

Pak Oman Investment
Company Limited



PAK OMAN



THE BRINDEN



Sculpture of bullock cart

Indus Valley cities lived by trade. Farmers brought food into the cities. City workers made such things as pots, beads and cotton cloth.

TRADITION OF TRADE

Mohenjo-daro was a mighty city in the Indus Valley Civilization which spread through the Indus Valley in modern-day Pakistan. At its peak it was perhaps the most advanced city in the entire world, and most certainly the pinnacle city in South Asia.

This city would have dominated the major trade routes and agricultural potential of the southern Indus plain. The site is one of the largest ancient cities to survive, and is more than 4500 years old.



It is befitting then that Pak Oman Investment Company with its hub in Sindh would be part of this rich history and center for trade and business.



The Zebu Bull Seal
Symbolizing the most powerful clan or top officials of Mohenjo Daro & Harappa; the leader whose strength protects the herd.



LEADER OF THE HERD

Carved in stone, the Zebu Bull probably represents the most powerful clan or top officials of Mohenjo-daro and Harappa. It may also symbolize the leader of the herd, whose strength protects the herd.

To 4500 years of history we at Pak Oman add our experience, commitment and acumen in continuing to stay at the forefront. In a short span of time we have stamped our mark as AA+Credit Rating and a Corporate Governance Rating 9.



Seal Showing Bison Feeding

A seal with a bison's head lowered to the feeding trough is evidence of the fertile flood plain of the Indus River.



OPTIMUM YIELD

A seal with a bison's head lowered to the feeding trough is evidence of the fertile flood plain of the Indus River.

Pak Oman endeavours to provide fertile investment opportunities based on the requirements of its target customer base. Pak Oman's focus will remain on managing a productive investment portfolio providing optimum yield on investments.



The Unicorn Seal

This is based on a fictional animal that the Indus Valley Civilization people had conjured up. It is an example of early fictional art.



COMPANY PROFILE

Pak Oman Investment Company Limited is a specialized financial institution formed as a joint venture between the Governments of Pakistan and Oman in July 2001.

There is equal participation by each sovereign sponsor of Rs. 3.075 billion making together a total equity of Rs. 6.15 billion.

A professional and independent Board is formed primarily from the Private Sector, having equal representation of both sponsors.

Pak Oman's corporate culture has been cultivated to accommodate the best practices, the best people and a focused vision.

VISION



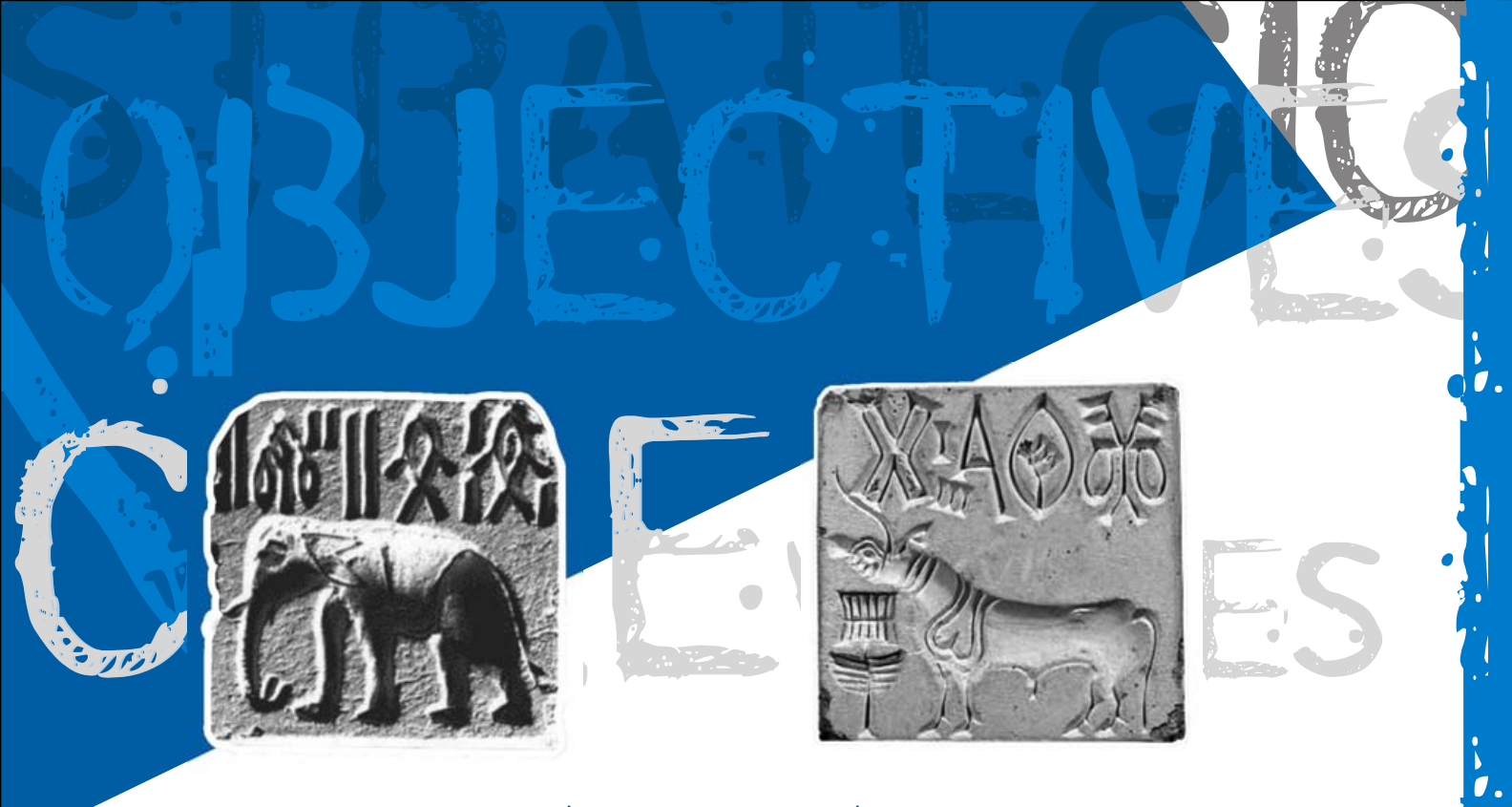
VISION

To make a tangible contribution to economic development in both sponsoring countries by supporting the Industrial, Agricultural and Service Sectors.



MISSION

Pak Oman will endeavor to provide cutting edge financial solutions to meet the requirements of its target customer base, with emphasis on customer satisfaction. Our focus will remain on supporting economic development in both sponsoring countries and on maximizing returns to all stakeholders. We will aim to be the employer of choice.



STRATEGIC OBJECTIVES

Pak Oman Investment Company's Core objectives include:

Promoting and Developing a two way business flow between Pakistan and the Middle East with special emphasis on the Sultanate of Oman

Facilitating Omani investment into Pakistan and Pakistani investment into Oman

Undertaking financially viable projects that meet socio-economic development goals

CORE VALUES

All activities and decisions, at Pak Oman Investment Company are based on, and guided by, the following values:

Placing the interests of clients and customers first

Continuous quest for quality in all aspects of operations

Respectful and dignified Intra-personal relations

High ethical and moral standards

Teamwork - from the smallest unit to the enterprise as a whole

Strong civic sense and responsibility to community

CODE OF ETHICS/ BUSINESS PRACTICES



Priest King
c1500 B.C. The city of Mohenjo Daro shows evidence of a singular leader for their community.

ETHICS

VALUES



Pak Oman Investment Company operates on the basis of honesty, integrity and fair play. All employees are strictly directed to adhere to the Company's Code of Business Practices and ensure that at all dealings be open and transparent. Management and employees are pledged to:

Be an ethical role model

Treat colleagues with respect and dignity

Protect and enhance the Company's assets and reputation

Make only factual and truthful statements about the Company's product

Understand and comply with Company laws, regulations and policies wherever applicable

Comply with health, safety and environmental laws and policies

Provide a work environment free from intimidation and harassment

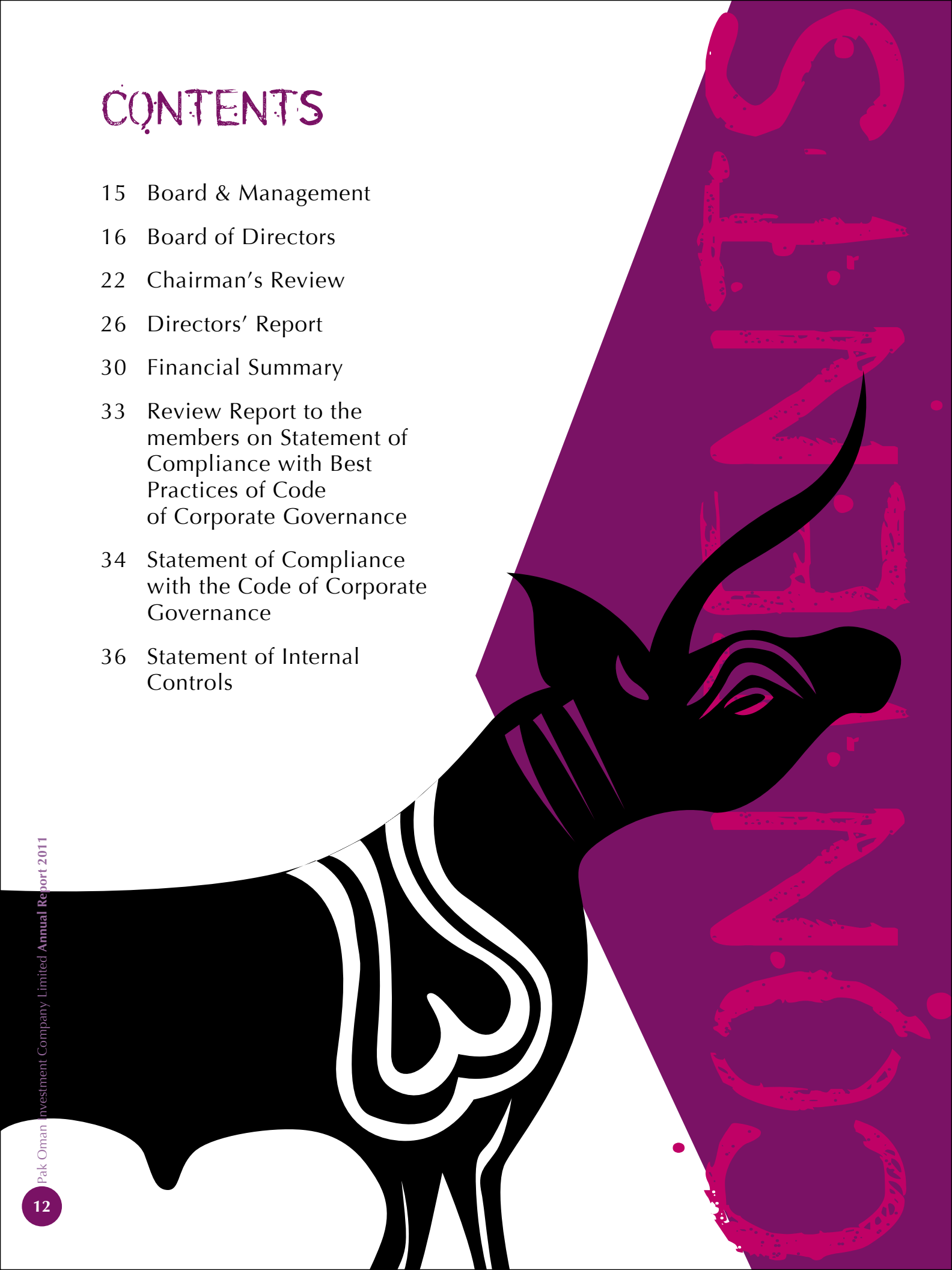
Comply with the Company's employee service rules

Safeguard the privacy and confidentiality of customer data

Protect confidential information and trade secrets

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BOARD OF DIRECTORS



Mr. Mustafa Bin Ali Sulaiman
Director

Mr. Agha Ahmed Shah
Managing Director &
Chief Executive Officer

H.E. Yahya Bin Said Bin Abdullah Al-Jabri
Chairman

Mr. M. Zubair Motiwala
Director

Mr. Hamed Sloom Mubarak Al Athobi
Director

Mr. Yusuf Khan
Director

MANAGEMENT TEAM



Standing Front (Left to Right)

Khurram Faizyab
Head Corporate Banking

Mr. Mohammad Shoab
Head Treasury & Capital Markets

Mr. Jehangir Shah
Deputy Managing Director

Mr. Agha Ahmed Shah
Managing Director & CEO

Mr. Mohammad Jamal Nasir
Chief Financial Officer

Mr. Zalmai R. Khan
Head Risk Management

Mr. Asim H. Akhund
Company Secretary

Standing Back (Left to Right)

S. M. Shoab Omair
Head HR & Administration

Mr. Mohammad Naeem Saeed
Head Information Technology

Mr. Nafees Ahmed
Regional Head Central

Mr. Kashif Khan
Regional Head North

Mr. Mohammad Ahmer Siddiqui
Chief Internal Auditor

Mr. S. Abdullah Jamal Ahmed
Head Compliance

BOARD AND MANAGEMENT

Board of Directors

H.E. Yahya Bin Said Bin Abdullah Al-Jabri	Chairman
Mr. Agha Ahmed Shah	Managing Director & Chief Executive Officer
Mr. Hamed Sloom Mubarak Al Athobi	Director
Mr. Mustafa Bin Ali Sulaiman	Director
Mr. Yusuf Khan	Director
Mr. M. Zubair Motiwala	Director

Audit Committee

Mr. Hamed Sloom Mubarak Al Athobi	Chairman
Mr. M. Zubair Motiwala	Member
Mr. Mustafa Bin Ali Sulaiman	Member
Mr. Yusuf Khan	Member

Executive Committee

H.E. Yahya Bin Said Bin Abdullah Al-Jabri	Chairman
Mr. M. Zubair Motiwala	Member
Mr. Agha Ahmed Shah	Member
Mr. Yusuf Khan	Member

Board's HR Committee for Remuneration & Compensation

Mr. M. Zubair Motiwala	Chairman
Mr. Agha Ahmed Shah	Member
Mr. Hamed Sloom Mubarak Al Athobi	Member
Mr. Mustafa Bin Ali Sulaiman	Member

Management Team

Mr. Agha Ahmed Shah	Managing Director & Chief Executive Officer
Mr. Jehangir Shah	Deputy Managing Director
Mr. Mohammad Jamal Nasir	Chief Financial Officer
Mr. Khurram Faizyab	Head Corporate Banking
Mr. Zalmai R. Khan	Head Risk Management
Mr. S. M. Shoaib Omair	Head Human Resources and Administration
Mr. Mohammad Shoaib	Head Treasury
Mr. Mohammad Ahmer Siddiqui	Head Internal Audit
Mr. Asim H. Akhund	Company Secretary
Mr. Mohammad Naeem Saeed	Head Information Technology
Mr. Abdullah Jamal Ahmed	Head Compliance
Mr. Mohammad Nadeem	Acting Head Credit Administration
Mr. Kashif Khan	Regional Head North
Mr. Nafees Ahmed	Regional Head Central
Mr. Noaman Abdul Majid	Country Manager, Oman

BOARD OF DIRECTORS



H.E. Yahya Bin Said Bin Abdullah Al-Jabri

Chairman of the Special Economic Zone Authority at A'Duqum,
Sultanate of Oman

Chairman - Pak Oman Investment Company Limited Board of Directors

Chairman - Pak Oman Board of Directors
His Excellency Yahya Bin Said Bin Abdullah Al-Jabri is currently the Chairman of the Special Economic Zone Authority at A'Duqum, Sultanate of Oman. Prior to his position as Chairman of the Special Economic Zone Authority at A'Duqum, His Excellency remained the Executive President of the Capital Market Authority of Sultanate of Oman from 1999 till October 2011 and has spearheaded the effort to introduce and implement sound corporate governance practices in the financial sector of Oman.

His Excellency has vast experience of global corporate & investment banking with academic qualifications from prestigious

American schools including the Kellogg School of Management, Harvard Business School and Darden University.

He also served as the Chairman of Oman Development Bank where he was responsible for the successful turnaround of the bank. He left this position subsequent to his appointment to the Board of Directors of Central Bank of Oman.

He is the Chairman of the Board of Directors of Pak Oman Investment Company, Pak Oman Asset Management Company and Pak Oman Microfinance Bank Limited.



Mr. Mustafa Bin Ali Sulaiman

Sultanate of Oman
Director - Pak Oman Investment Company Limited

Mustafa Bin Ali Sulaiman is a Fellow of the Association of Accounting Technicians, UK from 1983. He qualified as ACPA from the Arab Society of Certified Accountants in 2001. Mr. Mustafa Bin Ali Sulaiman is currently the Director General of Collection in the Office of the Secretariat General for Taxation, Ministry of Finance.

He has extensive experience in the fields of taxation, investigation of financial statements,

Funds Management, Foreign exchange trading and cash flow management. In addition he is also a member of the Board of Directors of Muscat Electricity Distribution Company SAOC and has previously served as a Director of Gulf International Bank, Bahrain and Al – Batnah Hotels Company (SAOG), Sultanate of Oman.

BOARD OF DIRECTORS



Mr. Hamed Sloom Mubark Al Athobi

Sultanate of Oman

Director - Pak Oman Investment Company Limited

Mr. Hamed Sloom Mubarak Al Athobi has 16 years of proficient experience in the oil and gas associated industry.

His official function is that of Deputy Chief Financial Officer for Oman Oil Company (OOC), a commercial business wholly owned by the Government of the Sultanate of Oman and represented by the Ministry of Finance.

The objectives of OOC are focused on strategic diversification of the national economy for the benefit of the Sultanate's citizens, facilitating foreign and private sector investment in Oman. The Company is involved in various energy and energy related projects inside and outside Oman with existing assets in Asia and Europe.

Prior to his position of Deputy Chief Financial Officer, Mr. Athobi worked as a Head of Economic and Business Research in OOC and different positions in the Ministry of Housing, Electricity and Water, Government of Oman.

In addition to Pak Oman, he is also a Board member in Oman India Fertilizer Company, GS EPS and Compania Logistica de Hidrocarburos (CLH).

Mr. Athobi holds a Masters Degree in Business Administration (MBA) from the University of Strathclyde, UK and a Professional Diploma in Accountancy from the Association of Accounting Technicians.

DIRECTOR



Mr. Agha Ahmed Shah

Managing Director & Chief Executive Officer
Pak Oman Investment Company Limited

Mr. Agha Ahmed Shah has over 28 years of banking experience in the field of Corporate & Investment Banking and Risk Management. He started his banking career with American Express Bank Limited where he also attended a one year intensive program at the bank's head office in New York. He has also worked in ANZ Grindlays Bank Ltd in Karachi as Senior Manager Corporate Banking and was responsible for the Multinational and Public Sector Groups.

In MCB Bank Limited, Mr. Shah worked as Head of Corporate South and Head of Investment Banking and Risk Management. He prepared the Credit and Risk Manual of MCB Bank Limited and was responsible for

restructuring of the Corporate and Investment Bank to bring it in line with the emerging challenges faced by the bank. His last job was as Chief Executive Officer of MCB Financial Services Ltd, a wholly owned subsidiary of MCB Bank Ltd.

Mr. Shah is a Certified Director from Pakistan Institute of Corporate Governance. He is currently a director in the following companies.

- Pak Oman Microfinance Bank
- Pak Oman Asset Management Company Limited

BOARD OF DIRECTORS



Mr. Yusuf Khan

Joint Secretary (External Finance)
Ministry of Finance, Government of Pakistan

In his career spanning twenty-three years, Mr. Khan has worked with the public sector, international development agencies and civil society organizations. He is primarily a policy and programme planning and implementation specialist with experience at the community, municipality, district, provincial and federal government levels. Mr. Khan has managed programmes and projects relating to institutional development, capacity building, vocational training and technical education, infrastructure development, local government, agricultural development, community development, public-health and environmental protection.

Mr. Khan has served on key positions in the government such as Joint Secretary (Planning & Development), Ministry of Health; Director

General (Tobacco Control), Ministry of Health; Director General, National Vocational & Technical Education Commission (NAVTEC), Prime Minister's Secretariat; Chief Executive Officer, Devolution Trust for Community Empowerment; Director General, NWFP Community Infrastructure Project; Deputy Commissioner, Kohat District and Political Agent, Orakzai Agency, along with other key portfolios. Mr. Khan holds a Master of Philosophy (MPhil) in Development Studies from the University of Cambridge, UK and knows eight languages.

OF DIRECTORS



Mr. M. Zubair Motiwala

Chairman Sind Board of Investment
Director - Pak Oman Investment Company Limited

Mr. Muhammad Zubair Motiwala is the Chairman Sindh Board of Investment since July 2011. He is a prominent industrialist and has played an outstanding role in strengthening the national economy by promoting industrialization. He has served the business community in various capacities as one of the leading representatives from the industrial sector.

He was the Advisor to Chief Minister Sindh on Investment since January 2009 to July 2011.

He carries the honor to be elected as the Chairman of All Pakistan Textile Processing Mills Association (Central). In 1996 Zubair was taken as the member of Prime Minister's Committee on Textile and Exports.

In 1996-97, he was elected as the Chairman of SITE Association of Industry. He also served the industrial sector as the Chairman of the Council of Karachi Industrial Associations during 1997-98 and was elected as President Karachi Chamber of Commerce & Industry in 2000.

He has been the Director on the boards of various public and private organization which

include Workers Welfare Funds Islamabad, Karachi Electric Supply Corporation, Karachi Water and Sewerage Board, Sindh Industrial Trading Estate (SITE), Export Processing Zone Authority, IBA Karachi, Ziauddin Medical University, National Bank of Pakistan, College of Business Management, Hamdard University, Sir Syed University of Engineering, Benazir Bhutto Shaheed Youths Development Programme & Technology and Baqai Medical College Hospital. Mr. Motiwala is on the advisory board of IT and Telecom Division, Ministry of Science & Technology, Government of Pakistan, and Federal Tax Ombudsman.

In November 2009, Mr. Zubair Motiwala was nominated as the Board of Directors of "Sindh Public Procurement Regulatory Authority (SPPRA).

In February 2010 he was chosen as a Chairman of Steering Committee for Investment Promotion in Sindh.

He led several Pakistan trade delegations abroad; in recognition of his leadership skills and business acumen, he has been appointed as the Honorary Consul General of the Republic of Burundi.

