b>6,183,943</b>	<b>17,557,557</b>	
Provision for diminution/impairment in the value of investments	9.3 & 39.3	(230,587)	-	(230,587)	(190,203)	-	(190,203)
<b>Total investments - net of provisions</b>	<b>10,046,063</b>	<b>6,031,097</b>	<b>16,077,160</b>	<b>11,183,411</b>	<b>6,183,943</b>	<b>17,367,354</b>	
Deficit on revaluation of 'held-for-trading' securities	9.4	-	-	(880)	-	(880)	
(Deficit) / surplus on revaluation of 'available-for-sale' securities	18	(96,986)	(13,303)	(110,289)	275,084	(119,978)	155,106
<b>Total investments at market value</b>	<b>9,949,077</b>	<b>6,017,794</b>	<b>15,966,871</b>	<b>11,457,615</b>	<b>6,063,965</b>	<b>17,521,580</b>	

## 9.2 Investments by segments

	Note	2011	2010
		(Rupees in '000)	
<b>Federal Government Securities</b>			
- Market treasury bills	9.2.1	6,883,146	8,555,654
- Pakistan investment bonds	9.2.2	1,640,304	1,624,772
<b>Fully paid up Ordinary Shares</b>			
- Listed companies		1,393,125	1,958,381
- Unlisted companies	9.2.3	125,155	125,122
		1,518,280	2,083,503
<b>Preference Shares</b>			
- Listed companies		93,399	93,399
<b>Term Finance Certificates (TFCs)</b>			
- Listed		121,109	153,687
- Unlisted		608,398	458,598
		729,507	612,285
<b>Investments in Associates</b>			
Ordinary shares-listed companies			
- Meezan Bank Limited	9.2.4	4,210,596	3,306,503
- The General Tyre & Rubber Co. of Pakistan Ltd.		360,441	344,838
Mutual Funds			
- Al Meezan Mutual Fund		173,172	201,059
- Meezan Balanced Fund		122,290	130,261
Ordinary shares-unlisted companies			
- Al Meezan Investment Management Limited	9.2.3	342,498	240,582
- Plexus (Private) Limited		-	-
- Pak Kuwait Takaful Company Limited		144,517	130,131
- National Clearing Company of Pakistan Limited		65,783	64,405
- Pakistan Mercantile Exchange Limited (formerly National Commodity Exchange)		-	-
- Falcon Greenwood (Private) Limited		23,814	23,883
Preference shares-unlisted company			
- Falcon Greenwood (Private) Limited		-	146,282
		5,443,111	4,587,944
<b>Total investments - at cost</b>		<b>16,307,747</b>	<b>17,557,557</b>
Provision for diminution / impairment in the value of investments	9.3 & 39.3	(230,587)	(190,203)
Total investments - net of provisions		16,077,160	17,367,354
Deficit on revaluation of 'held-for-trading' securities	9.4	-	(880)
(Deficit) / surplus on revaluation of 'available-for-sale' securities		(110,289)	155,106
		(110,289)	154,226
<b>Total investments</b>		<b>15,966,871</b>	<b>17,521,580</b>



- 9.2.1** The investments in market treasury bills are maturing between 20 September 2012 and 1 November 2012 (2010: 13 January 2011 and 16 June 2011) and the effective interest ranges between 11.80 and 12.80 percent per annum (2010: 12.20 and 12.41 percent per annum).
- 9.2.2** The investments in Pakistan investment bonds are maturing between 30 August 2013 and 03 September 2019 (2010: 30 August 2013 and 03 September 2019) and the effective interest ranges between 11.45 and 13.18 percent per annum (2010: 11.45 and 13.18 percent per annum).
- 9.2.3** The investments also include Faysal Management Services (Private) Limited and Al-Meezan Investment Management Limited which can be sold only with prior permission of SECP.
- 9.2.4** Investments in associates includes shares of Meezan Bank Limited costing Rs. 1,520 million and market value of Rs. 4,187 million (2010: Cost Rs. 1,520 million, market value Rs.3,540 million) which are held as strategic investment in terms of Prudential Regulation applicable to Corporate / Commercial Banking which can be sold only with prior permission of SBP.
- 9.2.5** During the year one of the subsidiaries of the Group, PKFSL has been liquidated through Easy Exit Scheme of SECP. PKFSL's net assets at the time of liquidation are given below:

	(Rupees in '000)	
Balances with other banks	35,162	
<b>Net Assets</b>	<b>35,162</b>	
<b>9.3 Particulars for impairment / diminution in the value of investments</b>	<b>2011</b>	<b>2010</b>
	(Rupees in '000)	
Opening balance	190,203	306,017
Charge for the year	91,502	67,119
Reversals due to sale of impaired securities	(51,118)	(182,933)
	40,384	(115,814)
Closing balance	230,587	190,203
<b>9.3.1 Particulars of provision in respect of type and segment</b>		
'Available-for-sale' securities	230,587	190,203
	230,587	190,203
<b>9.4 Deficit on revaluation of 'held-for-trading' securities</b>		
Fully paid up ordinary shares	-	(880)
	-	(880)

- 9.5** Information relating to quality of 'available-for-sale' securities and investments in shares of listed and unlisted companies, redeemable capital required to be disclosed as part of the financial statements under the SBP's BSD Circular No. 4 dated February 17, 2006, are given in Annexure "I" and "II", which are an integral part of these financial statements.

## 9.6 Summary of financial information of associates

Associates	Accounting date	Assets	Liabilities	Equity	Revenue	Profit / (loss)
		----- (Rupees in '000) -----				
<b>2011</b>						
Meezan Bank Limited	30-Sep-11	181,372,514	166,875,178	14,497,336	13,238,119	3,633,567
Plexus (Private) Limited	31-Dec-09	15,980	7,146	8,834	9,368	(2,100)
Pak Kuwait Takaful Company Limited	30-Sep-11	668,543	186,820	481,723	185,164	15,022
Falcon Green Wood (Private) Limited	30-Jun-10	706,750	38,364	668,386	-	(107)
The General Tyre & Rubber Company of Pakistan Limited	30-Sep-11	5,604,358	4,320,011	1,284,347	1,288,509	(55,310)
Al Meezan Investment Management Limited	30-Jun-11	1,542,569	400,908	1,141,661	722,500	436,766
Al Meezan Mutual Fund Limited	31-Dec-11	1,424,470	14,754	1,409,716	89,111	47,647
Meezan Balanced Fund	31-Dec-11	1,351,119	24,020	1,327,099	107,791	72,712
National Clearing Company of Pakistan Limited	30-Jun-11	911,588	538,819	372,769	101,636	3,381

The above information is based on latest available financial statements.

### 2010

Meezan Bank Limited	30-Sep-10	144,758,246	133,400,626	11,357,620	9,037,744	1,109,948
Plexus (Private) Limited	31-Dec-09	15,980	7,146	8,834	9,368	(2,100)
Pak Kuwait Takaful Company Limited	30-Sep-10	598,847	165,078	433,769	173,510	46,055
Falcon Green Wood (Private) Limited	30-Jun-08	706,750	38,006	668,744	-	8,044
The General Tyre & Rubber Company of Pakistan Limited	30-Sep-10	4,910,128	3,681,379	1,228,749	1,393,328	17,622
Al Meezan Investment Management Limited	30-Sep-10	1,226,945	318,756	908,189	68,291	40,143
Al Meezan Mutual Fund Limited	31-Dec-10	1,649,358	12,680	1,636,678	111,497	170,155
Meezan Balanced Fund	31-Dec-10	1,432,776	19,401	1,413,375	92,174	104,233
National Clearing Company of Pakistan Limited	30-Sep-10	753,253	388,291	364,962	21,402	(4,042)

## 10. ADVANCES

	Note	2011 (Rupees in '000)	2010
<b>In Pakistan</b>			
Advances		6,622,329	4,735,906
Net investment in finance leases	10.2	1,509,496	1,653,899
		<b>8,131,825</b>	6,389,805
Provision for non-performing advances	10.4	(1,577,790)	(1,420,615)
Advances net of provision		<b>6,554,035</b>	4,969,190

### 10.1 Particulars of gross advances

In local currency	<b>8,131,825</b>	6,389,805
Short term (for upto one year)	2,261,669	2,145,421
Long term (for over one year)	5,870,156	4,244,384
	<b>8,131,825</b>	6,389,805

## 10.2 Net investment in finance leases

	2011				2010			
	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	897,871	834,580	58,449	1,790,900	907,442	1,006,845	47,850	1,962,137
Residual value	48,215	32,967	717	81,899	56,888	63,747	1,878	122,513
Minimum lease payments	946,086	867,547	59,166	1,872,799	964,330	1,070,592	49,728	2,084,650
Financial charges for future periods	194,322	158,980	10,001	363,303	216,208	213,801	742	430,751
Present value of minimum lease payments	751,764	708,567	49,165	1,509,496	748,122	856,791	48,986	1,653,899

**10.2.1** The holding company has entered into lease agreements with various companies for lease of vehicles and plant and machinery. The amount recoverable under these arrangements are receivable latest by the year 2020 and are subject to finance income at rates ranging between 7.0 and 21.83 (2010: 7.0 and 21.83) percent per annum.

**10.2.2** In respect of the aforementioned finance leases the holding company holds an aggregate sum of Rs. 81.723 million (2010: Rs. 100.154 million) as security deposits on behalf of the lessees which are included under other liabilities (note 16).

**10.3** Advances include Rs. 1,723.232 million (2010: Rs 1,648.540 million) which have been placed under non-performing status as detailed below:

Category of classification	2011			2010		
	Classified Advances	Provision Required	Provision Held	Classified Advances	Provision Required	Provision Held
	(Rupees in '000)					
Substandard	4,167	1,042	1,042	121,725	30,431	30,431
Doubtful	284,633	142,316	142,316	273,262	136,631	136,631
Loss	1,434,432	1,434,432	1,434,432	1,253,553	1,253,553	1,253,553
	1,723,232	1,577,790	1,577,790	1,648,540	1,420,615	1,420,615

## 10.4 Particulars of provision against non-performing advances - specific

	2011	2010
	(Rupees in '000)	
Opening balance	1,420,615	1,395,656
Charge for the year	270,662	87,089
Reversals	(113,487)	(62,130)
	157,175	24,959
Amounts written off	-	-
Closing balance	1,577,790	1,420,615
<b>10.4.1</b> Local currency	1,577,790	1,420,615
Foreign currency	-	-
	1,577,790	1,420,615

## 10.5 Particulars of write offs

The Group has not written off any loans and advances or allowed any financial relief during the year.

10.6 Particulars of loans and advances to staff included in advances	Note	2011	2010
		(Rupees in '000)	
Opening balance		132,280	73,014
Disbursements during the year		35,761	86,053
Repayments during the year		(24,311)	(26,787)
Balance at end of the year		<u>143,730</u>	<u>132,280</u>
<b>11. OPERATING FIXED ASSETS</b>			
Property and equipment	11.1	229,332	215,811
Capital work in progress	11.2	2,350	2,350
Intangible assets	11.3	50,443	42,575
		<u>282,125</u>	<u>260,736</u>
<b>11.1 Property and equipment</b>			

	2011							
	Cost			Depreciation			Net book value as at December 31, 2011	Rate of depreciation
	As at January 1, 2011	Additions / transfers / (disposals)	As at December 31, 2011	As at January 1, 2011	Charge / (disposals)	As at December 31, 2011		
	(Rupees in '000)						%	
Leasehold land	100	-	100	-	-	-	100	-
Building on lease hold land	233,522	3,981	237,503	34,340	6,046	40,386	197,117	2.50 - 20.00
Furniture and fixtures	10,184	7,183	17,367	9,988	315	10,303	7,064	20.00
Motor vehicles	20,281	1,810 (9,093)	12,998	12,854	1,934 (7,077)	7,711	5,287	20.00
Office equipment	38,746	17,691 (6,316)	50,121	29,919	6,871 (6,316)	30,474	19,647	33.33
Electrical appliances	1,972	100	2,072	1,893	62	1,955	117	20.00
	<u>304,805</u>	<u>30,765</u> <u>(15,409)</u>	<u>320,161</u>	<u>88,994</u>	<u>15,228</u> <u>(13,393)</u>	<u>90,829</u>	<u>229,332</u>	

