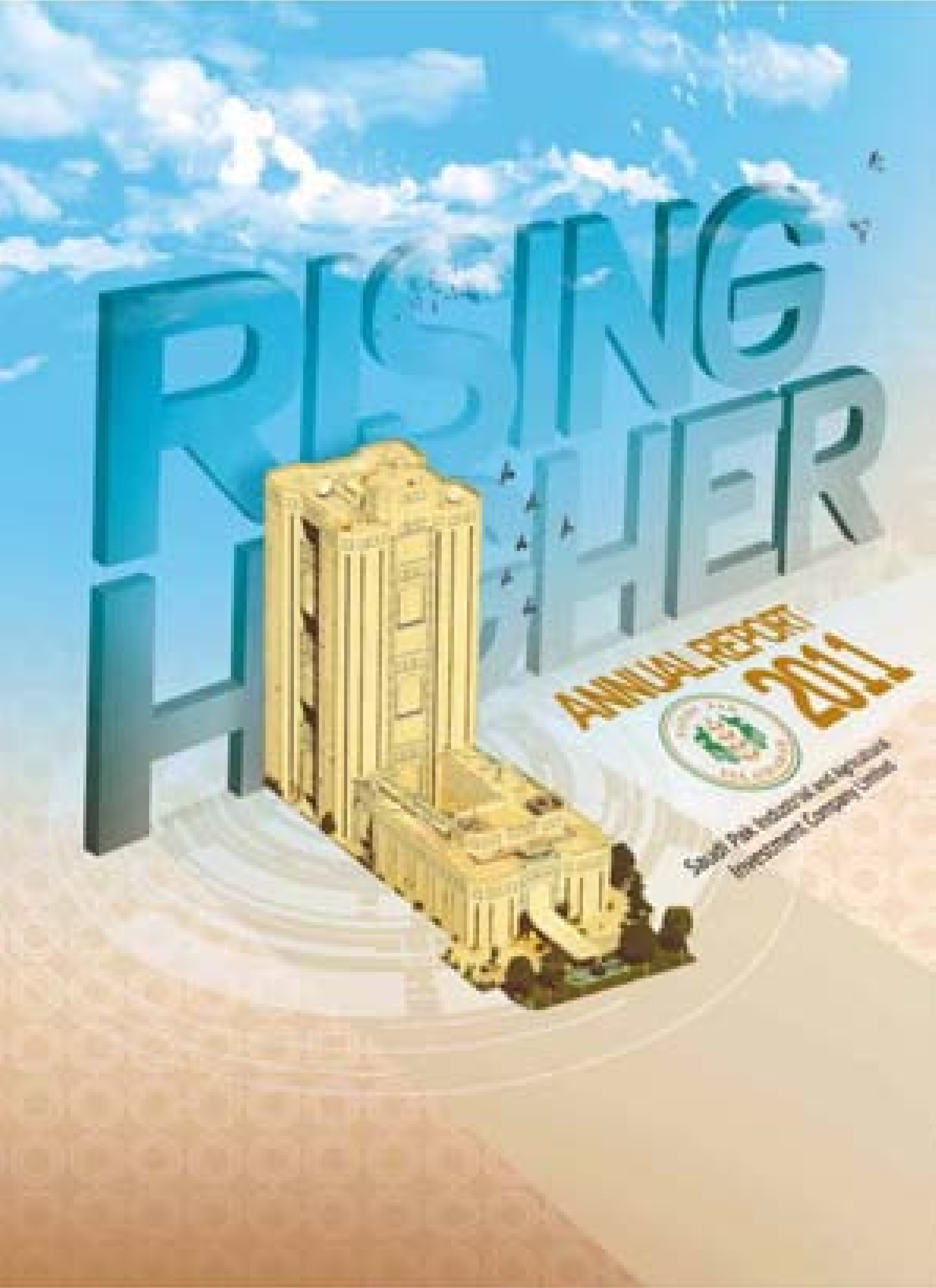
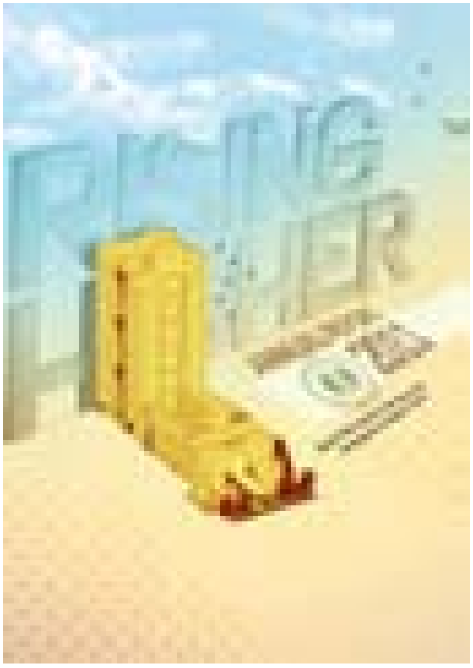
Saudi Pak Industrial and Agricultural
Investment Company Limited

Registered/ Head Office
Saudi Pak Tower, 61-A, Jinnah Avenue, Islamabad
**www.saudipak.com**
E-mail: saudipak@saudipak.com
Phone: UAN 111 222 003
Fax : UAN 111 222 004

Designed & Produced by **TOPNOTCH** Communications
Islamabad, Pakistan: 0333-5107598


RISING HIGHER
ANNUAL REPORT
2011
Saudi Pak Industrial and Agricultural
Investment Company Limited

Saudi Pak Industrial and Agricultural
Investment Company Limited



RISING
HIGHER

بسم الله الرحمن الرحيم

*Welcome to*

Saudi Pak

# Annual Report 2011

# ORDER OF APPEARANCE

# Corporate Information

## The Board

| | |
|---|---|
| Mr. Mohammed W. Al-Harby | Chairman |
| Mr. Manzoor Ali Khan* | Deputy Chairman |
| Mr. Musaad A. Al-Fakhri | Director |
| Mr. Abdul Ghaffar Soomro | Director |
| Mr. Mohammed A. Al-Jarbou | Director |
| Mr. Shafqut Ur-Rehman Ranjha* | Director |

* *Government of Pakistan appointed Mr. Manzoor Ali Khan and Mr. Shafqut Ur-Rehman Ranjha as directors in place of Rana Assad Amin and Mr. Yawar Zia respectively with effect from January 20, 2012. Further, the Government of Pakistan designated Mr. Manzoor Ali Khan as Deputy Chairman effective January 20, 2012.*

## GM/Chief Executive

Mr. Kamal Uddin Khan

## Company Secretary

Mr. Mohammad Nayeem Akhtar

## Risk Management Committee

| | |
|---|---|
| Mr. Mohammed W. Al-Harby | Chairman |
| Mr. Abdul Ghaffar Soomro | Member |
| Mr. Musaad A. Al-Fakhri | Member |
| Mr. Mohammad Nayeem Akhtar | Secretary |

## Audit Committee

| | |
|---|---|
| Mr. Mohammed A. Al-Jarbou | Chairman |
| Mr. Manzoor Ali Khan | Member |
| Mr. Shafqut Ur-Rehman Ranjha | Member |
| Mr. Muhammad Tariq Masoud | Secretary |

## Chief Financial Officer

Mr. Rohail Ajmal

## Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

## Legal Advisors

Mr. Muhammad Bilal
Bilal Law Associates

# Mission Statement

Saudi Pak Industrial and Agricultural Investment Company Limited aims at strengthening economic cooperation between the brotherly people of Saudi Arabia and Pakistan. To achieve this objective, we are committed to add value for our stakeholders through capital formation and investment related activities in Pakistan and abroad.

# Corporate Vision

To excel and play a leading role in the financial sector in Pakistan.

Mr. Mohammed W. Al-Harby
Chairman

Kamal Uddin Khan
General Manager/Chief Executive

**Saudi Pak**
**Industrial and Agricultural Investment**
**Company Limited**

**Registered/ Head Office**
**Saudi Pak Tower, 61-A, Jinnah Avenue, Islamabad**

**Regional Offices:**

**Karachi Office**
**Lakson Square Building No. 1, 9th Floor**
**265-R.A. Line Karachi**

**Lahore Office**
**2nd Floor, MM Tower, 28-A,**
**Block "K", Gulberg II, Lahore**

**E-mail: saudipak@saudipak.com**
**Phone: UAN 111 222 003**
**Fax : UAN 111 222 004**

# ENTITY RATING by JCR-VIS

- LONG TERM AA+
- SHORT TERM A-1+
- OUTLOOK STABLE

Definitions by JCR-VIS Credit Rating Company Limited

AA+

High credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A-1+

Highest certainty of timely payment. Short-term liquidity, including internal operating factors and / or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

# KEEPING THE INDUSTRY IN GEAR

## CORPORATE OBJECTIVES

- Promote investment in industrial projects with high value addition, export potential, and maximum utilization of indigenous resources
- Build and manage a diversified equity portfolio promising optimum return
- Mobilize funds in a cost effective manner to meet our financing needs
- Achieve sustainable growth and be competitive in our commercial operations
- Undertake investment advisory services and formation/participation in financing syndicates

## CORE VALUES

- Professionalism in our conduct
- Competitiveness in our business
- Transparency in our operations
- Ethics in our dealings

# CORPORATE PROFILE

Saudi Pak Industrial and Agricultural Investment Company Limited was incorporated in 1981 under a joint venture agreement between the Kingdom of Saudi Arabia and the Government of Islamic Republic of Pakistan. The initial authorized capital of the Company was Rs.1,000 million. As of December 31, 2011 paid up capital of the Company is Rs.6,000 million. It is held as under:

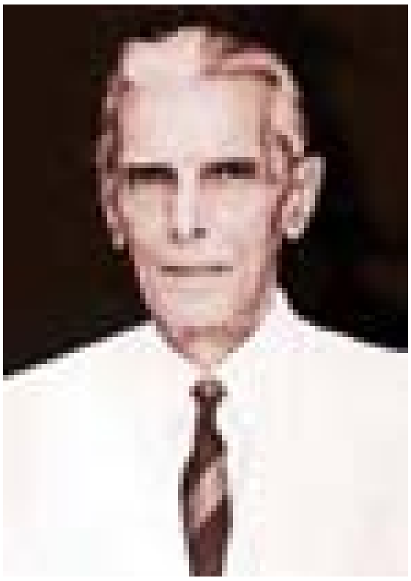
| | |
|---|---|
| **Kingdom of Saudi Arabia**<br>(through Public Investment Fund) | **50%** |
| **Government of Islamic Republic of Pakistan**<br>(through State Bank of Pakistan) | **50%** |

Saudi Pak has a diverse product range to cater the growing needs of its corporate customers in the private and public sectors. The product mix and services comprise of:

- **Project Finance**
  - Medium to Long Term loans
  - Lease Financing
  - Term Finance Certificates (TFCs)
  - Long Term Finance for Export Oriented Projects (LTF-EOP)

- **Short Term loans to meet the working capital requirements**
- **Direct Equity Investments**
- **Underwriting of public issue of shares and Term Finance Certificates**
- **Non-funded commitments in the form of Letter of Comfort etc.**
- **Syndication, Trusteeship, Acting as Financial Arranger, Financial Advisor and Consultancy services**

## ISLAMIC REPUBLIC OF PAKISTAN



MUHAMMAD ALI JINNAH

## KINGDOM OF SAUDI ARABIA

KING ABDUL AZIZ AL SAUD

~ The Board of ~

# Directors

## Nominee Directors of Kingdom of Saudi Arabia

### Mr. Mohammed W. Al-Harby

**Chairman**
General Manager (Rtd.)
Real Estate Development Fund
Kingdom of Saudi Arabia

### Mr. Musaad A. Al-Fakhri

**Director**
Chief, Infrastructure Sector
Budget and Organization Affairs
Ministry of Finance
Kingdom of Saudi Arabia

### Mr. Mohammed A. Al-Jarbou

**Director**
Financial Advisor
Public Investment Fund
Ministry of Finance
Kingdom of Saudi Arabia

## Government of Pakistan

### Mr. Manzoor Ali Khan

**Deputy Chairman**
Sr. Joint Secretary (HRM-Reg)
Ministry of Finance
Government of Pakistan

### Mr. Abdul Ghaffar Soomro

**Director**
Secretary (Rtd.)
Ministry of Industries and Production
Government of Pakistan

### Mr. Shafqut Ur-Rehman Ranjha

**Director**
Joint Secretary (Banking)
Ministry of Finance
Government of Pakistan

# The Management

Mr. Kamal Uddin Khan
General Manager/Chief Executive

Mr. Muhammad Tariq Masoud
Executive Vice President

Mr. Rohail Ajmal
Executive Vice President

Ms. Fozia Fakhar
Senior Vice President

Mr. M. Saeed Akhtar
Senior Vice President

Mr. Ali Imran
Senior Vice President

Sheikh Aftab Ahmad
Senior Vice President

Mr. Muhammad Naseer Malik
Vice President

Ms. Parveen A. Malik
Executive Vice President

Mr. Mohammad Nayeem Akhtar
Senior Vice President

Mr. Arshed Ahmed Khan
Senior Vice President

Mr. Nasir A. Malik
Senior Vice President

Mr. Muhammad Tanweer
Senior Vice President

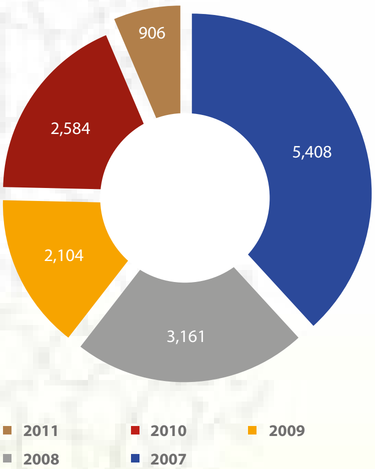
Mr. Azhar Ahmed Khan
Vice President

Mr. Arif Majeed Butt
Assistant Vice President

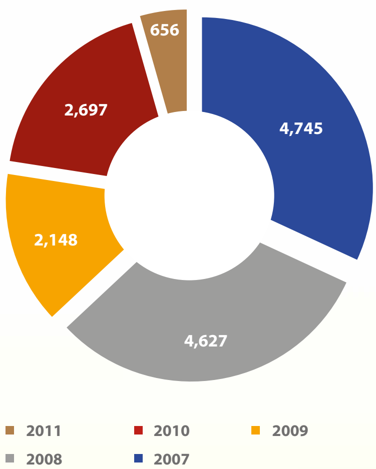
# OPERATIONAL HIGHLIGHTS

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | ----(Rs. in million)---- | | | | |
| **Approval of Financing and Investment** | | | | | |
| Long Term Finance/TFCs | 389.9 | 1,724.1 | 1,211.5 | 2,027.9 | 3,858.6 |
| Lease Finance | 80.0 | - | 92.0 | - | 127.5 |
| Equity Investment | - | - | 15.0 | 168.8 | 86.4 |
| Strategic Investments | - | - | 250.0 | 225.0 | 100.0 |
| Short Term Finance | 601.1 | 970.0 | 600.0 | 330.0 | 873.9 |
| Guarantees and Underwriting | 35.1 | 10.8 | 35.0 | 484.6 | 361.8 |
| **Gross Approvals** | **1,106.1** | **2,704.9** | **2,203.5** | **3,236.3** | **5,408.2** |
| Withdrawals | 200.0 | 120.9 | 100.0 | 75.0 | - |
| **Net Approvals** | **906.1** | **2,584.0** | **2,103.5** | **3,161.3** | **5,408.2** |
| Gross Cumulative Approvals | 53,007.4 | 51,901.3 | 49,196.4 | 46,992.9 | 43,756.6 |
| Cumulative Withdrawals | 495.9 | 295.9 | 175.0 | 75.0 | - |
| Net Cumulative Approvals | **52,511.5** | **51,605.4** | **49,021.4** | **46,917.9** | **43,756.6** |
| **Disbursement of Funds** | | | | | |
| Long Term Finance/TFCs | 208.2 | 1,980.3 | 1,338.5 | 3,536.7 | 2,693.3 |
| Lease Finance | - | 92.0 | - | 46.1 | 125.8 |
| Short Term Finance | 448.0 | 605.5 | 544.4 | 707.3 | 856.8 |
| Direct Equity & Underwriting Take-ups | - | 19.3 | 15.0 | 112.2 | 178.0 |
| Strategic Investment | - | - | 250.0 | 225.0 | 890.8 |
| **Total Disbursements** | **656.2** | **2,697.1** | **2,147.9** | **4,627.3** | **4,744.7** |
| **Cumulative Disbursements** | **46,885.6** | **46,229.4** | **43,532.3** | **41,384.4** | **36,757.1** |
| **Recoveries** | | | | | |
| Total Amount | 2,625.2 | 2,992.9 | 3,185.8 | 4,298.3 | 5,271.9 |
| Current Dues Collection Ratio (%) | 80.67 | 83.12 | 78.99 | 82.99 | 91.72 |

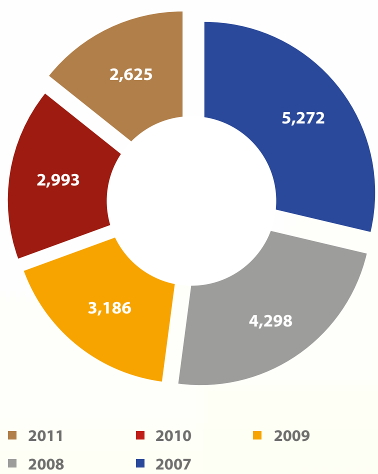
**Approval of Financing & Investment (Net)**
(Rs. in Million)




**Disbursement of Funds**
(Rs. in Million)



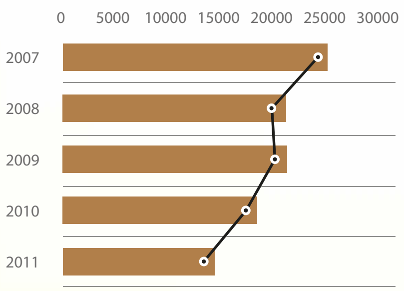

**Recoveries**
(Rs. in Million)



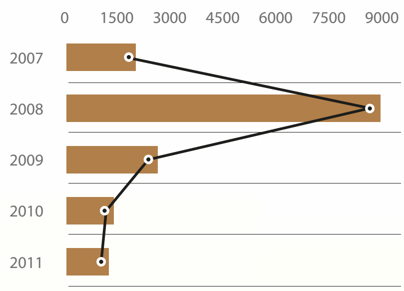
# Financial Highlights

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | --------------------------------------(Rs. in million)-------------------------------------- | | | | |
| **Income Statement** | | | | | |
| Total Income | 1,217.7 | 1,356.6 | 2,601.2 | 8,897.2 | 1,977.4 |
| Net Income | 267.0 | 242.3 | 1,173.1 | 7,186.2 | 672.7 |
| Profit before Provisions and Tax | (1,001.6) | 24.3 | 976.8 | 5,051.8 | 499.4 |
| Profit/(loss) after Provisions and Tax | (1,468.1) | (503.8) | 418.9 | 4,426.6 | 54.4 |
| Payouts: | | | | | |
| Cash Dividend | - | - | - | 6,000.0 | - |
| Stock Dividend/Right Issue® | - | - | 1000.0® | 1000.0® | 1000.0® |
| **Balance Sheet at year end** | | | | | |
| Total Shareholders' Equity | 6,100.5 | 7,513.2 | 7,992.3 | 6,487.3 | 7,005.3 |
| Total Assets | 14,377.7 | 18,273.1 | 21,211.1 | 21,133.6 | 25,017.8 |
| **Selected Ratios** | | | | | |
| Return on Average Equity(%) | (21.6) | (6.5) | 5.8 | 65.6 | 0.8 |
| Return on Average Assets(%) | (9.0) | (2.5) | 2.0 | 19.2 | 0.2 |
| Assets/Equity(times) | 2.4 | 2.4 | 2.6 | 3.3 | 3.6 |

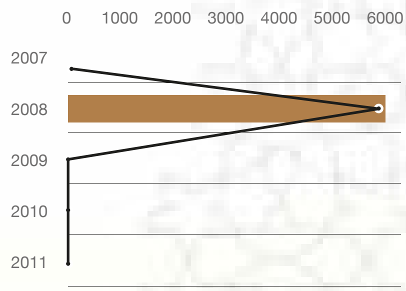
**Total Assets**
(Rs. in Million)




**Total Income**
(Rs. in Million)



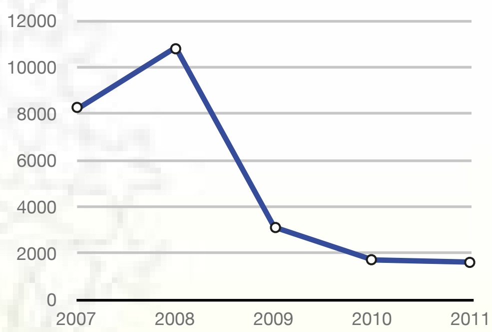

**Dividend**
(Rs. in Million)



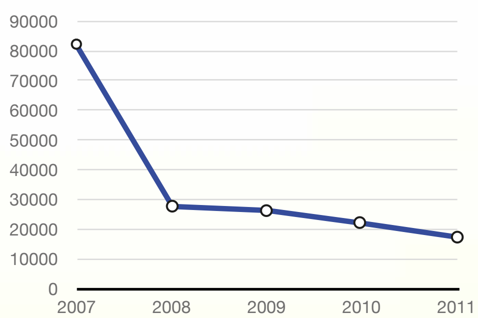
# SUMMERY OF CONSOLIDATED ACCOUNTS

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | ---(Rs. in million)--- | | | | |
| **Income Statement** | | | | | |
| Total Income | 1,613.3 | 1,707.8 | 3,117.7 | 10,849.1 | 8,196.4 |
| Interest/Markup Income | 1,479.9 | 1,728.2 | 2,315.6 | 3,764.2 | 6,648.7 |
| Profit/(Loss) before Tax | (1,747.7) | (274.1) | 33.1 | 3,904.4 | (3,244.0) |
| Profit/(Loss) after Tax and Minority Interest | (2,042.6) | (434.0) | 237.9 | 4,125.6 | (2,034.9) |
| **Balance Sheet at year end** | | | | | |
| Total Shareholders' Equity | 7,062.5 | 8,804.4 | 10,202.1 | 8,581.8 | 9,429.8 |
| Total Assets | 17,324.7 | 21,982.9 | 26,292.6 | 27,633.0 | 81,306.4 |

Total Income
(Rs. in million)




Total Assets
(Rs. in million)



# CHAIRMAN'S MESSAGE

On behalf of the Board of Directors, I would like to present the 30th audited financial statements of Saudi Pak Industrial and Agricultural Investment Company Limited as well as consolidated accounts together with Auditors' Report to Members and the Directors' Report for the year ended December 31, 2011.

Following strong economic growth averaging 6.3 percent between 2003 and 2007, Pakistan's economic performance has been trapped in low growth for the fourth year running with GDP growth of only 2.4 percent during FY-2011. Extensive flood damage, crippling energy shortages, security issues, burgeoning fiscal deficit and persistently high inflation are the major factors contributing to this low growth.

The basic challenge faced by Pakistan economy is financing its fiscal and external current account deficit. Lack of diversified and sustainable sources has resulted in substantial borrowings from the banking system by the government. The risks to external position have also increased due to worsening terms of trade, fragile global economic conditions, and continued paucity of financial inflows. This has squeezed the availability of credit for the private sector and increased the pressure on liquidity. As a result, private sector credit grew only by 4.0 percent in FY11.

In the back drop of challenging economic environment, Non-Performing Loans (NPLs) of banking industry posted extraordinary increase of over Rs. 56 billion or 9.9 percent during 2011 leading to serious challenges for the entire financial sector of the country. At the same time performance of the local bourses was also affected with KSE 100 Index shedding 674 points during the year.

Within this environment, your company adopted a cautious approach. Project financing was restricted while investments in capital market were curtailed with a view to preserve company's capital. Further in view of the continued depressed market conditions over the last four years, the company made a prudent decision to provide for permanent diminution in the value of quoted stocks. Accordingly the company booked an impairment loss of Rs 922.4 million on quoted securities in the year 2011. Here, I would like to point out that out of the current charge of Rs. 922.4 million, Rs.401.0 million pertains to prior years' diminution while the balance of Rs.521.4 million relates to diminution in value during 2011.

At the same time the company made a provision of Rs 410.2 million against non-performing loans/ unquoted securities, in addition to impairment loss of Rs 104.2 million on sale of stake in Saudi Pak Insurance Company due to fair value adjustment and provision of Rs 141.9 million on account of decrease in the valuation of assets acquired in satisfaction of loans. These were the major factors that contributed to a loss after tax of Rs. 1.468 billion during the year.

The Company has undertaken a comprehensive review of its operations. This entails review of business strategy, strengthening of Risk Management Framework, organizational restructuring, change in management, processes and culture. A well experienced international banker has been hired as CEO to spearhead the change to reposition the company as a premier financial institution and to rebuild attractive shareholder value. Strategic review of Company's investment in Insurance, Leasing and Real Estate are also being carried out. The Board firmly supports management endeavors to revitalize the company.

In the end, I would like to express on my behalf and on behalf of the Board our sincere gratitude to the joint venture partners, the Kingdom of Saudi Arabia and the Islamic Republic of Pakistan for their unstinted support and State Bank of Pakistan and other regulatory agencies for their professional guidance. I am also thankful to the Board Members for their valuable contributions.

*Mohammed W. Al-Harby*
Chairman

# Directors' Report

## ECONOMIC OVERVIEW

Pakistan's economy managed to grow by 2.4 percent in FY11, despite devastating floods in the early part of the fiscal year. One-fifth of the country's agricultural heartland was inundated, which interrupted production processes and disrupted the subsequent supply of both labor and capital. It is estimated that 6.6 million of Pakistan's labor force was out of work for 2 to 3 months, and capital stock worth US$ 2.6 billion was lost.

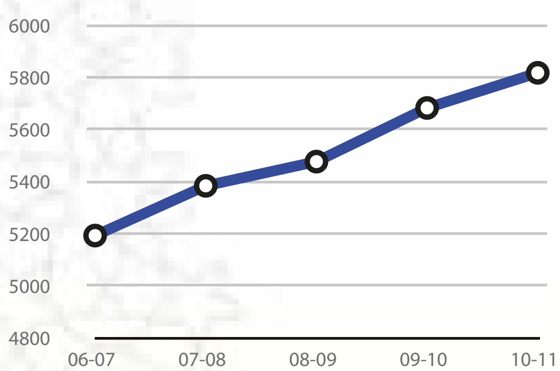
Although the agriculture sector managed to overcome the floods and posted real growth of 1.2 percent (double what had been posted in FY10), the manufacturing sector suffered a serious setback. Industrial growth was negative 0.1 percent in FY11, due to flood driven supply chain interruptions; prolonged power outages; and reduction in gas supplies. Services Sector, on the other hand, supported growth on the back of a rise in government salaries and defense spending. The overall growth in services was 4.1 percent in FY11, which was lower than the target 4.7 percent, but this still accounted for 90 percent of real GDP growth. In comparison with its South Asian neighbors where growth rate was between 6.3 to 9.5 percent, Pakistan fared poorly. Both domestic and global factors are responsible but domestic issues are more decisive and chronic. These issues included collapse of fixed investment; acute energy shortages; urban violence; poor physical infrastructure; and institutional fragility.

While the government was able to contain growth in its total expenditure during FY11, growth in revenues declined more sharply. Resultantly, the budget deficit to GDP ratio increased to 6.6 percent in FY11 compared with a target of 4 percent. In line with the trend in previous years, revenue collection fell short of its target in FY11.

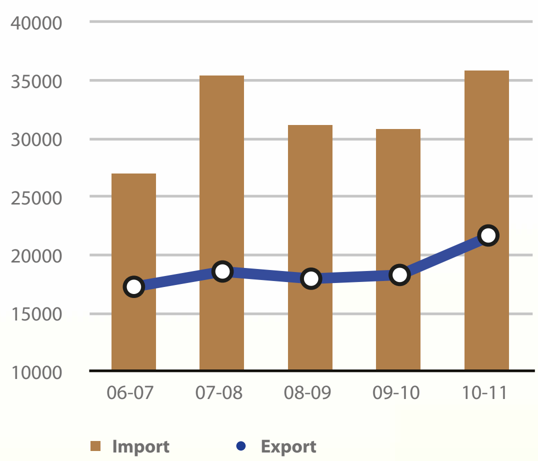
The government originally set a revenue target of Rs 1,859 billion, 90 percent of which was to be collected by FBR. Even though the target for FBR tax collection was subsequently revised from Rs. 1,667 billion to Rs 1, 588 billion, this too could not be met. Total expenditure witnessed 14.6 percent growth during FY11, driven exclusively by an increase in the current component. With 21.6 percent growth, consolidated current expenditures surpassed the FY11 target set in the budget by 15.2 percent. Development spending, on the other hand, declined by 21.2 percent over the previous year, and fell short of the budget target by 30 percent. Contrary to consumption demand, real investment in the country has declined for the third successive year. The decline in investment has been contributed by both domestic and foreign investment, though the former showed some revival in FY11.

Average annual inflation for FY11 was 13.7 percent, compared to 10.1 percent in the preceding year. While the

**Gross Domestic Product**
(Rs. in billion) at constant factor of 1999-2000




**Import – Export**
(US$ in million)



floods in the early part of FY11 are largely held responsible for the increase in inflation, the double-digit increase in prices was more or less inevitable. The supply constraints not only kept inflation high, but also curtailed growth. Economic activities were increasingly disrupted by persisting electricity and gas shortages, heightened security concerns, and increased cost of capital.

Despite a sharp improvement in current account balance in FY11, the rise in Pakistan's total debt and liabilities (TDL) of Rs 1.8 trillion during the year to Rs.12.1 trillion, is a reflection of deteriorating fiscal imbalances. These accumulating TDL impose large costs on the productive resources of the economy; debt servicing of TDL reached Rs. 1.0 trillion in FY11, which was 5.8 percent of GDP.

Pakistan's external account registered an unexpected improvement during FY11, providing much needed breathing space to the economy. However, this improvement was attributable more to favorable developments in the global market than to domestic business environment. The absolute increase in exports during FY11 was higher than the corresponding increase in imports. As a result, the trade deficit, which had been a major factor in the deterioration of the external account in the past, remained in check, and contracted by 8.7 percent as compared to the preceding year. This was complemented by a 25.8 percent increase in remittances to an overall sum of US$ 11.2 million, which is an unprecedented high. Consequently, Pakistan's current account posted a surplus of US$ 0.3 billion after six consecutive years of deficits.

Exports recorded a sharp rise of 28.9 percent during FY11 against 9.1 in FY10. In absolute terms, export of US$ 25.4 billion were the highest ever in the history of the country. After declining for the last two years, imports grew by 16.4 percent in FY11 against a marginal decline of 0.3 percent in the previous year and in absolute terms it was recorded US$ 35.8 billion.

Policymakers forecast 4.2 percent economic growth for FY12 on the basis of a positive outlook for cotton, recovery in the manufacturing sector, and policy measures to address the energy shortage.

# Operational Review

## CORPORATE FINANCING

The Corporate Finance Division remained focused on building the Credit Portfolio by booking exposures on industries, resilient to economic and business environment adversities, in key potential sectors. The conservative business strategy which has been in place since 2008 has proven to be successful for our company since the exposures booked during 2008 and thereafter have infection of less than 3%. However the strategy was made further conservative during the year 2011 keeping in view the overall infection in the credit portfolio and current business scenario.

On the external front the major factors which kept us in a conservative strategic and policy framework for corporate finance business was the sluggish growth of industrial sector and economy. The momentum with which the industrial sector and economy were recovering subsequent to the economic recession of 2008 could not be sustained as the industry continued to face the problems of acute energy crises, increasing tariffs of electricity, oil and gas, high inflation and interest rates etc. These constraints have been keeping the industry from achieving its optimum capacity utilization whilst increasing the cost of doing business. During 2011 the industrial sector grew by 1% against it target of 4.9%. The under performance of the industry has also contributed in the economy to record a GDP growth rate of 2.4% against its target of 4.5%. In the midst of such adversities the business environment was not encouraging. The Private sector continued to post a high level of credit risk.

The agricultural sector and agro based industry was foreseen with an optimistic view and its growth was expected to play a crucial role in preventing the economic growth from falling to extreme low. In this context business opportunities of working capital financing were identified in the sugar and textile sectors. Business prospects were also identified in non-agro based potential sectors of Telecommunications, Pharmaceuticals and Oil & Gas. Export Oriented Textile projects were financed for their BMR and Expansion under State Banks Refinance Scheme.

Keeping into consideration the current state of economy and political turbulence we foresee the slow down to continue through the next year. It would be a long term process to resolve the duo problem of shortage and high tariffs of energy resource. In immediate future we observe potential in such businesses which are agro based and self sufficient for their energy requirements. Our strategy would be to undertake businesses in such sectors with selective clients.

## CREDIT ADMINISTRATION

The Credit Administration Division and its Regional Offices at Karachi and Lahore is responsible for credit disbursement and its monitoring till the maturity for all types of financing facilities extended by Saudi Pak. Disbursement amounting to Rs.656 million was made in 2011 in comparison with Rs.2,697 million in 2010. Disbursement comprised of 68.3 percent against Short Term Financing and remaining 31.7 percent against Long Term Financing/TFC.

Focused recovery efforts produced positive results and enabled the Company to recover 80.7 percent of the current maturities against advances and term finance certificates.

## CAPITAL MARKET OPERATIONS

The year 2011 was bearish year for the global equity markets. However, the performance of the local bourses was comparatively better than regional equity markets as Karachi Stock Exchange shed its Index by 5.6 per cent (674 points) as compared to average fall of 12.9 per cent encountered by other regional markets.

The Karachi Stock Exchange during the year experienced lowest turnover in last 13 years with average daily volume of about 79 million shares. There has been net divestment by foreign fund managers with net outflow of US$ 127.21 million against net inflow of US$ 526 million in the year 2010.

The weak performance of equity markets in the year 2011 has been on account of investors concerns over US economic recession, Euro zone sovereign debt crisis and slow down in major developing economies. Coupled with these global issues, the local bourses had to withstand domestic political uncertainties, economic pressures, intensifying circular debt crises, corporate concerns over electricity and gas curtailment, weak law and order situation and widening fiscal and trade deficits. These concerns of investors dominated even the positive sentiment of reduction in discount rate from 14.0 per cent to 12.0 per cent during the year. KSE-100 Index closed at 11,348 points against 12,022 points at start of the year. KSE-30 Index bore higher dent of 12.2 per cent (1,409 points) closing at 10,179 points at year end.

In the year 2011, Saudi Pak's activity has been limited and concentration has been on selling on strength. During the year, the portfolio was reduced in terms of number of scrips as well as amount of investment. Investment in mutual funds was fully offloaded as per policy decision whereas, participation in financing of leveraged product was nil because of limited available open positions at local bourses in the backdrop of low volumes. Dividend realized against investment in stocks was Rs 80.128 million. Most of the scrips have been facing continuous decline in values during the year 2010 and 2011 because of lack of demand as such, Saudi Pak's portfolio faced heavy diminution which had to be realized as impairment loss at year close 2011. Dividend realized against investment in stocks was Rs 80.128 million.

# TREASURY OPERATIONS

The financial trends during the year 2011 were dominated by continuation of economic down turn, and stressed market fundamentals. Economic and security concerns in the country resulted into reduction in Foreign Direct Investment (FDI), heavy borrowings by the government, and slippage of GOP target of growth rate, with widening budgetary deficit.

During the year, inflationary pressure eased for the time being, which led to adjustment in the SBP Policy rate. However, discount rate still remained high (12% at the close of year 2011), and mostly tight monetary conditioned prevailed in the Money Market. Though inflows on account of home remittances remained strong, current account deficit led to depreciation of Pak Rupee against US Dollar , which was recorded as 5% on YOY basis.

For financial sector organizations, immediate impact of these trends translated into high cost of liquidity, increase in risk premium charged to the borrower institutions, and rising non-performing assets.

To meet the challenges of the year 2011, Treasury Division positioned itself pro-actively to pursue the objectives of smooth resource mobilization, managing liquidity and interest rate risk, balance sheet management in response to prevalent risks, and diversification of funding sources.

Going forward, the continuation of weak economic fundamentals, dearth of long term funding lines from commercial banks, and rising interest expense pose challenges to availability of bank credit at economic cost. Therefore following initiatives are being envisaged to broaden resource base of the company:

- To diversify funding sources and avenues of resource mobilization, particularly for long term
- To control funding cost, option of conversion of a part of our FCY liquid funds is also worth considering
- Deposit mobilization will be diversified further

Deployment and spread transactions will continue to follow risk averse policy in order to guard off credit and market risks.

# RISK MANAGEMENT FRAMWORK

Economic significance of the risk consists in ability to manage it. Significance of Risk Management as a kind of activity consists in possibility, first of all to forecast within certain limits approach of the risk events, and, secondly to take beforehand measures to reduce impact of possible ill-effect. Saudi Pak has an integrated approach for Risk Management and in tune with this, formulated policy document taking into account the business requirements, best international practices and guidelines provided by the Regulator.

Saudi Pak's Risk Management Division is involved in a variety of activities to assess and mitigate the risks faced by the organization. Focus remained on the technological tools to maximize the benefits in the fields of Credit and Market Risk. As regard the Liquidity and Operational Risk Management, the reporting base has further been strengthened. The reporting framework for the management and the Risk Management Committee of the Board has also been enhanced to portray the actual position of the Company's Business and the Risks associated with it and the suggestions to mitigate the risks.

Saudi Pak's Management is well aware of the benefits of the Risk Management and is in the process of further strengthening the Division by acquiring the technological tools best suited to the organizational needs.

# Information Technology

Information technology plays a vital role for the development of the company by managing its infrastructure and facilitating strategic initiatives for accelerating business growth. The Information Technology function has gained enhanced role in the financial sector. Saudi Pak's IT Strategy is to use the power of ideas that provide momentum and direction to strengthen the Company's decision support systems, re-engineering of the legacy systems using latest technology, database upgrades, server and storage consolidation. IT Division is always striving to build capacity for growth.

Data centers have been established at Regional Offices to accommodate the need of data storage and other critical applications. These data centers provide support and facilitation for the replication of company's data. Specialized mechanism has been devised by utilizing the dedicated equipments to fulfill the storage requirement of critical data which is being consolidated in Head Office and transferred online to Disaster Recovery Site using secured channel.

To cope with the localized or global disasters, Business Continuity /Disaster Recovery Site has also been set up with the complete IT infrastructure for the availability of critical data which is being tested on regular basis for ensuring its authenticity. It provides reliability, trust and strengthens the confidence of our prestigious clients.

The latest trends of technology pave the path to new innovations and betterment. The plan is also underway to improve the IT infrastructure with the up gradation of technology/equipments along with the successful development and implementation of core business softwares for the company.

# MOVING AHEAD
## TOGETHER!

## HUMAN RESOURCE DEVELOPMENT

Employees are most valuable asset of Saudi Pak and are treated accordingly. Continued efforts are made to provide an environment where all the employees can perform up to their full potential. They are provided resources and authority to succeed. Employees are encouraged to work together as an effective team in a cooperative and effective manner. Company believes in encouragement and motivation of its employees for achieving high level performance. Employees are guided to resolve concerns that may affect their professional and personal growth.

The Company is committed to providing an enabling corporate culture to its employees with ample learning opportunities to pursue career growth. Training is perceived as an investment in human capital and the Company values it highly. A proactive training planner is prepared each year on individual as well as divisional need basis. To fulfill the social responsibility, internship to 15 students of prestigious educational institutions was also imparted.

# Corporate and Financial Reporting Framework

**The Directors are pleased to certify that:**

a) The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

b) Proper books of accounts of the Company have been maintained.

c) Appropriate accounting policies have consistently been applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has adequately been disclosed.

e) The system of internal control is sound in design and has been effectively implemented and monitored. An audit committee, composed of three non-executive directors, has been formed for the purpose. The Committee meets periodically and independently throughout the year.

f) There are no significant doubts upon the Company's ability to continue as a going concern.

g) There has been no material departure from the best practices of corporate governance.

h) Transactions undertaken with related parties during the year have been ratified by the Audit Committee and have been properly disclosed in the financial statements.

i) Key operating and financial data for the last five years, in summarized form, is included in this annual report.

j) There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as of December 31, 2011, except as disclosed in the financial statements.

k) The value of investment of Provident Fund as at December 31, 2011 according to their audited financial statement is approximately Rs.64.98 million (2010: Rs.65.55 million).

# Auditors

The Auditors, M/s KPMG Taseer Hadi & Co., Chartered Accountants have completed their assignment for the year ended December 31, 2011 and also indicated their willingness to continue in office as Auditors. The Board, on the proposal of the Audit Committee, recommends the appointment of M/s KPMG Taseer Hadi & Co., Chartered Accountants as Auditors for the year 2012.

# Board of Directors Meetings

During the year, seven meetings of the Board of Directors were held and attended by the directors as follows:

| Name of Directors | Number of meetings<br>Held during the tenor of Directorship | Number of meetings<br>Attended during the tenor of Directorship |
|---|---|---|
| Mr. Mohammed W. Al-Harby | 07 | 07 |
| Mr. Rana Assad Amin | 07 | 07 |
| Mr. Musaad A. Al-Fakhri | 07 | 07 |
| Mr. Abdul Ghaffar Soomro | 07 | 07 |
| Mr. Mohammed A. Al-Jarbou | 07 | 07 |
| Mr. Yawar Zia | 07 | 07 |

The categories and pattern of shareholding as required by the Companies Ordinance, 1984 are included in this Report. The Government of Pakistan and the Kingdom of Saudi Arabia hold the shares of the company in equal proportion.

# Future Outlook

The general outlook of the Saudi Pak largely depends on stable economic conditions, favorable investment environment and availability of energy. It is expected that profitable investment opportunities will emerge in the priority sectors identified by government. However, Saudi Pak will follow prudent way of financing and investments, keeping in view the overall economic condition of the country.

# Strategic Investments

Saudi Pak's strategic investments stand in real estate, financial and insurance sector. Brief Profile of these strategic investments is as follows:

## Saudi Pak Real Estate Limited

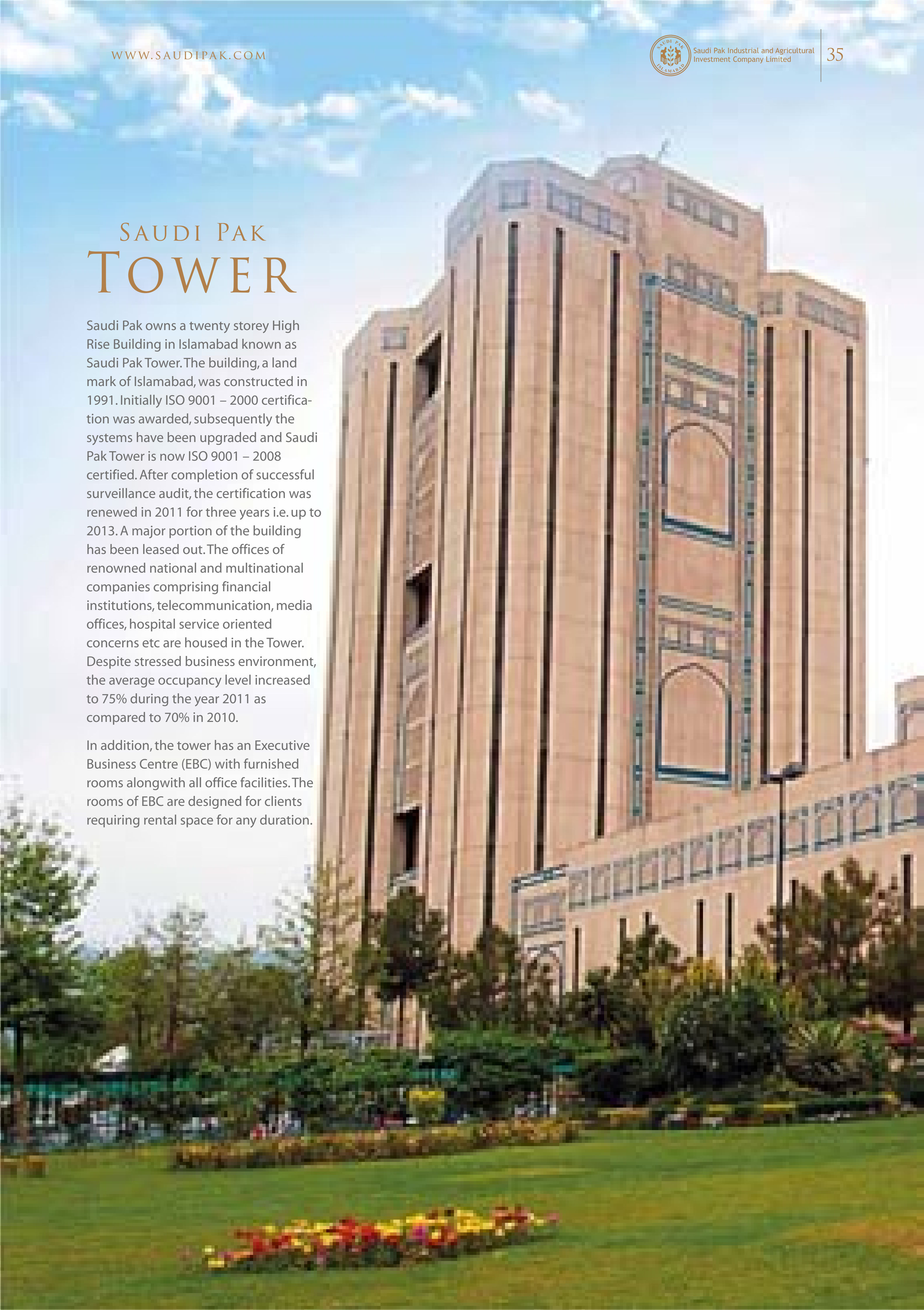
The Company was established in 2007 with initial paid-up capital of Rs 100 million is wholly owned subsidiary of Saudi Pak. Its paid-up capital as on Dec 31, 2011 stands at Rs 500 million which has been enhanced through two Right Issues of Rs 150 million and Rs 250 million offered in 2008 and 2009 respectively. Achieving break-even in 2008, the Company is adding value to its shareholders. The Company has participated in a housing project at prime location in Lahore. The construction work is at advance stage and project is expected to be completed in 2012. The Company plans to increase its capital base through induction of strategic partner(s) that will enable it to undertake large scale real estate project while strengthening asset base of the Company.

## Saudi Pak Insurance Company Limited

The Company was established in 2005 with its head office at Karachi and its branch network is in almost all major cities of the country. Paid-up capital of the Company is Rs 325.0 million with Saudi Pak's initial stake of 69 per cent. In the backdrop of economic slow down after financial melt down of 2008 and devastating floods of July 2010, the Company had to face financial pressures as such Saudi Pak took a strategic decision to offload 51 per cent of outstanding shares of Saudi Pak Insurance Company Limited in a phased manner to a group having successful track record in national insurance industry.

## Saudi Pak Leasing Company Limited

The Company having paid-up capital of Rs 451.6 million is listed at local bourses. Saudi Pak's stake in the Company stands at 35 per cent. After financial melt down of 2008, the Company is striving for its rehabilitation. During the year under review, its main focus was on reduction of financial cost through settlements/ restructuring of debts. The Company has reduced its liabilities by about 50 per cent from Rs.6,888 million as on June 30, 2008 to Rs 3,421 million as on December 31, 2011 and plans to further reduce it in the year 2012. The Company is striving for its revival through recoveries of loans and leases and rationalization of cost structure.



# SAUDI PAK TOWER

Saudi Pak owns a twenty storey High Rise Building in Islamabad known as Saudi Pak Tower. The building, a land mark of Islamabad, was constructed in 1991. Initially ISO 9001 – 2000 certification was awarded, subsequently the systems have been upgraded and Saudi Pak Tower is now ISO 9001 – 2008 certified. After completion of successful surveillance audit, the certification was renewed in 2011 for three years i.e. up to 2013. A major portion of the building has been leased out. The offices of renowned national and multinational companies comprising financial institutions, telecommunication, media offices, hospital service oriented concerns etc are housed in the Tower. Despite stressed business environment, the average occupancy level increased to 75% during the year 2011 as compared to 70% in 2010.

In addition, the tower has an Executive Business Centre (EBC) with furnished rooms alongwith all office facilities. The rooms of EBC are designed for clients requiring rental space for any duration.

# FINANCIAL RESULTS

Total mark up / interest income decreased by 6.3 percent to Rs. 1,327 million from Rs. 1,417 million as compared to the previous year. Mark up expense declined by 14.6 percent to Rs 951 million from Rs. 1,114 million. Resultantly, net spread increased to Rs. 376 million in the current year from Rs. 302 million in the previous year.

Total non-mark up / interest loss increased from Rs.60 million last year to Rs.109 million in the current year. The provision against non-performing loans increased to Rs. 347 million as against Rs. 16 million in 2010.

Net loss after taxation amounted to Rs. 1,468 million as compared to Rs. 504 million in the corresponding period of the previous year.

The paid up capital was Rs 6,000 million at the end of year 2011. The shareholders equity decreased to Rs. 6,100 million as at December 31, 2011 from Rs. 7,513 million as at December 31, 2010. Total assets of the company amounted to Rs. 14,378 million as on December 31, 2011 against Rs. 18,273 million as on December 31, 2010.

The return on average shareholders' equity figured at (21.6) percent and return on average assets (9.0) percent in the year 2011.

The summarized financial results and recommendation for appropriations are as under:

| | **2011 (Rupees)** | 2010 (Rupees) |
|---|---|---|
| Un-appropriated (Loss) brought forward | (448,458,943) | (528,064,364) |
| Appropriation from reserve fund | 448,458,943 | 528,064,364 |
| (Loss) for the year | (1,468,109,784) | (503,850,823) |
| | (1,468,109,784) | (503,850,823) |

## APPROPRIATIONS:

| | | |
|---|---|---|
| Transfer to reserve funds | - | - |
| Incremental depreciation on revalued fixed assets | 55,391,487 | 55,391,880 |
| Un-appropriated (Loss) | (1,412,718,297) | (448,458,943) |

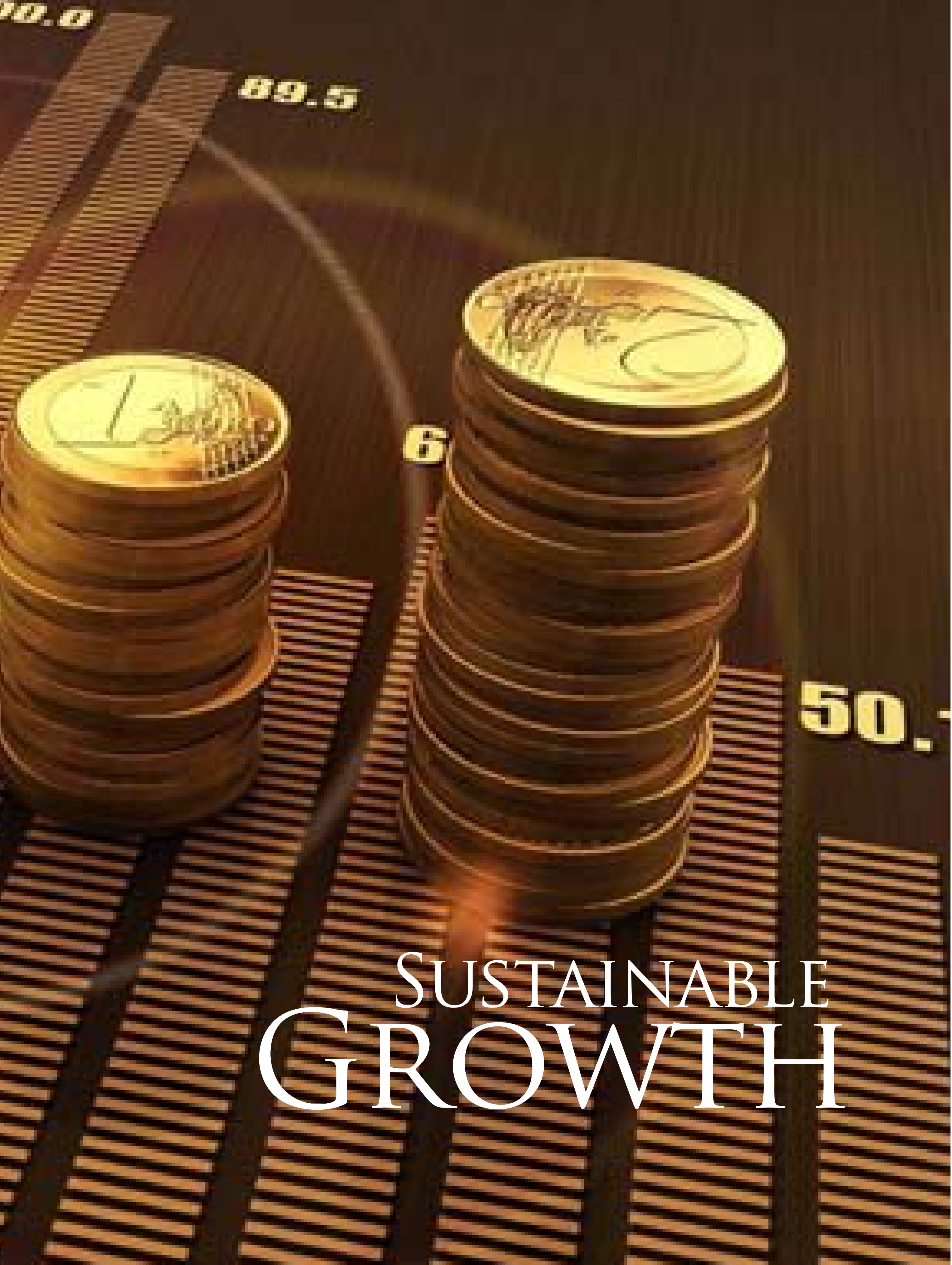
The Board urges the management, officers and staff to put in extra hard work for the success of the company.

