

Financial SUMMARY

	2008	2007	2006
Balance Sheet			
Shareholders capital	6,150,000	6,150,000	3,000,000
Reserves & unappropriated profit	1,022,413	1,323,460	1,100,155
Lendings to financial institutions	3,137,180	3,706,071	2,825,482
Investments	6,996,478	9,063,700	4,172,175
Advances	5,740,174	6,878,787	6,135,812
Borrowings from financial institutions	7,491,561	11,776,222	7,868,858
Deposits and other accounts	3,023,121	2,168,358	3,009,583
Profit & Loss			
Mark up income	2,038,155	1,572,096	1,159,681
Mark up expense	1,318,404	1,063,943	830,342
Profit before tax	126,560	676,076	330,692
Investors information			
EPS (Earning per share)	0.01	1.22	1.22
Profit before tax ratio	19.61	1.29	1.08
Gross spread ratio	0.35	0.32	0.28
Return on Equity	0.04%	9.66%	9.41%
Income / Expense	1.07	1.49	1.32

(Rupees in '000)				
	2005	2004	2003	2002
	1,500,000	1,500,000	1,500,000	1,500,000
	906,435	665,112	423,602	114,016
	1,770,300	2,062,013	2,293,560	818,630
	4,703,362	3,975,175	3,969,879	3,948,978
	4,668,845	2,601,599	1,115,576	349,775
	5,249,759	4,882,000	4,042,762	3,391,379
	3,977,226	1,553,675	1,273,911	50,000
	731,642	396,805	363,596	271,926
	472,518	135,017	108,829	88,836
	278,817	318,726	440,962	144,714
	1.61	1.61	2.06	0.86
	1.16	1.32	1.42	1.27
	0.35	0.66	0.70	0.67
	10.56%	11.81%	17.50%	7.32%
	1.41	2.33	3.28	1.81

Statement of VALUE ADDED

(Rupees in '000)

	2008	%age	2007	%age	2006	%age	2005	%age	2004	%age	2003	%age	2002	%age
Wealth Generated														
Financial & Other income	1,976,105		2,063,568		1,429,291		1,027,114		627,390		701,712		340,946	
Financial & Other expenses	(1,668,013)		(1,272,573)		(1,018,970)		(679,431)		(257,825)		(230,387)		(175,804)	
	308,092	100	790,995	100	410,321	100	347,683	100	369,565	100	471,325	100	165,142	100
Wealth Distributed														
To Employees														
Salaries, benefits & related costs	165,070	54	100,305	13	66,563	16	58,623	17	43,234	12	24,586	5	16,537	10
To Government														
Income Tax	120,107	39	152,771	19	24,472	6	37,494	11	77,216	21	131,376	28	30,698	19
To Shareholders														
Cash dividend	-	-	307,500	39	150,000	37	112,500	32	-	-	-	-	-	-
Stock dividend	-	-	-	-	-	-	150,000	37	-	-	-	-	-	-
Retained for reinvestment & future growth														
Depreciation & retained profit	22,915	7	230,419	29	19,286	4	139,066	40	249,115	67	315,363	67	117,907	71
	308,092	100	790,995	100	410,321	100	347,683	100	369,565	100	471,325	100	165,142	100

Anjum Asim Shahid Rahman
Chartered Accountants

Grant Thornton 

Review Report to the members on Statement of Compliance with the Best Practices of Code of Corporate GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Pak Oman Investment Company Limited (the Company) to comply with Regulation G - 1 of 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 as applicable to the company and report if it does not. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company, for the year ended December 31, 2008.

Anjum Asim Shahid Rahman
Chartered Accountants

Karachi: March 30, 2009

Statement of Compliance with the Code of

Corporate GOVERNANCE

For the year ended
December 31, 2008

This statement is being presented to comply with the Code of Corporate Governance framed by the Securities and Exchange Commission of Pakistan and as required by paragraph 3 of BSD Circular No. 15 issued by the State Bank of Pakistan.

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

1. The company encourages representation of independent non-executive directors. At present the Board has only one executive director.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the resident directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred on the Board during the year ended December 31, 2008.
5. The company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the company.
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 were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. 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 directors have also discussed the corporate governance requirements of the DFIs as required by the State Bank of Pakistan' Prudential Regulations during the year.

10. The Board has approved the appointment of the CFO, the Company Secretary and the Head of Internal Audit and as authorized by the Board their remuneration and terms and conditions of employment were determined by the CEO.
11. The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the company.
14. The company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee, which comprises of three non-executive directors, including Chairman.
16. The meetings of the audit committee are held at least once in every quarter prior to approval of interim and final results of the company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function.
18. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review programme 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 except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied.

Yahya Bin Said Bin Abdullah Al-Jabri
Chairman

Agha Ahmed Shah
Managing Director and Chief Executive

Muscat: March 30, 2009

Statement of INTERNAL CONTROLS

For the year ended
December 31, 2008

REPORTING ON INTERNAL CONTROL SYSTEM

It is the management's responsibility to establish and maintain an adequate and effective system of internal control that would help to attain a professional and efficient working environment. The internal control system comprises of control procedures and control environment.

The Management has taken steps to ensure that an efficient and effective internal control system is in place by identifying control objectives, reviewing pertinent policies / procedures and establishing relevant control procedures. All policies and procedures are reviewed on an ongoing basis and necessary amendments are made where needed.

Alongside this, appropriate test of transactions, observation of control environment, sharing of findings on internal control systems and ensuring relevant follow up / corrective actions are also carried out.

The Internal control system 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.

EVALUATION OF EXISTING INTERNAL CONTROL SYSTEMS

The Company has made an effort to ensure that an effective and efficient internal control system is in place and no compromise is made in implementing desired procedures and maintaining a suitable control environment in general. However it is an ongoing process that includes identification, evaluation and management of significant risks faced by the Company.

The observations and weaknesses found and identified by the auditors, both internal and external, have been noted and necessary steps have been taken by Management to ensure elimination of these weaknesses. Management has given a timely and satisfactory response to the recommendations and suggestions made by the auditors. The observations have also been discussed at the Audit Committee and Board of Directors meetings.

We assess that the internal control system and operations have improved over previous years in all business areas. Furthermore, due importance is given to the training needs of staff in order to ensure that their knowledge and skill levels are constantly enhanced and updated.

Mohammad Jamal Nasir
Chief Financial Officer

Abdullah Jamal
Chief Compliance officer

Mohammad Ahmer Siddiqui
Chief Internal Auditor

Muscat: March 30, 2009

Anjum Asim Shahid Rahman
Chartered Accountants

Grant Thornton 

Independent AUDITORS' REPORT to the members

We have audited the annexed balance sheet of Pak Oman Investment Company Limited as at December 31, 2008 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended 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 financial statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

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

- (a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984 (XLVII of 1984);
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 (XLVII of 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 balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at the December 31, 2008, and of the profit, its 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).

Without qualifying our opinion, we draw attention to the matter as disclosed in note 9.12.3 to the financial statements, the ultimate outcome of the matter stated therein cannot presently be determined and no provision for loss, if any, that may result, has been made in the financial statements for the reasons discussed in the aforesaid note.

Anjum Asim Shahid Rahman
Chartered Accountants

Karachi: March 30, 2009

Cash Flow STATEMENT

For the year ended
December 31, 2008

(US \$ in '000)			(Rupees in '000)	
2008	2007	Note	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES				
1,609	8,589		126,560	676,076
1,276	261		100,403	20,579
333	8,328		26,157	655,497
Adjustments for non-cash charges				
194	174	11.1	15,263	13,705
15	12	11.2	1,199	909
5,648	59		444,460	4,654
(21)	(7)	25	(1,675)	(546)
2,558	1,110	10.5	201,345	87,319
663	151	9.3	52,151	11,847
28	28	26	2,177	2,199
-	-		-	-
9,085	1,527		714,920	120,087
9,418	9,855		741,077	775,584
(Increase)/Decrease in operating assets				
5,083	(1,271)		400,000	(100,000)
4,090	(12,498)		321,891	(983,589)
23,863	(19,405)		1,878,039	(1,527,135)
11,909	(10,550)		937,268	(830,294)
(3,581)	(710)		(281,881)	(55,772)
41,364	(44,434)		3,255,317	(3,496,790)
Increase/(Decrease) in operating liabilities				
-	-		-	-
(54,443)	49,649		(4,284,661)	3,907,364
10,861	(10,689)		854,763	(841,225)
362	(856)		28,677	(67,345)
(43,220)	38,104		(3,401,221)	2,998,794
7,562	3,525		595,173	277,588
(27)	(25)		(2,126)	(1,987)
(2,911)	(213)		(229,069)	(16,798)
4,624	3,287		363,978	258,803
CASH FLOW FROM INVESTING ACTIVITIES				
(13,533)	(35,659)		(1,065,026)	(2,806,400)
2,658	197		209,164	15,537
-	(1,490)		-	(117,300)
(3,142)	(6,208)		(247,312)	(488,583)
1,274	306		100,244	24,075
(46)	(125)		(3,653)	(9,822)
81	56		6,364	4,390
(12,708)	(42,923)		(1,000,219)	(3,378,103)
CASH FLOW FROM FINANCING ACTIVITIES				
(167)	(137)		(13,170)	(10,797)
-	38,119		-	3,000,000
(3,907)	(1,906)		(307,500)	(150,000)
(4,074)	36,076		(320,670)	2,839,203
(12,158)	(3,560)		(956,911)	(280,097)
20,508	24,068		1,614,019	1,894,116
8,350	20,508	30	657,108	1,614,019

The annexed notes from 1 to 44 form an integral part of these financial statements. The details of valuation of investments, impairment and impact on profit and loss account are given in note 9.16.

Managing Director and Chief Executive

Chairman

Statement of Changes in EQUITY

For the year ended
December 31, 2008

	Issued, subscribed and paid up capital	RESERVES				Unappropriated profit	Total
		Capital Statutory reserve	Reserve for issue of bonus shares	Revenue General reserve	Reserve for contingencies		
Balance as at January 1, 2007	3,000,000	242,531	-	572,752	59,085	225,787	4,100,155
Dividend paid	-	-	-	-	-	(150,000)	(150,000)
Transfer from general reserve	-	-	-	(81,372)	-	81,372	-
Transfer to contingencies reserve relating to quarter ended December 2006	-	-	-	-	7,159	(7,159)	-
Issue of right shares	3,000,000	-	-	-	-	-	3,000,000
Reserve for issue of bonus shares	-	-	150,000	-	-	(150,000)	-
Issue of bonus shares	150,000	-	(150,000)	-	-	-	-
Profit for the year ended December 31, 2007	-	-	-	-	-	523,305	523,305
Transfer to contingencies reserve	-	-	-	-	20,047	(20,047)	-
Transfer to statutory reserve	-	104,661	-	-	-	(104,661)	-
Balance as at December 31, 2007	6,150,000	347,192	-	491,380	86,291	398,597	7,473,460
Dividend paid	-	-	-	-	-	(307,500)	(307,500)
Transfer to general reserve	-	-	-	84,375	-	(84,375)	-
Transfer to contingencies reserve relating to quarter ended December 2007	-	-	-	-	6,722	(6,722)	-
Profit for the year ended December 31, 2008	-	-	-	-	-	6,453	6,453
Transfer to statutory reserve	-	1,291	-	-	-	(1,291)	-
Balance as at December 31, 2008	6,150,000	348,483	-	575,755	93,013	5,162	7,172,413

The annexed notes from 1 to 44 form an integral part of these financial statements. The details of valuation of investments, impairment and impact on profit and loss account are given in note 9.16.

Managing Director and Chief Executive

Chairman

Notes to and forming part of the financial STATEMENTS

For the year ended December 31, 2008

1 LEGAL STATUS AND NATURE OF BUSINESS

Pak-Oman Investment Company Limited was incorporated as a private limited company on July 23, 2001. Subsequently, on March 17, 2004 the company was converted into a public company. It is a joint venture between the Government of Pakistan and the Government of the Sultanate of Oman. The company's objectives inter alia include promotion of the economic growth of Pakistan and Oman through industrial development and agro-based industries on commercial basis and to carry on the business of finance and/or investment bank. The registered office of the company is situated at 1st Floor, Block A, Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan. The company operates a branch at Lahore and other representative offices at Islamabad, Gawadar and Muscat. The company is designated as a development financial institution (DFI) under the BPD circular No. 35 dated October 28, 2003 issued by the State Bank of Pakistan.

2 STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan, requirements of the Companies Ordinance, 1984 (the Ordinance) and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP) including BSD circular No. 04 dated February 17, 2006. The approved accounting standards comprise such International Financial Reporting Standards as are notified under the provisions of the Companies Ordinance, 1984. However, wherever the requirements of the Ordinance or directives issued by SECP and the SBP differ with the requirements of approved standards, the requirements of the Ordinance or the directives of the SECP or SBP have been followed.

3 BASIS OF PRESENTATION

3.1 The SBP through its BSD circular No. 11 dated September 11, 2002 has deferred implementation of IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 40 'Investment Property' for Non-Bank Financial Institutions (NBFIs) in Pakistan. Accordingly, the requirements of those IASs have not been considered in preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

Separate financial statements

These financial statements are separate financial statements of Pak-Oman Investment Company Limited in which the investments in subsidiary and associates are accounted for at cost and hence not on the basis of reported results and the net assets of the investee.

US Dollar equivalent

The US dollar amounts shown in the balance sheet, profit and loss account and cash flow statement are stated as additional information solely for the convenience of the reader. For this purpose the amounts in Pakistan rupees have been converted at a rate of Rs. 78.7 = US dollar 1 for the years ended December 31, 2008 and December 31, 2007.

4 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except that certain investments have been stated at revalued amounts in accordance with the directives of the SBP and obligations in respect of certain staff retirement benefits are carried at present value.

These financial statements have been prepared following the accrual basis of accounting except cash flow information.

Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- (a) Critical judgments in classification of investments in accordance with the company's policy (notes 5.3 and 9).
- (b) Assumption and estimation in recognition of taxation and deferred taxation (notes 5.8, 12 and 28).
- (c) Actuarial assumptions and estimations in recognition of defined benefit obligation and calculation of charge for defined benefit plan (notes 5.10 and 32).

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

4.1 Restatement of financial statements

In previous years certain investments restated as investment in associates and in accordance with the requirements of International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates," the financial statements for the year ended December 31, 2007 have been restated to correct the error with respect to the accounting for investment.

The effect of restatement is net increase in investment by an amount of Rs. 11.1 million, a consequent decrease in deficit on revaluation of investments and increase in net assets by the same amount. The effect on opening retained earning amounting to Rs. 12,125 has not been adjusted as the amount is considered as immaterial.

4.2 Following is the summary of the restatement in the prior year.

Mutual funds units/certificates	Type of mutual fund	December 31, 2007		
		Cost	Market value	Surplus / (Deficit)
Pak Oman Bank of Punjab Advantage fund	Open-end	300,000	304,380	4,380
Pak Oman Advantage fund	Closed-end	188,583	173,103	(15,480)
		488,583	477,483	(11,100)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with treasury banks, balances with other banks and placements with financial institutions having maturities of three (3) months or less.

5.2 Revenue recognition

(i) Gain on sale of securities and income from bank deposits and government securities are recognised on an accrual basis.

Income from loans and term finance certificates are recognised on an accrual basis.

Profit required to be suspended in compliance with the prudential regulations issued by the SBP is recorded on receipt basis.

- (ii) Fees and commission are recognised on receipt basis.
- (iii) The company follows finance method in recognising income on lease financing. Under this method the unearned income i.e. the excess of aggregate lease rentals over the cost of the asset under lease facility is deferred and then amortised over the term of the lease, so as to produce a constant rate of return on net investment in the lease.
- (iv) Dividend income is recognised when the company's right to receive the amount is established.