CHAIRMAN'S REVIEW



It gives me pleasure to share with you the performance of Pak Oman Investment Company for the year 2011. This has been a very challenging year for the Company as it has faced rising NPLs and difficult macro and micro-economic environment. However, despite all the negative factors, your Company has been able to achieve the following:

- During the year, your Company has continued with its goal of consolidate its position in the financial sector. Alhamdulillah, your Company has recorded a profit after tax of Rs 348 million (US\$ 3.9 million) compared to a profit after tax of Rs 278 million (US\$ 3.1 million) in 2010. As at December 31, 2011, Company's Total Assets stood at Rs 19 billion (US\$ 210 million).
- The Company maintained its Credit Rating of AA+ and Corporate Governance Rating of CGR 9 by JCR-VIS Credit Rating Company
- The Company was reappointed as Primary Dealer by the State Bank of Pakistan
- It continued booking new relationships in a very difficult year
- Deposit mobilization from the retail sector, now stands at Rs 389 million

OVERVIEW OF OPERATIONS

Corporate Banking

The year 2011 continued to face new challenges, which kept on having an impact on the macro economic landscape of the economy. While the underlying macroeconomic indicators displayed signs of some improvement riding on the back of increased remittances

and good performance of the Large Scale Manufacturing Sector (LSM), however a worsening energy crisis, increasing high levels of Government borrowings, ever increasing NPLs of the banking sector, high inflationary pressure, continuing decline of the private sector credit off take, business disruption for prolonged periods arising from law and order issues in the main business hub of the country, did not make it easy to do business in 2011. The monsoon floods caused widespread destruction specially in the province of Sindh causing significant loss to major crops as well as infrastructure. Despite these challenges, Corporate Banking Department managed to disburse about Rs 2.1 billion. This was achieved by adopting a conservative, yet proactive management of the portfolio.







Power and Textile continued to remain the dominant sectors of the portfolio, both combining to about 39% of the total loan portfolio. However overall exposure in the power sector was reduced to about 16% of the lending portfolio compared to 20% in 2010 (and 25% in 2009). It may be noted that all the new IPPs financed by Pak Oman were able to successfully achieve Commercial Operation.

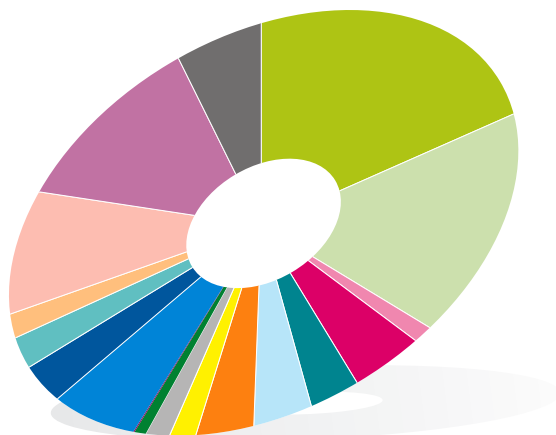
In 2011, Corporate Banking has continued the strategy of booking top end export oriented customers and servicing them through State Bank of Pakistan subsidized credit lines. Through this strategy and utilization of these lines, Corporate has continued to cash in on the advantage offered by such lines to address the issue of mismatch between its assets and corresponding liabilities, and yet earn a fixed percentage spread on these credit facilities.













A renewed focus on recoveries has also paid dividends as Corporate Banking was able make significant recoveries resulting in reversal of provisioning. In the

process, the Company was able to settle 27% of its ongoing litigation cases, either by way of complete pay offs or through out of court settlement arrangements. The Company continue closely monitor its flagged accounts, which started paying dividends as many accounts which could had been relegated to litigation status have managed to stay regular while six such accounts were successfully fully settled.

A brief snapshot of Pak Oman's corporate portfolio mix is as follows:

	Textile	22.06%
	Power	16.37%
	Pharmaceutical	1.13%
	Engineering	4.20%
	Electronics	3.02%
	Auto & Allied	3.70%



	Chemicals / Fertilizers	3.79%
	Paper, Board & Packaging	1.79%
	Construction/Housing	1.69%
	Cement	0.83%
	Finance	0.09%
	Sugar	6.63%
	Communications & Media	3.68%
	Transportation	2.79%
	Healthcare	2.03%
	Others	9.27%
	Food, Beverages & Tobacco	11.63%
	Oil & Gas Marketing / Exploration / Other	5.30%

Investment Banking

Investment Banking Division of Pak Oman continued to provide innovative, tailor made solutions to its target customer base this year even in a difficult environment.

During the year, Pak Oman was awarded a mandate by Transworld Associates (Pvt.) Ltd. - operators of Pakistan's first private sector submarine fibre optic cable which provides international bandwidth services to the country's leading ISPs and telecom operators - to act as its Advisor and Arranger for arranging financing of Rs. 225 million for purchase of bandwidth.

Pak Oman also acted as the Advisors & Arrangers to Samin Textiles Limited for arranging financing for acquisition of 25 new air jet looms for its capacity expansion.

Pak Oman has also been appointed Trustee to the Rs 2,000 million Rated, Listed & Secured TFCs Issue of Orix Leasing Pakistan Limited.

Treasury

During the year, treasury department has successfully managed money market and resource mobilization, with main focus on the following key activities;

- Effectively initiated and managed the Deposit Mobilization from retail customers resulting in a growth of retail deposit base.
- Achieved the targets set for Capital gains and Trading Profits with successfully aligning the portfolio with changing interest rate scenario.

Retail customers increased from 75 to 199 during the year. These deposits are helpful in managing liquidity in more efficient manner as they tend to remain on a long term basis.

Similarly, the department exceeds its trading profit targets (Govt. Securities & Corporate Bonds) by 220% (Rs 96 million against the set target of Rs 30 million).

In 2011 investment in T-Bills and PIBs increased by 85%. The strategy of building a long term portfolio was executed upon their shifting the yield curve downward.

Pak Oman has also successfully retained Primary Dealership status and has been ranked among the Top Most Active State Bank of Pakistan Primary Dealers in the country.

Risk Management

Pak Oman has stringent risk management policies. It is compliant with State Bank of Pakistan requirements for implementation of Basel II and its Capital Adequacy Ratio is well above the stipulated requirement, hence giving it ample cushion to cover any unforeseen shocks. Pak Oman is committed to accruing / implementing software solutions in all aspects of risk management so that we are better equipped to meet any future challenge.

Support Operations

Finance, Information Technology, Human Resources and Administration, played their role in supporting core operations of the Company. Information Technology Department took major initiative by starting work on application systems project to redevelop and improve all existing applications. Necessary hardware and software installations were done to improve overall system availability and performance. Human Resources on the other hand worked on managing turnover rate and facilitated training and development of all employees.

Management Committees

To implement prudent practices, foster joint decision making and bring into play participation from all areas, the following Management Committees functioned actively during the year:

- (i) Credit Committee
- (ii) Assets & Liabilities Committee (ALCO)
- (iii) Risk Management Committee
- (iv) Coordination Committee
- (v) Purchase & Works Committee
- (vi) Friends of Life Committee
- (vii) Information Technology Committee
- (viii) Capital Market Review Committee (CMRC)
- (ix) Performance Evaluation Committee

Contribution to National Economy / Social Responsibility

In the year 2011, the Company's contribution to the national exchequer was Rs 290 million.

As a responsible corporate citizen, it has been the vision of your Company to empower the community through socio-economic development of underprivileged and weaker sections. Pak Oman acknowledges its responsibility in a manner that its activities influence its consumers, employees and stake holders. Your Company strives to proactively encourage community growth and development thereby contributing in building a sustainable future. To help the weaker section of the society in their efforts of poverty alleviation, your Company has established a country wide Microfinance bank in association with the Government of the Sultanate of Oman.

Pak Oman Investment Company Limited has also an affiliated concern called Friends of Life (FOL), which aims to promote social welfare, through active participation in forums pertaining to health and education of underprivileged.

Some of Pak Oman's CSR initiatives are as follows:

Education For Underprivileged

The company financially supported APWA in its fund raising efforts for the repair of two school buildings providing free educations to over 240 students in Lyari and Sanghar areas.

Development of Literacy (DIL) educates and empowers underprivileged students, especially girls, by operating student-centred model schools; and provides high quality professional development to teachers across Pakistan. It has approximately 149 schools that educate around 17,000 students of whom 60% are girls. Pak Oman has financially contributed DIL in their cause.

Healthcare

POICL partners with various institutions involved in health sector to improve the health status of the society we operate in.

We provide monthly financial assistance to Darul Sukun, a home for mentally challenged children. Located in Karachi, it is run almost exclusively on donations and charity.

To support Civil Hospital Karachi's role in provision of free of cost surgical and medical health relief to the underprivileged, POICL supports its Burns Centre, the

first of its kind in Pakistan, operating according to International medical standards. It is run by a Committee "Friends of Burns Centre". The Centre caters to approximately 20,000 patients per year, completely free of cost.

Pak Oman's Friends of Life Committee instigated a project with the Burns Centre in which it sponsors the monthly salary of a professionally trained, highly qualified burns doctor for the Centre.

The company is also associated with Al-Mehrab Tibbi Imdad (AMTI), an organization that treats terminal under privileged patients absolutely free of cost. POICL provides medicinal aid to AMTI on a quarterly basis.

Patient's Aid Foundation of Jinnah Post Graduate Medical Centre also supported by Pak Oman in their initiative for purchase of country's first ever most advanced robotic radio surgery "Cyberknife Stereotactic Radio Surgery System" for cancer treatment.

In addition to above Pak Oman has financially supported The Kidney Centre on many occasions in their fundraisers.

Community Building

Amongst other economic contributions, we also take pride in our immediate response to any situation. While it may be impossible to prevent disaster and misfortune from happening, it is possible to provide relief.

In last year's floods POICL donated 1250 bags of relief packages containing food items like rice, flour, pulses, cooking oil/ghee, sugar, powder milk, tea, biscuits, mineral water etc. in Pakistan Army relief fund.

In addition to this POICL also financially supported a flood relief camp organized by its associate Pak Oman Asset Management Company Limited at Shedi Village near Karachi. The camp looked after 65 floods affected and displaced families for three months. They were provided with relief packages consisting of food items such as, rice, flour, pulses, sugar, milk powder, cooking oil etc. and other essential items like stoves, cooking pots, plates, glasses, soaps, mosquito coils, kerosene oil etc. to meet their basic needs.

In addition it also contributed towards the Prime Ministers Relief Fund.

This year again, the Company was in the forefront of relief efforts and has donated significantly into the Prime Minister Relief Fund.

Pak Oman Investment Company Limited will continue to play its role in contributing towards the nation's economic progress and prosperity.

2012 and Beyond

The year 2012 is going to be challenging for the banking industry. However, your Company's comfortable position with respect to capital and liquidity, strong systems of credit origination and credit monitoring, give it enough confidence that it will be able to take on this challenge well.

The company will continue to focus on its core business and in consolidating its operations. A major challenge for 2012 will remain the recoveries of non-performing and flagged accounts. The Company will channel its efforts on recoveries through persistent follow up, the litigation process, out of court settlement and/or by way of feasible re-structuring of facilities. For this purpose a broad strategy has also been prepared.

Further, in order to strengthen the financial position of our subsidiary Pak Oman Asset Management Company Limited (POAMCL), various options are under consideration for enhancing POAMCL equity, including a possible merger in 2012 with another Asset Management Company.

Acknowledgement

On behalf of the Board of Directors of the Company and myself, I take this opportunity to acknowledge the dedicated services of the employees of the Company.

I feel delighted to say that we take great pride in our team, who are motivated and much focused towards a collective goal. It is a pleasure to see such diversification within the organisation. We are an equal opportunity employer and encourage people from all walks of life to apply. Pak Oman's key strength remains its highly qualified and forward looking management, which under the able guidance of the Managing Director has created and sustained a leading position in an increasingly competitive environment.

I would like to express my gratitude to our stakeholders, the government, and customers for their valuable support and cooperation & the regulatory bodies for their guidance.

Yahya Bin Said Bin Abdullah Al-Jabri
Chairman

Karachi: March 29, 2012

DIRECTORS' REPORT



On behalf of the Board of Directors, it gives me pleasure to present the Tenth Annual Report and the Audited Financial Statements together with the Auditors' Report of your Company, along with Consolidated Audited Financial Statements and Auditors' Report thereon for the year ended December 31, 2011.

Economy

The macroeconomic stability emanating from fiscal weakness will remain a challenge. The economy is facing effects of fiscal deficits, electricity shortages, security expenditures, law & order, low growth and entrenched inflation. The cumulative effect of the above challenges resulted in heavy government borrowings from domestic sources resulting in widening of the fiscal gap. Therefore, GDP growth is expected around 3.8%. Further, expansion of the tax base, resolution of the energy crises, controlling of inflation, declining FDI and global economic conditions will remain the major risks for the economy.

The performance of banking sector in general is being affected by persistent higher NPLs along with subdued growth in large scale manufacturing sector. It is also expected that overall credit to the private sector will remain low during the next one year.

Operational Review

Efficient pricing of deposits and loans, a well-balanced growth in loan-book, consolidation of our portfolio and strengthening of systems for credit origination /

monitoring is now showing its results. I am proud to inform that despite uncertain conditions, your Company has recorded a profit before tax of Rs 579 million (US\$ 6.5 million) as compared to 2010 profit before tax of Rs 382 million (US\$ 4.3 million). Further, during the year under review your Company successfully reversed Rs 272 million (US\$ 3.03 million) from provisioned accounts. Also the underlying growth of the Company's core business has been strong. On a cumulative basis, total revenue from operations amounted to Rs 2,397 million (US\$ 26.8 million). This was achieved despite the fact that an additional amount of Rs 140 million (US\$ 1.6 million) was suspended on weak accounts / investments. After accounting for mark-up and interest expense of Rs 1,514 million (US\$ 16.9 million) and total administrative and other expenses of Rs 269 million (US\$ 3 million), your Company achieved a profit before provisions of Rs 614 million (US\$ 6.9 million). However, during the year Company has made total provisions on loans / investments-net of Rs 35 million (US\$ 0.4 million) against provisioned accounts. As a result, the Company achieved profit before tax of Rs 579 million (US\$ 6.5 million) and profit after tax of Rs 348 million (US\$ 3.9 million) respectively.

Pak Oman Investment Company Limited continued to build a well-diversified asset portfolio, comprising of loans and leases, as well as corporate bonds and investment in government securities. As at December 31, 2011, Company's Total Assets stood at Rs 19 billion (US\$ 210 million).

Financial Results

For the Year ended 2011

	Rs million	US\$ million
Total Assets	18,816	210.0
Advances	5,767	64.4
Investments	10,590	118.2
Profit after taxation	348	3.9

Appropriations

The Board has recommended following appropriations:

For the Year ended 2011

	Rs million	US\$ million
To Statutory Reserve	69.60	0.78
Cash Dividend @ Rs. 0.35 per share	215.25	2.40

Credit rating

Your Company has been assigned a medium to long-term rating of AA+ (Double A Plus) and short-term rating of A1+ (A one Plus) by JCR-VIS Credit Rating Company Limited.

This rating denotes superior quality of credit and strength of protection factors. The assigned rating is primarily driven by development of a sustainable profit base for the Company and its relative position amongst peer group institutions.

Corporate Governance Rating

Your Company has also been assigned a corporate governance rating of CGR-9 by JCR-VIS Credit Rating Company Limited.

The assigned rating denotes a very high level of corporate governance and is the result of adoption of best practices within the Company.

Primary Dealer of State Bank of Pakistan

Acknowledging Pak Oman's role in the development of the primary and secondary markets for Government

Bonds, the State Bank of Pakistan has reappointed Pak Oman as a Primary Dealer for the financial year 2011-2012.

Pak Oman Microfinance Bank

Pak Oman Microfinance Bank During the year, Pak Oman Microfinance Bank Limited performed well despite tough market conditions in view of the country wide floods and poor law and order situation. In order to increase outreach, the bank opened four new outlets in 2011, raising its total number of branches / service centres to twenty one.

The salient features of Pak Oman Micro Finance Bank's performance are:

Total number of operational branches	16
Service centres	5
Total number of borrowers	52,206
Total number of deposit holders	18,701
Total number of customers	70,907
Total amount of disbursements	Rs 810,264,000
Total amount of deposits	Rs 25,341,586
Total number of loans	52,206
Average loan size	Rs 15,521

Going forward, Pak Oman Microfinance Bank plans to steadily increase its outreach by opening two more Branches and two Service Centres in 2012. In addition, it continues to focus on providing access to a sound and affordable micro-insurance service to its borrowers in collaboration with a renowned insurance company of Pakistan. Further, the bank would also continue to pursue its objective of providing access to formal sources of finance to the lower strata of the population of Pakistan.

Pak Oman Asset Management Company

Pak Oman Asset Management Company Limited is managing four open-end funds and one closed-end fund. In order to strengthen its financial position, the company is currently looking at various options of

enhancing its equity, including a possible merger with another Asset Management Company. This will also result in increasing its fund size. Pak Oman Advantage Islamic Income Fund posted a return of 9.01%, Pak Oman Islamic Asset Allocation Fund posted a return of 22.73%, Pak Oman Advantage Asset Allocation Fund posted a return of 15.08% and Pak Oman Advantage Fund posted a return of 10.52% during the fiscal year 2011. Pak Oman Government Securities Fund which was successfully launched during the year posted a return of 11.79% since its inception.

Risk Management Framework

The Directors acknowledge that although the onus for risk management trickles down to the operational level, its overall responsibility rests with the Board of Directors. The Company constantly endeavours for an improvement of the existing risk management systems and procedures. In this regard there is an ongoing process of upgrading the IT systems, which will not only cover the Company's increasing needs but also form the basis for BASEL II implementation. The Company is fully compliant to SBP's guidelines on BASEL II implementation.

Corporate Governance & Financial Reporting

The Directors declare that:

- o These financial statements, prepared by the Management, present fairly its state of affairs, the result of its operations, cash flows, and changes in equity.
- o Proper books of account of the Company have been maintained.
- o Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- o International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure from them has been appropriately disclosed.
- o The system of internal control is sound in design

and has been effectively implemented and monitored.

- o There are no doubts regarding the Company's ability to continue as a going concern.
- o There has been no material departure from the best practices of corporate governance.

The Board of Directors of the Company held five meetings during the year ended December 2011 to discuss policy matters and to review operations.

These were attended as follows:

Name of Director	Meetings Attended
H.E. Yahya Bin Said Bin Abdullah Al-Jabri	5
Mr. Muhammad Zubair Motiwala	5
Mr. Mustafa Bin Ali Sulaiman	5
Mr. Hamed Sloom Mubarak Al Athobi	5
Mr. Muhammad Iqbal Awan	5
Mr. Agha Ahmed Shah	5

Directors

There was a change in Board of Directors subsequent to the year end, Mr. Muhammad Iqbal Awan resigned from the board and Mr. Yusuf Khan joined as a nominee director on behalf of the Government of Pakistan.

Statement of Investments of Provident & Gratuity funds

Investments of Provident & Gratuity funds as at December 31, 2011 according to their un-audited financial statements were Rs 55.7 million and Rs 37.4 million respectively.

Auditors

The present Auditors, M. Yousuf Adil Saleem & Company, (a member firm of Deloitte Touche Tohmatsu) Chartered Accountants retire and being eligible, offer themselves for re-appointment. The Board of Directors, on the suggestion of the Audit Committee, recommended

the appointment of M/s M. Yousuf Adil Saleem & Company, (a member firm of Deloitte Touche Tohmatsu) Chartered Accountants, as auditors of the Company for the year ending December 31, 2012.

Pattern of Shareholding

Government of Pakistan:	
Ministry of Finance	49.99%
Secretary - Economic Affairs Division	0.01%
Sultanate of Oman:	
Ministry of Finance	49.99%
Ministry of Commerce & Industry	0.01%

Acknowledgements

Stakeholders

The Board is grateful to the respective Governments of Sultanate of Oman and the Islamic Republic of Pakistan for their commitment and support to the Company.

Regulators

The Board also takes this opportunity to express its gratitude to the State Bank of Pakistan for its continued guidance and support.

Management

The Board acknowledges the staff for their exceptional efforts in positioning the Company as a strong player in the financial sector. This is the result of collective team work, commitment and dedication towards achieving the Company's objectives.

Agha Ahmed Shah

Managing Director & Chief Executive

Karachi: March 29, 2012

FINANCIAL SUMMARY

	2011	2010	2009	2008
Balance Sheet				
Shareholders capital	6,150,000	6,150,000	6,150,000	6,150,000
Reserves & unappropriated profit	794,918	692,896	414,920	1,022,413
Lendings to financial institutions	1,321,745	2,454,610	2,846,936	3,137,180
Investments	10,589,968	9,143,686	10,775,046	6,996,478
Advances	5,767,026	5,947,929	5,514,114	5,740,174
Borrowing from financial institutions	6,648,716	6,145,349	8,895,096	7,491,561
Deposits and other accounts	4,695,693	5,561,165	4,562,089	3,023,121
Profit & Loss				
Mark up income	2,264,147	2,224,130	2,319,194	2,038,155
Mark up expense	1,513,542	1,462,002	1,636,815	1,318,404
Profit / (loss) before tax	579,293	381,757	(653,819)	126,560
Investors information				
Basic and diluted (loss) / earnings per share	0.57	0.45	(0.99)	0.01
Profit / (loss) before tax ratio	1.66	1.37	(1.08)	19.61
Gross spread ratio	0.33	0.34	0.29	0.35
Return on Equity	5.05%	4.15%	-8.84%	0.09%
Income / Expense	1.32	1.19	0.75	1.07

ANNUAL SUMMARY

Rupees in '000

2007	2006	2005	2004	2003	2002
6,150,000	3,000,000	1,500,000	1,500,000	1,500,000	1,500,000
1,323,460	1,100,155	906,435	665,112	423,602	114,016
3,706,071	2,825,482	1,770,300	2,062,013	2,293,560	818,630
9,063,700	4,172,175	4,703,362	3,975,175	3,969,879	3,948,978
6,878,787	6,135,812	4,668,845	2,601,599	1,115,576	349,775
11,776,222	7,868,858	5,249,759	4,882,000	4,042,762	3,391,379
2,168,358	3,009,583	3,977,226	1,553,675	1,273,911	50,000
1,572,096	1,159,681	731,642	396,805	363,596	271,926
1,063,943	830,342	472,518	135,017	108,829	88,836
676,076	330,692	278,817	318,726	440,962	144,714
1.22	1.22	1.61	1.61	2.06	0.86
1.29	1.08	1.16	1.32	1.42	1.27
0.32	0.28	0.35	0.66	0.70	0.67
9.66%	9.41%	10.56%	11.81%	17.50%	7.32%
1.49	1.32	1.41	2.33	3.28	1.81



STANDALONE
FINANCIAL

FINANCIAL

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 (the Code) 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 State Bank of Pakistan.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report, if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

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

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

The Statement of the Company for the year ended December 31, 2010 was reviewed by another firm of Chartered accountants who through their report dated March 6, 2011 expressed an unmodified conclusion thereon.