For and on behalf of the
Board of Directors

**Chairman**

**Islamabad**
**Dated: March 26, 2012**


79.1
65.0
42.9




# Sustainable Growth

# Statistical Information

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | ---(Rs. in million)--- | | | | |
| **Net Financing Approved** | | | | | |
| **Funded:** | | | | | |
| Long Term Finance/TFCs | 389.9 | 1,724.1 | 1,211.5 | 2,027.9 | 3,858.6 |
| Lease Finance | 80.0 | - | 92.0 | - | 127.5 |
| Short Term Finance | 601.1 | 970.0 | 600.0 | 330.0 | 873.9 |
| Direct Equity/Investement/Placement | - | - | 265.0 | 393.8 | 186.4 |
| **Gross Funded (a)** | **1,071.0** | **2,694.1** | **2,168.5** | **2,751.7** | **5,046.4** |
| Withdrawls (b) | 200.0 | 110.1 | 100.0 | 75.0 | - |
| **Net Funded (c)** | **871.0** | **2,584.0** | **2,068.5** | **2,676.7** | **5,046.4** |
| **Non-Funded:** | | | | | |
| Underwriting of Shares | - | - | 35.0 | 84.6 | 350.0 |
| Guarantees | 35.1 | 10.8 | - | 400.0 | 11.8 |
| **Gross Non-Funded (d)** | **35.1** | **10.8** | **35.0** | **484.6** | **361.8** |
| Withdrawls (e) | - | 10.8 | - | - | - |
| **Net Non-Funded (f)** | 35.1 | - | 35.0 | 484.6 | 361.8 |
| **Gross (Funded & Non-Funded) (a+d)** | **1,106.1** | **2,704.9** | **2,203.5** | **3,236.3** | **5,408.2** |
| Withdrawals (b+e) | 200.0 | 120.9 | 100.0 | 75.0 | - |
| **Net (Funded & Non-Funded) (c+f)** | **906.1** | **2,584.0** | **2,103.5** | **3,161.3** | **5,408.2** |

## Net Financing and Investment Approved: Cumulative as on December 31, 2011

| | (Rs. In million) | As %age of Funded | As %age of Funded & Non-Funded |
|---|---|---|---|
| **Funded:** | | | |
| Long Term Finance/TFCs | 26,170.2 | 54.11 | 49.37 |
| Lease Finance | 1,855.8 | 3.84 | 3.50 |
| Short Term Finance | 14,486.8 | 29.95 | 27.33 |
| Direct Equity/Investement/Placement | 5,854.2 | 12.10 | 11.05 |
| **Gross Funded (a)** | **48,367.0** | **100.00** | **91.25** |
| Withdrawls (b) | 485.2 | | |
| **Net Funded (c)** | **47,881.8** | | |
| | | **As %age of Non-Funded** | |
| **Non-Funded:** | | | |
| Underwriting of Shares | 2,816.0 | 60.68 | 5.31 |
| Guarantees | 1,824.4 | 39.32 | 3.44 |
| **Gross Non-Funded (d)** | **4,640.4** | **100.00** | **8.75** |
| Withdrawls (e) | 10.7 | | |
| **Net Non-Funded (f)** | 4,629.7 | | |
| **Gross Cumulative (Funded & Non-Funded) (a+d)** | **53,007.4** | | **100.00** |
| Cumulative Withdrawals (b+e) | 495.9 | | |
| **Net Cumulative (Funded & Non-Funded) (c+f)** | **52,511.5** | | |

| | 2011 | 2010 | 2009 | 2008 | 2007 | Since Inception to 31-12-2011 |
|---|---|---|---|---|---|---|
| | ---(Rs. in million)--- | | | | | |
| **Disbursement: By type of assistance** | | | | | | |
| Long Term Finance/FTCs | 208.2 | 1,980.3 | 1,338.5 | 3,536.7 | 2,693.3 | 25,466.1 |
| Lease Finance | - | 92.0 | - | 46.1 | 125.8 | 1,743.3 |
| Short Term Finance | 448.0 | 605.5 | 544.4 | 707.3 | 856.8 | 13,454.8 |
| Direct Equity/Investment/Placement | - | - | 15.0 | 93.8 | 161.4 | 1,827.4 |
| Investment in Associated Company | - | - | 250.0 | 225.0 | 890.8 | 4,030.6 |
| Share taken up against underwriting | - | 19.3 | - | 18.4 | 16.6 | 363.4 |
| **Total** | **656.2** | **2,697.1** | **2,147.9** | **4,627.3** | **4,744.7** | **46,885.6** |

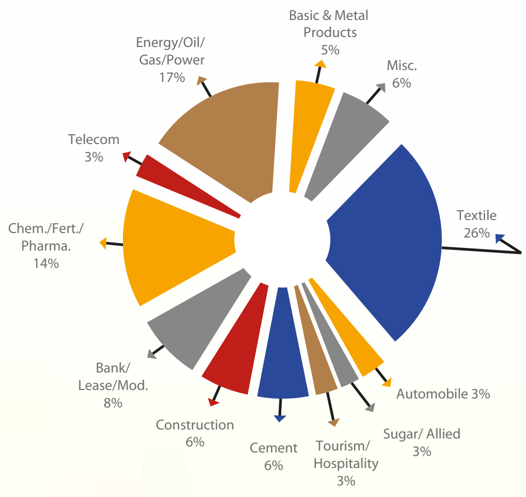
## Net Financing and Investment Approved*: Sector Exposure

| | 2011 | | | Since inception to 31-12-2011 | | |
|---|---|---|---|---|---|---|
| | No. | Amount | % | No. | Amount | % |
| **Sector** | | | | | | |
| Financial Services | - | - | - | 158 | 8,596.5 | 17.96 |
| Power/Oil & Gas | 1 | 13.0 | 1.49 | 65 | 5,158.3 | 10.77 |
| Agro Based | 1 | 98.0 | 11.25 | 16 | 724.2 | 1.51 |
| Manufacturing | 10 | 616.0 | 70.72 | 539 | 29,288.7 | 61.17 |
| Services | 2 | 144.0 | 16.54 | 56 | 4,114.1 | 8.59 |
| **Total** | **14** | **871.0** | **100.00** | **834** | **47,881.8** | **100.00** |

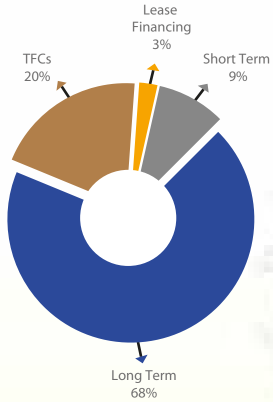
*Excluding underwriting and guarantees

## Position as on December 31, 2011

**Sector Exposure**




**Mode-wise-Financing**



# Statement of Compliance with Code of Corporate Governance

The statement is being presented to comply with the Code of Corporate Governance framed by the Securities and Exchange Commission of Pakistan, and 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. The Board of Directors of the Company is appointed by the Governments of Islamic Republic of Pakistan and Kingdom of Saudi Arabia. At present, the Board has six 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 taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFI or, being a member of a stock exchange, have been declared as a defaulter by that stock exchange.

4. No causal vacancy occurred on the Board during the year ended December 31, 2011. However, two directors were replaced by the Government of Pakistan in January 2012.

5. The business of the Company is conducted in accordance with the "Statement of Ethics and Business Practices" signed by all the directors and employees.

6. The Board has developed 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 are 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 terms and conditions of employment of the General Manager/Chief Executive, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Directors are conversant of the relevant laws applicable to the Company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities. The Company has also carried out orientation course for the Directors.

10. The meetings of the Audit Committee were held in every quarter prior to approval of interim and final results as required by the Code. The Terms of Reference of the Committee were fully complied with.

11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. During the year Board appointed Mr. Kamal Uddin Khan as General Manager/Chief Executive. The remuneration and terms and conditions of employment of CFO, Company Secretary and Acting Head of Internal Audit, as determined by General Manager / Chief Executive have been approved by the Board.

13. General Manager/Chief Executive and CFO duly endorsed the financial statements of the Company before approval of the Board.

14. The Directors, General Manager/Chief Executive and executives do not hold any interest in the shares of the Company except for 1,250 shares held by the Chairman.

15. The Company has complied with all the corporate and financial reporting requirements of the Code.

16. The Board has formed an Audit Committee comprising of three members all of whom are non-executive directors.

17. The Board has set-up an effective internal audit function on full time basis.

18. The statutory auditors of the company confirmed that they have been given a satisfactory rating under Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics, as adopted by Institute of Chartered Accountants of Pakistan .

19. The statutory auditors or the persons associated with them have not been appointed to provide other services and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. The related party transactions have been placed before the audit committee and approved by the Board of Directors to comply with requirements of Code of Corporate Governance.

21. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the
Board of Directors

**Chairman**

**Islamabad**
**Dated: March 26, 2012**

# STATEMENT ON INTERNAL CONTROLS

The statement is being presented to comply with the Guidelines on Internal Controls issued by State Bank of Pakistan vide their BSD Circular No. 07 of May 27, 2004.

The system of internal controls is designed to manage, rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year 2011, the Company endeavored to follow the guidelines on Internal Controls. It is an ongoing process for identification, evaluation and management of significant risks faced by the Company.

The management is responsible for establishing and maintaining adequate internal controls and procedures. Keeping in view the risk exposure, internal controls are regularly reviewed and reported on their soundness.

The Board is periodically briefed on the internal controls working in the Company. The Board endorses the efficacy of these controls.

For and on behalf of the
Board of Directors

**Chairman**

**Islamabad**
**Dated: March 26, 2012**

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Saudi Pak Industrial and Agricultural Investment Company Limited ("the Company") to comply with Regulation G-1 of the Prudential Regulations 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 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 system sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Code of Corporate Governance requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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

**Islamabad**
**Date: April 19, 2012**

KPMG Taseer Hadi & Co.
Chartered Accountants
Engagement Partner: Riaz Pesnani


# Financial STATEMENTS 2011

# AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed unconsolidated Statement of Financial Position of Saudi Pak Industrial and Agricultural Investment Company Limited ("the Company") as at December 31, 2011 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the "unconsolidated 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 purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the 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 Auditing Standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion-

i. the unconsolidated statement of financial position and unconsolidated 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 profits and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statements and unconsolidated statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2011 and of the loss, its and cash flows and changes in equity 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).

We draw attention to note 10.4 to the unconsolidated financial statements wherein it is stated that the Board of Directors decided to convert the interest free subordinated loan to a related party into preference shares. The approval of State Bank of Pakistan (SBP) for conversion of subordinated loan into preference shares has expired on December 31, 2011. Our opinion is not qualified on this matter.

The unconsolidated financial statements of the Company for the year ended December 31, 2010 were audited by another auditors whose report dated March 06, 2011 included an emphasis of matter paragraph as above.

**Islamabad**
**Date: April 19, 2012**

KPMG Taseer Hadi & Co.
Chartered Accountants
Engagement Partner: Riaz Pesnani

# UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT DECEMBER 31, 2011

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with treasury banks | 6 | **55,410,802** | 40,842,606 |
| Balances with other banks | 7 | **96,389,187** | 218,336,242 |
| Non-current asset classified as held for sale | 8 | **70,788,801** | - |
| Lendings to financial institutions | 9 | **171,111,111** | 454,782,750 |
| Investments | 10 | **5,359,657,799** | 7,527,488,718 |
| Advances | 11 | **5,235,500,341** | 6,344,004,026 |
| Operating fixed assets | 12 | **2,082,589,824** | 2,176,670,535 |
| Deferred tax assets | 16 | **-** | - |
| Other assets | 13 | **1,306,269,665** | 1,510,983,784 |
| | | **14,377,717,530** | 18,273,108,661 |
| **LIABILITIES** | | | |
| Bills payable | | **-** | - |
| Borrowings | 14 | **5,382,643,167** | 7,137,934,094 |
| Deposits and other accounts | 15 | **759,500,000** | 1,654,902,252 |
| Sub-ordinated loans | | **-** | - |
| Liabilities against assets subject to finance lease | | **-** | - |
| Deferred tax liabilities | 16 | **669,231,485** | 586,931,429 |
| Other liabilities | 17 | **162,110,474** | 303,145,725 |
| | | **6,973,485,126** | 9,682,913,500 |
| **NET ASSETS** | | **7,404,232,404** | 8,590,195,161 |
| **REPRESENTED BY** | | | |
| Share capital | 18 | **6,000,000,000** | 6,000,000,000 |
| Reserves | | **1,513,182,102** | 1,961,641,045 |
| Unappropriated loss | | **(1,412,718,297)** | (448,458,943) |
| | | **6,100,463,805** | 7,513,182,102 |
| Surplus/(deficit) on revaluation of AFS securities - net of tax | 19 | **41,795,099** | (240,368,028) |
| Surplus on revaluation of operating fixed assets - net of tax | 20 | **1,261,973,500** | 1,317,381,087 |
| | | **7,404,232,404** | 8,590,195,161 |

**CONTINGENCIES AND COMMITMENTS** 21

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

| CHIEF EXECUTIVE | DIRECTOR | DIRECTOR | CHAIRMAN |
|---|---|---|---|

# UNCONSOLIDATED PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED DECEMBER 31, 2011

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Mark-up/Return/Interest Earned | 22 | 1,326,972,372 | 1,416,771,075 |
| Mark-up/Return/Interest Expensed | 23 | 950,734,892 | 1,114,352,982 |
| Net Mark-up/Interest Income | | 376,237,480 | 302,418,093 |
| | | | |
| Provision against non-performing loans and advances | | 346,944,741 | 15,590,740 |
| Provision for diminution in the value of investments | 24 | 63,232,342 | 395,916,969 |
| Reversal of provision against lendings to financial institutions | | - | (23,500,000) |
| Bad debts written off directly | | - | - |
| | | 410,177,083 | 388,007,709 |
| Net Mark-up/Interest Expense after provisions | | (33,939,603) | (85,589,616) |
| | | | |
| **NON MARK-UP/INTEREST INCOME** | | | |
| | | | |
| Fee, Commission and Brokerage Income | | 2,853,824 | 8,642,979 |
| Dividend Income | | 88,051,568 | 96,159,614 |
| Loss from dealing in foreign currencies | | (223,031,398) | (443,799,545) |
| Gain on dealing in quoted securities | | 40,788,122 | 240,048,191 |
| Gain on dealing in mutual funds | | 41,222,136 | 13,429,077 |
| Impairment loss on asset classified as held for sale at its fair value | 8 | (104,211,199) | - |
| Other Income | 25 | 45,085,734 | 25,346,608 |
| Total non mark-up/interest income | | (109,241,213) | (60,173,076) |
| | | | |
| **NON MARK-UP/INTEREST EXPENSES** | | | |
| | | | |
| Administrative expenses | 26 | 203,275,289 | 217,223,416 |
| Impairment loss on quoted securities | 27 | 922,414,187 | - |
| Other provisions/write offs | 28 | 141,956,270 | - |
| Other charges | 29 | 922,250 | 731,400 |
| Total non-markup/interest expenses | | 1,268,567,996 | 217,954,816 |
| | | | |
| Extra ordinary/unusual items | | - | - |
| | | | |
| **LOSS BEFORE TAXATION** | | (1,411,748,812) | (363,717,508) |
| | | | |
| Taxation – Current | | 26,698,535 | 26,021,402 |
| – Prior years | | 99,296,373 | 10,402,608 |
| – Deferred | | (69,633,936) | 103,709,305 |
| | 30 | 56,360,972 | 140,133,315 |
| **LOSS AFTER TAXATION** | | (1,468,109,784) | (503,850,823) |
| | | | |
| **Basic and diluted loss per share** | 31 | (2.447) | (0.840) |

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

CHIEF EXECUTIVE | DIRECTOR | DIRECTOR | CHAIRMAN

# UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED DECEMBER 31, 2011

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| Loss after taxation | **(1,468,109,784)** | (503,850,823) |
| **Other comprehensive income** | | |
| Reversal of capital reserves relating to rescheduling benefits | **-** | (30,678,110) |
| **Comprehensive income transferred to equity** | **(1,468,109,784)** | (534,528,933) |
| **Components of comprehensive income not reflected in equity** | | |
| Surplus / (deficit) on revaluation of available-for-sale securities | **434,097,119** | (341,002,400) |
| Deferred tax | **(151,933,992)** | 119,350,840 |
| | **282,163,127** | (221,651,560) |
| **Total comprehensive income** | **(1,185,946,657)** | (756,180,493) |

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

CHIEF EXECUTIVE DIRECTOR DIRECTOR CHAIRMAN

# UNCONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED DECEMBER 31, 2011

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Loss before taxation | | (1,411,748,812) | (363,717,508) |
| Less: dividend income | | (88,051,568) | (96,159,614) |
| | | (1,499,800,380) | (459,877,122) |
| **Adjustments:** | | | |
| Depreciation | | 112,763,022 | 112,901,011 |
| Provision against non-performing loans and advances | | 346,944,741 | 15,590,740 |
| Provision for diminution in the value of investments | | 63,232,342 | 395,916,969 |
| Reversal of provision against lendings to financial institutions | | - | (23,500,000) |
| Other provisions/write offs | | 141,956,270 | - |
| Impairment loss on quoted securities | | 922,414,187 | - |
| Reversal of impairment on AFS securities | | (129,362,821) | (343,001,906) |
| Net gain on disposal of operating fixed assets - property and equipment | | (4,152,110) | (1,045,470) |
| Provision for gratuity | | 5,629,355 | 5,122,325 |
| Provision for compensated absences | | 2,771,365 | 1,284,303 |
| Impairment loss on asset classified as held for sale at its fair value | | 104,211,199 | - |
| | | 1,566,407,550 | 163,267,972 |
| | | 66,607,170 | (296,609,150) |
| **Decrease / (increase) in operating assets** | | | |
| Lendings to financial institutions | | 283,671,639 | 1,652,587,998 |
| Held-For-Trading (HFT) securities | | - | 134,702,055 |
| Advances | | 761,558,944 | (766,734,470) |
| Other assets | | (57,759,572) | 76,242,338 |
| | | 987,471,011 | 1,096,797,921 |
| **(Decrease) in operating liabilities** | | | |
| Borrowings from financial institutions | | (1,755,290,927) | (1,022,724,006) |
| Deposits | | (895,402,252) | (980,945,462) |
| Other liabilities | | (58,421,362) | (44,491,343) |
| Deferred liabilities - advance rental income | | (2,327,984) | (16,555,557) |
| | | (2,711,442,525) | (2,064,716,368) |
| | | (1,657,364,344) | (1,264,527,597) |
| Gratuity paid | | (6,194,153) | (2,841,624) |
| Compensated absences paid | | (1,132,659) | (1,059,231) |
| Income tax paid | | (86,837,300) | (493,559,210) |
| | | (94,164,112) | (497,460,065) |
| **Net cash used in operating activities** | | (1,751,528,456) | (1,761,987,662) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Investment in Available-For-Sale (AFS) securities | | 1,391,114,003 | (755,631,369) |
| Investment in Held-To-Maturity (HTM) securities | | 129,530,327 | 102,809,659 |
| Receipt against sale of shares in Saudi Pak Insurance Company Limited | | 50,000,000 | - |
| Dividend received | | 88,051,568 | 97,463,364 |
| Investment in operating fixed assets | | (19,367,412) | (7,357,130) |
| Sale proceeds on disposal of operating fixed assets - property and equipment | | 4,821,111 | 1,107,465 |
| **Net cash generated from / (used in) investing activities** | | 1,644,149,597 | (561,608,011) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | - | - |
| **Decrease in cash and cash equivalents** | | (107,378,859) | (2,323,595,673) |
| Cash and cash equivalents at beginning of the year | | 259,178,848 | 2,582,774,521 |
| **Cash and cash equivalents at end of the year** | 32 | 151,799,989 | 259,178,848 |

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

CHIEF EXECUTIVE | DIRECTOR | DIRECTOR | CHAIRMAN

# UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED DECEMBER 31, 2011

| | Share Capital Rupees | Reserve Fund Rupees | Capital Reserve Rupees | Unappropriated Profit / (Loss) Rupees | Total Rupees |
|---|---|---|---|---|---|
| **Balance as at January 01, 2010** | **6,000,000,000** | **2,489,705,409** | **30,678,110** | **(528,064,364)** | **7,992,319,155** |
| Loss for the year | - | - | - | (503,850,823) | (503,850,823) |
| Capital reserves - rescheduling benefit | - | - | (30,678,110) | - | (30,678,110) |
| **Total comprehensive income** | - | - | (30,678,110) | (503,850,823) | (534,528,933) |
| Appropriation from reserve fund | - | (528,064,364) | - | 528,064,364 | - |
| Transferred from surplus on revaluation of operating fixed assets - net of deferred tax | - | - | - | 55,391,880 | 55,391,880 |
| **Balance as at December 31, 2010** | 6,000,000,000 | 1,961,641,045 | - | (448,458,943) | 7,513,182,102 |
| **Balance as at January 01, 2011** | 6,000,000,000 | 1,961,641,045 | - | (448,458,943) | 7,513,182,102 |
| Loss for the year | - | - | - | (1,468,109,784) | (1,468,109,784) |
| **Total comprehensive income** | - | - | - | (1,468,109,784) | (1,468,109,784) |
| Appropriation from reserve fund | - | (448,458,943) | - | 448,458,943 | - |
| Transferred from surplus on revaluation of operating fixed assets - net of deferred tax | - | - | - | 55,391,487 | 55,391,487 |
| **Balance as at December 31, 2011** | **6,000,000,000** | **1,513,182,102** | **-** | **(1,412,718,297)** | **6,100,463,805** |

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

CHIEF EXECUTIVE DIRECTOR DIRECTOR CHAIRMAN

# NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 2011

### 1 LEGAL STATUS AND OPERATIONS

Saudi Pak Industrial and Agricultural Investment Company Limited (the "Company") was incorporated in Pakistan as private limited company on December 23, 1981 and subsequently converted as a public limited company on April 30, 2008. The Company is jointly sponsored by the Governments of Kingdom of Saudi Arabia and the Islamic Republic of Pakistan. The principal activity of the Company is to invest in the industrial and agro-based industrial projects in Pakistan on commercial basis and market their products in Pakistan and abroad. The Company has been setup for a period of fifty years which may be extended with approval of both of the Governments.

The registered office of the Company is situated at Saudi Pak Tower, Jinnah Avenue, Islamabad.

### 2 BASIS OF PRESENTATION

These unconsolidated financial statements have been presented in accordance with the requirements of format prescribed by the State Bank of Pakistan's BSD Circular No.4 dated February 17, 2006.

### 2.1 Functional and presentation currency

Items included in the unconsolidated financial statements are measured using the currency of the primary economic environment in which the Company operates. The unconsolidated financial statements are presented in Pak. Rupees, which is the Company's functional currency.

### 3 STATEMENT OF COMPLIANCE

**3.1** These unconsolidated 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 Standard Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by State Bank of Pakistan (SBP). In case the requirements of provisions and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP differ with the requirements of IFRS, the provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP shall prevail.

**3.2** The SBP through its BSD Circular Letter No. 11 dated September 11, 2002 has deferred the implementation of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for Development Financial Institutions (DFIs) till further instructions. According to the notification of SECP dated April 28, 2008, the IFRS 7 "Financial Instruments' Disclosures" has not been made applicable for DFIs. In view of above, the requirements of these standards have not been considered in the preparation of these unconsolidated financial statements. The investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

### 4 BASIS OF MEASUREMENT

These unconsolidated financial statements have been prepared under the historical cost convention except for :

- revaluation of certain items of operating fixed assets;
- revaluation of certain investments in accordance with directives of State Bank of Pakistan; and
- recognition of certain employee benefits at present value.

**Use of critical accounting estimates and judgments**

The preparation of unconsolidated financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. The Company uses estimates and assumptions concerning the future. The resulting accounting estimate will, by definition, seldom equal the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to these unconsolidated financial statements are as follows:

**(a) Classification of investments**

**– Held-For-Trading (HFT)**

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

**– Held-To-Maturity (HTM)**

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 judgment, the Company evaluates its intention and ability to hold such investment to maturity.

**– Available-For-Sale (AFS)**

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

**(b) Provision against non performing loans and advances**

The Company reviews its loan portfolio to assess amount of non-performing advances and provisions required there against on regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrowers and the requirements of the Prudential Regulations are considered. The amount of general provision is determined in accordance with the management's judgment.

**(c) Valuation and impairment of 'available-for-sale' equity investments**

The Company determines that 'available-for-sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the invested industry and sector performance, changes in technology and operational/financial cash flows.

**(d) Taxation**

In making the estimates for income taxes currently payable by the Company, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past.

**(e) Fair value of derivatives**

The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates at the date of unconsolidated statement of financial position and the rates contracted.

**(f) Depreciation, amortization and revaluation of operating fixed assets / intangible assets**

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Company. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Further, the Company estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers under the market conditions.

**(g) Staff retirement benefits**

Certain actuarial assumptions have been adopted as disclosed in these unconsolidated financial statements (refer note 34) for the actuarial valuation of staff retirement benefit plans. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may affect the liability / asset under these plans in those years.

**(h) Impairment of investments in subsidiaries**

The Company determines that a significant or prolonged decline in the fair value of its investments in subsidiaries below their cost is an objective evidence of impairment. The impairment loss is recognised when higher of fair value less cost to sell and value in use exceeds the carrying value.

**(i) Provision against other assets and receivables**

The Company reviews other assets and receivables to assess any amount of provision / bad debts required there against on regular basis.

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Cash and cash equivalents

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

### 5.2 Sale and repurchase agreements

Securities sold under repurchase agreement (repo) are retained in the unconsolidated financial statements as investments and a liability for consideration received is included in borrowings. Conversely, consideration for securities purchased under resale agreement (reverse repo) are included in lendings to financial institutions. The difference between sale and repurchase / purchase and resale price is recognised as mark-up / return expensed and earned on a time proportion basis as the case may be. Repo and reverse repo balances are reflected under borrowings from and lendings to financial institutions respectively.

**5.3 Investments**

Investments are classified as follows:

**(a) Held-For-Trading (HFT)**

These represent securities acquired with the intention to trade by taking advantage of short-term market / interest rate movements. These are marked to market and surplus / deficit arising on revaluation of 'held for trading' investments is taken to unconsolidated profit and loss account in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

**(b) Held-To-Maturity (HTM)**

These represent securities acquired with the intention and ability to hold them upto maturity. These are carried at amortized cost less impairment, if any, in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

**(c) Available-For-Sale (AFS)**

These represent securities which do not fall under 'held for trading' or 'held to maturity' categories. In accordance with the requirements of the State Bank of Pakistan's BSD Circular No. 20 dated August 04, 2000, available for sale securities for which ready quotations are available on Reuters Page (PKRV) or Stock Exchanges are valued at market value and the resulting surplus / deficit on revaluation net of deferred tax is kept in a separate account and is shown below the shareholders' equity in the unconsolidated statement of financial position. Where the decline in prices of available for sale securities is significant or prolonged, it is considered impaired and included in unconsolidated profit and loss account.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee companies as per their latest available financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

**(d) Investments in subsidiaries**

Investments in subsidiaries are carried at cost less impairment, if any.

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

**5.4 Advances**

Advances are stated net of provision for non-performing advances. Provision for non-performing advances is determined in accordance with the requirements of the Prudential Regulations issued by State Bank of Pakistan from time to time.

The provision against non-performing advances is charged to the unconsolidated profit and loss account. Advances are written off when there is no realistic prospect of recovery.

The SBP amended the Prudential Regulations in relation to provision for loans and advances thereby allowing further FSV benefit. This change has been applied prospectively as required under International Accounting Standard IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Related impact and disclosure is given in note 11.1.6.1.

## 5.5 Net investment in finance lease

These are stated at present value of minimum lease payments under the agreements. The allowance for potential lease losses is maintained at a level which in the opinion of management, is adequate to provide for potential lease losses on lease portfolio that can be reasonably anticipated. The allowance is increased by the provisions charged to income and decreased by write offs, net of recoveries. The Company maintains provision for potential lease losses in accordance with the Prudential Regulations applicable on the Company.

## 5.6 Operating fixed assets and depreciation/ amortization

### (a) Tangibles assets

Tangible operating fixed assets are stated at cost less accumulated depreciation and impairment loss, if any, except for freehold land which is stated at cost and lease hold land, buildings and certain other items which are carried at revalued amount less depreciation.

Certain items of tangible operating fixed assets are revalued by professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from their fair value. Surplus / (deficit) arising on revaluation of fixed assets is credited/ (debited) to the surplus on revaluation of assets account and is shown below the shareholders' equity in the unconsolidated statement of financial position.

Depreciation is provided on straight line method at rates specified in note 12.1 to the unconsolidated financial statements so as to write off the cost of the assets over their estimated useful lives. Depreciation of an asset begins when it is available for use. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Maintenance and normal repairs are charged to unconsolidated profit and loss account as and when incurred. Major renewals and improvements are capitalized. Gains and losses on disposal of operating fixed assets are taken to the unconsolidated profit and loss account.

### (b) Intangibles

Intangible assets are stated at cost less accumulated amortization. Impairment losses, if any, is charged to unconsolidated profit and loss account. Amortization is computed from the date of purchase to date of disposal / write off using the straight line method in accordance with the rates specified in note 12.2 to these unconsolidated financial statements to write off cost of the assets over their estimated useful lives.

### (c) Capital work in progress

Capital work in progress is stated at cost less accumulated impairment losses, if any, and is transferred to the respective item of operating fixed assets when available for intended use.

## 5.7 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the unconsolidated profit and loss account, except to the extent that it relates to items recognised directly in equity or below equity / other comprehensive income, in which case it is recognised in equity or below equity / other comprehensive income.

**(a) Current**

Provision for current taxation is the expected tax payable on the taxable income for the year using tax rates applicable at the date of unconsolidated statement of financial position. The charge for the current tax also includes adjustments, where considered necessary relating to prior years, arising from assessments made during the year for such years.

**(b) Deferred**

Deferred tax is provided for by using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the date of unconsolidated statement of financial position, expected to be applicable at the time of its reversal. A deferred tax asset is recognised only to the extent that it is probable that the future taxable profit will be available and credits can be utilized. Deferred tax assets are reduced to the extent it is no longer probable that the related tax benefit will be realised.

The Company recognizes deferred tax asset/liability on (deficit)/surplus on revaluation of securities and revaluation of operating fixed assets in accordance with the requirement of International Accounting Standard (IAS) 12 "Income Taxes" which is adjusted against the related surplus / (deficit).

**5.8 Provisions**

Provisions are recognised when there are present, legal or constructive obligations as a result of past events and it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amounts can be made. Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations. Expected recoveries are recognized by debiting customer accounts. Charge to unconsolidated profit and loss account is stated net off expected recoveries.

**5.9 Staff retirement benefits**

**(a) Defined benefit plan**

The Company operates an unfunded gratuity scheme for all of its permanent employees who have put in three years of continuous service with the Company. The actuarial valuation is carried out periodically using "Projected Unit Credit Method" as allowed under the International Accounting Standard (IAS) 19 "Employee Benefits". A portion of the actuarial gains or losses is recognized over the expected remaining working life of its employees if the net cumulative unrecognized actuarial gains or losses at the end of the previous year exceeds the "corridor limit" which is defined as the greater of:

– 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and

– 10% of the fair value of any plan assets at that date.

**(b) Defined contribution plan**

The Company also operates a recognized funded provident fund scheme for all of its permanent employees. Equal monthly contributions at the rate of 10% of basic salary are made both by the Company and the employees, which are transferred to the provident fund.

**(c) Compensated absences**

As per its service rules, the Company grants compensated absences to all of its permanent employees. The provision for compensated absences is made on the basis of last drawn basic salary.

## 5.10 Revenue recognition

- Mark-up/ interest on loans and advances and return on investments is recognized on accrual basis except on classified advances which is recognized on receipt basis in compliance with Prudential Regulations issued by the SBP.
- Markup/interest on rescheduled/ restructured loans and advances and return on investment is recognized in accordance with the directives of the SBP.
- Unrealized income is held in suspense account, where necessary, in accordance with the requirements of SBP guidelines and recognized as income on receipt basis.
- Fees, commission and brokerage income is recognised at the time of performance of service.
- Dividend income is recognized when the Company's right to receive income is established.
- The Company follows the finance method to recognize income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of the leased assets) is deferred and taken to income over the term of lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gains/ losses on termination of lease contracts are recognized as income/expense when these are realized.
- Gains and losses on sale of investments are included in income currently.
- Gains and losses on disposal of operating fixed assets are taken to the unconsolidated profit and loss account.

## 5.11 Foreign currency transactions

Foreign currency transactions are translated into Pak. Rupee at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated to Pak. Rupee at the exchange rates prevailing at the date of unconsolidated statement of financial position. Exchange gains and losses are included in unconsolidated profit and loss account currently.

## 5.12 Impairment

The carrying amount of the Company's assets are reviewed at the date of unconsolidated statement of financial position to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognised as expense in the unconsolidated profit and loss account. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**5.13 Financial instruments**

**Financial assets and financial liabilities**

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

**5.14 Off-setting of financial instruments**

Financial assets and financial liabilities are only set-off and net amount is reported in the unconsolidated financial statements when there is legally enforceable right to set-off the recognized amount and the Company either intends to settle on net basis or to settle the liabilities and realize the assets simultaneously.

**5.15 Segment Reporting**

A segment is a distinguishable component of the Company that is engaged either in providing differentiated products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), subject to risks and rewards that are different from those of other segments. Segment information is presented as per the Company's functional structure and the guidance of State Bank of Pakistan. The Company's primary format of reporting is based on business segments. The Company comprises of the following main business segments:

**(a) Business Segment**

**– Corporate finance**

This includes investment activities such as underwriting, Initial Public Offers (IPOs) and corporate financing.

**– Trading and Sales**

Trading and sales includes the Company's treasury and money market activities classified as held for trading.

**– Building Rental Services**

This segment undertakes the rental services of Saudi Pak Tower and its allied activities.

**(b) Geographical Segment**

The Company conducts all its operations in Pakistan.

**5.16 Non-current asset classified as held for sale**

The Company classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition and its sale must be highly probable. For sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete plan must have been initiated.

## 5.17 Forthcoming changes in approved accounting standards which are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2012:

– IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments are not expected to impact the current transactions of the Company.

– IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments are not expected to impact the current transactions of the Company.

– IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The Company does not plan to adopt this change early and the extent of the impact has not been determined.

– Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other approved accounting standards continue to apply in this regard. The amendments are not expected to impact the current transactions of the Company.

– Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not expected to impact the current transactions of the Company.

– IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on the unconsolidated financial statements of the Company.

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| **6** | **CASH AND BALANCES WITH TREASURY BANKS** | | | |
| | In hand : | | | |
| | – Local currency | | 147,586 | 114,143 |
| | – Foreign currency | | - | - |
| | | | 147,586 | 114,143 |
| | With State Bank of Pakistan in : | | | |
| | – Local currency current account | **6.1** | 55,134,738 | 40,605,864 |
| | – Foreign currency current account | | - | - |
| | | | 55,134,738 | 40,605,864 |
| | With National Bank of Pakistan in : | | | |
| | – Foreign currency deposit account | **6.2** | 128,478 | 122,599 |
| | | | 55,410,802 | 40,842,606 |

6.1 Deposits are maintained with the State Bank of Pakistan to comply with its requirements issued from time to time.

6.2 This represents balances maintained with the National Bank of Pakistan and is remunerated at 0.01% (2010: 0.01%) per annum.

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| **7** | **BALANCES WITH OTHER BANKS** | | | |
| | In Pakistan | | | |
| | On current accounts – local currency | | 16,483,175 | 27,874,980 |
| | On deposit accounts: | | | |
| | – Local currency | **7.1** | 51,399,790 | 104,463,498 |
| | – Foreign currency | **7.2** | 28,506,222 | 85,997,764 |
| | | | 96,389,187 | 218,336,242 |

7.1 These deposit accounts carry interest rate of 5.00% per annum (2010: 4.00% to 5.00% per annum).

7.2 These deposit accounts carry interest rate of 0.25% per annum (2010: 0.25% per annum).

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| **8** | **NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE** | | | |
| | Cost of investment reclassified from investments | **8.1** | 225,000,000 | - |
| | Less: Impairment loss on asset classified as held for sale at its fair value | | (104,211,199) | - |
| | | | 120,788,801 | - |
| | Less: Amounts received till 31 December 2011 | | (50,000,000) | - |
| | | | 70,788,801 | - |

**8.1** The Company entered into an agreement dated 09 June 2011 to sell 22,500,000 ordinary shares of Rs. 10 each in Saudi Pak Insurance Company Limited ( the "subsidiary company"). The buyer has agreed to buy shares at a price of Rs. 99.45 million which represents Rs. 6 per share. The buyer has paid an amount of Rs. 30 million upon signing of agreement whereas the balance of Rs. 69.45 million is to be paid in seven quarterly installments comprising six quarterly installments of Rs. 10 million and seventh installment of Rs. 9.45 million. The buyer has provided performance securities against purchase price which includes immovable properties of worth Rs. 40 million. The shares will be transferred to the buyer in piece meal as and when the payment is received by the Company and after retaining 30% margin till final payment.

Further, in accordance with the terms of the agreement, the remaining fully paid up 5,925,000 ordinary shares of Rs. 10 each will be sold to the buyer at the rate of Rs. 7.5 per share or book value of the share plus one rupee premium, whichever is higher on the terms to be agreed separately.

Pursuant to above, the Company's investment in subsidiary has been classified as non-current asset held for sale in accordance with International Financial Reporting Standards 5 "Non-current Assets Held for Sales and Discontinued Operations" and measured at fair value in accordance with requirements of IFRS 5. The difference between carrying value before classification as held for sale and fair value has been charged to unconsolidated profit and loss account (also refer note 10.5).

| | Note | **2011 Rupees** | 2010 Rupees |
|---|---|---|---|
| **9 LENDINGS TO FINANCIAL INSTITUTIONS** | | | |
| Call money lendings | **9.1** | **171,111,111** | 307,330,000 |
| Repurchase agreements lendings (reverse repo) | **9.2** | **-** | 147,452,750 |
| | | **171,111,111** | 454,782,750 |

9.1 This includes clean placements and term deposit receipts. These carry markup rate ranging from 11.00% to 12.97% per annum (2010: 13.25% to 13.31% per annum) maturing between January 2012 to April 2012 (2010: between January 2011 to February 2011).

9.2 These were secured against Pakistan Investment Bonds (PIBs) and Market Treasury Bills. The difference between the contracted purchase price and the re-sale price was recognized as income over the period of the contract. These carried mark up rate between 12.95% to 13.60% per annum having maturity within 10 days.

**9.3 Particulars of lendings**

| | 2011 | 2010 |
|---|---|---|
| In local currency | **171,111,111** | 454,782,750 |
| In foreign currencies | **-** | - |
| | **171,111,111** | 454,782,750 |

**9.4 Securities held as collateral against lendings to financial institutions**

| | Note | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|---|
| | | **Held by the Company Rupees** | **Further given as collateral Rupees** | **Total Rupees** | Held by the Company Rupees | Further given as collateral Rupees | Total Rupees |
| Pakistan Investment Bonds / Market Treasury Bills | **9.4.1** | - | - | - | 49,772,400 | 97,680,350 | 147,452,750 |
| | | - | - | - | 49,772,400 | 97,680,350 | 147,452,750 |

These represent the securities obtained under reverse repo transactions that have been used to raise finance under repo transaction.

| 10 INVESTMENTS | Note | 2011 Held by Company Rupees | 2011 Given as collateral Rupees | 2011 Total Rupees | 2010 Held by Company Rupees | 2010 Given as collateral Rupees | 2010 Total Rupees |
|---|---|---|---|---|---|---|---|
| **10.1 Investment by types:** | | | | | | | |
| **Held-For-Trading securities (HFT)** | | | | | | | |
| Quoted shares | | - | - | - | - | - | - |
| **Available-For-Sale securities (AFS)** | | | | | | | |
| Quoted shares | | 2,259,831,087 | - | 2,259,831,087 | 2,552,655,487 | - | 2,552,655,487 |
| Un-quoted shares | | 579,833,048 | - | 579,833,048 | 579,833,048 | - | 579,833,048 |
| Market Treasury Bills | | 278,653,500 | 645,925,200 | 924,578,700 | 630,021,196 | 1,168,582,204 | 1,798,603,400 |
| Pakistan Investment Bonds (PIBs) | | - | 195,241,900 | 195,241,900 | 93,979,060 | - | 93,979,060 |
| Ijara Sukuk | | - | - | - | 10,000,000 | - | 10,000,000 |
| Term Finance Certificates (TFCs) | | 57,257,340 | - | 57,257,340 | 44,000,000 | - | 44,000,000 |
| Commercial Paper | | - | - | - | 93,447,560 | - | 93,447,560 |
| Mutual Funds | | 150,000,000 | - | 150,000,000 | 385,337,523 | - | 385,337,523 |
| ***Sub-total for AFS securities*** | | 3,325,574,975 | 841,167,100 | 4,166,742,075 | 4,389,273,874 | 1,168,582,204 | 5,557,856,078 |
| **Held-To-Maturity securities (HTM)** | | | | | | | |
| Pakistan Investment Bonds (PIBs) | 10.2 | 517,393,918 | - | 517,393,918 | 534,321,908 | - | 534,321,908 |
| Term Finance Certificates (TFCs) | | 1,867,282,191 | - | 1,867,282,191 | 1,979,884,528 | - | 1,979,884,528 |
| ***Sub-total for HTM securities*** | | 2,384,676,109 | - | 2,384,676,109 | 2,514,206,436 | - | 2,514,206,436 |
| **Subsidiaries** | | | | | | | |
| Saudi Pak Leasing Company Limited | | | | | | | |
| – Investment in shares | 10.3 | 243,467,574 | - | 243,467,574 | 243,467,574 | - | 243,467,574 |
| – Subordinated loan | 10.4 | 333,208,501 | - | 333,208,501 | 333,208,501 | - | 333,208,501 |
| Saudi Pak Insurance Company Limited | 10.5 | 225,000,000 | - | 225,000,000 | 225,000,000 | - | 225,000,000 |
| Saudi Pak Real Estate Company Limited | 10.6 | 500,000,000 | - | 500,000,000 | 500,000,000 | - | 500,000,000 |
| | | 1,301,676,075 | - | 1,301,676,075 | 1,301,676,075 | - | 1,301,676,075 |
| Less: Transferred to non-current asset classified as held for sale | 10.5 | (225,000,000) | - | (225,000,000) | - | - | - |
| ***Sub-total for subsidiaries*** | | 1,076,676,075 | - | 1,076,676,075 | 1,301,676,075 | - | 1,301,676,075 |
| **Investment at cost** | | 6,786,927,159 | 841,167,100 | 7,628,094,259 | 8,205,156,385 | 1,168,582,204 | 9,373,738,589 |
| Provision for diminution in value of investments | 10.8 | (2,332,736,612) | - | (2,332,736,612) | (1,476,452,904) | - | (1,476,452,904) |
| **Investments (net of provisions)** | | 4,454,190,547 | 841,167,100 | 5,295,357,647 | 6,728,703,481 | 1,168,582,204 | 7,897,285,685 |
| Surplus / (deficit) on revaluation of AFS securities | 19 | 64,300,152 | - | 64,300,152 | (369,796,967) | - | (369,796,967) |
| Surplus / (deficit) on revaluation of HFT securities | 10.9 | - | - | - | - | - | - |
| | | 4,518,490,699 | 841,167,100 | 5,359,657,799 | 6,358,906,514 | 1,168,582,204 | 7,527,488,718 |

10.2 This includes premium of Rs. 17.394 million (2010: Rs. 34.322 million) on purchase of PIB's. The premium is being amortized over the years to maturity ranging from October 2012 to April 2014. Investment in PIB's carry coupon interest rates ranging from 8% to 11% per annum (2010: 8% to 13% per annum).

10.3 This represents the cost of acquisition of 35.06% (2010: 35.06%) shares in the paid up capital of Saudi Pak Leasing Company Limited. The management considers this investment to be a strategic investment. Market value of shares at the year end amounted to Rs. 7.601 million (2010: Rs. 8.709 million).

10.4 To support Saudi Pak Leasing Company Limited (SPLC) in addressing its adverse financial position and minimum capital requirement; after approval of its Board of Directors, the Company has converted balance of clean placement amounting to Rs. 150 million and long term finance facilities amounting to Rs. 183.208 million to SPLC into an interest free subordinated loan with effect from May 28, 2009. However, due to conflicting regulations as applicable to NBFC's and DFI's relating to subordinated debt, the Board in its meeting held on January 12, 2011 has decided to convert the same into preference shares. The SBP vide its letter # BPRD/BLRD-04/SPIAICO/2011/10919 dated August 30, 2011 has granted extension for conversion of sub ordinated loan into equity till December 31, 2011.

10.5 This represents 22.5 million shares in Saudi Pak Insurance Company Limited representing 69.2% (2010: 69.2%) of paid up capital of Saudi Pak Insurance Company Limited having a break-up value of Rs. 5.23 (2010: Rs. 4.87) per share on the basis of last available unaudited financial statements. During the year, the Company entered into an agreement dated 09 June 2011 to sell its shareholding in Saudi Pak Insurance Company Limited. Accordingly, the Company's investment in subsidiary has been classified as non-current asset held for sale in accordance with International Financial Reporting Standards- 5 "Non-current Assets Held for Sales and Discontinued Operations" (also refer note 8.1 above).

10.6 This represents 50 million shares in Saudi Pak Real Estate Company Limited representing 100% of paid up capital of Saudi Pak Real Estate Company Limited having a break-up value of Rs. 12.17 (2010: Rs. 11.64) per share on the basis of last available unaudited financial statements.