	2010							
	Cost			Depreciation			Net book value as at December 31, 2010	Rate of depreciation
	As at January 1, 2010	Additions / transfers / (disposals)	As at December 31, 2010	As at January 1, 2010	Charge / (disposals)	As at December 31, 2010		
	(Rupees in '000)						%	
Leasehold land	100	-	100	-	-	-	100	-
Building on lease hold land	112,149	121,373	233,522	30,992	3,348	34,340	199,182	2.50
Furniture and fixtures	23,318	- (13,134)	10,184	22,977	145 (13,134)	9,988	196	20.00
Motor vehicles	67,333	14,752 (61,804)	20,281	40,526	7,164 (34,836)	12,854	7,427	20.00
Office equipment	34,806	9,761 (5,821)	38,746	32,402	3,338 (5,821)	29,919	8,827	33.33
Electrical appliances	3,051	54 (1,133)	1,972	2,954	72 (1,133)	1,893	79	20.00
	<u>240,757</u>	<u>145,940</u> <u>(81,892)</u>	<u>304,805</u>	<u>129,851</u>	<u>14,067</u> <u>(54,924)</u>	<u>88,994</u>	<u>215,811</u>	

11.1.1 Included in cost of property and equipment are fully depreciated items still in use having cost of:

	<b>2011</b> <b>(Rupees in '000)</b>
Furniture and fixtures	9,844
Motor vehicles	4,479
Office equipment	20,845
Electrical appliances	1,726

11.1.2 Details of disposals of fixed assets whose original cost or the book value exceeds Rs. 1 million or Rs. 250,000 which ever is less and assets disposed off to the chief executive or to a director or to executives or to any related party, irrespective of the value, are as follows:

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particular of purchaser
			----- (Rupees in '000) -----			
1 Honda Civic	1,850	894	956	956	Company Policy	Shams-ul-Hasan (Former Chief Executive)
2 Honda Accord	1,846	1,846	-	-	Surrendered	Custom Authority
3 Toyota Crown	2,868	2,868	-	-	Surrendered	Custom Authority
4 Toyota Corolla	1,414	354	1,060	1,060	Company Policy	Asad Anwar (Employee)
5 Computers (forty five)	3,045	3,045	-	-	Donation	The Citizens Foundation
6 Computers (forty five)	3,045	3,045	-	-	Donation	SOS Village

11.2 Capital work-in-progress

	<b>2011</b>	2010
<b>(Rupees in '000)</b>		
Advance for purchase of room	<u>2,350</u>	<u>2,350</u>

The above comprise of advance in respect of a room at Pakistan Mercantile Exchange Limited (formerly National Commodity Exchange Limited) and the possession of the room has not yet been given in the name of the subsidiary company. The company is pursuing the transfer of room in its name and considers that the fair value of advance is higher than the carrying value.

11.3 Intangible assets

	<b>2011</b>							Rate of amortization
	Cost			Amortization			Net book value	
	As at January 1, 2011	Additions/ (disposals)	As at December 31, 2011	As at January 1, 2011	Charge / (disposals)	As at December 31, 2011	as at December 31, 2011	
----- (Rupees in '000) -----								%
Software	5,378	9,651	15,029	553	1,783	2,336	12,693	20.00
KSE (Guarantee) Limited Card	34,750	-	34,750	-	-	-	34,750	-
NCEL Card	3,000	-	3,000	-	-	-	3,000	-
	<u>43,128</u>	<u>9,651</u>	<u>52,779</u>	<u>553</u>	<u>1,783</u>	<u>2,336</u>	<u>50,443</u>	
<b>2010</b>								
	As at January 1, 2010	Additions/ (disposals)	As at December 31, 2010	As at January 1, 2010	Charge / (disposals)	As at December 31, 2010	as at December 31, 2010	
----- (Rupees in '000) -----								%
Software	400	4,978	5,378	40	513	553	4,825	20.00
KSE (Guarantee) Limited Card	34,750	-	34,750	-	-	-	34,750	-
NCEL Card	3,000	-	3,000	-	-	-	3,000	-
	<u>38,150</u>	<u>4,978</u>	<u>43,128</u>	<u>40</u>	<u>513</u>	<u>553</u>	<u>42,575</u>	

## 12. DEFERRED TAX ASSETS

	Balance January 01, 2011	Recognised in profit and loss	Recognised in equity	Balance December 31, 2011
----- (Rupees in '000) -----				
<b>Debit / (credit) balances arising on account of</b>				
Accelerated tax depreciation allowance	(11,830)	(26,363)	-	(38,193)
Provision for staff retirement gratuity and compensated absences	7,799	275	-	8,074
Other staff benefits	-	-	-	-
Finance lease arrangements	(270,143)	(5,331)	-	(275,474)
Share of profits from Associates	(276,094)	(106,264)	(13,030)	(395,388)
Provision against non-performing advances	512,421	48,712	-	561,133
Surplus / (deficit) on revaluation of 'held-for-trading' securities	88	(88)	-	-
Surplus / (deficit) on revaluation of 'available-for-sale' securities	41,298	-	(21,431)	19,867
	<u>3,539</u>	<u>(89,059)</u>	<u>(34,461)</u>	<u>(119,981)</u>

	Balance January 01, 2010	Recognised in profit and loss	Recognised in equity	Balance December 31, 2010
----- (Rupees in '000) -----				
<b>Debit / (credit) balances arising on account of</b>				
Accelerated tax depreciation allowance	885	(12,715)	-	(11,830)
Provision for staff retirement gratuity and compensated absences	6,579	1,220	-	7,799
Other staff benefits	4,970	(4,970)	-	-
Finance lease arrangements	(194,032)	(76,111)	-	(270,143)
Share of profits from Associates	(227,588)	(48,091)	(415)	(276,094)
Provision against non-performing advances	548,898	(36,477)	-	512,421
Surplus / (deficit) on revaluation of 'held-for-trading' securities	-	88	-	88
Surplus / (deficit) on revaluation of 'available-for-sale' securities	14,883	-	26,415	41,298
	<u>154,595</u>	<u>(177,056)</u>	<u>26,000</u>	<u>3,539</u>

## 13. OTHER ASSETS

	2011	2010
(Rupees in '000)		
Income / mark-up accrued in local currency	219,666	167,966
Advances, deposits, prepayments and other receivables	57,779	64,847
Advance Tax	382,663	323,961
	<u>660,108</u>	<u>556,774</u>

	Note	2011 (Rupees in '000)	2010
<b>14. BORROWINGS</b>			
In Pakistan		<u>9,161,654</u>	<u>9,807,369</u>
<b>14.1 Particulars of borrowings with respect to currencies</b>			
In local currency		<u>9,161,654</u>	<u>9,807,369</u>
<b>14.2 Details of borrowings secured / unsecured</b>			
<b>Secured</b>			
Repurchase agreement borrowings - Government securities	14.2.1	6,025,238	6,067,160
TFCs	14.2.2	-	1,250,000
Borrowings from SBP			
Under Long Term Facility - Export Oriented Project (LTF-EOP)	14.2.3	116,044	188,757
Under Long Term Finance Facility (LTF)	14.2.4	248,997	301,452
Under Finance Facility for Storage of Agricultural Produce (FFSAP)	14.2.5	21,375	-
Term Finance Facility	14.2.6	1,750,000	-
<b>Unsecured</b>			
Murabaha	14.2.7	1,000,000	2,000,000
		<u>9,161,654</u>	<u>9,807,369</u>

#### 14.2.1 Repurchase agreement borrowings - Government Securities

The holding company has arranged borrowings from various financial institutions against sale and repurchase of government securities. The mark-up on these finances range between 11.65 and 11.93 (2010: 12.60 and 13.90) percent per annum with maturity ranging from three days to thirty eight days (2010: three days to sixty days).

#### 14.2.2 TFCs (non-participatory)

This represents finance obtained by the holding company through issue of privately placed TFC's of five years maturity, which matured during the year. The mark-up was payable on quarterly basis and the principal was repayable in five equal semi annual installments commencing 36 months from the date of disbursement. The facility was secured by first hypothecation charge ranking pari passu, on existing and future assets of the holding company. The rate of profit was 3 months KIBOR ask rate plus 65 basis points.

#### 14.2.3 LTF-EOP facility from SBP

This represent a one time swap facility option under the scheme LTF - EOP allowed by the SBP through their SMED Circular No. 19 of 2006. The loan is repayable over a maximum period of 7.5 years from the date of first disbursement with mark-up payable at maximum of 5 percent per annum. The sanctioned limit was Rs. 1,000 million.

#### 14.2.4 Borrowings from SBP under LTF

Represents Long Term Finance Facility on concessional rates to promote industrial growth leading to exports. The loans availed under the facility shall be repayable within a maximum period of ten years including maximum grace period of two years with mark-up payable at maximum of 8.20 percent per annum. SBP allocates an overall yearly limit under the facility to individual Participating Financial Institution (PFI). The sanctioned limit was Rs. 500 million.

#### 14.2.5 Borrowings from SBP under FFSAP

This represents Financing Facility for Storage of Agricultural Produce (FFSAP) on concessional rates to develop the agricultural produce marketing and enhance storage capacity. The loans availed under the facility shall be repayable within a maximum period of seven years including a maximum grace period of six months with mark-up payable at maximum of 6.50 percent per annum. SBP allocates an overall yearly limit to individual PFI. The sanctioned limit was Rs. 500 million.

#### 14.2.6 Long Term Finance

The holding company has availed long term finance facilities from two banks. The interest rate on these facilities range between 12.35 and 12.47 percent per annum (December 31, 2010: Nil) and are due for maturity between November 29, 2014 and January 1, 2015 (December 31, 2010: Nil).

#### 14.2.7 Murabaha

This represents finance obtained from an Islamic bank by the holding company. The profit rate on the finance is 12.50 (2010: 12.75 and 13.00) percent per annum with maturity on 16 January 2012 (2010: 03 January 2011 and 14 January 2011).

## 15. DEPOSITS AND OTHER ACCOUNTS

	2011	2010
	(Rupees in '000)	
Certificates of investment (COI) / deposits	<u>1,726,601</u>	<u>3,138,512</u>
<b>15.1 Particulars of deposits</b>		
In local currency	<u>1,726,601</u>	<u>3,138,512</u>

The profit rates on these COIs / deposits range between 11.40 and 13.90 (2010: 11.50 and 13.75) percent per annum. The COIs / deposits are due for maturity between January 13, 2012 and March 22, 2015 (2010: January 11, 2011 and March 22, 2015). Included in COIs / deposits is an amount of Rs. 1,724.101 million (2010: Rs. 3,106.012 million) payable within twelve months.

## 16. OTHER LIABILITIES

	Note	2011	2010
		(Rupees in '000)	
Mark-up / return / interest payable in local currency		126,859	135,584
Accrued liabilities		85,399	71,702
Retention money payable		-	22
Staff retirement gratuity	31.1.4	3,868	12,415
Security deposits against finance lease	10.2.2	81,723	100,154
Employees' compensated absences		11,362	9,611
Payable on account of purchase of marketable securities		23,292	-
Other liabilities		1,700	4,789
		<u>334,203</u>	<u>334,277</u>

## 17. SHARE CAPITAL

### 17.1 Authorised Share Capital

	2011	2010		2011	2010
	(Number of shares)			(Rupees in '000)	
<u>400,000</u>	<u>400,000</u>		Ordinary shares of Rs. 25,000 each	<u>10,000,000</u>	<u>10,000,000</u>

### 17.2 Issued, Subscribed and Paid-up Share Capital

	2011	2010		2011	2010
	(Number of shares)			(Rupees in '000)	
<u>25,950</u>	<u>25,950</u>		Ordinary shares of Rs. 25,000 each issued for cash	<u>648,750</u>	648,750
<u>214,050</u>	<u>214,050</u>		Ordinary shares of Rs. 25,000 each issued as bonus shares	<u>5,351,250</u>	5,351,250
<u>240,000</u>	<u>240,000</u>			<u>6,000,000</u>	<u>6,000,000</u>

The SBP on behalf of the Government of Pakistan (GOP) and Kuwait Investment Authority (KIA) on behalf of Government of Kuwait each hold 120,000 (2010 : 120,000) ordinary shares of the holding company as at December 31, 2011.



### 17.3 Reserves

	Note	2011 (Rupees in '000)	2010
Statutory reserve	17.3.1	<u>3,114,865</u>	<u>2,992,287</u>
<b>17.3.1 Statutory reserve - compulsory reserve</b>			
At beginning of the year		2,992,287	2,884,894
Add: Transfer during the year		<u>122,578</u>	<u>107,393</u>
		<u>3,114,865</u>	<u>2,992,287</u>

According to BPD Circular No. 15 dated May 31, 2004 issued by the SBP, an amount not less than 20% of the after tax profits shall be transferred to create a reserve fund till such time the reserve fund equals the amount of the paid-up capital and after that a sum not less than 5% of profit after tax shall be credited to the statutory reserve. The holding company has transferred 20% of its after tax profit for the year to this reserve amounting to Rs. 122.578 million (2010: 107.393 million).