5.3 Investments

- 5.3.1 In accordance with BSD circular No. 10 dated July 13, 2004 the company classifies its investments as follows:

Held-for-trading

These are investments acquired principally for the purpose of generating profit from short-term fluctuation in prices or dealers' margins, or are securities included in a portfolio in which a pattern of short-term profit taking exists.

Held-to-maturity

These are securities acquired by the company with the intention and ability to hold them upto maturity.

Available-for-sale

These are investments that do not fall under the 'held-for-trading' or 'held-to-maturity' categories.

- 5.3.2 The company values its investments as follows:

- Listed securities, excluding investments categorised as 'held-to-maturity' securities and investments in an associates, are stated at revalued amounts.
- Investment in quoted associate is stated at cost.
- Investments in unlisted associate and subsidiary are stated at cost less provision for impairment, if any. Unlisted equity securities other than investments in an associate and a subsidiary are stated at lower of cost or break-up value.
- Investments in securities categorised as 'held-to-maturity' are carried at amortised cost.

- 5.3.3 Any surplus/deficit arising as a result of revaluation of listed and government securities categorised as 'available-for-sale' is presented below shareholders' equity in balance sheet while any surplus/deficit arising as a result of revaluation of 'held-for-trading' securities is credited/charged to the profit and loss account.

- 5.3.4 The cost of acquisition of 'dealing securities' (i.e. quoted securities purchased and sold on the same day) is not considered for calculating the 'moving average cost' of other quoted securities (i.e. quoted securities sold after the date of purchase).

- 5.3.5 Premium paid/discount on acquisition of securities are amortised on a straight line basis over the term of respective securities.

- 5.3.6 Unlisted debt securities where active market does not exist are stated at cost.

- 5.3.7 The company follows trade date accounting for investments in held-for-trading securities.

- 5.3.8 Gains and losses arising on sale of investments are recognised in profit and loss account.

5.4 Derivatives

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

5.5 Advances

- 5.5.1 Advances are stated net of specific and general provisions against non-performing advances, if any, which are charged to profit and loss account.

- 5.5.2 Provision against non-performing advances
The company determines provision against advances on a prudent basis in accordance with the prudential regulations issued by the SBP.

Advances are written off when it is considered that there is no realistic prospect of recovery.

5.6 Operating fixed assets

5.6.1 Owned

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life. Depreciation is charged at rates stated in note 11.1. Capital work-in-progress is stated at cost less impairment losses, if any. These are transferred to specific assets as and to the assets are available for use.

Residual values and useful lives are reviewed at each balance sheet date, and adjusted if impact on depreciation is considered significant.

Depreciation on additions and deletions of operating fixed assets during a year is charged in proportion to the period of use.

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

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

5.6.2 Leased

Assets held under finance lease are accounted for by recording the assets and related liabilities at the amounts determined on the basis of the lower of fair value of assets and the present value of minimum lease payments. Finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged on leased assets on a basis similar to that of owned assets.

5.6.3 Intangible assets

Expenditure incurred to acquire software licences is capitalised as intangible assets and stated at cost less accumulated amortization and impairment losses, if any.

Intangible assets having a finite life are amortised using the straight line method over their estimated useful lives. Amortization is charged at the rate stated in note 11.2.

Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use.

5.7 Securities under repurchase/resale agreements

Securities sold subject to repurchase agreements (repo) are retained in the financial statements as investments and a counterparty liability is included in borrowings. Securities purchased under agreement to resell (reverse repo) are included in lendings. The difference between the sale and repurchase price is treated as mark-up or return expensed and earned respectively and is recognised on accrual basis.

5.8 Taxation**5.8.1 Current**

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

5.8.2 Deferred

The company accounts for deferred taxation using the balance sheet liability method on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the applicable tax rates. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits will be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

5.9 Borrowings

Borrowings are recognised initially at the value of consideration received. Difference between the consideration received and the redemption value is recognised in profit and loss account over the period of the borrowings.

5.10 Staff retirement benefits**5.10.1 Defined benefit plan**

The company operates a funded-gratuity scheme for all its permanent employees. Contribution to the fund is made every year based on actuarial valuation. The scheme was established on November 1, 2002 and approved by the Commissioner of Income Tax with effect from January 31, 2003. The actuarial valuation was conducted as at December 31, 2008.

5.10.2 Defined contribution plan

The company also operates a provident fund scheme for its permanent employees. Equal monthly contributions at the rate of 8.33 percent per annum of basic salary are made by the company and its employees. The scheme was established on November 1, 2002 and approved by the Commissioner of Income Tax with effect from January 31, 2003.

5.11 Compensated absences

Compensated absences (leave) of employees are accounted for in the period in which these absences are earned.

5.12 Foreign currencies

Monetary assets and liabilities in foreign currencies are reported in Pakistan rupees at the rates of exchange prevailing on the balance sheet date. Foreign currency transactions during the year are recorded at the rates prevailing on the date of transaction. Exchange gains and losses are included in the profit and loss account.

5.13 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

5.14 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

5.15 Dividend and reserves

Dividend declared and appropriations, except for transfer to statutory reserve, made subsequent to the balance sheet date are recognised as liability and recorded as changes in reserves respectively in the period in which these are approved by the directors/shareholders as appropriate.

5.16 Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists the assets' recoverable amount is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

5.17 Standards, amendments and interpretations to published approved accounting standards effective in current year

During the year ended December 31, 2008, IFRIC 14 "IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction" is effective from the company's annual periods beginning on or after January 01, 2008. IFRIC 14 provides guidance on assessing the limit in International Accounting Standard (IAS) 19 Employee Benefits on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The company has considered the implication of interpretation on the surplus that can be recognized as an asset.

There are other new standards and interpretations to published approved accounting standards that are mandatory for accounting periods beginning on or after January 01, 2008 but are considered not to be relevant or do not have any significant impact on the company's financial statements.

5.18 Standards, amendments and interpretations to published approved accounting standards that are relevant but not yet effective

The following standards, amendments and interpretations to published approved accounting standards are mandatory for the company's accounting periods beginning on or after January 01, 2009:

IFRS 8 Operating Segments (effective for annual periods beginning on or after January 01, 2009) introduces the "management approach" to segment reporting. IFRS 8 will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the company's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the company presents segment information in respect of its business and geographical segments. This standard will have no effect on the company's reported total profit or loss or equity.

IAS 1 "Presentation of Financial Statements" effective for annual periods beginning on or after January 01, 2009 revises the existing IAS 1 and requires apart from changing the names of certain components of financial statements, presentation of transactions with owners in statement of changes in equity and with non-owners in comprehensive Income Statement. Adoption of the above standard will only effect the presentation of financial statements.

IFRS 7 "Financial Instruments: Disclosures" (effective for annual periods beginning on or after April 28, 2008) supersedes IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and the disclosure requirements of IAS 32 "Financial Instruments: Presentation." The application of the standard is not expected to have significant impact on the company's financial statements other than increase in disclosures.

There are other amendments resulting from annual improvement project initiated by International Accounting Standards Board in May 2008, specifically in IAS 1 "Presentation of Financial Statements," IAS 19 "Employee Benefits," IAS 28 "Investment in Associates," IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets" that are considered relevant to the company's financial statements. The management is in the process of evaluating the impact of these changes on the company's financial statements.

5.19 Following standards and interpretations have been issued but are not effective. Consequently respective requirements have not been followed while preparing these financial statements.

Standard or Interpretation		Effective date
Share-based Payments	IFRS 2	January 01, 2009
Business Combinations	IFRS 3	July 01, 2009
Operating Segments	IFRS 8	January 01, 2009
Non-current Assets Held for Sale and Discontinued Operations	IFRS 5	July 01, 2009
Property, Plant and Equipment	IAS 16	January 01, 2009
Accounting for Government Grants and Disclosure of Government Assistance	IAS 20	January 01, 2009
Borrowing Costs	IAS 23	January 01, 2009
Consolidated and Separate Financial Statements	IAS 27	January 01, 2009
Interests in Joint Ventures	IAS 31	January 01, 2009
Financial Instruments: Presentation	IAS 32	January 01, 2009
Service Concession Arrangements	IFRIC 12	January 01, 2008
Customer Loyalty Programmes	IFRIC 13	July 01, 2008
IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	IFRIC 14	January 01, 2008
Agreements for the Construction of Real Estate	IFRIC 15	January 01, 2009
Distributions of Non-cash Assets to Owners	IFRIC 17	July 01, 2009

Above standards and interpretations are not expected to materially affect the financial statements.

5.20 Functional and presentation currency

Items included in the financial statements are measured using the currency of primary economic environment in which the company operates. These financial statements are presented in Pakistani rupees, which is the company's functional and presentation currency.

5.21 General

Amounts in these financial statements have been rounded off to the nearest thousand rupee except stated otherwise.

6 CASH AND BALANCES WITH TREASURY BANKS

(Rupees in '000)			
	Note	2008	2007
Cash in hand in local currency		166	61
Balances with State Bank of Pakistan (SBP) in local currency			
current accounts		382	7,981
cash reserve	6.1	48,000	17,000
		48,548	25,042

6.1 This represent the amount required to be maintained by the company in accordance with the SBP's regulations.

7 BALANCES WITH OTHER BANKS

(Rupees in '000)			
	Note	2008	2007
In Pakistan			
current account		736	2,026
deposit accounts	7.1	506,529	1,639,673
		507,265	1,641,699
Outside Pakistan			
current accounts		1,295	278
		508,560	1,641,977

7.1 These include term deposit receipts (TDRs) aggregating Rs.460 million (2007: Rs. 1,500 million). The rate of return on these TDRs maturing in January 2009 (2007: January 2008 to March 2008) range from 16.50 to 22 percent per annum (2007: 10.35 to 10.95 percent per annum).

8 LENDINGS TO FINANCIAL INSTITUTIONS

		2008	2007
Placements	8.1	100,000	347,000
Reverse repurchase agreement lendings	8.2	3,023,887	2,943,448
Certificate of investments (COIs)	8.5	13,293	415,623
		3,137,180	3,706,071

8.1 Placements comprise clean short-term lending to First Dawood Investment Bank Limited carrying return of 20% per annum (2007: 7% to 15%). This placement is due for maturity within one month.

8.2 These are short-term lending to different financial institutions secured against government and other securities as disclosed in note 8.4 which are purchased under resale obligations.

8.3 Particulars of lending

	2008	2007
In local currency	3,137,180	3,706,071
In foreign currency	-	-
	3,137,180	3,706,071

8.4 Securities held as collateral against lendings to financial institutions

(Rupees in '000)							
		2008			2007		
		Held by the company	Further given as collateral	Total	Held by the company	Further given as collateral	Total
T-bills		259,121	989,690	1,248,811	100,654	1,795,294	1,895,948
PIBs		225,000	1,442,076	1,667,076	15,000	580,500	595,500
Others	8.4.1	108,000	-	108,000	452,000	-	452,000
		592,121	2,431,766	3,023,887	567,654	2,375,794	2,943,448

8.4.1 Others represent term finance certificates (TFCs)/shares/bonds held as collateral against finance provided in respect of reverse repo lendings.

8.5 COIs aggregating Rs. 8.086 million (2007: Rs. 407.656 million) are due for maturity within a year.

9 INVESTMENTS

9.1 Investments by types

(Rupees in '000)						
	2008			2007		
	Held by the company	Further given as collateral	Total	Held by the company	Further given as collateral	Total
Restated						
Held-for-trading securities						
Pakistan investment bonds	–	–	–	27,840	883,686	911,526
Market treasury bills	–	–	–	18,401	322,015	340,416
Listed shares 9.8.2.2	199,098	–	199,098	918,705	–	918,705
Term finance certificates (TFCs)	93,510	–	93,510	–	–	–
	292,608	–	292,608	964,946	1,205,701	2,170,647
Available-for-sale securities						
Pakistan investment bonds	5,326	499,157	504,483	–	621,625	621,625
Market treasury bills	93,622	413,907	507,529	99,223	160,329	259,552
Listed shares 9.8.1.2	1,306,587	–	1,306,587	844,866	–	844,866
Unlisted shares 9.6	208,333	–	208,333	208,333	–	208,333
Mutual funds Units 9.8.1.1	245,234	–	245,234	124,337	–	124,337
Sukuk certificates 9.15	1,119,004	–	1,119,004	1,056,678	–	1,056,678
Commercial paper 9.14	56,261	–	56,261	488,742	–	488,742
Term finance certificates (TFCs)	2,461,065	46,339	2,507,404	1,816,320	294,227	2,110,547
	5,495,432	959,403	6,454,835	4,638,499	1,076,181	5,714,680
Held-to-maturity securities						
Pakistan investment bonds	275,256	–	275,256	484,420	–	484,420
Associates 9.12						
Japan Power Generation Limited 9.12.2	51,921	70,726	122,647	34,028	75,426	109,454
Pak Oman Bank of Punjab Advantage Plus Fund	159,874	–	159,874	300,000	–	300,000
Pak Oman Advantage Fund	262,828	–	262,828	188,583	–	188,583
Pak Oman Advantage Islamic Income Fund	100,000	–	100,000	–	–	–
Pak Oman Advantage Islamic Fund	100,000	–	100,000	–	–	–
Pak Oman Advantage Stock Fund	100,000	–	100,000	–	–	–
Pak Oman Microfinance Bank Limited	167,000	–	167,000	167,000	–	167,000
	941,623	70,726	1,012,349	689,611	75,426	765,037
Subsidiary 9.13						
Pak Oman Asset Management Company Limited	168,300	–	168,300	168,300	–	168,300
Investment at cost	7,173,219	1,030,129	8,203,348	6,945,776	2,357,308	9,303,084
Less: Provision for diminution in the value of investment 9.3	125,226	–	125,226	73,075	–	73,075
Investment - net of provisions	7,047,993	1,030,129	8,078,122	6,872,701	2,357,308	9,230,009
(Deficit) on revaluation of held-for-trading securities 9.7	(150,616)	–	(150,616)	(46,984)	(596)	(47,580)
(Deficit) on revaluation of available-for-sale securities 20	(841,622)	(89,406)	(931,028)	(86,999)	(31,730)	(118,729)
Total investments at market value	6,055,755	940,723	6,996,478	6,738,718	2,324,982	9,063,700

9.2 Investments by segments

(Rupees in '000)			
	Note	2008	2007
Restated			
Federal government securities			
Pakistan investment bonds (PIBs) 9.4		779,739	2,017,571
Market treasury bills 9.5		507,529	599,968
		1,287,268	2,617,539
Fully paid up ordinary shares/certificate/units			
Listed 9.8		2,596,268	2,485,945
Unlisted 9.9		543,633	543,633
		3,139,901	3,029,578
Term finance certificates (TFCs)			
Listed 9.10		2,319,615	1,867,714
Unlisted 9.11		281,299	242,833
		2,600,914	2,110,547
Commercial papers 9.14		56,261	488,742
Sukuk certificates 9.15		1,119,004	1,056,678
Total investments at cost		8,203,348	9,303,084
Less: Provision for diminution in the value of investments 9.3		125,226	73,075
Investments (net of provisions)		8,078,122	9,230,009
(Deficit) on revaluation of 'held-for-trading' securities		(150,616)	(47,580)
(Deficit) on revaluation of 'available- for-sale' securities		(931,028)	(118,729)
Total investments at market-value		6,996,478	9,063,700

9.3 Particulars of provision for diminution in the value of investments

Opening balance		73,075	61,228
Charge for the year - net		52,151	11,847
Closing balance 9.3.1		125,226	73,075

9.3.1 Particulars of provision in respect of types and segments

Available-for-sale securities			
Fully paid-up ordinary shares - unlisted companies		125,226	73,075

9.4 The rate of return on these PIBs maturing between December 2010 (2007: March 2008) to October 2013 (2007: October 2021), range from 8 (2007: 7) to 14 (2007: 14) percent per annum. The market value of these PIBs as at December 31, 2008 aggregates Rs. 624.979 million (2007: Rs. 1,931.350 million).