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **10.7 Investment by segments** | | | |
| **Federal Government securities** | | | |
| – Pakistan Investment Bonds (PIBs) | 10.7.5 | 712,635,818 | 628,300,968 |
| – Market Treasury Bills | 10.7.5 | 924,578,700 | 1,798,603,400 |
| – Ijara Sukuk | | - | 10,000,000 |
| | | 1,637,214,518 | 2,436,904,368 |
| **Fully paid up ordinary shares** | | | |
| – Listed securities | 10.7.1 | 2,503,298,661 | 2,796,123,061 |
| – Unlisted securities | 10.7.2 | 1,079,833,048 | 1,304,833,048 |
| | | 3,583,131,709 | 4,100,956,109 |
| **Term Finance Certificates (TFCs)** | | | |
| – Listed TFCs | 10.7.3 | 1,058,603,877 | 1,145,063,253 |
| – Unlisted TFCs | 10.7.4 | 865,935,654 | 878,821,275 |
| | | 1,924,539,531 | 2,023,884,528 |
| **Other investments** | | | |
| Mutual Funds | 10.7.6 | 150,000,000 | 385,337,523 |
| Commercial Paper | | - | 93,447,560 |
| Subordinated loan – Saudi Pak Leasing Company limited | | 333,208,501 | 333,208,501 |
| | | 483,208,501 | 811,993,584 |
| **Total investment at cost** | | 7,628,094,259 | 9,373,738,589 |
| Less: Provision for diminution in value of investments | 10.8 | (2,332,736,612) | (1,476,452,904) |
| **Investments (net of provisions)** | | 5,295,357,647 | 7,897,285,685 |
| Surplus / (deficit) on revaluation of Available-For-Sale securities (AFS) | | 64,300,152 | (369,796,967) |
| | | 5,359,657,799 | 7,527,488,718 |

### 10.7.1 Investment in fully paid up ordinary shares-listed

| 2011 | 2010 | | | |
|---|---|---|---|---|
| **Number of ordinary shares** | | **Name of investee companies** | | |
| 1,017,317 | 693,055 | Agritech Limited | 20,249,363 | 19,492,931 |
| 1,210,550 | 1,100,500 | Askari Commercial Bank Limited | 19,993,839 | 19,993,835 |
| 1,017,500 | 1,500,000 | Arif Habib Corporation Limited | 60,968,470 | 98,867,790 |
| 6,000,000 | 6,000,000 | Azgard Nine limited | 108,725,040 | 108,725,016 |
| 6,247,948 | 3,447,948 | Summit Bank Limited (Arif Habib Bank Limited) | 45,348,645 | 24,827,495 |
| - | 40,000 | Attock Petroleum Limited | - | 12,057,746 |
| 384,913 | 384,913 | Attock Cement Limited | 25,283,071 | 25,283,073 |
| 825,000 | 825,000 | Bank Islami Pakistan Limited | 7,421,064 | 7,421,064 |
| - | 500,000 | Byco Petroleum Pakistan Limited | - | 5,461,950 |
| 3,317,900 | 4,318,127 | Bank Al-Falah Limited | 52,729,924 | 68,626,071 |
| - | 5,120,622 | Bank of Khyber Limited | - | 34,766,565 |
| 1,066,648 | 1,128,648 | Chenab Limited | 9,397,766 | 9,944,020 |
| 2,127,695 | 2,345,336 | Crescent Steel & Allied Products | 77,784,678 | 87,089,050 |
| | | **Sub-Total carried forward** | 427,901,860 | 522,556,606 |

## 10.7.1 Investment in fully paid up ordinary shares-listed (continued)

| 2011 Number of ordinary shares | 2010 Number of ordinary shares | Name of investee companies | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| | | Sub-Total brought forward | **427,901,860** | 522,556,606 |
| - | 500,000 | D.G. Khan Cement Limited | **-** | 12,100,273 |
| 5,700,524 | 6,278,600 | Dewan Farooq Motors Limited | **74,024,610** | 81,531,262 |
| 5,228,883 | 5,228,883 | Dewan Salman Fiber Limited | **28,316,074** | 28,316,074 |
| 3,199,957 | 3,199,957 | Dewan Cement Limited | **21,192,963** | 21,192,975 |
| - | 1,500,000 | Descon Oxychem Limited | **-** | 10,282,239 |
| 7,060,348 | 7,060,348 | Fauji Cement Company Limited | **89,948,621** | 89,948,594 |
| 470,000 | 500,000 | Fauji Fertilizer Company Limited | **32,646,276** | 46,306,772 |
| 1,700,000 | 2,300,000 | FFC Bin Qasim Limited | **48,881,732** | 66,134,112 |
| 4,207,540 | 4,207,540 | Fecto Cement Limited | **94,072,347** | 94,072,336 |
| - | 1,907,249 | First Credit & Investment Bank Limited | **-** | 18,617,356 |
| - | 766,012 | Hub Power Company Limited | **-** | 23,970,649 |
| 11,572,199 | 11,572,199 | Japan Power Generation Limited | **49,999,503** | 49,999,503 |
| 1,361,990 | 1,361,990 | Jahangir Siddiqui and Company Limited | **41,508,061** | 41,508,056 |
| 500,000 | 500,000 | Kott Addu Power Company Limited | **22,328,350** | 22,328,350 |
| 10,000,487 | 10,000,487 | Maple Leaf Cement Limited | **68,038,113** | 68,038,113 |
| 200,000 | 160,000 | Mari Gas Company Limited | **21,356,550** | 21,356,550 |
| - | 3,500,000 | My Bank Limited | **-** | 20,521,125 |
| 1,250,000 | 1,000,000 | National Bank of Pakistan Limited | **88,837,060** | 88,837,061 |
| - | 1,345,000 | Nishat Chunian Limited | **-** | 23,586,383 |
| 1,000,000 | 1,000,000 | Nishat Chunian Power Limited | **14,389,050** | 14,389,047 |
| - | 3,000,000 | Nishat Mills Limited | **-** | 18,754,053 |
| 1,500,000 | 1,000,000 | Nishat Power Limited | **24,068,697** | 15,641,570 |
| 9,861,622 | 9,861,622 | NIB Bank Limited | **87,827,408** | 87,827,446 |
| 100,000 | 100,000 | Pakistan State Oil Company Limited | **30,415,596** | 30,415,596 |
| 3,900,000 | 3,900,000 | Pakistan Telecommunication Company Limited | **99,801,780** | 99,801,784 |
| 275,000 | 250,000 | Pakistan Petroleum Limited | **40,368,270** | 40,368,270 |
| 4,591,000 | 4,591,000 | Lafarge Cement Company Limited | **19,196,118** | 19,196,118 |
| 6,695,000 | 6,695,000 | Pace Pak Limited | **86,103,323** | 86,103,355 |
| 848,704 | 848,704 | Packages Limited | **148,767,134** | 148,767,131 |
| 1,288,126 | 749,000 | Pak Reinsurance Limited | **48,350,044** | 39,589,682 |
| 750,000 | 750,000 | Pakistan Refinery Limited | **84,456,615** | 84,456,611 |
| 993,623 | 993,623 | Pakistan Elektron Limited | **20,000,000** | 20,000,000 |
| 1,046,386 | 1,046,386 | Pakistan National Shipping Corporation (PNSC) | **50,233,748** | 50,233,746 |
| 15,835,403 | 15,835,403 | Saudi Pak Leasing Company Limited | **243,467,573** | 243,467,573 |
| 50,000 | 50,000 | Security Papers Limited | **1,980,000** | 1,980,000 |
| 647,398 | 646,492 | Sitara Chemicals Industries Limited | **194,784,174** | 205,105,210 |
| 1,596,000 | 1,200,000 | Sui Northern Gas Company Limited | **58,784,385** | 51,629,890 |
| 665,000 | 665,000 | Samba Bank Limited | **4,776,542** | 4,776,542 |
| 458,764 | 458,764 | Samin Textiles Limited | **8,823,174** | 8,823,173 |
| - | 805,000 | Sitara Peroxide Limited | **-** | 17,050,067 |
| 76,000 | 200,000 | Shell Pakistan Limited | **17,707,500** | 46,598,685 |
| 5,135,000 | 5,135,000 | Telecard Limited | **39,377,644** | 39,377,644 |
| 10,213,350 | 10,213,350 | World Call Telecom Limited | **70,567,766** | 70,565,479 |
| | | | **2,503,298,661** | 2,796,123,061 |

### 10.7.2 Investment in fully paid up ordinary shares-unlisted (continued)

| 2011 | 2010 | Name of investee companies | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|---|
| Number of ordinary shares | | | | | |
| 571,000 | 571,000 | Ali Paper Board Industries Limited | | **5,710,000** | 5,710,000 |
| 1,000,000 | 1,000,000 | Saudi Pak Kalabagh Livestock Company Limited | | **10,000,000** | 10,000,000 |
| 650,000 | 650,000 | Bela Chemical Industries Limited | | **6,500,000** | 6,500,000 |
| 400,000 | 400,000 | Fruit Sap Limited | | **4,000,000** | 4,000,000 |
| 630,000 | 630,000 | Equity International (Pvt) Limited | 10.7.2.1 | **6,000,000** | 6,000,000 |
| 1,125,000 | 1,125,000 | Taurus Securities Limited | | **11,250,000** | 11,250,000 |
| 500,000 | 500,000 | Highnoon Textiles Limited | | **5,000,000** | 5,000,000 |
| 1,500,000 | 1,500,000 | Wah Nobel Acetates Limited | | **15,000,000** | 15,000,000 |
| 5,000,000 | 5,000,000 | Pakistan Textile City Limited | | **50,000,000** | 50,000,000 |
| 5,000,000 | 5,000,000 | Alhamra Hills Private Limited | | **50,000,000** | 50,000,000 |
| 5,714,285 | 5,714,285 | Vision Network Television | | **100,000,000** | 100,000,000 |
| 4,000,000 | 4,000,000 | Pak Kuwait Takaful Company | 10.7.2.1 | **40,000,000** | 40,000,000 |
| 5,000,000 | 5,000,000 | Al Hamra Avenue Private Limited | | **50,000,000** | 50,000,000 |
| 16,875,000 | 16,875,000 | Pace Barka Properties Limited | | **168,750,000** | 168,750,000 |
| 3,762,304 | 3,762,304 | Innovative Investment Bank Limited | | **37,623,048** | 37,623,048 |
| 2,000,000 | 2,000,000 | Trust Investment Bank Limited | | **20,000,000** | 20,000,000 |
| - | 22,500,000 | Saudi Pak Insurance Company Limited | | **-** | 225,000,000 |
| 50,000,000 | 50,000,000 | Saudi Pak Real Estate Limited | | **500,000,000** | 500,000,000 |
| | | | | **1,079,833,048** | 1,304,833,048 |

**10.7.2.1** Details of investment in unlisted companies having 10% and more of paid-up capital of investee company are as follows:

| Name of the Company | Name of the Chief Executive | As per Accounts | %age Held | Breakup Value of Investment | Total Rupees |
|---|---|---|---|---|---|
| Pak Kuwait Takaful Company | Mr. Imtiaz Bhatti | 31-Dec-10 | 10.00 | 11.71 | 40,000,000 |
| Equity International (Pvt) Limited* | Mr. Robert Micheal | 30-Jun-11 | 20.00 | 1.32 | 6,000,000 |

*This does not include value of bonus shares amounting to Rs. 300,000

### 10.7.3 Investment in Term Finance Certificates – listed

| 2011 | 2010 | Name of investee companies | Original face Value (Rs.) | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|---|
| Number of ordinary shares | | | | | |
| 89,839 | 89,839 | Allied Bank Limited | 5,000 | **448,835,644** | 449,015,322 |
| 30,000 | 30,000 | Azgard Nine Limited | 5,000 | **124,898,600** | 124,898,600 |
| 6,313 | 6,313 | Askari Commercial Bank Limited | 4,989 | **31,482,931** | 31,495,557 |
| 16,159 | 16,159 | Bank Alfalah Limited | 5,000 | **53,720,915** | 80,608,845 |
| 39,780 | 39,780 | Engro Corporation Pakistan Limited | 5,000 | **198,900,000** | 198,900,000 |
| 7,000 | 7,000 | Jahangir Siddiqui and Company Limited | 5,000 | **17,468,500** | 34,944,000 |
| 31,125 | 31,125 | Maple Leaf Cement (Sukuk) Limited | 5,000 | **149,745,000** | 149,872,500 |
| - | 20,000 | Standard Chartered Bank Limited | - | **-** | 25,000,000 |
| 2,000 | 2,000 | Trust Investment Bank Limited | 5,000 | **4,998,000** | 7,497,000 |
| 10,000 | 10,000 | World Call Telecom Limited | 5,000 | **28,554,287** | 42,831,429 |
| | | | | **1,058,603,877** | 1,145,063,253 |

**10.7.3.1** These carry rate of return ranging from 13.11% to 15% per annum (2010: 10.75% to 15.79% per annum) and having maturity upto 9 years.

**10.7.4 Investment in Term Finance Certificates – unlisted**

| 2011 | 2010 | | | | | |
|---|---|---|---|---|---|---|
| Number of ordinary shares | | Company's name | Name of Chief Executive | Value per certificate (Rupees) | 2011 Rupees | 2010 Rupees |
| 40,000 | 40,000 | Avari Hotels Limited | Mr. Byram D. Avari | 5,000 | **169,829,200** | 169,829,200 |
| 18,000 | 18,000 | Amtex Limited (Sukuk) | Mr. Khurram Iftikhar | 5,000 | **67,500,000** | 67,500,000 |
| 10,000 | 10,000 | B.R.R Guardian Modaraba | Mr. Ayaz Dawood | 5,000 | **49,218,750** | 50,000,000 |
| 5,000 | 5,000 | Gharibwal Cement Limited | Mr. Muhammad Tausif Paracha | 5,000 | **24,355,500** | 24,980,000 |
| 10,000 | 10,000 | JDW Sugar Mills Limited | Mr. Jahangir Tareen | 5,000 | **27,777,780** | 38,888,890 |
| 10,000 | 10,000 | Martin Dow Pharmaceuticals | Mr. Jawed Akhai | 5,000 | **33,120,000** | 50,000,000 |
| 10,000 | 10,000 | Faysal Bank Limited(RBS) | Mr. Naveed A. Khan | 5,000 | **24,950,000** | 37,430,000 |
| 57,263 | 50,000 | Pak American Fertilizer Ltd | Mr. Ahmed Bilal | 5,000 | **286,286,697** | 244,000,000 |
| 11,273 | 11,273 | Sitara Energy (Sukuk) | Mr. Javed Iqbal | 5,000 | **42,272,727** | 49,318,182 |
| - | 5,000 | SME Leasing Limited | Mrs. Arjumand A. Qazi | - | **-** | 6,250,003 |
| 30,000 | 30,000 | Sitara Peroxide Limited | Mr. Imran Ghafoor | 5,000 | **140,625,000** | 140,625,000 |
| | | | | | **865,935,654** | 878,821,275 |

**10.7.4.1** These carry rate of return ranging from 12.12% to 15.67% (2010: 13.38% to 16.48%) per annum and having maturity of upto 9 years.

**10.7.5 Principal terms of investments in Federal Government securities**

| Name of investment | Maturity period | Principal | Rate | Coupon payment |
|---|---|---|---|---|
| Pakistan Investment Bonds | October 2012 to July 2015 | On maturity | 8% to 12.32% | Semi-annually |
| Market Treasury Bills | January 2012 to October 2012 | On maturity | 11.76% to 13.78% | On maturity |

**10.7.6 Investments in mutual funds**

| Name of investee | 2011 | 2010 | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| | Number of units | | | |
| AKD Opportunity Fund | - | 2,894,665 | - | 87,227,378 |
| CDC Trustee NIT Government Bond Fund | - | 2,662,533 | - | 25,000,000 |
| CDC Trustee Askari Sovereign Cash Fund | - | 267,385 | - | 25,000,000 |
| CDC Trustee Lakson Money Market Fund | - | 106,048 | - | 10,000,000 |
| CDC Trustee Faysal Saving Growth Fund | - | 97,580 | - | 10,000,000 |
| CDC Trustee Atlas Money Market Fund | - | 20,594 | - | 10,000,000 |
| CDC Trustee HBL Money Market Fund | - | 102,258 | - | 10,000,000 |
| Faysal Balance Growth Fund | - | 100,000 | - | 9,660,145 |
| Faysal Money Market Fund | - | 500,000 | - | 50,000,000 |
| JS Large Capital Fund | - | 500,000 | - | 23,700,000 |
| NAFA – Financial Sector Income Fund | **9,939,784** | - | **100,000,000** | - |
| National Investment Trust | - | 2,316,300 | - | 74,750,000 |
| Pak Oman Advantage Fund | **5,000,000** | 5,000,000 | **50,000,000** | 50,000,000 |
| | | | **150,000,000** | 385,337,523 |

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **10.8 Provision for diminution in value of investments** | | | |
| Opening balance | | **1,476,452,904** | 1,423,537,841 |
| Charge for the year | | **985,646,529** | 395,916,969 |
| Reversals (related to quoted AFS securitites) | | **(129,362,821)** | (343,001,906) |
| Written off | | **-** | - |
| Closing balance | **10.8.1** | **2,332,736,612** | 1,476,452,904 |
| **10.8.1 Particulars of provision in respect of type and segments** | | | |
| **Available-For-Sale (AFS) securities** | | | |
| Impairment on quoted securities | | **1,381,478,562** | 588,427,196 |
| Un-quoted securities | | **340,360,444** | 252,619,633 |
| **Held-To-Maturity (HTM) securities** | | | |
| Term Finance Certificates (TFCs) | | **34,221,531** | 58,730,000 |
| **Subsidiary** | | | |
| Saudipak Leasing Company Limited – Listed | | **576,676,075** | 576,676,075 |
| | | **2,332,736,612** | 1,476,452,904 |
| **10.9 Unrealized gain / loss on revaluation of investments classified as held for trading** | | | |
| Quoted securities | | **-** | - |

**10.10 Quality of available for sale securities**

| **(a) Quoted Securities** | **2011 Rating** | **2011 Market Value Rupees** | 2010 Rating | 2010 Market Value Rupees |
|---|---|---|---|---|
| **Companies** | | | | |
| Askari Commercial Bank Limited | **AA/A1+** | **10.03** | AA | 17.69 |
| Agritech Limited | **D** | **15.36** | SD | 23.90 |
| Summit Bank Limited (Formerly Arif Habib Bank) | **A/A-2** | **1.72** | A | 3.81 |
| Attock Petroleum Limited | **-** | **-** | unrated | 334.52 |
| Attock Cement Limited | **unrated** | **51.00** | unrated | 63.11 |
| Azgard Nine Limited | **D** | **2.85** | SD | 9.66 |
| Arif Habib Corporation Limited | **unrated** | **25.91** | A+/A1 | 24.89 |
| Bank Afalah Limited | **AA/A-1+** | **11.25** | AA | 11.21 |
| Bank of Khyber Limited | **-** | **-** | A-/A2 | 4.30 |
| Byco Petroleum Pakistan Limited | **-** | **-** | unrated | 11.27 |
| Bank Islami Pakistan Limited | **A/A1** | **3.10** | A | 3.63 |
| Chenab Limited | **unrated** | **1.01** | unrated | 3.12 |
| Cresent Steel and Allied Limited | **unrated** | **18.15** | unrated | 27.51 |
| DG Khan Cement Limited | **-** | **-** | unrated | 30.17 |
| Dewan Cement Limited | **Withdrawn** | **1.25** | D | 2.24 |
| Dewan Farooq Motors Limited | **unrated** | **1.61** | unrated | 2.28 |
| Dewan Salman Fibre Limited | **unrated** | **1.21** | unrated | 2.99 |
| Descon Oxychem Limited | **-** | **-** | unrated | 8.16 |
| Fauji Cement Limited | **unrated** | **3.30** | unrated | 5.02 |
| Fecto Cement Limited | **unrated** | **3.90** | unrated | 7.25 |
| FFC Bin Qasim Limited | **unrated** | **42.43** | unrated | 35.73 |
| Fauji Fertilizer Limited | **unrated** | **149.54** | unrated | 125.86 |
| First Credit and Investment Bank Limited | **-** | **-** | A- | 3.26 |
| Hub Power Company Limited | **-** | **-** | AA+ | 37.41 |

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Rating** | **Market value Rupees** | Rating | Market value Rupees |
| **(a) Quoted Securities (continued)** | | | | |
| Jahangir Siddique and Company Limited | **AA/A1+** | **4.03** | AA | 10.90 |
| Japan Power Generation Limited | **unrated** | **0.65** | unrated | 1.69 |
| Kot Addu Power Company Limited | **AA+/A-1+** | **41.32** | unrated | 40.68 |
| Maple Leaf Cement Limited | **D** | **1.85** | BB | 2.87 |
| Mari Gas Limited | **unrated** | **81.00** | unrated | 124.97 |
| My bank Limited | **-** | **-** | A- | 2.81 |
| National Bank of Pakistan Limited | **AAA/A1+** | **41.05** | AAA/A1+ | 76.82 |
| Nishat Chunian Limited | **-** | **-** | A/A-2 | 22.72 |
| Nishat Mills Limited | **-** | **-** | A+/A1 | 64.17 |
| Nishat Power Limited | **AA-/A1+** | **12.95** | AA-/A1+ | 16.23 |
| Nishat Chunian Power Limited | **AA-/A1+** | **12.75** | AA-/A1+ | 16.09 |
| NIB Bank Limited | **AA-/A1+** | **1.73** | AA-/A1+ | 2.95 |
| Pakistan Telecommunication Company Limited | **unrated** | **10.39** | unrated | 19.42 |
| Pakistan Petroleum Limited | **unrated** | **168.32** | unrated | 217.15 |
| Pakistan State Oil Limited | **AA+/A1+** | **227.21** | AA+/A1+ | 295.18 |
| Lafarge Pakistan Cement Limited | **unrated** | **1.88** | unrated | 3.21 |
| Pace Pakistan Limited | **D** | **1.30** | A/A1 | 2.73 |
| Packages Limited | **AA/A1+** | **82.72** | AA/A1+ | 128.61 |
| Pak Reinsurance Limited | **AA** | **15.50** | unrated | 16.25 |
| Pak Refinery Limited | **unrated** | **67.71** | unrated | 107.72 |
| Pak Elektron limited | **A-/A2** | **3.49** | A/A1 | 14.04 |
| PNSC | **AA-/A1+** | **12.71** | AA-/A1+ | 37.95 |
| Sitara Chemicals Limited | **A+/A1** | **72.20** | AA-/A1 | 127.75 |
| Sui Northern Gas Company Limited | **AA/A1+** | **15.71** | AA/A1+ | 26.74 |
| Security Papers Limited | **AAA/A1+** | **35.40** | AAA/A1+ | 44.86 |
| Samba Bank Limited | **A+/A1** | **1.45** | A/A1 | 1.96 |
| Samin Textile Limited | **unrated** | **4.05** | unrated | 6.10 |
| Sitara Peroxide Limited | **-** | **-** | unrated | 13.25 |
| Saudi Pak Leasing Company Limited | **unrated** | **0.48** | D | 0.55 |
| Shell Pakistan Limited | **unrated** | **190.28** | unrated | 208.22 |
| Telecard Company Limited | **D** | **0.80** | BBB | 2.21 |
| World Call Telecomm Limited | **BBB-/A3** | **1.00** | A-/A2 | 2.90 |
| **(b) Mutual Funds** | | | | |
| **Companies** | | | | |
| AKD Opportunity Fund | **-** | **-** | 3-Star | 31.70 |
| CDC Trustee Askari Sovereign Cash Fund | **-** | **-** | AA+ | 104.46 |
| CDC - Trustee NIT Govt. Bond Fund | **-** | **-** | unrated | 10.52 |
| CDC - Trustee Lakson Money Market Fund | **-** | **-** | AA | 100.06 |
| CDC - Trustee Faysal Saving Growth Fund | **-** | **-** | A | 105.15 |
| CDC - Trustee Atlas Money Market Fund | **-** | **-** | AA+ | 515.50 |
| CDC - Trustee HBL Money Market Fund | **-** | **-** | AA+ | 102.92 |
| Faysal Money Market Fund - Growth Units | **-** | **-** | AA+ | 100.53 |
| Faysal Balance Growth Fund | **-** | **-** | 4-Star | 76.12 |
| JS Large Capital fund | **-** | **-** | unrated | 65.15 |
| National Investment Trust | **-** | **-** | 3-Star | 31.42 |
| NAFA - Financial Sector Income Fund | **AM 2-** | **10.21** | - | - |
| Pak Oman Advantage Fund | **3-Star** | **10.85** | AA- | 10.49 |

| 11 | ADVANCES | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| | – In Pakistan | | 7,358,988,556 | 8,090,519,192 |
| | – Outside Pakistan | | - | - |
| | | | 7,358,988,556 | 8,090,519,192 |
| | Net investment in finance lease | | | |
| | – In Pakistan | 11.2.1 | 255,131,202 | 285,159,510 |
| | – Outside Pakistan | | - | - |
| | | | 255,131,202 | 285,159,510 |
| | Bills discounted and purchased | | - | - |
| | Advances – gross | 11.1 | 7,614,119,758 | 8,375,678,702 |
| | Provision for non-performing advances | 11.1.6 | (2,206,262,869) | (1,856,689,961) |
| | Provision for non-performing lease finance | 11.2.3 | (172,356,548) | (174,984,715) |
| | Advances – net of provision | | 5,235,500,341 | 6,344,004,026 |
| **11.1** | **Particulars of advances - gross** | | | |
| 11.1.1 | – In local currency | | 7,576,891,970 | 8,320,263,757 |
| | – In foreign currencies | | 37,227,788 | 55,414,945 |
| | | | 7,614,119,758 | 8,375,678,702 |
| 11.1.2 | Long term advances (for over one year) | 11.1.3 | 6,568,625,208 | 7,472,075,387 |
| | Short term advances (for upto one year) | 11.1.4 | 1,032,482,857 | 889,977,874 |
| | Staff advances | | 13,011,693 | 13,625,441 |
| | | | 7,614,119,758 | 8,375,678,702 |

**11.1.3** These advances are secured by charges created over assets of the beneficiary companies and carry mark-up rates ranging from 7.00% to 17.88% per annum (2010: 7.00% to 17.88% per annum).

**11.1.4** These are maturing within next twelve months and carry mark-up rates ranging from 14.00% to 18.18% per annum (2010: 13.82% to 18.18% per annum). These are secured by pledge of quoted shares, stocks and charge on receivable etc.

**11.1.5** Advances include Rs. 2,898.737 million (2010: Rs. 2,788.771 million) which have been placed under non-performing status as detailed below:-

| Category of classification | 2011 | | |
|---|---|---|---|
| | Classified advances Rupees | Provision required Rupees | Provision held Rupees |
| Substandard | 175,529,000 | 55,000,000 | 55,000,000 |
| Doubtful | 119,325,341 | 41,805,528 | 41,805,528 |
| Loss | 2,603,882,693 | 2,109,457,341 | 2,109,457,341 |
| | 2,898,737,034 | 2,206,262,869 | 2,206,262,869 |

| Category of classification | 2010 Classified advances Rupees | 2010 Provision required Rupees | 2010 Provision held Rupees |
|---|---|---|---|
| Substandard | 317,031,245 | 63,796,812 | 63,796,812 |
| Doubtful | 152,281,399 | 19,159,531 | 19,159,531 |
| Loss | 2,319,458,618 | 1,773,733,618 | 1,773,733,618 |
| | 2,788,771,262 | 1,856,689,961 | 1,856,689,961 |

**11.1.6 Particulars of provisions against non-performing advances**

| | **2011 Rupees Specific** | 2010 Rupees **Specific** |
|---|---|---|
| Opening balance | **1,856,689,961** | 1,814,906,256 |
| Charge for the year | **564,308,280** | 223,696,640 |
| Reversals | **(214,735,372)** | (181,912,935) |
| Closing balance | **2,206,262,869** | 1,856,689,961 |

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

The State Bank of Pakistan amended the Prudential Regulations vide BSD Circular No. 1 of 2011 dated October 21, 2011 in relation to provision for loans and advances, thereby allowing further benefit of Forced Sale Value (FSV) of pledged stocks, mortgaged residential, commercial and industrial properties (land and building only) and plant and machinery under charge held as collateral against non–performing advances. The FSV benefit has resulted in reduced charge for specific provision for the year by Rs. 309.881 million. The FSV benefit recognised in these unconsolidated financial statements is not available for payment of cash or stock dividend. Had the FSV benefit not recognised, loss before and after tax for the year would have been higher by Rs. 309.881 million. As on December 31, 2011, total FSV benefit availed by the Company stands at Rs. 406.743 million (2010: Rs. 568.167 million). Reserves to this extent are not available for distribution by way of cash or stock dividend.

| | Note | **2011 Rupees** | 2010 Rupees |
|---|---|---|---|
| **11.1.7 Particulars of write offs:** | | | |
| Against provisions | | - | - |
| Directly charged to the unconsolidated profit and loss account | | - | - |
| | | - | - |
| **11.1.8 Particulars of amounts written off against provisions** | | | |
| Write offs of Rs. 500,000 and above | | - | - |
| Write offs of below Rs. 500,000 | | - | - |
| | | - | - |
| **11.2 Net investment in finance lease** | | | |
| Minimum lease payments receivables | | **358,861,837** | **399,720,759** |
| Less: Unearned finance income | | **(103,730,635)** | **(114,561,249)** |
| Present value of minimum lease payments | 11.2.1 | **255,131,202** | **285,159,510** |
| Less: Provision for potential lease losses | 11.2.2 | **(172,356,548)** | **(174,984,715)** |
| Net investment in lease | | **82,774,654** | **110,174,795** |

**11.2.1 Net investment in finance lease**

| | 2011 | | |
|---|---|---|---|
| | **Less than one year** | **One year to five year** | **Total** |
| | **Rupees** | **Rupees** | **Rupees** |
| Lease rental receivable | **267,344,677** | **91,517,160** | **358,861,837** |
| Less: Unearned finance income | **83,964,959** | **19,765,676** | **103,730,635** |
| Present value of minimum lease payments | **183,379,718** | **71,751,484** | **255,131,202** |

| | 2010 | | |
|---|---|---|---|
| | Less than one year | One year to five year | Total |
| | Rupees | Rupees | Rupees |
| Lease rental receivable | 281,667,028 | 118,053,731 | 399,720,759 |
| Less: Unearned finance income | 86,501,265 | 28,059,984 | 114,561,249 |
| Present value of minimum lease payments | 195,165,763 | 89,993,747 | 285,159,510 |

**11.2.2** Investment in lease finance includes Rs. 186.679 million (2010: Rs. 198.589 million) which has been placed under non-performing status as detailed below:-

| | 2011 | | |
|---|---|---|---|
| | **Classified advance** | **Specific provision required** | **Specific provision held** |
| **Category of classification** | **Rupees** | **Rupees** | **Rupees** |
| Substandard | **28,645,418** | **14,322,709** | **14,322,709** |
| Doubtful | **-** | **-** | **-** |
| Loss | **158,033,839** | **158,033,839** | **158,033,839** |
| | **186,679,257** | **172,356,548** | **172,356,548** |

| | 2010 | | |
|---|---|---|---|
| | Classified advance | Specific provision required | Specific provision held |
| | Rupees | Rupees | Rupees |
| Substandard | 31,473,350 | 7,868,338 | 7,868,338 |
| Doubtful | - | - | - |
| Loss | 167,116,377 | 167,116,377 | 167,116,377 |
| | 198,589,727 | 174,984,715 | 174,984,715 |

**11.2.3 Particulars of provisions against non-performing lease finance**

| | **2011 Rupees** | 2010 Rupees |
|---|---|---|
| Opening balance | **174,984,715** | 170,499,570 |
| Charge for the year | **7,161,354** | 9,134,782 |
| Amounts written off | **-** | - |
| Reversals | **(9,789,521)** | (4,649,637) |
| Closing balance | **172,356,548** | 174,984,715 |

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| **11.2.4** | **Particulars of amounts written off against provisions** | | | |
| | Write offs of Rs. 500,000 and above | | - | - |
| | Write offs of below Rs. 500,000 | | - | - |
| | | | - | - |
| **11.3** | **Particulars of loans and advances to directors and associated companies etc.** | | | |
| | Debts due by directors, executives or officers of the Company or any of them either severally or jointly with any other persons | | **13,011,693** | 13,625,441 |
| | Debts due by companies or firms in which the directors of the Company are interested as directors, partners | | - | - |
| | Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties | | - | - |
| **11.3.1** | Opening balance | | **13,625,441** | 14,014,046 |
| | Loans granted during the year | | **7,976,499** | 8,866,044 |
| | Repayments during the year | | **(8,590,247)** | (9,254,649) |
| | Closing balance | | **13,011,693** | 13,625,441 |
| **12** | **OPERATING FIXED ASSETS** | | | |
| | Capital work-in-progress | | - | - |
| | Property and equipment | **12.1** | **2,078,316,564** | 2,173,369,775 |
| | Intangible assets | **12.2** | **4,273,260** | 3,300,760 |
| | | | **2,082,589,824** | 2,176,670,535 |

## 12.1 Property and equipment

| | 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | COST/REVALUATION | | | | | DEPRECIATION | | | | |
| | Opening balance | Additions | Disposals | Closing balance | Rate % | Opening balance | For the year | Disposals | Closing balance | Net Book value |
| | Rupees | Rupees | Rupees | Rupees | | Rupees | Rupees | Rupees | Rupees | Rupees |
| Freehold land | 8,088,120 | - | - | **8,088,120** | - | - | - | - | **-** | **8,088,120** |
| Leasehold land - Islamabad | 1,018,225,001 | - | - | **1,018,225,001** | 1.19 | 54,525,947 | 12,116,877 | - | **66,642,824** | **951,582,177** |
| Building - Islamabad | 1,311,700,357 | 32,130 | - | **1,311,732,487** | 4 | 235,092,454 | 52,468,970 | - | **287,561,424** | **1,024,171,063** |
| Building | 22,019,252 | 2,200,000 | - | **24,219,252** | 4 | 3,963,454 | 891,218 | - | **4,854,672** | **19,364,580** |
| Heating and air-conditioning | 89,347,179 | - | - | **89,347,179** | 15 | 58,799,605 | 13,402,042 | - | **72,201,647** | **17,145,532** |
| Elevators | 41,000,000 | 2,664,310 | - | **43,664,310** | 15 | 27,674,970 | 6,483,032 | - | **34,158,002** | **9,506,308** |
| Electrical fittings | 74,371,533 | - | - | **74,371,533** | 15 | 43,129,774 | 11,155,689 | - | **54,285,463** | **20,086,070** |
| Fire fighting equipment | 2,310,536 | - | 80,472 | **2,230,064** | 15 | 1,501,924 | 344,529 | 64,372 | **1,782,081** | **447,983** |
| Leasehold improvement | 6,273,168 | 160,256 | 130,585 | **6,302,839** | 15 | 1,337,197 | 957,736 | 55,231 | **2,239,702** | **4,063,137** |
| Motor vehicles | 35,889,296 | 7,620,895 | 6,475,307 | **37,034,884** | 20 | 26,339,542 | 5,214,836 | 6,017,193 | **25,537,185** | **11,497,699** |
| Furniture, fixture and fittings | 13,835,686 | 173,500 | 327,430 | **13,681,756** | 20 | 13,135,138 | 434,865 | 327,343 | **13,242,660** | **439,096** |
| Office equipment | 35,865,353 | 1,591,267 | 1,723,232 | **35,733,388** | 33.33 | 29,642,520 | 4,808,230 | 1,587,789 | **32,862,961** | **2,870,427** |
| Telephone installation | 2,334,911 | 65,527 | - | **2,400,438** | 15 | 1,631,076 | 314,092 | - | **1,945,168** | **455,270** |
| Electrical appliances | 1,988,702 | 64,000 | - | **2,052,702** | 15 | 880,508 | 233,126 | - | **1,113,634** | **939,068** |
| Loose tools | 1,170,325 | - | - | **1,170,325** | 15 | 309,536 | 144,524 | - | **454,060** | **716,265** |
| Miscellaneous | 1,063,393 | 17,980 | 237,804 | **843,569** | 15 | 1,007,295 | 16,948 | 237,801 | **786,442** | **57,127** |
| Security systems | 10,984,666 | 1,800,547 | - | **12,785,213** | 15 | 4,126,763 | 1,771,808 | - | **5,898,571** | **6,886,642** |
| | 2,676,467,478 | 16,390,412 | 8,974,830 | **2,683,883,060** | | 503,097,703 | 110,758,522 | 8,289,729 | **605,566,496** | **2,078,316,564** |

## 12.2 Intangible assets

| | 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | COST/REVALUATION | | | | | AMORTIZATION | | | | |
| | Opening balance | Additions | Disposals | Closing balance | Rate % | Opening balance | For the year | Disposals | Closing balance | Net Book value |
| | Rupees | Rupees | Rupees | Rupees | | Rupees | Rupees | Rupees | Rupees | Rupees |
| Software and others | 9,811,014 | 2,977,000 | - | 12,788,014 | 33.33 | 6,510,254 | 2,004,500 | - | 8,514,754 | 4,273,260 |

## 12.1 Property and equipment (continued)

| | 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | COST/REVALUATION | | | | | DEPRECIATION | | | | |
| | Opening balance | Additions | Disposals | Closing balance | Rate % | Opening balance | For the year | Disposals | Closing balance | Net Book value |
| | Rupees | Rupees | Rupees | Rupees | | Rupees | Rupees | Rupees | Rupees | Rupees |
| Freehold land | 8,088,120 | - | - | 8,088,120 | - | - | - | - | - | 8,088,120 |
| Leasehold land - Islamabad | 1,018,225,001 | - | - | 1,018,225,001 | 1.19 | 42,409,070 | 12,116,877 | - | 54,525,947 | 963,699,054 |
| Building - Islamabad | 1,311,700,357 | - | - | 1,311,700,357 | 4 | 182,624,447 | 52,468,007 | - | 235,092,454 | 1,076,607,903 |
| Building - leasehold Karachi | 22,019,252 | - | - | 22,019,252 | 4 | 3,082,686 | 880,768 | - | 3,963,454 | 18,055,798 |
| Heating and air-conditioning | 89,450,774 | - | 103,595 | 89,347,179 | 15 | 45,451,946 | 13,407,340 | 59,681 | 58,799,605 | 30,547,574 |
| Elevators | 41,000,000 | - | - | 41,000,000 | 15 | 21,524,976 | 6,149,994 | - | 27,674,970 | 13,325,030 |
| Electrical fittings | 74,371,533 | - | - | 74,371,533 | 15 | 31,974,085 | 11,155,689 | - | 43,129,774 | 31,241,759 |
| Fire fighting equipment | 2,316,875 | - | 6,339 | 2,310,536 | 15 | 1,158,708 | 346,541 | 3,325 | 1,501,924 | 808,612 |
| Leasehold improvement | 5,865,053 | 408,115 | - | 6,273,168 | 15 | 397,301 | 939,896 | - | 1,337,197 | 4,935,971 |
| Motor vehicles | 37,086,296 | - | 1,197,000 | 35,889,296 | 20 | 22,125,839 | 5,410,702 | 1,196,999 | 26,339,542 | 9,549,754 |
| Furniture, fixture and fittings | 14,288,571 | - | 452,885 | 13,835,686 | 20 | 12,780,282 | 755,937 | 401,081 | 13,135,138 | 700,548 |
| Office equipment | 33,660,344 | 3,393,091 | 1,188,082 | 35,865,353 | 33.33 | 25,464,696 | 5,365,864 | 1,188,040 | 29,642,520 | 6,222,833 |
| Telephone installation | 2,334,911 | - | - | 2,334,911 | 15 | 1,318,596 | 312,480 | - | 1,631,076 | 703,835 |
| Electrical appliances | 1,311,027 | 686,250 | 8,575 | 1,988,702 | 15 | 697,306 | 191,775 | 8,573 | 880,508 | 1,108,194 |
| Loose tools | 245,325 | 955,000 | 30,000 | 1,170,325 | 15 | 242,575 | 96,951 | 29,990 | 309,536 | 860,789 |
| Miscellaneous | 1,063,393 | - | - | 1,063,393 | 15 | 975,068 | 32,227 | - | 1,007,295 | 56,098 |
| Security systems | 10,274,956 | 709,710 | - | 10,984,666 | 15 | 2,499,706 | 1,627,057 | - | 4,126,763 | 6,857,903 |
| | 2,673,301,788 | 6,152,166 | 2,986,476 | 2,676,467,478 | | 394,727,287 | 111,258,105 | 2,887,689 | 503,097,703 | 2,173,369,775 |

## 12.2 Intangible assets (continued

| | 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | COST/REVALUATION | | | | | AMORTIZATION | | | | |
| | Opening balance | Additions | Disposals | Closing balance | Rate % | Opening balance | For the year | Disposals | Closing balance | Net Book value |
| | Rupees | Rupees | Rupees | Rupees | | Rupees | Rupees | Rupees | Rupees | Rupees |
| Software | 8,606,050 | 1,204,964 | - | 9,811,014 | 33.33 | 4,867,348 | 1,642,906 | - | 6,510,254 | 3,300,760 |

## 12.3 Details of disposal of operating fixed assets

| Particulars of assets | Cost revaluation | Accumulated Depreciation | Book value | Surplus | Sale proceeds | Gain / (loss) | Mode of disposal | Particulars of buyer |
|---|---|---|---|---|---|---|---|---|
| | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | | |
| Canon Fax machine L-300 | 62,100 | 62,099 | 1 | - | 2,000 | 1,999 | Auction | Muhammad Aslam |
| Canon Plan paper copier model NP-7210 | 114,180 | 114,179 | 1 | - | 6,000 | 5,999 | Auction | Muhammad Aslam |
| UPS Sola (310) VA | 7,000 | 6,999 | 1 | - | 700 | 699 | Auction | Muhammad Aslam |
| UPS apc smar 1250 VA | 32,923 | 32,922 | 1 | - | 2,000 | 1,999 | Auction | Muhammad Aslam |
| Tulip Action Lone CP (7 Nos) | 436,506 | 436,499 | 7 | - | 14,000 | 13,993 | Auction | Muhammad Aslam |
| HP laser Jet 4000 | 77,000 | 76,999 | 1 | - | 2,000 | 1,999 | Auction | Muhammad Aslam |
| HP colour laser jet 2500 printer | 83,500 | 83,499 | 1 | - | 2,000 | 1,999 | Auction | Muhammad Aslam |
| Honda City 1300 cc MD-351 | 870,457 | 609,318 | 261,139 | - | 724,000 | 462,861 | Company Policy | Syed Zulfiqar Hussain |
| Dell Laptop E-6400 | 135,396 | 94,014 | 41,382 | - | 45,143 | 3,761 | Company Policy | Syed Zulfiqar Hussain |
| Dell Laptop E-6400 | 135,396 | 90,254 | 45,142 | - | 45,142 | - | Company Policy | Muhammad Rashid Zahir |
| Gestetner Digital Copier 4502 | 464,085 | 464,083 | 2 | - | 40,000 | 39,998 | Auction | Hascombe Business Solutions |
| Honda City 1300 HT-623 | 793,500 | 793,499 | 1 | - | 500,500 | 500,499 | Company Policy | Muhammad Nayeem Akhtar |
| Honda City 1300 HT-624 | 793,500 | 793,499 | 1 | - | 527,625 | 527,624 | Company Policy | Ms. Fozia Fakhar |
| Dell Laptop E-6400 | 135,396 | 86,493 | 48,903 | - | 61,200 | 12,297 | Auction | Insurance Claim (Saudi Pak Ins) |
| Mitsubishi Lancer JF-437 | 1,011,000 | 1,010,999 | 1 | - | 536,667 | 536,666 | Company Policy | Ms. Parveen A. Malik |
| Mitsubishi Lancer JF-438 | 1,011,000 | 1,010,999 | 1 | - | 571,667 | 571,666 | Company Policy | Arshed Ahmed Khan |
| Toyota Corolla 1300 AMY-251 | 984,850 | 787,880 | 196,970 | - | 750,667 | 553,697 | Company Policy | Muhammad Hussain |
| Mitsubishi Lancer JF-259 | 1,011,000 | 1,010,999 | 1 | - | 856,800 | 856,799 | Auction | Rizwan Mazhar |
| Fire extinguisher 6 kg Blue (2 No.) | 80,472 | 64,372 | 16,100 | 16,100 | 5,000 | 5,000 | Auction | Muhammad Tariq Mahmood |
| H P Laser Jet 3380 printer | 39,750 | 39,749 | 1 | - | 5,000 | 4,999 | Auction | Muhammad Tariq Mahmood |
| Revolving Chairs Low back 4 No./ Imported 15 No. | 72,593 | 72,574 | 19 | - | 10,000 | 9,981 | Auction | Muhammad Tariq Mahmood |
| Revolving chairs imported 2 No. Green | 21,300 | 21,298 | 2 | - | 2,000 | 1,998 | Auction | Muhammad Tariq Mahmood |
| Conference chairs 23 No. Board Room Blue and Pink | 83,950 | 83,927 | 23 | - | 23,000 | 22,977 | Auction | Muhammad Tariq Mahmood |
| Chair Managers/staff/steno (36 No.) | 118,980 | 118,944 | 36 | - | 36,000 | 35,964 | Auction | Muhammad Tariq Mahmood |
| Computer Chairs (2 No.) | 2,800 | 2,798 | 2 | - | 2,000 | 1,998 | Auction | Muhammad Tariq Mahmood |
| Marble Table Octagon | 4,500 | 4,499 | 1 | - | 1,000 | 999 | Auction | Muhammad Tariq Mahmood |
| Table Executive (3 No.) | 19,830 | 19,827 | 3 | - | 4,500 | 4,497 | Auction | Muhammad Tariq Mahmood |
| Modular Table | 3,477 | 3,476 | 1 | - | 1,000 | 999 | Auction | Muhammad Tariq Mahmood |
| Misc. Items BCP site | 130,585 | 55,231 | 75,354 | - | 35,500 | (39,854) | Auction | Muhammad Tariq Mahmood |
| Classic Tier Fountain | 228,654 | 228,652 | 2 | - | 6,000 | 5,998 | Auction | Muhammad Tariq Mahmood |
| Lawn Mover | 9,150 | 9,149 | 1 | - | 2,000 | 1,999 | Auction | Muhammad Tariq Mahmood |
| | **8,974,830** | **8,289,729** | **685,101** | **16,100** | **4,821,111** | **4,152,110** | | |

**12.4 Depreciation for the year has been allocated as follows:**

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Rental income | 25.1 | **99,103,413** | 98,669,116 |
| Administrative expenses | 26 | **13,659,609** | 14,231,895 |
| | | **112,763,022** | 112,901,011 |

**12.5 The cost / revalued amount of fully depreciated assets that are still in use:**

| | | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Furniture, fixture and fittings, electrical fittings, office equipment and computer equipment | | **45,784,526** | 36,005,008 |
| Vehicles | | **10,504,422** | 11,055,913 |
| Loose tools | | **215,330** | 206,440 |
| | | **56,504,278** | 47,267,361 |

**12.6 Had the revaluation not been carried out, the net book value of the revalued assets would have been as follows:**

| | | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Land | | **1,059,613** | 1,073,105 |
| Building and other assets | | **104,226,907** | 186,103,270 |
| | | **105,286,520** | 187,176,375 |

**12.7** The Company's leasehold land, buildings and certain other items of property and equipments were revalued by independent professional valuer M/s National Project Managers (Pvt) Limited on June 20, 2006 on the basis of their professional assessment of present market value. The revaluation has resulted in increasing the surplus on revaluation of fixed assets by Rs. 2,410,485,676. Further, as at December 31, 2009, an assessment of land and building was also conducted by an independent professional valuers M/s National Project Managers (Pvt) Limited. The fair value determined by the valuer was not materially different from the carrying value of the assets. Therefore, no adjustment had been made in the books of accounts in 2009.

**13 OTHER ASSETS**

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Accrued income and receivables | 13.1 | **275,005,414** | 338,597,088 |
| Advances, deposits, prepayments and other receivables | 13.2 | **1,031,264,251** | 1,172,386,696 |
| | | **1,306,269,665** | 1,510,983,784 |

**13.1 Accrued income and receivables**

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Accrued income from advances | 13.1.1 | **151,263,528** | 186,158,812 |
| Accrued income from investments | 13.1.3 | **122,353,833** | 148,481,487 |
| Accrued income from lendings to financial institutions | | **204,478** | 3,905,768 |
| Others | | **4,302,813** | 3,170,259 |
| Less: provision for doubtful income receivables | 13.1.5 | **(3,119,238)** | (3,119,238) |
| | | **1,183,575** | 51,021 |
| | | **275,005,414** | 338,597,088 |

**13.1.1 Accrued income from advances**

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Long term advances | | **859,518,857** | 825,059,272 |
| Short term advances | | **182,223,912** | 163,599,050 |
| Lease financing | | **70,503,510** | 68,146,885 |
| Others | | **5,666,254** | 6,624,905 |
| | | **1,117,912,533** | 1,063,430,112 |
| Less: provision for doubtful accrued income from advances | 13.1.2 | **(966,649,005)** | (877,271,300) |
| | | **151,263,528** | 186,158,812 |

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **13.1.2 Provision for doubtful accrued income from advances** | | | |
| Opening balance | | **877,271,300** | 697,467,296 |
| Charge for the year | | **137,756,144** | 199,445,964 |
| Reversals | | **(48,378,439)** | (19,641,960) |
| Closing balance | | **966,649,005** | 877,271,300 |
| **13.1.3 Accrued income from investments** | | | |
| Government Securities | | **66,871,806** | 68,036,953 |
| Term Finance Certificates (TFCs) | | **169,687,266** | 136,933,457 |
| Commercial Papers | | **-** | 3,835,233 |
| | | **236,559,072** | 208,805,643 |
| Less: provision for doubtful accrued income from investments | 13.1.4 | **(114,205,239)** | (60,324,156) |
| | | **122,353,833** | 148,481,487 |
| **13.1.4 Provision for doubtful accrued income from investments** | | | |
| Opening balance | | **60,324,156** | 6,746,145 |
| Charge for the year | | **70,285,442** | 53,578,011 |
| Reversals | | **(16,404,359)** | - |
| Closing balance | | **114,205,239** | 60,324,156 |
| **13.1.5 Provision for doubtful income receivables** | | | |
| Opening balance | | **3,119,238** | 2,615,861 |
| Charge for the year | | **-** | 503,377 |
| Closing balance | | **3,119,238** | 3,119,238 |
| **13.2 Advances, deposits, prepayments and other receivables** | | | |
| Advances to suppliers | | **4,293,072** | 15,681,436 |
| Security deposits | | **6,508,611** | 6,643,611 |
| Prepayments | | **4,805,094** | 4,133,212 |
| Receivable from stock brokers | | **3,910,643** | 199,499,238 |
| Advance tax | | **753,694,214** | 874,211,635 |
| Non banking assets acquired in satisfaction of claims | 13.2.1 | **400,008,887** | 72,217,564 |
| Advance for purchase of shares | | **256,792** | 256,792 |
| | | **1,173,477,313** | 1,172,643,488 |
| Less: provision for receivable from stock brokers | | **(3,818,270)** | - |
| Less: provision for advance for purchase of shares | | **(256,792)** | (256,792) |
| Less: provision for non banking assets acquired in satisfaction of claims | | **(138,138,000)** | - |
| | 13.2.2 | **(142,213,062)** | (256,792) |
| | | **1,031,264,251** | 1,172,386,696 |

**13.2.1** These represent the amount of assets acquired against settlement of advances from various customers. Valuation of these properties was conducted by M/s Harvester Services (Pvt.) Limited. Market value assessed amounts to Rs. 261.871 million. Provision has been created against the shortfall.

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| **13.2.2** | **Provision against doubtful receivable balances** | | | |
| | Opening balance | | **256,792** | 256,792 |
| | Charge for the year | | **141,956,270** | - |
| | Closing balance | | **142,213,062** | 256,792 |
| **14** | **BORROWINGS** | | | |
| | In Pakistan | | **5,382,643,167** | 7,137,934,094 |
| | Outside Pakistan | | **-** | - |
| | | | **5,382,643,167** | 7,137,934,094 |
| **14.1** | **Particulars of borrowings with respect to currencies** | | | |
| | In local currency | | **5,382,643,167** | 7,137,934,094 |
| | In foreign currency | | **-** | - |
| | | | **5,382,643,167** | 7,137,934,094 |
| | Long term borrowings | 14.2 | **2,899,875,667** | 3,174,481,999 |
| | Short term borrowings | 14.3 | **2,482,767,500** | 3,963,452,095 |
| | | | **5,382,643,167** | 7,137,934,094 |
| **14.2** | **Long term borrowings** | | | |
| | Against book debts/receivables | 14.2.1 | **1,966,666,667** | 2,299,999,999 |
| | Against SBP refinance schemes | 14.2.2 | **933,209,000** | 874,482,000 |
| | | | **2,899,875,667** | 3,174,481,999 |

**14.2.1** These represent facilities obtained against charge on book debts/receivables valuing Rs. 4,256 million (2010: Rs. 4,256 million). The mark up is charged at varying rates ranging from 12.54% to 14.11% per annum (2010: 13.66% to 14.44% per annum). These facilities will mature during April 2012 to September 2014 (2010: April 2011 to September 2014).

**14.2.2** These represent facilities obtained against State Bank Refinance schems (LT - EOP / LT - FF). The mark up is charged at rate of 5.00% to 10.10% per annum (2010: 5.00% to 8.60% per annum). These facilities will mature during January 2012 to December 2020 (2010: January 2011 to October 2017).

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| **14.3** | **Short term borrowings** | | | |
| | Against book debts/receivables | 14.3.1 | **350,000,000** | 650,000,000 |
| | Repurchase agreements under PIBs - repo | 14.3.2 | **193,031,600** | 97,680,350 |
| | Repurchase agreements under Market Treasury Bills - repo | 14.3.3 | **684,735,900** | 1,204,762,000 |
| | Clean / letter based financing | 14.3.4 | **605,000,000** | 1,211,009,745 |
| | Morahaba finance | 14.3.5 | **650,000,000** | 800,000,000 |
| | | | **2,482,767,500** | 3,963,452,095 |

**14.3.1** These represent facilities obtained against charge on book debts / receivables valuing Rs. 1,076.923 million (2010: Rs. 1,476.923). The mark-up is charged at the rate of 12.60% (2010: 13.45% to 13.63%) per annum. These facilities are maturing in January 2012 (2010: January 2011 to October 2011).

**14.3.2** These are secured against Pakistan Investment Bonds. These carry markup rate of 11.90% (2010: 12.90%) per annum and will mature in January 2012 (2010: January 2011).

**14.3.3** These are secured against Treasury bills. These carry mark up rates of 11.90% (2010: 13% to 13.90%) per annum and are maturing in January 2012 (2010: January 2011).

**14.3.4** These represent borrowing in local currency from various financial institutions and overnight borrowings. These carry interest rates ranging from 10.25% to 12.60% (2010: 11.75% to 14.00%) per annum. These facilities will be maturing from January 2012 to March 2012 (2010: January 2011).

**14.3.5** These represent morahaba finance arranged from an Islamic Bank. These carry markup rates ranging from 12.23% to 12.47% (2010: 13.74% to 14.05%) per annum. These will be maturing from January 2012 to June 2012 (2010: January 2011 to May 2011).

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| **14.4** | **Details of borrowings secured/unsecured** | | | |
| | **Secured** | | | |
| | Borrowings from State Bank of Pakistan: | | | |
| | – Against SBP refinance schemes | | **933,209,000** | 874,482,000 |
| | Repurchase agreement borrowings | | **877,767,500** | 1,302,442,350 |
| | Against book debts/receivables | | **2,316,666,667** | 2,949,999,999 |
| | Morahaba finance | | **650,000,000** | 800,000,000 |
| | | | **4,777,643,167** | 5,926,924,349 |
| | **Unsecured** | | | |
| | Call borrowings | | **605,000,000** | 1,211,009,745 |
| | | | **5,382,643,167** | 7,137,934,094 |
| **15** | **DEPOSITS AND OTHER ACCOUNTS** | | | |
| | Certificate of Investments (COIs) | 15.1 | **759,500,000** | 1,654,902,252 |

**15.1** These represent certificate of investments issued to various institutions. The mark up is charged at varying rates ranging from 12.15% to 13.80% per annum (2010: 12.52% to 13.95% per annum). These are repayable in period ranging from January 2012 to December 2012 (2010: January 2011 to August 2011).