### 18. SURPLUS / (DEFICIT) ON REVALUATION OF 'AVAILABLE-FOR-SALE' SECURITIES-NET OF TAX

	2011 (Rupees in '000)	2010
Federal government securities	(51,504)	(167,798)
Shares of listed companies	(58,976)	323,967
Listed term finance certificates	191	(1,065)
Share of surplus on revaluation held by associates	<u>194,997</u>	<u>50,325</u>
	<u>84,708</u>	<u>205,429</u>
Deferred tax	<u>(21)</u>	<u>34,439</u>
	<u>84,687</u>	<u>239,868</u>

### 19. CONTINGENCIES AND COMMITMENTS

#### 19.1 Other Contingencies

The Income Tax Department has amended the deemed assessment orders of the holding company for the tax years from 2004 to 2010, raising a tax demand of Rs. 1,856 million, mainly due to additions in respect of allocation of expenses against exempt capital gains and dividend income subject to tax at reduced rate.

The Additional Commissioner Inland Revenue (ACIR) has not accepted the holding company's contention on the matter of allocation of expenses on exempt capital gains and dividend income for the tax years 2004 to 2010. The total additions made in tax years 2004 to 2010 under this head amounts to Rs. 3,612 million.

In tax year 2003, the same issue has been set aside by the Appellate Tribunal Inland Revenue (ATIR), with direction to the tax authorities that the allocation of financial cost has to be made taking into account the 'cost of investment' rather than 'gross turnover'. Further, the holding company has made representation before Federal Board of Revenue for necessary clarification and has also referred the above matter to Alternate Dispute Resolution Committee (ADRC) a mechanism available to provide an opportunity to tax payers for an easy and efficient resolution of disputes.

Relying on the above decision of ATIR, the Commissioner Inland Revenue (Appeals)(CIR(A)) through his order dated September 23, 2011 for tax years 2004 to 2007 has set aside the issue for re-examination. The action was however maintained by the CIR(A) in the tax years 2008 and 2009 and appeals are currently pending before the ATIR.

The appeal for the tax year 2010 is still pending before the CIR(A). The holding company has already made provision of Rs. 723 million against the demand for the above-mentioned years based on cost of investment. The management is confident that the ultimate outcome of the appeal would be in favor of the holding company inter alia on the basis of the advice of the tax consultants and the relevant law and the facts.

## 19.2 Other Commitments

	Note	2011 (Rupees in '000)	2010
Commitment - acquisition of software		10,452	15,634
Undisbursed sanctions for financial assistance in the form of:			
- equity participation		-	16,220
- loans and advances		417,000	161,287
		<u>427,452</u>	<u>193,141</u>

## 20. MARK-UP / RETURN / INTEREST EARNED

On loans and advances		855,832	601,966
On investments in:			
- 'Available-for-sale' securities		1,305,565	1,353,346
- 'Held-for-trading' securities		-	498
On lendings to financial institutions		39,840	142,223
On securities purchased under resale agreements - government securities		2,799	12,986
		<u>2,204,036</u>	<u>2,111,019</u>

## 21. MARK-UP / RETURN / INTEREST EXPENSED

COI / Deposits		430,202	396,956
Borrowings		237,182	333,572
Securities sold under repurchase agreements - government securities		777,918	721,980
		<u>1,445,302</u>	<u>1,452,508</u>

## 22. GAIN ON SALE OF SECURITIES

Federal government securities			
- Market treasury bills		-	501
- Pakistan investment bonds		-	1,024
Shares - listed securities - net	22.1	239,339	295,634
Shares - unlisted securities - net		(35)	-
		<u>239,304</u>	<u>297,159</u>

22.1 It includes reversal of impairment on sale of impaired securities as disclosed in note 9.3.

## 23. OTHER INCOME

Profit on sale of operating fixed assets		1,151	4,395
Others		24,743	17,587
		<u>25,894</u>	<u>21,982</u>

## 24. ADMINISTRATIVE EXPENSES

	Note	2011	2010
		(Rupees in '000)	
Salaries, allowances and employees' benefits		221,339	188,864
Directors' remuneration (including remuneration of Chief Executive)		27,819	26,969
Provision for gratuity	31.1.5	64,505	12,414
Employer's contribution to the provident fund		14,832	8,414
Travelling and conveyance		4,543	4,530
Rent and rates		9,479	6,976
Utilities		3,061	2,317
Communication		6,984	7,246
Professional training and staff welfare		1,454	1,072
Advertisements, periodicals and membership dues		2,090	2,520
Printing and stationery		3,014	2,911
Depreciation	11.1	15,228	14,067
Amortization	11.3	1,783	513
Auditors' remuneration	24.1	3,187	3,005
Legal, consultancy and other professional services		36,688	33,228
Repairs and maintenance		21,336	13,308
Motor vehicle expenses		1,644	6,493
Insurance		1,158	2,494
Donations	24.2	-	25,000
Workers' Welfare Fund		17,438	41,258
Entertainment		270	274
Bank charges		139	138
Miscellaneous		4,732	7,248
		<b>462,723</b>	<b>411,259</b>

### 24.1 Auditors' remuneration

Audit fee	1,243	1,210
Fee for half yearly review	468	446
Special certifications and sundry advisory services	1,257	1,214
Out of pocket expenses	219	135
	<b>3,187</b>	<b>3,005</b>

24.2 During the year, the holding company donated fully depreciated computers to the following:

Description	Cost	Accumulated depreciation	Net book value	Donee
		(Rupees in '000)		
Computers (forty five)	3,045	3,045	-	The Citizens Foundation
Computers (forty five)	3,045	3,045	-	SOS Village

None of the directors or their spouse had any interest in the donation made.

**25. OTHER CHARGES**

	2011	2010
	(Rupees in '000)	
Penalties imposed by the SBP	-	1,149

**26. TAXATION**

For the year		
- Current	276,665	176,089
- Deferred	89,059	177,056
	<u>365,724</u>	<u>353,145</u>

**26.1 Relationship between tax expense and accounting profit**

Profit before taxation	1,726,251	1,321,877
Tax at the applicable rate of 35% (2010: 35%)	604,188	462,657
Net tax effect on income taxed at reduced rates	(129,684)	(177,841)
Net tax effect of expenses not subject to tax	32,026	21,740
Others	(140,806)	46,589
	<u>365,724</u>	<u>353,145</u>

**27. BASIC EARNINGS PER SHARE**

Profit for the year	1,360,527	968,732
	(Number in '000)	
Weighted average number of ordinary shares	240	240
	(Rupees)	
Basic earnings per share	5,669	4,036

**28. DILUTED EARNINGS PER SHARE**

Profit for the year	1,360,527	968,732
	(Number in '000)	
Weighted average number of ordinary shares	240	240
	(Rupees)	
Diluted earnings per share	5,669	4,036

**28.1** There were no convertible potential ordinary shares outstanding as on December 31, 2011 and December 31, 2010.

**29. CASH AND CASH EQUIVALENTS**

	Note	2011	2010
		(Rupees in '000)	
Cash and balances with treasury banks	6	442,766	51,424
Balances with other banks	7	24,653	1,409,688
		<u>467,419</u>	<u>1,461,112</u>

### 30. STAFF STRENGTH

	2011	2010
	(Number)	
Permanent	83	79
Temporary / on contractual basis	3	5
Own staff strength at the end of the year	<u>86</u>	<u>84</u>
Outsourced	31	31
Total staff strength	<u>117</u>	<u>115</u>

### 31. DEFINED BENEFIT PLAN

#### 31.1 Staff retirement gratuity

31.1.1 The holding company operates a funded gratuity scheme for all its eligible permanent employees. 'Projected unit credit method' has been used for actuarial valuation.

#### 31.1.2 Principal actuarial assumptions

	Note	2011	2010
		(% per annum)	
Discount rate		<u>13.00</u>	<u>14.50</u>
Expected rate of increase in salaries		<u>13.00</u>	<u>14.50</u>
Expected rate of return on investments		<u>11.50</u>	<u>12.00</u>
Normal retirement age		<u>60 years</u>	<u>60 years</u>

#### 31.1.3 Reconciliation of payable to defined benefit plan

		(Rupees in '000)	
Present value of defined benefit obligations	31.1.6	106,149	43,568
Fair value of plan assets	31.1.7	<u>(92,594)</u>	<u>(17,517)</u>
		13,555	26,051
Unrecognised actuarial losses		<u>(9,687)</u>	<u>(13,636)</u>
		<u>3,868</u>	<u>12,415</u>

#### 31.1.4 Movement in payable to defined benefit plan

Opening balance		12,415	10,471
Expense charged in the current year	31.1.5	64,505	12,414
Company's contribution to gratuity fund		<u>(73,052)</u>	<u>(10,470)</u>
Closing balance		<u>3,868</u>	<u>12,415</u>

#### 31.1.5 Charge for defined benefit plan

Current service cost		11,229	7,501
Interest cost		11,159	5,752
Expected return on plan assets		(2,809)	(1,799)
Recognized prior service cost		44,083	-
Actuarial loss amortised		843	960
		<u>64,505</u>	<u>12,414</u>

**31.1.6 Reconciliation of present value of defined benefit obligation**

	2011	2010
	(Rupees in '000)	
Opening balance of defined benefit obligation	43,568	42,248
Current service cost	11,229	7,501
Interest cost	11,159	5,752
Actuarial benefits paid during the year	(1,698)	(8,626)
Recognized prior service cost	44,083	-
Actuarial gain on obligation	(2,192)	(3,307)
Closing balance of defined benefit obligation	<u>106,149</u>	<u>43,568</u>

**31.1.7 Reconciliation of fair value of plan assets**

Opening fair value of plan assets	17,517	14,111
Expected return on plan assets during the year	2,809	1,800
Actual contributions made by the employer	73,052	10,470
Actual benefits paid during the year	(1,698)	(8,626)
Actuarial loss on plan assets	914	(238)
Closing fair value of plan assets	<u>92,594</u>	<u>17,517</u>

Actual return on plan assets is 12.70 % as at December 31, 2011 (12.20% as at December 31, 2010).

**31.1.8 Historical information of defined benefit plan**

	Present value of the defined benefit plan	Fair value of the plan assets	Deficit in the plan	Gain / (loss) on plan liabilities due to experience	Gain / (loss) on plan assets due to experience
	(Rupees in '000)				
<b>2011</b>	<b>106,149</b>	<b>92,594</b>	<b>(13,555)</b>	<b>1,490</b>	<b>914</b>
2010	43,568	17,517	(26,051)	3,307	(238)
2009	42,248	14,111	(28,137)	3,655	(473)
2008	40,136	9,620	(30,516)	(10,335)	126
2007	27,370	7,198	(20,172)	(2,247)	(53)
2006	44,720	6,243	(38,477)	(3,461)	(221)

**31.1.9 Break up of investments**

	2011	2010
	(%)	
Bank balances	-	1
Market treasury bills	100	-
COI	-	99
	<u>100</u>	<u>100</u>

**31.1.10** The expected gratuity expense for the year ending December 31, 2012 works out to be Rs.15.433 million.

**32. DEFINED CONTRIBUTION PLAN**

The holding company operates an approved funded contributory provident fund for all its permanent employees to which monthly contributions are made both by the holding company (at 10 % of Salary), and by the employees (at the rate of 10 % - 30 %) of Salary.

### 33. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	(Rupees in '000)					
Fee	-	-	10,991	11,210	-	-
Managerial remuneration	9,360	12,000	-	-	128,153	80,336
Charge for defined benefit plan	-	-	-	-	41,591	6,379
Contribution to defined contribution plan	-	-	-	-	14,292	7,655
Rent and house maintenance	1,404	1,800	-	-	-	22,849
Utilities	1,174	1,263	-	-	-	4,995
Medical	46	167	-	-	1,724	3,546
Bonus paid	9,786	7,000	-	-	28,504	20,170
Others	808	529	-	-	-	5,161
	<b>22,578</b>	<b>22,759</b>	<b>10,991</b>	<b>11,210</b>	<b>214,269</b>	<b>151,091</b>
<b>No. of persons</b>	<b>1</b>	<b>1</b>	<b>5</b>	<b>5</b>	<b>49</b>	<b>55</b>

33.1 The compensation for 2011 includes remuneration and final settlement of the outgoing Chief Executive till August 31, 2011.