9.5 The rates of return on these market treasury bills maturing in February 2009 (2007: January 2008 to December 2008) is 10.10 (2007: 9.31) percent per annum. The market value of these T -bills as at December 31, 2008 aggregated Rs. 504.602 million (2007: Rs. 599.793 million).

9.6 Quality of available-for-sale-securities/entities

	2008		2007	
	Market value (Rupees in '000)	Rating	Market value (Rupees in '000)	Rating
Securities				
Pakistan investment bonds (PIBs)				
10 Year PIBs	417,587	Unrated	472,586	Unrated
5 Year PIBs	–	–	100,373	Unrated
	417,587		572,959	
Market treasury bills				
12-months T-bills	504,602	Unrated	259,573	Unrated
Entity				
Mutual funds units/certificates				
Open-end mutual funds				
National Investment Unit Trust	135,358	5-Star	–	–
KASB Balanced Fund	–	–	100,000	AM3+
Closed-end mutual funds				
NAMCO Balanced Fund	22,998	AM3-	20,321	AM3-
JS Value Fund	16	5-Star	–	–
Pakistan Premier Fund	5	4-Star	–	–
PICIC Growth Fund	8	AM3-	–	–
Entity				
		Long term/short term		Long term/short term
Quoted Shares				
Investment Banks/Companies/Securities				
First National Equities Limited	3	Unrated	–	–
Arif Habib Limited	74	A+/A-1	–	–
Arif Habib Securities Limited	360	A+/A-1	–	–
Dawood Equities Limited	2	AM4+	–	–
Jahangir Siddiqui Company Limited	36,725	AA+/A1+	–	–
Javed Omer Vohra Company Limited	2,779	BB+/B	–	–
JS Investment Limited	41	AA-/A1+	–	–
Pervaiz Ahmed Securities Limited	189	Unrated	–	–
Textile Composite				
Nishat Mills Limited	1,180	A+/A1	51,748	A+/A1
Azgard Nine Limited	5	A+/A1	–	–
Dawood Lawrencepur Limited	14	Unrated	–	–
Nishat Chunia Limited	18	Unrated	–	–
Textile Spinning				
D.S Industries Limited	8	Unrated	–	–
Synthetic and Rayon				
Dewan Salman Fibers Limited	25	Unrated	–	–
Cement				
D.G.Khan Cement Company Limited	318	Unrated	52,085	Unrated
Lucky Cement Limited	1,410	Unrated	–	–
Maple Leaf Cement Limited	39	BBB+/A2	–	–
Al-Abbas Cement Industries Limited	5	Unrated	–	–
Dewan Cement Limited	5	BB/B	–	–
Fauji Cement Company Limited	62,119	Unrated	–	–
Pakistan Cement Company Limited	53	Unrated	–	–
Pioneer Cement Limited	50	BBB/A3	–	–

	2008		2007	
	Market value (Rupees in '000)	Rating	Market value (Rupees in '000)	Rating
Entity				
		Long term/short term		Long term/short term
Engineering				
Crescent Steel & Allied Products Limited	57	A+/A-1	–	–
Dost Steel Limited	23	Unrated	–	–
Oil and Gas Marketing /Exploration Companies				
Pakistan State Oil Company Limited	1,260	AAA/A1+	–	–
Attock Petroleum Limited	38,291	Unrated	–	–
Mari Gas Company Limited	1	Unrated	–	–
Oil & Gas Development Company Limited	8,381	AAA/A-1+	–	–
Pakistan Oil Fields Limited	3,012	Unrated	–	–
Pakistan Petroleum Limited	2,040	Unrated	–	–
Sui Northern Gas Company Limited	45	AA/A1+	–	–
Sui Southern Gas Company Limited	22	AA-/A1+	–	–
Fertilizer				
Fauji Fertilizer Bin Qasim Limited	29,751	Unrated	4,205	Unrated
Fauji Fertilizer Company Limited	943	Unrated	–	–
Automobile Assembler				
Al-Ghazi Tractor Limited	45,710	A/A2	61,327	A/A2
Honda Atlas Car Limited	81	Unrated	–	–
Indus Motors Company Limited	10	Unrated	–	–
Chemical				
ICI Pakistan Limited	14	Unrated	–	–
Nimir Resins Limited	–	–	5,400	Unrated
BOC Pakistan Limited	6	Unrated	–	–
Engro Chemical Pakistan Limited	13,514	AA/A1+	–	–
Pakistan PTA Limited	22	Unrated	–	–
Sitara Peroxide Limited	63	Unrated	–	–
Glass and Ceramics				
Ghani Glass Limited	–	–	4,015	Unrated
Commercial Banks				
National Bank of Pakistan	30,771	AAA/A-1+	206,614	AAA
Saudi Pak Commercial Bank Limited	107,506	A-/A-3	140,806	BBB+
Habib Bank Limited	1,611	AA+/A-1+	71,970	AA+
NIB Bank Limited	13,677	AA-/A1+	710	A+/A1
United Bank Limited	2,032	AA+/A-1+	89,182	AA+
Arif Habib Bank Limited	107	A/A-2	173	A/A-2
Allied Bank Limited	22,690	AA/A1+	–	–
Askari Bank Limited	80	AA/A1+	–	–
Bank Al-Habib Limited	109	AA/A1+	–	–
Bank Al-Falah Limited	183	AA/A1+	–	–
Bank Islami Pakistan Limited	7,567	A-/A2	–	–
The Bank of Punjab	130	AA-/A1+	–	–
Faysal Bank Limited	12	AA/A1+	–	–
JS Bank Limited	68	A-/A2	–	–
Meezan Bank Limited	6	A+/A-1	–	–
MCB Bank Limited	16,319	AA+/A1+	–	–
Sonari Bank Limited	27	AA-/A1+	–	–
Insurance				
Adamjee Insurance Company Limited	2,297	AA	–	–
EFU General Insurance Limited	8,974	AA	–	–
EFU Life Assurance Limited	16,411	AA-	–	–
Pakistan Reinsurance Limited	2,425	Unrated	–	–

	2008		2007	
	Market value (Rupees in '000)	Rating	Market value (Rupees in '000)	Rating
	Entity Long term/short term		Entity Long term/short term	
Technology & Communication				
Eye Television Network Limited	7	Unrated	–	–
Netsol Technologies Limited	28,912	Unrated	–	–
Pakistan Telecommunication Limited	138	Unrated	–	–
Telecard Limited	19	Unrated	–	–
TRG Pakistan Limited	43	BBB+/A2	–	–
Worldcall Telecom Limited	57	A+/A1	–	–
Transport				
Pakistan International Container Terminal	14	A-/A2	–	–
Power Generation & Distribution				
HUB Power Company Limited	98	Unrated	–	–
Kot Addu Power Company Limited	4	Unrated	–	–
Refinery				
National Refinery Limited	22,056	AAA/A1+	63,030	AAA/A1+
Bosicor Pakistan Limited	125	Unrated	–	–
Attock Refinery Limited	32,900	AA/A1+	–	–
Pakistan Refinery Limited	218	Unrated	–	–
Cable & Electrical Goods				
Pak Elektron Limited	49	A/A1+	–	–
Paper & Board				
Packages Limited	31	AA/A1+	–	–
Pharmaceuticals				
Searle Pakistan Limited	6	BBB/A-3	–	–
Miscellaneous				
PACE (Pakistan) Limited	521	A+/A1	–	–
Tri-Pack Films Limited	86	A+/A1	–	–
	725,339		871,586	
Unlisted shares stated at cost				
Al-Hamra Avenue (Private) Limited	50,000	Unrated	50,000	Unrated
Systems Limited	10,000	Unrated	10,000	Unrated
Vision Network Television Limited	77,000	Unrated	77,000	Unrated
Pakistan Textile City Limited	50,000	Unrated	50,000	Unrated
Techlogix International Limited	21,333	Unrated	21,333	Unrated
	208,333		208,333	
Listed TFCs				
Modarbas				
Al Zamin Leasing Modarba	29,147	A-	44,510	A
Investment Bank/Companies/Securities				
Jahangir Siddiqui and Company Limited	97,421	AA+/A1+	99,442	AA+
Escort Investment Bank Limited	20,763	A+	20,151	A+
Commercial Banks				
Allied Bank Limited II	120,654	AA-	136,934	A+
Askari Commercial Bank Limited II	–	–	1,799	AA-
Bank Al-Falah Limited III	4,883	AA-	–	–
Standard Chartered Bank (Pakistan) Limited (originally issued by Union Bank Limited II)	81,566	AAA	86,837	AAA
Standard Chartered Bank (Pakistan) Limited (originally issued by Union Bank Limited III)	122,387	AAA	127,976	AAA
Faysal Bank Limited	89,854	AA-	68,937	AA-
NIB Bank Limited	106,009	AA/A1+	100,000	A(R W)
Bank Al Habib Limited	52,127	AA/A1+	54,435	AA-

	2008		2007	
	Market value (Rupees in '000)	Rating	Market value (Rupees in '000)	Rating
	Entity Long term/short term		Entity Long term/short term	
Technology and Communication				
Telecard Limited	133,584	BBB	195,284	BBB
Pakistan Mobile Communication Limited	165,622	AA-	154,907	AA-
Worldcall Telecom Limited	550,825	AA-	–	–
Chemical				
Ittehad Chemicals Limited	–	–	11,658	A
Engro Chemical Pakistan Limited	163,466	AA	107,015	AA
Azgard Nine Limited	70,782	AA-	110,092	AA-
Azgard Nine Limited (unlisted stated at cost)	9,996	AA-	50,000	AA-
Textile Composite				
Kunjah Textile Mills Limited (unlisted stated at cost)	15,000	BBB	15,000	BBB
Fertilizer				
Pak American Fertilizer Limited (unlisted stated at cost)	99,960	A+/A1	100,000	Unrated
Pak Arab Fertilizer Company Limited	47,605	AA	–	–
Leasing Companies				
Saudi Pak Leasing Company Limited	143,555	A-	195,000	A
Security Leasing Corporation Limited (unlisted stated at cost)	37,500	BBB+/A-3	52,500	A-
Miscellaneous				
Pakistan Services Limited	–	–	30,270	A
Pace Pakistan Limited	304,642	A+/A1	350,000	AA-
Avari Hotels Limited (unlisted stated at cost)	25,333	A-	25,333	A-
	2,492,681		2,138,080	
Sukuk Certificates- unlisted stated at cost				
Amtex Limited	72,638	A-/A-2	–	–
Karachi Shipyard & Engineering Works Limited-II	29,000	Unrated	–	–
Security Leasing Corporation Limited	43,750	BBB/A-3	100,366	A-
Security Leasing Corporation Limited II	50,288	BBB/A-3	–	–
Orix Leasing Pakistan Limited	75,000	AA(p)	125,366	AA(p)
Sitara Energy Limited	159,235	Unrated	140,262	Unrated
Sui Southern Gas Company Limited	604,093	AA-/A1+	605,268	Unrated
New Allied Electronic Industries (Private) Limited	85,000	D	85,416	A+
	1,119,004		1,056,678	
Commercial Papers - unlisted stated at cost				
Dewan Farooque Motors Limited	–	–	28,437	A/A2
Pak American Fertilizer Company Limited	56,261	A/A1	115,727	A/A1
Azgard Nine Limited	–	–	202,136	A+/A1
Worldcall Telecom Limited	–	–	142,442	A+/A1
	56,261		488,742	
	5,523,807		5,595,951	

9.7 Unrealised (loss) on revaluation of investments classified as 'held-for-trading' securities

(Rupees in '000)			
	Note	2008	2007
Pakistan investment bonds		–	(393)
Market treasury bills		–	(196)
Quoted shares/units		(150,616)	(46,991)
	9.1	(150,616)	(47,580)

9.8 The company holds investments in shares/certificates/units of Rs 10 each, unless stated otherwise, of listed companies/funds:

9.8.1 Available For Sale

Investee	2008	2007	2008	2007
	Number of units		Cost (Rupees in '000)	
9.8.1.1 Mutual Funds Units				
Open-end mutual funds				
National Investment Trust	4,058,709	–	220,874	–
KASB Balanced Fund	–	2,000,000	–	100,000
Close-end mutual funds				
NAMCO Balanced Fund	2,433,667	2,433,667	24,337	24,337
JS Value Fund	3,499	–	10	–
Pakistan Premier Fund Limited	2,707	–	4	–
PICIC Growth Fund	1,348	–	9	–
			245,234	124,337

Investee	Number of shares			
	2008	2007	2008	2007
9.8.1.2 Shares				
Investment Bank/Companies/Securities				
Arif Habib Securities Limited	8,555	–	386	–
Javed Omer Vohra and Company Limited	306,418	–	39,780	–
First National Equities Limited	54	–	3	–
Arif Habib Limited	863	–	64	–
Dawood Equities Limited	200	–	2	–
Invest & Finance Securities Limited	62	–	–	–
Jahangir Siddique Company Limited	702,458	–	67,482	–
JS Investment Limited	936	–	37	–
Pervaiz Ahmed Securities Limited	52,318	–	348	–
Commercial Banks				
Arif Habib Bank Limited	19,301	5,000	67	–
NIB Bank Limited	2,928,652	32,500	24,677	822
United Bank Limited	55,043	515,800	2,182	94,861
Habib Bank Limited	21,516	300,000	1,730	89,610
The Bank of Punjab	9,811	–	148	–
MCB Bank Limited	129,708	–	28,415	–
National Bank of Pakistan	611,515	890,000	109,854	238,546
Saudi Pak Commercial Bank Limited	21,458,252	5,489,500	272,326	146,103
Allied Bank Limited	724,450	–	42,228	–
Askari Bank Limited	5,442	–	88	–

Investee	2008	2007	2008	2007
	Number of shares		Cost (Rupees in '000)	
Bank Al-Habib Limited	4,401	–	107	–
Bank Al-Falah Limited	10,925	–	198	–
Bank Islami Pakistan Limited	1,043,770	–	11,177	–
Faysal Bank Limited	1,025	–	14	–
JS Bank Limited	11,853	–	42	–
Meezan Bank Limited	301	–	7	–
Soneri Bank Limited	2,445	–	21	–
Insurance				
Adamjee Insurance Company Limited	22,554	–	2,467	–
EFU General Insurance Limited	67,470	–	7,674	–
EFU Life Assurance Limited	46,000	–	11,394	–
Pakistan Reinsurance Limited	102,358	–	4,024	–
Textile Composite				
Nishat Mills Limited	52,201	491,900	1,146	62,333
Azgard Nine Limited	289	–	5	–
Dawood Lawrencepur Limited	283	–	12	–
Nishat Chunia Limited	1,896	–	14	–
Textile Spinning				
D.S. Industries Limited	510	–	7	–
Synthetic and Rayon				
Dewan Salman Fibre Limited	17,686	–	16	–
Engineering				
Crescent Steel & Allied Products Limited	3,358	–	58	–
Dost Steel Limited	2,893	–	24	–
Cable & Electrical Goods				
Pak Eleckton Limited	2,147	–	52	–
Paper & Board				
Packages Limited	382	–	31	–
Cement				
D.G. Khan Cement Company Limited	14,971	550,000	342	63,171
Maple Leaf Cement Limited	9,551	–	26	–
Lucky Cement Limited	45,100	–	1,514	–
Al-Abbas Cement Industries Limited	1,255	–	4	–
Dewan Cement Limited	1,807	–	6	–
Fauji Cement Company Limited	13,216,911	–	211,312	–
Pakistan Cement Company Limited	16,643	–	33	–
Pioneer Cement Limited	2,091	–	44	–
Thatta Cement Limited	24	–	–	–
Refinery				
National Refinery Limited	231,804	174,600	91,138	71,851
Pakistan Refinery Limited	2,218	–	191	–
Bosicor Pakistan Limited	26,857	–	89	–
Attock Refinery Limited	549,355	–	61,286	–
Power Generation and Distribution				
HUB Power Company Limited	6,954	–	81	–
Kot Addu Power Company Limited	135	–	3	–
Oil and Gas Marketing/Exploration Companies				
Pakistan State Oil Company Limited	8,717	–	1,354	–