**16 DEFERRED TAX LIABILITIES**

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **Deferred tax credits arising due to following taxable temporary differences:** | | | |
| Accelerated tax depreciation | 20 | **3,972,837** | 61,956,993 |
| Surplus on revaluation of operating fixed assets | 19 | **679,617,796** | 709,443,981 |
| Surplus / (deficit) on revaluation of securities | | **22,505,053** | (129,428,939) |
| | | **706,095,686** | 641,972,035 |
| **Deferred tax debits arising due to following deductible temporary differences:** | | | |
| Provision against employee benefits | | **(11,741,947)** | (11,366,080) |
| Net investment in leases | | **(25,122,254)** | (43,674,526) |
| Accumulated tax lossses | | **(574,204,238)** | (468,533,760) |
| | | **(611,068,439)** | (523,574,366) |
| | | **95,027,247** | 118,397,669 |
| Valuation reserve against accumulated tax lossses | 16.1 | **574,204,238** | 468,533,760 |
| | | **669,231,485** | 586,931,429 |

**16.1** In view of the uncertainty about timings of taxable profits in the foreseeable future against which the tax losses can be utilized, the Company has not recognized deferred tax asset on accumulated tax losses and therefore, has created an equivalent amount of valuation reserve against it amounting to Rs. 574,204,238 (2010: Rs. 468,533,760).

**16.2 Movement in temporary differences during the year:**

| | Opening balance 2011 Rupees | Recognised in profit or loss 2011 Rupees | Recognised in equity 2011 Rupees | Closing balance 2011 Rupees |
|---|---|---|---|---|
| **Taxable temporary differences** | | | | |
| Accelerated tax depreciation | 61,956,993 | (57,984,156) | - | 3,972,837 |
| Surplus on revaluation of operating fixed assets | 709,443,981 | (29,826,185) | - | 679,617,796 |
| Surplus / (deficit) on revaluation of securities | (129,428,939) | - | 151,933,992 | 22,505,053 |
| **Deductible temporary differences** | | | | |
| Provision against employee benefits | (11,366,080) | (375,867) | - | (11,741,947) |
| Net investment in leases | (43,674,526) | 18,552,272 | - | (25,122,254) |
| | **586,931,429** | **(69,633,936)** | **151,933,992** | **669,231,485** |

| | Opening balance 2010 Rupees | Recognised in profit or loss 2010 Rupees | Recognised in equity 2010 Rupees | Closing balance 2010 Rupees |
|---|---|---|---|---|
| **Taxable temporary differences** | | | | |
| Accelerated tax depreciation | 21,572,672 | 40,384,321 | - | 61,956,993 |
| Surplus on revaluation of operating fixed assets | 739,270,377 | (29,826,396) | - | 709,443,981 |
| Deficit on revaluation of securities | (10,078,099) | - | (119,350,840) | (129,428,939) |
| **Deductible temporary differences** | | | | |
| Provision against employee benefits | (10,489,059) | (877,021) | - | (11,366,080) |
| Net investment in leases | (66,383,182) | 22,708,656 | - | (43,674,526) |
| Provision for diminution in the value of investments | (71,319,745) | 71,319,745 | - | - |
| | 602,572,964 | 103,709,305 | (119,350,840) | 586,931,429 |

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| **17.** | **OTHER LIABILITIES** | | | |
| | Mark-up/return/interest accrued on borrowings | 17.1 | **81,359,326** | 140,889,434 |
| | Creditors, accrued and other liabilities | 17.2 | **24,409,622** | 104,660,689 |
| | Deferred liabilities | 17.3 | **56,341,526** | 57,595,602 |
| | | | **162,110,474** | 303,145,725 |
| **17.1** | **Mark-up/return/interest accrued on borrowings** | | | |
| | Long term borrowings | | **51,238,160** | 59,269,405 |
| | Short term borrowings | | **29,548,814** | 78,244,221 |
| | Securities purchased under Repurchase agreements - repo | | **572,352** | 3,375,808 |
| | | | **81,359,326** | 140,889,434 |
| **17.2** | **Creditors, accrued and other liabilities** | | | |
| | Directors' remuneration | | **3,807,374** | 3,091,586 |
| | Other payables | | **11,660,626** | 11,038,395 |
| | Payable on employees account | | **34,860** | 697,491 |
| | Corporate income tax payable | | **-** | 81,359,813 |
| | Accrued liabilities | | **8,906,762** | 8,473,404 |
| | | | **24,409,622** | 104,660,689 |
| **17.3** | **Deferred liabilities** | | | |
| | Provision for staff gratuity | 34.1 | **28,779,665** | 29,344,463 |
| | Provision for compensated absences | | **4,768,756** | 3,130,050 |
| | Advance rental income | 17.3.1 | **22,793,105** | 25,121,089 |
| | | | **56,341,526** | 57,595,602 |

**17.3.1** This represents rent received in advance for premises let out in the Saudi Pak Tower, Jinnah Avenue, Islamabad.

**18 SHARE CAPITAL**

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| **Authorized capital:** | | |
| 600,000,000 ordinary shares of Rs. 10 each (2010: 600,000,000 ordinary shares of Rs. 10 each) | **6,000,000,000** | 6,000,000,000 |
| **Issued, subscribed and paid up capital:** | | |
| 400,000,000 ordinary shares of Rs. 10 each issued for cash (2010: 400,000,000 ordinary shares of Rs. 10 each issued for cash) | **4,000,000,000** | 4,000,000,000 |
| 200,000,000 bonus shares of Rs. 10 each (2010: 200,000,000 bonus shares of Rs. 10 each) | **2,000,000,000** | 2,000,000,000 |
| | **6,000,000,000** | 6,000,000,000 |

**18.1 Reconciliation of number of ordinary shares of Rs. 10 each**

| | Number of shares | |
|---|---|---|
| | **2011** | 2010 |
| Opening balance | **600,000,000** | 600,000,000 |
| Issued during the year | **-** | - |
| Closing balance | **600,000,000** | 600,000,000 |

**18.2 Minimum Capital Requirement**

There is a shortfall of Rs. 1,412.718 million in meeting the Minimum Capital Requirement (MCR) of Rs. 6,000 million (free of losses) as at December 31, 2011. The management is of the view that the said shortfall shall be adjusted through reserve fund after seeking the approval from State Bank of Pakistan. [State Bank of Pakistan vide its letter No. BSD/BAI-3/608/3624/2011 dated March 24, 2011 had allowed the Company to meet the minimum paid-up capital (free of losses) of Rs. 6 billion by appropriating the deficit balance of Rs. 448.459 million as of December 31, 2010, from the reserves held by the Company.]

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| 19 | **SURPLUS / (DEFICIT) ON REVALUATION OF AFS SECURITIES - NET OF TAX** | | | |
| | Quoted securities | | **58,648,350** | (388,620,748) |
| | Government securities | | **(123,152)** | (28,927,349) |
| | Mutual fund units | | **5,774,954** | 47,751,130 |
| | | 10.1 | **64,300,152** | (369,796,967) |
| | Less: related deferred tax asset | 16 | **(22,505,053)** | 129,428,939 |
| | | | **41,795,099** | (240,368,028) |
| 20 | **SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS - NET OF TAX** | | | |
| | Movement in surplus on revaluation of operating fixed assets: | | | |
| | Opening balance | | **2,026,825,068** | 2,112,080,136 |
| | Surplus realized on disposal | | **(16,100)** | (36,792) |
| | Transferred to unappropriated profit in respect of | | | |
| | – Incremental depreciation charged during the year | | **(55,391,487)** | (55,391,880) |
| | – Deferred tax | | **(29,826,185)** | (29,826,396) |
| | | | **(85,217,672)** | (85,218,276) |
| | Surplus on revaluation of operating fixed assets | | **1,941,591,296** | 2,026,825,068 |
| | Related deferred tax liability | | **(709,443,981)** | (739,270,377) |
| | Transferred to unconsolidated profit and loss account in respect of incremental depreciation | | **29,826,185** | 29,826,396 |
| | | 16 | **(679,617,796)** | (709,443,981) |
| | Closing balance | | **1,261,973,500** | 1,317,381,087 |
| 21 | **CONTINGENCIES AND COMMITMENTS** | | | |
| 21.1 | **Direct credit substitutes** Letter of comfort / guarantee | | **18,134,000** | 13,185,000 |
| 21.2 | **Non disbursed commitment for term and working capital finance** | | **824,499,000** | 824,886,000 |
| 21.3 | **Commitments in respect of purchase of forward exchange contracts** [USD 27.40 million (2010: USD 54.75 million)] | | **2,463,933,000** | 4,750,355,000 |
| 21.4 | **Commitments for the acquisition of operating fixed assets (intangibles assets)** | | **5,664,339** | 1,799,518 |
| | | | **3,312,230,339** | 5,590,225,518 |

**21.5 Tax contingencies**

**(a) Assessment Orders Under Income Tax Ordinance, 2001**

**Tax year 2004, 2005 and 2006**

Provision for Non-Performing Loans (NPLs) for tax years 2004, 2005 and 2006 were disallowed by the tax authorities and restricted the credit for tax paid/suffered during the relevant tax years. As a consequence of foregoing, cumulative income tax demand of Rs. 63.8 million was raised by the Income Tax Authorities. Although the said demands have been paid, these are being contested by the Company and related appeals are presently pending for adjudication before Appellate Tribunal Inland Revenue (ATIR). It is likely that the appeals will be decided in favour of the Company.

**(b) Tax year 2008 and 2009**

The Company's income tax liability was assessed at Rs. 291 million and Rs. 650 million for the tax year 2008 and 2009 respectively out of which the Company paid Rs. 400 million. The Company preferred appeals before Commissioner Inland Revenue (CIR – Appeals) and partial relief was granted by CIR – Appeals. Certain issues including disallowance of provision against NPLs are being contested in appeals before ATIR which are pending for adjudication. It is likely that core issues (on account of provision against NPLs and apportionment of expenses between exempt/presumptive and normal income) in appeals will be decided in Company's favour.

**(c) Tax year 2010**

The Company's income tax liability was assessed at Rs. 317 million. The Company preferred an appeal before Commissioner Inland Revenue (CIR - Appeals) and except for the issue of provision against NPL's, all the major issues have been decided in Company's favour. The Company's contested the issue of provision against NPLs along with certain other issues in appeal before ATIR which are pending for adjudication. It is likely that core issues (on account of provision against NPLs and apportionment of expenses between exempt/presumptive and normal income) in appeals will be decided in Company's favour.

**21.6 Other contingencies**

**(a) Ceco Tyre Ltd (COS No.141/2009 of Rs. 202.00 million)**

Ceco feeling aggrieved of withdrawal of the finance facility earlier sanctioned by the Company, filed the damages suit in the Lahore High Court on July 27, 2009. The Company is aggressively defending the case for a favorable decision. The case is now at advance stage of hearing and is still pending adjudication before the Honorable Court.

**(b) Ali Akbar Spinning Mills Limited (COS No.113/2009 of Rs. 827.102 million)**

The plaintiff filed the damages suit against the Company as a counter-blast when the Company issued legal notices followed by filing of a recovery suit of Rs. 91.886 million in the Lahore High Court, Lahore. The plaintiff has alleged to have suffered losses inter-alia due to overpayments made to the Company against the finance facilities availed. While defending the plaintiff's suit, the Company has already filed Petition for Leave to Defend (PLA) in the Court as a mandatory requirement. At present, the subject suit is pending adjudication before the Honorable Court.

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| **22** | **MARK-UP/RETURN/INTEREST EARNED** | | | |
| | On advances | 22.1 | **786,205,566** | 752,814,276 |
| | On investments | 22.2 | **506,963,244** | 490,378,364 |
| | On lendings to financial institutions | | **14,857,059** | 112,949,139 |
| | On lease financing | | **15,968,247** | 26,517,549 |
| | On profit and loss saving accounts | | **2,978,256** | 34,111,747 |
| | | | **1,326,972,372** | 1,416,771,075 |
| **22.1** | **On advances** | | | |
| | Long term advances | | **714,438,423** | 635,980,243 |
| | Short term advances | | **71,370,920** | 116,367,538 |
| | Staff advances | | **396,223** | 466,495 |
| | | | **786,205,566** | 752,814,276 |
| **22.2** | **On investments** | | | |
| | Term Finance Certificates | | **246,155,889** | 249,272,001 |
| | Government securities | | **260,807,355** | 241,106,363 |
| | | | **506,963,244** | 490,378,364 |
| **23** | **MARK-UP/RETURN/INTEREST EXPENSED** | | | |
| | Mark-up/return/interest expensed | 23.1 | **932,227,741** | 1,095,152,872 |
| | PIB's premium amortization | | **16,927,990** | 16,927,990 |
| | Brokerage fee | | **1,579,161** | 2,272,120 |
| | | | **950,734,892** | 1,114,352,982 |
| **23.1** | **Mark-up/return/interest expensed** | | | |
| | Long term borrowings | | **365,358,133** | 383,332,764 |
| | Short term borrowings | | **417,404,414** | 544,903,249 |
| | Securities purchased under repurchase agreements - repo | | **149,465,194** | 166,916,859 |
| | | | **932,227,741** | 1,095,152,872 |
| **24** | **PROVISION FOR DIMINUTION IN THE VALUE OF INVESTMENTS** | | | |
| | Breakup of provisions /(reversals) is as under: | | | |
| | Subsidiary company | | **-** | 288,338,038 |
| | Term Finance Certificates (TFCs) | | **(24,508,469)** | 33,745,000 |
| | Unquoted investment | | **87,740,811** | 73,833,931 |
| | | | **63,232,342** | 395,916,969 |
| **25** | **OTHER INCOME** | | | |
| | Net rental income | 25.1 | **39,822,949** | 22,547,975 |
| | Net gain on disposal of operating fixed assets - property and equipment | | **4,152,110** | 1,045,470 |
| | Others | 25.2 | **1,110,675** | 1,753,163 |
| | | | **45,085,734** | 25,346,608 |

| 25.1 | **Net rental income** | **Note** | **2011 Rupees** | 2010 Rupees |
|---|---|---|---|---|
| | Rental income | | **182,283,854** | 163,100,653 |
| | Less: Operating expenses | | | |
| | Salaries, allowances and employee benefits | 26.1 | **10,987,833** | 11,445,649 |
| | Traveling and conveyance | | **760** | 1,140 |
| | Medical | | **342,337** | 139,954 |
| | Janitorial services | | **3,542,076** | 2,549,421 |
| | Security services | | **6,690,694** | 5,730,385 |
| | Insurance | | **1,975,965** | 2,550,204 |
| | Postage, telegraph, telegram and telephone | | **18,629** | 32,307 |
| | Printing and stationery | | **1,200** | 40,340 |
| | Certification services | | **43,200** | 48,400 |
| | Utilities | | **11,763,097** | 12,908,576 |
| | Consultancy and professional charges | | **300,000** | 150,000 |
| | Repairs and maintenance | | **6,256,324** | 5,380,018 |
| | Rent, rates and taxes | | **1,368,283** | 868,142 |
| | Depreciation | 12.4 | **99,103,413** | 98,669,116 |
| | Office general expenses | | **67,094** | 39,026 |
| | | | **142,460,905** | 140,552,678 |
| | | | **39,822,949** | 22,547,975 |

**25.2** This includes income received from tender fee and sale of miscellaneous scrap items etc.

## 26 ADMINISTRATIVE EXPENSES

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Salaries, allowances and employee benefits | 26.1 | **109,429,570** | 118,961,177 |
| Traveling and conveyance | 26.2 | **32,072,933** | 24,177,478 |
| Vehicle running expenses | | **3,122,033** | 3,030,849 |
| Utilities | | **4,420,297** | 4,492,766 |
| Advertisement and publicity | | **1,351,823** | 1,505,992 |
| Postage, telegram, telephone and telex | | **5,601,086** | 5,214,836 |
| Printing, stationery and periodical | | **2,930,685** | 2,086,751 |
| Legal and professional charges | | **3,930,978** | 3,835,491 |
| Consultancy, custodial and rating services | | **5,213,997** | 5,260,361 |
| Auditor's remuneration | 26.3 | **495,000** | 795,000 |
| Repair and maintenance | | **4,867,082** | 4,133,878 |
| Office and general expenses | | **14,114,559** | 15,930,721 |
| Bank charges | | **372,092** | 431,835 |
| Professional training | | **1,036,023** | 2,292,792 |
| Insurance | | **657,522** | 841,594 |
| Depreciation | 12.4 | **13,659,609** | 14,231,895 |
| Donations | 26.4 | **-** | 10,000,000 |
| | | **203,275,289** | 217,223,416 |

**26.1** This includes the followings staff benefits:

– Rs. 3.528 million (2010: Rs. 3.383 million) on account of employee provident fund expense;

– Rs. 5.629 million (2010: Rs. 5.122 million) on account of gratuity expense; and

– Rs. 2.771 million (2010: Rs. 1.284 million) on account of compensated absences expense.

**26.2** This includes payments made to Directors of the Company for attending Board / Board's committee meetings amounting to Rs. 18.917 million (2010: Rs. 11.854 million).

| **26.3 Auditors' remuneration** | **2011 Rupees** | 2010 Rupees |
|---|---|---|
| Audit fee | **368,500** | 368,500 |
| Half yearly review | **55,000** | 55,000 |
| Code of Corporate Governance review | **16,500** | 16,500 |
| Certifications | **-** | 300,000 |
| Out of pocket expenses | **55,000** | 55,000 |
| | **495,000** | 795,000 |

**26.4** The donation was given to the Prime Minister Flood Relief Fund for affecties of floods in Pakistan.

**27 IMPAIRMENT LOSS ON QUOTED SECURITIES**

During the year, the Company has charged impairment loss on quoted securities in accordance with the accounting policy [refer note 5.3 (c) ] based on criteria for significant and prolonged decline in value of securities as approved by the Board of Directors.

| | **Note** | **2011 Rupees** | 2010 Rupees |
|---|---|---|---|
| **28 OTHER PROVISIONS/WRITE OFFS** | | | |
| Provision against non banking assets acquired in satisfaction of claims | | **138,138,000** | - |
| Provision against receivable from stock brokers | | **3,818,270** | - |
| | | **141,956,270** | - |
| **29 OTHER CHARGES** | | | |
| Penalties imposed by the State Bank of Pakistan | | **922,250** | 731,400 |
| **30 TAXATION** | | | |
| – Current year | | **26,698,535** | 26,021,402 |
| – Prior years | | **99,296,373** | 10,402,608 |
| – Deferred | | **(69,633,936)** | 103,709,305 |
| | **30.1** | **56,360,972** | 140,133,315 |
| **30.1** Relationship between tax expense and accounting loss | | | |
| Accounting loss for the year | | **(1,411,748,812)** | (363,717,508) |
| Tax rate | | **35%** | 35% |
| Tax on accounting loss | | **(494,112,084)** | (127,301,128) |
| Tax effect on income subject to lower rate of taxation | | **(17,757,539)** | (31,931,695) |
| Tax effect of other income considered separately | | **402,431,309** | 49,853,895 |
| Tax effect of prior years | | **99,296,373** | 10,402,608 |
| Deferred tax asset not recognised | | **105,670,479** | 147,817,802 |
| Tax effect of permanent differences | | **(39,167,566)** | 91,291,832 |
| | | **56,360,972** | 140,133,315 |

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| **30.2** | **Tax status** | | | |
| | For tax related contingencies - refer note 21.5. | | | |
| **31** | **BASIC AND DILUTED LOSS PER SHARE** | | | |
| | Loss for the year - Rupees | | **(1,468,109,784)** | (503,850,823) |
| | Weighted average number of ordinary shares - Number | | **600,000,000** | 600,000,000 |
| | Basic and diluted loss per share - Rupees | | **(2.447)** | (0.840) |
| **32** | **CASH AND CASH EQUIVALENTS** | | | |
| | Cash and balance with treasury banks | 6 | **55,410,802** | 40,842,606 |
| | Balance with other banks | 7 | **96,389,187** | 218,336,242 |
| | | | **151,799,989** | 259,178,848 |

**33 STAFF STRENGTH**

| | Note | 2011 Numbers | 2010 Numbers |
|---|---|---|---|
| Permanent | | **85** | 92 |
| Temporary/on contractual basis | | **-** | - |
| Daily wagers | | **-** | - |
| Others | | **-** | - |
| Company's own staff strength at the end of the year | | **85** | 92 |
| Outsourced | 33.1 | **78** | 88 |
| Total staff strength | | **163** | 180 |

**33.1** Outsourced includes those employees hired by an outside contractor/agency and posted in the Company to perform various tasks/activities of the Company.

**34 EMPLOYEE BENEFITS – Staff gratuity**

**34.1 The amounts recognized in the unconsolidated statement of financial position are determined as follows:**

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Present value of defined benefit obligation | 34.3 | **31,883,415** | 27,245,708 |
| Unrecognized actuarial (loss)/gain | | **(3,103,750)** | 2,098,755 |
| | 17.3 | **28,779,665** | 29,344,463 |

**34.2 The amounts recognized in the unconsolidated profit and loss account are as follows:**

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| Service cost | **2,201,258** | 2,194,943 |
| Interest cost | **3,428,097** | 2,927,382 |
| | **5,629,355** | 5,122,325 |

**34.3 Movement in the Present value of defined benefit obligation in the unconsolidated statement of financial position are determined as follows:**

| | **2011 Rupees** | 2010 Rupees |
|---|---|---|
| Opening balance | **27,245,708** | 26,581,180 |
| Service cost | **2,201,258** | 2,194,943 |
| Interest cost | **3,428,097** | 2,927,382 |
| Actuarial gain / (loss) | **5,202,505** | (1,616,173) |
| Benefits paid | **(6,194,153)** | (2,841,624) |
| Closing balance | **31,883,415** | 27,245,708 |

**34.4 The principal actuarial assumptions used are as follows:**

| | **2011** | 2010 |
|---|---|---|
| Discount rate | **13.00%** | 14.50% |
| Expected rate of increase in salary | **10.50%** | 12.00% |
| Mortality rate | **LIC (1975-1979)** | LIC (1975-1979) |

**34.5 Historical information and comparison for five years:**

| | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | **Rupees** | Rupees | Rupees | Rupees | Rupees |
| Present value of defined benefit obligation | **31,883,415** | 27,245,708 | 26,581,180 | 23,281,066 | 23,253,216 |
| Experience adjustment of obligations | **(3,103,750)** | 2,098,755 | 482,582 | (890,853) | 3,672,000 |

**34.6** Gratuity expense for the year ending December 31, 2012 expects to be Rs. 6.394 million.

**35 COMPENSATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
|---|---|---|---|---|---|---|
| | Chief Executive | | Directors | | Executives | |
| | **Rupees** | Rupees | **Rupees** | Rupees | **Rupees** | Rupees |
| Fees | **-** | - | **3,807,374** | 3,091,586 | **-** | - |
| Managerial remuneration | **1,135,320** | 4,083,360 | **-** | - | **16,395,234** | 10,203,216 |
| Contribution to defined contribution plan | **113,532** | 377,028 | **-** | - | **1,639,523** | 1,020,322 |
| Rent and house maintenance | **681,192** | 1,513,512 | **-** | - | **9,837,140** | 6,121,920 |
| Utilities | **113,532** | 336,336 | **-** | - | **1,639,523** | 1,020,336 |
| Medical | **188,717** | 57,976 | **-** | - | **2,717,868** | 1,700,536 |
| Bonus and Others | **689,659** | 4,992,364 | **-** | - | **9,990,911** | 6,994,700 |
| | **2,921,952** | 11,360,576 | **3,807,374** | 3,091,586 | **42,220,199** | 27,061,030 |
| Number of persons | **1** | 1 | **6** | 6 | **24** | 16 |

**35.1** Chief Executive and majority of executives are also provided with Company maintained cars.

## 36 FAIR VALUE OF FINANCIAL INSTRUMENTS

### 36.1 On-balance sheet financial instruments

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| | Rupees | Rupees | Rupees | Rupees |
| **Assets** | | | | |
| Cash balances with treasury banks | **55,410,802** | **55,410,802** | 40,842,606 | 40,842,606 |
| Balances with other banks | **96,389,187** | **96,389,187** | 218,336,242 | 218,336,242 |
| Non-current asset classified as held for sale | **70,788,801** | **70,788,801** | - | - |
| Lendings to financial institutions | **171,111,111** | **171,111,111** | 454,782,750 | 454,782,750 |
| Investments | **5,359,657,799** | **5,359,657,799** | 7,527,488,718 | 7,527,488,718 |
| Advances | **5,235,500,341** | **5,235,500,341** | 6,344,004,026 | 6,344,004,026 |
| Other assets | **136,959,787** | **136,959,787** | 538,096,326 | 538,096,326 |
| | **11,125,817,828** | **11,125,817,828** | 15,123,550,668 | 15,123,550,668 |
| **Liabilities** | | | | |
| Borrowings | **5,382,643,167** | **5,382,643,167** | 7,137,934,094 | 7,137,934,094 |
| Deposits and other accounts | **759,500,000** | **759,500,000** | 1,654,902,252 | 1,654,902,252 |
| Other liabilities | **105,768,948** | **105,768,948** | 164,190,310 | 164,190,310 |
| | **6,247,912,115** | **6,247,912,115** | 8,957,026,656 | 8,957,026,656 |
| **36.2 Off-balance sheet financial instruments** | | | | |
| Commitments in respect of purchase of forward exchange contracts | **2,463,933,000** | **2,463,933,000** | 4,750,355,000 | 4,750,355,000 |

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

The fair value of quoted investments is based on quoted market prices and rates quoted at Reuters Pages (PKRV) with the exception of unlisted securities. Fair value of unquoted equity investments is determined on the basis of lower of cost and break-up value of these investments as per the latest available financial statements.

The fair value of fixed term advances of over one year and fixed term deposits of over one year can not be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities. Loans and advances are reduced for any impairment against non-performing advances determined in accordance with Prudential Regulations.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying value since assets and liabilities are either short term in nature or in the case of customer loans and deposits are frequently repriced. The maturity profile and effective rates are stated in note 41.2.4

**37 DERIVATIVE INSTRUMENTS**

The Company does not deal in derivative instruments.

**38 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES**

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

| | Corporate Finance | Trading and sales | Building rental services | Total |
|---|---|---|---|---|
| | 2011 Rs. 000 | 2011 Rs. 000 | 2011 Rs. 000 | 2011 Rs. 000 |
| Total income | 1,051,183 | 125,614 | 183,395 | 1,360,192 |
| Total expenses | 1,378,597 | 1,250,883 | 142,461 | 2,771,941 |
| Net income (loss) | (327,414) | (1,125,269) | 40,934 | (1,411,749) |
| Segment assets (gross) | 11,552,792 | 6,828,543 | 2,483,706 | 20,865,041 |
| Segment non performing loans | 3,685,942 | - | - | 3,685,942 |
| Segment provision required | 2,412,841 | - | - | 2,412,841 |
| Segment liabilities | 3,908,093 | 2,347,322 | 718,070 | 6,973,485 |
| Segment Return On net Assets (ROA)% | (2.83) | (16.48) | 1.65 | (6.77) |
| Segment cost of funds (%) | 11.93 | 18.32 | 5.74 | 13.29 |

| | Corporate Finance | Trading and sales | Building rental services | Total |
|---|---|---|---|---|
| | 2010 Rs. 000 | 2010 Rs. 000 | 2010 Rs. 000 | 2010 Rs. 000 |
| Total income | 1,037,247 | 295,050 | 164,853 | 1,497,150 |
| Total expenses | 1,052,846 | 667,469 | 140,553 | 1,860,868 |
| Net income (loss) | (15,599) | (372,419) | 24,300 | (363,718) |
| Segment assets (gross) | 12,364,291 | 8,768,635 | 2,468,687 | 23,601,613 |
| Segment non performing loans | 3,404,740 | - | - | 3,404,740 |
| Segment provision required | 2,090,405 | - | - | 2,090,405 |
| Segment liabilities | 5,272,925 | 3,641,051 | 768,938 | 9,682,914 |
| Segment Return On net Assets (ROA)% | (0.13) | (4.25) | 0.98 | (1.54) |
| Segment cost of funds (%) | 8.52 | 7.61 | 5.69 | 7.88 |

**Assumptions used:**

– Administrative expenses have been allocated to segments based on respective segment income.

– Unallocatable assets representing 5.47% (2010: 5.34%) of the total assets have been allocated to segments based on their respective incomes.

– Unallocatable liabilities representing 1.89% (2010: 3.39%) of the total liabilities have been allocated to segments based on their respective assets.

## 39 RELATED PARTY TRANSACTIONS

**39.1** Both the Government of Kingdom of Saudi Arabia and the Islamic Republic of Pakistan own 50% shares each of the Company. Therefore, all entities owned by and controlled by these Governments are related parties of the Company. Other related parties comprise of entities over which the Company has control (subsidiaries), entities over which the directors are able to exercise significant influence (associated undertakings), entities with common directors, major shareholders, directors, key management personnel and employees' funds. The Company in normal course of business pays for electricity, gas and telephone to entities controlled by Government of Pakistan. The Company has not extended any financing facilities to entities owned by the Governments of Kingdom of Saudi Arabia and the Islamic Republic of Pakistan.

Except for the matters reported in note 10.4 to the unconsolidated financial statements, transactions with the related parties are executed substantially on the same terms, including markup rates and collaterals, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk (i.e. under the comparable Uncontrolled Price Method).

Other than those transactions which are made under the terms of employment, majority of the transactions with related parties comprise of loans and advances, deposits etc.

Advances for the house building, conveyance and personal use have also been provided to staff and executives in accordance with the employment and pay policy. Facility of group life insurance and hospitalization facility is also provided to staff and executives. In addition to this, majority of executives of the Company have been provided with company maintained car.

**39.2 Following are the transactions and balances with related parties**

| Nature of balances / transactions | Name of the Entity | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **Outstanding balances at year end** | | | |
| **Subsidiary companies** | | | |
| – Investments – cost | Saudi Pak Real Estate Company Limited | **500,000,000** | 500,000,000 |
| – Investments – cost | Saudi Pak Insurance Company Limited | **-** | 225,000,000 |
| – Investments – cost | Saudi Pak Leasing Company Limited | **243,467,574** | 243,467,574 |
| – Subordinated loan (refer note 10.4) | Saudi Pak Leasing Company Limited | **333,208,501** | 333,208,501 |
| – Fair value of shares classified as held for sale | Saudi Pak Insurance Company Limited | **70,788,801** | - |
| – Placement against COIs | Saudi Pak Leasing Company Limited | **-** | 103,525,000 |
| – Borrowing | Saudi Pak Real Estate Company Ltd | **50,000,000** | - |
| – Interest payable | Saudi Pak Real Estate Company Ltd | **183,082** | - |
| – Prepaid insurance | Saudi Pak Insurance Company Limited | **2,647,763** | 2,154,434 |
| **Employee funds** | | | |
| – Deposits against COIs | Employee funds | **14,500,000** | 15,073,753 |
| – Interest payable | Employee funds | **821,651** | 1,507,415 |
| **Transactions during the year** | | | |
| **Subsidiary companies** | | | |
| – Adjustment against COIs placement | Saudi Pak Leasing Company Ltd | **103,525,000** | - |
| – Borrowing availed | Saudi Pak Real Estate Company Ltd | **50,000,000** | - |
| – Interest income | Saudi Pak Leasing Company Limited | **-** | 458,441 |
| – Interest expensed | Saudi Pak Real Estate Company Limited | **183,082** | - |
| – Rent received | Saudi Pak Leasing Company Limited | **696,045** | 521,045 |
| – Rent received | Saudi Pak Insurance Company Limited | **987,900** | 521,045 |
| – Claims received | Saudi Pak Insurance Company Limited | **240,381** | 28,477 |
| – Premium paid | Saudi Pak Insurance Company Limited | **3,710,597** | 4,487,886 |

## 39 RELATED PARTY TRANSACTIONS (continued)

| Nature of balances / transactions | Name of the Entity | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **Transactions during the year** | | | |
| **Companies with common directorship** | | | |
| – Borrowings availed | Pak Iran Joint Investment Company | - | 1,696,000,000 |
| – Borrowings paid | Pak Iran Joint Investment Company | - | 1,696,000,000 |
| – Interest expensed | Pak Iran Joint Investment Company | - | 29,069,395 |
| – Rent received | Vision Network Television | - | 3,216,927 |
| **Key Management Personnel** | | | |
| – Advances to executives | | 3,030,000 | 2,021,152 |
| – Repayment of advances | | 4,096,838 | 2,382,932 |
| **Employee funds** | | | |
| – Deposits against COIs | | 13,046,247 | 4,573,753 |
| – Maturity of deposits against COIs | | 13,620,000 | - |
| – Borrowings availed | | 15,029,589 | - |
| – Borrowings paid | | 15,029,589 | - |
| – Contribution to the employees provident fund | | 3,528,150 | 3,383,785 |
| – Interest expense | | 1,455,231 | 1,773,510 |

## 40 CAPITAL ADEQUACY

### 40.1 Scope of applications

The Basel II framework has been applied in accordance with Circular No. BSD/BAI-2/201/1490/2008 dated December 30, 2008. Standardized Approach is used for calculating the Capital Adequacy for Market and Credit risk while Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purpose.

The Company has three subsidiaries, namely Saudi Pak Real Estate Company Limited (SPREL), Saudi Pak Insurance Company Limited (SPICL) and Saudi Pak Leasing Company Limited (SPLCL). SPREL is the wholly-owned subsidiary while SPLCL is 35.06% owned by the Company and SPICL is 54.87% of the Company (this investment has been classified as non-current asset held for sale - also refer notes 8 and 10.5). The Company does not indulge in any securitization activity that shields it from the risk inherent in securitization.

### 40.2 Capital management

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

**Objectives and goals of managing capital**

The objectives and goals of managing capital of the Company are as follows:

– To be an appropriately capitalized institution, as defined by regulatory authorities and comparable to the peers;

– Maintain strong ratings and to protect the Company against unexpected events;

– Availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Company to expand;

– Achieve low overall cost of capital with appropriate mix of capital elements.

### 40.2.1 Capital Adequacy Ratio

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

### 40.2.1.1 Regulatory capital base

| | **2011 Rs. 000** | 2010 Rs. 000 |
|---|---|---|
| **Tier I Capital** | | |
| Fully paid up capital | **6,000,000** | 6,000,000 |
| Share premium | **-** | - |
| Reserves | **1,513,182** | 1,961,641 |
| Unappropriated loss | **(1,412,718)** | (448,459) |
| **Deductions** | | |
| Book value of Intangibles, investment in commercial entities (50%) etc. | **(437,322)** | (118,624) |
| **Total Tier I Capital** | **5,663,142** | 7,394,558 |
| **Supplementary capital** | | |
| **Tier II Capital** | | |
| Subordinated debt (upto 50% of total Tier I capital) | **-** | - |
| General Provisions subject to 1.25% of total risk weighted assets | **-** | - |
| Revaluation Reserve (upto 45%) | **916,073** | 745,663 |
| **Deductions** | | |
| Investment in commercial entities (50%) | **(285,812)** | (112,685) |
| **Total Tier II Capital** | **630,261** | 632,978 |
| **Eligible Tier III Capital** | **-** | - |
| **Total Regulatory Capital Base** | **6,293,403** | 8,027,536 |

### 40.2.2 Risk weighted exposures

| | 2011 | 2010 | 2011 | 2010 |
|---|---|---|---|---|
| | Capital Requirements | | Risk Weighted Assets | |
| **Credit Risk** | **Rs.000** | Rs.000 | **Rs.000** | Rs.000 |
| Claims on: | | | | |
| Corporate | **917,499** | 763,036 | **6,553,563** | 7,630,362 |
| Banks | **6,934** | 7,365 | **49,526** | 73,646 |
| Sovereigns | **-** | - | **-** | - |
| Retail portfolio | **1,621** | 989 | **11,575** | 9,889 |
| Secured by residential property | **243** | - | **1,737** | - |
| Past Due Loans | **-** | - | **-** | - |
| Listed equity investments | **58,125** | 62,355 | **415,177** | 623,550 |
| Unlisted equited investments | **50,114** | 138,044 | **357,957** | 1,380,437 |
| Fixed Assets | **290,964** | 224,559 | **2,078,317** | 2,245,588 |
| Other Assets | **182,398** | 144,284 | **1,302,846** | 1,442,842 |
| Off Balance Sheet Exposure-Market Related | **690** | 2,375 | **4,928** | 23,752 |
| **Market Risk** | | | | |
| Portfolios subject to Standardized Approach | | | | |
| Interest rate risk | **11,944** | - | **85,313** | - |
| Equity position risk | **305,977** | 401,739 | **2,185,550** | 4,017,388 |
| Foreign exchange risk | **349,230** | 8,613 | **2,494,500** | 86,125 |
| **Operational Risk** | **130,505** | 102,170 | **932,176** | 1,021,702 |
| | **2,306,244** | 1,855,529 | **16,473,165** | 18,555,281 |

| **Capital Adequacy Ratio** | | | |
|---|---|---|---|
| Total eligible regulatory capital held - Rs. (000) | (a) | **6,293,403** | 8,027,536 |
| Total Risk Weighted Assets - Rs. (000) | (b) | **16,473,165** | 18,555,281 |
| **Capital Adequacy Ratio - % age** | (a) / (b) | **38.20%** | 43.26% |

### 40.3 Credit Risk-General Disclosures Basel II Specific

The Company used standardized approach for credit risk.

### 40.3.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

Types of Exposures and ECAI's used - 2011

| Exposures | JCR-VIS | PACRA |
|---|---|---|
| Corporate | x | x |
| Banks | x | x |

40.3.2 Credit Exposures subject to Standardized approach

| Exposures | Rating Category | 2011 Amount Outstanding Rs.000 | 2011 Deduction CRM Rs.000 | 2011 Net amount Rs.000 | 2010 Amount Outstanding Rs.000 | 2010 Deduction CRM Rs.000 | 2010 Net amount Rs.000 |
|---|---|---|---|---|---|---|---|
| Corporate | 1 | 883,135 | - | 883,135 | 699,120 | - | 699,120 |
| | 2 | 1,059,786 | - | 1,059,786 | 1,324,098 | - | 1,324,098 |
| | 3,4 | 126,804 | - | 126,804 | 1,443,024 | - | 1,443,024 |
| | 5,6 | 818,392 | - | 818,392 | - | - | - |
| Banks | 1 | 581,838 | - | 581,838 | 750,537 | - | 750,537 |
| | 2 | 80,884 | - | 80,884 | 241,139 | - | 241,139 |
| | 3 | 84 | - | 84 | 104 | - | 104 |
| Unrated | | 7,891,187 | - | 7,891,187 | 11,568,165 | - | 11,568,165 |
| | | 11,442,110 | - | 11,442,110 | 16,026,187 | - | 16,026,187 |

CRM= Credit Risk Mitigation

## 41 RISK MANAGEMENT

The Company realizes the importance of risk management. We have independent and dedicated risk management functions. A comprehensive risk management framework has been adopted. It is based on three lines of defense strategy to cater micro, macro and strategic level risk management. Risk Management Division has been set up primarily to carry out independent review functions in terms of credit risk, market risk, operational risk and liquidity risk. Stress testing is regularly conducted on the lines advised by the State Bank of Pakistan. Risk Management Committee of the Board has also been constituted and a structured Risk Reporting Framework is being developed and implemented as a part of monitoring and oversight function of the Board. Capital adequacy level is regularly assessed and reviewed with approved bench mark of 20 percent as against regulatory requirement of 14 percent.

The higher level of bench marking is aimed at strengthening capital base of the Company, besides providing an impeccable buffer/ cushion to absorb and withstand against unexpected macro economic shocks and unexpected losses. It is also used to asses overall risk appetite of the Company that in turn will be used to asses credit, market and operational risk appetite.

### 41.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation. The Company controls its credit risk by the following methods:

– Monitoring credit exposures;

– Evaluating transactions with specific counterparts; and

– Assessing credit worthiness of counterparts.

Two sets of guidelines are followed by the management for managing credit risk. Operating policy approved by the Board of Directors and Prudential Regulations issued by State Bank of Pakistan.

The operating policy defines the extent of exposure with reference to a particular sector or group. The management also classified a particular financing on the basis of SBP guidelines.

**41.1.1 Segmental information**

Segmental information is presented in respect of the class of business and geographical distribution of advances, deposits, contingencies and commitments.

**41.1.1.1 Segments by class of business**

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Advances (gross) | | Deposits | | Contingencies and commitments | |
| | Amount | %age | Amount | %age | Amount | %age |
| | Rs. 000 | | Rs. 000 | | Rs. 000 | |
| Financial institutions | 114,000 | 1.50 | 500,000 | 65.83 | 2,463,933 | 74.39 *** |
| Paper and allied | 79,510 | 1.04 | - | - | - | - |
| Electrical goods | 34,500 | 0.45 | - | - | - | - |
| Dairy and poultry | 45,122 | 0.59 | - | - | - | - |
| Banaspati and allied | 10,000 | 0.13 | - | - | - | - |
| Sugar and allied products | 243,311 | 3.20 | - | - | 267,917 | 8.09 |
| Chemical and fertilizer | 742,711 | 9.75 | - | - | 208,000 | 6.28 |
| Energy, oil and gas | 1,547,491 | 20.32 | - | - | 18,134 | 0.55 |
| Construction | 434,048 | 5.70 | - | - | - | - |
| Hotels | 83,750 | 1.10 | - | - | - | - |
| Cement | 409,510 | 5.38 | - | - | - | - |
| Textile | 2,297,070 | 30.17 | - | - | 79,582 | 2.40 |
| Metal and allied products | 486,684 | 6.39 | - | - | 100,000 | 3.02 |
| Automobiles and allied | 294,371 | 3.87 | - | - | - | - |
| Transport/services and misc. | 44,787 | 0.59 | - | - | - | - |
| Telecommunication | 242,667 | 3.19 | - | - | 69,000 | 2.08 |
| Others | 504,588 | 6.63 | 259,500 | 34.17 | 105,664 | 3.19 |
| | 7,614,120 | 100.00 | 759,500 | 100.00 | 3,312,230 | 100.00 |

*** Financial institutions segment includes commitments in respect of forward exchange purchase contracts.

41.1.1.1 Segments by class of business

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Advances (gross) | | Deposits | | Contingencies and commitments | |
| | Amount | %age | Amount | %age | Amount | %age |
| | Rs. 000 | | Rs. 000 | | Rs. 000 | |
| Financial institutions | 114,000 | 1.36 | 1,654,902 | 100.00 | 4,825,355 | 86.32 *** |
| Paper and allied | 79,510 | 0.95 | - | - | - | - |
| Electrical goods | 56,296 | 0.67 | - | - | - | - |
| Dairy and poultry | 147,622 | 1.76 | - | - | 175 | 0.01 |
| Banaspati and allied | 10,000 | 0.12 | - | - | - | - |
| Sugar and allied products | 434,457 | 5.19 | - | - | 23,632 | 0.42 |
| Chemical and fertilizer | 944,524 | 11.28 | - | - | 120,000 | 2.15 |
| Energy, oil and gas | 1,633,567 | 19.50 | - | - | 164,985 | 2.95 |
| Hotel and construction | 842,183 | 10.06 | - | - | - | - |
| Cement | 445,231 | 5.32 | - | - | - | - |
| Textile | 2,226,528 | 26.58 | - | - | 295,810 | 5.29 |
| Metal and metal products | 480,053 | 5.73 | - | - | 110,269 | 1.97 |
| Automobiles and allied | 342,318 | 4.09 | - | - | - | - |
| Transport/services and misc. | 341,987 | 4.08 | - | - | - | - |
| Telecommunication | 263,778 | 3.15 | - | - | 50,000 | 0.89 |
| Others | 13,625 | 0.16 | - | - | - | - |
| | 8,375,679 | 100.00 | 1,654,902 | 100.00 | 5,590,226 | 100.00 |

*** Financial institutions segment includes commitments in respect of forward exchange purchase contracts.

**41.1.1.2 Segment by sector**

| | **2011** | | | | | |
|---|---|---|---|---|---|---|
| | **Advances (gross)** | | **Deposits** | | **Contingencies and commitments** | |
| | **Amount** | **%age** | **Amount** | **%age** | **Amount** | **%age** |
| | **Rs. 000** | | **Rs. 000** | | **Rs. 000** | |
| Public / Government sector | - | - | - | - | - | - |
| Private sector | 7,614,120 | 100.00 | 759,500 | 100.00 | 3,312,230 | 100.00 |
| | 7,614,120 | 100.00 | 759,500 | 100.00 | 3,312,230 | 100.00 |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Advances (gross) | | Deposits | | Contingencies and commitments | |
| | Amount | %age | Amount | %age | Amount | %age |
| | Rs. 000 | | Rs. 000 | | Rs. 000 | |
| Public / Government sector | - | - | - | - | - | - |
| Private sector | 8,375,679 | 100.00 | 1,654,902 | 100.00 | 5,590,226 | 100.00 |
| | 8,375,679 | 100.00 | 1,654,902 | 100.00 | 5,590,226 | 100.00 |

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Classified advances** | **Specific provisions held** | Classified advances | Specific provisions held |
| | Rs. 000 | Rs. 000 | Rs. 000 | Rs. 000 |
| Financial institutions | 114,000 | 114,000 | 101,500 | 101,500 |
| Paper and allied | 79,509 | 79,509 | 79,509 | 57,280 |
| Electrical goods | 14,499 | 14,499 | 26,295 | 26,295 |
| Dairy and poultry | 45,122 | 45,122 | 45,122 | 45,122 |
| Banaspati and allied | 10,000 | 10,000 | 10,000 | 10,000 |
| Sugar and allied products | 61,310 | 53,229 | 81,840 | 81,840 |
| Chemical and fertilizer | 18,743 | 14,972 | 68,743 | 68,743 |
| Energy, oil and gas | 257,056 | 187,735 | 264,687 | 102,332 |
| Construction | 270,427 | 87,606 | 162,358 | 7,779 |
| Hotels | 50,000 | 25,000 | 50,000 | - |
| Cement | 328,260 | 233,429 | 267,154 | 198,840 |
| Textile | 1,052,062 | 825,744 | 1,022,459 | 703,535 |
| Metal and metal products | 172,437 | 172,437 | 190,625 | 135,067 |
| Automobiles and allied | 294,371 | 197,717 | 297,531 | 183,047 |
| Transport/services | 44,787 | 44,787 | 44,787 | 44,787 |
| Miscellaneous | 272,833 | 272,833 | 274,750 | 265,508 |
| | 3,085,416 | 2,378,619 | 2,987,360 | 2,031,675 |

**41.1.1.4 Details of non-performing advances and specific provisions by sector**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Classified advances** | **Specific provisions held** | Classified advances | Specific provisions held |
| | Rs. 000 | Rs. 000 | Rs. 000 | Rs. 000 |
| Public/Government sector | - | - | - | - |
| Private sector | 3,085,416 | 2,378,619 | 2,987,360 | 2,031,675 |
| | 3,085,416 | 2,378,619 | 2,987,360 | 2,031,675 |

**41.1.1.5 Geographical segment analysis**

| | 2011 | | | |
|---|---|---|---|---|
| | **Loss before taxation** | **Total assets employed** | **Net assets employed** | **Contingencies and commitments** |
| | Rs. 000 | Rs. 000 | Rs. 000 | Rs. 000 |
| Pakistan | (1,411,749) | 14,377,718 | 7,404,232 | 3,312,230 |
| Asia Pacific (including South Asia) | - | - | - | - |
| Europe | - | - | - | - |
| United States of America and Canada | - | - | - | - |
| Middle East | - | - | - | - |
| Others | - | - | - | - |
| | (1,411,749) | 14,377,718 | 7,404,232 | 3,312,230 |

Total assets employed include intra group items of Rs. 570.789 million.

**41.1.1.5 Geographical segment analysis**

| | 2010 | | | |
|---|---|---|---|---|
| | Loss before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| | Rs. 000 | Rs. 000 | Rs. 000 | Rs. 000 |
| Pakistan | (363,718) | 18,273,109 | 8,590,195 | 5,590,226 |
| Asia Pacific (including South Asia) | - | - | - | - |
| Europe | - | - | - | - |
| United States of America and Canada | - | - | - | - |
| Middle East | - | - | - | - |
| Others | - | - | - | - |
| | (363,718) | 18,273,109 | 8,590,195 | 5,590,226 |

Total assets employed include intra group items of Rs. 828.525 million.

**41.2 Market Risk**

Market Risk is the risk of loss in earnings and capital due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions. Thus market risk can be further described into Interest Rate Risk, Foreign Exchange Risk and Equity Position Risk.

**41.2.1 Interest rate risk**

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. The Company has formulated and developed interest rate risk policies, processes and procedural guidelines, proposing interest rate limits, credit spreads, gaps and duration limits between interest sensitive assets and interest sensitive liabilities, conducting gap analysis, determining the effects of mismatching positions across the range of maturities as well as identifying and maintaining the record of the transactions that would be treated as regarding trade book portfolio for the purpose of assigning market risk capital charge. Besides, the need and requirement of setting up an independent middle office is also being evaluated.

Risk management division is responsible for conducting independent review of interest rate sensitive assets, and liabilities, monitoring of interest rate and gap limits, reporting breaches and conducting stress testing on the lines advised by SBP.

**41.2.2 Foreign exchange risk**

Foreign exchange risk is that our net investment in foreign currency change in value through adverse effects of currency movements.

The risk is very nominal because of the nature of the existing operations of the Company and is primarily attributable to the foreign currency assets, held in the form of foreign currency deposits with other banks and deposit through SWAP and other hedging measures depending upon open market conditions. The Company manage its foreign exchange risk by keeping the data on foreign currency assets and liabilities, proposing limits, planning and determining yield as well as hedging the risk in the case of adverse movement in currency exchange rates and identifies the transactions which will be subject to market risk capital charge.

| | Assets | Liabilities | Off-balance sheet items | Net currency exposure |
|---|---|---|---|---|
| | **2011 Rs. 000** | **2011 Rs. 000** | **2011 Rs. 000** | **2011 Rs. 000** |
| Pakistan Rupee | 14,349,083 | 6,973,485 | 848,297 | 6,527,301 |
| United States Dollar | 28,635 | - | 2,463,933 | (2,435,298) |
| Great Britain Pound | - | - | - | - |
| Deutsche Mark | - | - | - | - |
| Japanese Yen | - | - | - | - |
| Euro | - | - | - | - |
| Other currencies | - | - | - | - |
| | 14,377,718 | 6,973,485 | 3,312,230 | 4,092,003 |

**41.2.2 Foreign Exchange risk**

| | Assets | Liabilities | Off-balance sheet items | Net currency exposure |
|---|---|---|---|---|
| | 2010 Rs. 000 | 2010 Rs. 000 | 2010 Rs. 000 | 2010 Rs. 000 |
| Pakistan Rupee | 18,186,988 | 9,682,913 | 839,871 | 7,664,204 |
| United States Dollar | 86,120 | - | 4,750,355 | (4,664,235) |
| Great Britain Pound | - | - | - | - |
| Deutsche Mark | - | - | - | - |
| Japanese Yen | - | - | - | - |
| Euro | - | - | - | - |
| Other currencies | - | - | - | - |
| | 18,273,108 | 9,682,913 | 5,590,226 | 2,999,969 |

**41.2.3 Equity position Risk**

The Company has established a Portfolio Management Department which is responsible for origination, conducting, appraisal of equity investment proposals, proposing business appetite and tolerance levels, getting approval of various limits, determining target market and products, updating approval process within and beyond approved limits, proposing and implementing emergency measures dealing with market fluctuations, handling day to day matters of the equity portfolio and maintaining relevant record and information as well as handling day to day matters with brokers, client and scrips.