33.2 The Chief Executive and one executive are also provided with other facilities, including the free use of company maintained car.

### 34. FAIR VALUE OF FINANCIAL INSTRUMENTS

#### 34.1 On balance sheet financial instruments

	2011		2010	
	Book value	Fair value	Book value	Fair value
	(Rupees in '000)			
<b>Financial Assets</b>				
- Cash balances with treasury banks	442,766	442,766	51,424	51,424
- Balances with other banks	24,653	24,653	1,409,688	1,409,688
- Lendings to financial institutions	-	-	250,000	250,000
- Investments	15,966,871	16,022,513	17,521,580	17,681,508
- Advances	6,554,035	6,554,035	4,969,190	4,969,190
- Other assets	219,666	219,666	168,075	168,075
	<b>23,207,991</b>	<b>23,263,633</b>	<b>24,369,957</b>	<b>24,529,885</b>
<b>Financial Liabilities</b>				
- Borrowings	9,161,654	9,161,654	9,807,369	9,807,369
- Deposits and other accounts	1,726,601	1,726,601	3,138,512	3,138,512
- Other liabilities	330,335	330,335	322,018	322,018
	<b>11,218,590</b>	<b>11,218,590</b>	<b>13,267,899</b>	<b>13,267,899</b>

The fair value of investments in listed securities is based on market rates of the Karachi Stock Exchange. Fair value of unquoted equity investments is determined on the basis of break-up value based on the latest available financial statements.

Fair value of fixed term loans and advances, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments

### 35. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2011					Total
	Corporate Finance	Treasury	Investment Banking	Capital Markets	Others	
	(Rupees in '000)					
Total income - gross	1,078,488	1,282,873	860	1,459,814	20,324	3,842,359
Total mark-up / return / interest expense	(70,459)	(1,374,843)	-	-	-	(1,445,302)
Segment provision / impairment / unrealised losses	(139,638)	18,000	-	(86,445)	-	(208,083)
	(210,097)	(1,356,843)	-	(86,445)	-	(1,653,385)
Net operating income	868,391	(73,970)	860	1,373,369	20,324	2,188,974
Administrative expenses and other charges						(462,723)
Profit before taxation						1,726,251
Segment assets - net	7,567,378	9,005,931	-	6,221,428	1,135,821	23,930,558
Segment non-performing loans	1,723,232	-	-	-	-	1,723,232
Segment provision required and held	1,577,790	-	-	-	-	1,577,790
Segment liabilities	2,218,139	8,751,839	-	-	372,461	11,342,439
Segment return on net assets (ROA) %	14.68	12.54	-	21.02	1.48	-
Segment cost of funds (%)	11.48	12.67	-	-	-	-
	2010					
	Corporate Finance	Treasury	Investment Banking	Capital Markets	Others	Total
	(Rupees in '000)					
Total income - gross	662,576	1,488,198	7,812	971,888	20,099	3,150,573
Total mark-up / return / interest expense	(202,789)	(1,249,719)	-	-	-	(1,452,508)
Segment provision / impairment / unrealised gains	(30,517)	129,179	-	(62,441)	-	36,221
	(233,306)	(1,120,540)	-	(62,441)	-	(1,416,287)
Net operating income	429,270	367,658	7,812	909,447	20,099	1,734,286
Administrative expenses and other charges						(412,408)
Profit before taxation						1,321,878
Segment assets - net	5,885,142	11,820,169	-	6,261,507	1,056,112	25,022,930
Segment non-performing loans / financings	1,648,540	-	-	-	-	1,648,540
Segment provision required and held	1,420,615	-	-	-	-	1,420,615
Segment liabilities	1,852,024	11,329,595	-	-	98,539	13,280,158
Segment return on net assets (ROA) %	13.62	12.53	-	12.49	2.32	-
Segment cost of funds (%)	10.65	12.11	-	-	-	-

35.1 Under the holding company policy, capital market department assets are financed through equity funds.

### 36. RELATED PARTY TRANSACTIONS

The Group has related party relationship with its associates, associated undertakings, subsidiary companies, employee benefit plans, key management personnel and its directors.

The Group enters into transactions with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates.



	2011	2010
	(Rupees in '000)	
<b>Expenses charged to a related party</b>	<b>15,736</b>	14,988
<b>Expenses charged by</b>		
- associates	1,652	3,140
- other related party	17,026	13,089
<b>Dividend income from</b>		
- associates	340,200	85,867
<b>Mark-up earned on bank deposit with an associate</b>	<b>818</b>	1,054
<b>Mark-up earned on loans and advances</b>		
- key management personnel	1,063	496
<b>Loans and advances to key management personnel</b>		
Balance as at January 1,	47,223	22,523
Disbursement during the year	2,175	34,421
Recovery during the year	(5,480)	(9,721)
	(3,305)	24,700
<b>Balance as at December 31,</b>	<b>43,918</b>	<b>47,223</b>
<b>Mark-up expense on COI</b>		
- associates	10,437	14,348
- other related party	1,063	1,215
<b>Deposits / COIs</b>		
- associates	50,000	125,000
- other related party	12,500	2,500
<b>Bank balances with an associate</b>	<b>2,194</b>	11,611
<b>Mark-up receivable on bank deposit with an associate</b>	<b>44</b>	75
<b>Mark-up payable to related party</b>		
- associates	2,650	5,041
- other related party	1,302	239
<b>Investments in</b>		
- associates	5,443,111	4,587,944
- other related party	500	500
<b>Commitments for investment in equity of / loan to associates</b>	-	16,220
<b>Contribution made to provident fund</b>	<b>14,832</b>	8,414
<b>Contribution made to gratuity fund</b>	<b>73,052</b>	10,470
<b>Key management personnel</b>		

Key management personnel include the Managing Director, Deputy General Manager / Chief Financial Officer, Head of Corporate Finance & Investment Banking, Head of Risk Management, Head of Capital Markets & Treasury, Head of Compliance, Head of Internal Audit, Head of Wealth Management and Head of Human Resources. Their salaries and other benefits amount to Rs. 65.793 million (2010: Rs. 67.783 million) and staff retirement benefits amount to Rs. 17.419 million (2010: Rs. 5.313 million).

## 37. CAPITAL ADEQUACY

**37.1** State Bank of Pakistan (SBP) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements, SBP requires Banks/DFIs to maintain a total capital to total risk-weighted assets ratio of 10% on standalone as well as on consolidated basis. Standardized Approach of Basel – II is used for calculating risk weighted assets for Credit and Market Risk, whereas, Basic Indicator Approach (BIA) is used for calculating Operational Risk weighted assets.

### Objectives of Capital Management

The capital management objectives of the Group are as follows:

- To maintain sufficient capital to support overall business strategy, expansion and growth;
- To integrate capital allocation decisions with the strategic and financial planning process;
- To meet the regulatory capital adequacy ratios as defined by SBP;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide adequate return to shareholders; and
- To have a prudent buffer to protect the Group under different economic and stress scenarios caused by unexpected and unforeseeable events.

### Capital Management

The Group maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group has complied with all externally imposed capital requirements throughout the year.

The Group's regulatory capital is analyzed in following tiers:

- Tier 1 Capital which includes fully paid up capital (including the bonus shares), balances in share premium account, general reserves as the financial statements and net un-appropriated profits etc. after deduction for deficit on revaluation of available for sale investments and 50% deduction for investment in the subsidiary companies and significant minority investments in entities engaged in banking and financial activities.
- Tier 2 Capital, which includes general provisions for loan losses (up to a maximum of 1.25% of risk weighted), reserves on revaluation of fixed assets and equity investments up to a maximum of 45% balance, foreign exchange translation reserves etc. after 50 % deduction for investment in the equity of subsidiary companies and significant minority investments in entities engaged in banking and financial activities.

### Statutory Capital Requirement

The capital of Group is managed keeping in the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 30 dated November 25, 2008. The adequacy of the capital is tested with reference to risk weighted assets of the Group. The total risk-weighted exposures comprise the credit, market and operational risk. The calculation of capital adequacy enables the Group to assess the long-term soundness. It is crucial to continuously monitor the exposure across entire organization and aggregate risk so as to take an integrated approach/view. Maximization of the return on risk adjusted capital is the principal basis to be used in determining how capital is allocated within the Group to particular operations or activities.

The holding company also stress tests its capital adequacy to various risks as per SBP stress testing guidelines.

### 37.2 Capital adequacy ratio

	2011	2010
	(Rupees in '000)	
<b>CAP 1</b>		
<b>Tier 1 Capital</b>		
Fully paid-up capital	6,000,000	6,000,000
General Reserves as disclosed on the balance sheet	3,114,865	2,992,287
Accumulated profit	3,388,567	2,510,618
<b>Sub-Total</b>	<b>12,503,432</b>	<b>11,502,905</b>
<b>Deductions:</b>		
Book value of Goodwill and Intangibles	50,443	-
Deficit on account of revaluation of investments held AFS category	-	-
Other deductions (50% of the amount as calculated on CAP 2)	2,348,805	1,838,945
<b>Sub-Total</b>	<b>2,399,248</b>	<b>1,838,945</b>
<b>Total eligible Tier 1 Capital</b>	<b>10,104,184</b>	<b>9,663,960</b>
<b>Supplementary Capital</b>		
<b>Tier 2 Capital</b>	<b>38,119</b>	<b>107,941</b>
<b>Deductions</b>		
Other deductions (50% of the amount as calculated on CAP 2)	2,348,805	1,838,945
Total deductions	2,348,805	1,838,945
<b>Total supplementary capital eligible for capital adequacy ratio</b>	<b>(2,310,686)</b>	<b>(1,731,004)</b>
(Maximum upto 100% of Total eligible Tier 1 capital)		
<b>Total eligible capital (A)</b>	<b>7,793,491</b>	<b>7,932,956</b>

### Risk weighted exposures

	Capital Requirements		Risk Weighted Assets	
	2011	2010	2011	2010
	(Rupees in '000)			
<b>Credit risk</b>				
PSE's	29,038	7,773	290,377	77,726
Banks	8,504	28,238	85,036	282,376
Corporates	326,947	293,353	3,269,468	2,933,531
Retail portfolio	3,124	2,571	31,240	25,713
Secured by residential property	3,573	3,430	35,727	34,299
Past due loans	14,544	22,793	145,442	227,925
Listed equity investments	149,989	141,072	1,499,890	1,410,719
Unlisted equity investments	22,335	44,771	223,346	447,714
Investments in fixed assets	22,933	26,074	229,332	260,736
Other assets	5,778	39,224	57,779	392,237
	<b>586,765</b>	<b>609,299</b>	<b>5,867,637</b>	<b>6,092,976</b>
<b>Credit risk on off balance sheet</b>				
Non market related	163,250	133,204	1,632,500	1,332,042
<b>Market risk</b>				
Equity position risk	230,791	425,744	2,307,912	4,257,444
<b>Operational risk</b>	<b>322,785</b>	<b>198,671</b>	<b>3,227,851</b>	<b>1,986,707</b>
<b>(B)</b>	<b>1,303,591</b>	<b>1,366,918</b>	<b>13,035,900</b>	<b>13,669,169</b>
<b>Capital adequacy ratios</b>				
<b>Total eligible regulatory capital (A)</b>		7,793,498	7,932,956	
<b>Total risk weighted assets (B)</b>		13,035,900	13,669,169	
<b>TOTAL CAPITAL ADEQUACY RATIO (A)/(B) * 100</b>		<b>59.78%</b>	<b>58.04%</b>	

### 37.3 Types of exposures and ECAI's used

Exposures	JCR-VIS	PACRA
PSE's	-	-
Banks	✓	✓
Corporates	✓	✓
Sovereigns and GOP other than PKR	-	-

### 37.4 Credit exposures subject to standardised approach

Exposures	Rating Category	Amount Outstanding	Deduction CRM	Net amount
		-----	(Rupees in '000)	-----
Banks	1	425,182	-	425,182
Corporates	1	2,346,415	-	2,346,415
	2	1,286,257	-	1,286,257
	Unrated	2,157,056	-	2,157,056
		<u>6,214,910</u>	<u>-</u>	<u>6,214,910</u>

## 38. RISK MANAGEMENT

Risk taking is central to all financing activities. The holding company evaluates business opportunities in terms of the risk-reward relationship. The risks that the holding company takes are reasonable, controlled within its financial resources and credit competence. The primary objective of this risk management is to ensure that the process of achieving an appropriate balance between risks the holding company wishes to accept (at a price that is commensurate to that risk) and risks the holding company wishes to mitigate, or whenever capital is put at risk, is done in an objective, documented and transparent fashion and also to ensure that these risks are taken within predefined and pre-approved tolerance limits/levels.