Investee	2008	2007	2008	2007
	Number of shares		Cost (Rupees in '000)	
Pakistan Oilfield Limited	29,389	–	3,235	–
Pakistan Petroleum Limited	20,278	–	2,191	–
Oil and Gas Development Company Limited	167,656	–	9,000	–
Attock Petroleum Limited	265,263	–	124,733	–
Mari Gas Company Limited	7	–	1	–
Sui Northern Gas Company Limited	2,074	–	34	–
Sui Southern Gas Company Limited	2,056	–	24	–
Technology and Communication				
Callmate Telips Telecom Limited	–	202,000	–	–
Eye Television Network Limited	190	–	5	–
Netsol Technologies Limited	1,144,173	–	36,164	–
Pakistan Telecommunication Limited	8,147	–	149	–
Telecard Limited	9,743	–	13	–
TRG Pakistan Limited	24,245	–	30	–
Worldcall Telecom Limited	19,226	–	54	–
Transport				
Pakistan International Container Terminal	303	–	13	–
Fertilizer				
Fauji Fertilizer Company Limited	16,060	–	895	–
Fauji Fertilizer Bin Qasim Limited	2,306,257	100,000	52,474	4,622
Automobile Assembler				
Al-Ghazi Tractors Limited	209,200	222,200	58,799	62,453
Honda Atlas Car Limited	7,032	–	95	–
Indus Motors Company Limited	79	–	9	–
Chemical				
ICI Pakistan Limited	208	–	15	–
BOC Pakistan Limited	56	–	7	–
Engro Chemical Pakistan Limited	140,101	–	22,106	–
Pakistan PTA Limited	13,610	–	16	–
Sitara Peroxide Limited	3,456	–	56	–
NIMIR Resins Limited	–	400,000	–	6,174
Pharmaceuticals				
Searle Pakistan Limited	88	–	–	–
Glass & Ceramics				
Ghani Glass Mills Limited	–	50,000	–	4,320
Miscellaneous				
PACE (Pakistan) Limited	60,285	–	646	–
Tri-Pack Films Limited	693	–	88	–
			1,306,587	844,866

Investee	2008	2007	2008	2007
	Number of units		Cost (Rupees in '000)	
9.8.1.3 Associates				
Units				
Open-end mutual funds				
Pak Oman Bank of Punjab Advantage Fund	3,003,542	6,000,000	159,874	300,000
Pak Oman Advantage Islamic Income Fund	2,000,000	–	100,000	–
Pak Oman Advantage Islamic Fund	2,000,000	–	100,000	–
Pak Oman Advantage Stock Fund	2,000,000	–	100,000	–
Close-end mutual funds				
Pak Oman Advantage Fund	27,109,000	18,859,500	262,828	188,583
			722,702	488,583
	Number of shares			
Shares				
Power Generation and Distribution				
Japan Power Generation Limited	30,560,189	25,576,171	122,647	109,454
Total investment in associates classified as available for sale			845,349	598,037
Total investment classified as available for sale			2,397,170	1,567,240

9.8.2 Held for trading

	Number of units			
	2008	2007	2008	2007
9.8.2.1 Units				
Open-end mutual funds				
AMZ Plus Income Fund	–	500,000	–	52,650
Faysal Income and Growth Fund	–	1,893,401	–	200,000
			–	252,650
	Number of shares			
9.8.2.2 Shares				
Investment Bank/Companies/Securities				
Jahangir Siddique Company Limited	128,916	–	26,843	–
Arif Habib Securities Limited	–	575,000	–	103,678
Javed Omer Vohra and Company Limited	–	200,000	–	34,732
Commercial Banks				
Arif Habib Bank Limited	277,775	57,500	6,927	–
United Bank Limited	30,000	–	4,694	–
National Bank of Pakistan	100,000	–	21,095	–
Saudi Pak Commercial Bank Limited	720,680	–	14,508	–
Bank Al-Falah Limited	100,000	–	5,462	–
NIB Bank Limited	–	330,500	7,469	–
Textile Composite				
Nishat Mills Limited	275,000	–	33,454	–
Azgard Nine Limited	210,000	–	16,054	–
Cement				
Lucky Cement Limited	125,000	–	17,158	–
D.G. Khan Cement Company Limited	–	1,500,000	–	153,000

Investee	2008	2007	2008	2007
	Number of shares		Cost (Rupees in '000)	
Refinery				
National Refinery Limited	14,200	–	5,222	–
Attock Refinery Limited	30,000	–	7,366	–
Pakistan Refinery Limited	–	100,000	–	30,351
Oil and Gas Marketing/Exploration Companies				
Pakistan Oilfield Limited	60,000	75,000	21,560	27,244
Pakistan Petroleum Limited	–	660,000	–	170,732
Pakistan State Oil Company Limited	–	50,000	–	21,865
Fertilizer				
Engro Chemical Pakistan Limited	29,900	–	9,230	–
Fauji Fertilizer Company Limited	25,000	–	3,707	–
Fauji Fertilizer Bin Qasim Limited	–	2,300,000	–	110,420
Chemical				
Pakistan PTA Limited	1,000,000	–	5,818	–
ICI Pakistan Limited	–	31,300	–	6,564
			199,098	666,055
Total investment classified as held for trading			199,098	918,705
Total investments			2,596,268	2,485,945

9.8.3 The market value of these shares/certificates/units aggregated Rs. 1,470.663 million (2007: Rs. 2,330.237 million).

9.9 Particulars of investments held in shares of unlisted companies

Investee		2008	2007	2008	2007	Percentage of holding %	Break-up value per share (Rupees)	Latest available financial statements	Name of the chief executive
		Number of shares held		Cost (Rupees in '000)					
Ordinary shares									
Shareholding more than 10%									
Pak Oman Asset Management Company Limited	9.9.1 and 9.9.2	16,830,000	16,830,000	168,300	168,300	51.00	5.98	December 31, 2008***	Ms. Hina Ghazanfar
Pak Oman Microfinance Bank Limited	9.9.1 and 9.9.3	16,700,000	16,700,000	167,000	167,000	33.40	8.62	December 31, 2008*	Mr. Munawar Suleman
Shareholding upto 10%									
Al Hamra Avenue (Private) Limited Systems Limited		5,000,000 518,918	5,000,000 324,324	50,000 10,000	50,000 10,000	3.12 2.46	9.76 19.78	June 30, 2008* December 31 2007*	Mr. Habib Ahmed Mr. Ashraf Kapadia
Vision Network Television Limited		4,400,000	4,400,000	77,000	77,000	6.69	2.43	June 30 2008*	Mr. Khalid Siddiqui
Pakistan Textile City Limited	9.9.1	5,000,000	5,000,000	50,000	50,000	4.55	9.82	June 30 2008*	Mr. Zaheer A. Hussain
Techlogix International Limited		1,872,197	1,872,197	21,333	21,333	1.84	2.33	December 31, 2007**	Mr. Kewan Qadre Khawaja
				543,633	543,633				

* Audited financial statement
** Audited consolidated financial statements
*** Half yearly unaudited financial statements

9.9.1 These investments form part of strategic investment of company and cannot be sold for a period of five (5) years from the last date of purchase of such securities.

9.9.2 These shares are in the custody of SECP and cannot be sold without the prior approval of the SECP in accordance with circular No. 9 of 2006 dated June 15, 2006 in addition to mandatory holding period of five years from the last date purchase of these shares.

9.9.3 These shares are in the custody of the SBP in accordance with SBP's directives for sponsors of micro finance bank and cannot be sold or transferred without the prior permission in writing from the SBP.

9.10 Particulars of investments held in listed TFCs

Investee	2008	2007	2008	2007
	Number of certificates		Cost (Rupees in '000)	
Modarabas				
Al-Zamin Leasing Modaraba II	8,902	8,902	29,544	43,321
Investment Banks/Companies/Securities				
Escort Investment Bank Limited	4,031	4,031	20,143	20,151
Jehangir Siddiqui and Company Limited	19,397	21,397	96,907	99,443
Commercial Banks				
Askari Commercial Bank Limited II	–	360	–	1,799
NIB Bank Limited	23,000	20,000	114,977	100,000
Faysal Bank Limited	17,681	50,000	88,327	68,935
Bank Al-Habib Limited	10,900	10,900	51,512	50,576
Allied Bank Limited II	25,078	25,108	126,913	127,387
Bank Al-Falah Limited III	1,000	–	5,003	–
Standard Chartered Bank (Pakistan) Limited (originally issued by Union Bank Limited II)	17,392	17,392	80,843	84,426
Standard Chartered Bank (Pakistan) Limited (originally issued by Union Bank Limited III)	23,240	23,240	117,400	117,770
Leasing Companies				
Saudi Pak Leasing Company Limited	28,469	39,000	142,317	195,000
Technology and Communication				
Telecard Limited	56,716	56,716	164,108	206,649
Pakistan Mobile Communication Limited -I	31,000	31,000	154,845	154,907
Worldcall Telecom Limited	108,623	–	543,113	–
Chemicals				
Engro Chemical Pakistan Limited	33,970	21,403	163,884	107,015
Azgard Nine Limited	15,000	20,000	68,700	99,920
Ittehad Chemical Limited	–	7,000	–	11,658
Fertilizer				
Pak Arab Fertilizer Company Limited	10,000	–	49,990	–
Miscellaneous				
Pace Pakistan Limited	60,230	70,000	301,089	350,000
Pakistan Services Limited	–	20,387	–	28,757
			2,319,615	1,867,714

9.10.1 The face value of each certificate held in listed TFCs is Rs. 5,000 (2007: Rs. 5,000) per certificate as at December 31, 2008.

9.10.2 The market value of these TFCs aggregated Rs. 2,304.892 million (2007: Rs. 1,895.247 million).

9.10.3 The rate of return on these TFCs maturing between May 2010 (2007: February 2008) to November 2015 (2007: December 2015) ranges from 9.5 (2007: 9.5) to 19.4 (2007: 13.72) percent per annum.

9.11 Particulars of investments held in unlisted TFCs

Investee	2008	2007	2008	2007	Name of the chief executive
	Number of certificates		Cost (Rupees in '000)		
Avari Hotels Limited	5,067	5,067	25,333	25,333	Mr. Byram Avari
Security Leasing Corporation Limited	12,000	12,000	37,500	52,500	Mr. Muhammad Khalid Ali
Pak American Fertilizer Limited	20,000	20,000	99,960	100,000	Mr. Ahmed Jaudet Bilal
Kunjah Textile Mills Limited	3,000	3,000	15,000	15,000	Mr. Shafay Hussain
Azgard Nine Limited	2,000	10,000	9,996	50,000	Mr. Ahmed H. Shaikh
Pakistan Mobile Communication Limited	20,000	—	93,510	—	Mr. Rashid Khan
			281,299	242,833	

9.11.1 The rate of return on these TFCs maturing between October 2010 (2007: March 2011) to November 2014 (2007: November 2014) ranges from 15.82 (2007: 11.71) to 18.35 (2007: 13.19) percent per annum.

9.12 Associates

The company holds investment in ordinary shares of Rs. 10 each in the following entities:

Name of the Investee company		2008	2007	2008	2007	Percentage of holding %	Break-up value per share (Rupees)	Latest available financial statements	Name of the chief executive
		Number of shares		Cost (Rupees in '000)					
Quoted									
Japan Power Generation Limited (JPGL)	9.12.3	30,560,189	25,576,171	122,647	109,454	19.59	(2.78)	December 31, 2008*	Mr. Khan Ahmed Saleem
Pak Oman Advantage Fund		27,109,000	18,859,500	262,828	188,583	27.11	9.58	December 31, 2008*	Ms. Hina Ghazanfar
Pak Oman Bank of Punjab Advantage Fund		3,003,542	6,000,000	159,874	300,000	12.46	45.78	December 31, 2008*	Ms. Hina Ghazanfar
Pak Oman Advantage Islamic Income Fund		2,000,000	—	100,000	—	49.95	50.41	December 31, 2008*	Ms. Hina Ghazanfar
Pak Oman Advantage Islamic Fund		2,000,000	—	100,000	—	68.97	49.75	December 31, 2008*	Ms. Hina Ghazanfar
Pak Oman Advantage Stock Fund		2,000,000	—	100,000	—	69.69	51.46	December 31, 2008*	Ms. Hina Ghazanfar
Unquoted									
Pak Oman Microfinance Bank Limited		16,700,000	16,700,000	167,000	167,000	33.40	8.62	December 31, 2008*	Mr. Munawar Suleman
				1,012,349	765,037				

* Unaudited financial statements

9.12.1 The above associates are incorporated in Pakistan.

9.12.2 The Company exercises significant influence on the financial and operational policies of JPGL due to representation of three directors out of thirteen directors. Accordingly, investment in JPGL is accounted for as investment in associate in these financial statements.

9.12.3 No impairment on investment in Japan Power Generation Limited (JPGL) has been recorded in these financial statements as JPGL has filed for arbitration in the International Court of Arbitration under the rules of International Chamber of Commerce (ICC) in Singapore on January 12, 2009 to enforce implementation of the decision in favor of JPGL of the mutually appointed Expert (the Decision) on disputes between WAPDA and JPGL regarding the payment of indexation of non-escalable component of Capacity Purchase Price (CPP) and liquidated damages for an amount of Rs 3.606 billion. The arbitration process under the rules of the ICC is time bound and takes about 10 to 12 months to complete. The ICC award is final and enforceable in Pakistan as per the New York Convention on arbitral awards signed by Pakistan. The amount receivable under the Decision is sufficient to pay off most if not all of the amortizing debt and make JPGL free of any fixed obligations. JPGL also reserves the right to call the guarantee of the Government of Pakistan under the Implementation Agreement in the event of failure of WAPDA to meet its obligations. The management is confident that WAPDA will meet its obligations to JPGL. Further JPGL has completed all ground work regarding the implementation of Steam Turbine and expansion of the project by 150 MW. It has also signed the EPC contract for the expansion. The steam turbine and expansion projects will be implemented immediately after receiving the amounts from WAPDA under the Decision. The above measures are likely to significantly boost the profitability and book value of JPGL which presently is negative due to accumulated loss of Rs. 1,993 million as at December 31, 2008 and its total liabilities exceeds its total assets by Rs. 433 million.

9.13 Subsidiary

Investee	2008	2007	2008	2007	Percentage of holding %	Break-up value per share (Rupees)	Latest available financial statements	Name of the chief executive
	Number of shares		(Rupees in '000)					
Pak Oman Asset Management Company Limited (Ordinary shares)	16,830,000	16,830,000	168,300	168,300	51	5.98	December 31, 2008*	Ms. Hina Ghazanfar

* Half yearly unaudited financial statements.