M. Yousuf Adil Saleem & Co
Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Karachi: March 29, 2012

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended December 31, 2011

This statement is being presented to comply with the Code of Corporate Governance framed by the Securities and Exchange Commission of Pakistan and as required by paragraph 3 of BSD Circular No. 15 of 2002 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.
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, 2011.
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 four non-executive directors.
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 program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. All related party transactions have been presented before the Audit Committee and approved by the Board of Directors.
21. 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 & Chief Executive Officer

Karachi: March 29, 2012

STATEMENT OF INTERNAL CONTROLS

For the year ended December 31, 2011

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.

Recognizing it to be an ongoing process, the management of POICL has adopted an internationally accepted Internal Control COSO Framework, in accordance with guidelines on Internal Controls from the State Bank of Pakistan. POICL has completed the seven stages of Internal Control Program as per these guidelines.

Mohammad Jamal Nasir
Chief Financial Officer

S. Abdullah Jamal Ahmed
Head of Compliance

Mohammad Ahmer Siddiqui
Chief Internal Auditor

Karachi: March 29, 2012

INDEPENDENT AUDITORS' REPORT to the members

We have audited the annexed statement of financial position of **Pak-Oman Investment Company Limited** (the Company) as at **December 31, 2011** and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (herein-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 above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

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

- a. in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b. in our opinion:
 - i. the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii. the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.
- c. in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984, in the manner so required and give a true and fair view of the state of the Company's affairs as at December 31, 2011 and of the profit, comprehensive income, 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.

The financial statements of the Company for the year ended December 31, 2010 were audited by another firm of Chartered Accountants who through their report dated March 6, 2011 expressed an unqualified opinion thereon.

M. Yousuf Adil Saleem & Co
Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Karachi: Marach 29, 2012

STATEMENT OF FINANCIAL POSITION

As at December 31, 2011

2011		2010			2011		2010		
US \$ in '000				Note	Rupees in '000				
ASSETS									
744	785	Cash and balances with treasury banks	6	66,647	70,373				
2,333	7,374	Balances with other banks	7	209,058	660,750				
14,752	27,395	Lendings to financial institutions	8	1,321,745	2,454,610				
118,192	102,050	Investments - net	9	10,589,968	9,143,686				
64,364	66,383	Advances - net	10	5,767,026	5,947,929				
712	726	Operating fixed assets	11	63,811	65,082				
4,786	4,605	Deferred tax assets - net	12	428,823	412,574				
4,121	4,687	Other assets	13	369,259	419,985				
210,004	214,005			18,816,337	19,174,989				
LIABILITIES									
-	-	Bills payable		-	-				
74,204	68,586	Borrowings	14	6,648,716	6,145,349				
52,407	62,067	Deposits and other accounts	15	4,695,693	5,561,165				
-	-	Sub-ordinated loans		-	-				
216	170	Liabilities against assets subject to finance lease	16	19,378	15,202				
-	-	Deferred tax liabilities		-	-				
6,777	7,994	Other liabilities	17	606,977	716,383				
133,604	138,817			11,970,764	12,438,099				
76,400	75,188			6,845,573	6,736,890				
NET ASSETS									
REPRESENTED BY									
68,638	68,638	Share capital	18	6,150,000	6,150,000				
5,416	5,497	Reserves	19	485,312	492,568				
3,455	2,236	Unappropriated profit		309,606	200,328				
77,509	76,371			6,944,918	6,842,896				
(1,109)	(1,183)	Deficit on revaluation of assets - net of deferred tax	20	(99,345)	(106,006)				
76,400	75,188			6,845,573	6,736,890				
Contingencies and commitments 21									

The annexed notes from 1 to 43 form an integral part of these financial statements.

PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2011

2011	2010		Note	2011	2010
US \$ in '000				Rupees in '000	
25,269	24,823	Mark-up / return / interest earned	22	2,264,147	2,224,130
16,892	16,317	Mark-up / return / interest expensed	23	1,513,542	1,462,002
8,377	8,506	Net mark-up / interest income		750,605	762,128
(1,489)	2,027	(Reversal) of / provision against non-performing advances	10.6	(133,405)	181,614
1,880	1,745	Provision for diminution in the value of investments	9.3	168,490	156,315
-	-	Bad debts written off directly		-	-
391	3,772			35,085	337,929
7,986	4,734	Net mark-up / interest income after provisions		715,520	424,199
NON MARK-UP / INTEREST INCOME					
125	246	Fee, commission and brokerage income		11,185	22,013
1,385	819	Dividend income		124,132	73,426
-	-	Income from dealing in foreign currencies		-	-
137	1,180	Gain on sale of securities	24	12,255	105,762
(189)	31	Unrealised (loss) / gain on revaluation of Investments classified as held-for-trading		(16,950)	2,780
26	26	Other income	25	2,355	2,332
1,484	2,302	Total non mark-up / interest income		132,977	206,313
9,470	7,036			848,497	630,512
NON MARK-UP / INTEREST EXPENSES					
2,836	2,680	Administrative expenses	26	254,100	240,169
-	-	Other provisions / write offs		-	-
169	96	Other charges	27	15,104	8,586
3,005	2,776	Total non mark-up/interest expenses		269,204	248,755
6,465	4,260			579,293	381,757
-	-	Extra ordinary / unusual items		-	-
6,465	4,260	PROFIT BEFORE TAXATION		579,293	381,757
Taxation					
2,387	2,272	-current	28	213,911	203,535
-	-	-prior years		-	-
194	(1,113)	-deferred		17,360	(99,754)
2,581	1,159			231,271	103,781
3,884	3,101	PROFIT AFTER TAXATION		348,022	277,976
2,236	-	Unappropriated profit brought forward		200,328	-
6,120	3,101	Profit available for appropriation	10.2	548,350	277,976
US \$				Rupees	
0.0063	0.0050	Basic and diluted earnings per share	29	0.57	0.45

The annexed notes from 1 to 43 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

2011	2010		2011	2010	
US \$ in '000			Rupees in '000		
3,884	3,101	PROFIT AFTER TAXATION	348,022	277,976	
-	-	Other comprehensive income	-	-	
<u>3,884</u>	<u>3,101</u>	Total comprehensive income for the year	<u>348,022</u>	<u>277,976</u>	

Deficit / surplus on revaluation of assets has been reported in accordance with the requirements of Companies Ordinance, 1984 and the directives of the State Bank of Pakistan in a separate account below equity.

The annexed notes from 1 to 43 form an integral part of these financial statements.

CASH FLOW STATEMENT

For the year ended December 31, 2011

2011	2010		Note	2011	2010
US \$ in '000				Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES					
6,465	4,260	Profit before taxation		579,293	381,757
(1,385)	(819)	Less: Dividend income		(124,132)	(73,426)
5,080	3,441			455,161	308,331
Adjustments:					
176	166	Depreciation	11.1	15,739	14,838
22	19	Amortization of intangible assets	11.2	1,939	1,672
189	(31)	Unrealised loss / (gain) on revaluation of investments classified as held-for-trading		16,950	(2,780)
(26)	(26)	Gain on sale of operating fixed assets	25	(2,355)	(2,330)
(1,489)	2,027	(Reversal) of / provision against non-performing advances	10.6	(133,405)	181,614
1,880	1,745	Provision for diminution in the value of investments	9.3	168,490	156,315
20	26	Finance charges on leased assets		1,776	2,364
772	3,926			69,134	351,693
5,852	7,367			524,295	660,024
(Increase) / decrease in operating assets					
12,644	4,379	Lendings to financial institutions		1,132,865	392,326
(42,427)	37,002	Net investments in held-for-trading securities		(3,801,465)	3,315,343
3,508	(6,869)	Advances - net		314,308	(615,429)
734	(349)	Other assets		65,711	(31,287)
(25,541)	34,163			(2,288,581)	3,060,953
Increase / (decrease) in operating liabilities					
5,618	(30,689)	Borrowings		503,367	(2,749,747)
(9,659)	11,150	Deposits and other accounts		(865,472)	999,076
(1,286)	371	Other liabilities		(115,221)	33,221
(5,327)	(19,168)			(477,326)	(1,717,450)
(25,016)	22,362			(2,241,612)	2,003,527
(21)	(25)	Finance charges paid on leased assets		(1,838)	(2,281)
(2,322)	(2,131)	Income tax paid		(208,034)	(190,941)
(27,359)	20,206			(2,451,484)	1,810,305
Net cash (used in) / from operating activities					
CASH FLOWS FROM INVESTING ACTIVITIES					
23,293	(21,940)	Net proceeds from / (investments) in available-for-sale securities		2,087,069	(1,965,810)
622	54	Net proceeds from held-to-maturity securities		55,726	4,833
-	1,784	Investments in associates		-	159,874
1,218	818	Dividend income received		109,147	73,281
(72)	(116)	Purchase of operating fixed assets		(6,470)	(10,376)
67	51	Sale proceeds on sale of operating fixed assets		5,965	4,601
25,128	(19,349)			2,251,437	(1,733,597)
Net cash from / (used in) investing activities					
CASH FLOWS FROM FINANCING ACTIVITIES					
(105)	(111)	Payments of finance lease obligations		(9,371)	(9,915)
(2,746)	-	Dividend paid		(246,000)	-
(2,851)	(111)			(255,371)	(9,915)
(5,082)	746			(455,418)	66,793
(Decrease) / increase in cash and cash equivalents					
8,160	7,414	Cash and cash equivalents at beginning of the year		731,123	664,330
3,078	8,160	Cash and cash equivalents at end of the year	30	275,705	731,123

The annexed notes from 1 to 43 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011

	Issued, subscribed and paid up capital	Reserves			Unappropriated profit	Total
		Statutory reserve	General reserve	Reserve for contingencies		
Rupees in '000						
Balance as at January 1, 2010	6,150,000	348,483	66,437	-	-	6,564,920
Comprehensive income :						
Profit for the year ended December 31, 2010	-	-	-	-	277,976	277,976
Other comprehensive income - net of tax	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	277,976	277,976
Transfers :						
Transfer to statutory reserve	-	55,595	-	-	(55,595)	-
Transfer to contingencies reserve	-	-	-	22,053	(22,053)	-
Balance as at December 31, 2010	6,150,000	404,078	66,437	22,053	200,328	6,842,896
Comprehensive income:						
Profit for the year ended December 31, 2011	-	-	-	-	348,022	348,022
Other comprehensive income - net of tax	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	348,022	348,022
Transfers:						
Transfer to statutory reserve	-	69,604	-	-	(69,604)	-
Transfer from general reserve	-	-	(54,807)	-	54,807	-
Transfer from contingencies reserve	-	-	-	(22,053)	22,053	-
Transaction with owners recognised directly in equity						
Dividend for the year ended December 31, 2010 (Re. 0.4 per share)	-	-	-	-	(246,000)	(246,000)
Balance as at December 31, 2011	6,150,000	473,682	11,630	-	309,606	6,944,918

The annexed notes from 1 to 43 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

1 LEGAL STATUS AND NATURE OF BUSINESS

Pak-Oman Investment Company Limited (the Company) was incorporated as a private limited company on July 23, 2001. Subsequently, on March 17, 2004 the Company was converted into a public company. The Company 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 Letter No. 35 dated October 28, 2003 issued by the State Bank of Pakistan.

2 BASIS OF PRESENTATION

2.1 Separate financial statements

These financial statements are separate financial statements of the Company in which the investments in subsidiary and associates are stated at cost and have not been accounted for on the basis of reported results and net assets of the investees which is done in the consolidated financial statements of the Company.

2.2 US Dollar equivalent

The US Dollar amounts shown in the statement of financial position, profit and loss account, statement of comprehensive income and cash flow statement are stated as additional information solely for the convenience of readers. For the purpose of conversion to US Dollars, the rate of Rs. 89.60 to 1 US Dollar has been used for 2011 and 2010 as it was the prevalent rate as on December 31, 2011.

3 STATEMENT OF COMPLIANCE

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

The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for DFIs through BSD Circular Letter No. 11 dated September 11, 2002 till further instructions. Further, according to the notification of the SECP dated April 28, 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for DFIs. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

3.2 **Adoption of New Standards, Amendments and Interpretations to the published approved accounting standards:**

3.2.1 During the year, the following standards, amendments to standards and interpretations including amendments to interpretations became effective; however, the application of these amendments and interpretations did not have material impact on the financial statements of the Company:

Standards / Amendments / Interpretations	Effective date (accounting period beginning on or after)
Amendments to IAS 1 - Presentation of Financial Statements	January 1, 2011
IAS 24 (as revised in 2009) - Related Party Disclosures	January 1, 2011
Amendments to IAS 27 (2008) - Consolidated and Separate Financial Statements	July 1, 2010
Amendments to IAS 32 - Financial Instruments – Presentation	February 1, 2010
Amendments to IAS 34 - Interim Financial Reporting	January 1, 2011
Amendments to IFRS 3 (2008) - Business Combinations	July 1, 2010
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010
Amendments to IFRIC 13 - Customer Loyalty Programmes	January 1, 2011
Amendments to IFRIC 14 - Prepayments of a Minimum Funding Requirement	January 1, 2011

3.3 **Standards, interpretations and amendments to the published approved accounting standards not yet effective:**

3.3.1 The following Standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

Standards / Amendments / Interpretations	Effective date (accounting period beginning on or after)
Amendments to IAS 1 - Presentation of Financial Statements	July 1, 2012
Amendments to IAS 12 - Income Taxes	January 1, 2012
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

3.4 Other than the aforesaid standards, interpretations and amendments, the IASB has also issued the following standards which have not been considered by the Company as the standards and their relevant amendments have not been adopted locally by the Securities and Exchange Commission of Pakistan and the SBP:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IAS 27 (Revised 2011) – Separate Financial Statements
(due to non adoption of IFRS 10 and IFRS 11)
- IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures
(due to non adoption of IFRS 10 and IFRS 11)

3.5 The potential impact of standards, amendments and interpretations not yet effective on the financial statements on the Company is as follows:

The amendments to IAS 19, 'Employee Benefits' are effective for annual period beginning on or after January 1, 2013. The amendments eliminate the corridor approach and therefore require an entity to recognize changes in defined benefit plans obligations and plan assets when they occur. All actuarial gains or losses in other comprehensive income arising during the year are recognized immediately through other comprehensive income. The amendments also require additional disclosures and retrospective application with certain exceptions. Management anticipates that the amendments will be adopted in the Company's financial statements for annual period beginning on or after January 1, 2013, and the application of amendments may have impact on amounts reported in respect of defined benefit plans. On overall basis, there will be no impact on the company's financial statements. Since the company already follows policy of immediate recognition of its Acturial Gains / Losses. The only difference would be that the Acturial Gains / Losses for the year will be recognized in the Statement of other comprehensive income instead of Profit and Loss Account.

4

BASIS OF MEASUREMENT

4.1 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.

The financial statements are prepared in Pakistani rupees which is the Company's functional and presentation currency.

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

Interest income is recognized on a time proportion basis that takes into account effective yield on the asset. Premium or discount on investments classified as held-for-trading, available-for-sale and held-to-maturity securities is amortised using the effective interest method and taken to profit and loss account.

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.

In case of advances including finance lease and debt security investments classified under the Prudential Regulations, interest / mark-up is recognized on receipt basis. Interest / mark-up on rescheduled / restructured advances and investments is recognized in accordance with the Prudential Regulations of SBP.

Dividend income on equity investments and mutual funds is recognized when right to receive is established.

Gains and losses on disposal of investments are recognised in the profit and loss account in the year in which they arise.

Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognized as income on receipt basis.

Fee, brokerage and commission income other than commission on letters of credit and guarantees and remuneration for trustee services are recognized upon performance of services.

Commission on letters of credit and guarantees is recognized on time proportion basis.

5.3 Investments

The Company has classified its investment portfolio, except for investments in subsidiary and associates, into held-for-trading, held-to-maturity and available-for-sale portfolios as follows:

Held-for-trading – These are investments which are acquired with the intention to trade by taking advantage of short-term market / interest rate movements and are to be sold within 90 days. These are carried at market value, with the related gain / (loss) on revaluation being taken to profit and loss account.

Held-to-maturity – These are investments which are acquired with the intention and ability to hold them up to maturity. These are carried at amortised cost.

Available-for-sale – These are investments that do not fall under the held-for-trading or held-to-maturity categories. These are carried at market value with related gain / (loss) on revaluation being taken to 'surplus / (deficit) on revaluation of assets' account shown below equity. On derecognition or impairment in available-for-sale investments, the cumulative gain or loss previously reported as 'surplus / (deficit) on revaluation of assets' below equity is included in the profit and loss account for the period.

Investments other than those categorised as held-for-trading are initially recognised at fair value which includes transaction costs associated with the investments. Investments classified as held-for-trading are initially recognised at fair value, and transaction costs are expensed in the profit and loss account.

All regular way purchases / sales of investment are recognised on the trade date, i.e., the date the Company commits to purchase / sell the investments. Regular way purchases or sales of investment require delivery of securities within the time frame generally established by regulation or convention in the market place.

Held-for-trading and quoted available-for-sale securities are marked to market with reference to ready quotes on Reuters page (PKRV) or MUFAP or the Stock Exchanges.

Unquoted securities whose market value is not available are carried at cost less provision for diminution in value, if any. Provision for diminution in value of investments in respect of unquoted shares is calculated with reference to book value of the same.

Provision for diminution in value of investments for debt securities is calculated as per the SBP's Prudential Regulations.

Investments in subsidiary and associates are stated at cost. Provision is made for any impairment in value, if any.

The carrying values of investments are reviewed for impairment when indications exist that the carrying values may exceed the estimated recoverable amounts.

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 and net investment in finance lease**

5.5.1 **Advances**

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**

Specific provisions are made in accordance with the requirements of the Prudential Regulations issued by SBP and charged to the profit and loss account. These regulations prescribe an age based criteria (as supplemented by subjective evaluation of advances) for classification of non-performing loans and advances and computing provision / allowance there against.

5.5.3 **Net investment in lease**

Leases are classified as finance lease when substantially all the risks and rewards incidental to ownership of an asset are transferred to the lessee. A receivable is recognized at an amount equal to the present value of the lease payments, including guaranteed residual value, if any. Finance lease receivables are included in advances.

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

5.6 **Operating fixed assets**

5.6.1 **Property and equipment – owned**

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to profit and loss account applying the straight-line method at rates stated in note 11.1.

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

Depreciation on additions and deletions of property and equipment during a year is charged in proportion to the period of use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate item of property and equipment, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Item of property and equipment is derecognised when disposed off or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of property and equipment are included in profit and loss account.

5.6.2 **Property and equipment - 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 at inception of lease and subsequently stated net of accumulated depreciation. Finance charges are allocated over the period of lease term 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 **Capital work-in-progress**

Capital work-in-progress is stated at cost less impairment losses, if any. These are transferred to specific assets as and when assets are available for use.

5.6.4 **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, 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.

The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

5.7 **Repurchase and resale agreements**

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position and are measured in accordance with accounting policies for investments. The counterparty liability for amounts received under these agreements is included in borrowings. The difference between sale and repurchase price is treated as mark-up / return / interest expense and accrued over the life of the repo agreement using effective yield method.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position, as the Company does not obtain control over the securities. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up / return / interest income and accrued over the life of the reverse repo agreement using effective yield method.

5.8 **Taxation**

5.8.1 **Current**

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credits, rebates and exemption available, if any, or minimum taxation as per the Income Tax Ordinance, 2001 whichever is higher. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime. The charge for the current tax also includes adjustments wherever considered necessary relating to prior year, arising from assessments framed during the year.

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.

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws)

that have been enacted or substantively enacted at the statement of financial position date. Deferred tax relating to gain / (loss) recognised in surplus / (deficit) on revaluation of assets is charged / credited to such account.

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. The scheme was established on November 1, 2002 and approved by the Commissioner of Income Tax with effect from January 31, 2003. Contribution to the fund is made every year based on actuarial valuation. The actuarial valuation is carried out using the Projected Unit Credit Method (PUCM). Under this method, the cost of providing gratuity is charged to the profit and loss account so as to spread the cost over the service lives of the employees in accordance with the actuarial valuation. Actuarial gains and losses are recognized in the period in which they occur. The actuarial valuation was conducted as at December 31, 2011.

5.10.2 **Defined contribution plan**

The Company also operates a provident fund scheme for all its permanent employees. Equal monthly contributions at the rate of 8.33 percent per annum of 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. Contributions from the Company are charged to profit and loss account for the year.

5.11 **Compensated absences**

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

5.12 **Foreign currencies translation**

Foreign currency transactions are translated into Pakistani Rupees (functional currency) using the exchange rate prevailing at the dates of transactions. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupees using the exchange rate prevailing at the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translations of monetary assets and liabilities denominated in foreign currencies at statement of financial position date are included in 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 event, 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. However, provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate.

5.14 **Offsetting**

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

5.15 **Dividend and reserves**

Dividend declared and appropriations, except appropriateness which are required by the law are recognised as liability and recorded as changes in reserves in the period in which these are approved by the directors/shareholders as appropriate.

5.16 **Impairment**

The Company assesses at each balance sheet date whether there is any indication that non-financial assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the amount which would have been determined had there been no impairment. Reversal of impairment loss is recognized as income.

5.17 **Earnings per share**

The Company presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS, if any, is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in issue at December 31, 2011.

5.18 **Financial instruments**

Financial assets and liabilities are recognized at the time when the Company becomes party to the contractual provision of the instrument. Financial assets are de-recognized when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognized when obligation specific in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognized in the profit and loss account of the current period. The particular recognition and subsequent measurement method for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

5.19 Segment information

A segment is a distinguishable component of the Company that is engaged in either providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Business segments

- Corporate finance

Corporate finance includes services provided in connection with mergers and acquisitions, underwriting, privatization, securitization, research, debts (government, high yield), equity, syndication, Initial Public Offers (IPO) and secondary private placements.

- Trading & sales

Involves the businesses of equity trading and fixed income securities.

- Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange and deposits.

5.20 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 estimates/judgments and associated assumptions used in the preparation of the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas of estimate and judgments in relation to these financial statements are as follows:

a) Provision against non-performing advances

The Company reviews its loan portfolio to assess amount of non-performing advances and determine provision required there against on quarterly basis. While assessing this requirement various factors including the past dues, delinquency in the account, financial position of the borrower, value of collateral held and other requirements of Prudential Regulations are considered.

During the year, the management has changed the method of computing provision against non-performing loans as allowed under Prudential Regulations and explained in note 10.2.

b) Impairment of available-for-sale investments

The Company considers that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what

is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

c) Classification of investments

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

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

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

d) Income taxes

In making the estimates for current and deferred income taxes, the management looks at the income tax law and the decisions of appellate authorities on certain issues in the past. There are certain matters where the Company's view differs with the view taken by the income tax department and such amounts are shown as contingent liability.

e) Fixed assets, depreciation and amortization

In making estimates of the depreciation / amortization method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Company. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern.

f) Employees' benefit plans

The liabilities for employees' benefit plans are determined using actuarial valuations. The actuarial valuations involve assumptions about discount rates, expected rates of return on assets and future salary increases as disclosed in note 32.1. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Note	2011	2010
Rupees in '000		

6 CASH AND BALANCES WITH TREASURY BANKS			
Cash in hand in local currency		179	94
Cheques in hand		2,500	-
Balances with State Bank of Pakistan in local currency:			
current accounts	6.1	63,968	3,279
cash reserve	6.1	-	67,000
		<u>66,647</u>	<u>70,373</u>

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

Note

2011

2010

Rupees in '000

7 BALANCES WITH OTHER BANKS

In Pakistan:			
current account		2,961	2,330
deposit accounts	7.1	205,580	658,073
		<u>208,541</u>	<u>660,403</u>
Outside Pakistan:			
current accounts		517	347
		<u>209,058</u>	<u>660,750</u>

7.1 These include term deposit receipts (TDRs) due for maturity within 3 months aggregating Rs. 200 million (2010: Rs. 250 million). The rate of return on these TDRs is 13.05 percent per annum (2010: 13.85 percent per annum).