### 41.2.4 Mismatch of interest rate sensitive assets and liabilities

| | Effective yield/ interest rate | Exposed to Yield/ Interest risk | | | | | | | | | | Non-interest bearing financial instruments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total | Upto 1 month | Over 1-3 months | Over 3-6 months | Over 6-12 months | Over 1-2 years | Over 2-3 years | Over 3-5 years | Over 5-10 years | Above 10 years | |
| **On-balance sheet financial instruments** | % | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees |
| **Assets** | | | | | | | | | | | | |
| Cash and balances with treasury banks | 0.01 | 55,410,802 | 128,478 | - | - | - | - | - | - | - | - | 55,282,324 |
| Balances with other banks | 5.00 | 96,389,187 | 79,906,012 | - | - | - | - | - | - | - | - | 16,483,175 |
| Non-current asset classified as held for sale | - | 70,788,801 | - | - | - | - | - | - | - | - | - | 70,788,801 |
| Lending to financial institutions | 12.81 | 171,111,111 | 170,000,000 | - | 1,111,111 | - | - | - | - | - | - | - |
| Investments | 13.25 | 5,359,657,799 | 398,838,355 | 1,590,499,218 | 568,842,401 | 559,209,734 | - | 200,000,000 | 192,625,729 | - | - | 1,849,642,362 |
| Advances | 14.51 | 5,235,500,341 | 319,765,659 | 1,705,128,868 | 3,199,441,560 | 3,948,360 | 7,215,894 | - | - | - | - | - |
| Other assets | - | 136,959,787 | - | - | - | - | - | - | - | - | - | 136,959,787 |
| | | 11,125,817,828 | 968,638,504 | 3,295,628,086 | 3,769,395,072 | 563,158,094 | 7,215,894 | 200,000,000 | 192,625,729 | - | - | 2,129,156,449 |
| **Liabilities** | | | | | | | | | | | | |
| Borrowings from financial institutions | 11.49 | 5,382,643,167 | 1,816,611,750 | 2,072,046,894 | 638,713,559 | 67,438,038 | 128,840,728 | 83,377,166 | 168,362,164 | 407,252,868 | - | - |
| Deposits and other accounts | 13.04 | 759,500,000 | 525,000,000 | 220,000,000 | 10,000,000 | 4,500,000 | - | - | - | - | - | - |
| Other liabilities | - | 105,768,948 | - | - | - | - | - | - | - | - | - | 105,768,948 |
| | | 6,247,912,115 | 2,341,611,750 | 2,292,046,894 | 648,713,559 | 71,938,038 | 128,840,728 | 83,377,166 | 168,362,164 | 407,252,868 | - | 105,768,948 |
| **On-balance sheet gap** | | **4,877,905,713** | **(1,372,973,246)** | **1,003,581,192** | **3,120,681,513** | **491,220,056** | **(121,624,834)** | **116,622,834** | **24,263,565** | **(407,252,868)** | **-** | **2,023,387,501** |
| **Off-balance sheet financial instruments** | | | | | | | | | | | | |
| Commitments in respect of purchase of forward contract | | 2,463,933,000 | - | - | - | - | - | - | - | - | - | 2,463,933,000 |
| **Off-balance sheet gap** | | 2,463,933,000 | - | - | - | - | - | - | - | - | - | 2,463,933,000 |
| **Total yield/interest risk sensitivity gap** | | 2,413,972,713 | (1,372,973,246) | 1,003,581,192 | 3,120,681,513 | 491,220,056 | (121,624,834) | 116,622,834 | 24,263,565 | (407,252,868) | - | (440,545,499) |
| **Cumulative yield/interest risk sensitivity gap** | | **-** | **(1,372,973,246)** | **(369,392,054)** | **2,751,289,459** | **3,242,509,515** | **3,120,884,681** | **3,237,507,515** | **3,261,771,080** | **2,854,518,212** | **2,854,518,212** | **2,413,972,713** |

**41.2.4 Mismatch of interest rate sensitive assets and liabilities (continued)**

| | Effective yield/ interest rate | Exposed to Yield/ Interest risk | | | | | | | | | | Non-interest bearing financial instruments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total | Upto 1 month | Over 1-3 months | Over 3-6 months | Over 6-12 months | Over 1-2 years | Over 2-3 years | Over 3-5 years | Over 5-10 years | Above 10 years | |
| **On-balance sheet financial instruments** | % | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees |
| **Assets** | | | | | | | | | | | | |
| Cash and balances with treasury banks | 0.01 | 40,842,606 | - | - | - | - | - | - | - | - | - | 40,842,606 |
| Balances with other banks | 4.00 | 218,336,242 | 190,461,262 | - | - | - | - | - | - | - | - | 27,874,980 |
| Lending to financial institutions | 13.27 | 454,782,750 | 404,782,750 | 50,000,000 | - | - | - | - | - | - | - | - |
| Investments | 13.31 | 7,527,488,718 | 410,881,628 | 1,377,787,816 | 1,966,309,280 | 115,785,991 | 282,892,384 | 112,191,505 | 200,730,504 | - | - | 3,060,909,610 |
| Advances | 14.98 | 6,344,004,026 | 395,939,466 | 1,212,062,136 | 4,556,842,317 | 179,160,107 | - | - | - | - | - | - |
| Other assets | - | 538,096,326 | - | - | - | - | - | - | - | - | - | 538,096,326 |
| | | 15,123,550,668 | 1,402,065,106 | 2,639,849,952 | 6,523,151,597 | 294,946,098 | 282,892,384 | 112,191,505 | 200,730,504 | - | - | 3,667,723,522 |
| **Liabilities** | | | | | | | | | | | | |
| Borrowings from financial institutions | 13.03 | 7,137,934,094 | 3,168,167,541 | 1,825,873,955 | 1,328,158,005 | 44,093,788 | 130,266,451 | 106,978,646 | 155,893,708 | 378,502,000 | - | - |
| Deposits and other accounts | 13.40 | 1,654,902,252 | 455,800,350 | 1,000,000,000 | 6,953,753 | 192,148,149 | - | - | - | - | - | - |
| Other liabilities | - | 164,190,310 | - | - | - | - | - | - | - | - | - | 164,190,310 |
| | | 8,957,026,656 | 3,623,967,891 | 2,825,873,955 | 1,335,111,758 | 236,241,937 | 130,266,451 | 106,978,646 | 155,893,708 | 378,502,000 | - | 164,190,310 |
| **On-balance sheet gap** | | **6,166,524,012** | **(2,221,902,785)** | **(186,024,003)** | **5,188,039,839** | **58,704,161** | **152,625,933** | **5,212,859** | **44,836,796** | **(378,502,000)** | **-** | **3,503,533,212** |
| **Off-balance sheet financial instruments** | | | | | | | | | | | | |
| Commitments in respect of purchase of forward contract | | 4,750,355,000 | - | - | - | - | - | - | - | - | - | 4,750,355,000 |
| **Off-balance sheet gap** | | 4,750,355,000 | - | - | - | - | - | - | - | - | - | 4,750,355,000 |
| **Total yield/interest risk sensitivity gap** | | 1,416,169,012 | (2,221,902,785) | (186,024,003) | 5,188,039,839 | 58,704,161 | 152,625,933 | 5,212,859 | 44,836,796 | (378,502,000) | - | (1,246,821,788) |
| **Cumulative yield/interest risk sensitivity gap** | | **-** | **(2,221,902,785)** | **(2,407,926,788)** | **2,780,113,051** | **2,838,817,212** | **2,991,443,145** | **2,996,656,004** | **3,041,492,800** | **2,662,990,800** | **2,662,990,800** | **1,416,169,012** |

## 41.3 Liquidity risk

Liquidity risk is the risk the Company's earnings and capital due to Company's inability to meet its liabilities when they become due. The Company is taking care of this risk by:

- managing liquidity position through Assets & Liability Management Committee.
- maintaining adequate level of liquidity to meet its obligation at any point of time.

### 41.3.1 Maturities of assets and liabilities

| | MATURITIES | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Upto 1 | Over 1-3 | Over 3-6 | Over 6-12 | Over 1-2 | Over 2-3 | Over 3-5 | Over 5-10 | Above 10 |
| | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees |
| **Assets** | | | | | | | | | | |
| Cash and balances with treasury banks | 55,410,802 | 55,410,802 | - | - | - | - | - | - | - | - |
| Balances with other banks | 96,389,187 | 96,389,187 | - | - | - | - | - | - | - | - |
| Non-current asset classified as held for sale | 70,788,801 | - | 8,942,207 | 8,695,652 | 16,296,238 | 7,280,080 | 29,574,624 | - | - | - |
| Lending to financial institutions | 171,111,111 | 170,000,000 | - | 1,111,111 | - | - | - | - | - | - |
| Investments | 5,359,657,799 | 367,643,743 | 213,093,869 | 462,718,061 | 1,586,613,027 | 294,095,947 | 391,381,902 | 458,403,073 | 1,085,708,177 | 500,000,000 |
| Advances | 5,235,500,341 | 310,998,274 | 430,389,984 | 329,497,456 | 729,488,934 | 899,495,785 | 781,680,999 | 1,029,508,392 | 724,440,517 | - |
| Operating fixed assets | 2,082,589,824 | 4,624,382 | 9,248,764 | 13,873,146 | 27,746,292 | 55,492,584 | 55,492,584 | 106,223,904 | 223,469,477 | 1,586,418,691 |
| Other Assets | 1,306,269,665 | 68,965,072 | 137,930,144 | 206,895,216 | 892,479,233 | - | - | - | - | - |
| | 14,377,717,530 | 1,074,031,460 | 799,604,968 | 1,022,790,642 | 3,252,623,724 | 1,256,364,396 | 1,258,130,109 | 1,594,135,369 | 2,033,618,171 | 2,086,418,691 |
| **Liabilities** | | | | | | | | | | |
| Borrowings | 5,382,643,167 | 1,816,611,750 | 572,046,894 | 338,713,559 | 67,438,038 | 1,628,840,728 | 383,377,166 | 168,362,164 | 407,252,868 | - |
| Deposits and other accounts | 759,500,000 | 525,000,000 | 220,000,000 | 10,000,000 | 4,500,000 | - | - | - | - | - |
| Deferred tax liabilities | 669,231,485 | 1,338,200 | 2,676,400 | 4,014,600 | 8,029,200 | 29,826,185 | 29,826,185 | 59,652,370 | 149,130,925 | 384,737,420 |
| Other Liabilities | 162,110,474 | 35,209,520 | 70,349,319 | 20,357,279 | 8,214,691 | - | - | 8,633,900 | 20,145,765 | - |
| | 6,973,485,126 | 2,378,159,470 | 865,072,613 | 373,085,438 | 88,181,929 | 1,658,666,913 | 413,203,351 | 236,648,434 | 576,529,558 | 384,737,420 |
| **Net assets** | 7,404,232,404 | (1,304,128,010) | (65,467,645) | 649,705,204 | 3,164,441,795 | (402,302,517) | 844,926,758 | 1,357,486,935 | 1,457,088,613 | 1,701,681,271 |
| Share capital | 6,000,000,000 | - | - | - | - | - | - | - | - | - |
| Reserves | 1,513,182,102 | - | - | - | - | - | - | - | - | - |
| Unappropriated loss | (1,412,718,297) | - | - | - | - | - | - | - | - | - |
| Surplus on revaluation of assets | 1,303,768,599 | - | - | - | - | - | - | - | - | - |
| | 7,404,232,404 | - | - | - | - | - | - | - | - | - |

## 41.3 Liquidity risk (continued)

### 41.3.1 Maturities of assets and liabilities (continued)

| | Total | MATURITIES | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Upto 1 months | Over 1-3 months | Over 3-6 months | Over 6-12 months | Over 1-2 years | Over 2-3 years | Over 3-5 years | Over 5-10 years | Above 10 years |
| | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees |
| **Assets** | | | | | | | | | | |
| Cash and balances with treasury banks | 40,842,606 | 40,842,606 | - | - | - | - | - | - | - | - |
| Balances with other banks | 218,336,242 | 218,336,242 | - | - | - | - | - | - | - | - |
| Lending to financial institutions | 454,782,750 | 404,782,750 | 50,000,000 | - | - | - | - | - | - | - |
| Investments | 7,527,488,718 | 410,881,628 | 1,149,246,145 | 414,379,993 | 2,222,135,705 | 620,123,010 | 386,236,251 | 483,419,954 | 1,341,066,032 | 500,000,000 |
| Advances | 6,344,004,026 | 383,047,083 | 182,439,600 | 471,234,426 | 702,620,237 | 1,209,085,381 | 968,582,914 | 1,405,262,159 | 1,021,732,226 | - |
| Operating fixed assets | 2,176,670,535 | 5,214,807 | 10,429,614 | 15,644,421 | 31,288,843 | 62,577,685 | 62,577,685 | 122,955,419 | 237,396,664 | 1,628,585,397 |
| Other Assets | 1,510,983,784 | 227,020,069 | 173,412,392 | 157,782,321 | 952,769,002 | - | - | - | - | - |
| | 18,273,108,661 | 1,690,125,185 | 1,565,527,751 | 1,059,041,161 | 3,908,813,787 | 1,891,786,076 | 1,417,396,850 | 2,011,637,532 | 2,600,194,922 | 2,128,585,397 |
| **Liabilities** | | | | | | | | | | |
| Borrowings | 7,137,934,094 | 3,168,167,541 | 25,873,955 | 694,824,672 | 510,760,455 | 296,933,116 | 1,606,978,646 | 455,893,709 | 378,502,000 | - |
| Deposits and other accounts | 1,654,902,252 | 455,800,350 | 1,000,000,000 | 6,953,753 | 192,148,149 | - | - | - | - | - |
| Deferred tax liabilities | 586,931,429 | (7,723,864) | (15,447,729) | (23,171,593) | (46,343,185) | 29,826,185 | 29,826,185 | 59,652,370 | 149,130,925 | 411,182,135 |
| Other Liabilities | 303,145,725 | 21,968,998 | 43,937,996 | 65,906,994 | 138,857,222 | - | - | 9,742,354 | 22,732,160 | - |
| | 9,682,913,500 | 3,638,213,025 | 1,054,364,222 | 744,513,826 | 795,422,641 | 326,759,301 | 1,636,804,831 | 525,288,433 | 550,365,085 | 411,182,135 |
| **Net assets** | 8,590,195,161 | (1,948,087,840) | 511,163,529 | 314,527,335 | 3,113,391,146 | 1,565,026,775 | (219,407,981) | 1,486,349,099 | 2,049,829,837 | 1,717,403,262 |
| Share capital | 6,000,000,000 | - | - | - | - | - | - | - | - | - |
| Reserves | 1,961,641,045 | - | - | - | - | - | - | - | - | - |
| Unappropriated loss | (448,458,943) | - | - | - | - | - | - | - | - | - |
| Surplus on revaluation of assets | 1,077,013,059 | - | - | - | - | - | - | - | - | - |
| | 8,590,195,161 | - | - | - | - | - | - | - | - | - |

**41.4 OPERATIONAL RISK**

Operational Risk is the risk of losses due to failure of internal control process, disasters and infrastructure failure, known errors, fraud, in adequate documentation, technology etc. The Company controls its operational risk by the following techniques:

- by using adequate internal control system;
- by ensuring adherence to prudential regulations, and own operating policies approved by the Board of Directors; and
- by putting in place business continuity plan and disaster recovery program.

**Operational Risk Disclosures Basel II**

The Company's approach in managing operational risk is to adopt practices that are for the purpose to suit the organizational maturity and particular environments in which our business operates. Operational risk management has been well established to increase the efficiency and effectiveness of the Company's resources, minimize losses and utilize opportunities.

**42 CREDIT RATING**

The Company's long term / short term entity rating has been assessed by JCR-VIS Credit Rating Company Limited. Long term entity rating has been reaffirmed at AA+ (Double A Plus) and short term rating at A1+ (A one Plus) with stable outlook.

**43 GENERAL**

**43.1** Figures in these unconsolidated financial statements have been rounded off to the nearest rupee, except as otherwise stated.

**43.2** Following figures for the year ended December 31, 2010 have been rearranged/ reclassified, for better presentation:

| | Reclassification from Component | Reclassification to Component | Amount in Rupees |
|---|---|---|---|
| – | Surplus on revaluation of operating fixed assets - net of tax | Deferred tax liabilities | 709,443,981 |
| – | Operating fixed assets | Other assets | 72,217,564 |
| – | Deferred liabilities | Other liabilities | 57,595,602 |
| – | Mark-up/Return/Interest Earned | Fee, Commission and Brokerage Income | 8,642,979 |

The above rearrangements / reclassifications do not affect unappropriated loss for the year ended December 31, 2009 and also have no impact on classifications of assets and liabilities between current and non-current because of the SBP format of financial statements for DFIs. Therefore, the unconsolidated statement of financial position for the year ended December 31, 2009 has not been presented.

## 44 DATE OF AUTHORIZATION FOR ISSUE

These unconsolidated financial statements were authorized for issue on March 26, 2012 by the Board of Directors of the Saudi Pak Industrial and Agricultural Investment Company Limited.

CHIEF EXECUTIVE DIRECTOR DIRECTOR CHAIRMAN

## STATEMENT SHOWING WRITTEN OFF LOAMS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES OR ABOVE, PROVIDED DURING THE YEAR JANUARY – DECEMBER 31, 2011

| S.NO | NAME AND ADDRESS | NAME OF INDIVIDUAL/ | | FATHERS' / HUSBAND | OUTSTANDING LIABILITIES AT THE BEGINNING OF THE YEAR | | | | PRINCIPAL | MARK UP | OTHER FINANCIAL | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | PARTNERS / DIRECTORS | CNIC No. | NAME | PRINCIPAL | MARK UP | OTHERS | TOTAL | WRITTEN OFF | WAIVED | RELIEF PROVIDED | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |

............................................................................ Nil..........................................................................

# CONSOLIDATED FINANCIAL STATEMENTS 2011

# AUDITORS' REPORT TO THE MEMBERS OF SAUDI PAK INDUSTRIAL AND AGRICULTURAL INVESTMENT COMPANY LIMITED

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of Saudi Pak Industrial and Agricultural Company Limited ("the Company") as at December 31, 2011 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended.

We have also expressed separate opinions on the financial statements of the Saudi Pak Industrial and Agricultural Investment Company Limited and Saudi Pak Real Estate Limited and have issued review conclusion on condensed financial information of Saudi Pak Leasing Company Limited for six months period ended December 31, 2011. The financial statements of Saudi Pak Insurance Company Limited were audited by another auditor, whose report has been furnished to us and our opinion in so far as it relates to the amounts included for such subsidiary is based solely on the report of another auditor

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also include 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.

In our opinion, the consolidated financial statements present fairly the financial position of the Company as at December 31, 2011, and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

We draw attention to the following matters:

a) Note 9.3 to the consolidated financial statements wherein it is stated that the Board of Directors of the Company decided to convert the interest free subordinated loan to Saudi Pak Leasing Company Limited (SPLCL), a subsidiary company into preference shares. The approval of State Bank of Pakistan (SBP) for conversion of subordinated loan into preference shares has expired on December 31, 2011;

b) Note 1.2 to the consolidated financial statements which indicates that SPLCL has incurred a net loss of Rs 725.73 million during the year ended December 31, 2011, and as of that date, its accumulated losses stood at Rs.1,495.7 million and its equity has eroded; its total liabilities exceeded total assets by Rs.879.9 million and its current liabilities exceeded current assets by Rs.823.20 million. These conditions, along with other matters set forth in note 1.2, indicate the existence of a material uncertainty that may cast significant doubt about the SPLCL's ability to continue as a going concern and may affect the SPLCL's ability to borrow funds;

c) Note 1.3 to the consolidated financial statements which gives details of certain requirements of NBFC Regulations, 2008 not met by SPLCL; and

d) Note 13 to the consolidated financial statements wherein it is stated that certain legal requirements relating to the property documentation of development properties of Saudi Pak Real Estate Limited are under process.

Our opinion is not qualified on the matters from (a) to (d) above.

The consolidated financial statements of the Company for the year ended December 31, 2010 were audited by another auditor whose report dated April 27, 2011 included a qualification relating to no recognition of provision on loans and receivables and suspension of related income by SPLCL. Their report on consolidated financial statements of the Company also included an emphasis of matter paragraphs on matters stated in (a) and (b) above.

**Islamabad**
**27 April 2012**

**KPMG Taseer Hadi & Co.**
**Chartered Accountants**
**Engagement Partner: Riaz Pesnani**

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT DECEMBER 31, 2011

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with treasury banks | 6 | 56,121,319 | 41,130,338 |
| Balances with other banks | 7 | 193,655,011 | 286,433,932 |
| Lendings to financial institutions | 8 | 171,111,111 | 431,257,750 |
| Investments | 9 | 5,101,879,296 | 7,177,103,246 |
| Advances | 10 | 7,393,276,079 | 9,357,049,115 |
| Operating fixed assets | 11 | 2,321,846,074 | 2,448,285,694 |
| Deferred tax assets | 17 | - | - |
| Other assets | 12 | 1,880,739,426 | 2,130,516,539 |
| Development properties | 13 | 206,091,245 | 111,084,500 |
| | | 17,324,719,561 | 21,982,861,114 |
| **LIABILITIES** | | | |
| Bills payable | | - | - |
| Borrowings | 14 | 7,064,577,411 | 9,078,011,683 |
| Deposits and other accounts | 15 | 1,618,221,671 | 2,858,458,046 |
| Sub-ordinated loans | | - | - |
| Liabilities against assets subject to finance lease | | - | - |
| Underwriting provision | 16 | 228,720,865 | 228,634,482 |
| Deferred tax liabilities | 17 | 751,003,079 | 447,488,937 |
| Other liabilities | 18 | 599,680,474 | 565,844,738 |
| | | 10,262,203,500 | 13,178,437,886 |
| **NET ASSETS** | | 7,062,516,061 | 8,804,423,228 |
| **REPRESENTED BY** | | | |
| Share capital | 19 | 6,000,000,000 | 6,000,000,000 |
| Reserve Fund | | 1,513,182,102 | 1,961,641,045 |
| Unappropriated loss | | (1,279,915,381) | (203,334,991) |
| | | 6,233,266,721 | 7,758,306,054 |
| Non-controlling interests | | (480,915,677) | (42,689,064) |
| Surplus/(deficit) on revaluation of AFS securities - net of tax | 20 | 43,109,063 | (234,893,718) |
| Surplus on revaluation of operating fixed assets - net of tax | 21 | 1,267,055,954 | 1,323,699,956 |
| | | 7,062,516,061 | 8,804,423,228 |

**CONTINGENCIES AND COMMITMENTS** 22

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

CHIEF EXECUTIVE DIRECTOR DIRECTOR CHAIRMAN

# CONSOLIDATED PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED DECEMBER 31, 2011

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Mark-up/Return/Interest Earned | 23 | **1,479,940,562** | 1,728,226,016 |
| Mark-up/Return/Interest Expensed | 24 | **1,173,520,079** | 1,399,432,726 |
| Net Mark-up/Interest Income | | **306,420,483** | 328,793,290 |
| Provision against non-performing loans and advances | | **642,869,184** | 120,290,982 |
| Provision for diminution in the value of investments | 25 | **63,232,342** | 107,578,931 |
| Reversal of provision against lendings to financial institutions | | **-** | (23,500,000) |
| Bad debts written off directly | | **13,069,507** | 8,181,908 |
| | | **719,171,003** | 212,551,821 |
| Net Mark-up/Interest (Expense) / Income after provisions | | **(412,750,550)** | 116,241,469 |
| **NON MARK-UP/INTEREST INCOME** | | | |
| Fee, Commission and Brokerage Income | | **2,932,874** | 8,986,969 |
| Dividend income | | **94,876,526** | 104,331,154 |
| Loss from dealing in foreign currencies | | **(223,043,763)** | (443,805,216) |
| Net gain on dealing in quoted securities | | **43,584,749** | 245,829,016 |
| Gain on dealing in mutual funds | | **41,222,136** | 13,429,077 |
| Unrealized gain on investment classified as held for trading | 9.6 | **-** | 780,981 |
| Underwriting income / (loss) | 26 | **20,986,350** | (41,816,964) |
| Income from sale of development properties - net | 27 | **47,139,204** | 49,561,400 |
| Other income | 28 | **109,166,772** | 46,506,720 |
| Total non mark-up/interest income / (expense) | | **136,864,848** | (16,196,863) |
| **NON MARK-UP/INTEREST EXPENSES** | | | |
| Administrative expenses | 29 | **337,030,616** | 359,004,405 |
| Impairment loss on quoted securities | 30 | **957,126,256** | 21,683,756 |
| Other provisions and write offs / (reversals) | 31 | **176,720,941** | (7,207,793) |
| Other charges | 32 | **922,250** | 731,400 |
| Total non-markup/interest expenses | | **1,471,800,063** | 374,211,768 |
| Extra ordinary/unusual items | | **-** | - |
| **LOSS BEFORE TAXATION** | | **(1,747,685,765)** | (274,167,162) |
| Taxation – Current | | **43,674,249** | 39,090,300 |
| – Prior years | | **100,523,318** | 8,211,547 |
| – Deferred | | **150,681,609** | 112,560,839 |
| | 33 | **294,879,176** | 159,862,686 |
| **LOSS AFTER TAXATION** | | **(2,042,564,941)** | (434,029,848) |
| **Attributable to:** | | | |
| Equity holders of the company | | **(1,581,085,770)** | (275,065,626) |
| Non-controlling interests | | **(461,479,171)** | (158,964,222) |
| | | **(2,042,564,941)** | (434,029,848) |
| **Basic and diluted loss per share** | 34 | **(2.635)** | (0.458) |

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

CHIEF EXECUTIVE DIRECTOR DIRECTOR CHAIRMAN

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED DECEMBER 31, 2011

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| Loss after taxation | (1,581,085,770) | (275,065,626) |
| **Other comprehensive income** | | |
| Reversal of capital reserves relating to rescheduling benefits | - | (30,678,110) |
| **Comprehensive income transferred to equity** | (1,581,085,770) | (305,743,736) |
| **Components of comprehensive income not reflected in equity** | | |
| Surplus / (deficit) on revaluation of available-for-sale securities | 417,035,377 | (341,002,400) |
| Deferred tax | (145,962,382) | 119,350,840 |
| | 271,072,995 | (221,651,560) |
| **Total comprehensive income** | (1,310,012,775) | (527,395,296) |

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

CHIEF EXECUTIVE DIRECTOR DIRECTOR CHAIRMAN

# CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED DECEMBER 31, 2011

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Loss before taxation | | **(1,747,685,765)** | (274,167,162) |
| Less: dividend income | | **(94,876,526)** | (104,331,154) |
| | | **(1,842,562,291)** | (378,498,316) |
| **Adjustments:** | | | |
| Depreciation | | **139,948,547** | 144,510,822 |
| Provision against non-performing loans and advances | | **642,869,184** | 120,290,982 |
| Provision for diminution in the value of investments | | **63,232,342** | 107,578,931 |
| Reversal of provision against lendings to financial institutions | | **-** | (23,500,000) |
| Bad debts written off directly | | **13,069,507** | 8,181,908 |
| Other provisions/write offs | | **176,720,941** | (7,207,793) |
| Impairment loss on quoted securities | | **957,126,256** | 21,683,756 |
| Reversal of impairment on AFS securities | | **(292,743,819)** | (457,089,493) |
| Net gain on disposal of operating fixed assets - property and equipment | | **(8,091,310)** | (23,441,057) |
| Provision for gratuity | | **7,854,690** | 6,199,882 |
| Provision for compensated absences | | **2,771,365** | 1,284,303 |
| Unrealized gain on investment classified as held for trading | | **-** | (780,981) |
| | | **1,702,757,703** | (102,288,740) |
| **Decrease / (increase) in operating assets** | | **(139,804,588)** | (480,787,056) |
| Lendings to financial institutions | | | |
| Development properties | | **260,146,639** | 1,812,315,068 |
| Advances | | **(95,006,745)** | 9,726,980 |
| Other assets | | **1,260,360,437** | 335,119,435 |
| | | **(7,315,183)** | 70,813,077 |
| **Increase / (decrease) in operating liabilities** | | **1,418,185,148** | 2,227,974,560 |
| Borrowings from financial institutions | | | |
| Deposits | | **(2,013,434,272)** | (1,715,110,759) |
| Other liabilities | | **(1,240,236,375)** | (1,577,794,615) |
| Underwriting provision | | **122,768,381** | (14,766,535) |
| Deferred liabilities - advance rental income | | **(86,383)** | (71,184,554) |
| | | **(3,890,880)** | (14,838,661) |
| | | **(3,134,879,529)** | (3,393,695,124) |
| | | **(1,856,498,969)** | (1,646,507,620) |
| Gratuity paid | | **(10,952,984)** | (2,841,624) |
| Compensated absences paid | | **(1,132,659)** | (1,059,231) |
| Income tax paid | | **(110,560,748)** | (497,204,949) |
| | | **(122,646,391)** | (501,105,804) |
| **Net cash used in operating activities** | | **(1,979,145,360)** | (2,147,613,424) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Investment in Available-For-Sale (AFS) securities | | **1,701,077,535** | (510,171,058) |
| Investment in Held-To-Maturity (HTM) securities | | **54,090,598** | 102,488,198 |
| Investment in Held-for-trading (HFT) securities | | **7,447,474** | 143,916,911 |
| Receipt against sale of shares in Saudi Pak Insurance Company Limited | | **50,000,000** | - |
| Dividend received | | **94,876,526** | 105,634,904 |
| Investment in operating fixed assets - net | | **(19,972,460)** | (12,905,937) |
| Sale proceeds on disposal of operating fixed assets - property and equipment | | **13,837,747** | 5,876,097 |
| | | **1,901,357,420** | (165,160,885) |
| **Net cash generated from / (used in) investing activities** | | | |
| | | **-** | - |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| **Decrease in cash and cash equivalents** | | **(77,787,940)** | (2,312,774,309) |
| Cash and cash equivalents at beginning of the year | | **327,564,270** | 2,640,338,579 |
| **Cash and cash equivalents at end of the year** | 35 | **249,776,330** | 327,564,270 |

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

CHIEF EXECUTIVE | DIRECTOR | DIRECTOR | CHAIRMAN

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED DECEMBER 31, 2011

| | Share Capital Rupees | Reserve Fund Rupees | Capital Reserve Rupees | Unappropriated Loss Rupees | Sub - total Rupees | Non-controlling interest Rupees | Total Rupees |
|---|---|---|---|---|---|---|---|
| **Balance as at January 01, 2010** | **6,000,000,000** | **2,489,705,409** | **30,678,110** | **(512,380,563)** | **8,008,002,956** | **116,275,158** | **8,124,278,114** |
| Loss for the year | - | - | - | (275,065,626) | (275,065,626) | (158,964,222) | (434,029,848) |
| Capital reserves - rescheduling benefit | - | - | (30,678,110) | - | (30,678,110) | - | (30,678,110) |
| **Total comprehensive income** | **-** | **-** | **(30,678,110)** | **(275,065,626)** | **(305,743,736)** | **(158,964,222)** | **(464,707,958)** |
| Appropriation from reserve fund | - | (528,064,364) | - | 528,064,364 | - | - | - |
| Transferred from surplus on revaluation of operating fixed assets - net of deferred tax | - | - | - | 56,046,834 | 56,046,834 | - | 56,046,834 |
| **Balance as at December 31, 2010** | 6,000,000,000 | 1,961,641,045 | - | (203,334,991) | 7,758,306,054 | (42,689,064) | 7,715,616,990 |
| **Balance as at January 01, 2011** | **6,000,000,000** | **1,961,641,045** | **-** | **(203,334,991)** | **7,758,306,054** | **(42,689,064)** | **7,715,616,990** |
| Loss for the year | - | - | - | **(1,581,085,770)** | **(1,581,085,770)** | **(461,479,171)** | **(2,042,564,941)** |
| **Total comprehensive income** | **-** | **-** | **-** | **(1,581,085,770)** | **(1,581,085,770)** | **(461,479,171)** | **(2,042,564,941)** |
| Appropriation from reserve fund | - | **(448,458,943)** | - | **448,458,943** | - | - | - |
| Transferred from surplus on revaluation of operating fixed assets - net of deferred tax | - | - | - | **56,046,437** | **56,046,437** | - | **56,046,437** |
| Non controlling interests arising on disposal of Saudi Pak Insurance Company Limited | - | - | - | - | - | **23,252,558** | **23,252,558** |
| **Balance as at December 31, 2011** | **6,000,000,000** | **1,513,182,102** | **-** | **(1,279,915,381)** | **6,233,266,721** | **(480,915,677)** | **5,752,351,044** |

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

CHIEF EXECUTIVE DIRECTOR DIRECTOR CHAIRMAN

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 2011

### 1 LEGAL STATUS AND OPERATIONS

1.1 The Group consists of Saudi Pak Industrial and Agricultural Investment Company Limited, the holding company, and its three subsidiary companies namely Saudi Pak Leasing Company Limited (SPLCL), Saudi Pak Insurance Company Limited (SPICL) and Saudi Pak Real Estate Limited (SPREL).

**Saudi Pak Industrial and Agricultural Investment Company Limited**

Saudi Pak Industrial and Agricultural Investment Company Limited (the "Company") was incorporated in Pakistan as private limited company on December 23, 1981 and subsequently converted as a public limited company on April 30, 2008. The Company is jointly sponsored by the Governments of Kingdom of Saudi Arabia and the Islamic Republic of Pakistan. The principal activity of the Company is to invest in the industrial and agro-based industrial projects in Pakistan on commercial basis and market their products in Pakistan and abroad. The Company has been setup for a period of fifty years which may be extended with approval of both of the Governments. The registered office of the Company is situated at Saudi Pak Tower, Jinnah Avenue, Islamabad.

**Saudi Pak Leasing Company Limited (''SPLCL")**

Saudi Pak Leasing Company Limited (''SPLCL") was incorporated in Pakistan on January 08, 1991 and is listed on all the three Stock Exchanges in Pakistan. The registered office of SPLCL is situated at 6th Floor, Lakson Square Building No.1, Sarwar Shaheed Road, Saddar, Karachi. The main business activity of SPLCL is the leasing of assets. SPLCL's license to carry out the business of leasing had expired on May 18, 2010 and renewal is pending with the Securities and Exchange Commission of Pakistan. The Company holds 35.06% (2010: 35.06%) ordinary shares of SPLCL.

**Saudi Pak Insurance Company Limited (''SPICL")**

Saudi Pak Insurance Company Limited (''SPICL") is an unquoted public limited company incorporated in Pakistan on February 15, 2005 under the Companies Ordinance, 1984. SPICL is engaged in non-life insurance business mainly comprising of fire, marine, motor and miscellaneous. SPICL commenced its commercial operations on April 13, 2005. The registered office of SPICL is situated at 19th Floor, Saudi Pak Tower 61-A, Jinnah Avenue, Islamabad and principal office of SPICL is situated at 2nd Floor, Nizam Chambers, 7-Sharah-e-Fatima, Lahore, Pakistan.

The Company entered into an agreement dated 09 June 2011 to sell 22,500,000 ordinary shares of Rs. 10 each in SPICL. The buyer has agreed to buy shares at a price of Rs. 99.45 million which represents Rs. 6 per share. The buyer has paid an amount of Rs. 30 million upon signing of agreement whereas the balance of Rs. 69.45 million is to be paid in seven quarterly installments comprising six quarterly installments of Rs. 10 million and seventh installment of Rs. 9.45 million. The buyer has provided performance securities against purchase price which includes immovable properties of Rs. 40 million. The shares will be transferred to the buyer in piece meal as and when the payment is received by the Holding Company and after retaining 30% margin till final payment. Further, in accordance with the terms of the agreement, the remaining fully paid up 5,925,000 ordinary shares of Rs. 10 each will be sold to the buyer at the rate of Rs. 7.5 per share or book value of the share plus one rupee premium, whichever is higher on the terms to be agreed separately.

As on date of consolidated statement of financial position, the Company holds 57.56% (2010: 71.93%) ordinary shares of SPICL.

**Saudi Pak Real Estate Limited, ("SPREL")**

Saudi Pak Real Estate Limited, ("SPREL") is limited by shares, incorporated in Pakistan as an unlisted public limited company on November 14, 2006 under the Companies Ordinance, 1984. The principal businesses of

SPREL are investments in properties (both for investment and development purposes), property management services, investments in joint ventures and other related services. SPREL is a wholly owned subsidiary of the Company. The registered office of SPREL is situated at Saudi Pak Towers, 61-A, Jinnah Avenue, Islamabad whereas the head office of the SPREL is situated at B-901-902, 9th Floor, Lakson Square Building, Karachi.

**1.2 Material uncertainity regarding SPLCL**

The leasing entities in the country, due to various reasons beyond their control, cumulatively have been going through liquidity crunch due to which a wave of defaults spread across this particular financial sector, soaring the percentage of bad loan portfolios beyond previous highs. SPLCL, being one of these financial sector victims, also started facing defaults in repayments by its lessees and other credit exposure. Heavy drop in market values of the SPLCL's investments in equity portfolio also deteriorated financial position of the SPLCL and resultantly affecting the SPLCL in the following manner:

- During the year, SPLCL incurred a loss of Rs. 725.73 million and as of that date its accumulated losses amounted to Rs. 1,495.7 million and its equity was Rs. Nil (in negative), as against the minimum equity requirement of Rs. 350 million and Rs. 500 million by June 30, 2012. Furthermore its total liabilities exceeded total assets by Rs. 879.9 million and current liabilities exceeded current assets by Rs. 823.20 million.

- As of December 31, 2011 impairment loss of Rs. 720.97 million and Rs. 56.41 million on lease and loans portfolios and investment portfolio respectively have been recognised (and are included in the above accumulated loss figure).

- Furthermore, its license to carry out the leasing business had expired on May 18, 2010 and its renewal is pending with the Securities and Exchange Commission of Pakistan.

- SPLCL's rating was downgraded as at June 30, 2010 not permitting the SPLCL to issue new certificate of investments. Subsequently, the management has not reviewed the rating agreement with JCR - VIS, a credit rating company.

  Although material uncertainty exists due to the above factors which may cast doubt on the SPLCL's ability to continue as a going concern, however, the management of SPLCL is confident that due to steps / measures as explained in the ensuing paragraphs, the going concern assumption is appropriate, and has as such prepared these financial statements on a going concern basis.

- The Board of Directors of SPLCL support the SPLCL in negotiating the terms of restructuring of various borrowings amounting to Rs. 2,266.5 million (including mark-up thereon) from the SPLCL's lenders (including the financial institutions, Term Certificate Holders, holders of Certificate of Investments, etc.) which will help SPLCL to continue as a going concern.

- The management of SPLCL has commenced negotiations with TFC holders for restructuring of term finance certificates resulting in relaxation of payments.

- The management of SPLCL has more or less finalised / initiated negotiations on agreements with certain lenders which would result in the settlements of SPLCL's obligations , inclusive of principal and accrued mark-up, through the surrender of its assets (refer notes 14.3.1.1, 14.3.1.2 and 22.7.1), restructuring and conversion of obligation in certain cases to preference shares.

- The management of SPLCL has also prepared rehabilitation and liability plans which has been approved by the Board of Directors. These plans contain proposals for settlement of SPLCL's liabilities and recoveries.

– Management of SPLCL has also applied to Securities and Exchange Commission of Pakistan (SECP) for granting extension in timelines for meeting the minimum equity requirement of Rs. 350 million.

Management of SPLCL is hopeful that the reduction in financing cost through restructuring / settlements with the defaulted borrowers and the issuance of preference shares against settlement of loans will assist in reducing the losses and improving the equity. This will make SPLCL an attractive candidate for equity participation / merger. In the meantime the SPLCL intends to follow-up with its non-performing portfolio.

**1.3 Certain non-compliances of NBFC Regulations 2008 by SPLCL**

Due to the fact that at December 31, 2011; SPLCL's equity is Nil (in negative), the SPLCL could not meet the regulatory requirements of NBFC Regulations, 2008 (apart from those mentioned in notes 1.2 above and 19.2.2), including the following:

– Regulation 5 (1) - Aggregate liabilities, excluding contingent liabilities and security deposits, of an NBFC, shall not exceed ten times of the company's equity (in case of operations beyond the first 2 years).

– Contingent liabilities shall not exceed seven times of the NBFC (in case of the NBFC is in operation for more than 2 years).

– Regulation 17 (1) - total outstanding exposure (fund and non-fund based) of an NBFC to a person shall not at any time exceed 30 % of the equity of the NBFC, provided that the maximum outstanding fund based exposure should not exceed 20 % of the NBFC's equity.

– Regulation 17 (2) - total outstanding exposure (fund based and non-fund based) of an NBFC to any group shall not exceed 50 % of the equity of the NBFC, provided that the maximum outstanding fund based exposure should not exceed 35 % of the equity.

– Regulation 28 (d) - total investments of the leasing company in shares, equities or scrips shall not exceed 50 % of the equity of the leasing company.

– Regulation 28 (e) - a leasing company shall not own shares, equities or scrips of any one company in excess of 10 % of its own equity or the issued capital of that company, whichever is lower.

**2 BASIS OF PRESENTATION**

These consolidated financial statements have been presented in accordance with the requirements of format prescribed by the State Bank of Pakistan's BSD Circular No.4 dated February 17, 2006.

**2.1 Functional and presentation currency**

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates. The consolidated financial statements are presented in Pak. Rupees, which is the Group companies functional currency.

**3 STATEMENT OF COMPLIANCE**

**3.1** These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by State Bank of Pakistan (SBP). In case the requirements of provisions and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP differ with the requirements of IFRS, the provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP shall prevail.

**3.2** The SBP through its BSD Circular Letter No. 11 dated September 11, 2002 has deferred the implementation of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for Development Financial Institutions (DFIs) till further instructions. According to the notification of SECP dated April 28, 2008, the IFRS 7 "Financial Instruments' Disclosures" has not been made applicable for DFIs. In view of above, the requirements of these standards have not been considered in the preparation of these consolidated financial statements. The investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

## 4 BASIS OF MEASUREMENT

**4.1** These consolidated financial statements have been prepared under the historical cost convention except for :

– revaluation of certain items of operating fixed assets;

– revaluation of certain investments in accordance with directives of State Bank of Pakistan; and

– recognition of certain employee benefits at present value.

### 4.2 Use of critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Group's accounting policies. The Group uses estimates and assumptions concerning the future. The resulting accounting estimate will, by definition, seldom equal the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to these consolidated financial statements are as follows:

**(a) Provision against non performing loans and advances**

The Group reviews its loan portfolio to assess amount of non-performing advances and provisions required there against on regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrowers and the requirements of the Prudential Regulations are considered. The amount of general provision is determined in accordance with the management's judgment.

**(b) Classification of investments**

**– Held-For-Trading (HFT)**

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

– **Held-To-Maturity (HTM)**

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 judgment, the Group evaluates its intention and ability to hold such investment to maturity.

– **Available-For-Sale (AFS)**

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

**(c) Valuation and impairment of 'available-for-sale' equity investments**

The Group determines that 'available-for-sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the invested industry and sector performance, changes in technology and operational/financial cash flows.

**(d) Taxation**

In making the estimates for income taxes currently payable by the Group, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past.

**(e) Fair value of derivatives**

The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates at the date of consolidated statement of financial position and the rates contracted.

**(f) Depreciation, amortization and revaluation of operating fixed assets / intangible assets**

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Group. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Further, the Group estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers under the market conditions.

**(g) Staff retirement benefits**

Certain actuarial assumptions have been adopted as disclosed in these consolidated financial statements (refer note 36) for the actuarial valuation of staff retirement benefit plans. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may affect the liability / asset under these plans in those years.

**(h) Provision against other assets and receivables**

The Group reviews other assets and receivables to assess any amount of provision / bad debts required there against on regular basis.

**(i) Development properties**

The management reviews the net realizable value of development properties to assess any diminution in the respective carrying values. These estimates are based on historical experience and are continuously reviewed. Net realizable value is determined with respect to estimated selling price less estimated expenditures to make the sales.

**(j) Transfer of equitable interest in development properties**

The Group has entered into a number of contracts with buyers for the sale of bungalows, shops and offices. Management has determined that equitable interest in such assets and therefore risks and rewards of the ownership are transferred to the buyer once he is committed to complete the payment for the purchase. This commitment is evidenced by a signed contract for the purchase of the property and payments of sufficient progress payments. Based on this, Group recognizes revenues and profits as the acts to complete the property are performed.

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its three subsidiary companies as stated in note 1.1 above.

- Subsidiaries are those enterprises in which the holding company directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has the power to elect and appoint more than 50% of its directors. The financial statements of the subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases.

- The assets and liabilities of subsidiary companies have been consolidated on a line by line basis and the carrying value of investment held by the holding company is eliminated against holding company's share in paid up capital of the subsidiaries.

- Material intra-group balances and transactions have been eliminated. Non-controlling interests are that part of net results of the operations and of net assets of the subsidiary attributable to interests which are not owned by the holding company. Non-controlling interests are presented as separate item in the consolidated financial statements. Losses applicable to Non-controlling interests in a subsidiary are allocated to the Non-controlling interests even if doing so causes the Non-controlling interests to have a deficit balance.

- The accounting policies of subsidiaries have been change when necessary to align them with the policies adopted by the Group.

### 5.2 Cash and cash equivalents

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

### 5.3 Sale and repurchase agreements

Securities sold under repurchase agreement (repo) are retained in the consolidated financial statements as investments and a liability for consideration received is included in borrowings. Conversely, consideration for securities purchased under resale agreement (reverse repo) are included in lendings to financial institutions. The difference between sale and repurchase / purchase and resale price is recognised as mark-up / return expensed and earned on a time proportion basis as the case may be. Repo and reverse repo balances are reflected under borrowings from and lendings to financial institutions respectively.

**5.4 Investments**

Investments are classified as follows:

**(a) Held-For-Trading (HFT)**

These represent securities acquired with the intention to trade by taking advantage of short-term market / interest rate movements. These are marked to market and surplus / (deficit) arising on revaluation of 'held for trading' investments is taken to consolidated profit and loss account in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

**(b) Held-To-Maturity (HTM)**

These represent securities acquired with the intention and ability to hold them upto maturity. These are carried at amortized cost less impairment, if any, in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

**(c) Available-For-Sale (AFS)**

These represent securities which do not fall under 'held for trading' or 'held to maturity' categories. In accordance with the requirements of the State Bank of Pakistan's BSD Circular No. 20 dated August 04, 2000, available for sale securities for which ready quotations are available on Reuters Page (PKRV) or Stock Exchanges are valued at market value and the resulting surplus / deficit on revaluation net of deferred tax is kept in a separate account and is shown below the shareholders' equity in the consolidated statement of financial position. Where the decline in prices of available for sale securities is significant or prolonged, it is considered impaired and included in consolidated profit and loss account.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee companies as per their latest available financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

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

**5.5 Advances**

Advances are stated net of provision for non-performing advances. Provision for non-performing advances is determined in accordance with the requirements of the Prudential Regulations issued by State Bank of Pakistan from time to time.

The provision against non-performing advances is charged to the consolidated profit and loss account. Advances are written off when there is no realistic prospect of recovery.

The SBP amended the Prudential Regulations in relation to provision for loans and advances thereby allowing further FSV benefit. This change has been applied prospectively as required under International Accounting Standard IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Related impacts and disclosures are given in note 10.1.6.1, 10.1.6.2 and 10.2.3.1.

**5.6 Net investment in finance lease**

These are stated at present value of minimum lease payments under the agreements. The allowance for potential lease losses is maintained at a level which in the opinion of management, is adequate to provide for potential lease losses on lease portfolio that can be reasonably anticipated. The allowance is increased by the provisions charged to income and decreased by write offs, net of recoveries. The Group maintains provision for potential lease losses in accordance with the Prudential Regulations applicable on the Group.

**5.7 Operating fixed assets and depreciation/ amortization**

**(a) Tangibles assets**

Tangible operating fixed assets are stated at cost less accumulated depreciation and impairment loss, if any, except for freehold land which is stated at cost and lease hold land, buildings and certain other items which are carried at revalued amount less depreciation.

Certain items of tangible operating fixed assets are revalued by professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from their fair value. Surplus / (deficit) arising on revaluation of fixed assets is credited/ (debited) to the surplus on revaluation of assets account and is shown below the shareholders' equity in the consolidated statement of financial position.

Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from their fair value.

Depreciation is provided on straight line method at rates specified in note 11.1 to the consolidated financial statements so as to write off the cost of the assets over their estimated useful lives. Depreciation of an asset begins when it is available for use. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Maintenance and normal repairs are charged to consolidated profit and loss account as and when incurred. Major renewals and improvements are capitalized. Gains and losses on disposal of operating fixed assets are taken to the consolidated profit and loss account.

**(b) Intangibles**

Intangible assets are stated at cost less accumulated amortization. Impairment losses, if any, is charged to consolidated profit and loss account. Amortization is computed from the date of purchase to date of disposal / write off using the straight line method in accordance with the rates specified in note 11.2 to these consolidated financial statements to write off cost of the assets over their estimated useful lives.

**(c) Capital work in progress**

Capital work in progress is stated at cost less accumulated impairment losses, if any, and is transferred to the respective item of operating fixed assets when available for intended use.

**5.8 Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the consolidated profit and loss account, except to the extent that it relates to items recognized directly in equity or below equity / other comprehensive income, in which case it is recognized in equity or below equity / other comprehensive income.

**(a) Current**

Provision for current taxation is the expected tax payable on the taxable income for the year using tax rates applicable at the date of consolidated statement of financial position. The charge for the current tax also includes adjustments, where considered necessary relating to prior years, arising from assessments made during the year for such years.

**(b) Deferred**

Deferred tax is provided for by using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the date of consolidated statement of financial position, expected to be applicable at the time of its reversal. A deferred tax asset is recognized only to the extent that it is probable that the future taxable profit will be available and credits can be utilized. Deferred tax assets are reduced to the extent it is no longer probable that the related tax benefit will be realized.

The Group recognizes deferred tax asset/liability on (deficit)/surplus on revaluation of securities and revaluation of operating fixed assets in accordance with the requirement of International Accounting Standard (IAS) 12 "Income Taxes" which is adjusted against the related surplus / (deficit).

**5.9 Provisions**

Provisions are recognized when there are present, legal or constructive obligations as a result of past events and it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amounts can be made. Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations. Expected recoveries are recognized by debiting customer accounts. Charge to consolidated profit and loss account is stated net off expected recoveries.

**5.10 Staff retirement benefits**

**(a) Defined benefit plan**

The Group operates an unfunded gratuity scheme for all of its permanent employees who have put in three years of continuous service with the Group. The actuarial valuation is carried out periodically using "Projected Unit Credit Method" as allowed under the International Accounting Standard (IAS) 19 "Employee Benefits". A portion of the actuarial gains or losses is recognized over the expected remaining working life of its employees if the net cumulative unrecognized actuarial gains or losses at the end of the previous year exceeds the "corridor limit" which is defined as the greater of:

- 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and
- 10% of the fair value of any plan assets at that date.

**(b) Defined contribution plan**

The Group (except SPLCL) also operates a recognized funded provident fund scheme for all of its permanent employees. Equal monthly contributions at the rate of 10% of basic salary are made both by the Group and the employees, which are transferred to the provident fund.

**(c) Compensated absences**

As per its service rules, the Group grants compensated absences to all of its permanent employees. The provision for compensated absences is made on the basis of last drawn basic salary.

**5.11 Revenue recognition**

**(a)** Mark-up/ interest on loans and advances and return on investments is recognized on accrual basis except on classified advances which is recognized on receipt basis in compliance with Prudential Regulations issued by the SBP.

**(b)** Markup/interest on rescheduled/ restructured loans and advances and return on investment is recognized in accordance with the directives of the SBP.

**(c)** Unrealized income is held in suspense account, where necessary, in accordance with the requirements of SBP guidelines and recognized as income on receipt basis.

**(d)** Fees, commission and brokerage income is recognized at the time of performance of service.

**(e)** Dividend income is recognized when the Group's right to receive income is established.

**(f)** The Group follows the finance method to recognize income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of the leased assets) is deferred and taken to income over the term of lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gains/ losses on termination of lease contracts are recognized as income/expense when these are realized.

**(g)** Gains and losses on sale of investments are included in income currently.

**(h)** Gains and losses on disposal of operating fixed assets are taken to the consolidated profit and loss account.

**(i)** Premium income under a policy is recognized over the period of insurance from the date of issuance of policy to which it relates to its expiry as follows:

- For direct business, evenly over the period of the policy; and
- For proportional reinsurance business, evenly over the period of underlying insurance policies.