9.13.1 The nominal value of these shares is Rs. 10 each.

9.14 The rate of return on these commercial papers maturing between March 2009 (2007: January 2008) to May 2009 (2007: July 2008) range from 16.05 (2007: 10.76) to 16.55 (2007: 13.36) percent per annum.

9.15 The rate of return on these sukuk certificates maturing between May 2012 (2007: May 2012) to February 2013 (2007: September 2012) range from 15.98 (2007: 10.31) to 17.65 (2007: 12.29) percent per annum.

9.16 Impairment on available for sale listed equity instruments

Due to the sudden down turn in the economy and the sharp decline in equity prices, Karachi Stock Exchange (KSE) placed a floor mechanism on individual security prices whereby they could vary within the normal circuit breaker limit but not below the floor price. This mechanism remained in place from August 28, 2008 to December 15, 2008. Consequent to the removal of floor mechanism the KSE 100-Index fell to the level of 6,037 points against its all time high level of above 15,676 points. This resulted into significant diminution in the Company's investment in equity shares held under "Available for Sale" (AFS) category. Keeping in view this deteriorated situation, SBP & SECP issued instructions whereby they gave the option to companies to charge the diminution directly to equity without routing it through profit & loss account and then while adjusting the future prices, amortize the same on quarterly basis during 2009. Total impairment loss based on market values as at December 31, 2008 has been determined at Rs. 826 million. In view of the floor mechanism as explained and current economic conditions in the country, the management believes that these are rare circumstances and the plunge in equity market cannot be considered to be a fair reflection of equity values. Since full recognition of impairment based on market values as at December 31, 2008, for AFS equity securities through profit & loss account will not reflect the correct financial results of the company, therefore management availed the option to charge the diminution directly

to equity without routing it through profit & loss account and then while adjusting the future prices, amortize the same on quarterly basis during 2009. The recognition of entire impairment loss based on the market values as at December 31, 2008 would have had the following effect on these financial statements.

(Rupees)	
	2008
Increase in 'impairment loss' in profit and loss account	826,482,107
Decrease in profit for the year - after tax	826,482,107
Decrease in earnings per share - after tax	1.34
Decrease in deficit on revaluation of available for sale securities	826,482,107
Decrease in un-appropriated profit	826,482,107

10 ADVANCES

(Rupees in '000)			
	Note	2008	2007
In Pakistan			
Loans		4,353,495	3,691,874
Net investment in finance leases	10.2	1,004,985	1,382,824
Long term finance under State Bank of Pakistan's scheme for export oriented projects	14.3	459,210	403,856
Advance against leases		-	8,115
Financing in respect of continuous funding system		149,462	1,477,976
Staff loans	10.3	106,993	47,030
		6,074,145	7,011,675
Less: Provision for non-performing loans and advances	10.4	333,971	132,888
		5,740,174	6,878,787

10.1 Particulars of advances

10.1.1 In local currency	10.1.3	5,740,174	6,878,787
10.1.2 In foreign currency		-	-
10.1.3 Short term (for upto one year)		2,447,981	3,417,627
Long term (for over one year)		3,292,193	3,461,160
		5,740,174	6,878,787

10.1.4 Included in advances are amounts aggregating Rs. 661.412 million (2007: Rs. 365.434 million) against which provision of Rs. 198.794 (2007: Rs 57.103 million) has been made which are outstanding for a period exceeding three years.

10.1.5 Considered good		5,458,982	6,854,810
Considered doubtful		615,163	156,865
		6,074,145	7,011,675
Less: Provision for non-performing loans and advances	10.4	333,971	132,888
		5,740,174	6,878,787

10.2 The periodic break-up of minimum lease payments due is as follows

(Rupees in '000)

	2008			2007				
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
Lease rentals receivable	545,588	438,843	-	984,431	708,657	664,670	-	1,373,327
Residual value	85,387	106,422	-	191,809	70,498	142,575	-	213,073
Minimum lease payments	630,975	545,265	-	1,176,240	779,155	807,245	-	1,586,400
Financial charges for future periods	(94,710)	(76,545)	-	(171,255)	(114,434)	(89,142)	-	(203,576)
Present value of minimum lease payments	536,265	468,720	-	1,004,985	664,721	718,103	-	1,382,824

10.2.1 The above lease receivables are under hypothecation to the extent as stated in note 14.4.

10.2.2 In respect of the aforementioned finance leases the company holds an aggregate sum of Rs. 180.117 million (2007: Rs. 199.812 million) as security deposits on behalf of the lessees which are included under 'other liabilities' (note 17).

10.2.3 The company has entered into lease agreements of various vehicles and plant and machinery. The amount recoverable under these arrangements are receivable by the year 2013 and are subject to finance income at rates ranging between 6.50 (2007: 6.50) to 21.40 (2007: 15.71) percent per annum.

10.2.4 These lease agreements are subject to the provision of clean placement of funds to the lessor of the amount equivalent to cash price of leased vehicles.

10.3 Staff loans include personal loans and house loans advanced to employees in accordance with their terms of appointment. House loans carry mark-up at a rate of 5 (2006: 5) percent per annum, while No mark-up is charged on personal loans.

10.3.1 Staff loans include an amount of Rs.7.345 million (2006: Rs.7.911 million) advanced to the company's chief executive.

10.4 Particulars of classification

Advances include Rs. 615.163 million (2007: Rs. 156.865 million), which have been placed under the non-performing status as detailed below:

	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Substandard	50,000	-	50,000	12,500	-	12,500	12,500	-	12,500
Doubtful	435,663	-	435,663	212,590	-	212,590	212,590	-	212,590
Loss	129,500	-	129,500	108,881	-	108,881	108,881	-	108,881
	615,163	-	615,163	333,971	-	333,971	333,971	-	333,971

10.5 Particulars of provision against non-performing advances

	2008			2007		
	Specific	General	Total	Specific	General	Total
Opening balance	132,888	–	132,888	45,569	–	45,569
Charge during the year	225,090	–	225,090	108,285	–	108,285
Reversal during the year	(23,745)	–	(23,745)	(20,966)	–	(20,966)
Net charge	201,345	–	201,345	87,319	–	87,319
Less: Amounts written off during the year 10.6	(262)	–	(262)	–	–	–
Closing balance	333,971	–	333,971	132,888	–	132,888

10.5.1 Particulars of provisions against non-performing advances

	2008			2007		
	Specific	General	Total	Specific	General	Total
In local currency	333,971	–	333,971	132,888	–	132,888
In foreign currencies	–	–	–	–	–	–
	333,971	–	333,971	132,888	–	132,888

10.6 Particulars of write offs

	2008		2007	
Against provisions	262	–	–	–
Directly charged to profit and loss account	–	–	–	–
	262	–	–	–
10.6.1 Write offs of Rs. 500,000 and above	–	–	–	–
Write offs of below Rs 500,000	262	–	–	–
	262	–	–	–

10.6.2 Statement showing written-off loans or any other financial relief of five hundred thousand rupees or above provided during the year ended December 31, 2008.

S. No.	Name and address of the borrower	Name of individuals/partners/ directors	Father's/Husband's name	Outstanding liabilities at beginning of year				Principal written-off	Interest/ mark-up written-off	Other financial relief provided	Total (9+10+11)	
				Principal	Interest/ mark-up	Others	Total					
1	2	3	4	5	6	7	8	9	10	11	12	
1	Commodities & Textiles (Private) Limited Plot # 67 Sector 28 Korangi Industrial Area Karachi	Mr. Shohail Iqbal Siddiqui Mr. Zafar Muhammad Shaikh Mr. Pervaiz Naeem Mr. Ali Asghar Dossa Mr. Iqbal Dossa Mr. Tajamul Hassain Rizvi	42201-1406164-5 42201-2707099-1 42301-1194215-1 42301-0940756-1 42201-0364551-7 35202-0483376-9	Mr. Masood Nabi Mr. Saghir Muhammad Mr. Abdul Naeem Mr. Iqbal Dossa Mr. Jaffar Ali Dossa Syed Mujtaba Hussain	4,889	376	–	5,265	262	478	–	740
2	Globe Textile Mills Limited HX-2, Scheme No. 4 Landhi Industrial Area Karachi	Mr. Ahmed Habib Mr. Arif Haji Habib	42301-1265108-5 42301-0946950-1	Mr. Haji Habib Mr. Haji Habib	–	3,368	–	3,368	–	668	–	668
					4,889	3,744	–	8,633	262	1,146	–	1,408

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

	2008		2007	
Debts due by directors, executives or officers of the company or any of them either severally or jointly with any other persons				
Balance at beginning of the year	47,030	–	33,669	–
Loans granted during the year	94,120	–	21,777	–
Repayments	(34,157)	–	(8,416)	–
Balance at end of the year	106,993	–	47,030	–
Debts due by companies or firms in which the directors of the company are interested as directors, partners or in the case of private companies as members.				
Balance at beginning of the year	–	–	–	–
Loans granted during the year	–	–	–	–
Repayments	–	–	–	–
Balance at end of the year	–	–	–	–
Debts due by subsidiary companies, controlled firms and other related parties				
Balance at beginning of the year	4,772	–	54,533	–
Loans granted during the year	79,414	–	5,103	–
Repayments	(1,760)	–	(54,864)	–
Balance at end of the year	82,426	–	4,772	–
	189,419	–	51,802	–

10.8 Maximum total amount of advances including temporary advances granted during the year amounts to Rs. 206.89 (2007: Rs. 93.848) million. The maximum amount has been calculated by reference to month end balance.

11 OPERATING FIXED ASSETS

		2008	2007
Property and equipment	11.1	66,154	72,223
Intangible	11.2	955	1,654
		67,109	73,877

11.1 Property and equipment

(Rupees in '000)

	Cost		As at December 31, 2008	Depreciation		Net book value		Rate %
	As at January 1, 2008	Addition (deletion) during the year		As at January 1, 2008	During the year / (on disposals)	As at December 31, 2008	As at December 31, 2008	
Owned								
Office premises on leasehold land *	42,126	–	42,126	7,021	2,106	9,127	32,999	5
Improvement	6,518	1,254	7,772	2,976	1,178	4,154	3,618	20
Office equipment	6,537	238	6,775	2,780	1,192	3,972	2,803	20
Computer equipment	10,434	556	10,617	7,676	1,691	8,994	1,623	33.33
		(373)		(373)				
Furniture and fixtures	11,956	1,055	12,194	5,659	1,810	7,082	5,112	20
		(817)		(387)				
Vehicles	2,299	50	2,291	1,157	464	1,563	728	20
		(58)		(58)				
Assets subject to finance lease								
Vehicles	30,793	10,730	33,568	11,171	6,822	14,297	19,271	20
		(7,955)		(3,696)				
2008	110,663	13,883	115,343	38,440	15,263	49,189	66,154	
		(9,203)		(4,514)				
2007	99,249	18,407	110,663	27,884	13,705	38,440	72,223	
		(6,993)		(3,149)				

* The transfer of title of office premises in the company's name is in process.

11.1.1 Reconciliation of net book values

(Rupees in '000)

	Office premises on lease hold land	Improvement	Office equipment	Computer equipment	Furniture and fixtures	Vehicles	Assets subject to finance lease	Total
As at January 1, 2007								
Cost	42,126	4,380	4,832	8,680	10,043	2,364	26,824	99,249
Depreciation	(4,915)	(2,063)	(1,676)	(6,056)	(4,495)	(927)	(7,752)	(27,884)
Net book value	37,211	2,317	3,156	2,624	5,548	1,437	19,072	71,365
Year ended December 31, 2007								
Additions	–	2,138	1,705	1,754	2,680	202	9,928	18,407
Net book value of disposals	–	–	–	–	(243)	(47)	(3,554)	(3,844)
Depreciation charge	(2,106)	(913)	(1,104)	(1,620)	(1,688)	(450)	(5,824)	(13,705)
Net book value	35,105	3,542	3,757	2,758	6,297	1,142	19,622	72,223
Year ended December 31, 2008								
Additions	–	1,254	238	556	1,055	50	10,730	13,883
Net book value of disposals	–	–	–	–	(430)	–	(4,259)	(4,689)
Depreciation charge	(2,106)	(1,178)	(1,192)	(1,691)	(1,810)	(464)	(6,822)	(15,263)
Net book value as at December 31, 2008	32,999	3,618	2,803	1,623	5,112	728	19,271	66,154

11.1.2 Details of disposals of fixed assets to executives and other major disposals are as follows:

(Rupees in '000)

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
Furniture and fixtures	100	10	90	91	Company Policy	Mr. Adnan Khan (Former Executive)
- do-	100	22	78	78	Company Policy	Mr. Shahid Khan Niazi (Former Executive)
- do-	100	42	58	58	Company Policy	Mr. Amir Samad (Former Executive)
- do-	250	213	37	37	Company Policy	Ms. Sumbul Munir (Former Executive)
- do-	250	83	167	167	Company Policy	Mr. Shah Miftahul Azim Azmi (Former Executive)
	800	370	430	431		
Vehicles on finance lease						
Honda Civic	1,005	1,005	–	490	Negotiations	M/S. Auto One Automobile (Khalid bin Waleed Road, Karachi)
Honda City	700	350	350	408	Company policy	Mr. Shahid Khan Niazi (Former Executive)
Toyota Corolla	800	133	667	750	Company policy	Mr. Amir Samad (Former Executive)
Honda Civic	1,198	699	499	660	Company policy	Ms. Sumbul Munir (Former Executive)
Suzuki Cultus	660	165	495	530	Negotiations	Mr. Asif Ibrahim
Suzuki Mehran	351	333	18	185	Negotiations	Mr. Arif Lakhani
Toyota Surf	1,200	480	720	937	Negotiations	Mr. Fayaz-ud-din
Suzuki Cultus	600	200	400	615	Negotiations	Mr. Mohammad Faraz Shamsi
Honda City	700	93	607	713	Company policy	Mr. Murtaza Kazmi (Former Executive)
Suzuki Liana	741	238	503	620	Negotiations	M/S. Auto One Automobile (Khalid bin Waleed Road, Karachi)
	7,955	3,696	4,259	5,908		
Others	448	448	–	25	Negotiations	Various buyers
	9,203	4,514	4,689	6,364		

11.2 Intangible assets

(Rupees in '000)

	Cost		As at December 31, 2008	As at January 1, 2008	Amortization During the year	As at December 31, 2008	Net book value	
	As at January 1, 2008	Addition (deletion) during the year					As at December 31, 2008	Rate %
Software licences	3,653	500	4,153	1,999	1,199	3,198	955	33.33
2007	2,310	1,343	3,653	1,090	909	1,999	1,654	

11.2.1 Reconciliation of net book value

(Rupees in '000)

	Year ended December 31, 2008				Year ended December 31, 2007			
	Net book value as at Jan 1, 2008	Addition	Amortization charge for the year	Net book value as at Dec 31, 2008	Net book value as at Jan 1, 2007	Addition	Amortization charge for the year	Net book value as at Dec 31, 2007
Computer software	1,654	500	1,199	955	1,220	1,343	909	1,654

12 DEFERRED TAX ASSETS

(Rupees in '000)			
	Note	2008	2007
Deferred (credit)/debit arising from:			
- Accelerated tax depreciation allowances		(1,792)	(2,423)
- Assets subject to finance leases		1,485	754
- Net investment in finance leases		(73,699)	(141,951)
- Amortization of premium		48,786	54,635
- Deficit on revaluation of available-for-sale government securities (net)	20	31,438	17,026
- Provision for diminution in the value of investments		43,830	25,576
- Provision against non-performing loans and advances		116,890	46,511
- Others		(16)	207
		166,922	335

13 OTHER ASSETS

	Note	2008	2007
Mark-up/Return/Interest receivable in local currency			
- PLS accounts		356	22,024
- PIBs		8,397	22,911
- Listed TFCs		82,505	54,380
- Unlisted TFCs		8,081	4,138
- Sukuk certificates		19,528	19,686
- Commercial paper		4,268	13,613
- COIs		1,914	5,677
- Placements		1,151	488
- Reverse repo agreement lendings		39,891	10,007
- Advances		149,968	93,299
- Net investment in finance leases		5,605	6,239
- Continuous funding system		9,492	4,409
Dividend income receivable		159	-
Mark-up/profit receivable on purchase of securities		2,122	31,401
Security deposits		4,380	4,530
Prepayments		3,842	3,036
Receivable against sale of investments		150,000	14,178
Unrealised gain on 'held-for-trading' derivatives		-	16,553
Others	13.2	235,984	135,587
		727,643	462,156

13.1 The above balances include an aggregate amount of Rs. 723.263 million (2007: Rs. 457.626 million) due within a year.