8 LENDINGS TO FINANCIAL INSTITUTIONS

Reverse repurchase agreement lendings	8.1	1,202,094	2,189,741
Certificate of investments (COIs)	8.4	119,651	264,869
		<u>1,321,745</u>	<u>2,454,610</u>

8.1 These are short-term lendings to different financial institutions secured against government securities as disclosed in note 8.3 which are purchased under resale obligations. These carry mark-up at rates ranging from 11.75 to 12.5 percent per annum (2010: 13.51 to 14 percent per annum) and will mature within 2 months (2010: 3 months).

8.2 Particulars of lendings

In local currency		1,321,745	2,454,610
In foreign currency		-	-
		<u>1,321,745</u>	<u>2,454,610</u>

8.3 Securities held as collateral against lendings to financial institutions

Note	2011			2010		
	Held by the company	Further given as collateral	Total	Held by the company	Further given as collateral	Total
	Rupees in '000					
Market Treasury Bills	19,561	180,054	199,615	-	-	-
Pakistan Investment Bonds	49,745	952,734	1,002,479	163,225	2,026,516	2,189,741
	<u>69,306</u>	<u>1,132,788</u>	<u>1,202,094</u>	<u>163,225</u>	<u>2,026,516</u>	<u>2,189,741</u>

8.3.1 Market value of the securities amounting to Rs. 1,202.033 million (2010: Rs. 2,135.519 million)

8.4 COIs are due for maturity beginning from 3 months to 33 months (2010: 3 months to 33 months). The rate of return on COIs range from 12 to 13 percent per annum (2010: 12 to 14 percent per annum).

	Note	2011			2010		
		Held by the Company	Given as collateral	Total	Held by the Company	Given as collateral	Total
Rupees in '000							
9.1 Investments by types	9.6						
Held-for-trading securities							
Pakistan Investment Bonds (PIBs)	9.4 & 9.6.1	17,293	663,597	680,890	113,479	25,556	139,035
Market Treasury Bills (T-Bills)	9.4 & 9.6.1	586,634	2,625,176	3,211,810	18,121	-	18,121
Listed ordinary shares	9.6.2.1	101,633	-	101,633	4,485	-	4,485
Mutual funds units	9.6.7.1	-	-	-	25,000	-	25,000
Term finance certificates (TFCs)	9.6.4.1 & 9.6.5.1	45,031	-	45,031	51,258	-	51,258
		750,591	3,288,773	4,039,364	212,343	25,556	237,899
Available-for-sale securities							
Pakistan Investment Bonds (PIBs)	9.4 & 9.6.1	97,041	212,890	309,931	48,658	472,516	521,174
Market Treasury Bills (T-Bills)	9.4 & 9.6.1	9,140	573,859	582,999	668,776	1,249,421	1,918,197
Listed ordinary shares	9.6.2.2	251,314	11,066	262,380	273,718	12,206	285,924
Unlisted ordinary shares	9.6.3	131,333	226,000	357,333	208,333	226,000	434,333
Unlisted preference shares	9.6.8	269,744	-	269,744	-	-	-
Mutual funds units	9.6.7.2	14,337	-	14,337	184,211	-	184,211
Sukuk certificates	9.6.6.1	961,405	-	961,405	1,311,891	-	1,311,891
Term finance certificates (TFCs)	9.6.4.2 & 9.6.5.2	3,088,510	178,469	3,266,979	3,271,840	189,887	3,461,727
		4,822,824	1,202,284	6,025,108	5,967,427	2,150,030	8,117,457
Held-to-maturity securities							
Pakistan Investment Bonds (PIBs)	9.5	207,493	-	207,493	263,219	-	263,219
Associates							
Japan Power Generation Limited		51,921	70,726	122,647	51,921	70,726	122,647
Pak Oman Advantage Fund		262,828	-	262,828	262,828	-	262,828
Pak Oman Advantage Islamic Income Fund		92,667	-	92,667	92,667	-	92,667
Pak Oman Islamic Asset Allocation Fund (formerly : Pak Oman Advantage Islamic Fund)		92,414	-	92,414	92,414	-	92,414
Pak Oman Advantage Asset Allocation Fund (formerly: Pak Oman Advantage Stock Fund)		84,078	-	84,078	84,078	-	84,078
Pak Oman Micro Finance Bank Limited		251,108	-	251,108	251,108	-	251,108
	9.6.9	835,016	70,726	905,742	835,016	70,726	905,742
Subsidiary							
Pak Oman Asset Management Company Limited	9.6.10	168,300	-	168,300	168,300	-	168,300
Investments at cost							
		6,784,224	4,561,783	11,346,007	7,446,305	2,246,312	9,692,617
Less: Provision for diminution in the value of investments	9.3	535,960	59,271	595,231	391,078	40,943	432,021
Investments - net of provisions							
(Loss) / gain on revaluation of held-for-trading securities	9.7	(5,267)	(10,855)	(16,122)	998	(170)	828
(Deficit) / surplus on revaluation of available-for-sale securities	20	(150,239)	5,553	(144,686)	(86,231)	(31,507)	(117,738)
Total investments at carrying value		6,092,758	4,497,210	10,589,968	6,969,994	2,173,692	9,143,686

	Note	2011	2010	
Rupees in '000				
9.2	Investments by segments	9.6		
	Federal Government Securities			
	Pakistan Investment Bonds	9.4, 9.5 & 9.6.1	1,198,314	923,428
	Market Treasury Bills	9.4 & 9.6.1	3,794,809	1,936,318
			4,993,123	2,859,746
	Fully paid up ordinary shares			
	Listed companies	9.6.2	364,013	290,409
	Unlisted companies	9.6.3	357,333	434,333
			721,346	724,742
	Term finance certificates (TFCs)			
	Listed	9.6.4	2,371,544	2,682,030
	Unlisted	9.6.5	940,466	830,955
			3,312,010	3,512,985
	Sukuk certificates-Unlisted	9.6.6	961,405	1,311,891
	Other investments			
	Investments in mutual funds	9.6.7	14,337	209,211
	Preference shares-unlisted	9.6.8	269,744	-
			284,081	209,211
	Investments in associates	9.6.9	905,742	905,742
	Investments in subsidiary	9.6.10	168,300	168,300
	Total investments at cost		11,346,007	9,692,617
	Less: Provision for diminution in the value of investments	9.3	595,231	432,021
	Investments (net of provisions)		10,750,776	9,260,596
	(Loss) / gain on revaluation of held-for-trading securities	9.7	(16,122)	828
	Deficit on revaluation of available-for-sale securities	20	(144,686)	(117,738)
	Total investments at carrying value		10,589,968	9,143,686
9.3	Particulars of provision for diminution in the value of investments			
	Opening balance		432,021	642,988
	Charge for the year		252,783	158,352
	Reversal for the year		(84,293)	(2,037)
			168,490	156,315
	Transfer to capital gain due to disposal of relevant investments		(5,280)	(367,282)
	Closing balance	9.3.1	595,231	432,021
9.3.1	Particulars of provision in respect of types and segments			
	Available-for-sale securities			
	Shares			
	-Listed		54,638	-
	-Unlisted		47,555	120,726
	Term Finance Certificate			
	-Listed		139,469	53,358
	-Unlisted		29,694	31,935
	Sukuk-unlisted		95,026	100,077
	Investment in Mutual Funds		7,570	12,850
			373,952	318,946
	Associates		102,783	71,000
	Subsidiary		118,496	42,075
			595,231	432,021

9.4 The rate of return on PIBs maturing between June 2013 to August 2018 (2010: April 2011 to August 2018), ranges from 11.25 to 12 (2010: 8 to 14) percent per annum. The rates of return on market treasury bills maturing between March 2012 to November 2012 (2010: March 2011 to July 2011), ranges from 11.80 to 13.80 (2010: 12.28 to 13.48) percent per annum.

9.5 The rate of return on PIBs maturing on June 2013 (2010: April 2011 to June 2013) are 9 (2010: 9 to 14) percent per annum.

9.6 **Detailed information relating to investments including quality of available-for-sale securities is given below:**

9.6.1 **Government Securities**

9.6.1.1 **Held-for-trading**

Pakistan Investment Bonds

	2011		2010	
	Market value	Rating	Market value	Rating
	Rupees in '000	Securities	Rupees in '000	Securities
10-Years	1,399	Unrated	3,361	Unrated
7-Years	-	-	27,532	Unrated
5-Years	655,546	Unrated	14,105	Unrated
3-Years	15,034	Unrated	94,062	Unrated
	<u>671,979</u>		<u>139,060</u>	

Market Treasury Bills

12 months	1,252,793	Unrated	-	-
06-months	1,957,209	Unrated	-	-
03-months	-	-	18,116	Unrated
	<u>3,210,002</u>		<u>18,116</u>	

9.6.1.2 **Available-for-sale**

Pakistan Investment Bonds

10-Years	108,975	Unrated	408,888	Unrated
7-Years	86,493	Unrated	81,679	Unrated
3-Years	113,665	Unrated	-	-
	<u>309,133</u>		<u>490,567</u>	

Market Treasury Bills

12 months	584,658	Unrated	1,727,712	Unrated
06-months	-	-	187,572	Unrated
	<u>584,658</u>		<u>1,915,284</u>	
	<u>4,775,772</u>		<u>2,563,027</u>	

9.6.1.3 **Held-to-maturity**

Pakistan Investment Bonds

	2011		2010	
	Amortized cost	Rating	Amortized cost	Rating
	Rupees in '000	Securities	Rupees in '000	Securities
10-Years	207,493	Unrated	263,219	Unrated

9.6.2 Listed shares

9.6.2.1 Held-for-trading

	Rating	No. of shares held		Cost		Market value	
		2011	2010	2011	2010	2011	2010
Rupees in '000							
Commercial banks							
Allied Bank Limited	AA/A1+	-	40,548	-	2,837	-	2,844
Standard Chartered (Bank) Limited	AAA/A1+	1,031,896	-	7,739	-	8,245	-
National Bank of Pakistan Limited	AAA/A-1+	-	16,000	-	1,236	-	1,229
Electricity							
HUB Power Co. Limited	AA+/A1+	76,900	-	3,292	-	2,630	-
Oil and gas							
Pakistan Oilfield Limited	Unrated	186,000	-	68,072	-	64,440	-
Pakistan Petroleum Limited	Unrated	124,202	-	22,530	-	20,905	-
Personal Goods							
Nishat Mills Limited	AA-/A1+	-	6,459	-	412	-	415
				101,633	4,485	96,220	4,488

9.6.2.2 Available-for-sale

Cement							
Dewan Cement Limited	D	15,162,780	15,162,780	23,502	23,502	18,953	33,965
Fertilizer							
Fatima Fertilizer Company Limited	Unrated	-	4,245,916	-	55,869	-	47,894
Non Life Insurance							
Adamjee Insurance Company Limited	Unrated	-	342,706	-	29,352	-	29,987
Chemical							
Lotte Pakistan PTA Limited	Unrated	4,212,878	3,100,000	65,642	42,534	39,053	42,470
Commercial Banks							
National Bank of Pakistan	AAA/A-1+	1,154,103	620,696	70,107	43,762	47,376	47,682
Silk Bank Limited	A-/A-2	-	4,842,083	-	13,167	-	12,686
Askari Bank Limited	AA/A1+	641,783	-	6,864	-	6,437	-
Allied Bank Limited	AA/A1+	489,243	834,618	26,696	50,230	26,356	58,548
Personal Goods							
Nishat Mills Limited	AA-/A1+	284,288	-	16,818	-	11,499	-
Nishat (Chunian) Limited	Unrated	122,130	-	2,406	-	2,182	-
Refinery / Oil & Gas							
National Refinery Limited	Unrated	-	101,260	-	27,508	-	27,724
Pakistan State Oil	AA+/A1+	174,705	-	50,345	-	39,694	-
				262,380	285,924	191,550	300,956
				364,013	290,409	287,770	305,444

9.6.3 Particulars of investments held in shares of unlisted companies

9.6.3.1 Available-for-sale

	No. of shares held		Cost		Share-holding %	Break-up value per share (Rupees)	Latest available financial statements	Name of the chief executive
	2011	2010	2011	2010				
Shareholding upto 10%								
Alhamra Avenue (Private) Limited	5,000,000	5,000,000	50,000	50,000	3.12	9.27	30-Jun-2011**	Mr. Habib Ahmed
Systems Limited	934,053	622,702	10,000	10,000	2.40	20.92	31-Dec-2010**	Mr. Ashraf Kapadia
Vision Network Television Limited	-	4,400,000	-	77,000	4.80	-	30-Jun-2009**	Mr. Zafar Siddiqui
Pakistan Textile City Limited	5,000,000	5,000,000	50,000	50,000	4.00	7.60	30-Jun-2011**	Mr. Zaheer A. Hussain
Techlogix International Limited	1,872,197	1,872,197	21,333	21,333	1.84	3.27	31-Dec-2010*	Mr. Kewan Qadre Khawaja
Orient Power Co. (Private) Limited	22,600,000	22,600,000	226,000	226,000	5.43	11.81	30-Jun-2011**	Mr. Nadeem Baber
			357,333	434,333				

*Audited consolidated financial statements

**Audited financial statement

9.6.4 Listed Term-finance certificates

	Rate of interest	Profit payment	Maturity	Long term rating	No. of certificates held		Market value / cost	
					2011	2010	2011	2010
Rupees in '000								
9.6.4.1 Held-for-trading								
NIB Bank Limited	6 month Kibor + 1.15%	Half yearly	5-Mar-15	A+	-	10,000	-	48,622
9.6.4.2 Available-for-sale								
Investment bank/ companies/securities								
Jahangir Siddiqui and Company Limited IV	6 month Kibor + 2.5%	Half yearly	22-May-12	AA	19,397	19,397	48,707	97,274
Escort Investment Bank Limited	5%	Half yearly	15-Mar-12	BB	4,031	4,031	4,455	9,989
Commercial banks								
Allied Bank Limited I	6 month Kibor + 1.9%	Half yearly	6-Dec-14	AA-	25,078	25,078	125,420	122,973
Allied Bank Limited II	6 month Kibor + 0.85%	Half yearly	28-Aug-19	AA-	13,962	13,962	66,150	67,129
Askari Bank Limited I	6 month Kibor + 1.5%	Half yearly	4-Feb-13	AA-	463	-	2,307	-
Askari Bank Limited II	6 month Kibor + 1.5%	Half yearly	31-Oct-13	AA-	3,000	1,000	14,899	4,888
Askari Bank Limited III	6 month Kibor + 2.5%	Half yearly	18-Nov-19	AA-	50,949	48,136	260,594	244,192
Bank Al-Falah Limited III	6 month Kibor + 1.5%	Half yearly	25-Nov-13	AA-	1,000	1,000	4,971	4,901
Standard Chartered Bank Limited II	10.75%	Half yearly	20-Jan-11	-	-	17,392	-	21,709
Standard Chartered Bank Limited III	6 month Kibor + 2%	Half yearly	1-Feb-13	AAA	23,240	23,240	83,177	111,251
Faysal Bank Limited	6 month Kibor + 1.4%	Half yearly	12-Nov-14	AA-	17,681	17,681	87,671	85,630
NIB Bank Limited	6 month Kibor + 1.15%	Half yearly	5-Mar-15	A+	65,367	56,167	319,873	273,093
Bank Al Habib Limited I	6 month Kibor + 1.5%	Half yearly	15-Jul-12	AA	12,700	10,900	38,330	51,558
United Bank Limited-IV	6 month Kibor + 0.85%	Half yearly	14-Feb-18	AA	10,300	34,600	51,274	164,429
Soneri Bank Limited	6 month Kibor + 1.6%	Half yearly	5-May-13	A+	10,000	-	37,171	-
Summit Bank Limited	6 month Kibor + 3.25%	Half yearly	27-Oct-18	A(SO)	10,000	-	48,066	-
Technology and communication								
Telecard Limited	6 month Kibor + 3.75%	Half yearly	27-Nov-13	D	56,716	56,716	83,300	100,776
Pakistan Mobile Communication Limited	6 month Kibor + 2.85%	Half yearly	31-May-13	A+	26,000	26,000	65,072	108,141
WorldCall Telecom Limited	6 month Kibor + 1.6%	Half yearly	7-Oct-13	A	108,623	108,623	269,836	452,053
Chemical								
Engro Fertilizers Limited II	6 month Kibor + 1.55%	Half yearly	30-Nov-15	AA	30,177	36,177	147,645	177,091
Pak Arab Fertilizers Limited	6 month Kibor + 1.5%	Half yearly	28-Feb-13	AA	10,000	10,000	37,166	45,590
Personal goods								
Azgard Nine Limited (Note 9.6.4.4)	6 month Kibor + 2.4%	Half yearly	20-Sep-17	D	15,000	15,000	52,803	54,357
Leasing								
Saudi Pak Leasing Company Limited	6%	Monthly	13-Mar-17	D	28,469	28,469	-	75,867
Orix Leasing Pakistan Ltd.II	3 month Kibor + 2.15%	Quarterly	30-Jun-14	AA+	500	-	51,772	-
Miscellaneous								
Pace (Pakistan) Limited	6 month Kibor + 2%	Half yearly	15-Feb-17	D	60,230	60,230	202,284	292,079
							2,102,943	2,564,970
							2,102,943	2,613,592

9.6.4.3 The face value of each certificate held in listed TFCs is Rs. 5,000 (2010: Rs. 5,000) per certificate as at December 31, 2011 except for Orix Leasing Pakistan Limited having face value per TFC of Rs. 100,000 (2010: NIL).

9.6.4.4 In respect of term finance certificates of Azgard Nine Limited and Agritech Limited, the State Bank of Pakistan vide letter number BSD/BRP-1/000776/2012 dated January 18, 2012 and BSD/BRP-1/001485/2012 dated February 02, 2012 has granted the relaxation for provisioning requirement under Prudential Regulations till February 28, 2012. Consequently, no provision has been recognized in these financial statements in respect of these term finance certificates.

	Rate of interest	Profit payment	Maturity	Long term rating	No. of certificates held		Market value / cost	
					2011	2010	2011	2010
							Rupees in '000	
9.6.5 Unlisted Term Finance Certificate								
9.6.5.1 Held-for-trading								
Commercial banks								
Bank Al Habib Limited - PPTFC	15.00%	Half yearly	30-Jun-21	AA	8,500	-	45,041	-
Chemical								
Engro Fertilizers Limited - PPTFC	6 month Kibor + 1.25%	Half yearly	18-Mar-18	AA	-	760	-	3,426
							45,041	3,426
9.6.5.2 Available-for-sale								
Commercial banks								
Faysal Bank Limited - PPTFC	6 month Kibor + 2.25%	Half yearly	27-Dec-17	AA-	30,000	30,000	155,067	150,000
Bank Al Habib Limited - PPTFC	15.50%	Quarterly	15-Jun-17	AA	10,000	10,000	53,512	49,940
Bank Al-Falah Limited - IV	6 month Kibor + 2.5%	Half yearly	2-Dec-17	AA-	33,000	30,000	165,528	150,086
Development Financial Institutions								
Pak-Libya Holding Co. (Pvt) Ltd - PPTFC	6 month Kibor + 1.6%	Half yearly	7-Feb-16	AA	8,000	-	40,774	-
Chemical								
Engro Fertilizers Limited - PPTFC	6 month Kibor + 1.70%	Half yearly	18-Mar-18	AA	44,500	43,740	220,006	204,837
Agri Tech Limited (Note 9.6.4.4)	6 month Kibor + 1.75%	Half yearly	29-Nov-17	D	20,000	20,000	99,907	99,920
Personal goods								
Kunjah Textile Mills Limited	6 month Kibor + 3%	Half yearly	23-Apr-14	Unrated	3,000	3,000	-	15,000
Nishat (Chunain) Limited - PPTFC	3 month Kibor + 2.25%	Quarterly	30-Sep-15	A+	10,000	10,000	46,875	50,000
Azgard Nine Limited - III (Note 9.6.4.4)	6 month Kibor + 2.25%	Half yearly	4-Dec-17	D	2,000	2,000	9,992	9,992
Azgard Nine Limited - IV (Note 9.6.4.4)	3 month Kibor + 1%	Quarterly	18-May-13	D	5,000	5,000	25,000	25,000
Leasing								
Security Leasing Corporation Limited	NIL	NIL	29-Mar-14	Unrated	12,000	12,000	9,231	18,281
Cement								
Gharibwal Cement Limited	3 month Kibor	Half yearly	30-Sep-16	D(SO)	2,406	2,406	-	12,013
Miscellaneous								
Avari Hotels Limited	6 month Kibor + 3.25%	Half yearly	30-Oct-14	A-(SO)	10,000	10,000	40,519	42,457
							866,411	827,526
							911,452	830,952

	Rate of interest	Profit payment	Maturity	Long term rating	No. of certificates held		Market value	
					2011	2010	2011	2010
Rupees in '000								
9.6.6 Investment in Unlisted Sukuk								
9.6.6.1 Available-for-sale								
Personal Goods								
Amtex Limited	3 month Kibor + 2%	Quarterly	12-Oct-12	Unrated	22,000	22,000	81,091	80,666
Engineering Services								
Karachi Shipyard & Engineering Works Limited-II	6 month Kibor + 0.4%	Half yearly	4-Feb-16	Unrated	-	40	-	200
Leasing								
Security Leasing Corporation Limited	-	Monthly	19-Mar-14	Unrated	10,000	10,000	12,885	25,391
Security Leasing Corporation Limited II	-	Monthly	19-Mar-14	Unrated	10,000	10,000	15,461	30,469
Orix Leasing Pakistan Limited	6 month Kibor + 1.25%	Half yearly	29-Jun-12	AA+	15,000	15,000	12,525	37,500
Energy								
Sitara Energy Limited	6 month Kibor + 1.95%	Half yearly	31-Mar-12	Unrated	40,000	40,000	38,989	78,748
Liberty Power Tech (Private) Limited	3 month Kibor + 3%	Quarterly	18-Mar-21	AA-	60,000	60,000	290,280	300,000
Oil & Gas								
Sui Southern Gas Company Limited	3 month Kibor + 0.8%	Quarterly	29-Jun-12	AA	6	6	100,311	300,836
Miscellaneous								
Al-Razi HealthCare (Private) Limited	6 month Kibor + 2.5%	Monthly	4-Nov-17	Unrated	30,000	30,000	150,000	150,000
Century Papers & Board Mills Limited	6 month Kibor + 1.35%	Half yearly	25-Sep-14	Unrated	10,000	10,000	29,667	38,448
House Building Finance Corporation Limited	6 month Kibor + 1%	Half yearly	8-May-14	Unrated	55,035	55,035	133,228	184,633
New Allied Electronic Industries (Private) Limited	3 month Kibor + 2.6%	Quarterly	25-Jul-12	Unrated	272,000	272,000	-	85,000
							864,437	1,311,891

9.6.6.2 The face value of each certificate held in unlisted Sukuks is Rs. 5,000 (2010: Rs. 5,000) per certificate as at December 31, 2011 except for Sui Southern Gas Company Limited and New Allied Electronic Industries (Private) Limited having face value per Sukuk of Rs. 100,000,000 (2010: Rs. 100,000,000) and Rs. 312.5 (2010: Rs. 312.5) respectively.