The ultimate responsibility for risk management and setting of the risk management policy rests with the Board of Directors. The Board of Directors of the holding company approves a policy framework and oversees the Risk Management Function of the holding company through Risk Management Committee (RMC). Risk Management policy was approved by Board of Directors in its 116th meeting held in December 2010. The RMC is updated on quarterly basis by an independent Risk Management Function on the risk exposures, trends and benchmarks for each risk type covered within the scope of risk policy. Functional level committees oversee the implementation of risk management practices and exposure levels. Market and Liquidity Risks are managed by a well-represented Asset Liability Committee (ALCO) and the Credit Committee oversees Credit Risk.

The Head of Risk Management and the Risk Management Function of the holding company works with the Senior Management, ALCO and Credit Committee on a day to day basis to address issues directly related to the policy as well as improve and refine the policy based on experiences and market conditions.

The risk management framework is based on prudent risk identification, measurement, monitoring and management process which are closely aligned with all activities of the holding company so as to ensure that risks are kept within an acceptable level.

The holding company has developed Internal Capital Adequacy Assessment Process (ICAAP) document as per the SBP guidelines. In the ICAAP document, the holding company recognized risks other than the pillar 1 risks e.g. Strategic risk, Liquidity Risk, Reputational Risk and Interest Rate Risk in Banking Book.

The holding company is also in the process of implementing Risk Management System ORACLE REVELEUS. The system will cater all the major risk areas which include Credit, Market, Operational and Liquidity Risks. The system once implemented will facilitate in achieving requirements of developing advance risk models, improving risk reporting frequency, improving the overall control environment by developing system in-built controls, towards implementation of advance approaches of Basel - II

### 38.1 Credit risk

Credit risk is the risk of loss due to the failure of counterparty to meet its credit obligations in accordance with the agreed contract terms.

Credit Risk is the predominant risk type faced by the holding company in its lending activities. Credit risk is actively managed and monitored in accordance with well-defined credit policy approved by the Board of Directors. The holding company's credit risk management process takes place both at pre and post-disbursement stages. The objective to manage credit risk is to reduce future credit losses by creating effective standards for assessing and processing new credit and credit renewal applications. The credit evaluation system comprises of well-designed credit appraisal, review and approval procedures to ensure high quality asset portfolio. Prior to approval, a detailed risk assessment of each credit proposal is carried out which includes an analysis of the obligor's financial condition, cashflows, market position, industry dynamics, quality of management. Each credit proposal is evaluated on standalone basis as well as its implication on holding company's portfolio in terms of portfolio pricing and rating is also assessed. The risk assessment generates an internal credit risk rating for each exposure which affects the credit approval decision. All the credit applications and reviews are thoroughly analyzed by Risk Management Function. The application approval process is further supplemented by regular review of the existing credit limits, overall credit portfolio and the monitoring of early warning indicators that can trigger a tightening of lending standards and an increase in the frequency and depth of credit portfolio review.

Internal Credit Risk Rating System developed by the holding company is capable of quantifying credit risk pertinent to specific counterparty as well as the risk inherent in the facility structure. It takes into consideration various qualitative and quantitative factors and generates an internal rating. The rating models have been internally tested, validated and checked for compliance with SBP guidelines for Internal Credit Rating System. The Risk Rating Models, both Obligor Risk Rating (ORR) and Facility Risk Rating (FRR), are regularly reviewed based on day to day working experience and changes in market dynamics.

Credit risk management process adopted various concentration limits, counterparty and group level limits. Sectoral concentration limits are set for extending credit to a specific industry sector. The holding company monitors the concentration to any given sector to ensure that the loan portfolio is well diversified. ORR is also used on aggregate group level to determine the amount of credit exposure holding company is willing to take on a particular group.

Various analysis and reports are also performed on periodic basis and are reported to the RMC of the Board. These analyses mainly include past due analysis, transition matrix & migration analysis, risk premium analysis, sector-wise and rating-wise portfolio distribution analysis etc. The holding company performs stress testing on its credit portfolio as per SBP stress testing guidelines.

The disbursement and administration of credit facilities is managed by Credit Administration Department (CAD).

To manage non-performing customers Special Asset Management (SAM) Department is functional and is responsible to recover overdue exposures. Rigorous recovery efforts are made to recover outstanding dues from non-performing clients.

The Group is using Basel-II standardized approach to calculate risk weighted assets against credit risk.

### 38.1.1 Segment Information

#### 38.1.1.1 Segment by class of business

	2011					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Textile	2,397,285	29.48	-	-	417,000	97.55
Chemical and pharmaceutical	1,302,790	16.01	-	-	-	-
Cement	93,333	1.15	-	-	-	-
Sugar	420,346	5.17	-	-	-	-
Footwear and leather garments	22,933	0.28	-	-	-	-
Automobile and transportation equipment	9,837	0.12	-	-	-	-
Electronics and electrical appliances	11,111	0.14	-	-	-	-
Construction	383,851	4.72	-	-	-	-
Transport, storage and communication	722,580	8.89	-	-	-	-
Financial and Insurance	-	-	-	-	-	-
Power	1,693,170	20.82	-	-	-	-
Trusts	-	-	1,264,411	73.23	-	-
Services	350,586	4.31	162,190	9.39	10,452	2.45
Individuals	143,730	1.77	-	-	-	-
Others	580,273	7.14	300,000	17.38	-	-
	<u>8,131,825</u>	<u>100.00</u>	<u>1,726,601</u>	<u>100.00</u>	<u>427,452</u>	<u>100.00</u>

	2010					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Textile	2,698,316	42.23	-	-	9,580	4.96
Chemical and pharmaceutical	889,468	13.92	75,000	2.39	-	-
Cement	93,333	1.46	-	-	-	-
Sugar	183,375	2.87	-	-	-	-
Footwear and leather garments	31,286	0.49	-	-	-	-
Automobile and transportation equipment	-	-	-	-	-	-
Electronics and electrical appliances	11,679	0.18	-	-	-	-
Construction	446,766	6.99	-	-	16,220	8.40
Transport, storage and communication	279,510	4.37	-	-	-	-
Financial and Insurance	-	-	400,000	12.74	-	-
Power	1,052,070	16.47	-	-	149,062	77.18
Trusts	-	-	1,786,012	56.91	-	-
Services	230,104	3.60	377,500	12.03	15,634	8.09
Individuals	132,280	2.07	-	-	-	-
Others	341,618	5.35	500,000	15.93	2,645	1.37
	<u>6,389,805</u>	<u>100.00</u>	<u>3,138,512</u>	<u>100.00</u>	<u>193,141</u>	<u>100.00</u>

### 38.1.2 Segment by sector

	2011					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	555,137	6.83	-	-	-	-
Private	7,576,688	93.17	1,726,601	100.00	427,452	100.00
	<u>8,131,825</u>	<u>100.00</u>	<u>1,726,601</u>	<u>100.00</u>	<u>427,452</u>	<u>100.00</u>
	2010					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	152,070	2.38	-	-	149,062	77.18
Private	6,237,735	97.62	3,138,512	100.00	44,079	22.82
	<u>6,389,805</u>	<u>100.00</u>	<u>3,138,512</u>	<u>100.00</u>	<u>193,141</u>	<u>100.00</u>

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

	2011		2010	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	----- (Rupees in '000) -----			
Textile	1,022,718	1,022,718	1,163,045	971,370
Construction	186,297	176,662	214,944	180,569
Cement	93,333	93,333	93,333	93,333
Others	420,884	285,077	177,218	175,343
	<u>1,723,232</u>	<u>1,577,790</u>	<u>1,648,540</u>	<u>1,420,615</u>

### 38.1.4 Details of non-performing advances and specific provisions by sector

	2011		2010	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	----- (Rupees in '000) -----			
Public / government	-	-	-	-
Private	1,723,232	1,577,790	1,648,540	1,420,615
	<u>1,723,232</u>	<u>1,577,790</u>	<u>1,648,540</u>	<u>1,420,615</u>

### 38.2 Liquidity risk

Liquidity Risk is the risk that the holding company is unable to fund its current obligations and operations in the most cost effective manner.

To limit this risk the holding company maintains statutory deposits with the central bank. The ALCO is primarily responsible for the formulation of the overall strategy and oversight of the asset liability function. The holding company's key funding source is the inter-bank money market. Changes in government monetary policy and market expectations of interest rate are the factors that can affect the holding company's key funding source. Comprehensive gap analysis is done on monthly basis to evaluate match/mismatch between assets and liabilities. ALCO reviews gap analysis and devise the liquidity management strategy. During the year gap limits for each maturity bucket were implemented for effective monitoring of liquidity positions. These limits are monitored by Risk Management Department and reviewed by ALCO on monthly basis.

Major findings of liquidity ratios & Gap reports are also reported to the Risk Management Committee of the Board of the holding company on quarterly basis.

### 38.2.1 Maturities of assets and liabilities

	2011									
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years
	(Rupees in 000)									
<b>Assets</b>										
Cash and balances with treasury banks	442,766	442,766	-	-	-	-	-	-	-	-
Balances with other banks	24,653	24,653	-	-	-	-	-	-	-	-
lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	15,966,871	-	21,377	115	8,155,648	1,015,174	4,253,730	606,234	1,914,593	-
Advances	6,554,035	124,367	93,581	716,316	1,265,513	960,136	1,065,972	1,597,102	695,237	35,811
Operating fixed assets	282,125	1,375	2,751	4,126	8,256	16,513	16,513	19,926	24,652	188,013
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	660,108	41,602	145,339	81,260	4,801	383,273	-	3,833	-	-
	<b>23,930,558</b>	<b>634,763</b>	<b>263,048</b>	<b>801,817</b>	<b>9,434,218</b>	<b>2,375,096</b>	<b>5,336,215</b>	<b>2,227,095</b>	<b>2,634,482</b>	<b>223,824</b>
<b>Liabilities</b>										
Borrowings	9,161,654	6,118,058	935,551	18,523	55,127	80,552	829,976	1,071,589	52,278	-
Deposits and other accounts	1,726,601	412,245	265,000	678,856	368,000	-	-	2,500	-	-
Deferred tax liabilities	119,981	(96,031)	(6,041)	(8,967)	(31,655)	-	395,388	-	(132,713)	-
Other liabilities	334,203	181,088	49,609	43,644	8,448	7,223	28,187	15,287	717	-
	<b>11,342,439</b>	<b>6,615,360</b>	<b>1,244,119</b>	<b>732,056</b>	<b>399,920</b>	<b>87,775</b>	<b>1,253,551</b>	<b>1,089,376</b>	<b>(79,718)</b>	<b>-</b>
<b>Net assets</b>	<b>12,588,119</b>	<b>(5,980,597)</b>	<b>(981,071)</b>	<b>69,761</b>	<b>9,034,298</b>	<b>2,287,321</b>	<b>4,082,664</b>	<b>1,137,719</b>	<b>2,714,200</b>	<b>223,824</b>
Share capital	6,000,000									
Reserves	3,114,865									
Accumulated profit	3,388,567									
Surplus on revaluation of 'available-for-sale' securities – net of tax	84,687									
	<b>12,588,119</b>									

	2010									
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years
	(Rupees in 000)									
<b>Assets</b>										
Cash and balances with treasury banks	51,424	51,424	-	-	-	-	-	-	-	-
Balances with other banks	1,409,688	509,688	900,000	-	-	-	-	-	-	-
lendings to financial institutions	250,000	-	250,000	-	-	-	-	-	-	-
Investments	17,521,580	2,038,874	1,408,546	5,166,722	2,243,227	334,650	4,167,127	479,450	1,682,984	-
Advances	4,969,190	163,800	321,077	249,067	334,683	765,326	740,681	1,456,179	895,481	42,896
Operating fixed assets	260,736	870	1,738	2,606	5,216	10,430	10,430	14,975	24,910	189,561
Deferred tax assets	3,539	14,782	18,329	29,838	-	-	(276,094)	-	216,684	-
Other assets	556,774	30,350	130,140	62,680	4,889	324,357	674	3,684	-	-
	<b>25,022,931</b>	<b>2,809,788</b>	<b>3,029,830</b>	<b>5,510,913</b>	<b>2,588,015</b>	<b>1,434,763</b>	<b>4,642,818</b>	<b>1,954,288</b>	<b>2,820,059</b>	<b>232,457</b>
<b>Liabilities</b>										
Borrowings	9,807,369	6,987,157	2,370,030	39,830	51,207	93,108	76,993	120,843	68,201	-
Deposits and other accounts	3,138,512	142,354	603,558	497,000	1,863,100	30,000	-	2,500	-	-
Other liabilities	334,277	68,273	124,754	16,795	65,228	14,062	6,852	27,322	10,991	-
	<b>13,280,158</b>	<b>7,197,784</b>	<b>3,098,342</b>	<b>553,625</b>	<b>1,979,535</b>	<b>137,170</b>	<b>83,845</b>	<b>150,665</b>	<b>79,192</b>	<b>-</b>
<b>Net assets</b>	<b>11,742,773</b>	<b>(4,387,996)</b>	<b>(68,512)</b>	<b>4,957,288</b>	<b>608,480</b>	<b>1,297,593</b>	<b>4,558,973</b>	<b>1,803,623</b>	<b>2,740,867</b>	<b>232,457</b>
Share capital	6,000,000									
Reserves	2,992,287									
Accumulated profit	2,510,618									
Surplus on revaluation of 'available-for-sale' securities – net of tax	239,868									
	<b>11,742,773</b>									



### 38.3 Market risk

It is the risk that the value of on and off – balance sheet positions of a financial institution will be adversely affected by movements in market variables, such as interest rates, foreign exchange rates, equity prices and credit spreads.