13.2 This includes Rs. 100 million recoverable against units of Dawood Money Market Fund.

14 BORROWINGS FROM FINANCIAL INSTITUTIONS

(Rupees in '000)			
	Note	2008	2007
In Pakistan		7,491,561	11,776,222
Outside Pakistan		-	-
		7,491,561	11,776,222
14.1 Particulars of borrowings with respect to currencies			
In local currency		7,491,561	11,776,222
In foreign currencies		-	-
		7,491,561	11,776,222
14.2 Particulars of borrowings			
Secured			
Borrowings from the State Bank of Pakistan under long term financing of export oriented projects	14.3	430,361	397,809
Repurchase agreement borrowings	14.4	3,329,958	4,279,159
Long term borrowings	14.5	1,525,000	1,850,000
Short term borrowings	14.6	480,000	1,130,000
Short term running finance		-	51,003
Unsecured			
Placements	14.7	1,726,242	3,864,212
Bank Al-Falah Limited (Book overdraft)		-	204,039
		7,491,561	11,776,222

14.3 The company has entered into agreements for financing with the SBP for long term finance for export oriented projects to customers. According to the terms of the respective agreements, the SBP has the right to receive the outstanding amount from the company at the date of maturity of the finances by directly debiting the current account maintained by the company with the SBP. The rate of return ranges from 4 to 7 (2007: 4 to 5) percent per annum.

14.4 The rate of return on these repurchase agreement borrowings, maturing in January 2009 (2007: January to March 2008), ranges between 12 (2007: 9.3) to 15 (2007: 10) percent per annum. Securities having cost of Rs 3.345 million (2007: Rs 4.364 million) have been pledged against these borrowings.

14.5 The rate of return on borrowings maturing from February 2009 (2007: November 2008 to December 2011) November 2012 range from 14.51 (2007: 6.5) to 17.50 (2007: 11.12) percent per annum. These loans are secured by way of hypothecation on specific leased assets together with related lease rentals, loans receivable and TFCs amounting to Rs. 3.239 million (2007 : Rs. 3,157.913 million).

14.6 The rate of return on short term borrowings maturing in January 2009 (2007: January 2008 to April 2008). The rate of return is 14.90 (2007: 9.6 to 10.5) percent per annum.

14.7 The rates of return on these placements maturing from January 2009 to November 2009 (2007: four month) range from 14.90 (2007: 9.5) to 20 (2007: 10.75) percent per annum.

15 DEPOSITS AND OTHER ACCOUNTS

(Rupees in '000)		
Note	2008	2007
Certificates of investment - remunerative (in local currency)		
Financial institutions	652,352	1,872,293
Others	2,370,769	296,065
	3,023,121	2,168,358

16 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2008			2007		
	Minimum lease Payments	Financial charges for future periods	Principal outstanding	Minimum lease Payments	Financial charges for future periods	Principal outstanding
Not later than one year	9,812	1,456	8,356	9,474	1,693	7,781
Later than one year but not later than five years	7,300	629	6,671	10,621	935	9,686
	17,112	2,085	15,027	20,095	2,628	17,467

16.1 The mark-up rate on these liabilities against assets subject to finance leases range from 7.5 (2007: 7.5) to 13.5 (2007: 13.5) percent per annum.

17 OTHER LIABILITIES

(Rupees in '000)		
Note	2008	2007
Mark-up/Return/Interest payable in local currency on		
- repurchase agreement borrowings - secured	21,748	15,604
- long-term borrowing - secured	20,008	29,016
- clean borrowings - unsecured	28,472	20,306
- COIs - unsecured	91,331	46,384
- short-term borrowings - secured	16,459	20,578
Accrued expenses	57,233	45,962
Security deposits against investment in finance leases	180,117	199,812
Provision for staff gratuity	8,658	4,385
Payable against purchase of investments	-	44
Taxation	154,858	111,645
Others	11,198	24,405
	590,082	518,141

18 SHARE CAPITAL

Authorised, issued, subscribed and paid-up capital

A summary of the movement in ordinary share capital is given below:

	Ordinary shares			
	Number		Amount (Rupees in '000)	
	2008	2007	2008	2007
Authorised capital				
As at January 1,	1,000,000,000	300,000,000	10,000,000	3,000,000
Increase during the year	-	700,000,000	-	7,000,000
As at December 31,	1,000,000,000	1,000,000,000	10,000,000	10,000,000
Issued, subscribed and paid-up capital				
As at January 1,	615,000,000	300,000,000	6,150,000	3,000,000
Right issue at Rs. 10 each during the year	-	300,000,000	-	3,000,000
Bonus issue at Rs. 10 each during the year	-	15,000,000	-	150,000
As at December 31, - fully paid in cash	615,000,000	615,000,000	6,150,000	6,150,000

18.1 The Ministry of Finance on behalf of the Government of Pakistan and the Ministry of Finance on behalf of the Sultanate of Oman each held 307,495,900 (2007: 307,495,900) ordinary shares of the company. 4,100 (2007: 4,100) ordinary shares each are held by the Secretary, Economic Affairs Division, Government of Pakistan and Ministry of Commerce and Industry, Sultanate of Oman.

18.2 Capital management policies and procedures

The company's objectives when managing capital are:

- to comply with the capital requirements set by the regulators of the company;
- to safeguard company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to acquire, develop and maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored frequently by the company's management, employing techniques based on the guidelines issued by State Bank of Pakistan (SBP).

SBP requires each development financial institution to: (a) hold the minimum level of the regulatory capital of Rs. 5 billion by December 31, 2008, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset as per the CAMELS Rating assigned to the institution or above the minimum prescribed level of 8%.

The company's regulatory capital is divided into two tiers:

Tier 1 or core capital: share capital, share premium, reserves for bonus shares, general reserves created out of the profits for the year and unappropriated profit; and

Tier 2 supplementary capital: general provisions or general reserves for loans losses, revaluation reserves exchange translation reserves, undisclosed reserves and subordinated debt.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table refer to in note 38, summarizes the composition of regulatory capital and the ratios of the company for the year ended December 31, 2008.

19 RESERVES

(Rupees in '000)			
	Note	2008	2007
Statutory reserve	19.1		
As at January 1		347,192	242,531
Add: Appropriation of profit		1,291	104,661
		348,483	347,192
General reserve			
As at January 1		491,380	572,752
Add: Appropriation of profit / (transfer to profit)		84,375	(81,372)
		575,755	491,380
Contingencies reserve	19.2		
As at January 1		86,291	59,085
Add: Appropriation of profit		6,722	27,206
		93,013	86,291
		1,017,251	924,863

19.1 This represents a reserve created at 20% of the profit for the year in compliance with the SBP's requirements.

19.2 The company has set up a separate 'contingencies reserve' in which an amount equal to 0.5% of the outstanding balance as at the year end of advances, excluding staff loans and financing in respect of CFS is appropriated from the profit. Contingency reserve for the year ended December 31, 2008 is not recognised in these financial statements as such appropriation has been approved subsequent to year end (note 43).

20 DEFICIT (NET) ON REVALUATION OF SECURITIES

Government securities - (deficit)		(89,823)	(48,645)
Less: Deferred tax asset	12	31,438	17,026
		(58,385)	(31,619)
Listed TFCs - (deficit)/surplus		(14,723)	27,533
Shares/units - (deficit)		(826,482)	(97,617)
		(899,590)	(101,703)

21 CONTINGENCIES AND COMMITMENTS

(Rupees in '000)			
	Note	2008	2007
Transaction related contingent liability:			
- guarantees		200,000	200,000
Pledge of shares on behalf of associate company	21.1	70,726	75,426
Commitments for:			
- purchase of government securities		300,201	-
- sale of government securities		290,850	
- purchase of commercial papers		-	118,540
- sale of shares (future)		-	241,832
Commitments for loans and advances and net investment in finance leases		508,370	1,233,520
Underwriting commitments		70,000	507,000
Financing in respect of CFS		-	246,588

21.1 Shares in Japan Power Generation Limited (JPGL) (an associate) aggregating 17,622,878 having a cost of Rs. 70.726 (2007: Rs.75.426) million are pledged as security on behalf of that associate company against a syndicate finance facility obtained by it (the associate company).

22 MARK-UP/RETURN/INTEREST EARNED

On loans and advances to			
- customers		697,622	617,264
- financial institutions		33,512	25,866
On investments in			
- available-for-sale-securities		529,093	334,568
- held-to-maturity		19,562	25,463
- held for trading		67,967	31,204
Securities purchased under resale agreements		397,185	211,471
Deposit accounts		110,303	98,921
Placements		34,309	6,842
COIs		39,783	50,717
Financing in respect of CFS		108,819	169,780
		2,038,155	1,572,096

23 MARK-UP/RETURN/INTEREST EXPENSED

	Note	2008	2007
(Rupees in '000)			
On secured borrowings			
Repurchase agreement borrowings		369,172	264,132
Long-term borrowings		214,566	160,177
Short-term borrowings		54,990	83,082
On un-secured borrowings			
Placements		237,621	294,721
COIs		442,055	261,831
		1,318,404	1,063,943

24 GAIN ON SALE OF INVESTMENTS

PIBs		20,328	7,749
T-bills		1,343	2,886
Unlisted shares/units		199,238	394,185
TFCs		7,991	21,140
		228,900	425,960

25 OTHER INCOME

Gain on sale of operating fixed assets		1,675	546
----------------------------------------	--	-------	-----

26 ADMINISTRATIVE EXPENSES

Salaries, allowances and employees' benefits		114,540	73,963
Contribution to defined contribution plan		4,131	2,671
Charge for defined benefit plan	32	12,409	6,861
Non-executive directors' fee	34	167	152
Chief executive's remuneration	34	33,990	16,810
Board meeting expenses		10,870	9,192
Traveling and accommodation		13,655	11,796
Rent, rates and taxes		7,743	8,304
Utilities		1,007	979
Communication		5,808	4,647
Professional training		869	932
Advertisement and business promotion		2,473	3,670
Membership and subscriptions		1,301	944
Printing, stationery and periodicals		3,426	4,326
Depreciation	11.1	15,263	13,705
Amortization of intangible assets	11.2	1,199	909
Auditors' remuneration	26.1	865	760
Legal and professional charges		3,969	11,586
Repairs and maintenance		5,090	4,165
Transportation		8,308	5,688
Insurance		2,838	2,963
Finance charges on leased assets		2,177	2,199
Entertainment and canteen expenses		1,650	1,390
Donation	26.2	455	355
Others		1,643	3,456
		255,846	192,423

26.1 Auditors' remuneration

	(Rupees in '000)	
	2008	2007
Audit fee	290	264
Special certifications and others	430	457
Out of pocket expenses	145	39
	865	760

26.2 No donations were made in excess of Rs. 0.100 million to a single donee. Donations were not made to any donee in which a director or his spouse had any interest at any time during the year.

27 OTHER CHARGES

Penalty	27.1	479	1,082
Fees and commission		21,320	30,878
		21,799	31,960

27.1 This represents penalty imposed by the State Bank of Pakistan.

28 TAXATION

Current			
- for the year		272,282	135,531
- for prior year		-	-
Deferred		(152,175)	17,240
		120,107	152,771

28.1 Relationship between tax expense and accounting profit

Profit before taxation		126,560	676,076
Tax at the applicable rate of 35 %		44,296	236,626
Tax effect of income taxed at different rate		(25,887)	(10,400)
Tax effect of exempt capital gain		110,286	(89,545)
Net tax effect of income not subject to tax and expenses that are not allowable in determining taxable income tax charge		(8,588)	16,090
Tax charge for the year		120,107	152,771
Tax charge for the current year		272,282	135,531
Deferred tax		(152,175)	17,240
Total tax charge		120,107	152,771

29 EARNINGS PER SHARE – BASIC AND DILUTED

		(Rupees in '000)	
	Note	2008	2007
Profit after taxation		6,453	523,305
Weighted average number of ordinary shares in issue (numbers in thousands)	29.1	615,000	427,192
Basic earnings per share (Rupees)		0.01	1.22
Diluted earnings per share (Rupees)		0.01	1.22

29.1 There were no convertible dilutive potential ordinary shares outstanding on December 31, 2008 and 2007.

30 CASH AND CASH EQUIVALENTS

		2008	2007
Cash and balances with treasury banks	6	48,548	25,042
Balances with other banks	7	508,560	1,241,977
Placements	8	100,000	347,000
		657,108	1,614,019

31 STAFF STRENGTH

		Number	
Permanent		62	64
Temporary/on contractual basis		24	23
Daily wagers		–	–
Company's own staff strength at the end of the year		86	87
Outsourced		13	19
Total staff strength		99	106

32 DEFINED BENEFIT PLAN

32.1 The company operates a funded staff retirement gratuity scheme for all its permanent employees.

Principal actuarial assumptions

The projected unit credit method, as allowed under IAS 19 'Employee Benefits', was used for actuarial valuation based on following significant assumptions:

	Percent per annum	
Discount rate	15	10
Expected rate of increase in salary levels	15	10
Expected rate of return on plan assets	15	10

The company recognises actuarial gains or losses applying faster recognition technique in the period in which such gains or losses arise.

The disclosures made in notes 32.1 to 32.14 are based on the information included in the actuarial valuation as of December 31, 2008.

32.2 Mortality rate

The rates assumed were based on the EFU 61-66 mortality table.

32.3 Expected return on plan assets

The expected return on plan assets is based on the market expectations and depends upon the asset portfolio of the company, at the beginning of the period, for returns over the entire life of the related obligation.