Where the pattern of incidence of risk varies over the period of the policy, premium is recognized as revenue in accordance with the pattern of incidence of risk. Premium for policies receivable in installments are recorded as receivable at the inception of the policy and are recognized as income over the period of the policy, in accordance with the provisions of the SEC ( Insurance ) Rules, 2002.

**(j) Sale of properties**

Revenue on sale of plots, buildings, bunglows and villas is recognized on accrual basis if all of the following conditions are met:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties sold;

– the amount of revenue, cost incurred or to be incurred in respect of the transaction can be measured reliably; and

– it is probable that the economic benefit associated with the transaction well flow to the Group;

Revenue on sale of buildings, bunglows and villas is recognized on the percentage completion if all of the following conditions are met:

The Group transfers to the buyer the significant risks and reward of ownership of the work in progress in its current state as the work progresses. The significant risks and rewards of ownership are transferred to the buyer when the buyer is committed and the commitment is evidenced by a signed contract and is unable to require a refund except for non delivery of the unit. Management believes that the likelihood of the Group being unable to fulfil its contractual obligations for this reason is remote.

**(k) Rendering of services**

Revenue from rendering of services is recognized when the outcome of the transaction can be estimated reliably by reference to the stage of completion of the transaction at the date of consolidated statement of financial position.

**(l) Finance leases income**

The Company follows the 'financing method' in accounting for recognition of finance lease. At the commencement of a lease, the total unearned finance income i.e. the excess of aggregate installment contract receivables plus residual value over the cost of the leased asset is amortized over the term of the lease, applying the annuity method, so as to produce a constant periodic rate of return on the net investment in finance leases. Initial direct costs are deferred and amortized over the lease term as a yield adjustment. Processing, front end and commitment fees and commission are recognized as income when such services are provided.

**(m) Operating lease**

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

**5.12 Foreign currency transactions**

Foreign currency transactions are translated into Pak. Rupee at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated to Pak. Rupee at the exchange rates prevailing at the date of consolidated statement of financial position. Exchange gains and losses are included in consolidated profit and loss account currently.

**5.13 Impairment**

The carrying amount of the Group's assets are reviewed at the date of consolidated statement of financial position to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognised as expense in the consolidated profit and loss account. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

- **Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

- **Non - financial assets**

The carrying amount of the assets other than deferred tax assets are reviewed at each date of consolidated statement of financial position to determine whether there is any indication of impairment of any asset or a group of assets. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognized immediately in the consolidated profit and loss account.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. Reversal of impairment loss is recognized as income.

**5.14 Financial instruments**

**Financial assets and financial liabilities**

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

**5.15 Off-setting of financial instruments**

Financial assets and financial liabilities are only set-off and net amount is reported in the consolidated financial statements when there is legally enforceable right to set-off the recognized amount and the Group either intends to settle on net basis or to settle the liabilities and realize the assets simultaneously.

**5.16 Insurance contracts**

Insurance contracts are those contracts where the SPICL (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Once a contract has been classified as an insurance contract it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and liabilities are extinguished or expired. Insurance contracts are classified into following main categories, depending on the nature and duration of risk and whether or not the terms and conditions are fixed.

– Fire and property damages
– Marine, aviation and transport
– Motor
– Miscellaneous

Fire and property insurance contracts mainly compensate the SPICL's customers for damage suffered to their properties or for the value of property lost. Marine Insurance covers the loss or damage of vessels, cargo, terminals and any transport of property by which cargo is transferred, acquired or held between the points of origin and final destination. Motor insurance provides protection against losses incurred as a result of theft, traffic accidents and against third party liability that could be incurred in an accident. Other various types of insurance are classified in miscellaneous category which includes mainly engineering, crop and livestock, personal accident, worker compensation, travel, products of financial institutions and crop insurance etc.

The SPICL does not issue any insurance contracts with discretionary participation features (DPF) or any investment contracts.

**5.17 Reinsurance ceded**

The Group enters into reinsurance contracts in the normal course of business in order to limit the potential for losses arising from certain exposures. Outward reinsurance premiums are accounted for in the same period as the related premiums for the direct or accepted reinsurance business being reinsured. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the provision for outstanding claims or settled claims associated with the reinsurance policies and are in accordance with the related reinsurance contract. Reinsurance assets are not offset against related insurance liabilities. Income or expenses from reinsurance contract are not offset against expenses or income from related insurance assets. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired.

The Group assesses its reinsurance assets for impairment on the date of consolidated statement of financial position, if there is an objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the consolidated profit and loss account.

**5.18 Claim expense**

General insurance claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years. The Group recognizes liability in respect of all claims incurred upto the date of consolidated statement of financial position which is measured at the undiscounted value of the expected future payments. The claims are considered to be incurred at the time of the incident giving rise to the claim except as otherwise expressly indicated in an insurance contract. The liability for claims include amounts relating to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs. Provision for liability in respect of unpaid reported claims is made on the basis of individual case estimates. Provision for IBNR is based on the management's best estimate which takes into account the past trends, expected future patterns of reporting of claims and the claims actually reported subsequent to the date of consolidated statement of financial position.

**5.19 Reinsurance recoveries against outstanding claims**

Claims recoveries from the reinsurer are recognized as an asset at the same time as the claims which give rise to the right of recovery are recognized as a liability and are measured at the amount expected to be received. Claims expenses are reported net of reinsurance in the consolidated profit and loss account.

**5.20 Commission expense and other acquisition costs**

Commission expense and other acquisition costs are charged to the consolidated profit and loss account at the time the policies are accepted. Commission income from reinsurers is recognized at the time of issuance of the underlying insurance policy by the Group. This income is deferred and brought to account as revenue in accordance with the pattern of recognition of the reinsurance premium to which it relates. Profit commission, if any, which the Group may be entitled to under the terms of reinsurance is recognized on accrual basis.

**5.21 Premium deficiency reserves**

The Group is required as per SEC (Insurance) Rules, 2002, to maintain a provision in respect of premium deficiency for the class of business where the unearned premium liability is not adequate to meet the expected future liability, after reinsurance from claims and other supplementary expenses expected to be incurred after the date of consolidated financial position in respect of the unexpired policies in that class of business at the date of consolidated financial position. The movement in the premium deficiency reserve is recorded as an expense/ income in consolidated profit and loss account for the year.

For this purpose, loss ratios for each class are estimated based on historical claim development. Judgments is used in assessing the extent to which past trends may not apply in future or the effects of one-off claims. If these ratios are adverse, premium deficiency is determined. The loss ratios estimated on these basis for the unexpired portion are as follows:

Fire and property damage 117%
Marine, aviation and transport 53%
Motor 64%
Miscellaneous 48%

Based on an analysis of combined operating ratio for the expired period of each reportable segment the management considers that the unearned premium reserve for all classes of business as at the year end is adequate to meet the expected future liability after reinsurance from claims and other expenses, expected to be incurred after the date of consolidated financial statement position in respect of policies in those classes of business in force at the date of consolidated financial statement position. Hence no reserve for the same has been made in these consolidated financial statements.

**5.22 Amount due to other insurers/reinsurers**

Liabilities for other insurers/ reinsurers are carried at cost which is the fair value of consideration to be paid in the future for services

**5.23 Repossessed assets**

These assets are acquired in settlement of certain loans / lease receivables. These are measured at lower of carrying amount of the related receivables and fair value less cost to sell of repossessed assets.

**5.24 Finance Leases (as lessor)**

Amounts due from lessees under finance lease are recorded as receivables at the amount of the net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases

**5.25 Provision for unearned premium**

Provision for unearned premium represents the portion of premium written relating to the unexpired period of coverage. The Group has opted for the 1/24 method to calculate provision for unearned premium as per the option given under SEC Insurance Rules, 2002.

**5.26 Borrowing cost**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**5.27 Development properties**

Development properties include land acquired for development of bungalows, shops and offices for sale. These are carried in the consolidated statement financial position at lower of cost and net realizable value. Cost includes all direct costs attributable to the design and construction of the properties. The properties are considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed. Net realizable value represents the selling price in the ordinary course of business less cost of completion and estimated cost necessarily to be incurred for sale.

**5.28 Segment Reporting**

A segment is a distinguishable component of the Group that is engaged either in providing differentiated products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), subject to risks and rewards that are different from those of other segments. Segment information is presented as per the Group's functional structure and the guidance of State Bank of Pakistan. The Group's primary format of reporting is based on business segments. The Group comprises of the following main business segments:

**(a) Business Segment**

**– Corporate finance**

This includes investment activities such as underwriting, Initial Public Offers (IPOs) and corporate financing which includes leases of assets.

**– Trading and Sales**

Trading and sales includes the Group's treasury and money market activities classified as held for trading.

**– Real Estate Services**

This segment undertakes the investments in properties (both for investment and development purposes), property management services, investments in joint ventures and other related services.

**– Insurance Services**

This segment includes non-life insurance business mainly comprising of fire, marine, motor and miscellaneous.

**(b) Geographical Segment**

The Group conducts all its operations in Pakistan.

**5.29 Forthcoming changes in approved accounting standards which are not yet effective**

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2012:

- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments are not expected to impact the current transactions of the Group.

- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments are not expected to impact the current transactions of the Group.

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The Group does not plan to adopt this change early and the extent of the impact has not been determined.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other approved accounting standards continue to apply in this regard. The amendments are not expected to impact the current transactions of the Group.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not expected to impact the current transactions of the Group.

- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on the consolidated financial statements of the Group.

## 6 CASH AND BALANCES WITH TREASURY BANKS

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| In hand : | | | |
| – Local currency | | 625,089 | 367,220 |
| – Foreign currency | | - | - |
| | | 625,089 | 367,220 |
| With State Bank of Pakistan in : | | | |
| – Local currency current account | 6.1 | 55,367,752 | 40,640,519 |
| – Foreign currency current account | | - | - |
| | | 55,367,752 | 40,640,519 |
| With National Bank of Pakistan in : | | | |
| – Foreign currency deposit account | 6.2 | 128,478 | 122,599 |
| | | 56,121,319 | 41,130,338 |

**6.1** Deposits are maintained with the State Bank of Pakistan to comply with its requirements issued from time to time.

**6.2** This represents balances maintained with the National Bank of Pakistan and is remunerated at 0.01% (2010: 0.01%) per annum.

## 7 BALANCES WITH OTHER BANKS

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| In Pakistan | | 30,850,306 | 31,140,181 |
| On current accounts – local currency | | | |
| On deposit accounts – | | | |
| – Local currency | 7.1 | 134,293,082 | 169,295,987 |
| – Foreign currency | 7.2 | 28,511,623 | 85,997,764 |
| | 7.3 | 193,655,011 | 286,433,932 |

**7.1** These deposit accounts carry interest rate of 5.00% to 13.50% per annum (2010: 4.00% to 11.50% per annum).
**7.2** These deposit accounts carry interest rate of 0.25% per annum (2010: 0.25% per annum).
**7.3** This includes bank balances of Rs. 953,597 (2010: Rs. 45,072,593) with Silk Bank Limited, a related party, that carries profit rate ranging between 5% to 11% (2010: 5% to 11%) per annum.

## 8 LENDINGS TO FINANCIAL INSTITUTIONS

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Call money lendings | 8.1 | 171,111,111 | 283,805,000 |
| Repurchase agreements lendings (reverse repo) | 8.2 | - | 147,452,750 |
| | | 171,111,111 | 431,257,750 |

**8.1** This includes clean placements and term deposit receipts. These carry markup rate ranging from 11.00% to 12.97% per annum (2010: 13.25% to 13.60% per annum) maturing between January 2012 to April 2012 (2010: between January 2011 to February 2011).

**8.2** These were secured against Pakistan Investment Bonds (PIBs) and Market Treasury Bills. The difference between the contracted purchase price and the re-sale price was recognized as income over the period of the contract. These carried mark up rate between 12.95% to 13.60% per annum having maturity within 10 days.

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| **8.3 Particulars of lendings** | | |
| In local currency | **171,111,111** | 431,257,750 |
| In foreign currencies | **-** | - |
| | **171,111,111** | 431,257,750 |

| **8.4 Securities held as collateral against lendings to financial institutions** | Note | **2011** Held by the Company Rupees | **2011** Further given as collateral Rupees | **2011** Total Rupees | 2010 Held by the Company Rupees | 2010 Further given as collateral Rupees | 2010 Total Rupees |
|---|---|---|---|---|---|---|---|
| Pakistan Investment Bonds / Market Treasury Bills | 8.4.1 | - | - | - | 49,772,400 | 97,680,350 | 147,452,750 |
| | | - | - | - | 49,772,400 | 97,680,350 | 147,452,750 |

**8.4.1** These represent the securities obtained under reverse repo transactions that have been used to raise finance under repo transaction.

**9 INVESTMENTS**

9.1 Investment by types:

| | Note | **2011** Held by Group Rupees | **2011** Given as collateral Rupees | **2011** Total Rupees | 2010 Held by Group Rupees | 2010 Given as collateral Rupees | 2010 Total Rupees |
|---|---|---|---|---|---|---|---|
| **Held-For-Trading securities (HFT)** | | | | | | | |
| Quoted shares | | - | - | - | 7,447,474 | - | 7,447,474 |
| **Available-For-Sale securities (AFS)** | | | | | | | |
| Quoted shares | | 2,309,797,158 | - | 2,309,797,158 | 2,874,168,840 | - | 2,874,168,840 |
| Un-quoted shares | | 694,416,378 | - | 694,416,378 | 694,416,378 | - | 694,416,378 |
| Market Treasury Bills | | 278,653,500 | 645,925,200 | 924,578,700 | 630,021,196 | 1,168,582,204 | 1,798,603,400 |
| Pakistan Investment Bonds (PIBs) | | - | 195,241,900 | 195,241,900 | 93,979,060 | - | 93,979,060 |
| Ijara Sukuk | | - | - | - | 10,000,000 | - | 10,000,000 |
| Term Finance Certificates (TFCs) | | 57,257,340 | - | 57,257,340 | 44,000,000 | - | 44,000,000 |
| Commercial Paper | | - | - | - | 93,447,560 | - | 93,447,560 |
| Mutual Funds | | 175,382,100 | - | 175,382,100 | 460,337,523 | - | 460,337,523 |
| ***Sub-total for AFS securities*** | | 3,515,506,476 | 841,167,100 | 4,356,673,576 | 4,900,370,557 | 1,168,582,204 | 6,068,952,761 |
| **Held-To-Maturity securities (HTM)** | | | | | | | |
| Pakistan Investment Bonds (PIBs) | 9.2 | 554,277,902 | - | 554,277,902 | 566,497,091 | - | 566,497,091 |
| Market Treasury Bills | | 30,730,928 | - | 30,730,928 | - | - | - |
| Term Finance Certificates (TFCs) | | 1,907,282,191 | - | 1,907,282,191 | 1,979,884,528 | - | 1,979,884,528 |
| ***Sub-total for HTM securities*** | | 2,492,291,021 | - | 2,492,291,021 | 2,546,381,619 | - | 2,546,381,619 |
| **Investment at cost** | | 6,007,797,497 | 841,167,100 | 6,848,964,597 | 7,454,199,650 | 1,168,582,204 | 8,622,781,854 |
| Provision for diminution in value of investments | 9.5 | (1,812,699,417) | - | (1,812,699,417) | (1,085,084,638) | - | (1,085,084,638) |
| **Investments (net of provisions)** | | 4,195,098,080 | 841,167,100 | 5,036,265,180 | 6,369,115,012 | 1,168,582,204 | 7,537,697,216 |
| Surplus / (deficit) on revaluation of AFS securities | 9.4 | 65,614,116 | - | 65,614,116 | (361,374,951) | - | (361,374,951) |
| Surplus on revaluation of HFT securities | 9.4 | - | - | - | 780,981 | - | 780,981 |
| | | 4,260,712,196 | 841,167,100 | 5,101,879,296 | 6,008,521,042 | 1,168,582,204 | 7,177,103,246 |

9.2 This includes premium of Rs. 17.394 million (2010: Rs. 34.322 million) on purchase of PIB's. The premium is being amortized over the years to maturity ranging from October 2012 to April 2014. Investment in PIBs carry coupon interest rates ranging from 8% to 11% per annum (2010: 8% to 13% per annum).

9.3 To support Saudi Pak Leasing Company Limited (SPLCL) in addressing its adverse financial position and minimum capital requirement; after approval of its Board of Directors, the Company has converted balance of clean placement amounting to Rs. 150 million and long term finance facilities amounting to Rs. 183.208 million to SPLCL into an interest free subordinated loan with effect from May 28, 2009. However, due to conflicting regulations as applicable to NBFC's and DFI's relating to subordinated debt, the Board in its meeting held on January 12, 2011 has decided to convert the same into preference shares. The SBP vide its letter # BPRD/BLRD-04/SPIAICO/2011/10919 dated August 30, 2011 has granted extension for conversion of sub ordinated loan into equity till December 31, 2011.

## 9.4 Investment by segments

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **Federal Government securities** | | | |
| – Pakistan Investment Bonds (PIBs) | 9.4.5 | **749,519,802** | 660,476,151 |
| – Market Treasury Bills | 9.4.5 | **955,309,628** | 1,798,603,400 |
| – Ijara Sukuk | | **-** | 10,000,000 |
| | | **1,704,829,430** | 2,469,079,551 |
| **Fully paid up ordinary shares** | | | |
| – Listed securities | 9.4.1 | **2,309,797,158** | 2,881,616,314 |
| – Unlisted securities | 9.4.2 | **694,416,378** | 694,416,378 |
| | | **3,004,213,536** | 3,576,032,692 |
| **Term Finance Certificates (TFCs)** | | | |
| – Listed TFCs | 9.4.3 | **1,058,603,877** | 1,145,063,253 |
| – Unlisted TFCs | 9.4.4 | **905,935,654** | 878,821,275 |
| | | **1,964,539,531** | 2,023,884,528 |
| **Other investments** | | | |
| Mutual Funds | 9.4.6 | **175,382,100** | 460,337,523 |
| Commercial Paper | | **-** | 93,447,560 |
| | | **175,382,100** | 553,785,083 |
| **Total investment at cost** | | **6,848,964,597** | 8,622,781,854 |
| Less: Provision for diminution in value of investments | 9.5 | **(1,812,699,417)** | (1,085,084,638) |
| **Investments (net of provisions)** | | **5,036,265,180** | 7,537,697,216 |
| Surplus / (deficit) on revaluation of Available-For-Sale securities (AFS) | 20 | **65,614,116** | (361,374,951) |
| Surplus on revaluation of Held- For- Trading securities (HFT) | 9.6 | **-** | 780,981 |
| | | **5,101,879,296** | 7,177,103,246 |

## 9.4.1 Investment in fully paid up ordinary shares – listed

| 2011 | 2010 | | | |
|---|---|---|---|---|
| **Number of ordinary shares** | | **Name of investee companies** | | |
| 1,017,317 | 693,055 | Agritech Limited | **20,249,363** | 19,492,931 |
| 1,210,550 | 1,250,500 | Askari Commercial Bank Limited | **19,993,839** | 26,277,757 |
| 1,017,500 | 1,585,000 | Arif Habib Corporation Limited | **60,968,470** | 110,970,953 |
| 6,000,000 | 6,250,000 | Azgard Nine limited | **108,725,040** | 113,835,016 |
| 6,247,948 | 3,447,948 | Summit Bank Limited (Arif Habib Bank Limited) | **45,348,645** | 24,827,495 |
| - | 60,500 | Allied Bank Limited | **-** | 6,145,855 |
| - | 40,000 | Attock Petroleum Limited | **-** | 12,057,746 |
| 384,913 | 384,913 | Attock Cement Limited | **25,283,071** | 25,283,073 |
| 825,000 | 825,000 | Bank Islami Pakistan Limited | **7,421,064** | 7,421,064 |
| - | 500,000 | Byco Petroleum Pakistan Limited | **-** | 5,461,950 |
| 3,317,900 | 4,318,127 | Bank Al-Falah Limited | **52,729,924** | 68,626,071 |
| - | 5,120,622 | Bank of Khyber Limited | **-** | 34,766,565 |
| - | 333,499 | Bank of Punjab Limited | **-** | 27,315,108 |
| | | **Sub-Total carried forward** | **340,719,416** | 482,481,584 |

### 9.4.1 Investment in fully paid up ordinary shares – listed (continued)

| 2011 Number of ordinary shares | 2010 Number of ordinary shares | Name of investee companies | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| | | Sub-Total brought forward | **340,719,416** | 482,481,584 |
| 1,066,648 | 1,128,648 | Chenab Limited | **9,397,766** | 9,944,020 |
| 2,127,695 | 2,345,336 | Crescent Steel & Allied Products | **77,784,678** | 87,089,050 |
| - | 500,000 | D.G. Khan Cement Limited | **-** | 12,100,273 |
| 5,700,524 | 6,278,600 | Dewan Farooq Motors Limited | **74,024,610** | 81,531,262 |
| 5,228,883 | 5,228,883 | Dewan Salman Fiber Limited | **28,316,074** | 28,316,074 |
| 3,199,957 | 3,199,957 | Dewan Cement Limited | **21,192,963** | 21,192,975 |
| - | 1,500,000 | Descon Oxychem Limited | **-** | 10,282,239 |
| 90,000 | 100,000 | Engro Corporation Pakistan Limited | **24,207,495** | 32,276,659 |
| - | 26,500 | Eye Television Network Limited | **-** | 2,014,915 |
| 900 | 1,199,900 | Fatima Fertilizer Limited | **8,667** | 16,788,598 |
| 7,060,348 | 7,060,348 | Fauji Cement Company Limited | **89,948,621** | 89,948,594 |
| 470,000 | 500,000 | Fauji Fertilizer Company Limited | **32,646,276** | 46,306,772 |
| 1,700,000 | 2,300,000 | FFC Bin Qasim Limited | **48,881,732** | 66,134,112 |
| 4,207,540 | 4,207,540 | Fecto Cement Limited | **94,072,347** | 94,072,336 |
| - | 1,907,249 | First Credit & Investment Bank Limited | **-** | 18,617,356 |
| - | 766,012 | Hub Power Company Limited | **-** | 23,970,649 |
| - | 53,424 | International Industries Limited | **-** | 17,405,445 |
| 11,572,199 | 11,572,199 | Japan Power Generation Limited | **49,999,503** | 49,999,503 |
| 1,361,990 | 1,516,690 | Jahangir Siddiqui and Company Limited | **41,508,061** | 74,698,844 |
| 500,000 | 500,000 | Kott Addu Power Company Limited | **22,328,350** | 22,328,350 |
| 10,000,487 | 10,000,487 | Maple Leaf Cement Limited | **68,038,113** | 68,038,113 |
| 160,000 | 160,000 | Mari Gas Company Limited | **21,356,550** | 21,356,550 |
| - | 3,500,000 | My Bank Limited | **-** | 20,521,125 |
| 1,250,000 | 1,285,000 | National Bank of Pakistan Limited | **88,837,060** | 133,739,811 |
| - | 1,345,000 | Nishat Chunian Limited | **-** | 23,586,383 |
| 1,000,000 | 1,175,000 | Nishat Chunian Power Limited | **14,389,050** | 16,803,866 |
| - | 3,080,000 | Nishat Mills Limited | **-** | 29,298,925 |
| 1,500,000 | 1,333,500 | Nishat Power Limited | **24,068,697** | 20,674,225 |
| 10,161,622 | 9,981,622 | NIB Bank Limited | **92,732,833** | 92,732,871 |
| 110,000 | 160,000 | Pakistan State Oil Company Limited | **35,575,955** | 61,377,747 |
| 3,900,000 | 3,900,000 | Pakistan Telecommunication Company Limited | **99,801,780** | 99,801,784 |
| 253,000 | 253,000 | Pakistan Petroleum Limited | **40,817,664** | 40,817,664 |
| 4,591,000 | 5,101,000 | Lafarge Cement Company Limited | **19,196,118** | 27,227,545 |
| 6,695,000 | 6,695,000 | Pace Pak Limited | **86,103,323** | 86,103,355 |
| 848,704 | 837,704 | Packages Limited | **148,767,134** | 148,767,131 |
| 1,288,126 | 749,000 | Pak Reinsurance Limited | **48,350,044** | 39,589,682 |
| 750,000 | 750,000 | Pakistan Refinery Limited | **84,456,615** | 84,456,611 |
| 993,623 | 1,086,339 | Pakistan Elektron Limited | **20,000,000** | 23,750,000 |
| 1,046,386 | 1,046,386 | Pakistan National Shipping Corporation (PNSC) | **50,233,748** | 50,233,746 |
| 616,503 | 632,568 | Silk Bank Limited | **4,065,642** | 4,292,267 |
| 50,000 | 50,000 | Security Papers Limited | **1,980,000** | 1,980,000 |
| 662,248 | 698,992 | Sitara Chemicals Industries Limited | **199,070,581** | 220,259,174 |
| 1,596,000 | 1,200,000 | Sui Northern Gas Company Limited | **59,011,010** | 51,629,890 |
| 665,000 | 665,000 | Samba Bank Limited | **4,776,542** | 4,776,542 |
| | | **Sub-Total carried forward** | **2,166,665,018** | 2,659,314,617 |

### 9.4.1 Investment in fully paid up ordinary shares – listed (continued)

| 2011 | 2010 | Name of investee companies | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| Number of ordinary shares | | | | |
| | | **Sub-Total brought forward** | **2,166,665,018** | 2,659,314,617 |
| 458,764 | 458,764 | Samin Textiles Limited | **8,823,174** | 8,823,173 |
| - | 805,000 | Sitara Peroxide Limited | **-** | 17,050,067 |
| 76,000 | 200,000 | Shell Pakistan Limited | **17,707,500** | 46,598,685 |
| - | 120,000 | Shakarganj Sugar Mills Limited | **-** | 15,109,663 |
| 604,575 | 604,575 | SME Leasing Limited | **6,650,325** | 6,650,325 |
| 5,135,000 | 5,135,000 | Telecard Limited | **39,377,644** | 39,377,644 |
| - | 136,125 | United Bank Limited | **-** | 18,126,661 |
| 10,213,350 | 10,213,350 | World Call Telecom Limited | **70,573,497** | 70,565,479 |
| | | | **2,309,797,158** | 2,881,616,314 |

### 9.4.2 Investment in fully paid up ordinary shares – unlisted

| 2011 | 2010 | Name of investee companies | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|---|
| Number of ordinary shares | | | | | |
| 571,000 | 571,000 | Ali Paper Board Industries Limited | | **5,710,000** | 5,710,000 |
| 1,000,000 | 1,000,000 | Saudi Pak Kalabagh Livestock Company Limited | | **10,000,000** | 10,000,000 |
| 650,000 | 650,000 | Bela Chemical Industries Limited | | **6,500,000** | 6,500,000 |
| 1,333,333 | 1,333,333 | Burj Bank | | **13,333,330** | 13,333,330 |
| 400,000 | 400,000 | Fruit Sap Limited | | **4,000,000** | 4,000,000 |
| 630,000 | 630,000 | Equity International (Pvt) Limited | **9.4.2.1** | **6,000,000** | 6,000,000 |
| 1,125,000 | 1,125,000 | Taurus Securities Limited | | **11,250,000** | 11,250,000 |
| 500,000 | 500,000 | Highnoon Textiles Limited | | **5,000,000** | 5,000,000 |
| 1,500,000 | 1,500,000 | Wah Nobel Acetates Limited | | **15,000,000** | 15,000,000 |
| 5,000,000 | 5,000,000 | Pakistan Textile City Limited | | **50,000,000** | 50,000,000 |
| 5,000,000 | 5,000,000 | Alhamra Hills Private Limited | | **50,000,000** | 50,000,000 |
| 5,714,285 | 5,714,285 | Vision Network Television | | **100,000,000** | 100,000,000 |
| 4,000,000 | 4,000,000 | Pak Kuwait Takaful Company | **9.4.2.1** | **40,000,000** | 40,000,000 |
| 5,000,000 | 5,000,000 | Al Hamra Avenue Private Limited | | **50,000,000** | 50,000,000 |
| 27,000,000 | 27,000,000 | Pace Barka Properties Limited | | **270,000,000** | 270,000,000 |
| 3,762,304 | 3,762,304 | Innovative Investment Bank Limited | | **37,623,048** | 37,623,048 |
| 2,000,000 | 2,000,000 | Trust Investment Bank Limited | | **20,000,000** | 20,000,000 |
| | | | | **694,416,378** | 694,416,378 |

**9.4.2.1** Details of investment in unlisted companies having 10% and more of paid-up capital of investee company are as follows:

| Name of the Company | Name of the Chief Executive | As per Accounts | %age Held | breakup Value of Investment | Total Rupees |
|---|---|---|---|---|---|
| Pak Kuwait Takaful Company | Mr. Imtiaz Bhatti | 31-Dec-10 | **10.00** | 11.71 | 40,000,000 |
| Equity International (Pvt) Limited* | Mr. Robert Micheal | 30-Jun-11 | **20.00** | 1.32 | 6,000,000 |

*This does not include value of bonus shares amounting to Rs. 300,000

**9.4.3 Investment in Term Finance Certificates – listed**

| 2011 Number of ordinary shares | 2010 Number of ordinary shares | Name of the Company | Original face Value (Rs.) | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|---|
| 89,839 | 89,839 | Allied Bank Limited | 5,000 | **448,835,644** | 449,015,322 |
| 30,000 | 30,000 | Azgard Nine Limited | 5,000 | **124,898,600** | 124,898,600 |
| 6,313 | 6,313 | Askari Commercial Bank Limited | 4,989 | **31,482,931** | 31,495,557 |
| 16,159 | 16,159 | Bank Alfalah Limited | 5,000 | **53,720,915** | 80,608,845 |
| 39,780 | 39,780 | Engro Corporation Pakistan Limited | 5,000 | **198,900,000** | 198,900,000 |
| 7,000 | 7,000 | Jahangir Siddiqui and Company Limited | 5,000 | **17,468,500** | 34,944,000 |
| 31,125 | 31,125 | Maple Leaf Cement (Sukuk) Limited | 5,000 | **149,745,000** | 149,872,500 |
| - | 20,000 | Standard Chartered Bank Limited | - | **-** | 25,000,000 |
| 2,000 | 2,000 | Trust Investment Bank Limited | 5,000 | **4,998,000** | 7,497,000 |
| 10,000 | 10,000 | World Call Telecom Limited | 5,000 | **28,554,287** | 42,831,429 |
| | | | | **1,058,603,877** | 1,145,063,253 |

**9.4.3.1** These carry rate of return ranging from 13.11% to 15% per annum (2010: 10.75% to 15.79% per annum) and having maturity upto 9 years.

**9.4.4 Investment in Term Finance Certificates – unlisted**

| 2011 Number of ordinary shares | 2010 Number of ordinary shares | Company's name | Name of Chief Executive | Value per certificate (Rupees) | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|---|---|
| 40,000 | 40,000 | Avari Hotels Limited | Mr. Byram D. Avari | 5,000 | **169,829,200** | 169,829,200 |
| 18,000 | 18,000 | Amtex Limited (Sukuk) | Mr. Khurram Iftikhar | 5,000 | **67,500,000** | 67,500,000 |
| 10,000 | 10,000 | B.R.R Guardian Modaraba | Mr. Ayaz Dawood | 5,000 | **49,218,750** | 50,000,000 |
| 5,000 | 5,000 | Gharibwal Cement Limited | Mr. Muhammad Tausif | 5,000 | **24,355,500** | 24,980,000 |
| 10,000 | 10,000 | JDW Sugar Mills Limited | Mr. Jahangir Tareen | 5,000 | **27,777,780** | 38,888,890 |
| 10,000 | 10,000 | Martin Dow Pharmaceuticals | Mr. Jawed Akhai | 5,000 | **33,120,000** | 50,000,000 |
| 10,000 | 10,000 | Faysal Bank Limited(RBS) | Mr. Naveed A. Khan | 5,000 | **24,950,000** | 37,430,000 |
| 57,263 | 50,000 | Pak American Fertilizer Ltd | Mr. Ahmed Bilal | 5,000 | **286,286,697** | 244,000,000 |
| 11,273 | 11,273 | Sitara Energy (Sukuk) | Mr. Javed Iqbal | 5,000 | **42,272,727** | 49,318,182 |
| - | 5,000 | SME Leasing Limited | Mrs. Arjumand A. Qazi | - | **-** | 6,250,003 |
| 8,000 | - | Flying Board & Paper Products | Mr. Kamran Khan | 5,000 | **40,000,000** | - |
| 30,000 | 30,000 | Sitara Peroxide Limited | Mr. Imran Ghafoor | 5,000 | **140,625,000** | 140,625,000 |
| | | | | | **905,935,654** | 878,821,275 |

**9.4.4.1** These carry rate of return ranging from 12.12% to 15.67% (2010: 13.38% to 16.48%) per annum and having maturity of upto 9 years.

**9.4.5 Principal terms of investments in Federal Government securities**

| Name of investment | Maturity period | Principal | Rate | Coupon payment |
|---|---|---|---|---|
| Pakistan Investment Bonds | October 2012 to July 2015 | On maturity | 8% to 13.5% | Semi-annually |
| Market Treasury Bills | January 2012 to October 2012 | On maturity | 11.76% to 13.78% | On maturity |

### 9.4.6 Investments in mutual funds

| Name of investee | 2011 | 2010 | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|---|
| | Number of units | | | | |
| AKD Opportunity Fund | **-** | 2,894,665 | | **-** | 87,227,378 |
| Atlas Money Market Fund | **52,881** | - | | **25,382,100** | - |
| CDC Trustee NIT Government Bond Fund | **-** | 2,662,533 | | **-** | 25,000,000 |
| CDC Trustee Askari Sovereign Cash Fund | **-** | 267,385 | | **-** | 25,000,000 |
| CDC Trustee Lakson Money Market Fund | **-** | 106,048 | | **-** | 10,000,000 |
| CDC Trustee Faysal Saving Growth Fund | **-** | 97,580 | | **-** | 10,000,000 |
| CDC Trustee Atlas Money Market Fund | **-** | 20,594 | | **-** | 10,000,000 |
| CDC Trustee HBL Money Market Fund | **-** | 102,258 | | **-** | 10,000,000 |
| Faysal Balance Growth Fund | **-** | 100,000 | | **-** | 9,660,145 |
| Faysal Money Market Fund | **-** | 500,000 | | **-** | 50,000,000 |
| JS Large Capital Fund | **-** | 500,000 | | **-** | 23,700,000 |
| MCB Cash Management Optimizeer Fund | | 258,356 | | | 25,000,000 |
| NAFA – Financial Sector Income Fund | **9,939,784** | - | | **100,000,000** | - |
| National Investment Trust | **-** | 2,316,300 | | **-** | 74,750,000 |
| Pak Oman Advantage Fund | **5,000,000** | 5,000,000 | | **50,000,000** | 50,000,000 |
| UBL Liquidity Plus Fund | | 526,782 | | | 50,000,000 |
| | | | | **175,382,100** | 460,337,523 |

### 9.5 Provision for diminution in value of investments

| | Note | 2011 | 2010 |
|---|---|---|---|
| Opening balance | | **1,085,084,638** | 1,412,911,444 |
| Charge for the year | | **1,020,358,598** | 129,262,687 |
| Reversals | | **(292,743,819)** | (457,089,493) |
| Written off | | **-** | - |
| Closing balance | 9.5.1 | **1,812,699,417** | 1,085,084,638 |

### 9.5.1 Particulars of provision in respect of type and segments

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Available-For-Sale (AFS) securities** | | | |
| Impairment on quoted securities | | **1,415,775,694** | 773,735,005 |
| Un-quoted securities | | **342,702,192** | 252,619,633 |
| **Held-To-Maturity (HTM) securities** | | | |
| term Finance Certificates (TFCs) | | **54,221,531** | 58,730,000 |
| | | **1,812,699,417** | 1,085,084,638 |
| **9.6 Unrealized gain on revaluation of investments classified as held for trading** | 9.4 | **-** | 780,981 |

**9.7 Quality of available for sale securities**

**(a) Quoted Securities**
**Companies**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Rating** | **Market value Rupees** | Rating | Market value Rupees |
| Askari Commercial Bank Limited | **AA/A1+** | **10.03** | AA | 17.69 |
| Agritech Limited | **D** | **15.36** | SD | 23.90 |
| Summit Bank Limited (Formerly Arif Habib Bank) | **A/A-2** | **1.72** | A | 3.81 |
| Attock Petroleum Limited | **-** | **-** | unrated | 334.52 |
| Attock Cement Limited | **unrated** | **51.00** | unrated | 63.11 |
| Azgard Nine Limited | **D** | **2.85** | SD | 9.66 |
| Arif Habib Corporation Limited | **unrated** | **25.91** | A+/A1 | 24.89 |
| Bank Afalah Limited | **AA/A-1+** | **11.25** | AA | 11.21 |
| Bank of Khyber Limited | **-** | **-** | A-/A2 | 4.30 |
| Byco Petroleum Pakistan Limited | **-** | **-** | unrated | 11.27 |
| Bank Islami Pakistan Limited | **A/A1** | **3.10** | A | 3.63 |
| Chenab Limited | **unrated** | **1.01** | unrated | 3.12 |
| Cresent Steel and Allied Limited | **unrated** | **18.15** | unrated | 27.51 |
| DG Khan Cement Limited | **-** | **-** | unrated | 30.17 |
| Dewan Cement Limited | **Withdrawn** | **1.25** | D | 2.24 |
| Dewan Farooq Motors Limited | **unrated** | **1.61** | unrated | 2.28 |
| Dewan Salman Fibre Limited | **unrated** | **1.21** | unrated | 2.99 |
| Descon Oxychem Limited | **-** | **-** | unrated | 8.16 |
| Fauji Cement Limited | **unrated** | **3.30** | unrated | 5.02 |
| Fecto Cement Limited | **unrated** | **3.90** | unrated | 7.25 |
| FFC Bin Qasim Limited | **unrated** | **42.43** | unrated | 35.73 |
| Fauji Fertilizer Limited | **unrated** | **149.54** | unrated | 125.86 |
| First Credit and Investment Bank Limited | **-** | **-** | A- | 3.26 |
| Hub Power Company Limited | **-** | **-** | AA+ | 37.41 |
| Jahangir Siddique and Company Limited | **AA/A1+** | **4.03** | AA | 10.90 |
| Japan Power Generation Limited | **unrated** | **0.65** | unrated | 1.69 |
| Kot Addu Power Company Limited | **AA+/A-1+** | **41.32** | unrated | 40.68 |
| Maple Leaf Cement Limited | **D** | **1.85** | BB | 2.87 |
| Mari Gas Limited | **unrated** | **81.00** | unrated | 124.97 |
| My bank Limited | **-** | **-** | A- | 2.81 |
| National Bank of Pakistan Limited | **AAA/A1+** | **41.05** | AAA/A1+ | 76.82 |
| Nishat Chunian Limited | **-** | **-** | A/A-2 | 22.72 |
| Nishat Mills Limited | **-** | **-** | A+/A1 | 64.17 |
| Nishat Power Limited | **AA-/A1+** | **12.95** | AA-/A1+ | 16.23 |
| Nishat Chunian Power Limited | **AA-/A1+** | **12.75** | AA-/A1+ | 16.09 |
| NIB Bank Limited | **AA-/A1+** | **1.73** | AA-/A1+ | 2.95 |
| Pakistan Telecommunication Company Limited | **unrated** | **10.39** | unrated | 19.42 |
| Pakistan Petroleum Limited | **unrated** | **168.32** | unrated | 217.15 |
| Pakistan State Oil Limited | **AA+/A1+** | **227.21** | AA+/A1+ | 295.18 |
| Lafarge Pakistan Cement Limited | **unrated** | **1.88** | unrated | 3.21 |
| Pace Pakistan Limited | **D** | **1.30** | A/A1 | 2.73 |
| Packages Limited | **AA/A1+** | **82.72** | AA/A1+ | 128.61 |
| Pak Reinsurance Limited | **AA** | **15.50** | unrated | 16.25 |
| Pak Refinery Limited | **unrated** | **67.71** | unrated | 107.72 |
| Pak Elektron limited | **A-/A2** | **3.49** | A/A1 | 14.04 |
| PNSC | **AA-/A1+** | **12.71** | AA-/A1+ | 37.95 |
| Sitara Chemicals Limited | **A+/A1** | **72.20** | AA-/A1 | 127.75 |
| Sui Northern Gas Company Limited | **AA/A1+** | **15.71** | AA/A1+ | 26.74 |
| Security Papers Limited | **AAA/A1+** | **35.40** | AAA/A1+ | 44.86 |
| Samba Bank Limited | **A+/A1** | **1.45** | A/A1 | 1.96 |
| Samin Textile Limited | **unrated** | **4.05** | unrated | 6.10 |
| Sitara Peroxide Limited | **-** | **-** | unrated | 13.25 |
| Saudi Pak Leasing Company Limited | **unrated** | **0.48** | D | 0.55 |
| Shell Pakistan Limited | **unrated** | **190.28** | unrated | 208.22 |
| Telecard Company Limited | **D** | **0.80** | BBB | 2.21 |
| World Call Telecomm Limited | **BBB-/A3** | **1.00** | A-/A2 | 2.90 |

**(b) Mutual Funds Companies**

| | 2011 Rating | 2011 Market value Rupees | 2010 Rating | 2010 Market value Rupees |
|---|---|---|---|---|
| AKD Opportunity Fund | - | - | 3-Star | 31.70 |
| CDC Trustee Askari Sovereign Cash Fund | - | - | AA+ | 104.46 |
| CDC - Trustee NIT Govt. Bond Fund | - | - | unrated | 10.52 |
| CDC - Trustee Lakson Money Market Fund | - | - | AA | 100.06 |
| CDC - Trustee Faysal Saving Growth Fund | - | - | A | 105.15 |
| CDC - Trustee Atlas Money Market Fund | - | - | AA+ | 515.50 |
| CDC - Trustee HBL Money Market Fund | - | - | AA+ | 102.92 |
| Faysal Money Market Fund - Growth Units | - | - | AA+ | 100.53 |
| Faysal Balance Growth Fund | - | - | 4-Star | 76.12 |
| JS Large Capital fund | - | - | unrated | 65.15 |
| National Investment Trust | - | - | 3-Star | 31.42 |
| NAFA - Financial Sector Income Fund | **AM 2-** | **10.21** | - | - |
| Pak Oman Advantage Fund | **3-Star** | **10.85** | AA- | 10.49 |

| **10 ADVANCES** | **Note** | **2011 Rupees** | 2010 Rupees |
|---|---|---|---|
| – In Pakistan | | **8,026,639,408** | 8,894,749,062 |
| – Outside Pakistan | | **-** | - |
| | | **8,026,639,408** | 8,894,749,062 |
| Net investment in finance lease | | | |
| – In Pakistan | **10.2** | **2,843,998,212** | 3,236,248,995 |
| – Outside Pakistan | | **-** | - |
| | | **2,843,998,212** | 3,236,248,995 |
| Bills discounted and purchased | | **-** | - |
| Advances – gross | **10.1** | **10,870,637,620** | 12,130,998,057 |
| Provision for non-performing advances | **10.1.6** | **(2,315,164,814)** | (1,896,800,692) |
| Provision for non-performing lease finance | **10.2.3** | **(1,162,196,727)** | (877,148,250) |
| Advances – net of provision | | **7,393,276,079** | 9,357,049,115 |

**10.1 Particulars of advances - gross**

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| **10.1.1** | – In local currency | | 10,833,409,832 | 12,075,583,112 |
| | – In foreign currencies | | 37,227,788 | 55,414,945 |
| | | | 10,870,637,620 | 12,130,998,057 |
| **10.1.2** | Long term advances (for over one year) | **10.1.3** | 7,753,747,012 | 8,399,711,216 |
| | Short term advances (for upto one year) | **10.1.4** | 3,097,350,525 | 3,716,788,923 |
| | Staff advances | | 19,540,083 | 14,417,918 |
| | | | 10,870,637,620 | 12,130,998,057 |

**10.1.3** These includes advances which are secured by charges created over assets of the beneficiary companies and carry mark-up rates ranging from 7.00% to 17.88% per annum (2010: 7.00% to 17.88% per annum). These also include term loans due from customers secured against property and equipments etc. as also mentioned in note 10.2.2.1 below

**10.1.4** These are maturing within next twelve months and carry mark-up rates ranging from 14.00% to 18.18% per annum (2010: 14.00% to 18.18% per annum). These are secured by pledge of quoted shares, stocks and charge on receivable etc.

**10.1.5** Advances include Rs. 3,006,984,979 (2010: Rs. 2,828,881,993) which have been placed under non-performing status as detailed below:-

| Category of classification | 2011 Classified advances Rupees | 2011 Provision required Rupees | 2011 Provision held Rupees |
|---|---|---|---|
| Substandard | **175,529,000** | **55,000,000** | **55,000,000** |
| Doubtful | **119,325,341** | **41,805,528** | **41,805,528** |
| Loss | **2,712,130,638** | **2,218,359,286** | **2,218,359,286** |
| | **3,006,984,979** | **2,315,164,814** | **2,315,164,814** |

| Category of classification | 2010 Classified advances Rupees | 2010 Provision required Rupees | 2010 Provision held Rupees |
|---|---|---|---|
| Substandard | 317,031,245 | 63,796,812 | 63,796,812 |
| Doubtful | 152,281,399 | 19,159,531 | 19,159,531 |
| Loss | 2,359,569,349 | 1,813,844,349 | 1,813,844,349 |
| | 2,828,881,993 | 1,896,800,692 | 1896,800,692 |

**10.1.6 Particulars of provisions against non-performing advances**

| | **2011 Rupees Specific** | 2010 Rupees **Specific** |
|---|---|---|
| Opening balance | **1,896,800,692** | 1,853,177,832 |
| Charge for the year | **633,099,494** | 295,879,517 |
| Reversals | **(214,735,372)** | (252,256,657) |
| Closing balance | **2,315,164,814** | 1,896,800,692 |

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

The State Bank of Pakistan amended the Prudential Regulations vide BSD Circular No. 1 of 2011 dated October 21, 2011 in relation to provision for loans and advances, thereby allowing further benefit of Forced Sale Value (FSV) of pledged stocks, mortgaged residential, commercial and industrial properties (land and building only) and plant and machinery under charge held as collateral against non–performing advances. The FSV benefit has resulted in reduced charge for specific provision for the year by Rs. 309.881 million. The FSV benefit recognised in these consolidated financial statements is not available for payment of cash or stock dividend. Had the FSV benefit not recognised, loss before and after tax for the year would have been higher by Rs. 309.881 million. As on December 31, 2011, total FSV benefit availed by the holding Company stands at Rs. 406.743 million (2010: Rs. 568.167 million). Reserves of the Group to this extent are not available for distribution by way of cash or stock dividend.

**10.1.6.2** In addition to above, the provision for non-performing loans in SPLCL is net of the forced sales values (FSVs) of leased assets / collaterals of Rs. 684.365 million considered by SPLCL for the purpose of determination of provision requirements. Had this benefit of FSVs not been taking by SPLCL specific provision against non-performing would have been higher by Rs. 539.720 million and SPLCL accumulated losses (before tax, if any) would also have been higher by the same amount.

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **10.1.7 Particulars of write offs:** | | | |
| Against provisions | | - | - |
| Directly charged to the consolidated profit and loss account | | 13,069,507 | 8,181,908 |
| | | 13,069,507 | 8,181,908 |
| **10.1.8 Particulars of amounts written off against provisions** | | | |
| Write offs of Rs. 500,000 and above | | - | - |
| Write offs of below Rs. 500,000 | | - | - |
| | | - | - |
| **10.2 Net investment in finance lease** | | | |
| Minimum lease payments receivables | | 2,327,585,921 | 2,655,719,315 |
| Add: Residual value of leased assets | | 713,390,221 | 892,564,243 |
| | | 3,040,976,142 | 3,548,283,558 |
| Less: Unearned finance income | | (196,977,930) | (312,034,563) |
| Present value of minimum lease payments | 10.2.1 | 2,843,998,212 | 3,236,248,995 |
| Less: Provision for potential lease losses | 10.2.2 | (1,162,196,727) | (877,148,250) |
| Net investment in lease | | 1,681,801,485 | 2,359,100,745 |

**10.2.1 Present value of minimum lease payments**

| | 2011 | | |
|---|---|---|---|
| | Less than one year Rupees | One year to five year Rupees | Total Rupees |
| Lease rental receivable | 2,834,479,711 | 159,872,784 | 2,994,352,495 |
| Less: Unearned finance income | (130,588,607) | (19,765,676) | (150,354,283) |
| Present value of minimum lease payments | 2,703,891,104 | 140,107,108 | 2,843,998,212 |

| | 2010 | | |
|---|---|---|---|
| | Less than one year Rupees | One year to five year Rupees | Total Rupees |
| Lease rental receivable | 1,649,078,456 | 1,899,205,102 | 3,548,283,558 |
| Less: Unearned finance income | (58,661,779) | (253,372,784) | (312,034,563) |
| Present value of minimum lease payments | 1,590,416,677 | 1,645,832,318 | 3,236,248,995 |

**10.2.2** Investment in lease finance includes Rs. 1,176.519 million (2010: Rs. 900.753 million) which has been placed under non-performing status as detailed below:-

| Category of classification | 2011 Classified advance Rupees | 2011 Specific provision required Rupees | 2011 Specific provision held Rupees |
|---|---|---|---|
| Substandard | **28,645,418** | **14,322,709** | **14,322,709** |
| Doubtful | **-** | **-** | **-** |
| Loss | **1,147,874,018** | **1,147,874,018** | **1,147,874,018** |
| | **1,176,519,436** | **1,162,196,727** | **1,162,196,727** |

| | 2010 Classified advance Rupees | 2010 Specific provision required Rupees | 2010 Specific provision held Rupees |
|---|---|---|---|
| Substandard | 31,473,350 | 7,868,438 | 7,868,438 |
| Doubtful | - | - | - |
| Loss | 869,279,912 | 869,279,912 | 869,279,912 |
| | 900,753,262 | 877,148,350 | 877,148,350 |

**10.2.2.1** These above term loans include balances due from customers which are secured against property and equipments etc. The rate of return on these loans ranges from 18% to 24% (2010: 17% to 19.75%) per annum. The internal rate of return on lease contract receivable ranges from 6.01% to 25.96% per annum (2010: 8.5% to 25.96% per annum).

**10.2.2.2** As per NBFC Regulation 28(a), a leasing company undertaking the business of lease only, shall invest at least 70% of its assets in the business of leasing. As at 31 December 2011 the SPLCL's investment in lease assets were 65% of the total assets (less allowable deduction).

**10.2.3 Particulars of provisions against non-performing lease finance**

| | **2011 Rupees** | 2010 Rupees |
|---|---|---|
| | **Specific** | Specific |
| Opening balance | **877,148,350** | 769,802,118 |
| Charge for the year | **294,837,898** | 111,995,869 |
| Amounts written off | **-** | - |
| Reversals | **(9,789,521)** | (4,649,637) |
| Closing balance | **1,162,196,727** | 877,148,350 |

**10.2.3.1** The above provision for non-performing lease finance is net of forced sales value (FSVs) of collaterals of Rs. 181.366 million considered by SPLCL for the purpose of determination of provision requirements. Had this benefit of FSVs not been taken by the SPLCL, the specific provisions against non-performing loans would have been higher by Rs. 145.145 million and the SPLCL's accumulated loss (before taxation, if any) would also have been higher by the same amount.