	Rating	No. of units / shares held		Cost		Market value	
		2011	2010	2011	2010	2011	2010
Rupees in '000							
9.6.7 Other Investments							
Investment in Mutual Funds							
9.6.7.1 Held-for-trading							
PICIC Cash Fund	AA+(f)	-	248,802	-	25,000	-	25,015
9.6.7.2 Available-for-sale							
Open-end mutual fund IGI Aggressive Income Fund	A-(f)	-	3,014,544	-	159,874	-	131,292
Closed-end mutual fund NAMCO Balance Fund	MFR 3	1,548,360	2,433,667	14,337	24,337	7,819	10,050
				14,337	184,211	7,819	141,342
				14,337	209,211	7,819	166,357

	Rate of interest	Rating	No. of shares held		Cost	
			2011	2010	2011	2010
Rupees in '000						
9.6.8 Preference shares unlisted						
9.6.8.1 Available-for-sale						
Orient Power Company Limited (Note 21.2)	6 month Kibor+2.5%	Cumulative Unrated	26,974,445	-	269,744	-

9.6.9 Investment in associates

9.6.9.1 The Company holds investment in ordinary shares / units of Rs. 10 each in the following entities:

	2011	2010	2011	2010	Holding	Break-up value per share / unit (Rupees)	Latest available financial statements	Name of the chief executive
	No. of shares / unit		Rupees in '000					
9.6.9.2 Quoted								
Japan Power Generation Limited (JPGL) (Note 9.6.9.3 and 21.1)	30,560,189	30,560,189	122,647	122,647	19.59%	(20.39)	31-Dec 2011**	Mr. Khan Ahmed Saleem
Pak Oman Advantage Fund	27,109,000	27,109,000	262,828	262,828	27.11%	10.85	31-Dec 2011**	Ms. Hina Ghazanfar
Pak Oman Islamic Asset Allocation Fund	2,000,000	2,000,000	92,414	92,414	98.63%	51.96	31-Dec 2011**	Ms. Hina Ghazanfar
Pak Oman Advantage Asset Allocation Fund	2,000,000	2,000,000	84,078	84,078	83.34%	44.59	31-Dec 2011**	Ms. Hina Ghazanfar
Pak Oman Advantage Islamic Income Fund	2,003,976	2,003,976	92,667	92,667	33.63%	52.56	31-Dec 2011**	Ms. Hina Ghazanfar
Unquoted								
Pak Oman Micro Finance Bank Limited	25,110,788	25,110,788	251,108	251,108	33.40%	9.38	31-Dec 2011*	Mr. Munawar Suleman
			905,742	905,742				

* Audited financial statements

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

9.6.9.4 The above associates are incorporated in Pakistan.

9.6.9.5 Associates - key information

Particular	Pak Oman Advantage Fund	Pak Oman Advantage Islamic Income Fund	Pak Oman Islamic Asset Allocation Fund	Pak Oman Advantage Asset Allocation Fund	Japan Power Generation Limited	Pak Oman Micro Finance Bank Limited
	Rupees in '000					
Assets	1,095,281	318,417	114,975	119,532	8,675,816	747,665
Liabilities	10,086	5,186	9,624	12,520	10,691,335	48,149
Profit / (loss) before taxation	127,143	41,900	5,585	(12,476)	(1,419,507)	7,112
Profit / (loss) after taxation	127,143	41,900	5,585	(12,476)	(1,421,373)	4,952

9.6.10 Subsidiary

	2011	2010	2011	2010	Percentage of holding %	Break-up value per share (Rupees)	Latest available reviewed financial statements	Name of the chief executive
	No. of shares / unit		Rupees in '000					
Pak Oman Asset Management Company Limited	16,830,000	16,830,000	168,300	168,300	51	2.96	31-Dec 2011	Ms. Hina Ghazanfar

9.6.11 Investments in subsidiary and associate form part of strategic investment of the Company. These shares are in the custody of CDC and cannot be sold without the prior approval of the SECP in accordance with Circular Letter 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.

	Note	2011	2010
		Rupees in '000	
9.7 Unrealised gain / (loss) on revaluation of investments classified as held-for-trading			
Federal Government Securities			
- Market Treasury Bills		(1,808)	(5)
- Pakistan Investment Bonds		(8,911)	25
		(10,719)	20
Shares-listed		(5,413)	3
Term finance certificates (TFCs)			
- Listed		-	790
- Unlisted		10	-
		10	790
Mutual Fund Units		-	15
		(16,122)	828

10

ADVANCES - Net

In Pakistan

Loans, cash credit, running finance, etc in Pakistan		5,660,050	5,770,577
Net investment in finance leases in Pakistan	10.3.1	970,752	1,188,650
Advance against leases		-	3,360
Staff loans	10.4	110,448	92,971
Advances - Gross	10.1	6,741,250	7,055,558
Less: Provision for non-performing loans and advances	10.6	974,224	1,107,629
Advances - net of provision		5,767,026	5,947,929
10.1 Particulars of advances (Gross)			
10.1.1 In local currency	10.1.3	6,741,250	7,055,558
10.1.2 In foreign currency		-	-
10.1.3 Short term (for upto one year)		2,699,915	2,985,175
Long term (for over one year)		4,041,335	4,070,383
		6,741,250	7,055,558

10.2 In accordance with BSD Circular No. 2 dated January 27, 2009 and issued by the SBP, the Company has further availed the benefit of FSV against the non-performing advances and term finance certificates. Had this benefit of FSV not been taken by the Company, the specific provision against non-performing advances and term finance certificates would have been higher by Rs. 63.703 million (net of tax Rs. 41.407 million) and profit before taxation for the year ended December 31, 2011 would have been reduced by the same amount. As of December 31, 2011, the Company has availed total accumulated FSV benefit amounting to Rs. 123.682 million (net of tax Rs. 80.393 million). Accordingly accumulated profit of Rs. 80.393 million will not be available for the distribution as cash or stock dividend to shareholders of the Company as required by the aforementioned SBP directives.

10.3 Net investment in finance lease

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

	2011			2010		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	Rupees in '000					
Lease rentals receivable	523,894	424,956	948,850	632,345	588,397	1,220,742
Residual value	97,071	77,107	174,178	75,257	97,046	172,303
Minimum lease payments	620,965	502,063	1,123,028	707,602	685,443	1,393,045
Financial charges for future periods	(81,949)	(70,327)	(152,276)	(113,811)	(90,584)	(204,395)
Present value of minimum lease payments	539,016	431,736	970,752	593,791	594,859	1,188,650

10.3.1.1 In respect of the aforementioned finance leases the Company holds an aggregate sum of Rs. 166.344 million (2010: Rs. 164.235 million) as security deposits on behalf of the lessees which are included under 'other liabilities' (note 17).

10.3.1.2 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 2016 and are subject to finance income at rates ranging between 14.30 to 18.31 (2010: 10 to 19.64) percent per annum.

10.4 Staff loans include personal loans and house loans given to employees in accordance with their terms of appointment. House loans carry mark-up at a rate of 5 (2010: 5) percent per annum, while no mark-up is charged on personal loans.

10.4.1 Staff loans include an amount of Rs. 20.926 million (2010: Rs.9.832 million) advanced to the Company's Chief Executive.

10.5 Particulars of classification

10.5.1 Advances include Rs. 1,199.078 million (2010: Rs. 1,221.006 million) which have been placed under the non-performing status as detailed below:

	2011								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees in '000								
Substandard	126,121	-	126,121	31,530	-	31,530	31,530	-	31,530
Doubtful	59,595	-	59,595	22,298	-	22,298	22,298	-	22,298
Loss	1,013,362	-	1,013,362	920,396	-	920,396	920,396	-	920,396
	<u>1,199,078</u>	<u>-</u>	<u>1,199,078</u>	<u>974,224</u>	<u>-</u>	<u>974,224</u>	<u>974,224</u>	<u>-</u>	<u>974,224</u>

	2010								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees in '000								
Substandard	20,988	-	20,988	8,125	-	8,125	8,125	-	8,125
Doubtful	23,617	-	23,617	6,949	-	6,949	6,949	-	6,949
Loss	1,176,401	-	1,176,401	1,092,555	-	1,092,555	1,092,555	-	1,092,555
	<u>1,221,006</u>	<u>-</u>	<u>1,221,006</u>	<u>1,107,629</u>	<u>-</u>	<u>1,107,629</u>	<u>1,107,629</u>	<u>-</u>	<u>1,107,629</u>

10.6 Particulars of provision against non-performing advances

	Note	2011			2010		
		Specific	General	Total	Specific	General	Total
		Rupees in '000					
Opening balance		1,107,629	-	1,107,629	926,015	-	926,015
Charge during the year		53,828	-	53,828	205,531	-	205,531
Reversal during the year		(187,233)	-	(187,233)	(23,917)	-	(23,917)
Net charge		(133,405)	-	(133,405)	181,614	-	181,614
Less: Amounts written off during the year	10.7	-	-	-	-	-	-
Closing balance		<u>974,224</u>	<u>-</u>	<u>974,224</u>	<u>1,107,629</u>	<u>-</u>	<u>1,107,629</u>

10.6.1 Particulars of provisions against non-performing advances

	2011			2010		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local currency	974,224	-	974,224	1,107,629	-	1,107,629
In foreign currencies	-	-	-	-	-	-
	<u>974,224</u>	<u>-</u>	<u>974,224</u>	<u>1,107,629</u>	<u>-</u>	<u>1,107,629</u>

10.7	Particulars of write offs	2011	2010
		Rupees in '000	
	Against provisions	-	-
	Directly charged to profit and loss account	-	-
		-	-
10.7.1	Write offs of Rs. 500,000 and above	-	-
	Write offs of below Rs 500,000	-	-
		-	-

10.7.2 Statement showing written off loans or any other financial relief of five hundred thousand rupees or above provided during the year ended December 31, 2011.

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
Rupees in '000											
1.	Bawany Air Product Ltd. Khasara # 52/53 R.C.D High way Mouza Pathra, Tehsil Hub, Lasbella Balochistan	Mr. Hanif Y. Bawany 42301-1182162-3 Ms. Momiza Kapadia 42301-9584267-6 Mr. Vali Mohammad M. Yahya 300876661 Mr. Siraj A. Kadir 42301-0792735-7 Mr. Wazir Ahmed Jogezi 61101-4445311-9 Mr. Zakaria A. Ghaffar 42201-0528180-3 Mr. Mohammad Ashraf 500303136	Mr. Yahya Ahmed Bawany Mr. M. Yousuf Kapadia Mr. Yahya Ahmed Bawany Mr. A. Kadir Mr. Mohammad Usman Khan Jogezi Mr. Abdul Ghaffar Mr. Yahya Ahmed Bawany	5,492	1,692	1,278	8,462	-	1,686	1,201	2,887
				5,492	1,692	1,278	8,462	-	1,686	1,201	2,887

Note

10.8	Particulars of loans and advances to directors, associated companies etc.	2011	2010
		Rupees in '000	
	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	92,971	117,446
	Loans granted during the year	39,017	22,106
	Repayments	(21,540)	(46,581)
	Balance at end of the year	110,448	92,971
	Debts due by subsidiary company, controlled firms and other related parties		
	Balance at beginning of the year	71,088	74,263
	Loans granted during the year	-	-
	Repayments	(1,423)	(3,175)
	Balance at end of the year	69,665	71,088
		180,113	164,059

10.9 Maximum total amount of advances including temporary advances granted during the year amounts to Rs. 185.591 (2010: Rs. 185.524) million. The maximum amount has been calculated by reference to month end balance.

2011 2010

Rupees in '000

11 OPERATING FIXED ASSETS

Property and equipment	11.1	60,185	61,391
Intangible	11.2	3,626	3,691
		63,811	65,082

11.1 Property and equipment

Description	Cost			Depreciation			Net book value	Rate %
	As at January 1, 2011	Addition (deletion) during the year	As at December 31, 2011	As at January 1, 2011	During the year/ (on disposals)	As at December 31, 2011	As at December 31, 2011	
Rupees in '000								
Owned								
Office premises*	42,126	-	42,126	13,339	2,106	15,445	26,681	5
Improvement	7,769	653	8,422	6,348	846	7,194	1,228	20
Office equipment	8,239	530	8,599	6,382	837	7,078	1,521	20
Computer equipment	15,555	984	16,002	10,916	2,278	12,657	3,345	33.33
Furniture and fixtures	10,946	900	11,696	8,550	1,388	9,854	1,842	20
Vehicles	2,291	1,529	2,358	2,211	152	2,266	92	20
		(1,462)			(97)			
Assets subject to finance lease								
Vehicles	37,216	13,547	42,284	15,005	8,132	16,808	25,476	20
		(8,479)			(6,329)			
2011	124,142	18,143	131,487	62,751	15,739	71,302	60,185	
		(10,798)			(7,188)			

Description	Cost			Depreciation			Net book value	Rate %
	As at January 1, 2010	Addition (deletion) during the year	As at December 31, 2010	As at January 1, 2010	During the year/ (on disposals)	As at December 31, 2010	As at December 31, 2010	
Rupees in '000								
Owned								
Office premises*	42,126	-	42,126	11,233	2,106	13,339	28,787	5
Improvement	7,903	26	7,769	5,378	1,117	6,348	1,421	20
Office equipment	8,286	239	8,239	5,282	1,370	6,382	1,857	20
Computer equipment	11,857	4,645	15,555	10,014	1,795	10,916	4,639	33.33
Furniture and fixtures	10,973	423	10,946	7,333	1,532	8,550	2,396	20
Vehicles	2,291	(450)	2,291	2,021	190	2,211	80	20
Assets subject to finance lease								
Vehicles	33,749	10,949	37,216	13,706	6,728	15,005	22,211	20
		(7,482)			(5,429)			
2010	117,185	16,282	124,142	54,967	14,838	62,751	61,391	
		(9,325)			(7,054)			

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

11.1.1 Details of disposals whose original cost or the book value exceeds Rs. 1 million or Rs. 250,000 respectively whichever is less and property and equipment disposed off to the Chief Executive or to a director or to executives or to any other related party, irrespective of the values, are as follows;

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain	Mode of disposal	Particulars of purchaser
Rupees in '000							
Furniture and fixtures	150	84	66	66	-	Company policy	Mr. Rehan Saeed Khan (Former Executive)
Vehicles							
Toyota Corolla	1,462	98	1,364	1,450	86	Company policy	Mr. Rehan Saeed Khan (Former Executive)
Honda City	776	748	28	255	227	Company policy	Mr. Rehan Saeed Khan (Former Executive)
Suzuki Cultus	666	411	255	443	188	Company policy	Mr. Tassaduq Aslam (Executive)
Honda City	700	408	292	461	169	Company policy	Mr. Saeed Rana (Executive)
Honda Civic	1,000	1,000	-	270	270	Company policy	Mr. Kashif M. Khan (Executive)
Honda Civic	700	700	-	193	193	Company	Mr. Nafees Ahmad (Executive)
Suzuki Liana	700	572	128	351	223	Company policy	Mr. Azhar Ali Shahidi (Executive)
Honda City	869	841	28	287	259	Company policy	Mr. Saeed A. Bhayat (Executive)
Suzuki Liana	700	478	222	418	196	Company policy	Ms. Saba Tariq Tajik (Former Executive)
Suzuki Cultus	700	420	280	280	-	Company policy	Late Mr. Muhammad Yousuf (Former Executive)
Honda City	800	533	267	543	276	Company policy	Mr. Ahmer Siddiqui (Executive)
Suzuki Cultus	868	217	651	850	199	Negotiations	Mandviwala Motors (Pvt) Ltd. Mandviwala Chambers, Old Queens Road, Karachi
	9,941	6,426	3,515	5,801	2,286		
Others	707	678	29	98	69	Negotiations	Various buyers
	10,798	7,188	3,610	5,965	2,355		

11.2 Intangible assets

	Cost			Amortization			Net book value	
	As at January 1, 2011	Addition during the year	As at December 31, 2011	As at January 1, 2011	Addition during the year	As at December 31, 2011	As at December 31, 2011	Rate %
Rupees in '000								
Software licences	9,196	1,874	11,070	5,505	1,939	7,444	3,626	33.33

Intangible assets

	Cost			Amortization			Net book value	
	As at January 1, 2010	Addition during the year	As at December 31, 2010	As at January 1, 2010	Addition during the year	As at December 31, 2010	As at December 31, 2010	Rate %
Rupees in '000								
Software licences	4,153	5,043	9,196	3,833	1,672	5,505	3,691	33.33

Note

2011

2010

Rupees in '000

12

DEFERRED TAX ASSETS - Net

Deferred tax assets arising in respect of:

Provision for diminution in the value of investments		150,584	121,860
Amortisation of premium on federal government securities		14,445	53,581
Revaluation on investments classified as held-for-trading		4,154	(7)
Revaluation on investments classified as available-for-sale	20	45,341	11,732
Provision against non-performing loans and advances		340,978	387,670
		<u>555,502</u>	<u>574,836</u>

Less: Deferred tax (liabilities) arising in respect of:

Assets subject to finance leases		(2,134)	2,452
Accelerated tax depreciation allowances		(16)	(860)
Net investment in finance leases		(123,016)	(163,839)
Dividend receivable		(1,513)	(15)
		<u>(126,679)</u>	<u>(162,262)</u>
		<u>428,823</u>	<u>412,574</u>

12.1 Movement of deferred tax

	January 1, 2009	Recognized in			Recognized in		
		Profit and loss account	Surplus on revaluation of securities	December 31, 2010	Profit and loss account	Surplus on revaluation of securities	December 31, 2011
Rupees in '000							
Deferred tax assets arising in respect of:							
Provision for diminution in the value of investments	76,990	44,870	-	121,860	28,724	-	150,584
Amortisation of premium on federal government securities	59,632	(6,051)	-	53,581	(39,136)	-	14,445
Revaluation on investments classified as held-for-trading	(178)	171	-	(7)	4,161	-	4,154
Revaluation on investments classified as available-for-sale	12,134	-	(402)	11,732	-	33,609	45,341
Provision against non-performing loans and advances	324,105	63,565	-	387,670	(46,692)	-	340,978
	<u>472,683</u>	<u>102,555</u>	<u>(402)</u>	<u>574,836</u>	<u>(52,943)</u>	<u>33,609</u>	<u>555,502</u>
Less: deferred tax liabilities arising in respect of:							
Assets subject to finance leases	2,056	396	-	2,452	(4,586)	-	(2,134)
Accelerated tax depreciation allowances	(1,225)	365	-	(860)	844	-	(16)
Net Investment in finance leases	(160,292)	(3,547)	-	(163,839)	40,823	-	(123,016)
Dividend receivable	(159,461)	(2,801)	-	(162,262)	(1,498)	-	(1,513)
	<u>(159,461)</u>	<u>(2,801)</u>	<u>-</u>	<u>(162,262)</u>	<u>35,583</u>	<u>-</u>	<u>(126,679)</u>
	<u>313,222</u>	<u>99,754</u>	<u>(402)</u>	<u>412,574</u>	<u>(17,360)</u>	<u>33,609</u>	<u>428,823</u>

Note

2011

2010

Rupees in '000

13

OTHER ASSETS

Mark-up/Return/Interest receivable in local currency		300,705	317,758
Dividend income receivable		15,130	145
Mark-up/profit receivable on purchase of securities		27,068	32,374
Security deposits		4,768	3,518
Prepayments		7,478	5,728
Receivable against sale of investments		12,936	59,405
Employee gratuity fund	32.4	781	769
Others		393	288
		<u>369,259</u>	<u>419,985</u>

13.1 The above balances include an aggregate amount of Rs. 364.246 million (2010: Rs. 416.167 million) due within a year.

14

BORROWINGS

In Pakistan		6,648,716	6,145,349
Outside Pakistan		-	-
		<u>6,648,716</u>	<u>6,145,349</u>

14.1 Particulars of borrowings with respect to currencies

In local currency		6,648,716	6,145,349
In foreign currencies		-	-
		<u>6,648,716</u>	<u>6,145,349</u>

14.2 Particulars of borrowings**Secured**

Borrowings from the State Bank of Pakistan:

- LTF-EOP	14.3	161,669	250,523
- LTF	14.3	825,328	465,035

Repurchase agreement borrowings

Long-term borrowings

Short-term borrowings

Short-term running finance

Unsecured

Placements

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 5 to 11 percent per annum (2010: 5 to 8.8 percent per annum). These are repayable within 8 years (2010: 7 years).

14.4 The rate of return on these repurchase agreement borrowings, maturing in January 2012 (2010: January 2011 to February 2011), ranges between 11.80 to 12 (2010: 12.83 to 13.30) percent per annum. Securities having cost of Rs 5,208.310 million (2010: Rs 3,771.218 million) have been pledged against these borrowings.

- 14.5 The rate of return on these short-term running finance facilities is three month Kibor+1.25% (2010: 1 to 3 month Kibor+1.25% to 1.75%) .The above facilities are secured against term finance certificates, shares and loan and advances receivable.
- 14.6 The rates of return on these placements, maturing in January 2012 (2010: January 2011) ranges between 12.30 to 13.45 (2010: 12.50 to 13.75) percent per annum.

Note	2011	2010
	Rupees in '000	

15 DEPOSITS AND OTHER ACCOUNTS

Certificates of investment - remunerative (in local currency):		
Financial institutions	803,819	763,119
Others	3,891,874	4,798,046
15.1 & 15.2	<u>4,695,693</u>	<u>5,561,165</u>

- 15.1 The rate of return on deposits maturing between January 2012 to December 2013 (2010: January 2011 to January 2013). The rate of return is 11.40 to 13.85 (2010: 12 to 13.7) percent per annum.
- 15.2 These include Certificate of Investments purchased by gratuity fund of the Company as disclosed in note 32.7.1.