32.4 Reconciliation of amount payable to defined benefit plan

		(Rupees in '000)	
	Note	2008	2007
Present value of defined benefit obligation	32.5	26,408	14,220
Fair value of plan assets	32.7	(16,139)	(9,835)
		10,269	4,385
Net unrecognised actuarial (losses)/ gains	32.12	–	–
Non vested past service cost		(1,611)	–
Unrecognised transitional liability		–	–
Recognised liability/(asset)		8,658	4,385

32.5 The movement in the defined benefit obligation over the year is as follows:

	2008	2007
Present value of obligation as at January 1	14,220	9,641
Current service cost	2,848	1,921
Interest cost	1,422	964
Benefits paid	(3,388)	(261)
Vested past service cost	4,280	–
Non vested past service cost	1,611	–
Actuarial loss/(gain) on obligation	5,415	1,955
Present value of obligation as at December 31	26,408	14,220

32.6 Movement in payable to defined benefit plan

	2008	2007
Opening liability/(asset)	4,385	–
Expense for the year	12,409	6,861
Contributions to the fund	(8,136)	(2,476)
Closing liability/(asset)	8,658	4,385

32.7 The movement in the fair value of plan assets is as follows:

	2008	2007
Fair value of plan assets as at January 1	9,835	6,476
Expected return on plan assets	984	648
Contributions	8,136	2,476
Benefits paid	(3,388)	(261)
Actuarial (loss)/gain on plan assets	572	496
Fair value of plan assets as at December 31	16,139	9,835

32.8 Actual return on plan assets during the year was Rs. 1.556 million (2007: Rs.1.144 million).

32.9 The plan assets are comprised as follows:

Particulars	2008		2007	
	(Rupees in '000)	%	(Rupees in '000)	%
Equity instruments	823	5.10	8,074	82.09
Debt instruments	14,727	91.25	1,692	17.20
Bank balances	589	3.65	69	0.71
	16,139	100.00	9,835	100.00

32.10 The amount recognised in the income statement is as follows:

	Note	(Rupees in '000)	
		2008	2007
Current service cost		2,848	1,921
Interest cost		1,422	964
Expected return on plan assets		(984)	(648)
Transitional liability recognised		–	21
Vested past service cost		4,280	–
Actuarial loss/ (gain) recognised	32.11	4,843	4,603
		12,409	6,861

32.11 Actuarial (loss) / gain to be recognised

Actuarial (loss) / gain to be recognised	(4,843)	(4,603)
------------------------------------------	---------	---------

32.12 Net unrecognised actuarial (losses)/gains

Net unrecognised actuarial gains/(losses) as at January 1	–	(3,144)
Actuarial (loss)/gain on obligation	(5,415)	(1,955)
Actuarial (loss)/gain on plan assets	572	496
	(4,843)	(4,603)
Actuarial loss / (gain) recognised for the year	4,843	4,603
Net unrecognised actuarial (losses)/gains as at December 31	–	–

32.13 The history of the plan for the current and prior four years are as follows:

		(Rupees in '000)				
		2008	2007	2006	2005	2004
Present value of defined benefit obligation	32.5	26,408	14,220	9,641	3,936	2,683
Fair value of plan assets	32.7	(16,139)	(9,835)	(6,476)	(4,348)	(2,556)
(Surplus)/deficit		10,269	4,385	3,165	(412)	127
Experience adjustments on defined benefit obligation	32.5	5,415	1,955	3,223	(302)	(218)
Experience adjustments on assets	32.7	(572)	(496)	375	(214)	118

32.14 Expected gratuity expense for the next year

The expected gratuity expense for the next year ending December 31, 2009 works out to Rs. 8.105 million.

33 DEFINED CONTRIBUTION PLAN

33.1 The company also operates a provident fund scheme for its permanent employees.

33.2 Contribution to the fund made during the year

	Note	(Rupees in '000)	
		2008	2007
Contribution from the company		5,131	3,671
Contribution from employees		5,131	3,671
		10,262	7,342

34 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2008	2007	2008	2007	2008	2007
Fees	–	–	167	152	–	–
Managerial remuneration	32,200	15,000	–	–	60,387	28,459
Charge for defined benefit plan	1,109	2,688	–	–	10,257	2,952
Contribution to defined contribution plan	1,000	1,000	–	–	3,226	1,700
Rent and house maintenance	–	–	–	–	13,711	7,374
Medical	160	341	–	–	–	–
Utilities	599	439	–	–	4,121	2,047
Membership fee	31	30	–	–	–	–
	35,099	19,498	167	152	91,702	42,532
Number of persons	1	1	5	5	32	21

The managing director and executives are provided with free use of company's maintained cars. Executive means employees other than managing director and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS

35.1 On-balance sheet financial instruments

	2008		2007	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and balances with treasury banks	48,548	48,548	25,042	25,042
Balances with other banks	508,560	508,560	1,641,977	1,641,977
Lendings to financial institutions	3,137,180	3,137,180	3,706,071	3,706,071
Investments	6,996,478	6,779,461	9,063,700	9,073,509
Advances	5,740,174	5,740,174	6,878,787	6,878,787
Other assets	723,801	723,801	459,120	459,120
	17,154,741	16,937,724	21,774,697	21,784,506
Liabilities				
Borrowings from financial institutions	7,491,561	7,491,561	11,776,222	11,776,222
Deposits and other accounts	3,023,121	3,023,121	2,168,358	2,168,358
Liabilities against assets subject to finance lease	15,027	15,027	17,467	17,467
Other liabilities	435,224	435,224	406,496	406,496
	10,964,933	10,964,933	14,368,543	14,368,543
	6,189,808	5,972,791	7,406,154	7,415,963

35.2 The carrying value of all financial assets and liabilities in the financial statements approximate to their fair values except for certain 'held-to-maturity' investments and an investment in an associate.

35.3 Off-balance sheet financial instruments

(Rupees in '000)

	2008		2007	
	Book value	Fair value	Book value	Fair value
Forward purchase of foreign exchange	–	–	–	–
Forward agreements for borrowing	–	–	–	–
Forward sale of foreign exchange	–	–	–	–
Forward agreements for lending	–	–	–	–

36 SEGMENT ANALYSIS WITH RESPECT TO BUSINESS ACTIVITIES

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

(Rupees in '000)

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services	Assets Management	Retail Brokerage	Others
2008									
Total income	40,194	1,201,450	–	734,461	–	–	–	–	–
Total expenses	47,405	1,088,928	–	713,212	–	–	–	–	–
Net income	(7,211)	112,522	–	21,249	–	–	–	–	–
Segment assets (gross)	–	11,565,928	–	6,285,883	–	–	–	–	–
Segment non-performing loans	–	–	–	615,163	–	–	–	–	–
Investments provided for	–	293,333	–	–	–	–	–	–	–
Segment provision required *	–	125,226	–	333,971	–	–	–	–	–
Segment liabilities	–	6,973,786	–	4,146,005	–	–	–	–	–
Segment return on net assets (%)	–	2.52%	–	1.18%	–	–	–	–	–
Segment return on assets (ROA) (%)	–	0.98%	–	0.36%	–	–	–	–	–
Segment cost of funds (%)	–	6.99%	–	6.84%	–	–	–	–	–
2007									
Total income	39,947	1,419,531	–	648,928	–	–	–	–	–
Total expenses	34,182	866,106	–	532,042	–	–	–	–	–
Net income	5,765	553,425	–	116,886	–	–	–	–	–
Segment assets (gross)	–	16,490,552	–	5,567,356	–	–	–	–	–
Segment non-performing loans	–	–	–	156,865	–	–	–	–	–
Investments provided for	–	108,333	–	–	–	–	–	–	–
Segment provision required*	–	73,075	–	132,888	–	–	–	–	–
Segment liabilities	–	10,462,801	–	4,017,387	–	–	–	–	–
Segment return on net assets (%)	–	9.29%	–	8.25%	–	–	–	–	–
Segment return on assets (ROA) (%)	–	3.37%	–	2.15%	–	–	–	–	–
Segment cost of funds (%)	–	6.56%	–	6.38%	–	–	–	–	–

* The provision against each segment represents provision held in advances and investments.

37 RELATED PARTY TRANSACTIONS

37.1 Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include a subsidiary company, associated companies with or without common directors, retirement benefit funds, directors, and key management personnel.

37.2 A number of transactions are entered into with related parties in the normal course of business. These include advances, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

37.3 Subsidiary company

Pak Oman Asset Management Company Limited

37.4 Associates

Pak Oman Microfinance Bank Limited
Japan Power Generation Limited
Pak Oman Bank of Punjab Advantage Plus Fund
Pak Oman Advantage Fund
Pak Oman Advantage Islamic Income Fund
Pak Oman Advantage Islamic Fund
Pak Oman Advantage Stock Fund

37.5 Key management personnel

All heads of departments
Directors

37.6 Retirement benefit fund

Defined benefit plan
Defined contribution plan

37.7 The volumes of related party transactions, outstanding balances at the year end and related expense and income for the year are as follows:

(Rupees in '000)

	Total		Subsidiary		Associates		Key management personnel		Other related parties	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Advances / Investments										
At January 01,	962,571	343,744	173,072	51,000	765,037	276,454	24,462	16,290	–	–
Disbursed during the year	1,141,893	623,922	4,414	122,403	1,091,970	488,583	45,509	12,936	–	–
Received during the year	(783,695)	(5,095)	(1,760)	(331)	(769,658)	–	(12,277)	(4,764)	–	–
At December 31,	1,320,769	962,571	175,726	173,072	1,087,349	765,037	57,694	24,462	–	–
Deposits										
At January 01,	304,722	385,218	510	40,218	304,212	345,000	–	–	–	–
Deposited during the year	1,090,720	950,815	442	90,510	1,090,278	860,305	–	–	–	–
Repaid during the year	(1,181,549)	(1,031,311)	(70)	(130,218)	(1,181,479)	(901,093)	–	–	–	–
At December 31,	213,893	304,722	882	510	213,011	304,212	–	–	–	–
Balances										
Other receivables	150,000	8	–	–	150,000	8	–	–	–	–
Transactions, income and expenses										
Markup income	18,567	1,135	824	272	15,269	–	2,474	863	–	–
Mark up expense	28,372	32,789	–	348	28,372	32,441	–	–	–	–
Dividend income	42,452	–	–	–	42,452	–	–	–	–	–
Capital gain	460	–	–	–	460	–	–	–	–	–
Outright sale of TFCs	–	107,474	–	107,474	–	–	–	–	–	–
Outright sale of PIBs	20,901	4,739	20,901	–	–	4,739	–	–	–	–
Outright purchase of TFCs	–	268,581	–	268,581	–	–	–	–	–	–
Salaries and short term benefits paid	69,078	37,288	–	–	–	–	69,078	37,288	–	–
Staff retirement benefits	6,336	5,082	–	–	–	–	6,336	5,082	–	–
Sale of operating fixed assets	–	–	–	–	–	–	–	–	–	–
Fee income	2,000	1,250	2,000	1,250	–	–	–	–	–	–
Brokerage expense	1,786	486	1,786	486	–	–	–	–	–	–
Underwriting commitment	–	50,000	–	50,000	–	–	–	–	–	–

38 CAPITAL ADEQUACY

The State Bank of Pakistan through its BSD Circular No. 19 dated September 05, 2008 requires the minimum paid up capital (net of losses) for all DFIs to be raised to Rs 6 billion by the year ending on December 31, 2009. The raise is to be achieved in a phased manner requiring Rs 5 billion paid up capital (net of losses) by the end of financial year 2008. The paid up capital of the bank for the year ended December 31, 2008 stands at Rs. 6.15 billion and its compliance with the SBP requirement for the said year, in addition the company as per CAMELS rating assigned by State Bank of Pakistan, requires to maintain a minimum capital adequacy ratio (CAR) of 10% of the risk weighted exposure. The Company's CAR as at December 31, 2008 was 40.81% of its risk weighted exposure.

The calculation of capital adequacy enables the DFIs to assess the long term soundness. Pak Oman has successfully managed in the past and will in the future its Capital requirements/ needs. Based on the directives of the Board, the Company has built a healthy portfolio of assets and liabilities focusing on quality. CAR of 40.81% demonstrates that the company is geared to absorb major risks / shocks in the present market scenario. The Company meets its capital needs through clean placements (LOP & COI) and short and long term lines from commercial institutions.

The risk weighted assets to capital ratio, calculated (as per standardized approach of Basel II) in accordance with SBP's guidelines on capital adequacy was as follows:

	Note	2008	2007
(Rupees in '000)			
Regulatory Capital Base			
Tier I Capital			
Share Capital		6,150,000	6,150,000
Reserves		924,238	838,572
Unappropriated Profit		5,162	398,597
		7,079,400	7,387,169
Deductions:			
Book value of intangibles		955	1,654
Shortfall in provisions required against classified assets irrespective of any relaxation allowed by SBP		–	–
Deficit on account of revaluation of available for sale investment (net of tax)		899,590	101,703
		900,545	103,357
Total eligible Tier I Capital		6,178,855	7,283,812
Supplementary Capital			
Tier II Capital			
Subordinated debt (up to 50% of total Tier 1 Capital)		–	–
General provision or general reserves for loan losses up to maximum of 1.25% of risk weighted assets.		93,013	86,291
Revaluation reserve (up to 45%)		–	–
Total Eligible Tier II Capital		93,013	86,291
Eligible Tier III Capital		–	–
Total Supplementary Capital eligible for capital adequacy ratio (Maximum upto 100% of Total eligible Tier I Capital)			
Total Eligible Capital		6,271,868	7,370,103
Risk Weighted Amounts			
Total Credit Risk Weighted Amount		7,835,831	9,982,742
Total Market Risk Weighted Amount		6,151,754	6,107,159
Total Operational Risk Weighted Amount		1,379,414	1,272,758
Total Risk Weighted Amount		15,366,999	17,362,659
Capital Adequacy Ratios			
Credit Risk Capital Adequacy Ratio		80.04%	73.83%
Tier 1 Capital to Total Risk Weighted Amount		40.21%	41.95%
Total Capital Adequacy Ratio		40.81%	42.45%

39 RISK MANAGEMENT

The company has set up objectives and policies to manage the risks that arise in connection with financial instruments. The risk management framework and policies of the company are guided by specific objectives to ensure that comprehensive and adequate risk management policies are established to mitigate the salient risk elements in operations of the company. The establishment of the overall financial risk management objectives is consistent and in tandem with the strategy to create and enhance shareholders' value, whilst guided by a prudent and robust framework of risk management policies. In achieving the objective of maximising returns to shareholders, the board of directors takes cognisance of the risk elements that the company is confronted with in its operations. In view of the multi-faceted risks inherent in the financial sector, the company places great emphasis on the importance of risk management and has put in place clear and comprehensive risk management mechanisms and strategies to identify, monitor, manage and control the relevant risk factors.

Risk management organisation

Risk Management Department ensures that risks remain within the boundaries as defined by the board, comply with the risk parameters and prudential limits, establish systems and procedures and work out remedial measures.

Credit Committee implements credit risk policy and monitors credit risk in light with credit policy and prudential regulations.

The company's risk management, compliance and internal audit department support the risk management function. The compliance department ensures that all the directives and guidelines issued by SBP are being complied with. Internal audit department reviews the compliance of internal control procedures with internal and regulatory standards.

39.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Exposure to credit risks for the company arises primarily from lending activities and investments in fixed income securities.

A multi-tiered approach is being followed in the management of credit risk with the organizational structure, roles and responsibilities clearly outlined in the Credit Policy Manual. The Board is responsible for final approval of overall risk tolerance, limits for sectors and pricing strategies. Various business units responsible for undertaking risks are expected to comply with the credit policy and adhere to the independent risk management function. This is ensured through the implementation of a credit approval and documentation process adopted by the company.

Out of the total financial assets of Rs. 17,154.741 million (2007: Rs. 21,774.697 million), the financial assets which were subject to credit risk amounted to Rs. 15,900.351 million (2007: Rs. 19,158.439 million). The major credit risk in respect of advances is concentrated in sectors such as textile, transportation and communication and financial institutions. The company manages its exposure to credit risk through portfolio diversification and adequate collateral, wherever, applicable. The emphasis is to provide short to medium term financing to a target customer base. The company has developed systems to monitor problem accounts so that instant instructions based on early warning signals are passed on to the departments to deal with potential problem accounts.

The company uses both external and internal ratings to evaluate risk. The company obtains external ratings from PACRA and JCR-VIS whereas a comprehensive risk assessment matrix model is used for internal ratings.