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| **10.2.4** | **Particulars of amounts written off against provisions** | | | |
| | Write offs of Rs. 500,000 and above | | - | - |
| | Write offs of below Rs. 500,000 | | - | - |
| | | | - | - |
| **10.3** | **Particulars of loans and advances to directors and associated companies etc.** | | | |
| | Debts due by directors, executives or officers of the Group or any of them either severally or jointly with any other persons | | 19,540,083 | 14,497,918 |
| | Debts due by companies or firms in which the directors of the Group are interested as directors, partners | | - | - |
| | Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties | | - | - |
| **11** | **OPERATING FIXED ASSETS** | | | |
| | Capital work-in-progress | | - | - |
| | Property and equipment | 11.1 | 2,316,609,971 | 2,443,390,511 |
| | Intangible assets | 11.2 | 5,236,103 | 4,895,183 |
| | | | 2,321,846,074 | 2,448,285,694 |

## 11.1 Property and equipment

| | 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | COST/REVALUATION | | | | | DEPRECIATION | | | | |
| | Opening balance | Additions/ Transfers | Disposals / Transfers | Closing balance | Rate % | Opening balance | For the year | Disposals | Closing balance | Net Book value |
| | Rupees | Rupees | Rupees | Rupees | | Rupees | Rupees | Rupees | Rupees | Rupees |
| Freehold land | 8,088,120 | - | - | 8,088,120 | - | - | - | - | - | 8,088,120 |
| Leasehold land - Islamabad | 1,018,225,001 | - | - | 1,018,225,001 | 1.19 | 54,525,947 | 12,116,877 | - | 66,642,824 | 951,582,177 |
| Building - Islamabad | 1,311,700,357 | 32,130 | - | 1,311,732,487 | 4 | 235,092,454 | 52,468,970 | - | 287,561,424 | 1,024,171,063 |
| Building | 235,762,975 | 75,625,864 | 89,432,183 | 221,956,656 | 4 | 36,041,131 | 8,868,089 | 354,045 | 44,555,175 | 177,401,481 |
| Heating and air-conditioning | 92,929,728 | - | - | 92,929,728 | 15 | 61,351,399 | 13,842,042 | - | 75,193,441 | 17,736,287 |
| Elevators | 41,000,000 | 2,664,310 | - | 43,664,310 | 15 | 27,674,970 | 6,483,032 | - | 34,158,002 | 9,506,308 |
| Electrical fittings | 74,371,533 | - | - | 74,371,533 | 15 | 43,129,774 | 11,155,689 | - | 54,285,463 | 20,086,070 |
| Fire fighting equipment | 2,310,536 | - | 80,472 | 2,230,064 | 15 | 1,501,924 | 344,529 | 64,372 | 1,782,081 | 447,983 |
| Leasehold improvement | 6,273,168 | 160,256 | 130,585 | 6,302,839 | 15 | 1,337,197 | 957,736 | 55,231 | 2,239,702 | 4,063,137 |
| Motor vehicles | 92,473,661 | 15,763,315 | 18,357,423 | 89,879,553 | 20 | 59,887,658 | 12,763,176 | 13,740,761 | 58,910,073 | 30,969,480 |
| Furniture, fixture and fittings | 23,912,053 | 1,610,777 | 464,693 | 25,058,137 | 20 | 20,969,941 | 883,997 | 389,671 | 21,464,267 | 3,593,870 |
| Office equipment | 67,964,746 | 5,080,402 | 2,339,705 | 70,705,443 | 33.33 | 57,664,256 | 6,222,847 | 1,970,678 | 61,916,425 | 8,789,018 |
| Telephone installation | 2,334,911 | 65,527 | - | 2,400,438 | 15 | 1,631,076 | 314,092 | - | 1,945,168 | 455,270 |
| Electrical appliances | 1,988,702 | 64,000 | - | 2,052,702 | 15 | 880,508 | 233,126 | - | 1,113,634 | 939,068 |
| Loose tools | 1,170,325 | - | - | 1,170,325 | 15 | 309,536 | 144,524 | - | 454,060 | 716,265 |
| Miscellaneous | 1,063,393 | 17,980 | 237,804 | 843,569 | 15 | 1,007,295 | 16,948 | 237,801 | 786,442 | 57,127 |
| Security systems | 10,984,666 | 1,800,547 | - | 12,785,213 | 15 | 4,126,763 | 1,771,808 | - | 5,898,571 | 6,886,642 |
| Leasehold Plant and Machinery | 121,597,135 | 4,000,000 | 14,535,000 | 111,062,135 | | 63,628,670 | 8,724,985 | 12,412,125 | 59,941,530 | 51,120,605 |
| | 3,114,151,010 | 106,885,108 | 125,577,865 | 3,095,458,253 | | 670,760,499 | 137,312,467 | 29,224,684 | 778,848,282 | 2,316,609,971 |

## 11.2 Intangible assets

| | 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | COST/REVALUATION | | | | | AMORTIZATION | | | | |
| | Opening balance | Additions | Disposals | Closing balance | Rate % | Opening balance | For the year | Disposals | Closing balance | Net Book value |
| | Rupees | Rupees | Rupees | Rupees | | Rupees | Rupees | Rupees | Rupees | Rupees |
| Software and others | 16,148,618 | 2,977,000 | - | 19,125,618 | 33.33 | 11,253,435 | 2,636,080 | - | 13,889,515 | 5,236,103 |

## 11.1 Property and equipment (continued)

| | 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | COST/REVALUATION | | | | | DEPRECIATION | | | | |
| | Opening balance | Additions/ transfers | Disposals/ transfers | Closing balance | Rate % | Opening balance | For the year | Disposals | Closing balance | Net Book value |
| | Rupees | Rupees | Rupees | Rupees | | Rupees | Rupees | Rupees | Rupees | Rupees |
| Freehold land | 8,088,120 | - | - | 8,088,120 | - | - | - | - | - | 8,088,120 |
| Leasehold land - Islamabad | 1,018,225,001 | - | - | 1,018,225,001 | 1.19 | 42,409,070 | 12,116,877 | - | 54,525,947 | 963,699,054 |
| Building - Islamabad | 1,311,700,357 | - | - | 1,311,700,357 | 4 | 182,624,447 | 52,468,007 | - | 235,092,454 | 1,076,607,903 |
| Building | 227,596,431 | 89,167,448 | 81,000,904 | 235,762,975 | 4 | 28,857,452 | 7,183,679 | - | 36,041,131 | 199,721,844 |
| Heating and air-conditioning | 93,033,323 | - | 103,595 | 92,929,728 | 15 | 48,003,740 | 13,407,340 | 59,681 | 61,351,399 | 31,578,329 |
| Elevators | 41,000,000 | - | - | 41,000,000 | 15 | 21,524,976 | 6,149,994 | - | 27,674,970 | 13,325,030 |
| Electrical fittings | 74,371,533 | - | - | 74,371,533 | 15 | 31,974,085 | 11,155,689 | - | 43,129,774 | 31,241,759 |
| Fire fighting equipment | 2,316,875 | - | 6,339 | 2,310,536 | 15 | 1,158,708 | 346,541 | 3,325 | 1,501,924 | 808,612 |
| Leasehold improvement | 5,865,053 | 408,115 | - | 6,273,168 | 15 | 397,301 | 939,896 | - | 1,337,197 | 4,935,971 |
| Motor vehicles | 100,742,404 | 781,397 | 9,050,140 | 92,473,661 | 20 | 54,656,032 | 11,577,742 | 6,346,116 | 59,887,658 | 32,586,003 |
| Furniture, fixture and fittings | 24,262,594 | 155,910 | 506,451 | 23,912,053 | 20 | 20,192,472 | 1,195,553 | 418,084 | 20,969,941 | 2,942,112 |
| Office equipment | 65,759,265 | 3,744,973 | 1,539,492 | 67,964,746 | 33.33 | 51,304,455 | 7,838,500 | 1,478,699 | 57,664,256 | 10,300,490 |
| Telephone installation | 2,334,911 | - | - | 2,334,911 | 15 | 1,318,596 | 312,480 | - | 1,631,076 | 703,835 |
| Electrical appliances | 1,311,027 | 686,250 | 8,575 | 1,988,702 | 15 | 697,306 | 191,775 | 8,573 | 880,508 | 1,108,194 |
| Loose tools | 310,125 | 890,200 | 30,000 | 1,170,325 | 15 | 242,575 | 96,951 | 29,990 | 309,536 | 860,789 |
| Miscellaneous | 998,593 | 64,800 | - | 1,063,393 | 15 | 975,068 | 32,227 | - | 1,007,295 | 56,098 |
| Security systems | 10,274,956 | 709,710 | - | 10,984,666 | 15 | 2,499,706 | 1,627,057 | - | 4,126,763 | 6,857,903 |
| Leasehold Vehicles | 2,132,000 | - | 2,132,000 | - | | 690,048 | - | 690,048 | - | - |
| Leasehold Plant and Machinery | 119,467,135 | 2,130,000 | - | 121,597,135 | | 47,936,257 | 15,692,413 | - | 63,628,670 | 57,968,465 |
| | 3,109,789,703 | 98,738,803 | 94,377,496 | 3,114,151,010 | | 537,462,294 | 142,332,721 | 9,034,516 | 670,760,499 | 2,443,390,511 |

## 11.2 Intangible assets (continued)

| | 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | COST/REVALUATION | | | | | AMORTIZATION | | | | |
| | Opening balance | Additions | Disposals | Closing balance | Rate % | Opening balance | For the year | Disposals | Closing balance | Net Book value |
| | Rupees | Rupees | Rupees | Rupees | | Rupees | Rupees | Rupees | Rupees | Rupees |
| Software | 12,814,036 | 3,334,582 | - | 16,148,618 | 33.33 | 9,075,334 | 2,178,101 | - | 11,253,435 | 4,895,183 |

## 11.3 Details of disposal / transfers of operating fixed assets

| Particulars of assets | Cost / revaluation | Accumulated Depreciation | Book value | Surplus | Sale proceeds | Gain / (loss) | Mode of disposal | Particulars of buyer |
|---|---|---|---|---|---|---|---|---|
| | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | | |
| Canon Fax machine L-300 | 62,100 | 62,099 | 1 | - | 2,000 | 1,999 | Auction | Muhammad Aslam |
| Canon Plan paper copier model NP-7210 | 114,180 | 114,179 | 1 | - | 6,000 | 5,999 | Auction | Muhammad Aslam |
| UPS Sola (310) VA | 7,000 | 6,999 | 1 | - | 700 | 699 | Auction | Muhammad Aslam |
| UPS apc smar 1250 VA | 32,923 | 32,922 | 1 | - | 2,000 | 1,999 | Auction | Muhammad Aslam |
| Tulip Action Lone CP (7 Nos) | 436,506 | 436,499 | 7 | - | 14,000 | 13,993 | Auction | Muhammad Aslam |
| HP laser Jet 4000 | 77,000 | 76,999 | 1 | - | 2,000 | 1,999 | Auction | Muhammad Aslam |
| HP colour laser jet 2500 printer | 83,500 | 83,499 | 1 | - | 2,000 | 1,999 | Auction | Muhammad Aslam |
| Honda City 1300 cc MD-351 | 870,457 | 609,318 | 261,139 | - | 724,000 | 462,861 | Group Policy | Syed Zulfiqar Hussain |
| Dell Laptop E-6400 | 135,396 | 94,014 | 41,382 | - | 45,143 | 3,761 | Group Policy | Syed Zulfiqar Hussain |
| Dell Laptop E-6400 | 135,396 | 90,254 | 45,142 | - | 45,142 | - | Group Policy | Muhammad Rashid Zahir |
| Gestetner Digital Copier 4502 | 464,085 | 464,083 | 2 | - | 40,000 | 39,998 | Auction | Hascombe Business Solutions |
| Honda City 1300 HT-623 | 793,500 | 793,499 | 1 | - | 500,500 | 500,499 | Group Policy | Muhammad Nayeem Akhtar |
| Honda City 1300 HT-624 | 793,500 | 793,499 | 1 | - | 527,625 | 527,624 | Group Policy | Ms. Fozia Fakhar |
| Dell Laptop E-6400 | 135,396 | 86,493 | 48,903 | - | 61,200 | 12,297 | Auction | Insurance Claim (Saudi Pak Ins) |
| Mitsubishi Lancer JF-437 | 1,011,000 | 1,010,999 | 1 | - | 536,667 | 536,666 | Group Policy | Ms. Parveen A. Malik |
| Mitsubishi Lancer JF-438 | 1,011,000 | 1,010,999 | 1 | - | 571,667 | 571,666 | Group Policy | Arshed Ahmed Khan |
| Toyota Corolla 1300 AMY-251 | 984,850 | 787,880 | 196,970 | - | 750,667 | 553,697 | Group Policy | Muhammad Hussain |
| Mitsubishi Lancer JF-259 | 1,011,000 | 1,010,999 | 1 | - | 856,800 | 856,799 | Auction | Rizwan Mazhar |
| Fire extinguisher 6 kg Blue (2 No.) | 80,472 | 64,372 | 16,100 | 16,100 | 5,000 | 5,000 | Auction | Muhammad Tariq Mahmood |
| H P Laser Jet 3380 printer | 39,750 | 39,749 | 1 | - | 5,000 | 4,999 | Auction | Muhammad Tariq Mahmood |
| Revolving Chairs Low back 4 No./ Imported 15 No. | 72,593 | 72,574 | 19 | - | 10,000 | 9,981 | Auction | Muhammad Tariq Mahmood |
| Revolving chairs imported 2 No. Green | 21,300 | 21,298 | 2 | - | 2,000 | 1,998 | Auction | Muhammad Tariq Mahmood |
| Conference chairs 23 No. Board Room Blue and Pink | 83,950 | 83,927 | 23 | - | 23,000 | 22,977 | Auction | Muhammad Tariq Mahmood |
| Chair Managers/staff/steno (36 No.) | 118,980 | 118,944 | 36 | - | 36,000 | 35,964 | Auction | Muhammad Tariq Mahmood |
| Computer Chairs (2 No.) | 2,800 | 2,798 | 2 | - | 2,000 | 1,998 | Auction | Muhammad Tariq Mahmood |
| Marble Table Octagon | 4,500 | 4,499 | 1 | - | 1,000 | 999 | Auction | Muhammad Tariq Mahmood |
| Table Executive (3 No.) | 19,830 | 19,827 | 3 | - | 4,500 | 4,497 | Auction | Muhammad Tariq Mahmood |
| Modular Table | 3,477 | 3,476 | 1 | - | 1,000 | 999 | Auction | Muhammad Tariq Mahmood |
| Misc. Items BCP site | 130,585 | 55,231 | 75,354 | - | 35,500 | (39,854) | Auction | Muhammad Tariq Mahmood |
| Classic Tier Fountain | 228,654 | 228,652 | 2 | - | 6,000 | 5,998 | Auction | Muhammad Tariq Mahmood |
| Lawn Mover | 9,150 | 9,149 | 1 | - | 2,000 | 1,999 | Auction | Muhammad Tariq Mahmood |
| Suzuki Baleno AJV-497 | 799,040 | 468,219 | 330,821 | - | 600,000 | 269,179 | Negotiation | Mr. Sami ud Din |
| Mitsubishi Lancer AHG-113 | 1,045,525 | 666,121 | 379,404 | - | 700,000 | 320,596 | Negotiation | Mr. Sami ud Din |
| Pak Hero Motorcycle LZT-9179 | 38,750 | 22,269 | 16,481 | - | 27,750 | 11,269 | Negotiation | Mr. Rana Abdul Qayyum |
| Chairs and tables | 137,263 | 62,328 | 74,935 | - | 74,935 | - | Negotiation | Various |
| Office improvements | 921,535 | 354,045 | 567,490 | - | 567,490 | - | Negotiation | Various |
| Computers, printers etc. | 41,500 | 26,910 | 14,590 | - | 14,590 | - | Negotiation | Various |
| Generators, UPS, Mobile phones | 574,973 | 355,979 | 218,994 | - | 249,252 | 30,258 | Negotiation | Various |
| Vehicle | 1,335,365 | 558,311 | 777,054 | - | 131,936 | (645,118) | Group Policy | Ahmed Kamal |
| Vehicles | 8,663,436 | 6,008,648 | 2,654,788 | - | 1,005,683 | (1,649,105) | Group Policy/ Negotiation | Various |
| Generators | 14,535,000 | 12,412,125 | 2,122,875 | - | 5,645,000 | 3,522,125 | Group Policy/ Negotiation | Various |
| | 37,067,217 | 29,224,684 | 7,842,533 | 16,100 | 13,837,747 | 6,011,314 | | |

**11.4 Depreciation / Amortization for the year has been allocated as follows:**

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Rental income | 28.1 | **99,103,413** | 98,669,116 |
| Administrative and management expenses | 29 | **40,845,134** | 45,841,706 |
| | | **139,948,547** | 144,510,822 |

**11.5 The cost / revalued amount of fully depreciated assets that are still in use:**

| | 2011 | 2010 |
|---|---|---|
| Furniture, fixture and fittings, electrical fittings, office equipment and computer equipment | **45,784,526** | 36,005,008 |
| Vehicles | **10,504,422** | 11,055,913 |
| Loose tools | **215,330** | 206,440 |
| | **56,504,278** | 47,267,361 |

**11.6** The Company's leasehold land, buildings and certain other items of property and equipments were revalued by independent professional valuer M/s National Project Managers (Pvt) Limited on June 20, 2006 on the basis of their professional assessment of present market value. The revaluation has resulted in increasing the surplus on revaluation of fixed assets by Rs. 2,410,485,676. Further, as at December 31, 2009, an assessment of land and building was also conducted by an independent professional valuers M/s National Project Managers (Pvt) Limited. The fair value determined by the valuer was not materially different from the carrying value of the assets. Therefore, no adjustment had been made in the books of accounts in 2009.
In addition to above, the properties of SPLCL amounted to Rs. 15,878,830 were also revalued as on September 28, 2008. The revaluation was carried out by an independent valuer, Messer Tracom (Private) Limited. On the basis of professional assessment of present market values and resulted in surplus of Rs. 33,769,445, over the written down value.

**11.7 Had the revaluation not been carried out, the net book value of the revalued assets would have been as follows:**

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Land | | **1,059,613** | 1,073,105 |
| Office premises | | **13,452,499** | 14,167,892 |
| Building and other assets | | **104,226,907** | 186,103,270 |
| Properties of SPLCL | | **13,452,499** | 14,167,892 |
| | | **132,191,518** | 215,512,159 |

**12 OTHER ASSETS**

| | Note | 2011 | 2010 |
|---|---|---|---|
| Accrued income and receivables | 12.1 | **550,795,709** | 665,076,976 |
| Advances, deposits, prepayments and other receivables | 12.2 | **1,329,943,717** | 1,465,439,563 |
| | | **1,880,739,426** | 2,130,516,539 |

**12.1 Accrued income and receivables**

| | Note | 2011 | 2010 |
|---|---|---|---|
| Accrued income from advances | 12.1.1 | **205,626,007** | 319,582,159 |
| Accrued income from investments | 12.1.2 | **125,713,273** | 149,495,719 |
| Accrued income from lendings to financial institutions | | **400,919** | 4,621,166 |
| Other receivables | 12.1.3 | **219,055,510** | 191,377,932 |
| | | **550,795,709** | 665,076,976 |

**12.1.1 Accrued income from advances**

| | 2011 | 2010 |
|---|---|---|
| Long term advances | **856,688,012** | 825,059,272 |
| Short term advances | **182,223,912** | 163,599,050 |
| Lease financing | **198,077,813** | 239,558,118 |
| Others | **5,666,254** | 6,624,905 |
| | **1,242,655,991** | 1,234,841,345 |
| Less: provision for doubtful accrued income from advances | **(1,037,029,984)** | (915,259,186) |
| | **205,626,007** | 319,582,159 |

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **12.1.2 Accrued income from investments** | | | |
| Government Securities | | **68,112,949** | 69,051,185 |
| Term Finance Certificates (TFCs) | | **169,687,266** | 136,933,457 |
| Commercial Papers | | **2,118,297** | 3,835,233 |
| | | **239,918,512** | 209,819,875 |
| Less: provision for doubtful accrued income from investments | | **(114,205,239)** | (60,324,156) |
| | | **125,713,273** | 149,495,719 |

**12.1.3** This includes amount of Rs. 217.87 million (2010: Rs. 190.28 million) on account of receivable from Divine Developers Private Limited (DDPL) in respect of sale of development properties.

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **12.2 Advances, deposits, prepayments and other receivables** | | | |
| Advances to suppliers | | **4,293,072** | 15,681,436 |
| Advance against purchase of property | 12.2.1 | **45,193,200** | 45,193,200 |
| Security deposits | | **9,988,695** | 8,958,621 |
| Prepayments and other receivables | | **50,535,148** | 66,717,206 |
| Receivable from stock brokers | | **3,910,643** | 199,499,238 |
| Advance tax - net | | **761,497,883** | 878,231,138 |
| Premium due but unpaid | | **61,160,304** | 32,219,959 |
| Amount due from other insurers | | **41,811,499** | 48,496,532 |
| Reinsurance recoveries against outstanding claims | | **80,478,357** | 88,158,103 |
| Deferred commission expense | | **13,022,299** | 10,066,566 |
| Non banking assets acquired in satisfaction of claims | 12.2.2 | **400,008,887** | 72,217,564 |
| Advance for purchase of shares | | **256,792** | 256,792 |
| | | **1,472,156,779** | 1,465,696,355 |
| Less: provision for receivable from stock brokers | | **(3,818,270)** | - |
| Less: provision for advance for purchase of shares | | **(256,792)** | (256,792) |
| Less: provision for non banking assets acquired in satisfaction of claims | | **(138,138,000)** | - |
| | 12.2.3 | **(142,213,062)** | (256,792) |
| | | **1,329,943,717** | 1,465,439,563 |

**12.2.1** This represents advance paid for the purchase of property in Tricon Corporate Centre in Lahore. The property is under construction and the title of the property will be transferred to SPREL after completion.

**12.2.2** These represent the amount of assets acquired against settlement of advances from various customers. Valuation of these properties was conducted by M/s Harvester Services (Pvt.) Limited. Market value assessed amounts to Rs. 261.871 million. Provision has been created against the shortfall.

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| **12.2.3 Provision against doubtful receivable balances** | | |
| Opening balance | **256,792** | 256,792 |
| Charge for the year | **141,956,270** | - |
| Closing balance | **142,213,062** | 256,792 |

## 13 DEVELOPMENT PROPERTIES

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Balance at beginning of the year | | **111,084,500** | - |
| Cost of plots | | **-** | 108,000,000 |
| Construction cost | | **161,061,976** | 144,365,600 |
| Development properties sold during the year | | **(66,055,231)** | (141,281,100) |
| Balance at end of the year | 13.1 | **206,091,245** | 111,084,500 |

**13.1** The SPREL has entered into agreements for purchase and construction of properties from Divine Developers (Private) Limited ('DDPL'). These properties relate to two projects of DDPL namely "Commercial Area - Divine Garden" and "Residential - Divine Gardens". In this respect, significant risks and rewards incidental to the ownership of land held under development have been transferred as also confirmed by the legal advisor's opinion of the SPREL. Other relevant property documentation are in process.

## 14 BORROWINGS

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| In Pakistan | | **7,064,577,411** | 9,078,011,683 |
| Outside Pakistan | | **-** | - |
| | | **7,064,577,411** | 9,078,011,683 |

### 14.1 Particulars of borrowings with respect to currencies

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| In local currency | | **7,064,577,411** | 9,078,011,683 |
| In foreign currency | | **-** | - |
| | | **7,064,577,411** | 9,078,011,683 |
| Long term borrowings | 14.2 | **2,899,980,249** | 3,871,100,747 |
| Short term borrowings | 14.3 | **4,164,597,162** | 5,206,910,936 |
| | | **7,064,577,411** | 9,078,011,683 |

### 14.2 Long term borrowings

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Against book debts/receivables | 14.2.1 | **1,966,771,249** | 2,996,618,747 |
| Against SBP refinance schemes | 14.2.2 | **933,209,000** | 874,482,000 |
| | | **2,899,980,249** | 3,871,100,747 |

**14.2.1** These represent facilities obtained against charge on book debts/receivables valuing Rs. 4,256 million (2010: Rs. 4,256 million). The mark up is charged at varying rates ranging from 12.54% to 14.11% per annum (2010: 13.66% to 14.44% per annum). These facilities will mature during April 2012 to September 2014 (2010: April 2011 to September 2014).

**14.2.2** These represent facilities obtained against State Bank Refinance schemes (LT-EOP/LT-FF). The mark up is charged at rate of 5.00% to 10.10% per annum (2010: 5.00% per annum). These facilities will mature during January 2012 to December 2020 (2010: January 2011 to October 2017).

### 14.3 Short term borrowings

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Against book debts/receivables | 14.3.1 | **1,419,521,683** | 1,893,458,841 |
| Repurchase agreements under PIBs - repo | 14.3.2 | **193,031,600** | 97,680,350 |
| Repurchase agreements under Market Treasury Bills - repo and TFCs | 14.3.3 | **1,197,043,879** | 1,204,762,000 |
| Clean / letter based financing | 14.3.4 | **705,000,000** | 1,211,009,745 |
| Morahaba finance | 14.3.5 | **650,000,000** | 800,000,000 |
| | | **4,164,597,162** | 5,206,910,936 |

**14.3.1** These include facilities obtained against charge on book debts / receivables, hypothecation of specific leased assets and associated lease rentals. The mark-up is charged at the rate of 9.12% to 15.80% (2010: 13.45% to 16.00%) per annum. These facilities are maturing in 2012 (2010: January 2011 to October 2011) - also refer notes 14.3.1.1 and 14.3.1.2 below.

**14.3.1.1** This also includes a borrowing of Rs. 100 million from a mutual fund availed by SPLCL. Under an agreement dated February 18, 2011; and a tripartite agreement dated April 28, 2011; between SPLCL, the lending mutual fund and a borrower, the loan is adjustable through the transfer of collateral asset held by SPLCL against its own lending. The necessary legal matters are being addressed by SPLCL for the transfer of the title of the said asset and SPLCL expects the transfer and the related settlement of liability shortly.

**14.3.1.2** This also includes letter of placements of Rs. 117 million due to two mutual funds. Under the terms of partial settlement of the above liability and mark-up liability of Rs. 21.87 million; (also refer note 18.1.1) - total being Rs. 138.87 million), SPLCL has transferred certain assets subsequent to the year end / will transfer the leases after the execution of tripartite agreements between SPLCL, the lessees and the asset management company on behalf of the mutual funds amounting in total to Rs. 91.12 million. In addition SPLCL will also arrange alternate securities of Rs. 13.33 million. Total expected wavier is Rs. 11.333 million which will be recorded subsequently on meeting the terms of settlement.

The total letter of placements as at the year end amount to Rs. 328 million (including Rs. 117 million mentioned above).

**14.3.2** These are secured against Pakistan Investment Bonds. These carry markup rate of 11.90% (2010: 12.90%) per annum and will mature in January 2012 (2010: January 2011).

**14.3.3** "These includes borrowings of Rs. 684.7 million which are secured against Treasury bills and carry mark up rates of 11.90% (2010: 13% to 13.90%) per annum and are maturing in January 2012 (2010: January 2011). These also includes borrowing by SPLCL against TFCs. SPLCL paid its dues up to September 2011 and including due to the reasons below, the entire balance has been classified as short term."

The TFC holders in their meeting held on December 26, 2011; tentatively decided to revise the terms effective from January 2012. However, no tenor extension was indicated. The restructuring will be finalised only after the approval of the TFC holders through Extra Ordinary Resolution.

**14.3.4** These includes borrowings in local currency of Rs. 605 million from various financial institutions and overnight borrowings and carry interest rates ranging from 10.25% to 12.60% (2010: 11.75% to 14.00%) per annum. These facilities will be maturing from January 2012 to March 2012 (2010: January 2011).

**14.3.5** These represent morahaba finance arranged from an Islamic Bank. These carry markup rates ranging from 12.23% to 12.47% (2010: 13.74% to 14.05%) per annum. These will be maturing from January 2012 to June 2012 (2010: January 2011 to May 2011).

| | **2011 Rupees** | 2010 Rupees |
|---|---|---|
| **14.4 Details of borrowings secured/unsecured** | | |
| **Secured** | | |
| Against SBP refinance schemes | **933,209,000** | 874,482,000 |
| Against repurchase agreement and TFCs | **1,390,075,479** | 1,302,442,350 |
| Against book debts/receivables | **3,386,292,932** | 4,890,077,588 |
| Against morahaba finance | **650,000,000** | 800,000,000 |
| | **6,359,577,411** | 7,867,001,938 |
| **Unsecured** | | |
| Call borrowings | **705,000,000** | 1,211,009,745 |
| | **7,064,577,411** | 9,078,011,683 |

## 15 DEPOSITS AND OTHER ACCOUNTS

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Certificate of Investments (COIs) | 15.1 | **926,442,000** | 2,142,108,061 |
| Security deposits against finance leases | 15.2 | **691,779,671** | 716,349,985 |
| | | **1,618,221,671** | 2,858,458,046 |

**15.1** These represent certificate of investments issued to various institutions. The mark up is charged at varying rates ranging from 12.15% to 13.80% per annum (2010: 12.52% to 13.95% per annum). These are repayable in period ranging from January 2012 to December 2012 (2010: January 2011 to August 2011).

**15.2** These reprsent security deposits received against lease contracts and are refundable / adjustable at the expiry / termination of the respective leases.

## 16 UNDERWRITING PROVISION

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Provision for outstanding claims | | **112,663,524** | 128,125,752 |
| Provision for unearned premium | | **105,136,280** | 86,974,142 |
| Additional provision for unexpired risks | | **2,000,656** | 2,000,656 |
| Commission income earned | | **8,920,405** | 11,533,932 |
| | | **228,720,865** | 228,634,482 |

## 17 DEFERRED TAX LIABILITIES

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| **Deferred tax credits arising due to following taxable temporary differences:** | | | |
| Accelerated tax depreciation | | **20,947,379** | (78,345,049) |
| Surplus on revaluation of operating fixed assets | 21 | **679,153,497** | 709,633,514 |
| Surplus / (deficit) on revaluation of securities | 20 | **22,505,053** | (126,481,233) |
| | | **722,605,929** | 504,807,232 |
| **Deferred tax debits arising due to following deductible temporary differences:** | | | |
| Provision against employee benefits | | **(11,741,947)** | (11,366,080) |
| Net investment in leases | | **40,139,097** | (45,952,215) |
| Accumulated tax losses | | **(574,204,238)** | (521,763,760) |
| | | **(545,807,088)** | (579,082,055) |
| | | **176,798,841** | (74,274,823) |
| Valuation reserve against accumulated tax losses | 17.1 | **574,204,238** | 521,763,760 |
| | | **751,003,079** | 447,488,937 |

**17.1** In view of the uncertainty about timings of taxable profits in the foreseeable future against which the tax losses can be utilized, the Group has not recognized deferred tax asset on accumulated tax losses and therefore, has created an equivalent amount of valuation reserve against it amounting to Rs. 574,204,238 (2010: Rs. 521,763,760).

## 18 OTHER LIABILITIES

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Mark-up/return/interest accrued on borrowings | 18.1 | **402,499,229** | 360,891,319 |
| Creditors, accrued and other liabilities | 18.2 | **139,808,168** | 144,563,364 |
| Deferred liabilities | 18.3 | **57,373,077** | 60,390,055 |
| | | **599,680,474** | 565,844,738 |

### 18.1 Mark-up/return/interest accrued on borrowings

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Long term borrowings | 18.1.1 | **372,378,063** | 203,794,949 |
| Short term borrowings | | **29,548,814** | 153,720,562 |
| Securities purchased under Repurchase agreements - repo | | **572,352** | 3,375,808 |
| | | **402,499,229** | 360,891,319 |

**18.1.1** This include mark-up payable amounting to Rs. 21.87 million, details of which are given in the note 14.3.1.2 This also includes mark-up of Rs. 33.89 million included in note 22.7.1.

### 18.2 Creditors, accrued and other liabilities

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Directors' remuneration | | **3,807,374** | 3,091,586 |
| Other payables | | **12,122,626** | 40,032,506 |
| Payable on employees account | | **3,830,385** | 697,491 |
| Corporate income tax payable - net | | **3,102,482** | 86,198,918 |
| Amount due to other insurers/reinsurers | | **3,555,785** | 3,445,283 |
| Accrued liabilities | | **113,389,516** | 11,097,580 |
| | | **139,808,168** | 144,563,364 |

### 18.3 Deferred liabilities

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Provision for staff gratuity | 36.1 | **29,657,216** | 30,422,020 |
| Provision for compensated absences | | **4,768,756** | 3,130,050 |
| Advance rental income | 18.3.1 | **22,947,105** | 26,837,985 |
| | | **57,373,077** | 60,390,055 |

**18.3.1** This includes rent received in advance for premises let out in the Saudi Pak Tower, Jinnah Avenue, Islamabad.

## 19 SHARE CAPITAL

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| Authorized capital: | | |
| 600,000,000 ordinary shares of Rs. 10 each (2010: 600,000,000 ordinary shares of Rs. 10 each) | **6,000,000,000** | 6,000,000,000 |
| Issued, subscribed and paid up capital: | | |
| 400,000,000 ordinary shares of Rs. 10 each issued for cash (2010: 400,000,000 ordinary shares of Rs. 10 each issued for cash) | **4,000,000,000** | 4,000,000,000 |
| 200,000,000 bonus shares of Rs. 10 each (2010: 200,000,000 bonus shares of Rs. 10 each) | **2,000,000,000** | 2,000,000,000 |
| | **6,000,000,000** | 6,000,000,000 |

| | 2011 | 2010 |
|---|---|---|
| | **Number of Shares** | |

**19.1 Reconciliation of number of ordinary shares of Rs. 10 each**

| | 2011 | 2010 |
|---|---|---|
| Opening balance | **600,000,000** | 600,000,000 |
| Issued during the year | **-** | - |
| Closing balance | **600,000,000** | 600,000,000 |

**19.2 Minimum Capital Requirement**

**19.2.1 Minimum capital requirment of the Company**

There is a shortfall of Rs. 1,412.718 million in meeting the Minimum Capital Requirement (MCR) of Rs. 6,000 million (free of losses) as at December 31, 2011. The management is of the view that the said shortfall shall be adjusted through reserve fund after seeking the approval from State Bank of Pakistan. [State Bank of Pakistan vide its letter No. BSD/BAI-3/608/3624/2011 dated March 24, 2011 had allowed the Group to meet the minimum paid-up capital (free of losses) of Rs. 6 billion by appropriating the deficit balance of Rs. 448.459 million as of December 31, 2010, from the reserves held by the Group.]

**19.2.2 Minimum equity requirement of SPLCL**

Capital requirements applicable to SPLCL are set and regulated by the Securities and Exchange Commission of Pakistan (SECP). These requirements are put in place to ensure sufficient solvency margins. SECP extended the minimum equity requirement as per NBFC Regulations, 2008 vide SRO 764(I)/2009 dated 2 September 2009 wherein SPLCL is required to meet the minimum equity requirements of Rs. 350 million, Rs. 500 million and Rs. 700 million by 2011, 2012 and 2013 respectively.

The SPLCL has requested the Securities and Exchange Commission of Pakistan (SECP) for relaxation in the requirement and is hopeful that this request will be accepted based on the condition of the business environment and the SPLCL's position in the overall leasing sector, as well as its past performance and the reason given in note 1.3 above.

**20 SURPLUS / (DEFICIT) ON REVALUATION OF AFS SECURITIES - NET OF TAX**

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Quoted securities | | **58,671,491** | (378,612,654) |
| Government securities | | **(123,152)** | (28,927,349) |
| Mutual fund units | | **7,065,777** | 46,165,052 |
| | **9.4** | **65,614,116** | (361,374,951) |
| Less: related deferred tax asset | **17** | **(22,505,053)** | 126,481,233 |
| | | **43,109,063** | (234,893,718) |

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| 21 | **SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS - NET OF TAX** | | | |
| | Movement in surplus on revaluation of operating fixed assets: | | | |
| | Opening balance | | **2,033,333,470** | 2,120,456,629 |
| | Surplus realized on disposal | | **(38,256)** | (36,792) |
| | Transferred to unappropriated profit in respect of | | | |
| | – Incremental depreciation charged during the year | | **(56,605,746)** | (56,606,139) |
| | – Deferred tax | | **(30,480,017)** | (30,480,228) |
| | | | **(87,085,763)** | (87,086,367) |
| | Surplus on revaluation of operating fixed assets | | **1,946,209,451** | 2,033,333,470 |
| | Related deferred tax liability | | **(709,633,514)** | (740,113,742) |
| | Transferred to unconsolidated profit and loss account in respect of incremental depreciation | | **30,480,017** | 30,480,228 |
| | | **17** | **(679,153,497)** | (709,633,514) |
| | Closing balance | | **1,267,055,954** | 1,323,699,956 |
| 22 | **CONTINGENCIES AND COMMITMENTS** | | | |
| 22.1 | **Direct credit substitutes** | | | |
| | Letter of comfort / guarantee | | **18,134,000** | 31,830,000 |
| 22.2 | **Non disbursed commitment for term and working capital finance** | | **824,499,000** | 824,886,000 |
| 22.3 | **Claims against the Group not acknowledged as debts** | | **32,000,000** | 58,657,388 |
| 22.4 | **Commitments in respect of purchase of forward exchange contracts** [USD 27.40 million (2010: USD 54.75 million)] | | **2,463,933,000** | 4,750,355,000 |
| 22.5 | **Commitments for the acquisition of operating fixed assets (intangibles assets)** | | **5,664,339** | 1,799,518 |
| 22.6 | **Development cost of properties in Divine Gardens** | | **-** | 61,592,400 |
| 22.7 | **Guarantees given by SPLCL on behalf of a lessee - refer note 22.7.1** | | **-** | 18,645,000 |
| | | | **3,344,230,339** | 5,747,765,306 |

**22.7.1** The liability of Rs. 18.645 million has been recorded as of 31 December 2011 and subsequent to the year end, the balance along with mark-up liability of Rs. 33.89 million (note 18.1.1) was settled through the transfer of asset of SPLCL.

**22.8 Tax contingencies**

**(a) Assessment Orders Under Income Tax Ordinance, 2001**

**Tax year 2004, 2005 and 2006**

Provision for Non-Performing Loans (NPLs) for tax years 2004, 2005 and 2006 were disallowed by the tax authorities and restricted the credit for tax paid/suffered during the relevant tax years. As a consequence of foregoing, cumulative income tax demand of Rs. 63.8 million was raised by the Income Tax Authorities. Although the said demands have been paid, these are being contested by the Company and related appeals are presently pending for adjudication before Appellate Tribunal Inland Revenue (ATIR). It is likely that the appeals will be decided in favour of the Company.

**(b) Tax year 2008 and 2009**

The Company's income tax liability was assessed at Rs. 291 million and Rs. 650 million for the tax year 2008 and 2009 respectively out of which the Company paid Rs. 400 million. The Company preferred appeals before Commissioner Inland Revenue (CIR – Appeals) and partial relief was granted by CIR – Appeals. Certain issues including disallowance of provision against NPLs are being contested in appeals before ATIR which are pending for adjudication. It is likely that core issues (on account of provision against NPLs and apportionment of expenses between exempt/presumptive and normal income) in appeals will be decided in Company's favour.

**(c) Tax year 2010**

The Company's income tax liability was assessed at Rs. 317 million. The Company preferred an appeal before Commissioner Inland Revenue (CIR - Appeals) and except for the issue of provision against NPL's, all the major issues have been decided in Company's favour. The Company's contested the issue of provision against NPLs along with certain other issues in appeal before ATIR which are pending for adjudication. It is likely that core issues (on account of provision against NPLs and apportionment of expenses between exempt/presumptive and normal income) in appeals will be decided in Company's favour.

**(d) SPLCL Tax contingency**

The Company has been issued with a notice under section 14 of the Federal Excise Act, 2005. In the notice it has been alleged that the Company has not paid Federal Excise Duty (FED) in terms of section 3 read with Entry 8 of Table-II of the first schedule to the Federal Excise Act 2005 for the periods 2007-08, 2008-09 & 2009-10. Accordingly, Rs. 126,204,794 has been alleged to be recoverable. The above amount of FED has been imposed on all the income of the Company for the three years including mark up income earned on finance lease contracts.

According to the Company's tax advisor, FED is applicable in respect of document fee, front end fee and syndicate lease income. These represent services rendered by leasing companies in respect of finance lease which are funded services. These services for the periods 2007-08 and 2008-09 are not chargeable to FED because of the reason that for those years FED was chargeable on services which were non-funded. However, for the periods 2009-10 due to amendment in entry 8 the said services are chargeable to FED as provisions of the Federal Excise Act, 2005. Accordingly the amount of liability comes out of Rs. 198,530.

**22.9 Other contingencies**

**(a) Ceco Tyre Ltd (COS No.141/2009 of Rs. 202.00 million)**

Ceco feeling aggrieved of withdrawal of the finance facility earlier sanctioned by the Company, filed the damages suit in the Lahore High Court on July 27, 2009. The Company is aggressively defending the case for a favorable decision. The case is now at advance stage of hearing and is still pending adjudication before the Honorable Court.

**(b) Ali Akbar Spinning Mills Limited (COS No.113/2009 of Rs. 827.102 million)**

The plaintiff filed the damages suit against the Company as a counter-blast when the Company issued legal notices followed by filing of a recovery suit of Rs. 91.886 million in the Lahore High Court, Lahore. The plaintiff has alleged to have suffered losses inter-alia due to overpayments made to the Company against the finance facilities availed. While defending the plaintiff's suit, the Company has already filed Petition for Leave to Defend (PLA) in the Court as a mandatory requirement. At present, the subject suit is pending adjudication before the Honorable Court.

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| **23** | **MARK-UP/RETURN/INTEREST EARNED** | | | |
| | On advances | 23.1 | 821,909,794 | 833,648,385 |
| | On investments | 23.2 | 514,416,153 | 493,642,603 |
| | On lendings to financial institutions | | 19,249,101 | 126,259,243 |
| | On lease financing - net | | 116,269,807 | 232,762,873 |
| | On profit and loss saving accounts | | 8,095,707 | 41,912,912 |
| | | | 1,479,940,562 | 1,728,226,016 |
| **23.1** | **On advances** | | | |
| | Long term advances | | 714,438,423 | 664,630,798 |
| | Short term advances | | 107,075,148 | 168,551,092 |
| | Staff advances | | 396,223 | 466,495 |
| | | | 821,909,794 | 833,648,385 |
| **23.2** | **On investments** | | | |
| | Term Finance Certificates | | 246,155,889 | 249,272,001 |
| | Government securities | | 268,260,264 | 244,370,602 |
| | | | 514,416,153 | 493,642,603 |
| **24** | **MARK-UP/RETURN/INTEREST EXPENSED** | | | |
| | Mark-up/return/interest expensed | 24.1 | 1,134,305,586 | 1,330,761,354 |
| | Deposits | | 20,707,342 | 49,471,262 |
| | PIB's premium amortization | | 16,927,990 | 16,927,990 |
| | Brokerage fee | | 1,579,161 | 2,272,120 |
| | | | 1,173,520,079 | 1,399,432,726 |
| **24.1** | **Mark-up/return/interest expensed** | | | |
| | Long term borrowings | | 566,992,516 | 559,558,012 |
| | Short term borrowings | | 417,847,876 | 604,286,483 |
| | Securities purchased under repurchase agreements - repo | | 149,465,194 | 166,916,859 |
| | | | 1,134,305,586 | 1,330,761,354 |

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| **25** | **PROVISION FOR DIMINUTION IN THE VALUE OF INVESTMENTS** | | | |
| | Breakup of provisions /(reversals) is as under: | | | |
| | Term Finance Certificates (TFCs) | | **(24,508,469)** | 33,745,000 |
| | Unquoted investment | | **87,740,811** | 73,833,931 |
| | | | **63,232,342** | 107,578,931 |
| **26** | **UNDER WRITING INCOME / (LOSS)** | | | |
| | Net premium revenue | | **89,757,340** | 82,099,322 |
| | Net claims | | **(16,186,545)** | (74,252,675) |
| | Expenses | | **(50,723,790)** | (52,215,969) |
| | Net commission | | **(1,860,655)** | 2,552,358 |
| | | | **20,986,350** | (41,816,964) |
| **27** | **INCOME FROM SALE OF DEVELOPMENT PROPERTIES - NET** | | | |
| | Revenue from sale of development properties | **27.1** | **112,291,435** | 190,282,500 |
| | Revenue from lease rentals from properties | | **903,000** | 560,000 |
| | Less: cost incurred on development properties | **27.2** | **(66,055,231)** | (141,281,100) |
| | | | **47,139,204** | 49,561,400 |
| **27.1** | **Revenue from sale of development properties** | | | |
| | Residential Project | **27.2.1** | **94,762,500** | 190,282,500 |
| | Commercial Project | **27.2.2** | **17,528,935** | - |
| | | | **112,291,435** | 190,282,500 |
| **27.2** | **Cost incurred on development properties** | | | |
| | Residential Project | **27.2.1** | **53,372,860** | 141,281,100 |
| | Commercial Project | **27.2.2** | **12,682,371** | - |
| | | | **66,055,231** | 141,281,100 |

**27.2.1 Residential Project**

**Profit recognized on stage of completion method**

| | Total | Stage of completion as at 31 December 2011 | On the basis of stage of completion | Revenue recognized in prior years | Revenue to be recognized in current year |
|---|---|---|---|---|---|
| | 2011 Rupees | (%) | 2011 Rupees | 2011 Rupees | 2011 Rupees |
| **Revenue** | **459,750,000** | **62** | **285,045,000** | **190,282,500** | **94,762,500** |
| **Cost** | **(313,958,000)** | **62** | **(194,653,960)** | **(141,281,100)** | **(53,372,860)** |
| **Profit** | **145,792,000** | **62** | **90,391,040** | **49,001,400** | **41,389,640** |

### 27.2.1 Residential Project

**Profit recognized on stage of completion method (continued)**

| | Total | Stage of completion as at 31 December 2010 | On the basis of stage of completion | Revenue recognized in prior years | Revenue to be recognized in current year |
|---|---|---|---|---|---|
| | 2010 Rupees | (%) | 2010 Rupees | 2010 Rupees | 2010 Rupees |
| Revenue | 422,850,000 | 45 | 190,282,500 | - | 190,282,500 |
| Cost | (313,958,000) | 45 | (141,281,100) | - | (141,281,100) |
| Profit | 108,892,000 | 45 | 49,001,400 | - | 49,001,400 |

### 27.2.2 Commercial Project

| | **Total** | **Stage of completion as at 31 December 2011** | **On the basis of stage of completion** | **Revenue recognized in prior years** | **Revenue to be recognized in current year** |
|---|---|---|---|---|---|
| | **2011 Rupees** | **(%)** | **2011 Rupees** | **2011 Rupees** | **2011 Rupees** |
| **Revenue** | **137,481,847** | **12.75** | **17,528,935** | **-** | **17,528,935** |
| **Cost** | **(99,469,576)** | **12.75** | **(12,682,371)** | **-** | **(12,682,371)** |
| **Profit** | **38,012,271** | **12.75** | **4,846,564** | **-** | **4,846,564** |

## 28 OTHER INCOME

| | **Note** | **2011 Rupees** | **2010 Rupees** |
|---|---|---|---|
| Net rental income | **28.1** | **39,822,949** | **23,107,975** |
| Net gain on disposal of operating fixed assets - property and equipment | | **8,091,310** | **23,441,057** |
| Others | **28.2** | **61,252,513** | **(42,312)** |
| | | **109,166,772** | **46,506,720** |

| | | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|---|
| **28.1** | **Net rental income** | | | |
| | Rental income | | **182,283,854** | 163,660,653 |
| | Less: Operating expenses | | | |
| | Salaries, allowances and employee benefits | | **10,987,833** | 11,445,649 |
| | Traveling and conveyance | | **760** | 1,140 |
| | Medical | | **342,337** | 139,954 |
| | Janitorial services | | **3,542,076** | 2,549,421 |
| | Security services | | **6,690,694** | 5,730,385 |
| | Insurance | | **1,975,965** | 2,550,204 |
| | Postage, telegraph, telegram and telephone | | **18,629** | 32,307 |
| | Printing and stationery | | **1,200** | 40,340 |
| | Certification services | | **43,200** | 48,400 |
| | Utilities | | **11,763,097** | 12,908,576 |
| | Consultancy and professional charges | | **300,000** | 150,000 |
| | Repairs and maintenance | | **6,256,324** | 5,380,018 |
| | Rent, rates and taxes | | **1,368,283** | 868,142 |
| | Depreciation | **11.4** | **99,103,413** | 98,669,116 |
| | Office general expenses | | **67,094** | 39,026 |
| | | | **142,460,905** | 140,552,678 |
| | | | **39,822,949** | 23,107,975 |

28.2 This includes income received from tender fee and sale of miscellaneous scrap items etc.

## 29 ADMINISTRATIVE EXPENSES

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Salaries, allowances and employee benefits | **29.1** | **174,009,805** | 189,688,028 |
| Traveling and conveyance | **29.2** | **35,051,384** | 26,891,833 |
| Vehicle running expenses | | **12,455,543** | 11,344,027 |
| Utilities | | **7,263,790** | 7,797,129 |
| Advertisement and publicity | | **1,863,559** | 2,098,783 |
| Postage, telegram, telephone and telex | | **7,542,495** | 7,393,064 |
| Printing, stationery and periodical | | **3,684,564** | 3,350,796 |
| Legal and professional charges | | **12,611,958** | 8,460,642 |
| Consultancy, custodial and rating services | | **7,697,356** | 8,521,528 |
| Auditor's remuneration | **29.3** | **1,729,900** | 1,938,914 |
| Repair and maintenance | | **6,913,469** | 7,691,863 |
| Office and general expenses | | **23,528,969** | 23,409,122 |
| Bank charges | | **789,507** | 2,230,346 |
| Professional training | | **1,043,183** | 2,336,624 |
| Depreciation | **11.4** | **408,45,134** | 45,841,706 |
| Donations | **29.4** | **-** | 10,010,000 |
| | | **337,030,616** | 359,004,405 |

**29.1** This includes the followings staff benefits for the Group:

**29.1.1** Rs. 6.296 million (2010: Rs. 3.383 million) on account of employee provident fund expense;
**29.1.2** Rs. 7.854 million (2010: Rs. 6.199 million) on account of gratuity expense (also refer note 36.4 below); and
**29.1.3** Rs. 2.771 million (2010: Rs. 1.284 million) on account of compensated absences expense.

29.2 This includes payments made to Directors of the Company for attending Board / Board's committee meetings amounting to Rs. 19.089 million (2010: Rs. 11.854 million).

| 29.3 **Auditors' remuneration** | **2011 Rupees** | 2010 Rupees |
|---|---|---|
| Audit fee | **1,268,500** | 1,118,500 |
| Half yearly review | **155,000** | 130,000 |
| Code of Corporate Governance review | **16,500** | 16,500 |
| Fee for regulatory return | **60,000** | 50,000 |
| Certifications | **-** | 325,000 |
| Out of pocket expenses | **229,900** | 298,914 |
| | **1,729,900** | 1,938,914 |

29.4 This includes Rs. 10 million for donation given to the Prime Minister Flood Relief Fund for affecties of floods in Pakistan.

**30 IMPAIRMENT LOSS ON QUOTED SECURITIES**

During the year, the Group has charged impairment loss on quoted securities in accordance with the accounting policy [refer note 5.4 (c) ] based on criteria for significant and prolonged decline in value of securities as approved by the Board of Directors.

| **31 OTHER PROVISIONS AND WRITE OFFS / (REVERSALS)** | **2011 Rupees** | 2010 Rupees |
|---|---|---|
| Provision against non banking assets acquired in satisfaction of claims | **138,138,000** | - |
| Provision against receivable from stock brokers | **3,818,270** | - |
| Provision / (reversal) for other doubtful receivables | **34,764,671** | (7,207,793) |
| | **176,720,941** | (7,207,793) |
| **32 OTHER CHARGES** | | |
| Penalties imposed by the State Bank of Pakistan | **922,250** | 731,400 |
| **33 TAXATION** | | |
| – Current year | **43,674,249** | 39,090,300 |
| – Prior years | **100,523,318** | 8,211,547 |
| – Deferred | **150,681,609** | 112,560,839 |
| | **294,879,176** | 159,862,686 |
| **33.1 Relationship between tax expense and accounting loss** | | |
| Accounting loss for the year | **(1,747,685,765)** | (274,167,162) |
| Tax rate | **35%** | 35% |
| Tax on accounting loss | **(611,690,018)** | (95,958,507) |
| Tax effect on income subject to lower rate of taxation | **(19,772,084)** | (31,931,695) |
| Tax effect of other income considered separately | **402,431,309** | 49,853,895 |
| Tax effect of prior years | **100,523,318** | 8,211,547 |
| Deferred tax asset not recognised | **52,440,478** | 147,817,802 |
| Tax effect of permanent differences | **370,946,173** | 81,869,644 |
| | **294,879,176** | 159,862,686 |

## 33.2 Tax status

For tax related contingencies - refer note 22.8.