The Group is exposed to interest rate risk and equity price risk. Market Risk is managed by the Risk Management Function which makes sure that exposure in Money Market and Equity Market adheres with the risk tolerance levels and matches with overall business goals set by Board of Directors (BOD), Risk Management Committee of the Board (RMC) and ALCO.

Market Risk is pertinent to the Trading Book which consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. The trading book includes equity and money market securities classified as 'Held for Trading'. These positions are actively managed by the capital market and money market desks.

All investments excluding trading book are considered as part of banking book. Banking book includes:

- Available-for-sale Securities
- Held-to-maturity Securities
- Other Strategic Investments

Due to diversified nature of investments in banking book, it is subject to interest rate risk and equity price risk.

A well-defined limits structure is in place to effectively manage market risk. These limits are reviewed, adjusted and approved periodically by ALCO. Middle Office monitors these limits on daily basis.

The Group is using Basel-II Standardized approach to calculate risk weighted assets against market risk exposures.

To manage market risk, the holding company carries out stress testing of its balance sheet by varying sources of market risk as per SBP guidelines.

#### 38.3.1 Interest rate risk

Interest Rate Risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specific period. The holding company manages its interest rate risk by entering into floating rate agreements with its customers. The interest rate risk strategy is discussed in ALCO meetings on periodic basis. The risk management function carries out stress testing to ascertain the interest rate risk on the balance sheet and also prepares the interest rate risk profile on monthly basis.

The proceedings of ALCO are reported to the Risk Management Committee of the Board on quarterly basis.

Effective yield / interest rate %	2011											
	Total	Exposed to yield / profit risk									Not exposed to yield/interest rate risk	
		Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years		
	(Rupees in '000)											
<b>On balance sheet financial instruments</b>												
<b>Financial Assets</b>												
Cash and balances with treasury banks	12.75	442,766	400,000	-	-	-	-	-	-	-	-	42,766
Balances with other banks	5.00	24,653	22,864	-	-	-	-	-	-	-	-	1,789
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	12.34	15,966,871	-	36,932	659,127	6,850,426	246,915	-	13,265	1,340,483	-	6,819,723
Advances	14.47	6,554,035	894,844	1,271,165	2,959,102	1,002,781	95,428	93,389	72,454	65,319	14,659	84,894
Other assets	-	219,666	-	-	-	-	-	-	-	-	-	219,666
		<b>23,207,991</b>	<b>1,317,708</b>	<b>1,308,097</b>	<b>3,618,229</b>	<b>7,853,207</b>	<b>342,343</b>	<b>93,389</b>	<b>85,719</b>	<b>1,405,802</b>	<b>14,659</b>	<b>7,168,838</b>
<b>Financial Liabilities</b>												
Borrowings	11.75	9,161,654	6,118,058	2,685,551	18,523	55,127	80,552	79,976	71,589	52,278	-	-
Deposits and other accounts	12.61	1,726,601	412,245	265,000	678,856	368,000	-	-	2,500	-	-	-
Other liabilities	-	330,335	-	-	-	-	-	-	-	-	-	330,335
		<b>11,218,590</b>	<b>6,530,303</b>	<b>2,950,551</b>	<b>697,379</b>	<b>423,127</b>	<b>80,552</b>	<b>79,976</b>	<b>74,089</b>	<b>52,278</b>	-	<b>330,335</b>
<b>On balance sheet gap</b>		<b>11,989,401</b>	<b>(5,212,595)</b>	<b>(1,642,454)</b>	<b>2,920,850</b>	<b>7,430,080</b>	<b>261,791</b>	<b>13,413</b>	<b>11,630</b>	<b>1,353,524</b>	<b>14,659</b>	<b>6,838,503</b>

Effective yield / interest rate %	2010											
	Total	Exposed to yield / profit risk									Not exposed to yield/interest rate risk	
		Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years		
	(Rupees in '000)											
<b>On balance sheet financial instruments</b>												
<b>Financial Assets</b>												
Cash and balances with treasury banks	-	51,424	-	-	-	-	-	-	-	-	-	51,424
Balances with other banks	12.50	1,409,688	474,398	900,000	-	-	-	-	-	-	-	35,290
Lendings to financial institutions	12.68	250,000	-	250,000	-	-	-	-	-	-	-	-
Investments	12.26	17,521,580	2,009,654	1,372,160	5,166,721	92	33,684	326,975	340	1,682,484	-	6,929,470
Advances	14.22	4,969,190	659,456	749,930	1,286,068	1,810,642	92,763	86,889	136,044	47,059	15,329	85,010
Other assets	-	168,075	-	-	-	-	-	-	-	-	-	168,075
		<b>24,369,957</b>	<b>3,143,508</b>	<b>3,272,090</b>	<b>6,452,789</b>	<b>1,810,734</b>	<b>126,447</b>	<b>413,864</b>	<b>136,384</b>	<b>1,729,543</b>	<b>15,329</b>	<b>7,269,269</b>
<b>Financial Liabilities</b>												
Borrowings	12.03	9,807,369	6,987,157	2,370,030	39,830	51,207	93,108	76,993	120,843	68,201	-	-
Deposits and other accounts	12.33	3,138,512	142,354	603,558	497,000	1,863,100	30,000	-	2,500	-	-	-
Other liabilities	-	322,018	-	-	-	-	-	-	-	-	-	322,018
		<b>13,267,899</b>	<b>7,129,511</b>	<b>2,973,588</b>	<b>536,830</b>	<b>1,914,307</b>	<b>123,108</b>	<b>76,993</b>	<b>123,343</b>	<b>68,201</b>	-	<b>322,018</b>
<b>On balance sheet gap</b>		<b>11,102,058</b>	<b>(3,986,003)</b>	<b>298,502</b>	<b>5,915,959</b>	<b>(103,573)</b>	<b>3,339</b>	<b>336,871</b>	<b>13,041</b>	<b>1,661,342</b>	<b>15,329</b>	<b>6,947,251</b>

### 38.3.2 Currency risk

Foreign exchange risk arises in case of an on balance sheet / off balance sheet asset or liability position when there is adverse exchange rate movement. The Group's exposure to this category of market risk is negligible.

	2011			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	----- (Rupees in '000) -----			
Pakistan Rupees	23,929,471	11,342,439	427,452	12,159,580
United States Dollars	1,087	-	-	1,087
	<u>23,930,558</u>	<u>11,342,439</u>	<u>427,452</u>	<u>12,160,667</u>
	2010			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	----- (Rupees in '000) -----			
Pakistan Rupees	25,021,520	13,280,158	193,141	11,548,221
United States Dollars	1,411	-	-	1,411
	<u>25,022,931</u>	<u>13,280,158</u>	<u>193,141</u>	<u>11,549,632</u>

### 38.3.3 Equity price risk

It is the risk to earnings or capital that results from adverse changes in the value/price of equity related portfolios.

ALCO is responsible for making investment decisions in the capital market and setting limits that are a component of the risk management framework. Equity Price Risk is monitored and controlled through various regulatory and internal limits. Portfolio, sector and scrip-wise limits are assigned by the ALCO such as overall exposure limits in capital market HFT and AFS portfolio, mark-to-market limit on trading portfolio, sector-wise investment limits in various sectors to guard against concentration risk. These limits are monitored on daily basis and are reviewed and revised periodically by ALCO. The ALCO approves exposure limits applicable to investments and meets on regular basis to discuss equity investments related strategy. Risk management function ensures compliance of portfolio, sector and scrip-wise limits set by ALCO and regulatory authority. Value at Risk (VaR) is also calculated against the capital market exposure and the findings are reported to RMC of the Board on quarterly basis.

### 38.4 Operational risk

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and system failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets etc.

Risk Management Policy sets out the guidelines to identify, assess, monitor, control and report operational risk. Risk Management Department is in the process of implementing operational risk assessment tools, risk controls and reporting framework. Operational Risk Loss Data including Loss Events, Near Misses and Transactions in Difficulty are being collected, throughout the year, from all the respective departments / units on monthly basis. These operational losses occurring across the holding company are reported to Risk Management Department where they are aggregated into an internally developed Operational Loss Database. For the purpose of monitoring of the occurrences of key operational risks, Key Risk Indicators (KRIs) have been identified during the year and KRI reporting has also been initiated on monthly basis.

The Group is using Basic Indicator Approach to calculate Operational risk weighted assets as per Basel II requirements for capital adequacy calculation.

## **39. ACCOUNTING ESTIMATES AND JUDGEMENTS**

### **39.1 Provision against non-performing advances**

The management reviews the loan and lease portfolio to assess non-performing accounts and expected recovery on a monthly basis. In determining the non-performing accounts and provision requirements, the relevant Prudential Regulations issued by the State Bank of Pakistan, payment status of mark-up and principal, expected future cash flows of the business, security position and personal wealth of the directors and owners are taken into account.

### **39.2 Classification of investments**

In classifying investments as 'held-for-trading' the Group has determined securities which are acquired with the intention to trade by taking advantage of taking short term market / interest rate movements and are to be sold within 90 days.

In classifying investments as 'held-to-maturity' the Group follows the guidance provided in SBP circulars on classifying non derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgement, the Group evaluates its intention and ability to hold such investment to maturity.

The investments which are not classified as 'held-for-trading' or 'held-to-maturity' are classified as 'available-for-sale'.

### **39.3 Impairment of 'available-for-sale' equity instruments**

The management determines that 'available-for-sale' equity investments are impaired when there has been a significant or prolonged decline in market value / fair value below its cost. In making this judgement, the management considers among other factors, the decline in market price below cost by 30% as significant and if the decline in market price persists for 9 months as prolonged.

### **39.4 Income taxes**

In making the estimates for income taxes currently payable by the holding company, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues as described in note 19 and the appeals of the department pending at various levels of authorities.

### **39.5 Gratuity**

The holding company has adopted certain actuarial assumptions as disclosed in note 31.1.2 to the financial statements for determining present value of defined benefit obligations and fair value of plan assets, based on actuarial advice. Any change in the assumptions from actual results would change the amount of unrecognised gains and losses.

### **39.6 Useful life and residual value of property and equipment**

Estimates of useful life and residual value of property and equipment are based on the management's best estimate.

#### 40. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue in the Board of Directors meeting held on February 17, 2012.

#### 41. GENERAL AND NON-ADJUSTING EVENT

**41.1** The JCR-VIS Credit Rating Company Limited on June 28, 2011 has maintained long term credit ratings of AAA (Triple A) and the short term rating of A1+(A one plus) for the holding company. The Pakistan Credit Rating Agency (PACRA) on July 6, 2011 has upgraded the long-term entity rating to AAA (Triple A) and maintained the short term rating at A1+(A one plus), the highest level.

**41.2** The Board of Directors of the holding company has proposed cash dividend of Rs.360 million (2010: Rs. 360 million) for the year ended December 31, 2011 in their meeting held on February 17, 2012. These financial statements do not include the effect of this appropriation which will be accounted for subsequent to the year end.