16 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2011			2010		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	Rupees in '000					
Not later than one year	9,718	2,028	7,690	9,722	1,580	8,142
Later than one year but not later than five years	13,112	1,424	11,688	7,924	864	7,060
	<u>22,830</u>	<u>3,452</u>	<u>19,378</u>	<u>17,646</u>	<u>2,444</u>	<u>15,202</u>

- 16.1 The Company has entered into lease agreements with financial institutions for lease of vehicles. Lease rentals are payable in quarterly and monthly installments. Financial charges included in lease rentals are determined on the basis of discount factors applied at the rates ranging from 10.58% to 15% per annum (2010: 10.58 % to 15% per annum). At the end of lease term, the Company has option to acquire the assets, subject to adjustment of security deposits.

Note	2011	2010
	Rupees in '000	

17 OTHER LIABILITIES

Mark-up/Return/Interest payable in local currency on		236,806	245,004
Accrued expenses		46,995	64,270
Security deposits against investment in finance leases	10.3.1.1	166,344	164,235
Payable against purchase of investments		-	44,338
Taxation		138,156	132,279
Others		18,676	66,257
		<u>606,977</u>	<u>716,383</u>

18.1 Authorized Capital

2011	2010		2011	2010
Number of shares			Rupees in '000	
1,000,000,000	1,000,000,000	Ordinary shares of Rs.10 each	10,000,000	10,000,000

18.2 Issued, subscribed and paid-up

615,000,000	615,000,000	Ordinary shares of Rs.10 each	6,150,000	6,150,000
615,000,000	615,000,000		6,150,000	6,150,000

18.3 The Ministry of Finance on behalf of the Government of Pakistan and the Sultanate of Oman through its Ministry of Finance each holds 307,495,900 (2010: 307,495,900) ordinary shares of the Company, while 4,100 (2010: 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.

18.4 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 the 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. 6 billion as at December 31, 2009 and in future periods till further notification issued by SBP, 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 10%.

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, 2011.

19 RESERVES

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

Note	2011	2010
	Rupees in '000	

20 DEFICIT ON REVALUATION OF ASSETS - net of deferred tax

20.1 Deficit on revaluation of Available-for-sale securities

Federal Government Securities			
- Market Treasury Bills		1,659	(2,913)
- Pakistan Investment Bonds		(798)	(30,607)
		861	(33,520)
Shares-listed		(16,192)	15,032
Term Finance Certificates			
- Listed		(129,134)	(69,231)
- Unlisted		668	-
		(128,466)	(69,231)
Sukuk-unlisted		(1,941)	-
Investment in Mutual Funds		1,052	(30,019)
		(144,686)	(117,738)
Deferred tax asset recognized	12	45,341	11,732
		(99,345)	(106,006)

21 CONTINGENCIES AND COMMITMENTS

Transaction related contingent liability:

guarantees		3,500	11,301
import letters of credit		-	13,730
Pledge of shares on behalf of Japan Power Company Limited	21.1	70,726	70,726
Pledge of shares on behalf of Orient Power Company (Pvt.) Limited	21.2	226,000	226,000
Commitments for:			
Sale of government securities		2,135,261	-
Purchase of government securities		98,362	-
Commitments for loans and advances and net investment in finance leases		299,523	303,930

- 21.1 Shares in Japan Power Generation Limited (JPGL) (an associate) aggregating 17,622,878 having a cost of Rs. 70.726 (2010: Rs.70.726) million are pledged as security on behalf of that associate company against a syndicate finance facility obtained by it (the associate company).
- 21.2 Shares in Orient Power Company (Private) Limited (related party) aggregating 22,600,000 having a cost of Rs. 226 million are pledged as security on behalf of that Orient Power Company (Private) Limited against a syndicate finance facility obtained by Orient Power Company (Private) Limited.

	2011	2010
	Rupees in '000	
22 MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to:		
customers	930,518	810,635
financial institutions	1,588	9,623
	932,106	820,258
On investments in:		
available-for-sale	938,513	913,608
held-to-maturity	14,299	20,167
held-for-trading	155,741	204,952
	1,108,553	1,138,727
On securities purchased under resale agreements	180,361	224,173
On deposit with financial institutions	22,486	36,965
On placements	4,196	1,889
On certificate of investments	16,445	2,118
	2,264,147	2,224,130

23 MARK-UP / RETURN / INTEREST EXPENSED		
On secured borrowings:		
Repurchase agreement borrowings	506,137	477,609
Long-term borrowings	94,069	126,085
Short-term borrowings	55,108	66,799
	655,314	670,493
On un-secured borrowings:		
Placements	117,736	120,013
Certificate of investments	740,492	671,496
	858,228	791,509
	1,513,542	1,462,002

Note

2011

2010

Rupees in '000

24 GAIN / (LOSS) ON SALE OF SECURITIES

Federal Government Securities			
- Market Treasury Bills		29,675	(1,643)
- Pakistan Investment Bonds		37,431	(18,777)
		67,106	(20,420)
Term Finance Certificates		29,315	49,872
Shares			
- Listed		(12,249)	76,399
- Unlisted		(38,500)	-
		(50,749)	76,399
Mutual fund units		(33,417)	(89)
		12,255	105,762

25 OTHER INCOME

Gain on sale of property and equipment		2,355	2,330
Exchange gain on revaluation		-	2
		2,355	2,332

26 ADMINISTRATIVE EXPENSES

Salaries, allowances and employees' benefits		107,222	105,990
Contribution to defined contribution plan		6,897	6,042
Charge for defined benefit plan	32.8	5,933	6,485
Non-executive directors' fee	34	217	189
Chief executive's remuneration	34	19,082	13,996
Board meeting expenses		16,584	13,673
Traveling and accommodation		10,117	13,379
Rent, rates and taxes		11,689	9,620
Utilities		1,938	1,561
Communication		6,282	6,593
Professional training		947	841
Advertisement and business promotion		1,343	1,673
Membership and subscriptions		1,612	1,544
Printing, stationery and periodicals		3,460	3,606
Depreciation	11.1	15,739	14,838
Amortization of intangible assets	11.2	1,939	1,672
Auditors' remuneration	26.1	896	1,072
Legal and professional charges		12,279	10,154
Repairs and maintenance		5,289	5,271
Transportation		9,754	7,966
Insurance		4,825	3,387
Finance charges on leased assets		1,776	2,364
Entertainment and canteen expenses		2,287	1,638
Donation	26.2	4,644	5,651
Others		1,349	964
		254,100	240,169

	2011	2010
	Rupees in '000	
26.1 Auditors' remuneration		
Audit fee	400	351
Half yearly review	147	175
Special certifications and others	321	413
Out of pocket expenses	28	133
	<u>896</u>	<u>1,072</u>

26.2 Donations were not made to any donee in which a director or his spouse had any interest at any time during the year.

26.2.1 Donations made in excess of Rs. 0.1 million to a single donee are as follows:

Prime Minister's Flood Relief Fund	4,000	1,500
Army Flood Relief Fund	-	2,500
Pak Oman AMC Flood Relief Fund	-	1,000
Al-Mehrab Tibbi Imdad	140	140
The Kidney Centre Post Graduation Training Institute	200	200
Burns Centre	140	140
	<u>4,480</u>	<u>5,480</u>

27 OTHER CHARGES

SBP Penalties	5,615	-
Fees and commission	9,489	8,586
	<u>15,104</u>	<u>8,586</u>

28 TAXATION

For the year		
Current	213,911	203,535
Deferred	17,360	(99,754)
	<u>231,271</u>	<u>103,781</u>

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

Profit before taxation	579,293	381,757
Tax at the applicable rate of 35 %	202,753	133,615
Tax effect of income taxed at different rate	(29,544)	(18,357)
Tax effect of exempt capital loss / (gain)	25,445	(17,250)
Tax effect of exempt provision for diminution in the value of investments	30,247	9,840
Net tax effect of income not subject to tax and expenses that are not allowable in determining taxable income tax charge	2,370	(4,067)
	<u>231,271</u>	<u>103,781</u>

28.2 In the current year, the Company received an order under section 122 (1) of the Income Tax Ordinance 2001 for tax year 2005 wherein major issue raised by Deputy Commissioner Inland Revenue related to disallowance of allocation of common expenses.

The Company has filed an appeal against the said order. The appeal has been heard on December 20, 2011 by the Commissioner Inland revenue, however the order has not been received as yet.

The effect of aforementioned matter amounts to Rs. 10.08 million. No provision has been made against the aforementioned matter based on the opinion of the Company's tax consultants who expect favorable outcome of the case.

		2011	2010
29	EARNINGS PER SHARE		
Profit after taxation	Rupees in '000	348,022	277,976
Weighted average number of ordinary shares in issue	Rupees in '000	615,000	615,000
Basic earnings per share	Rupees	0.57	0.45
Diluted earnings per share	Rupees	0.57	0.45

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

		Note	Rupees in '000	
30	CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks		6	66,647	70,373
Balances with other banks		7	209,058	660,750
			275,705	731,123

		Number	
31	STAFF STRENGTH		
Permanent			61
Temporary/on contractual basis			10
Company's own staff strength at end of the year			71
Outsourced			27
Total staff strength			98

32 DEFINED BENEFIT PLAN

General Description

32.1 General description of the type of defined benefit plan and accounting policy for recognising actuarial gains and losses is disclosed in note 5.10 to the financial statements.

Principal actuarial assumptions

The latest actuarial valuation for defined benefit plan scheme was carried out as at December 31, 2011 using the Projected Unit Credit Method (PUCM). The following significant assumptions were used for the actuarial valuation:

	Percent per annum	
Discount rate	12.50	14.00
Expected rate of increase in salary levels	12.50	14.00
Expected rate of return on plan assets	12.50	14.00

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

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.

	Note	2011	2010
Rupees in '000			
32.2 Reconciliation of amount receivable from defined benefit plan			
Present value of defined benefit obligation	32.3	38,207	30,787
Fair value of plan assets	32.5	(38,988)	(31,556)
	32.4	<u>(781)</u>	<u>(769)</u>
32.3 The movement in the defined benefit obligation over the year is as follows:			
Present value of obligation as at January 1		30,787	25,514
Current service cost		7,382	5,858
Interest cost		4,087	3,941
Benefits paid		(3,195)	(4,030)
Actuarial gain on obligation		(854)	(496)
Present value of obligation as at December 31		<u>38,207</u>	<u>30,787</u>
32.4 Movement in receivable from defined benefit plan:			
Opening liability		(769)	(553)
Expense for the year	32.8	5,933	6,485
Contributions to the fund		(5,945)	(6,701)
Closing (asset)/liability		<u>(781)</u>	<u>(769)</u>
32.5 The movement in the fair value of plan assets is as follows:			
Fair value of plan assets as at January 1		31,557	25,263
Expected return on plan assets		4,615	3,537
Contributions		5,945	6,701
Benefits paid		(3,195)	(4,030)
Actuarial gain on plan assets		66	86
Fair value of plan assets as at December 31	32.7	<u>38,988</u>	<u>31,557</u>

32.6 Actual return on plan assets during the year was Rs. 4.681 million (2010: Rs. 3.623 million).

32.7 The plan assets are comprised as follows:

Particulars	Note	2011		2010	
		Rupees in '000	%	Rupees in '000	%
Market Treasury Bills		10,365	27.80	1,005	3.31
Pakistan Investment Bonds		11,352	30.44	-	-
Term Finance Certificates		5,836	15.65	6,409	21.11
Certificate of Investments	32.7.1	8,150	21.86	22,362	73.65
Amount in Bank		1,577	4.23	586	1.93
Other Asset		9	0.02	-	-
		<u>37,289</u>	<u>100</u>	<u>30,362</u>	<u>100</u>

32.7.1 These includes Certificate of Investment held with the Company. These carry mark-up at rates ranging from 12 to 13.25 percent per annum. (2010: 12.25 to 12.70).

	2011	2010
	Rupees in '000	
32.8 The amount recognised in the profit and loss account is as follows:		
Current service cost	7,382	5,858
Interest cost	4,086	3,941
Expected return on plan assets	(4,615)	(3,537)
Vested past service cost	-	805
Actuarial gain recognised	(920)	(582)
	5,933	6,485
32.9 Net unrecognised actuarial (losses) / gains		
Net unrecognised actuarial gains / (losses) as at January 1	-	-
Actuarial gain on obligation	854	496
Actuarial gain on plan assets	66	86
	920	582
Actuarial gain / (loss) recognised for the year	(920)	(582)
Net unrecognised actuarial (losses) / gains as at December 31	-	-

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

	Note	2011	2010	2009	2008	2007
		Rupees in '000				
Present value of defined benefit obligation	32.3	38,207	30,787	25,514	26,408	14,220
Fair value of plan assets	32.5	(38,988)	(31,557)	(25,263)	(16,139)	(9,835)
(Surplus) / Deficit		(781)	(770)	251	10,269	4,385
Experience adjustments on defined benefit obligation	32.3	(854)	(496)	(1,224)	5,415	1,955
Experience adjustments on assets	32.5	(66)	(86)	670	(572)	(496)

32.11 Expected gratuity expense for the next year

The expected gratuity expense for the next year ending December 31, 2012 works out to Rs. 7.571 million.

33 DEFINED CONTRIBUTION PLAN

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

33.2 Contribution made during the year

Contribution from the Company
Contribution from employees

	2011	2010
	Rupees in '000	
Contribution from the Company	7,955	6,962
Contribution from employees	7,955	6,962
	<u>15,910</u>	<u>13,924</u>

34 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	Rupees in '000					
Fees	-	-	217	189	-	-
Managerial remuneration	16,879	11,960	-	-	95,406	73,684
Charge for defined benefit plan	786	833	-	-	4,643	5,278
Contribution to defined contribution plan	1,058	920	-	-	6,396	5,489
Medical	467	439	-	-	-	-
Utilities	609	622	-	-	-	-
Membership fee	69	55	-	-	-	-
	<u>19,868</u>	<u>14,829</u>	<u>217</u>	<u>189</u>	<u>106,445</u>	<u>84,451</u>
Number of persons	<u>1</u>	<u>1</u>	<u>5</u>	<u>5</u>	<u>49</u>	<u>45</u>

34.1 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.

The fair value of traded investments is based on quoted market prices, and has been disclosed in note 9. Unquoted equity investments, other than investments in associates and subsidiary, are determined on the basis of break-up value of these investments as per the latest available audited financial statements. The provision for impairment of investments has been determined in accordance with the Company's accounting policy as stated in notes 5.3 and 5.20 to these unconsolidated financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to the absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment advances has been calculated in accordance with the Company's accounting policy as stated in note 5.5.2.

The maturity and re-pricing profile and effective rates are stated in notes 39.4.1 and 39.3.5 respectively.

In the opinion of management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently repriced.

35.1 On-balance sheet financial instruments

	2011		2010	
	Book value	Fair value	Book value	Fair value
Rupees in '000				
Assets				
Cash and balances with treasury banks	66,647	66,647	70,373	70,373
Balances with other banks	209,058	209,058	660,750	660,750
Lendings to financial institutions	1,321,745	1,321,745	2,454,610	2,454,610
Investments	9,737,205	9,721,078	8,182,719	8,148,787
Advances	5,767,026	5,767,026	5,947,929	5,947,929
Other assets	361,000	361,000	413,488	413,488
	<u>17,462,681</u>	<u>17,446,554</u>	<u>17,729,869</u>	<u>17,695,937</u>
Liabilities				
Borrowings from financial institutions	6,648,716	6,648,716	6,145,349	6,145,349
Deposits and other accounts	4,695,693	4,695,693	5,561,165	5,561,165
Liabilities against assets subject to finance lease	19,378	19,378	15,202	15,202
Other liabilities	468,821	468,821	543,797	543,797
	<u>11,832,608</u>	<u>11,832,608</u>	<u>12,265,513</u>	<u>12,265,513</u>
	<u>5,630,073</u>	<u>5,613,946</u>	<u>5,464,356</u>	<u>5,430,424</u>

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.

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

	Corporate Finance	Trading & Sales	Commercial Banking
	Rupees in '000		
2011			
Total income	8,291	1,454,849	933,984
Total expenses	39,690	1,270,530	507,611
Net income / (loss)	(31,399)	184,319	426,373
Segment assets (gross)	-	13,245,715	7,140,077
Segment non-performing loans	-	-	1,199,078
Investments provided for	-	1,518,793	-
Segment provision required *	-	595,231	974,224
Segment liabilities	-	7,332,208	4,638,556
Segment return on net assets (%)	-	3.47%	27.92%
Segment return on assets (ROA) (%)	-	1.46%	6.92%
Segment cost of funds (%)	-	8.29%	8.17%
2010			
Total income	12,432	1,589,120	828,891
Total expenses	39,280	1,252,323	757,083
Net income / (loss)	(26,848)	336,797	71,808
Segment assets (gross)	-	13,253,190	7,448,599
Segment non-performing loans	-	-	1,221,006
Investments provided for	-	779,671	-
Segment provision required*	-	419,171	1,107,629
Segment liabilities	-	7,820,340	4,617,759
Segment return on net assets (%)	-	6.72%	4.17%
Segment return on assets (ROA) (%)	-	2.62%	1.13%
Segment cost of funds (%)	-	8.02%	7.83%

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

The Company has related party relationship with its associates, subsidiary company, employee benefit plans, company having common directors and its key management personnel (including their associates). The details of investments in subsidiary company and associates are stated in note 9 to these financial statements.

Contributions to the accounts in respect of staff retirement benefits are made in accordance with actuarial valuation/terms of the contribution plan. Remuneration of the key management personnel are in accordance with the terms of their employment. Advances are given to employees as per the Company's Policy. Transactions with other related parties are carried out on commercial terms and as per market rates.

The details of transactions with related parties, other than those which have been specifically disclosed elsewhere in the financial statements are as follows:

37.1 Subsidiary

Pak Oman Asset Management Company Limited

37.2 Associates

Pak Oman Micro Finance Bank Limited
Japan Power Generation Limited
Pak Oman Advantage Fund
Pak Oman Advantage Islamic Income Fund
Pak Oman Islamic Asset Allocation Fund
Pak Oman Advantage Asset Allocation Fund
Pak Oman Government Securities Fund

37.3 Key management personnel

All heads of departments
Directors

37.4 Retirement benefit fund

Defined benefit plan
Defined contribution plan

37.5 Other related party

Orient Power Company (Private) Limited

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

Nature of related party transaction	2011				2010			
	As at 1-Jan 2011	Given during the year	Repaid during the year	As at 31-Dec 2011	As at 1-Jan 2010	Given during the year	Repaid during the year	As at 31-Dec 2010
Rupees in '000								
Investments								
Subsidiary	168,300	-	-	168,300	168,300	-	-	168,300
Associates	905,742	-	-	905,742	1,065,616	-	(159,874)	905,742
Other related parties	226,000	269,744	-	495,744	-	226,000	-	226,000
	<u>1,300,042</u>	<u>269,744</u>	<u>-</u>	<u>1,569,786</u>	<u>1,233,916</u>	<u>226,000</u>	<u>(159,874)</u>	<u>1,300,042</u>
Advances								
Subsidiary	2,888	-	(1,423)	1,465	6,063	-	(3,175)	2,888
Associates	68,200	-	-	68,200	68,200	-	-	68,200
Key Management personnel	46,384	31,703	(12,210)	65,877	53,630	16,199	(23,445)	46,384
Other related parties	566,748	-	(291,025)	275,723	318,314	636,497	(388,063)	566,748
	<u>684,220</u>	<u>31,703</u>	<u>(304,658)</u>	<u>411,265</u>	<u>446,207</u>	<u>652,696</u>	<u>(414,683)</u>	<u>684,220</u>
Deposits								
Associates	388,119	353,819	(388,119)	353,819	211,861	388,119	(211,861)	388,119
Key Management personnel	4,500	27,067	(23,246)	8,321	1,236	8,173	(4,909)	4,500
Other related parties	46,763	13,500	(46,763)	13,500	35,825	53,380	(42,442)	46,763
	<u>439,382</u>	<u>394,386</u>	<u>(458,128)</u>	<u>375,640</u>	<u>248,922</u>	<u>449,672</u>	<u>(259,212)</u>	<u>439,382</u>
Borrowings								
Associates	63,520	100,000	(63,520)	100,000	-	63,520	-	63,520
	<u>63,520</u>	<u>100,000</u>	<u>(63,520)</u>	<u>100,000</u>	<u>-</u>	<u>63,520</u>	<u>-</u>	<u>63,520</u>

	2011	2010
	Rupees in '000	
Other receivables from		
Gratuity fund	781	769
Associates	344	-
Other related parties	-	138
Lease deposits from Subsidiary	487	596
Mark-up income		
Subsidiary	305	648
Key Management personnel	2,880	2,356
Other related parties	75,466	104,508
Dividend income		
Associates	74,040	37,198
Other related parties	15,130	-
Fee income		
Subsidiary	-	414
Other related parties	4,750	6,370
Mark-up expense on Deposits		
Associates	47,746	47,828
Key Management personnel	884	196
Other related parties	1,388	5,176
Mark-up expense on Borrowing		
Associates	13,221	7,679
Expenses for the year		
Remuneration to key management personnel	67,231	48,706
Non-executive director's fee	217	189
Charge for defined contribution plan	7,955	6,962
Charge for defined benefit plan	5,933	6,485
Outright sale of Government Securities		
Other related parties	103,847	6,277

The Company's CAR as at December 31, 2011 was 41.72% of its risk weighted exposure.

The calculation of capital adequacy enables the DFIs' to assess the long term soundness. The Company 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 health portfolio of assets and liabilities focusing on quality. CAR of 41.72% 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 is as follows:

	2011	2010
	Rupees in '000	
Regulatory Capital Base		
Tier I Capital		
Share Capital	6,150,000	6,150,000
Reserves	485,312	492,568
Unappropriated profit	309,606	200,328
	6,944,918	6,842,896
Deductions:		
Book value of intangibles	3,626	3,691
Shortfall in provisions required against classified assets irrespective of any relaxation allowed	-	81,499
Deficit on account of revaluation of available-for-sale investment	144,686	117,738
Investments in TFCs of other banks exceeding the prescribed limit	880,548	887,092
Other deductions (50% of the amount calculated on CAP 2)	281,870	320,081
	1,310,730	1,410,101
Total eligible Tier I Capital	5,634,188	5,432,795
Supplementary 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.	-	-
Revaluation reserve (up to 45%)	-	-
Other deductions (50% of the amount calculated on CAP 2)	(281,870)	(320,081)
Total Eligible Tier II Capital	(281,870)	(320,081)
Eligible Tier III Capital	-	-
Total Supplementary Capital eligible for capital adequacy ratio (Maximum upto 100% of Total eligible Tier I Capital)		
Total Eligible Capital	5,352,318	5,112,714
Risk Weighted Amounts		
Total Credit Risk Weighted Amount	7,024,006	7,743,844
Total Market Risk Weighted Amount	4,445,665	4,452,492
Total Operational Risk Weighted Amount	1,359,066	1,443,390
Total Risk Weighted Amount	12,828,737	13,639,726
Capital Adequacy Ratios		
Credit Risk Capital Adequacy Ratio	76.20%	66.02%
Tier 1 Capital to Total Risk Weighted Amount	43.92%	39.83%
Total Capital Adequacy Ratio	41.72%	37.48%

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 maximizing returns to shareholders, the board of directors takes cognizance 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.