## 34 BASIC AND DILUTED LOSS PER SHARE

| | 2011 | 2010 |
|---|---|---|
| Loss for the year attributable to equity holders of the Company - Rupees | **(1,581,085,770)** | (275,065,626) |
| Weighted average number of ordinary shares - Number | **600,000,000** | 600,000,000 |
| Basic and diluted loss per share - Rupees | **(2.635)** | (0.458) |

## 35 CASH AND CASH EQUIVALENTS

| | Note | 2011 Rupees | 2010 Rupees |
|---|---|---|---|
| Cash and balance with treasury banks | 6 | **56,121,319** | 41,130,338 |
| Balance with other banks | 7 | **193,655,011** | 286,433,932 |
| | | **249,776,330** | 327,564,270 |

## 36 EMPLOYEE BENEFITS – Staff gratuity

### 36.1 The amounts recognized in the statements of consolidated statement of financial position are determined as follows:

| | Note | 2011 | 2010 |
|---|---|---|---|
| Present value of defined benefit obligation | 36.2 | **37,436,330** | 34,740,241 |
| Fair value of plan assets | 36.3 | **(4,073,675)** | (5,761,817) |
| Unrecognized actuarial (loss)/gain | | **(3,705,439)** | 1,443,596 |
| | 18.3 | **29,657,216** | 30,422,020 |

### 36.2 Movement in the Present value of defined benefit obligation in the consolidated statement of financial position are determined as follows:

| | 2011 | 2010 |
|---|---|---|
| Opening balance | **34,740,241** | 30,543,761 |
| Service cost | **4,192,491** | 3,931,854 |
| Interest cost | **4,539,452** | 3,110,495 |
| Actuarial gain / (loss) | **4,917,130** | (4,245) |
| Benefits paid | **(10,952,984)** | (2,841,624) |
| Closing balance | **37,436,330** | 34,740,241 |

### 36.3 Movement in fair value of plan assets

| | 2011 | 2010 |
|---|---|---|
| Opening balance | **5,761,817** | 5,279,333 |
| Expected return on plan assets | **884,327** | 838,222 |
| Contribution to the fund | **2,425,341** | - |
| Benefit paid during the year | **(4,758,831)** | (399,703) |
| Acturial (loss) / gain | **(238,979)** | 43,965 |
| Closing balance | **4,073,675** | 5,761,817 |

### 36.4 The amounts recognized in the consolidated profit and loss account are as follows:

| | Note | 2011 | 2010 |
|---|---|---|---|
| Service cost | | **4,192,491** | 3,931,854 |
| Interest cost | | **4,539,452** | 3,110,495 |
| Expected return on plan assets | | **(884,327)** | (838,222) |
| Recognition of actuarial loss / (gain) | | **7,074** | (4,245) |
| | 29.1.2 | **7,854,690** | 6,199,882 |

### 36.5 The principal actuarial assumptions used are as follows:

| | 2011 | 2010 |
|---|---|---|
| Discount rate | **13.00%** | 12.63% - 14.50% |
| Expected rate of increase in salary | **10.50% - 12.00%** | 12.00% |
| Expected interest on plan assets | **12.00% - 13.00%** | 12.00% - 14.50% |
| Mortality rate | **LIC (1975-1979)** | LIC (1975-1979) |

**37. COMPENSATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| | Chief Executive | | Directors | | Executives | |
| | **Rupees** | Rupees | **Rupees** | Rupees | **Rupees** | Rupees |
| Fees | **-** | - | **3,979,874** | 3,091,586 | **-** | - |
| Managerial remuneration | **11,534,798** | 16,213,200 | **-** | - | **29,598,120** | 31,449,079 |
| Post employment benefits | **473,532** | 595,286 | **-** | - | **1,915,523** | 1,237,366 |
| Rent and house maintenance | **4,108,170** | 5,498,381 | **-** | - | **13,658,660** | 12,758,605 |
| Utilities | **1,485,893** | 1,279,314 | **-** | - | **3,297,500** | 2,935,770 |
| Medical | **478,842** | 348,304 | **-** | - | **3,262,706** | 2,588,482 |
| Bonus and others | **3,497,139** | 5,280,364 | **-** | 330,000 | **10,194,911** | 7,174,700 |
| | **21,578,374** | 29,214,849 | **3,979,874** | 3,421,586 | **61,927,420** | 58,144,002 |
| Number of persons | **5** | 4 | **12** | 12 | **42** | 42 |

**37.1** Chief Executive and majority of executives are also provided with Group maintained cars.

**38 FAIR VALUE OF FINANCIAL INSTRUMENTS**

**38.1 On-balance sheet financial instruments**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Book value** | **Fair value** | Book value | Fair value |
| | **Rupees** | **Rupees** | Rupees | Rupees |
| **Assets** | | | | |
| Cash balances with treasury banks | **56,121,319** | **56,121,319** | 41,130,338 | 41,130,338 |
| Balances with other banks | **193,655,011** | **193,655,011** | 286,433,932 | 286,433,932 |
| Lendings to financial institutions | **171,111,111** | **171,111,111** | 431,257,750 | 431,257,750 |
| Investments | **5,101,879,296** | **5,101,879,296** | 7,177,103,246 | 7,177,103,246 |
| Advances | **7,393,276,079** | **7,393,276,079** | 9,357,049,115 | 9,357,049,115 |
| Other assets | **734,338,242** | **734,338,242** | 1,033,450,808 | 1,033,450,808 |
| | **13,650,381,058** | **13,650,381,058** | 18,326,425,189 | 18,326,425,189 |
| **Liabilities** | | | | |
| Borrowings | **7,064,577,411** | **7,064,577,411** | 9,078,011,683 | 9,078,011,683 |
| Deposits and other accounts | **1,618,221,671** | **1,618,221,671** | 2,858,458,046 | 2,858,458,046 |
| Other liabilities | **539,204,915** | **539,204,915** | 419,255,765 | 419,255,765 |
| | **9,222,003,997** | **9,222,003,997** | 12,355,725,494 | 12,355,725,494 |

**38.2 Off-balance sheet financial instruments**

| | | | | |
|---|---|---|---|---|
| Commitments in respect of purchase of forward exchange contracts | **2,463,933,000** | **2,463,933,000** | 4,750,355,000 | 4,750,355,000 |

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

The fair value of quoted investments is based on quoted market prices and rates quoted at Reuters Pages (PKRV) with the exception of unlisted securities. Fair value of unquoted equity investments is determined on the basis of lower of cost and break-up value of these investments as per the latest available financial statements.

The fair value of fixed term advances of over one year and fixed term deposits of over one year can not be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities. Loans and advances are reduced for any impairment against non-performing advances determined in accordance with Prudential Regulations.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying value since assets and liabilities are either short term in nature or in the case of customer loans and deposits are frequently repriced. The maturity profile and effective rates are stated in note 43.2.5 below.

## 39 DERIVATIVE INSTRUMENTS

The Group does not deal in derivative instruments.

## 40 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

| | Corporate Finance | Trading and sales | Real Estate services | Insurance Services | Total |
|---|---|---|---|---|---|
| | 2011 Rs. 000 | 2011 Rs. 000 | 2011 Rs. 000 | 2011 Rs. 000 | 2011 Rs. 000 |
| Total income | 1,194,721 | 314,136 | 229,423 | 89,757 | 1,828,037 |
| Total expenses | 1,806,136 | 1,499,508 | 184,759 | 85,319 | 3,575,722 |
| Net income (loss) | (611,415) | (1,185,372) | 44,664 | 4,438 | (1,747,685) |
| Segment assets (gross) | 15,288,795 | 6,249,320 | 2,810,911 | 286,326 | 24,635,352 |
| Segment non performing loans | 4,824,030 | - | - | - | 4,824,030 |
| Segment provision required | 3,531,583 | - | - | - | 3,531,583 |
| Segment liabilities | 7,420,681 | 1,833,926 | 768,551 | 239,045 | 10,262,203 |
| Segment Return On net Assets (ROA) (%) | (4.00) | (18.97) | 1.59 | 1.55 | (7.09) |
| Segment cost of funds (%) | 11.81 | 23.99 | 6.57 | 29.80 | 14.51 |

| | Corporate Finance | Trading and sales | Real Estate services | Insurance Services | Total |
|---|---|---|---|---|---|
| | 2010 Rs. 000 | 2010 Rs. 000 | 2010 Rs. 000 | 2010 Rs. 000 | 2010 Rs. 000 |
| Total income | 1,324,670 | 356,549 | 213,180 | 82,099 | 1,976,498 |
| Total expenses | 1,472,302 | 460,261 | 179,274 | 138,829 | 2,250,666 |
| Net income (loss) | (147,632) | (103,712) | 33,906 | (56,730) | (274,168) |
| Segment assets (gross) | 16,732,453 | 8,159,777 | 2,697,748 | 260,411 | 27,850,389 |
| Segment non performing loans | 3,894,741 | - | - | - | 3,894,741 |
| Segment provision required | 2,832,679 | - | - | - | 2,832,679 |
| Segment liabilities | 9,778,848 | 2,383,682 | 779,659 | 236,249 | 13,178,438 |
| Segment Return On net Assets (ROA) (%) | (0.88) | (1.27) | 1.26 | (21.78) | (0.98) |
| Segment cost of funds (%) | 8.80 | 5.64 | 6.65 | 53.31 | 8.08 |

**Assumptions used:**

- Administrative expenses have been allocated to segments based on respective segment income.
- Unallocatable assets representing 7.43 % (2010: 7.04%) of the total assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 5.68% (2010: 3.39 %) of the total liabilities have been allocated to segments based on their respective assets.

## 41 RELATED PARTY TRANSACTIONS

**41.1** Both the Government of Kingdom of Saudi Arabia and the Islamic Republic of Pakistan own 50% shares each of the Group. Therefore, all entities owned by and controlled by these Governments are related parties of the Group. Other related parties comprise of entities over which the Group has control (subsidiaries), entities over which the directors are able to exercise significant influence (associated undertakings), entities with common directors, major shareholders, directors, key management personnel and employees' funds. The Group in normal course of business pays for electricity, gas and telephone to entities controlled by Government of Pakistan. The Group has not extended any financing facilities to entities owned by the Governments of Kingdom of Saudi Arabia and the Islamic Republic of Pakistan

Except for the matters reported in note 9.3 to the consolidated financial statements, transactions with the related parties are executed substantially on the same terms, including markup rates and collaterals, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk (i.e. under the comparable Uncontrolled Price Method).

Other than those transactions which are made under the terms of employment, majority of the transactions with related parties comprise of loans and advances, deposits etc.

Advances for the house building, conveyance and personal use have also been provided to staff and executives in accordance with the employment and pay policy. Facility of group life insurance and hospitalization facility is also provided to staff and executives. In addition to this, majority of executives of the Group have been provided with Group maintained car.

**41.2** **Following are the transactions and balances with related parties**

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| **Nature of balances / transactions** | | |
| **Outstanding balances at year end with associated undertakings** | | |
| – Certificate of Investments | 55,000,000 | - |
| – Term Deposit Receipt | 41,931,000 | 930,000 |
| – Bank Balances | 5,990,242 | 5,031,604 |
| – Accrued Income | 2,118,297 | 22,075 |
| – Insurance premium receivable | 32,421,665 | 3,289,321 |
| – Insurance claims payable | 4,298,277 | 7,099,794 |
| **Employee funds** | | |
| – Deposits against COIs | 14,500,000 | 15,073,753 |
| – Interest and other payables | 821,651 | 1,507,415 |
| – Payable to defined benefit plan | 944,644 | 565,378 |
| **Transactions during the year with associated undertakings** | | |
| – Premium received | 61,503,392 | 36,104,977 |
| – Claims paid | 1,448,177 | 4,584,145 |
| – Bank charges | 126,011 | 157,630 |
| – Tracker charges | 427,950 | - |
| – Rent expensed | 96,000 | 369,175 |
| – Interest income | 2,906,384 | 5,499,302 |
| – Advisory Fee | - | 1,000,000 |

| | 2011 Rupees | 2010 Rupees |
|---|---|---|
| **Transactions during the year with associated undertakings** | | |
| **Key Management Personnel** | | |
| – Advances to executives | 3,030,000 | 2,021,152 |
| – Repayment of advances | 4,096,838 | 2,382,932 |
| **Employee funds** | | |
| – Deposits against COIs | 13,046,247 | 4,573,753 |
| – Maturity of deposits against COIs | 13,620,000 | - |
| – Borrowings availed | 15,029,589 | - |
| – Borrowings paid | 15,029,589 | - |
| – Contribution to the employees provident fund | 4,901,466 | 3,383,785 |
| – Contribution to defined benefit plan | 1,545,081 | 512,180 |
| – Interest expense | 1,455,231 | 1,773,510 |

## 42 CAPITAL ADEQUACY

### 42.1 Scope of applications

The Basel II framework has been applied in accordance with Circular No. BSD/BAI-2/201/1490/2008 dated December 30, 2008. Standardized Approach is used for calculating the Capital Adequacy for Market and Credit risk while Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purpose.

As Stated in note 1.1, the Company has three subsidiaries, namely Saudi Pak Real Estate Company Limited (SPREL), Saudi Pak Insurance Company Limited (SPICL) and Saudi Pak Leasing Company Limited (SPLCL). SPREL is the wholly-owned subsidiary while SPLCL is 35.06% owned by the Company and SPICL is 54.87% of the Holding Company. SPLCL is included, while calculating Capital Adequacy for the Group, using full consolidation method. The Holding Company has significant minority investments in Equity International (Private) Limited. The holding Company has not consolidated SPREL and SPICL for consolidated Capital Adequacy Ratio (CAR) purposes. Investments in SPREL and SPICL have been deducted from core capital. The Group does not indulge in any securitization activity that shields it from the risk inherent in securitization.

### 42.2 Capital management

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

**Objectives and goals of managing capital**

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

- To be an appropriately capitalized institution, as defined by regulatory authorities and comparable to the peers;
- Maintain strong ratings and to protect the Group against unexpected events;
- Availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Group to expand;
- Achieve low overall cost of capital with appropriate mix of capital elements.

### 42.2.1 Capital Adequacy Ratio

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

#### 42.2.1.1 Regulatory capital base

| | Note | 2011<br>Rs. 000 | 2010<br>Rs. 000 |
|---|---|---|---|
| **Tier I Capital** | | | |
| Fully paid up capital | | **6,000,000** | 6,000,000 |
| Share premium | | **-** | - |
| Reserves | | **1,565,161** | 2,013,620 |
| Unappropriated loss | | **(1,937,113)** | (719,068) |
| Minority in the equity of the subsidiary | | **(571,407)** | (105,924) |
| **Deductions** | | | |
| Book value of Intangibles, investment in commercial entities (50%) etc. | | **(437,967)** | (118,624) |
| **Total Tier I Capital** | | **4,618,674** | 7,070,004 |
| **Supplementary capital** | | | |
| **Tier II Capital** | | | |
| Subordinated debt (upto 50% of total Tier I capital) | | **-** | - |
| General Provisions subject to 1.25% of total risk weighted assets | | **-** | - |
| Revaluation Reserve (upto 45%) | | **918,588** | 747,063 |
| **Deductions** | | | |
| Investment in commercial entities, insurance subsidiary etc (50%) | | **(285,812)** | (112,685) |
| **Total Tier II Capital** | | **632,776** | 634,378 |
| **Eligible Tier III Capital** | | **-** | - |
| **Total Regulatory Capital Base** | | **5,251,450** | 7,704,382 |

**42.2.2 Risk weighted exposures**

| | 2011 Capital Requirements | 2010 Capital Requirements | 2011 Risk Weighted Assets | 2010 Risk Weighted Assets |
|---|---|---|---|---|
| | **Rs. 000** | Rs. 000 | **Rs. 000** | Rs. 000 |
| **Credit Risk** | | | | |
| Claims on : | | | | |
| Corporate | **1,028,390** | 908,999 | **7,345,641** | 9,089,988 |
| Banks | **7,465** | 7,454 | **53,318** | 74,535 |
| Public sector entities | **-** | 10,353 | **-** | 103,525 |
| Retail portfolio | **1,494** | - | **10,672** | - |
| Secured by residential property | **27,265** | 26,333 | **194,748** | 263,330 |
| Listed equity investments | **58,125** | 81,718 | **415,177** | 817,175 |
| Unlisted equity investments | **71,008** | 138,044 | **507,201** | 1,380,437 |
| Fixed Assets | **303,754** | 235,519 | **2,169,674** | 2,355,185 |
| Other Assets | **200,309** | 182,084 | **1,430,776** | 1,820,842 |
| Off Balance Sheet Exposure-Non Market Related | **113,749** | 69,566 | **812,492** | 695,663 |
| Off Balance Sheet Exposure-Market Related | **690** | 2,375 | **4,928** | 23,752 |
| **Market Risk** | | | | |
| Portfolios subject to Standardized Approach | | | | |
| Interest rate risk | **11,944** | - | **85,313** | - |
| Equity position risk | **310,254** | 415,316 | **2,216,100** | 4,153,157 |
| Foreign exchange risk | **349,231** | 8,613 | **2,494,507** | 86,125 |
| **Operational Risk** | **147,654** | 133,448 | **1,054,672** | 1,334,484 |
| | **2,631,332** | 2,219,822 | **18,795,219** | 22,198,198 |

| **Capital Adequacy Ratio** | | **2011 Rupees** | 2010 Rupees |
|---|---|---|---|
| Total eligible regulatory capital held - Rs. (000) | (a) | **5,251,450** | 7,704,382 |
| Total Risk Weighted Assets - Rs. (000) | (b) | **18,795,219** | 22,198,198 |
| **Capital Adequacy Ratio - % age** | (a) / (b) | **27.94%** | 34.71% |

**42.3 Credit Risk-General Disclosures Basel II Specific**

The Group used standardized approach for credit risk.

**42.3.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach**

Types of Exposures and ECAI's used - 2011

| **Exposures** | **JCR-VIS** | **PACRA** |
|---|---|---|
| Corporate | x | x |
| Banks | x | x |

### 42.3.2 Credit Exposures subject to the Standardized Approach

| Exposures | Rating Category | 2011 Amount Outstanding Rs.000 | 2011 Deduction CRM Rs.000 | 2011 Net amount Rs.000 | 2010 Amount Outstanding Rs.000 | 2010 Deduction CRM Rs.000 | 2010 Net amount Rs.000 |
|---|---|---|---|---|---|---|---|
| Corporate | 1 | 883,135 | - | 883,135 | 699,120 | - | 699,120 |
| | 2 | 1,059,786 | - | 1,059,786 | 1,324,098 | - | 1,324,098 |
| | 3,4 | 126,804 | - | 126,804 | 1,443,024 | - | 1,443,024 |
| | 5,6 | 818,392 | - | 818,392 | - | - | - |
| Banks | 1 | 185,622 | - | 185,622 | 181,201 | - | 181,201 |
| | 2 | 80,884 | - | 80,884 | 191,367 | - | 191,367 |
| | 3 | 84 | - | 84 | 104 | - | 104 |
| Unrated | | 10,812,677 | - | 10,812,677 | 15,874,370 | - | 15,874,370 |
| | | 13,967,384 | - | 13,967,384 | 19,713,284 | - | 19,713,284 |

CRM= Credit Risk Mitigation

## 43 RISK MANAGEMENT

The Group realizes the importance of risk management. We, as a Group, have independent and dedicated risk management functions. A comprehensive risk management framework has been adopted. It is based on three lines of defense strategy to cater micro, macro and strategic level risk management. Risk Management Division has been set up primarily to carry out independent review functions in terms of credit risk, market risk, operational risk and liquidity risk. Stress testing is regularly conducted on the lines advised by the State Bank of Pakistan. Risk Management Committee of the Board has also been constituted and a structured Risk Reporting Framework is being developed and implemented as a part of monitoring and oversight function of the Board. Capital adequacy level is regularly assessed and reviewed with approved bench mark of 20 percent as against regulatory requirement of 14 percent.

The higher level of bench marking is aimed at strengthening capital base of the Group, besides providing an impeccable buffer/ cushion to absorb and withstand against unexpected macro economic shocks and unexpected losses. It is also used to asses overall risk appetite of the Group that in turn will be used to asses credit, market and operational risk appetite.

### 43.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation. The Group controls its credit risk by the following methods:

- Monitoring credit exposures;
- Evaluating transactions with specific counterparts; and
- Assessing credit worthiness of counterparts.

Two sets of guidelines are followed by the management for managing credit risk. Operating policy approved by the Board of Directors and Prudential Regulations issued by State Bank of Pakistan.

The operating policy defines the extent of exposure with reference to a particular sector or group. The management also classified a particular financing on the basis of SBP guidelines.

**43.1.1 Segmental information**

Segmental information is presented in respect of the class of business and geographical distribution of advances, deposits, contingencies and commitments.

**43.1.1.1 Segments by class of business:**

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Advances (gross) | | Deposits | | Contingencies and commitments | |
| | Amount | %age | Amount | %age | Amount | %age |
| | Rs. 000 | | Rs. 000 | | Rs. 000 | |
| Financial institutions | 114,000 | 1.05 | 1,358,722 | 83.96 | 2,463,933 | 73.68 *** |
| Paper and allied | 79,510 | 0.73 | - | - | - | - |
| Electrical goods | 34,500 | 0.32 | - | - | - | - |
| Dairy and poultry | 45,122 | 0.42 | - | - | - | - |
| Banaspati and allied | 10,000 | 0.09 | - | - | - | - |
| Sugar and allied products | 243,311 | 2.24 | - | - | 267,917 | 8.01 |
| Chemical and fertilizer | 742,711 | 6.83 | - | - | 208,000 | 6.22 |
| Energy, oil and gas | 1,547,491 | 14.24 | - | - | 18,134 | 0.54 |
| Construction | 434,048 | 3.99 | - | - | - | - |
| Hotels | 83,750 | 0.77 | - | - | - | - |
| Cement | 409,510 | 3.77 | - | - | - | - |
| Textile | 2,297,070 | 21.13 | - | - | 79,582 | 2.38 |
| Metal and allied products | 486,684 | 4.48 | - | - | 100,000 | 2.99 |
| Automobiles and allied | 294,371 | 2.71 | - | - | - | - |
| Transport/services and misc. | 44,787 | 0.41 | - | - | - | - |
| Telecommunication | 242,667 | 2.23 | - | - | 69,000 | 2.06 |
| Others | 3,761,106 | 34.59 | 259,500 | 16.04 | 137,664 | 4.12 |
| | 10,870,638 | 100.00 | 1,618,222 | 100.00 | 3,344,230 | 100.00 |

*** Financial institutions segment includes commitments in respect of forward exchange purchase contracts.

**43.1.1.1 Segments by class of business (continued):**

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Advances (gross) | | Deposits | | Contingencies and commitments | |
| | Amount | %age | Amount | %age | Amount | %age |
| | Rs. 000 | | Rs. 000 | | Rs. 000 | |
| Financial institutions | 114,000 | 0.94 | 2,858,458 | 100.00 | 4,884,012 | 84.97 *** |
| Paper and allied | 79,510 | 0.66 | - | - | - | - |
| Electrical goods | 56,296 | 0.46 | - | - | - | - |
| Dairy and poultry | 147,622 | 1.22 | - | - | 175 | 0.01 |
| Banaspati and allied | 10,000 | 0.08 | - | - | - | - |
| Sugar and allied products | 434,457 | 3.58 | - | - | 23,632 | 0.41 |
| Chemical and fertilizer | 944,524 | 7.79 | - | - | 120,000 | 2.09 |
| Energy, oil and gas | 1,633,567 | 13.47 | - | - | 164,985 | 2.87 |
| Hotel and construction | 842,183 | 6.94 | - | - | - | - |
| Cement | 445,231 | 3.67 | - | - | - | - |
| Textile | 2,226,528 | 18.35 | - | - | 295,810 | 5.15 |
| Metal and metal products | 480,053 | 3.96 | - | - | 110,269 | 1.92 |
| Automobiles and allied | 342,318 | 2.82 | - | - | - | - |
| Transport/services and misc. | 341,987 | 2.82 | - | - | - | - |
| Telecommunication | 263,778 | 2.17 | - | - | 50,000 | 0.87 |
| Others | 3,768,944 | 31.07 | - | - | 98,882 | 1.71 |
| | 12,130,998 | 100.00 | 2,858,458 | 100.00 | 5,747,765 | 100.00 |

*** Financial institutions segment includes commitments in respect of forward exchange purchase contracts.

**43.1.1.2 Segment by sector**

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Advances (gross) | | Deposits | | Contingencies and commitments | |
| | Amount | %age | Amount | %age | Amount | %age |
| | Rs. 000 | | Rs. 000 | | Rs. 000 | |
| Public / Government sector | - | - | - | - | - | - |
| Private sector | 10,870,638 | 100.00 | 1,618,222 | 100.00 | 3,344,230 | 100.00 |
| | 10,870,638 | 100.00 | 1,618,222 | 100.00 | 3,344,230 | 100.00 |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Advances (gross) | | Deposits | | Contingencies and commitments | |
| | Amount | %age | Amount | %age | Amount | %age |
| | Rs. 000 | | Rs. 000 | | Rs. 000 | |
| Public / Government sector | - | - | - | - | - | - |
| Private sector | 12,130,998 | 100.00 | 2,858,458 | 100.00 | 5,747,765 | 100.00 |
| | 12,130,998 | 100.00 | 2,858,458 | 100.00 | 5,747,765 | 100.00 |

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Classified advances | Specific provisions held | Classified advances | Specific provisions held |
| | Rs. 000 | Rs. 000 | Rs. 000 | Rs. 000 |
| Financial institutions | 114,000 | 114,000 | 101,500 | 101,500 |
| Paper and allied | 79,509 | 79,509 | 79,509 | 57,280 |
| Electrical goods | 14,499 | 14,499 | 26,295 | 26,295 |
| Dairy and poultry | 45,122 | 45,122 | 45,122 | 45,122 |
| Banaspati and allied | 10,000 | 10,000 | 10,000 | 10,000 |
| Sugar and allied products | 61,310 | 53,229 | 81,840 | 81,840 |
| Chemical and fertilizer | 18,743 | 14,972 | 68,743 | 68,743 |
| Energy, oil and gas | 257,056 | 187,735 | 264,687 | 102,332 |
| Construction | 270,427 | 87,606 | 162,358 | 7,779 |
| Hotels | 50,000 | 25,000 | 50,000 | - |
| Cement | 328,260 | 233,429 | 267,154 | 198,840 |
| Textile | 1,052,062 | 825,744 | 1,022,459 | 703,535 |
| Metal and metal products | 172,437 | 172,437 | 190,625 | 135,067 |
| Automobiles and allied | 294,371 | 197,717 | 297,531 | 183,047 |
| Transport/services | 44,787 | 44,787 | 44,787 | 44,787 |
| Others | 1,370,921 | 1,371,576 | 1,017,025 | 1,007,782 |
| | 4,183,504 | 3,477,362 | 3,729,635 | 2,773,949 |

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Classified advances | Specific provisions held | Classified advances | Specific provisions held |
| | Rs. 000 | Rs. 000 | Rs. 000 | Rs. 000 |
| Public/Government sector | - | - | - | - |
| Private sector | 4,183,504 | 3,477,362 | 3,729,635 | 2,773,949 |
| | 4,183,504 | 3,477,362 | 3,729,635 | 2,773,949 |

### 43.1.1.5 Geographical segment analysis

| | 2011 | | | |
|---|---|---|---|---|
| | Loss before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| | Rs. 000 | Rs. 000 | Rs. 000 | Rs. 000 |
| Pakistan | (1,747,686) | 17,324,720 | 7,062,516 | 3,344,230 |
| Asia Pacific (including South Asia) | - | - | - | - |
| Europe | - | - | - | - |
| United States of America and Canada | - | - | - | - |
| Middle East | - | - | - | - |
| Others | - | - | - | - |
| | (1,747,686) | 17,324,720 | 7,062,516 | 3,344,230 |

**43.1.1.5** Geographical segment analysis (continued)

| | 2010 | | | |
|---|---|---|---|---|
| | Loss before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| | Rs. 000 | Rs. 000 | Rs. 000 | Rs. 000 |
| Pakistan | (274,167) | 21,982,861 | 8,804,423 | 5,747,765 |
| Asia Pacific (including South Asia) | - | - | - | - |
| Europe | - | - | - | - |
| United States of America and Canada | - | - | - | - |
| Middle East | - | - | - | - |
| Others | - | - | - | - |
| | (274,167) | 21,982,861 | 8,804,423 | 5,747,765 |

## 43.2 Market Risk

Market Risk is the risk of loss in earnings and capital due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions. Thus market risk can be further described into Interest Rate Risk, Foreign Exchange Risk and Equity Position Risk. Further, in respect of insurance business of the Group i.e., SPICL; insurance risk is also relevant as stated in 43.2.4 below.

### 43.2.1 Interest rate risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. The Group has formulated and developed interest rate risk policies, processes and procedural guidelines, proposing interest rate limits, credit spreads, gaps and duration limits between interest sensitive assets and interest sensitive liabilities, conducting gap analysis, determining the effects of mismatching positions across the range of maturities as well as identifying and maintaining the record of the transactions that would be treated as regarding trade book portfolio for the purpose of assigning market risk capital charge. Besides, the need and requirement of setting up an independent middle office is also being evaluated.

Risk management division is responsible for conducting independent review of interest rate sensitive assets, and liabilities, monitoring of interest rate and gap limits, reporting breaches and conducting stress testing on the lines advised by SBP.

### 43.2.2 Foreign exchange risk

Foreign exchange risk is that our net investment in foreign currency change in value through adverse effects of currency movements.

The risk is very nominal because of the nature of the existing operations of the Group and is primarily attributable to the foreign currency assets, held in the form of foreign currency deposits with other banks and deposit through SWAP and other hedging measures depending upon open market conditions. The Group manages its foreign exchange risk by keeping the data on foreign currency assets and liabilities, proposing limits, planning and determining yield as well as hedging the risk in the case of adverse movement in currency exchange rates and identifies the transactions which will be subject to market risk capital charge.

### 43.2.2 Foreign Exchange risk (continued)

| | Assets | Liabilities | Off-balance sheet items | Net currency exposure |
|---|---|---|---|---|
| | 2011 Rs. 000 | 2011 Rs. 000 | 2011 Rs. 000 | 2011 Rs. 000 |
| Pakistan Rupee | 17,296,080 | 10,262,203 | 880,297 | 6,153,580 |
| United States Dollar | 28,640 | - | 2,463,933 | (2,435,293) |
| Great Britain Pound | - | - | - | - |
| Deutsche Mark | - | - | - | - |
| Japanese Yen | - | - | - | - |
| Euro | - | - | - | - |
| Other currencies | - | - | - | - |
| | 17,324,720 | 10,262,203 | 3,344,230 | 3,718,287 |

| | Assets | Liabilities | Off-balance sheet items | Net currency exposure |
|---|---|---|---|---|
| | 2010 Rs. 000 | 2010 Rs. 000 | 2010 Rs. 000 | 2010 Rs. 000 |
| Pakistan Rupee | 21,896,741 | 13,178,438 | 997,410 | 7,720,893 |
| United States Dollar | 86,120 | - | 4,750,355 | (4,664,235) |
| Great Britain Pound | - | - | - | - |
| Deutsche Mark | - | - | - | - |
| Japanese Yen | - | - | - | - |
| Euro | - | - | - | - |
| Other currencies | - | - | - | - |
| | 21,982,861 | 13,178,438 | 5,747,765 | 3,056,658 |

### 43.2.3 Equity position Risk

The Group has established a Portfolio Management Department which is responsible for origination, conducting , appraisal of equity investment proposals, proposing business appetite and tolerance levels, getting approval of various limits, determining target market and products, updating approval process within and beyond approved limits, proposing and implementing emergency measures dealing with market fluctuations, handling day to day matters of the equity portfolio and maintaining relevant record and information as well as handling day to day matters with brokers, client and scrips.

### 43.2.4 Insurance risk

The SPICL accepts the insurance risk through its insurance contracts where it assumes the risk of loss from persons or organizations that are directly subject to the underlying loss. The SPICL is exposed to the uncertainty surrounding the timing frequency and severity of claims under these contracts.

The SPICL manages its risk through its underwriting and reinsurance strategy within an overall risk management. Reinsurance is purchased to mitigate the effect of potential loss the SPICL from individual, large or catastrophic events and also to provide access to specialist risk and to assist in managing capital. Insurance policies are written with approved reinsurer in either a proportional or excess of loss treaty basis.

A concentration of risk may also arise from a single insurance contract issued to a particular demographic type of a policyholder, within a geographical location or types of commercial business. The SPICL minimizes its exposure to significant losses by obtaining reinsurance from a number of reinsurers, who are dispersed over several geographical regions and minimizes its exposure to significant losses by obtaining reinsurance from a number of reinsurers, who are dispersed over several geographical regions.

**Geographical concentration of insurance risk**

To optimize benefits from principle of average and law of large numbers, geographical spread of risk is of extreme importance. There are a number of parameters which are significant in assessing the accumulation of risk with reference to the geographical location, the most important of which is risk survey.

Risk surveys are carried out on a regular basis for the evaluation of physical hazard associated with the commercial/industrial/residential occupation of the insured. Details regarding the fire separation/segregation with respect to the manufacturing processes, storage, utilities etc are extracted from the layout plan of the insured facility. Such details are formed part of the reports which are made available to the underwriters/ reinsurance personnel for their evaluation. Reference is made to the standard construction specification as laid down IAP (Insurance Association of Pakistan). For instance, the presence of Perfect party walls, Double Fire Proof Iron Doors and Physical Separation between the building within an insured's premises. It is basically the property contained within an area which is separated by another property by sufficient distance to confine insured damage from uncontrolled fire and explosion under the most adverse conditions to that one area.

Keeping in view the maximum exposure in respect of key zone aggregates, number of proportional and non proportional reinsurance arrangement are in place to protect the net account in case of a major catastrophic event. Apart from the adequate event limit which is a multiple of the treaty capacity or the primary recovery from the proportional treaty, any loss over and above the said limit would be recovered from the non-proportional treaty which is very much in line with the risk management philosophy of the SPICL.

In compliance of the regulatory requirement, the reinsurance agreements are duly submitted with SECP on an annual basis.

## 43.2.5 Mismatch of interest rate sensitive assets and liabilities

| | Effective yield/ interest rate | Exposed to Yield/ Interest risk | | | | | | | | | | Non-interest bearing financial instruments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total | Upto 1 month | Over 1-3 months | Over 3-6 months | Over 6-12 months | Over 1-2 years | Over 2-3 years | Over 3-5 years | Over 5-10 years | Above 10 years | |
| **On-balance sheet financial instruments** | % | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees |
| **Assets** | | | | | | | | | | | | |
| Cash and balances with treasury banks | 0.01 | 56,121,319 | 128,478 | - | - | - | - | - | - | - | - | 55,992,841 |
| Balances with other banks | 5.00 | 193,655,011 | 162,804,705 | - | - | - | - | - | - | - | - | 30,850,306 |
| Lending to financial institutions | 12.81 | 171,111,111 | 170,000,000 | - | 1,111,111 | - | - | - | - | - | - | - |
| Investments | 13.25 | 5,101,879,296 | 401,663,324 | 1,596,149,156 | 577,317,308 | 576,159,548 | 33,899,628 | 233,899,628 | 260,424,985 | - | - | 1,422,365,719 |
| Advances | 14.51 | 7,393,276,079 | 499,580,304 | 2,064,758,158 | 3,738,885,495 | 1,082,836,230 | 7,215,892 | - | - | - | - | - |
| Other assets | - | 734,338,242 | - | - | - | - | - | - | - | - | - | 734,338,242 |
| | | 13,650,381,058 | 1,234,176,811 | 3,660,907,314 | 4,317,313,914 | 1,658,995,778 | 41,115,520 | 233,899,628 | 260,424,985 | - | - | 2,243,547,108 |
| **Liabilities** | | | | | | | | | | | | |
| Borrowings from financial institutions | 11.49 | 7,064,577,411 | 1,956,772,937 | 2,352,369,268 | 1,059,197,120 | 908,405,160 | 128,840,728 | 83,377,166 | 168,362,164 | 407,252,868 | - | - |
| Deposits and other accounts | 13.04 | 1,618,221,671 | 596,560,139 | 363,120,278 | 224,680,417 | 433,860,837 | - | - | - | - | - | - |
| Other liabilities | - | 539,204,915 | - | - | - | - | - | - | - | - | - | 539,204,915 |
| | | 9,222,003,997 | 2,553,333,076 | 2,715,489,546 | 1,283,877,537 | 1,342,265,997 | 128,840,728 | 83,377,166 | 168,362,164 | 407,252,868 | - | 539,204,915 |
| **On-balance sheet gap** | | **4,428,377,061** | **(1,319,156,265)** | **945,417,768** | **3,033,436,377** | **316,729,781** | **(87,725,208)** | **150,522,462** | **92,062,821** | **(407,252,868)** | - | **1,704,342,193** |
| **Off-balance sheet financial instruments** | | | | | | | | | | | | |
| Commitments in respect of purchase of forward contract | | 2,463,933,000 | - | - | - | - | - - | - | - | - | - | 2,463,933,000 |
| **Off-balance sheet gap** | | 2,463,933,000 | - | - | - | - | - | - | - | - | - | 2,463,933,000 |
| **Total yield/interest risk sensitivity gap** | | **1,964,444,061** | **(1,319,156,265)** | **945,417,768** | **3,033,436,377** | **316,729,781** | **(87,725,208)** | **150,522,462** | **92,062,821** | **(407,252,868)** | - | **(759,590,807)** |
| **Cumulative yield/interest risk sensitivity gap** | | - | **(1,319,156,265)** | **(373,738,497)** | **2,659,697,880** | **2,976,427,661** | **2,888,702,453** | **3,039,224,915** | **3,131,287,736** | **2,724,034,868** | **2,724,034,868** | **1,964,444,061** |

### 43.2.5 Mismatch of interest rate sensitive assets and liabilities (continued)

| | Effective yield/ interest rate | Exposed to Yield/ Interest risk | | | | | | | | | | Non-interest bearing financial instruments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total | Upto 1 month | Over 1-3 months | Over 3-6 months | Over 6-12 months | Over 1-2 years | Over 2-3 years | Over 3-5 years | Over 5-10 years | Above 10 years | |
| **On-balance sheet financial instruments** | % | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees |
| **Assets** | | | | | | | | | | | | |
| Cash and balances with treasury banks | 0.01 | 41,130,338 | - | - | - | - | - | - | - | - | - | 41,130,338 |
| Balances with other banks | 4.00 | 286,433,932 | 255,293,751 | - | - | - | - | - | - | - | - | 31,140,181 |
| Lending to financial institutions | 13.27 | 431,257,750 | 396,941,083 | 34,316,667 | - | - | - | - | - | - | - | - |
| Investments | 13.31 | 7,177,103,246 | 437,266,599 | 1,377,787,816 | 1,966,309,280 | 115,785,991 | 282,892,384 | 112,191,505 | 200,730,504 | - | - | 2,684,139,167 |
| Advances | 14.98 | 9,357,049,115 | 647,026,557 | 1,714,236,318 | 5,310,103,590 | 1,685,682,650 | - | - | - | - | - | - |
| Other assets | - | 1,033,450,808 | - | - | - | - | - | - | - | - | - | 1,033,450,808 |
| | | 18,326,425,189 | 1,736,527,990 | 3,126,340,801 | 7,276,412,870 | 1,801,468,641 | 282,892,384 | 112,191,505 | 200,730,504 | - | - | 3,789,860,494 |
| **Liabilities** | | | | | | | | | | | | |
| Borrowings from financial institutions | 13.03 | 9,078,011,683 | 3,184,334,854 | 1,858,208,581 | 1,811,659,944 | 141,097,666 | 324,274,207 | 494,994,158 | 737,916,976 | 525,525,297 | - | - |
| Deposits and other accounts | 13.40 | 2,858,458,046 | 928,750,641 | 1,305,351,721 | 394,188,016 | 230,167,668 | - | - | - | - | - | - |
| Other liabilities | - | 419,255,765 | - | - | - | - | - | - | - | - | - | 419,255,765 |
| | | 12,355,725,494 | 4,113,085,495 | 3,163,560,302 | 2,205,847,960 | 371,265,334 | 324,274,207 | 494,994,158 | 737,916,976 | 525,525,297 | - | 419,255,765 |
| **On-balance sheet gap** | | 5,970,699,695 | (2,376,557,505) | (37,219,501) | 5,070,564,910 | 1,430,203,307 | (41,381,823) | (382,802,653) | (537,186,472) | (525,525,297) | - | 3,370,604,729 |
| **Off-balance sheet financial instruments** | | | | | | | | | | | | |
| Commitments in respect of purchase of forward contract | | 4,750,355,000 | - | - | - | - | - | - | - | - | - | 4,750,355,000 |
| **Off-balance sheet gap** | | 4,750,355,000 | - | - | - | - | - | - | - | - | - | 4,750,355,000 |
| **Total yield/interest risk sensitivity gap** | | 1,220,344,695 | (2,376,557,505) | (37,219,501) | 5,070,564,910 | 1,430,203,307 | (41,381,823) | (382,802,653) | (537,186,472) | (525,525,297) | - | (1,379,750,271) |
| **Cumulative yield/interest risk sensitivity gap** | | - | (2,376,557,505) | (2,413,777,006) | 2,656,787,904 | 4,086,991,211 | 4,045,609,388 | 3,662,806,735 | 3,125,620,263 | 2,600,094,966 | 2,600,094,966 | 1,220,344,695 |

## 43.3 Liquidity risk

Liquidity risk is the risk the Group's earnings and capital due to Group's inability to meet its liabilities when they become due. The Group is taking care of this risk by:

- managing liquidity position through Assets & Liability Management Committee.

- maintaining adequate level of liquidity to meet its obligation at any point of time.

### 43.3.1 Maturities of assets and liabilities

| | MATURITIES | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Upto 1 month | Over 1-3 months | Over 3-6 months | Over 6-12 months | Over 1-2 years | Over 2-3 years | Over 3-5 years | Over 5-10 years | Above 10 years |
| | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees | 2011 Rupees |
| **Assets** | | | | | | | | | | |
| Cash and balances with treasury banks | 56,121,319 | 56,121,319 | - | - | - | - | - | - | - | - |
| Balances with other banks | 193,655,011 | 193,655,011 | - | - | - | - | - | - | - | - |
| Lending to financial institutions | 171,111,111 | 170,000,000 | - | 1,111,111 | - | - | - | - | - | - |
| Investments | 5,101,879,296 | 365,561,907 | 208,930,197 | 456,472,553 | 1,574,122,011 | 269,113,915 | 366,399,870 | 408,439,009 | 952,839,834 | 500,000,000 |
| Advances | 7,393,276,079 | 328,979,738 | 466,352,912 | 383,441,848 | 0837,377,718 | 1,115,273,353 | 997,458,567 | 1,461,063,528 | 1,803,328,415 | - |
| Operating fixed assets | 2,321,846,074 | 5,853,290 | 11,706,580 | 17,559,870 | 35,119,740 | 70,239,480 | 70,239,480 | 135,717,696 | 388,991,254 | 1,586,418,684 |
| Development properties | 206,091,245 | 17,174,270 | 34,348,541 | 51,522,811 | 103,045,623 | - | - | - | - | - |
| Other Assets | 1,880,739,426 | 122,578,160 | 245,156,320 | 367,734,480 | 1,145,270,466 | - | - | - | - | - |
| | 17,324,719,561 | 1,259,923,695 | 966,494,550 | 1,277842,673 | 3694,935,558 | 1,454,626,748 | 1,434,097,917 | 2,005,220,233 | 3,145,159,503 | 2,086,418,684 |
| **Liabilities** | | | | | | | | | | |
| Borrowings | 7,064,577,411 | 1,830,627,869 | 600,079,132 | 380,761,916 | 151,534,752 | 1,797,034,156 | 551,570,594 | 504,749,020 | 1,248,219,972 | - |
| Deposits and other accounts | 1,618,221,671 | 596,560,139 | 363,120,278 | 224,680,417 | 433,860,837 | - | - | - | - | - |
| Underwriting provision | 228,720,865 | - | - | - | - | 228,720,865 | - | - | - | - |
| Deferred tax liabilities | 751,003,079 | 1,338,200 | 2,676,400 | 4,014,600 | 8,029,200 | 29,826,185 | 29,826,185 | 59,652,370 | 149,130,925 | 466,509,014 |
| Other Liabilities | 599,680,474 | 71,607,020 | 143,144,319 | 129,549,779 | 226,599,691 | - | - | 8,633,900 | 20,145,765 | - |
| | 10,262,203,500 | 2,500,133,228 | 1,109,020,129 | 739,006,712 | 820,024,480 | 2,055,581,206 | 581,396,779 | 573,035,290 | 1,417,496,662 | 466,509,014 |
| **Net assets** | 7,062,516,061 | (1,240,209,533) | (142,525,579) | 538,835,961 | 2,874,911,078 | (600,954,458) | 852,701,138 | 1,432,184,943 | 1,727,662,841 | 1,619,909,670 |
| Share capital | 6,000,000,000 | - | - | - | - | - | - | - | - | - |
| Reserves | 1,513,182,102 | - | - | - | - | - | - | - | - | - |
| Unappropriated loss | (1,279,915,381) | - | - | - | - | - | - | - | - | - |
| Non-controlling interest | (480,915,677) | | | | | | | | | |
| Surplus on revaluation of assets | 1,310,165,017 | - | - | - | - | - | - | - | - | - |
| | 7,062,516,061 | - | - | - | - | - | - | - | - | - |

## 43.3 Liquidity risk (continued)

### 43.3.1 Maturities of assets and liabilities (continued)

| | MATURITIES | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Upto 1 months | Over 1-3 months | Over 3-6 months | Over 6-12 months | Over 1-2 years | Over 2-3 years | Over 3-5 years | Over 5-10 years | Above 10 years |
| | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees | 2010 Rupees |
| **Assets** | | | | | | | | | | |
| Cash and balances with treasury banks | 41,130,338 | 41,130,338 | - | - | - | - | - | - | - | - |
| Balances with other banks | 286,433,932 | 286,433,932 | - | - | - | - | - | - | - | - |
| Lending to financial institutions | 431,257,750 | 396,941,083 | 34,316,667 | - | - | - | - | - | - | - |
| Investments | 7,177,103,246 | 407,859,977 | 1,143,202,843 | 405,315,040 | 2,204,005,799 | 583,863,198 | 349,976,439 | 410,900,330 | 1,171,979,620 | 500,000,000 |
| Advances | 9,357,049,115 | 483,481,919 | 383,309,272 | 772,538,934 | 1,305,229,253 | 1,510,389,889 | 1,269,887,422 | 2,007,871,175 | 1,624,341,251 | - |
| Operating fixed assets | 2,448,285,694 | 6,796,763 | 13,593,527 | 20,390,290 | 40,780,580 | 81,561,160 | 81,561,160 | 160,922,369 | 332,314,036 | 1,710,365,809 |
| Development properties | 111,084,500 | - | - | - | - | - | 111,084,500 | - | - | - |
| Other Assets | 2,130,516,539 | 274,701,699 | 269,135,652 | 300,827,211 | 1,285,851,977 | - | - | - | - | - |
| | 21,982,861,114 | 1,897,345,711 | 1,843,557,961 | 1,499,071,475 | 4,835,867,609 | 2,175,814,247 | 1,812,509,521 | 2,579,693,874 | 3,128,634,907 | 2,210,365,809 |
| **Liabilities** | | | | | | | | | | |
| Borrowings | 9,078,011,683 | 3,184,334,854 | 58,208,581 | 743,326,611 | 607,764,333 | 490,940,872 | 1,800,986,402 | 843,909,221 | 1,348,540,809 | - |
| Deposits and other accounts | 2,858,458,046 | 556,096,666 | 1,200,592,632 | 307,842,701 | 793,926,047 | - | - | - | - | - |
| Underwriting provision | 228,634,482 | - | - | - | - | 228,634,482 | - | - | - | - |
| Deferred tax liabilities | 447,488,937 | 7,723,864 | 15,447,729 | 23,171,593 | 46,343,185 | 29,826,185 | 29,826,185 | 59,652,370 | 67,927,116 | 167,570,710 |
| Other Liabilities | 565,844,738 | 43,770,786 | 87,541,572 | 131,312,358 | 269,667,950 | - | - | 10,423,954 | 23,128,118 | |
| | 13,178,437,886 | 3,791,926,170 | 1,361,790,514 | 1,205,653,263 | 1,717,701,515 | 749,401,539 | 1830,812,587 | 913,985,545 | 1,439,596,043 | 167,570,710 |
| **Net assets** | 8,804,423,228 | (1,894,580,459) | 481,767,447 | 293,418,212 | 3,118,166,094 | 1,426,412,708 | (18,303,066) | 1,665,708,329 | 1,689,038,864 | 2,042,795,099 |
| Share capital | 6,000,000,000 | - | - | - | - | - | - | - | - | - |
| Reserves | 1,961,641,045 | - | - | - | - | - | - | - | - | - |
| Unappropriated loss | (203,334,991) | - | - | - | - | - | - | - | - | - |
| Non-controlling interest | (42,689,064) | | | | | | | | | |
| Surplus on revaluation of assets | 1,088,806,238 | - | - | - | - | - | - | - | - | - |
| | 8,804,423,228 | - | - | - | - | - | - | - | - | - |

**43.4 OPERATIONAL RISK**

Operational Risk is the risk of losses due to failure of internal control process, disasters and infrastructure failure, known errors, fraud, in adequate documentation, technology etc. The Group controls its operational risk by the following techniques:

- by using adequate internal control system;
- by ensuring adherence to prudential regulations, and own operating policies approved by the Board of Directors; and
- by putting in place business continuity plan and disaster recovery program.

**Operational Risk Disclosures Basel II**

The Group's approach in managing operational risk is to adopt practices that are for the purpose to suit the organizational maturity and particular environments in which our business operates. Operational risk management has been well established to increase the efficiency and effectiveness of the Group's resources, minimize losses and utilize opportunities.

**44 CREDIT RATING**

The Group's long term / short term entity rating has been assessed by JCR-VIS Credit Rating Company Limited. Long term entity rating has been reaffirmed at AA+ (Double A Plus) and short term rating at A1+ (A one Plus) with stable outlook.

**45 GENERAL**

**45.1** Figures in these consolidated financial statements have been rounded off to the nearest rupee, except as otherwise stated.

**45.2** Following major figures for the year ended December 31, 2010 have been rearranged/ reclassified, for better presentation:

| | Reclassification from Component | Reclassification to Component | Amount in Rupees |
|---|---|---|---|
| – | Surplus on revaluation of operating fixed assets - net of tax | Deferred tax liabilities | 709,443,981 |
| – | Operating fixed assets | Other assets | 72,217,564 |
| – | Deferred liabilities | Other liabilities | 60,390,055 |
| – | Mark-up/Return/Interest Earned | Fee, Commission and Brokerage Income | 8,642,979 |
| – | Underwriting loss | Administrative expenses | 4,187,167 |
| – | Provision against non-performing loans and advances | Reversal in other provisions/write offs | 7,207,793 |

The above rearrangements / reclassifications do not affect unappropriated loss for the year ended December 31, 2009 and also have no impact on classifications of assets and liabilities between current and non-current because of the SBP format of financial statements for DFIs. Therefore, the consolidated statement of financial position for the year ended December 31, 2009 has not been presented.

**46 DATE OF AUTHORIZATION FOR ISSUE**

These consolidated financial statements were authorized for issue on April 27, 2012 by the Board of Directors of the Saudi Pak Industrial and Agricultural Investment Company Limited.

CHIEF EXECUTIVE DIRECTOR DIRECTOR CHAIRMAN

## Notes