**41.3** Corresponding figures have been rearranged and reclassified in note 38.2.1 and 38.3.1 for the purpose of better presentation and comparison.

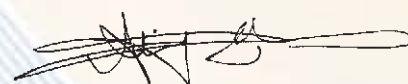
**41.4** Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.



Officiating Chief Executive



Director



Director

## Quality of Available for Sale Securities

As Referred to in Note 9.5 to the financial statements

Sr. No.	Name of Company	2011		2010	
		Market Value	Rating	Market Value	Rating
		(Rupees in '000)		(Rupees in '000)	
<b>AVAILABLE FOR SALE PORTFOLIO</b>					
<b>PKIC STRATEGIC PORTFOLIO</b>					
1	MEEZAN BANK LIMITED	4,186,807	AA-/A-1+	3,540,153	AA-/A-1
	<b>TOTAL</b>	<b>4,186,807</b>		<b>3,540,153</b>	
<b>PKIC GENERAL PORTFOLIO</b>					
<b>OIL AND GAS</b>					
2	ATTOCK PETROLEUM LIMITED	-	-	70,107	Unrated
3	NATIONAL REFINERY LIMITED	-	-	9,993	AAA / A1+
4	PAKISTAN STATE OIL COMPANY LIMITED	194,492	AA+/A1+	182,968	AA+/A1+
5	PAKISTAN OILFIELDS LIMITED	-	-	267,844	Unrated
6	PAKISTAN PETROLEUM LIMITED	-	-	96,054	Unrated
	<b>TOTAL</b>	<b>194,492</b>		<b>626,966</b>	
<b>CHEMICALS</b>					
7	ENGRO CORPORATION LIMITED (FORMERLY ENGRO CHEMICAL PAKISTAN)	-	-	62,019	AA/A1+
8	FAUJI FERTILIZER BIN QASIM LIMITED	156,991	Unrated	-	-
9	FAUJI FERTILIZER COMPANY LIMITED	155,979	Unrated	203,335	Unrated
	<b>TOTAL</b>	<b>312,970</b>		<b>265,354</b>	
<b>CONSTRUCTION AND MATERIALS</b>					
10	CHERAT CEMENT COMPANY LIMITED	196	Unrated	293	Unrated
11	D.G.KHAN CEMENT COMPANY	-	-	16,595	Unrated
12	LUCKY CEMENT LIMITED	-	-	67,002	Unrated
	<b>TOTAL</b>	<b>196</b>		<b>83,890</b>	
<b>GENERAL INDUSTRIALS</b>					
13	PACKAGES LIMITED	-	-	38,583	AA/A1+
	<b>TOTAL</b>	<b>-</b>		<b>38,583</b>	
<b>AUTOMOBILE AND PARTS</b>					
14	THE GENERAL TYRE & RUBBER CO. OF PAKISTAN LTD.	350,750	Unrated	379,099	Unrated
	<b>TOTAL</b>	<b>350,750</b>		<b>379,099</b>	
<b>PERSONAL GOODS</b>					
15	NISHAT (CHUNIAN) LIMITED	31,558	Unrated	17,968	A / A-2
16	NISHAT MILLS LIMITED	18,202	AA-/A1+	64,170	A+/A1
	<b>TOTAL</b>	<b>49,760</b>		<b>82,138</b>	
<b>FIXED LINE TELECOMMUNICATION</b>					
17	PAKISTAN TELECOMMUNICATION COMPANY LIMITED (A)	44,266	Unrated	107,736	Unrated
	<b>TOTAL</b>	<b>44,266</b>		<b>107,736</b>	

Sr. No.	Name of Company	2011		2010	
		Market Value	Rating	Market Value	Rating
		(Rupees in '000)		(Rupees in '000)	
<b>ELECTRICITY</b>					
18	THE HUB POWER COMPANY LIMITED	116,315	AA+/A1+	214,453	AA+/A1+
19	KOT ADDU POWER CO. LTD.	85,524	AA+/A1+	64,912	Unrated
20	NISHAT CHUNIAN POWER LTD	147,483	AA-/A1+	271,878	AA-/A1+
21	NISHAT POWER LIMITED	77,700	AA-/A1+	64,059	AA-/A1+
	<b>TOTAL</b>	<b>427,022</b>		<b>615,302</b>	
<b>GAS AND WATER MULTIUTILITIES</b>					
22	SUI NORTHERN GAS PIPELINES LIMITED	-	-	6,430	AA/A1+
	<b>TOTAL</b>	<b>-</b>		<b>6,430</b>	
<b>BANKS</b>					
23	BANK ALFALAH LIMITED	-	-	17,546	AA/A1+
24	BANK AL-HABIB LIMITED	5,126	AA+/A1+	21,756	AA+/A1+
25	BANKISLAMI PAKISTAN LIMITED	-	-	998	A/A1
26	NATIONAL BANK OF PAKISTAN	-	-	120,927	AAA/A-1+
27	UNITED BANK LIMITED	119,336	AA+/A-1+	102,345	AA+/A-1+
	<b>TOTAL</b>	<b>124,462</b>		<b>263,572</b>	
<b>FINANCIAL SERVICES</b>					
28	SME LEASING LIMITED	787	BBB+/A-3	3,026	BBB+/A-3
29	DADABHOY LEASING COMPANY LIMITED	-	Unrated	13	Unrated
	<b>TOTAL</b>	<b>787</b>		<b>3,039</b>	
<b>EQUITY INVESTMENT INSTRUMENTS</b>					
30	AL MEEZAN MUTUAL FUND LIMITED	172,674	Unrated	140,403	Unrated
31	MEEZAN BALANCED FUND	100,626	Unrated	82,933	Unrated
32	NAMCO BALANCED FUND	21,462	MFR-1 Star	16,254	Unrated
33	PAK OMAN ADVANTAGE FUND	45,509	AA-(f)	51,647	AA-(f)
	<b>TOTAL</b>	<b>340,271</b>		<b>291,237</b>	
<b>PREFERENCE SHARES</b>					
34	MASOOD TEXTILE MILLS LIMITED (CUMULATIVE PREFERENCE SHARES) 12.1%	50,000	Unrated	50,000	Unrated
35	PAKISTAN INTERNATIONAL CONTAINER TERMINAL LIMITED (PREFERENCE SHARES) 10%	22,475	Unrated	25,000	Unrated
36	CHENAB LIMITED - NON VOTING CUMULATIVE PREFERENCE SHARES 9.25%	2,533	Unrated	3,725	Unrated
37	SECURITY LEASING CORPORATION LIMITED (PREFERENCE SHARES) 9.1%	-	-	3,500	Unrated
	<b>PREFERENCE SHARES TOTAL</b>	<b>75,008</b>		<b>82,225</b>	
	<b>GRAND TOTAL</b>	<b>6,106,791</b>		<b>6,385,724</b>	

As Referred to in Note 9.5 to the financial statements

## Quality of Available for Sale Securities

Sr. No.	Particulars	2011		2010	
		Market Value	Rating	Market Value	Rating
		(Rupees in '000)		(Rupees in '000)	
<b>Government Securities</b>					
1	MARKET TREASURY BILLS - Six months - Twelve months	- 6,850,426	GOVERNMENT SECURITIES	1,984,520 6,533,804	GOVERNMENT SECURITIES
2	PAKISTAN INVESTMENT BONDS - Five years - Ten years	260,182 1,340,481	GOVERNMENT SECURITIES	235,930 1,258,374	GOVERNMENT SECURITIES
	Sub Total	8,451,089		10,012,628	
<b>Listed Term Finance Certificates</b>					
1	STANDARD CHARTERED BANK (PAKISTAN) LIMITED (20-01-2004) Certificate of Rs. 5,000 each Mark up : 10.6416% (PIB 5 Years rate +0.75% with Floor 5.00% , Cap 10.75%) Redemption : Half Yearly Installments commencing from Jan - 2004 Maturity : Jan, 2011	-	-	23,201	AAA
2	FAYSAL BANK LIMITED (FORMERLY ROYAL BANK OF SCOTLAND) -TFCs (10-02-2005) Certificate of Rs. 5,000 each Mark up : 15.26% (6-Months KIBOR Ask Rate + 1.90%) Redemption : Half yearly Installments commencing from Feb -2005 Maturity : Dec, 2012	10,022	AA-	14,897	AA-
3	BANK AL FALAH - TFC-2 (23-11-2004) Certificate of Rs. 5,000 each Mark up : 13.43% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2011 Maturity : Nov, 2012	9,170	AA-	13,608	AA-
4	BANK AL FALAH - TFC-3 (25-11-2005) Certificate of Rs. 5,000 each Mark up : 13.42% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2012 Maturity : Nov, 2013	75,197	AA-	74,132	AA-
5	ASKARI COMMERCIAL BANK LIMITED -TFCs (04-02-2005) Certificate of Rs. 5,000 each Mark up : 13.50% (6-Months Kibor + 1.5%) Redemption : Feb-2013 Maturity : Feb, 2013	26,908	AA-	26,790	AA-
	Sub Total	121,297		152,628	



As Referred to in Note 9.5 to the financial statements  
**Quality of Available for Sale Securities**

Sr. No.	Particulars	2011		2010	
		Cost	Rating	Cost	Rating
		(Rupees in '000)		(Rupees in '000)	
<b>Unlisted Term Finance Certificates</b>					
1	BANK AL FALAH LIMITED (02-12-2009) Certificate of Rs. 5,000 each Mark up : 14.43% (6-Months KIBOR Ask Rate + 2.50%) Redemption : Half yearly from Dec - 2016 Maturity : Nov, 2017 CEO of the company : Mr. Atif Bajwa	99,920	AA-	99,960	AA-
2	NEW ALLIED ELECTRONICS INDUSTRIES (PRIVATE) LIMITED Certificate of Rs. 5,000 each Mark up : 16.37% (KIBOR 3-Months Ask Rate + 2.75%) Redemption : Quarterly Installments commencing from Aug - 2007 Maturity : May, 2011 CEO of the company : Mr. Mian Pervez Akhtar	21,138	Unrated	21,138	Unrated
3	DEWAN FAROOQUE SPINNING MILLS LIMITED Certificate of Rs. 5,000 each Mark up : 19.43% (KIBOR 6-Months Ask Rate + 3.75%) Redemption : Half yearly Installments commencing from Dec - 2004 Maturity : Dec , 2009 CEO of the company : Mr. Dewan Abdul Baqi Farooqui	12,500	Unrated	12,500	Unrated
4	FAYSAL BANK LIMITED Certificate of Rs. 5,000 each Mark up : 14.25% (KIBOR 6-Months Ask Rate + 2.25%) Redemption : Half yearly Installments commencing from June - 2011 Maturity : Oct, 2017 CEO of the company : Mr. Naveed A. Khan	324,870	AA-	325,000	AA-
5	BANK AL HABIB Certificate of Rs. 5,000 each Mark up : 15.00% - 15.50% Redemption : Half yearly Installments commencing from December - 2011 Maturity : June, 2021 CEO of the company : Mr. Abbas D. Habib	149,970	AA	-	-
<b>Sub Total</b>		<b>608,398</b>		<b>458,598</b>	