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

Exposures	Rating category	2011			2010		
		Amount outstanding	Deduction CRM*	Net amount	Amount outstanding	Deduction CRM*	Net amount
Rupees in '000							
Corporate	0	-	-	-	-	-	-
	1	742,842	476,807	1,219,649	848,061	787,122	1,635,183
	2	871,993	(97,730)	774,263	494,597	(250,047)	244,550
	3-4	292,716	-	292,716	362,500	-	362,500
	5-6	-	-	-	89,469	-	89,469
	Unrated	3,748,154	(379,077)	3,369,077	4,998,946	(537,075)	4,461,871
		<u>5,655,705</u>	<u>-</u>	<u>5,655,705</u>	<u>6,793,573</u>	<u>-</u>	<u>6,793,573</u>
Banks	0	-	-	-	-	-	-
	1	59,058	-	59,058	1,260,750	802,619	2,063,369
	2-3	150,000	-	150,000	-	-	-
	Unrated	-	-	-	802,619	(802,619)	-
		<u>209,058</u>	<u>-</u>	<u>209,058</u>	<u>2,063,369</u>	<u>-</u>	<u>2,063,369</u>

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

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Financial institution	6,626	0.10	803,819	17.12	2,160,020	76.23
Textile	1,283,329	19.04	3,000	0.06	87,390	3.08
Transportation and communication	373,057	5.53	164,543	3.50	108,490	3.83
Power	1,192,490	17.69	50,000	1.07	296,726	10.47
Electronics	166,863	2.48	-	-	50,000	1.76
Food and beverage	904,536	13.42	-	-	25,408	0.90
Services	286,215	4.25	140,000	2.98	1,600	0.06
Engineering and allied products	197,632	2.93	-	-	13,196	0.47
Chemical and pharmaceuticals	402,236	5.97	232,000	4.94	-	-
Automobiles	268,545	3.98	-	-	-	-
Fuel and energy	415,910	6.17	-	-	9,039	0.32
Construction	164,291	2.44	-	-	-	-
Cement	65,000	0.96	-	-	-	-
Sugar	499,085	7.40	-	-	-	-
Paper and board/ packaging	70,910	1.05	-	-	7,900	0.28
Healthcare	158,238	2.35	-	-	-	-
Individual	110,448	1.64	389,289	8.29	-	-
Others	175,839	2.60	2,913,042	62.04	73,603	2.60
	<u>6,741,250</u>	<u>100.00</u>	<u>4,695,693</u>	<u>100.00</u>	<u>2,833,372</u>	<u>100.00</u>

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Financial institution	17,007	0.24	763,119	13.72	-	-
Textile	1,367,859	19.39	-	-	234,500	37.48
Transportation and communication	384,440	5.45	310,000	5.57	-	-
Power	1,546,146	21.91	150,000	2.70	318,257	50.87
Electronics	272,380	3.86	-	-	-	-
Food and beverage	371,933	5.27	-	-	49,380	7.89
Services	412,789	5.85	150,000	2.70	-	-
Engineering and allied products	169,374	2.40	-	-	-	-
Chemical and pharmaceuticals	569,252	8.07	85,000	1.53	720	0.12
Automobiles	271,879	3.85	-	-	-	-
Fuel and energy	161,518	2.29	-	-	4,360	0.70
Construction	343,670	4.87	-	-	-	-
Cement	78,333	1.11	-	-	-	-
Sugar	660,793	9.37	-	-	-	-
Paper and board /packaging	36,598	0.52	-	-	16,500	2.64
Healthcare	166,285	2.36	-	-	-	-
Individual	92,971	1.32	465,518	8.37	-	-
Others	132,331	1.87	3,637,528	65.41	1,970	0.30
	<u>7,055,558</u>	<u>100.00</u>	<u>5,561,165</u>	<u>100.00</u>	<u>625,687</u>	<u>100.00</u>

39.2.2 Segment by sector

		2011					
		Advances (Gross)		Deposits		Contingencies and commitments	
		Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public/Government		687,415	10.20	1,450,000	30.88	39,539	1.40
Private		6,053,835	89.80	3,245,693	69.12	2,793,833	98.60
		<u>6,741,250</u>	<u>100.00</u>	<u>4,695,693</u>	<u>100.00</u>	<u>2,833,372</u>	<u>100.00</u>

		2010					
		Advances (Gross)		Deposits		Contingencies and commitments	
		Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public/Government		94,840	1.34	2,600,000	46.75	-	-
Private		6,960,718	98.66	2,961,165	53.25	625,687	100.00
		<u>7,055,558</u>	<u>100.00</u>	<u>5,561,165</u>	<u>100.00</u>	<u>625,687</u>	<u>100.00</u>

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

	2011		2010	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
Rupees in '000				
Automobile	268,545	268,545	271,879	271,879
Cement	65,000	65,000	70,000	70,000
Textile	412,899	300,720	308,308	284,470
Chemical and pharmaceuticals	38,962	34,758	129,075	124,870
Construction	82,250	53,675	75,250	53,675
Engineering and allied products	92,073	92,073	93,023	93,023
Electronics	32,619	32,619	41,775	41,775
Fuel and energy	89,194	22,298	89,600	49,621
Food and beverages	19,197	18,697	19,197	18,697
Financial institution	-	-	11,613	5,000
Power	68,200	68,200	68,200	68,200
Sugar	11,825	11,825	19,469	19,469
Transportation & Communication	18,314	5,814	23,617	6,950
	<u>1,199,078</u>	<u>974,224</u>	<u>1,221,006</u>	<u>1,107,629</u>

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

	2011		2010	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
Rupees in '000				
Public/Government	-	-	-	-
Private	1,199,078	974,224	1,221,006	1,107,629
	<u>1,199,078</u>	<u>974,224</u>	<u>1,221,006</u>	<u>1,107,629</u>

39.2.5 Geographical segment analysis

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Rupees in '000				
Pakistan	579,293	18,814,296	6,845,573	2,833,372
Middle East	-	2,041	-	-
	579,293	18,816,337	6,845,573	2,833,372

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 Pakistani rupees.

	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Rupees in '000				
Pakistani Rupees	18,815,766	11,970,764	-	6,845,002
United States Dollar	136	-	-	136
Omani Riyal	435	-	-	435
	18,816,337	11,970,764	-	6,845,573

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.

39.3.5 Mismatch of interest rate sensitive assets and liabilities as at December 31, 2011

Exposed to yield / interest risk											
Effective yield/ interest rate	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments
Rupees in '000											
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	66,647	-	-	-	-	-	-	-	-	-	66,647
Balances with other banks	12.83% 209,058	105,580	100,000	-	-	-	-	-	-	-	3,478
Lending to financial institutions	12.37% 1,321,745	1,008,565	296,336	875	1,527	3,198	11,244	-	-	-	-
Investments	13.11% 9,737,205	290,585	3,568,235	2,447,960	1,248,086	386,564	19,121	785,807	115,736	-	875,111
Advances	15.06% 5,767,026	1,852,058	2,371,163	488,516	119,500	255,489	205,909	291,835	160,984	14,201	7,371
Other assets	361,000	-	-	-	-	-	-	-	-	-	361,000
	17,462,681	3,256,788	6,335,734	2,937,351	1,369,113	645,251	236,274	1,077,642	276,720	14,201	1,313,607
Liabilities											
Borrowings from financial institutions	11.47% 6,648,716	5,667,972	35,501	43,651	95,589	221,831	191,143	269,314	123,715	-	-
Deposits and other accounts	12.37% 4,695,693	1,256,053	1,964,703	555,771	729,007	190,159	-	-	-	-	-
Liabilities against assets subject to finance leases	13.82% 19,378	759	1,184	2,011	3,736	5,641	5,558	489	-	-	-
Other liabilities	468,821	-	-	-	-	-	-	-	-	-	468,821
	11,832,608	6,924,784	2,001,388	601,433	828,332	417,631	196,701	269,803	123,715	-	468,821
On-balance sheet gap	5,630,073	(3,667,996)	4,334,346	2,335,918	540,781	227,620	39,573	807,839	153,005	14,201	844,786
Non-Financial assets	1,353,656										
Non-Financial liabilities	138,156										
Total Net Assets	6,845,573										
Total yield/profit risk sensitivity gap		(3,667,996)	4,334,346	2,335,918	540,781	227,620	39,573	807,839	153,005	14,201	
Cumulative yield/profit risk sensitivity gap		(3,667,996)	666,350	3,002,268	3,543,049	3,770,669	3,810,242	4,618,081	4,771,086	4,785,287	

Mismatch of interest rate sensitive assets and liabilities as at December 31, 2010

Effective yield/ interest rate	Exposed to yield / interest risk										
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments

Rupees in '000

On-balance sheet financial instruments

Assets

Cash and balances with treasury banks		70,373	-	-	-	-	-	-	-	-	-	70,373
Balances with other banks	11.00%	660,750	408,073	250,000	-	-	-	-	-	-	-	2,677
Lending to financial institutions	12.67%	2,454,610	1,318,964	1,124,015	1,248	1,976	5,209	3,198	-	-	-	-
Investments	12.35%	8,182,719	43,266	686,539	1,490,127	992,776	876,952	1,072,837	846,795	1,380,519	7,500	785,408
Advances	14.73%	5,947,929	76,052	501,606	600,553	826,740	1,159,726	873,230	864,868	1,023,096	14,290	7,768
Other assets		413,488	-	-	-	-	-	-	-	-	-	413,488
		17,729,869	1,846,355	2,562,160	2,091,928	1,821,492	2,041,887	1,949,265	1,711,663	2,403,615	21,790	1,279,714

Liabilities

Borrowings from financial institutions	11.63%	6,145,349	3,939,925	1,197,773	145,924	293,343	145,242	141,275	198,021	83,846	-	-
Deposits and other accounts	12.66%	5,561,165	1,283,814	1,925,030	842,532	1,493,289	1,500	15,000	-	-	-	-
Liabilities against assets subject to finance leases	15.98%	15,202	1,200	1,327	2,014	3,601	4,417	1,810	833	-	-	-
Other liabilities		543,797	-	-	-	-	-	-	-	-	-	543,797
		12,265,513	5,224,939	3,124,130	990,470	1,790,233	151,159	158,085	198,854	83,846	-	543,797
On-balance sheet gap		5,464,356	(3,378,584)	(561,970)	1,101,458	31,259	1,890,728	1,791,180	1,512,809	2,319,769	21,790	735,917

Non-Financial assets	1,445,120
Non-Financial liabilities	172,586
Total Net Assets	6,736,890

Total yield/profit risk sensitivity gap (3,378,584) (561,970) 1,101,458 31,259 1,890,728 1,791,180 1,512,809 2,319,769 21,790

Cumulative yield/profit risk sensitivity gap (3,378,584) (3,940,554) (2,839,096) (2,807,837) (917,109) 874,071 2,386,880 4,706,649 4,728,439

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 monitors its Key Risk Indicators (KRI) and Loss Data reporting through an operational risk software.

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, 2011

	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Rupees in '000										
Assets										
Cash and balances with treasury banks	66,647	2,679	63,968	-	-	-	-	-	-	-
Balances with other banks	209,058	109,058	100,000	-	-	-	-	-	-	-
Lending to financial institutions	1,321,745	1,008,565	296,336	875	1,527	3,198	11,244	-	-	-
Investments	10,589,968	20,507	2,186,698	904,598	1,825,770	1,616,060	417,617	2,440,166	1,178,552	-
Advances	5,767,026	58,836	296,896	776,325	801,922	1,150,552	873,886	925,388	869,020	14,201
Other assets	369,259	95,898	161,734	106,577	37	40	205	4,768	-	-
Operating fixed assets	63,811	2,150	4,300	6,450	9,699	11,034	9,816	4,212	10,532	5,618
Deferred tax assets	428,823	(41,332)	(7,886)	(18,655)	(75,482)	(43,383)	(15,609)	632,892	(1,709)	(13)
	18,816,337	1,256,361	3,102,046	1,776,170	2,563,473	2,737,501	1,297,159	4,007,426	2,056,395	19,806
Liabilities										
Borrowings from financial institutions	6,648,716	5,667,972	35,501	43,651	95,589	221,831	191,143	269,314	123,715	-
Deposits and other accounts	4,695,693	1,256,053	1,964,703	555,771	729,007	190,159	-	-	-	-
Liabilities against assets subject to finance leases	19,378	759	1,184	2,011	3,736	5,641	5,558	489	-	-
Others liabilities	608,615	113,009	152,869	20,820	241,070	33,952	35,324	11,571	-	-
Deferred liabilities	-	-	-	-	-	-	-	-	-	-
	11,972,402	7,037,793	2,154,257	622,253	1,069,402	451,583	232,025	281,374	123,715	-
Net assets	6,843,935	(5,781,432)	947,789	1,153,917	1,494,071	2,285,918	1,065,134	3,726,052	1,932,680	19,806
Share capital	6,150,000									
Reserves	485,312									
Unappropriated profit	309,606									
	6,944,918									
Deficit on revaluation of investment - net of tax	(99,345)									
	6,845,573									

Maturities of assets and liabilities as at December 31, 2010

	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Rupees in '000										
Assets										
Cash and balances with treasury banks	70,373	3,373	67,000	-	-	-	-	-	-	-
Balances with other banks	660,750	410,750	250,000	-	-	-	-	-	-	-
Lending to financial institutions	2,454,610	1,318,964	1,124,015	1,248	1,976	5,209	3,198	-	-	-
Investments	9,143,686	43,266	691,027	1,515,142	1,293,733	876,952	1,072,837	2,262,710	1,380,519	7,500
Advances	5,947,929	76,575	502,621	601,975	829,361	1,161,913	873,230	864,868	1,023,096	14,290
Other assets	419,985	-	416,467	-	-	-	-	3,518	-	-
Operating fixed assets	65,082	1,971	3,941	5,912	11,146	11,052	8,593	4,212	10,532	7,723
Deferred tax assets	412,574	(4,403)	(20,343)	(6,467)	(89,692)	(90,294)	(13,922)	639,732	(1,505)	(532)
	19,174,989	1,850,496	3,034,728	2,117,810	2,046,524	1,964,832	1,943,936	3,775,040	2,412,642	28,981
Liabilities										
Borrowings from financial institutions	6,145,349	3,939,925	1,197,773	145,924	293,343	145,242	141,275	198,021	83,846	-
Deposits and other accounts	5,561,165	1,283,814	1,925,030	842,532	1,493,289	1,500	15,000	-	-	-
Liabilities against assets subject to finance leases	15,202	1,200	1,327	2,014	3,601	4,417	1,810	833	-	-
Others Liabilities	716,383	-	426,191	10,323	183,166	41,694	29,211	25,798	-	-
	12,438,099	5,224,939	3,550,321	1,000,793	1,973,399	192,853	187,296	224,652	83,846	-
Net assets	6,736,890	(3,374,443)	(515,593)	1,117,017	73,125	1,771,979	1,756,640	3,550,388	2,328,796	28,981
Share capital	6,150,000									
Reserves	492,568									
Unappropriated profit	200,328									
	6,842,896									
Deficit on revaluation of investment - net of tax	(106,006)									
	6,736,890									

40 TRUST ACTIVITIES

The Company is acting as trustee to Term Finance Certificates issued by Pakistan Mobile Communication Limited, Pak Arab Fertilizers Limited, United Bank Limited and Orix Leasing Pakistan Limited. The Company is holding the trust properties in fiduciary capacity on behalf of the relevant beneficiaries. In this behalf, the Company is fulfilling all its obligations and duties in accordance with the provisions of the respective trust documents.

41 POST BALANCE SHEET EVENTS

The Board of Directors of the Company in their meeting held on March 29, 2012 have:

- Proposed 3.5% cash dividend amounting to Rs. 215.250 million subject to the approval of the members at the annual general meeting.

These financial statements do not recognise the aforementioned appropriation as this has been proposed and approved subsequent to the statement of financial position date.

42 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.

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

43 DATE OF AUTHORISATION

These financial statements were authorised on March 29, 2012 by the board of directors of the Company.

CONSOLIDATED

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CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT to the members

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of Pak-Oman Investment Company Limited (the Holding Company) and its subsidiary company (Pak Oman Asset Management Company Limited) as at December 31, 2011 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of the Holding Company. The condensed interim financial information of the subsidiary company covering period from July 01, 2011 to December 31, 2011 has been reviewed by us in accordance with the International Standards on Review Engagement 2410. These consolidated financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Our audit was conducted in accordance with the International Standard on Auditing and accordingly included such tests of accounting records and such other audit procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of the Holding Company and its subsidiary company as at December 31, 2011 and the results of their operations for the year then ended.

The financial statements of the Holding Company for the year ended December 31, 2010 were audited by another firm of chartered accountants who through their report dated March 6, 2011 expressed an unqualified opinion thereon.

The condensed interim financial information of the subsidiary company for the six-month period ended December 31, 2010 and the financial statements of the Company for the years ended June 30, 2010 and June 30, 2011 were reviewed and audited respectively by another firm of chartered accountants who through their reports dated February 19, 2011, August 23, 2010 and September 29, 2011 expressed an unqualified conclusion and opinion thereon respectively.

M. Yousuf Adil Saleem & Co
Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Karachi: March 29, 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2011

2011	2010		Note	2011	2010
US \$ in '000				Rupees in '000	
		ASSETS			
744	786	Cash and balances with treasury banks	6	66,679	70,420
2,339	7,413	Balances with other banks	7	209,531	664,169
14,752	27,539	Lendings to financial institutions	8	1,321,745	2,467,467
118,670	101,891	Investments - net	9	10,632,874	9,129,453
64,348	66,351	Advances - net	10	5,765,561	5,945,041
762	836	Operating fixed assets	11	68,276	74,901
4,323	4,514	Deferred tax assets - net	12	387,350	404,429
4,318	4,879	Other assets	13	387,028	437,244
210,256	214,209			18,839,044	19,193,124
		LIABILITIES			
-	-	Bills payable		-	-
74,204	68,586	Borrowings	14	6,648,716	6,145,349
52,407	62,067	Deposits and other accounts	15	4,695,693	5,561,165
-	-	Sub-ordinated loans		-	-
222	178	Liabilities against assets subject to finance lease	16	19,858	15,978
-	-	Deferred tax liabilities		-	-
6,686	7,909	Other liabilities	17	599,001	708,485
133,519	138,740			11,963,268	12,430,977
76,737	75,469	NET ASSETS		6,875,776	6,762,147
		REPRESENTED BY			
68,638	68,638	Share capital	18	6,150,000	6,150,000
5,416	5,497	Reserves	19	485,312	492,568
3,309	1,688	Unappropriated profit		296,512	151,276
77,363	75,823			6,931,824	6,793,844
534	829	Non-controlling interest	20	47,850	74,309
77,897	76,652			6,979,674	6,868,153
(1,160)	(1,183)	Deficit on revaluation of securities - net of deferred tax	21	(103,898)	(106,006)
76,737	75,469			6,875,776	6,762,147
		Contingencies and commitments	22		

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2011

2011	2010		Note	2011	2010
US \$ in '000				Rupees in '000	
25,343	24,905	Mark-up / return / interest earned	23	2,270,702	2,231,471
16,892	16,317	Mark-up / return / interest expensed	24	1,513,542	1,462,002
8,451	8,588	Net mark-up / interest income		757,160	769,469
(1,489)	2,027	(Reversal) of / provision against non-performing advances	10.6	(133,405)	181,614
673	961	Provision for diminution in the value of investments	9.3	60,286	86,125
-	-	Bad debts written off directly		-	-
(816)	2,988			(73,119)	267,739
9,267	5,600	Net mark-up / interest income after provisions		830,279	501,730
NON MARK-UP / INTEREST INCOME					
464	629	Fee, commission and brokerage income		41,578	56,385
559	639	Dividend income		50,092	57,268
-	-	Income from dealing in foreign currencies		-	-
248	1,189	Gain on sale of securities	25	22,204	106,567
(189)	59	Unrealised (loss) / gain on revaluation of Investments classified as held-for-trading		(16,950)	5,261
604	769	Share of profit from associates - net of tax		54,151	68,916
30	35	Other income	26	2,725	3,113
1,716	3,320	Total non mark-up / interest income		153,800	297,510
10,983	8,920			984,079	799,240
NON MARK-UP / INTEREST EXPENSES					
3,746	3,648	Administrative expenses	27	335,648	326,855
-	-	Other provisions / write offs		-	-
281	189	Other charges	28	25,220	16,933
4,027	3,837	Total non mark-up / interest expenses		360,868	343,788
6,956	5,083			623,211	455,452
-	-	Extra ordinary / unusual items		-	-
6,956	5,083	PROFIT BEFORE TAXATION		623,211	455,452
Taxation					
2,400	2,274	-current	29	215,002	203,781
-	-	-prior years		-	-
566	(905)	-deferred		50,688	(81,128)
2,966	1,369			265,690	122,653
3,990	3,714	PROFIT AFTER TAXATION		357,521	332,799
PROFIT / (LOSS) ATTRIBUTABLE TO :					
4,285	3,961	Shareholders of the holding company		383,980	354,959
(295)	(247)	Non-controlling interest		(26,459)	(22,160)
3,990	3,714			357,521	332,799
US \$				Rupees	
0.0070	0.0064	Basic and diluted earnings per share	30	0.62	0.58

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

2011	2010		2011	2010
US \$ in '000			Rupees in '000	
3,990	3,714	Profit for the year	357,521	332,799
-	-	Other comprehensive income	-	-
<u>3,990</u>	<u>3,714</u>	Total comprehensive income for the year	<u>357,521</u>	<u>332,799</u>
		Total comprehensive income attributable to:		
4,285	3,961	Shareholders of the holding company	383,980	354,959
(295)	(247)	Non-controlling interest	(26,459)	(22,160)
<u>3,990</u>	<u>3,714</u>		<u>357,521</u>	<u>332,799</u>

Deficit / surplus on revaluation of assets has been reported in accordance with the requirements of Companies Ordinance, 1984 and the directives of the State Bank of Pakistan in a separate account below equity.