Exposures	JCR-VIS	PACRA	OTHER (Specify)
Corporate	Yes	Yes	x
Banks	Yes	Yes	x
Sovereigns	x	x	x
SME's	x	x	x
Securitized	x	x	x
Others (Specify)	x	x	x

Credit Exposures subject to Standardised approach

(Rupees in '000)

Exposures	Rating Category	2008			2007		
		Amount Outstanding	Deduction CRM*	Net amount	Amount Outstanding	Deduction CRM*	Net amount
Corporate	0	–	–	–	–	–	–
	1	24,774	785,875	810,649	44,127	525,328	569,455
	2	395,261	–	395,261	1,141,713	–	1,141,713
	3-4	223,877	–	223,877	1,744,914	(100,000)	1,644,914
	Unrated	5,507,246	(785,875)	4,721,371	5,017,977	(425,328)	4,592,649
		6,151,157	–	6,151,157	7,948,731	–	7,948,731
Banks	0	–	–	–	–	–	–
	1	1,058,560	1,168,762	2,227,322	3,160,604	594,493	3,755,097
	2-3	893,937	(785,937)	108,000	646,493	(194,493)	452,000
	Unrated	382,825	(382,825)	–	400,000	(400,000)	–
		2,335,322	–	2,335,322	4,207,097	–	4,207,097
Sovereigns etc							
Unrated							

*CRM= Credit Risk Mitigation

The accounting policies and methods used by the company are in accordance with the requirements of the prudential regulations of the SBP. These policies are disclosed in note 5 to these financial statements. Reconciliation in the provision against non-performing advances has been disclosed in note 10.5 of these financial statements.

39.2 Segmental information

39.2.1 Segment by class of business

	Advances (Gross)		2008 Deposits		Contingencies and commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Financial institution	356,730	5.87	652,352	21.58	661,051	45.90
Textile	1,250,877	20.59	13,500	0.45	–	–
Transportation and communication	480,985	7.92	222,532	7.36	–	–
Power (electricity), gas, water, sanitary wholesale and retail trade	978,372	16.11	313,000	10.35	463,876	32.21
Electronics	325,773	5.36	6,700	0.22	–	–
Food and beverage	289,094	4.76	500,000	16.54	–	–
Services	236,048	3.89	186,287	6.16	–	–
Engineering and allied products	316,550	5.21	148,231	4.90	17,900	1.24
Chemical and pharmaceuticals	257,456	4.24	66,052	2.18	–	–
Automobiles	116,364	1.92	113,000	3.74	200,000	13.89
Fuel and energy	228,172	3.76	–	–	97,320	6.76
Construction	166,698	2.74	367,457	12.15	–	–
Cement	143,995	2.37	–	–	–	–
Sugar	179,369	2.95	–	–	–	–
Paper and board /packaging	111,384	1.83	38,000	1.26	–	–
Healthcare	45,280	0.75	–	–	–	–
Individual	107,704	1.77	–	–	–	–
Others	483,294	7.96	396,010	13.10	–	–
	6,074,145	100.00	3,023,121	100.00	1,440,147	100.00

39.2.2 Segment by sector

	Advances (Gross)		2008 Deposits		Contingencies and commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Public/Government	86,348	1.42	1,316,082	43.53	591,051	41.04
Private	5,987,797	98.58	1,707,039	56.47	849,096	58.96
	6,074,145	100.00	3,023,121	100.00	1,440,147	100.00

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

(Rupees in '000)

	2008		2007	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
Automobile	115,833	57,917	–	–
Cement	70,000	35,000	–	–
Textile	131,612	88,242	79,186	67,459
Chemical and pharmaceuticals	135,278	71,947	14,621	12,821
Construction	73,493	27,293	27,187	18,487
Engineering and allied products	24,750	12,375	–	–
Fuel and energy	45,000	22,500	–	–
Food and beverages	19,197	18,697	19,197	18,697
Others	–	–	16,674	15,424
	615,163	333,971	156,865	132,888

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

(Rupees in '000)

	2008		2007	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
Public/Government	–	–	–	–
Private	615,163	333,971	156,865	132,888
	615,163	333,971	156,865	132,888

39.2.5 Geographical segment analysis

(Rupees in '000)

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Pakistan	126,560	17,389,758	6,272,823	1,440,147
Asia Pacific (including South Asia)	–	–	–	–
Europe	–	–	–	–
United States of America and Canada	–	–	–	–
Middle East	–	2,856	–	–
Africa	–	–	–	–
	126,560	17,392,614	6,272,823	1,440,147

39.3 Market risk

Market risk is the risk that the value of on and off-balance sheet positions of a financial institution will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates and equity prices. The board of directors is responsible for reviewing and recommending all market risk policies.

The market risk management framework of the company comprises of business unit actually undertaking the risk, the Risk Management Department, Asset and Liability Committee and the Investment Committee.

39.3.1 Interest rate risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The lending, funding and investment activities of the company are exposed to interest rate risk. The company is using a 16 band repricing model for measurement of interest rate risk. Furthermore, stress testing, technique is also used to evaluate the potential effects on the financial condition of a specific event and movements in a set of financial variables. The Company has also developed value-at-risk (VAR) model internally.

39.3.2 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to change in foreign currency rates. However, the company is not exposed to major foreign currency risk as its assets and liabilities are primarily denominated in Pakistan rupees.

	(Rupees in '000)			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Pakistan rupees	17,391,282	11,119,791	–	6,271,491
United State dollar	103	–	–	103
Omani Riyal	1,229	–	–	1,229
	17,392,614	11,119,791	–	6,272,823

39.3.3 Equity position risk

Equity position risk refers to the risk arising from taking long or short positions, in the trading book, in equities and all instruments that exhibit market behavior similar to equities. The company is exposed to such risk due to investment activities undertaken on a day-to-day basis. The company has established a Capital Market Review Committee to monitor the equity portfolio and the future strategy pertaining thereto. As per Standardized Approach 8% charge has to be created on both Specific and General Equity Position Risk Management calculation.

39.3.4 Liquidity risk

Liquidity risk is the potential for loss arising from either inability to meet obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses.

Large off-balance sheet exposures or heavy reliance on large corporate deposits gives rise to relatively high level of liquidity risk. Rapid growth in assets also increases the liquidity risk. Objectives of liquidity management in Pak Oman are that:

- A reasonable amount of liquid assets are maintained at all times.
- Measurement and projection of funding requirements during various scenarios.
- Excess funds are profitably deployed.

Beside the Board which will be responsible for formulation of over all policy, the following will be involved in Liquidity Risk Management Process with roles and responsibilities defined hereunder:

- Risk Management Department
- Finance Department
- Treasury Department
- Asset Liability Committee

The ALCO will be responsible for monitoring of the tolerance limits. The Finance Department will prepare a fortnightly variation report on concentration of assets and liabilities for review by RMD which will forward the same along with its observations to ALCO for its review. ALCO will issue necessary instructions to the relevant business unit/(s) if any corrective action is required.

39.3.5 Mismatch of interest rate sensitive assets and liabilities

(Rupees in '000)

	Effective yield/interest rate	Total	2008								Non-interest Instruments
			Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Exposed to yield/interest risk					
			Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years			
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks		48,548									48,548
Balances with other banks	7.36%	508,560	506,529	–							2,031
Lendings to financial institutions	12.66%	3,137,180	2,229,010	752,909	47,119	2,935	104,376	831	–	–	–
Investments	5.89%	6,996,478	68,596	544,998	50,083	246,219	863,091	1,238,687	1,504,352	421,625	2,058,827
Advances	13.79%	5,740,174	838,288	224,098	689,667	689,281	1,133,314	687,200	707,753	639,908	119,853
Other assets	–	723,801	–	–	–	–	–	–	–	–	723,801
		17,154,741	3,642,423	1,522,005	786,869	938,435	2,100,781	1,926,718	2,212,105	1,061,533	119,853
											2,844,019
Liabilities											
Borrowings from financial institutions	11.02%	7,491,561	4,713,484	840,937	399,581	340,937	531,893	506,653	125,735	32,341	–
Deposits and other accounts	11.48%	3,023,121	888,710	1,277,444	745,706	104,261	7,000	–	–	–	–
Liabilities against assets subject to finance leases	11.68%	15,027	1,221	1,109	2,450	3,576	5,345	1,326	–	–	–
Other liabilities	–	435,224	–	–	–	–	–	–	–	–	435,224
		10,964,933	5,603,415	2,119,490	1,147,737	448,774	544,238	507,979	125,735	32,341	–
On-balance sheet gap		6,189,808	(1,960,992)	(597,485)	(360,868)	489,661	1,556,543	1,418,739	2,086,370	1,029,192	119,853
Non-financial assets		237,873									
Non-financial liabilities		154,858									
Total net asset		6,272,823									
Total yield/profit risk sensitivity gap			(1,960,992)	(597,485)	(360,868)	489,661	1,556,543	1,418,739	2,086,370	1,029,192	119,853
Cumulative yield/profit risk sensitivity gap			(1,960,992)	(2,558,477)	(2,919,345)	(2,429,684)	(873,141)	545,598	2,631,968	3,661,160	3,781,013

39.3.6 Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

39.3.7 Profit rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market profit rates. The company is not exposed to any major profit rate risk as it mainly invests in equity securities.

39.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. Operational risk is inherent in the company's business and operational activities.

The company has instituted sound internal controls through policies, plans and processes effected by the board of directors for controlling and mitigating potential operational risk. The system of internal controls include financial, operational and compliance controls and is performed on continuous basis by the senior management and all levels of employees within the company.

The objectives of internal controls include the safeguarding of assets from inappropriate use or from loss and fraud, ensuring that liabilities are identified and managed and that the quality of internal and external reporting is maintained.

The company has also formulated a business continuity plan, a disaster recovery plan and guidelines for information security, employee conduct and for prevention of fraud and forgery to ensure smooth functioning of the company's operations.

39.4.1 Maturities of assets and liabilities

Maturities of assets and liabilities as at December 31, 2008

(Rupees in '000)

	Total	Upto one month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	48,548	548	48,000	-	-	-	-	-	-	-
Balances with other banks	508,560	508,560	-	-	-	-	-	-	-	-
Lendings to financial institutions	3,137,180	2,229,010	752,909	47,119	2,935	104,376	831	-	-	-
Investments	6,996,478	68,596	593,480	50,083	1,694,261	863,091	1,238,687	2,066,655	421,625	-
Advances	5,740,174	839,067	225,227	691,331	692,356	1,137,479	687,200	707,753	639,908	119,853
Other assets	727,643	723,263	-	-	-	-	4,380	-	-	-
Operating fixed assets	67,109	1,629	3,258	4,741	7,577	14,626	8,598	4,212	10,532	11,936
Deferred tax assets	166,922	-	-	-	-	-	-	166,922	-	-
	17,392,614	3,647,410	2,346,137	793,274	2,397,129	2,119,572	1,935,316	2,949,922	1,072,065	131,789
Liabilities										
Borrowings from financial institutions	7,491,561	4,713,484	840,937	399,581	340,937	531,893	506,653	125,735	32,341	-
Deposits and other accounts	3,023,121	888,710	1,277,444	745,706	104,261	7,000	-	-	-	-
Liabilities against assets subject to finance lease	15,027	1,221	1,109	2,450	3,576	5,345	1,326	-	-	-
Other liabilities	590,082	34,611	420,784	18,181	16,612	51,699	29,276	18,919	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
	11,119,791	5,638,026	2,540,274	1,165,918	465,386	595,937	537,255	144,654	32,341	-
Net assets	6,272,823	(1,990,616)	(194,137)	(372,644)	1,931,743	1,523,635	1,398,061	2,805,268	1,039,724	131,789
Share capital	6,150,000									
Reserves	1,017,251									
Unappropriated profit	5,162									
	7,172,413									
Deficit (net) on revaluation of securities	(899,590)									
	6,272,823									

Maturities of assets and liabilities as at December 31, 2007

(Rupees in '000)

	Total	Upto one month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	25,042	8,042	17,000	-	-	-	-	-	-	-
Balances with other banks	1,641,977	241,977	1,400,000	-	-	-	-	-	-	-
Lendings to financial institutions	3,706,071	2,649,380	743,877	1,542	303,305	5,887	1,730	350	-	-
Investments	9,063,700	233,649	1,295,250	346,757	1,849,738	969	48,456	3,332,576	1,257,742	698,563
Advances	6,878,787	1,662,020	361,312	656,952	737,343	1,274,272	942,542	746,005	392,483	105,858
Other assets	462,156	-	457,626	-	-	-	4,530	-	-	-
Operating fixed assets	73,877	1,537	3,075	4,612	8,505	14,191	12,107	5,276	10,532	14,042
Deferred tax assets	335	-	-	-	-	-	-	335	-	-
	21,851,945	4,796,605	4,278,140	1,009,863	2,898,891	1,295,319	1,004,835	4,089,072	1,660,757	818,463
Liabilities										
Borrowings from financial institutions	11,776,222	7,482,505	1,560,036	732,630	361,985	812,753	401,029	368,841	56,443	-
Deposits and other accounts	2,168,358	1,909,007	230,551	23,800	5,000	-	-	-	-	-
Liabilities against assets subject to finance lease	17,467	187	1,680	1,922	3,992	7,652	1,721	313	-	-
Other Liabilities	518,141	9,424	327,291	13,666	33,278	50,846	55,366	28,270	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
	14,480,188	9,401,123	2,119,558	772,018	404,255	871,251	458,116	397,424	56,443	-
Net assets	7,371,757	(4,604,518)	2,158,582	478,421	1,492,299	1,291,274	477,507	1,516,540	1,132,632	37,406
Share capital	6,150,000									
Reserves	924,863									
Unappropriated profit	398,597									
	7,473,460									
Deficit (net) on revaluation of securities	(101,703)									
	7,371,757									

40 ASSOCIATES - KEY INFORMATION

(Rupees in '000)

	Pak Oman Bank of Punjab Advantage Plus Fund	Pak Oman Advantage Fund	Pak Oman Advantage Islamic Income Fund	Pak Oman Advantage Islamic Fund	Pak Oman Advantage Stock Fund	Japan Power Generation Limited	Pak Oman Microfinance Bank Limited	Total
Particulars								
Assets	1,261,060	964,885	227,759	146,326	174,972	6,759,068	459,374	7,218,442
Liabilities	157,748	7,118	25,948	2,041	27,268	6,701,086	34,465	6,735,551
Profit / (loss) before taxation	(9,235)	68,801	1,622	(715)	4,204	(360,175)	(24,508)	(384,683)
Profit / (loss) after taxation	(9,235)	68,801	1,622	(715)	4,204	(360,679)	(22,859)	(383,538)

41 GENERAL

The JCR-VIS Credit Rating Company Limited has maintained the company's rating of AA + (Double A Plus) in the long term and A-I + (A One Plus) for the short term.

42 CORRESPONDING FIGURES

For the purpose of better presentation, following reclassification has been made in the current year. Comparative figures have also been reclassified. These reclassification affect relevant line items of profit and loss account and statement of cash flows. The reclassifications have no other effects.

Particulars	From	To	Note	Reason
Amortization of premium on investments have been net-off from return on investments.	Amortization of premium on investments	Return on investment	22	For better presentation under IAS 1 'Presentation of Financial Statements'.

43 POST BALANCE SHEET EVENTS

The Board of Directors of the company in their meeting held on March 30, 2009 have:

- approved a transfer to contingency reserve of Rs 27.419 million for the year ended December 31, 2008;
- approved transfer of Rs 27.419 million from general reserve for the appropriation of contingency reserve;
- approved transfer of Rs 5.162 million to general reserve for the year ended December 31, 2008.

These financial statements do not recognise the aforementioned appropriations as these have been proposed and approved subsequent to the balance sheet date.

44 DATE OF AUTHORISATION

These financial statements were authorised on March 30, 2009 by the board of directors of the company.