## Particulars of Investment Held in Shares of Listed Companies

Sr No.	Name of Company	2011	2010	2011			2010		
		Total Shares		Cost	Impairment	Cost after Impairment	Cost	Impairment	Cost after Impairment
----- (Rupees in '000) -----									
<b>AVAILABLE FOR SALE PORTFOLIO</b>									
<b>PKIC STRATEGIC PORTFOLIO</b>									
1	MEEZAN BANK LIMITED	240,897,991	209,476,514	4,210,596	-	4,210,596	3,306,503	-	3,306,503
	<b>TOTAL</b>	<b>240,897,991</b>	<b>209,476,514</b>	<b>4,210,596</b>	<b>-</b>	<b>4,210,596</b>	<b>3,306,503</b>	<b>-</b>	<b>3,306,503</b>
<b>PKIC GENERAL PORTFOLIO</b>									
<b>OIL AND GAS</b>									
2	ATTOCK PETROLEUM LIMITED	-	209,574	-	-	-	64,232	-	64,232
3	NATIONAL REFINERY LIMITED	-	36,499	-	-	-	9,839	-	9,839
4	PAKISTAN STATE OIL COMPANY LIMITED	856,000	619,853	245,182	-	245,182	174,745	-	174,745
5	PAKISTAN OILFIELDS LIMITED	-	905,000	-	-	-	211,546	-	211,546
6	PAKISTAN PETROLEUM LIMITED	-	442,338	-	-	-	91,803	-	91,803
	<b>TOTAL</b>	<b>856,000</b>	<b>2,213,264</b>	<b>245,182</b>	<b>-</b>	<b>245,182</b>	<b>552,165</b>	<b>-</b>	<b>552,165</b>
<b>CHEMICALS</b>									
7	ENGRO CORPORATION LIMITED (FORMERLY ENGRO CHEMICAL PAKISTAN)	-	320,000	-	-	-	58,572	-	58,572
8	FAUJI FERTILIZER BIN QASIM LIMITED	3,700,000	-	160,833	-	160,833	-	-	-
9	FAUJI FERTILIZER COMPANY LIMITED	1,043,057	1,615,563	174,627	-	174,627	170,375	-	170,375
	<b>TOTAL</b>	<b>4,743,057</b>	<b>1,935,563</b>	<b>335,460</b>	<b>-</b>	<b>335,460</b>	<b>228,947</b>	<b>-</b>	<b>228,947</b>
<b>CONSTRUCTION AND MATERIALS</b>									
10	CHERAT CEMENT COMPANY LIMITED	27,217	27,217	1,116	920	196	1,116	865	251
11	D.G.KHAN CEMENT COMPANY	-	550,052	-	-	-	16,708	-	16,708
12	LUCKY CEMENT LIMITED	-	884,054	-	-	-	64,878	-	64,878
	<b>TOTAL</b>	<b>27,217</b>	<b>1,461,323</b>	<b>1,116</b>	<b>920</b>	<b>196</b>	<b>82,702</b>	<b>865</b>	<b>81,837</b>
<b>GENERAL INDUSTRIALS</b>									
13	PACKAGES LIMITED	-	300,000	-	-	-	47,780	17,480	30,300
	<b>TOTAL</b>	<b>-</b>	<b>300,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>47,780</b>	<b>17,480</b>	<b>30,300</b>
<b>AUTOMOBILE AND PARTS</b>									
14	THE GENERAL TYRE & RUBBER CO. OF PAKISTAN LTD.	16,774,292	16,774,292	360,441	-	360,441	344,838	-	344,838
	<b>TOTAL</b>	<b>16,774,292</b>	<b>16,774,292</b>	<b>360,441</b>	<b>-</b>	<b>360,441</b>	<b>344,838</b>	<b>-</b>	<b>344,838</b>
<b>PERSONAL GOODS</b>									
15	NISHAT (CHUNIAN) LIMITED	1,766,957	790,849	45,758	14,200	31,558	18,108	-	18,108
16	NISHAT MILLS LIMITED	449,999	1,000,000	26,230	8,028	18,202	59,138	-	59,138
	<b>TOTAL</b>	<b>2,216,956</b>	<b>1,790,849</b>	<b>71,988</b>	<b>22,228</b>	<b>49,760</b>	<b>77,246</b>	<b>-</b>	<b>77,246</b>
<b>FIXED LINE TELECOMMUNICATION</b>									
17	PAKISTAN TELECOMMUNICATION COMPANY LIMITED (A)	4,260,430	5,547,705	88,046	43,781	44,265	114,649	-	114,649
	<b>TOTAL</b>	<b>4,260,430</b>	<b>5,547,705</b>	<b>88,046</b>	<b>43,781</b>	<b>44,265</b>	<b>114,649</b>	<b>-</b>	<b>114,649</b>
<b>ELECTRICITY</b>									
18	THE HUB POWER COMPANY LIMITED	3,401,028	5,732,512	106,981	-	106,981	170,749	-	170,749
19	KOT ADDU POWER CO. LTD.	2,069,801	1,595,662	89,166	-	89,166	67,407	-	67,407
20	NISHAT CHUNIAN POWER LTD	11,567,302	16,897,319	123,780	-	123,780	177,746	-	177,746
21	NISHAT POWER LIMITED	5,999,999	3,946,935	96,561	-	96,561	60,259	-	60,259
	<b>TOTAL</b>	<b>23,038,130</b>	<b>28,172,428</b>	<b>416,488</b>	<b>-</b>	<b>416,488</b>	<b>476,161</b>	<b>-</b>	<b>476,161</b>

Sr No.	Name of Company	2011	2010	2011			2010		
		Total Shares		Cost	Impairment	Cost after Impairment	Cost	Impairment	Cost after Impairment
(Rupees in '000)									
<b>GAS AND WATER MULTIUTILITIES</b>									
22	SUI NORTHERN GAS PIPELINES LIMITED	-	240,469	-	-	-	7,780	-	7,780
	<b>TOTAL</b>	-	240,469	-	-	-	7,780	-	7,780
<b>BANKS</b>									
23	BANK ALFALAH LIMITED	-	1,565,171	-	-	-	20,219	7,385	12,834
24	BANK AL-HABIB LIMITED	179,653	600,000	5,267	2,768	2,499	21,107	11,093	10,014
25	BANKISLAMI PAKISTAN LIMITED	-	275,000	-	-	-	4,398	3,515	883
26	NATIONAL BANK OF PAKISTAN	-	1,574,158	-	-	-	112,562	-	112,562
27	UNITED BANK LIMITED	2,277,841	1,500,000	137,338	-	137,338	83,828	-	83,828
	<b>TOTAL</b>	2,457,494	5,514,329	142,605	2,768	139,837	242,114	21,993	220,121
<b>FINANCIAL SERVICES</b>									
28	SME LEASING LIMITED	225,000	225,000	2,475	1,687	788	2,475	-	2,475
29	DADABHOY LEASING COMPANY LIMITED	10,750	10,750	13	13	-	13	-	13
	<b>TOTAL</b>	235,750	235,750	2,488	1,700	788	2,488	-	2,488
<b>EQUITY INVESTMENT INSTRUMENTS</b>									
30	AL MEEZAN MUTUAL FUND LIMITED	16,895,690	16,895,690	173,172	-	173,172	201,059	-	201,059
31	MEEZAN BALANCED FUND	11,057,791	11,057,791	122,290	-	122,290	130,261	-	130,261
32	NAMCO BALANCED FUND	4,249,884	3,935,667	39,357	26,369	12,988	39,357	26,369	12,988
33	PAK OMAN ADVANTAGE FUND	4,990,000	4,990,000	49,900	17,465	32,435	49,900	17,465	32,435
	<b>TOTAL</b>	37,193,365	36,879,148	384,719	43,834	340,885	420,577	43,834	376,743
<b>PREFERENCE SHARES</b>									
34	MASOOD TEXTILE MILLS LIMITED (CUMULATIVE PREFERENCE SHARES) 12.1%	5,000,000	5,000,000	50,000	-	50,000	50,000	-	50,000
35	PAKISTAN INTERNATIONAL CONTAINER TERMINAL LIMITED (PREFERENCE SHARES) 10%	2,500,000	2,500,000	25,000	-	25,000	25,000	-	25,000
36	CHENAB LIMITED - NON VOTING CUMULATIVE PREFERENCE SHARES 9.25%	1,490,000	1,490,000	13,370	10,837	2,533	13,370	9,645	3,725
37	SECURITY LEASING CORPORATION LIMITED (PREFERENCE SHARES) 9.1%	500,000	500,000	5,029	5,029	-	5,029	1,529	3,500
	<b>PREFERENCE SHARES TOTAL</b>	9,490,000	9,490,000	93,399	15,866	77,533	93,399	11,174	82,225
	<b>GRAND TOTAL</b>	342,190,682	320,031,634	6,352,528	131,097	6,221,431	5,997,349	95,346	5,902,003

Sr No.	Name of Company	2011	2010	2011			2010		
		Total Shares		Cost	Impairment	Cost after Impairment	Cost	Impairment	Cost after Impairment
(Rupees in '000)									
<b>HELD FOR TRADING PORTFOLIO</b>									
<b>CONSTRUCTION AND MATERIALS</b>									
1	D.G.KHAN CEMENT COMPANY LIMITED	-	250,000	-	-	-	8,012	-	8,012
	<b>TOTAL</b>	-	250,000	-	-	-	8,012	-	8,012
<b>FIXED LINE TELECOMMUNICATION</b>									
2	PAKISTAN TELECOMMUNICATION LIMITED (A)	-	1,000,000	-	-	-	19,691	-	19,691
	<b>TOTAL</b>	-	1,000,000	-	-	-	19,691	-	19,691
<b>NON LIFE INSURANCE</b>									
3	ADAMJEE INSURANCE COMPANY LIMITED	-	100,000	-	-	-	8,889	-	8,889
	<b>TOTAL</b>	-	100,000	-	-	-	8,889	-	8,889
	<b>TOTAL - HELD FOR TRADING PORTFOLIO</b>	-	1,350,000	-	-	-	36,592	-	36,592

As Referred to in Note 9.5 to the financial statements

## Particulars of Investment in Term Finance Certificates

Sr. No.	Name of TFCs	2011	2010	2011	2010
		Number of TFCs		COST (Rupees in '000)	
	<b>Particulars of investments held in listed term finance certificates (TFCs)</b>				
1	STANDARD CHARTERED BANK (PAKISTAN) LIMITED (20-01-2004) Certificate of Rs. 5,000 each Mark up : 10.6416% (PIB 5 Years rate +0.75% with Floor 5.00 %, Cap 10.75%) Redemption : Half Yearly Installments commencing from Jan - 2004 Maturity : Jan, 2011	-	18,587	-	23,234
2	FAYSAL BANK LIMITED (FORMERLY ROYAL BANK OF SCOTLAND) -TFCs (10-02-2005) Certificate of Rs. 5,000 each Mark up : 15.26% (6-Months KIBOR Ask Rate + 1.90%) Redemption : Half yearly Installments commencing from Feb -2005 Maturity : Dec, 2012	3,000	4,000	9,980	14,976
3	BANK AL FALAH - TFCs (23-11-2004) Certificate of Rs. 5,000 each Mark up : 13.43% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2011 Maturity : Nov, 2012	2,760	2,760	9,123	13,659
4	BANK AL FALAH - TFCs (25-11-2005) Certificate of Rs. 5,000 each Mark up : 13.42% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2012 Maturity : Nov, 2013	15,127	15,127	75,133	74,990
5	ASKARI COMMERCIAL BANK LIMITED -TFCs (04-02-2005) Certificate of Rs. 5,000 each Mark up : 13.50% (6-Months Kibor + 1.5%) Redemption : Feb-2013 Maturity : Feb, 2013	5,400	5,400	26,870	26,828
	<b>TOTAL</b>	<b>26,287</b>	<b>45,874</b>	<b>121,106</b>	<b>153,687</b>

As Referred to in Note 9.5 to the financial statements

## Particulars of Investment in Term Finance Certificates

Sr. No.	Name of TFCs	2011	2010	2011	2010
		Number of TFCs		COST (Rupees in '000)	
<b>Particulars of investments held in unlisted term finance certificates (TFCs)</b>					
1	BANK AL FALAH LIMITED (02-12-2009) Certificate of Rs. 5,000 each Mark up : 14.43% (6-Months KIBOR Ask Rate + 2.50%) Redemption : Half yearly from Dec - 2016 Maturity : Nov, 2017	19,984	19,992	99,920	99,960
2	NEW ALLIED ELECTRONICS INDUSTRIES (PRIVATE) LIMITED Certificate of Rs. 5,000 each Mark up : 16.37% (KIBOR 3-Months Ask Rate + 2.75%) Redemption : Quarterly Installments commencing from Aug - 2007 Maturity : May, 2011	10,000	10,000	21,138	21,138
3	DEWAN FAROOQUE SPINNING MILLS LIMITED Certificate of Rs. 5,000 each Mark up : 19.43% (6-Months KIBOR Ask Rate + 3.75%) Redemption : Half yearly Installments commencing from Dec - 2004 Maturity : Dec, 2009	10,000	10,000	12,500	12,500
4	FAYSAL BANK LIMITED Certificate of Rs. 5,000 each Mark up : 14.25% (KIBOR 6-Months Ask Rate + 2.25%) Redemption : Half yearly Installments commencing from June - 2011 Maturity : Oct, 2017	64,974	65,000	324,870	325,000
5	BANK AL HABIB Certificate of Rs. 5,000 each Mark up : 15.00% - 15.50% Redemption : Half yearly Installments commencing from December - 2011 Maturity : June, 2021	29,994	-	149,970	-
	<b>TOTAL</b>	<b>134,952</b>	<b>104,992</b>	<b>608,398</b>	<b>458,598</b>



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