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2011

2011		2010		Note	2011		2010	
US \$ in '000					Rupees in '000			
CASH FLOWS FROM OPERATING ACTIVITIES								
6,956	5,083	Profit before taxation			623,211	455,452		
559	639	Less: Dividend income			50,092	57,268		
6,397	4,444				573,119	398,184		
Adjustments:								
234	239	Depreciation	11.1		21,009	21,418		
25	38	Amortization of intangible assets	11.2		2,272	3,413		
189	(59)	Unrealised loss / (gain) on revaluation of investments classified as 'held-for-trading'			16,950	(5,261)		
(28)	(35)	Gain on sale of operating fixed assets	26		(2,484)	(3,111)		
(604)	(769)	Share of profit from associates - net of tax (Reversal) of / provision against non-performing advances	10.6		(54,151)	(68,916)		
(1,489)	2,027	Provision for diminution in the value of investments	9.3		(133,405)	181,614		
673	961	Finance charges on leased assets	27		60,286	86,125		
21	28				1,837	2,479		
(979)	2,430				(87,686)	217,761		
5,418	6,874				485,433	615,945		
(Increase) / decrease in operating assets								
12,644	4,379	Lendings to financial institutions			1,132,865	392,326		
(42,082)	37,460	Investment classified as 'held-for-trading'			(3,770,591)	3,356,441		
3,492	(6,904)	Advances - net			312,885	(618,604)		
729	(286)	Other assets			65,201	(25,633)		
(25,217)	34,649				(2,259,640)	3,104,530		
Increase / (decrease) in operating liabilities								
-	-	Bills payable			-	-		
5,618	(30,689)	Borrowings			503,367	(2,749,747)		
(9,659)	11,150	Deposits and other accounts			(865,472)	999,076		
(1,264)	288	Other liabilities			(113,216)	25,814		
(5,305)	(19,251)				(475,321)	(1,724,857)		
(25,104)	22,272				(2,249,528)	1,995,618		
(21)	(27)	Finance charges paid on leased assets			(1,899)	(2,396)		
(2,357)	(2,150)	Income tax paid			(211,208)	(192,684)		
(27,482)	20,095				(2,462,635)	1,800,538		
Net cash (used in) / from operating activities								
CASH FLOWS FROM INVESTING ACTIVITIES								
23,188	(21,940)	Net proceeds from/(investments in) 'available-for-sale' securities			2,077,636	(1,965,810)		
622	54	Net proceeds from 'held-to-maturity' securities			55,726	4,833		
884	1,342	Investments in associates			79,222	120,270		
392	638	Dividend received			35,107	57,123		
(76)	(126)	Investments in operating fixed assets			(6,844)	(11,258)		
69	76	Sale proceeds of operating fixed assets disposed off	11.1.1		6,219	6,788		
25,079	(19,956)				2,247,066	(1,788,054)		
Net cash from / (used in) investing activities								
CASH FLOWS FROM FINANCING ACTIVITIES								
(108)	(111)	Payments of lease obligations			(9,667)	(9,985)		
(2,746)	-	Dividend paid			(246,000)	-		
(2,854)	(111)				(255,667)	(9,985)		
Net cash used in financing activities								
(5,257)	28				(471,236)	2,499		
(Decrease) / Increase in cash and cash equivalents								
8,342	8,314	Cash and cash equivalents at beginning of the year			747,446	744,947		
3,085	8,342	Cash and cash equivalents at end of the year	31		276,210	747,446		

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011

	Issued, subscribed and paid up capital	Attributable to the shareholders of the holding company			Un-appropriated Profit / (Accumulated Losses)	Sub total	Non controlling interest	Total
		Reserves						
	Statutory reserve	General reserve	Reserve for contingencies					
Rupees in '000								
Balance as at January 1, 2010	6,150,000	348,483	66,437	-	(126,035)	6,438,885	96,469	6,535,354
Comprehensive income :								
Profit / (loss) for the year ended December 31, 2010	-	-	-	-	354,959	354,959	(22,160)	332,799
Other comprehensive income - net of tax	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	354,959	354,959	(22,160)	332,799
Transfers :								
Transfer to statutory reserve	-	55,595	-	-	(55,595)	-	-	-
Transfer to contingencies reserve	-	-	-	22,053	(22,053)	-	-	-
Balance as at December 31, 2010	6,150,000	404,078	66,437	22,053	151,276	6,793,844	74,309	6,868,153
Comprehensive income								
Profit / (loss) for the year ended December 31, 2011	-	-	-	-	383,980	383,980	(26,459)	357,521
Other comprehensive income - net of tax	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	383,980	383,980	(26,459)	357,521
Transfers :								
Transfer from general reserve	-	-	(54,807)	-	54,807	-	-	-
Transfer from contingencies reserve	-	-	-	(22,053)	22,053	-	-	-
Transfer to statutory reserve	-	69,604	-	-	(69,604)	-	-	-
Transaction with owners recognised directly in equity								
Dividend for the year ended December 31, 2010 (Re. 0.4 per share)	-	-	-	-	(246,000)	(246,000)	-	(246,000)
Balance as at December 31, 2011	6,150,000	473,682	11,630	-	296,512	6,931,824	47,850	6,979,674

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

1 LEGAL STATUS AND NATURE OF BUSINESS

1.1 The Group comprises of Pak-Oman Investment Company Limited - POICL (the "holding company" or "parent") and a subsidiary, Pak Oman Asset Management Company Limited (POAMCL). The Group is principally engaged in 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, asset management and investment advisory services. Brief profile of the holding company and its subsidiary is as follows:

1.1.1 Holding Company

Pak-Oman Investment Company Limited (the "holding company" or "POICL" or "parent") was incorporated as a private limited company on July 23, 2001. Subsequently, on March 17, 2004 the holding company was converted into a public limited company. It is a joint venture between the Government of Pakistan and the Government of the Sultanate of Oman. The objectives of the holding company 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. Its registered office is situated at 1st Floor, Block A, Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan. The holding company operates a branch at Lahore and other representative offices at Islamabad, Gawadar and Muscat. The holding company is designated as a development financial institution (DFI) under the BPD Circular Letter No. 35 dated October 28, 2003 issued by the State Bank of Pakistan (SBP).

1.1.2 Subsidiary Company

POAMCL was incorporated in Pakistan under the Companies Ordinance, 1984 on July 28, 2006 as an unlisted public limited company having its registered office at 1st Floor, Tower A, Finance and Trade Center, Shahrah-e-Faisal, Karachi, Pakistan. POAMCL obtained certificate of commencement of business on October 31, 2006. The principal activities of the company include investment advisory and corporate finance.

1.2 The Group's associates are as follows:

Entity	Country of incorporation	Nature of business	Holding percentage %	
			2011	2010
Pak Oman Advantage Plus Fund	Pakistan	Established as an closed-end scheme under the Non-Banking Finance Companies Rules, 2003 and Notified Entities Regulations, 2008.	27.36	27.36
Pak Oman Advantage Islamic Income Fund	Pakistan	Established as an open-end scheme under the Non-Banking Finance Companies Rules, 2003 and Notified Entities Regulations, 2008.	33.63	42.69
Pak Oman Islamic Asset Allocation fund (formerly : Pak Oman Advantage Islamic Fund)	Pakistan	Established as an open-end scheme under the Non-Banking Finance Companies Rules, 2003 and Notified Entities Regulations, 2008.	98.63	99.14

Entity	Country of incorporation	Nature of business	Holding percentage %	
			2011	2010
Pak Oman Advantage Asset Allocation Fund (formerly: Pak Oman Advantage Stock Fund)	Pakistan	Established as an open-end scheme under the Non-Banking Finance Companies Rules, 2003 and Notified Entities Regulations, 2008.	83.34	86.81
Pak Oman Government Securities Fund	Pakistan	Established as an open-end scheme under the Non-Banking Finance Companies Rules, 2003 and Notified Entities Regulations, 2008.	16.70	-
Pak Oman Micro Finance Bank Limited	Pakistan	Incorporated under the Companies Ordinance, 1984 and is engaged in providing micro finance services to the poor and under served segment of the society.	33.40	33.40
Japan Power Generation Limited	Pakistan	Incorporated under the Companies Ordinance, 1984 and is engaged in generation of power and its supply to WAPDA.	19.59	19.59

2

BASIS OF PRESENTATION AND CONSOLIDATION

2.1 Basis of presentation

2.1.1 These consolidated financial statements have been prepared from the information available in the audited financial statements of the holding company for the year ended December 31, 2011 and the condensed interim financial statements of subsidiary, POAMCL as on and for the half year ended December 31, 2011 which have only been subjected to a review but are not audited. Certain disclosures relating to POAMCL as incorporated in these consolidated financial statements were not included in its reviewed financial statements as of December 31, 2011. The accounting policies used by POAMCL and associates in preparation of their respective financial statements are consistent with that of the holding company except for the accounting policy for investments. The financial statements used for the equity accounting of associates are disclosed in Note 9.6.9.2.

2.2.2 US Dollar equivalent

The US Dollar amounts shown on the consolidated statement of financial position, consolidated profit and loss account, consolidated statement of comprehensive income and consolidated cash flow statement are stated as additional information solely for the convenience of readers. For the purpose of conversion to US Dollars, the rate of Rs. 89.60 to 1 US Dollar has been used for 2011 and 2010 as it was the prevalent rate as on December 31, 2011.

3

STATEMENT OF COMPLIANCE

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

The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for DFIs through BSD Circular Letter No. 11 dated September 11, 2002 till further instructions. Further, according to the notification of the SECP dated April 28, 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for DFIs. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

3.2 Adoption of New Standards, Amendments and Interpretations to the published approved accounting standards:

3.2.1 During the year, the following standards, amendments to standards and interpretations including amendments to interpretations became effective; however, the application of these amendments and interpretations did not have material impact on the consolidated financial statements of the Group:

Standards / Amendments / Interpretations	Effective date (accounting period beginning on or after)
Amendments to IAS 1 - Presentation of Financial Statements	January 1, 2011
IAS 24 (as revised in 2009) - Related Party Disclosures	January 1, 2011
Amendments to IAS 27 (2008) - Consolidated and Separate Financial Statements	July 1, 2010
Amendments to IAS 32 - Financial Instruments – Presentation	February 1, 2010
Amendments to IAS 34 - Interim Financial Reporting	January 1, 2011
Amendments to IFRS 3 (2008) - Business Combinations	July 1, 2010
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010
Amendments to IFRIC 13 - Customer Loyalty Programmes	January 1, 2011
Amendments to IFRIC 14 - Prepayments of a Minimum Funding Requirement	January 1, 2011

3.3 Standards, interpretations and amendments to the published approved accounting standards not yet effective:

3.3.1 The following Standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Group's operations or are not expected to have significant impact on the Group's consolidated financial statements other than certain additional disclosures.

Standards / Amendments / Interpretations	Effective date (accounting period beginning on or after)
Amendments to IAS 1 - Presentation of Financial Statements	July 1, 2012
Amendments to IAS 12 - Income Taxes	January 1, 2012
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

3.4 Other than the aforesaid standards, interpretations and amendments, the IASB has also issued the following standards which have not been considered by the Group as the standards and their relevant amendments have not been adopted locally by the Securities and Exchange Commission of Pakistan and the SBP:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IAS 27 (Revised 2011) – Separate Financial Statements (due to non adoption of IFRS 10 and IFRS 11)
- IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures (due to non adoption of IFRS 10 and IFRS 11)

3.5 The potential impact of standards, amendments and interpretations not yet effective on the consolidated financial statements on the Group is as follows:

The amendments to IAS 19, 'Employee Benefits' are effective for annual period beginning on or after January 1, 2013. The amendments eliminate the corridor approach and therefore require an entity to recognize changes in defined benefit plans obligations and plan assets when they occur. All actuarial gains or losses in other comprehensive income arising during the year are recognized immediately through other comprehensive income. The amendments also require additional disclosures and retrospective application with certain exceptions. Management anticipates that the amendments will be adopted in the Group's consolidated financial statements for annual period beginning on or after January 1, 2013, and the application of amendments may have impact on amounts reported in respect of defined benefit plans. On overall basis, there will be no impact on the holding company's financial statements. Since the holding company already follows policy of immediate recognition of its Acturial Gains / Losses. The only difference would be that the Acturial Gains / Losses for the year will be recognized in the Consolidated Statement of other comprehensive income instead of Consolidated Profit and Loss Account.

4 BASIS OF MEASUREMENT

4.1 These consolidated 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.

The consolidated financial statements are prepared in Pakistani Rupees which is the Group's functional and presentation currency.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in consolidated profit and loss account as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-Controlling Interest in equity of the subsidiary company is measured at the portion of operation and of net assets of subsidiary company attributable to interest which is not owned by the holding company.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in consolidated profit or loss account.

5.1.1 **Basis of consolidation**

- Subsidiary is the enterprise in which the Group directly or indirectly controls, beneficially owns or holds more than 50 percent of its voting securities or otherwise has power to elect and appoint more than 50 percent of its directors.
- Subsidiary company is consolidated from the date on which more than 50 percent of voting rights are transferred to the Group or power to control the company is established and excluded from consolidation from the date of disposal or when the control is lost.
- The financial statements of the subsidiary is prepared for the same reporting year as the Group for the purpose of consolidation, using consistent accounting policies except where specified otherwise.
- The assets, liabilities, income and expenses of subsidiary have been consolidated on a line by line basis and the carrying value of investment in subsidiary held by the Group is eliminated against the shareholders' equity in the consolidated financial statements.
- Non-Controlling Interest in equity of the subsidiary company is measured at proportionate share of net assets of the acquiree.
- Material intra-group balances and transactions have been eliminated.

5.2 **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.

5.3 **Revenue recognition**

Interest income is recognized on a time proportion basis that takes into account effective yield on the asset. Premium or discount on investments classified as held-for-trading, available-for-sale and held-

to-maturity securities is amortised using the effective interest method and taken to profit and loss account.

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.

In case of advances including finance lease and debt security investments classified under the Prudential Regulations, interest / mark-up is recognized on receipt basis. Interest / mark-up on rescheduled / restructured advances and investments is recognized in accordance with the Prudential Regulations of SBP.

Dividend income on equity investments and mutual funds is recognized when right to receive is established.

Gains and losses on disposal of investments are recognised in the consolidated profit and loss account in the year in which they arise.

Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognized as income on receipt basis.

Fee, brokerage and commission income other than commission on letters of credit and guarantees and remuneration for trustee services are recognized upon performance of services.

Commission on letters of credit and guarantees is recognized on time proportion basis.

Advisory fee is recognized on accrual basis as and when services are rendered.

5.4 **Investments**

The Group has classified its investment portfolio, except for investments in subsidiary and associates, into 'held-for-trading', 'held-to-maturity' and 'available-for-sale' portfolios as follows:

Held-for-trading – These are investments which are acquired with the intention to trade by taking advantage of short-term market / interest rate movements and are to be sold within 90 days. These are carried at market value, with the related gain / (loss) on revaluation being taken to consolidated profit and loss account.

Held-to-maturity – These are investments which are acquired with the intention and ability to hold them up to maturity. These are carried at amortised cost.

Available-for-sale – These are investments that do not fall under the held-for-trading or held-to-maturity categories. These are carried at market value with related gain / (loss) on revaluation being taken to 'surplus / (deficit) on revaluation of assets' account shown below equity. On derecognition or impairment in available-for-sale investments, the cumulative gain or loss previously reported as 'surplus / (deficit) on revaluation of assets' below equity is included in the consolidated profit and loss account for the period.

Investments other than those categorised as held-for-trading are initially recognised at fair value which includes transactions costs associated with the investments. Investments classified as held-for-trading

are initially recognised at fair value, and transaction costs are expensed in the consolidated profit and loss account.

All regular way purchases / sales of investment are recognised on the trade date, i.e., the date the Group commits to purchase / sell the investments. Regular way purchases or sales of investment require delivery of securities within the time frame generally established by regulation or convention in the market place.

Held-for-trading and quoted available-for-sale securities are marked to market with reference to ready quotes on Reuters page (PKRV) or MUFAP or the Stock Exchanges.

Unquoted securities whose market value is not available are carried at cost less provision for diminution in value, if any. Provision for diminution in value of investments in respect of unquoted shares is calculated with reference to book value of the same.

Provision for diminution in value of investments for debt securities is calculated as per the SBP's Prudential Regulations.

Associates – Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for under the equity method of accounting.

Under the equity method, the Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated profit and loss account, its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The carrying values of investments are reviewed for impairment when indications exist that the carrying values may exceed the estimated recoverable amounts.

5.5 Derivatives

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured 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 consolidated profit and loss account.

5.6 Advances and net investment in finance lease

5.6.1 Advances

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

5.6.2 Provision against non-performing advances

Specific provisions are made in accordance with the requirements of the Prudential Regulations issued by SBP and charged to the consolidated profit and loss account. These regulations prescribe an age based criteria (as supplemented by subjective evaluation of advances) for classification of non-performing loans and advances and computing provision / allowance there against.

5.6.3 **Net investment in lease**

Leases are classified as finance lease when substantially all the risks and rewards incidental to ownership of an asset are transferred to the lessee. A receivable is recognized at an amount equal to the present value of the lease payments, including guaranteed residual value, if any. Finance lease receivables are included in advances.

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

5.7 **Operating fixed assets**

5.7.1 **Property and equipment – owned**

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to the consolidated profit and loss account applying the straight-line method at rates stated in note 11.1.

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

Depreciation on additions and deletions of property and equipment during a year is charged in proportion to the period of use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate item of property and equipment, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated profit and loss account during the period in which they are incurred.

Item of property and equipment is derecognised when disposed of or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of property and equipment are included in consolidated profit and loss account.

5.7.2 **Property and equipment - 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 at inception of lease and subsequently stated net of accumulated depreciation. Finance charges are allocated over the period of lease term 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.

5.7.3 **Capital work-in-progress**

Capital work-in-progress is stated at cost less impairment losses, if any. These are transferred to specific assets as and when assets are available for use.

5.7.4 Intangible assets

Expenditure incurred to acquire software licenses 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, 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.

The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

5.8 Repurchase and resale agreements

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position and are measured in accordance with accounting policies for investments. The counterparty liability for amounts received under these agreements is included in borrowings. The difference between sale and repurchase price is treated as mark-up / return / interest expense and accrued over the life of the repo agreement using effective yield method.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the securities. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up / return / interest income and accrued over the life of the reverse repo agreement using effective yield method.

5.9 Taxation

5.9.1 Current

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credits, rebates and exemption available if any or minimum taxation as per the Income Tax Ordinance, 2001 whichever is higher. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime. The charge for the current tax also includes adjustments wherever considered necessary relating to prior year, arising from assessments framed during the year.

5.9.2 Deferred

The Group 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.

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

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

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

Deferred tax relating to gain / loss recognised in surplus / deficit on revaluation of assets is charged / credited to such account.

5.10 **Borrowings**

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

5.11 **Staff retirement benefits**

5.11.1 **Defined benefit plan**

The holding company operates a funded-gratuity scheme for all its permanent employees. The scheme was established on November 1, 2002 and approved by the Commissioner of Income Tax with effect from January 31, 2003. Contribution to the fund is made every year based on actuarial valuation. The actuarial valuation is carried out using the Projected Unit Credit Method (PUCM). Under this method, the cost of providing gratuity is charged to the consolidated profit and loss account so as to spread the cost over the service lives of the employees in accordance with the actuarial valuation. Actuarial gains and losses are recognized in the period in which they occur. The actuarial valuation was conducted as at December 31, 2011.

5.11.2 **Defined contribution plan - the holding company**

The holding company also operates a provident fund scheme for all its permanent employees. Equal monthly contributions at the rate of 8.33 percent per annum of salary are made by the holding 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. Contributions from the holding company are charged to consolidated profit and loss account for the year.

5.11.3 **Defined contribution plan - the subsidiary company**

The subsidiary company operates a provident fund scheme for all its permanent employees. Equal monthly contributions at the rate of 8.33 percent per annum of salary are made by the subsidiary company and its employees. The scheme was established on July 01, 2007 and approved by the Commissioner of Income Tax with effect from May 01, 2008. Contributions from the subsidiary company are charged to consolidated profit and loss account for the year.

5.11.4 **Compensated absences**

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

5.12 **Foreign currencies translation**

Foreign currency transactions are translated into Pakistani Rupees (functional currency) using the exchange rate prevailing at the dates of transactions. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupees using the exchange rate prevailing at the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translations of monetary assets and liabilities denominated in foreign currencies at statement of financial position date are included in consolidated profit and loss account.

5.13 Provisions

Provisions are recognised when the Group has a present, legal or constructive obligation as a result of past event, 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.

However, provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate.

5.14 Offsetting

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

5.15 Dividend and reserves

Dividend declared and appropriations, except appropriations which are required by the law are recognised as liability and recorded as changes in reserves in the period in which these are approved by the directors/shareholders as appropriate.

5.16 Impairment

The Group assesses at each balance sheet date whether there is any indication that non-financial assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in consolidated profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the amount which would have been determined had there been no impairment. Reversal of impairment loss is recognized as income.

5.17 Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS, if any, is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in issue at December 31, 2011.

5.18 Financial instruments

Financial assets and liabilities are recognized at the time when the Group becomes party to the contractual provision of the instrument. Financial assets are de-recognized when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognized when obligation specific in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognized in the consolidated profit and loss account of the current period. The particular recognition and subsequent measurement method for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

5.19 Segment information

A segment is a distinguishable component of the Group that is engaged in either providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Business segments

- Corporate finance

Corporate finance includes services provided in connection with mergers and acquisitions, underwriting, privatization, securitization, research, debts (government, high yield), equity, syndication, Initial Public Offers (IPO) and secondary private placements.

- Trading & sales

Involves the businesses of equity trading and fixed income securities.

- Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange and deposits.

5.20 Accounting estimates and judgments

The preparation of consolidated 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 Group's accounting policies. The estimates / judgments and associated assumptions used in the preparation of the consolidated financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas of estimate and judgments in relation to these consolidated financial statements are as follows:

a) Provision against non-performing advances

The Group reviews its loan portfolio to assess amount of non-performing advances and determine provision required there against on quarterly basis. While assessing this requirement various factors including the past dues, delinquency in the account, financial position of the borrower, value of collateral held and requirements of Prudential Regulations are considered.

During the year, the management has changed the method of computing provision against non-performing loans as allowed under Prudential Regulations and explained in note 10.2.

b) Impairment of Available-for-sale investments

The Group considers that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

c) Classification of investments

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

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

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

d) Income taxes

In making the estimates for current and deferred income taxes, the management looks at the income tax law and the decisions of appellate authorities on certain issues in the past. There are certain matters where the Group's view differs with the view taken by the income tax department and such amounts are shown as contingent liability.

e) Fixed assets, depreciation and amortization

In making estimates of the depreciation / amortization method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Group. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern.

f) Employees' benefit plans

The liabilities for employees' benefit plans are determined using actuarial valuations. The actuarial valuations involve assumptions about discount rates, expected rates of return on assets and future salary increases as disclosed in note 33.1. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

	Note	2011	2010
Rupees in '000			
6 CASH AND BALANCES WITH TREASURY BANKS			
Cash in hand in local currency		211	141
Cheques in hand		2,500	-
Balances with State Bank of Pakistan in local currency:			
current accounts	6.1	63,968	3,279
cash reserve	6.1	-	67,000
		<u>66,679</u>	<u>70,420</u>

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

Note	2011	2010
Rupees in '000		

7 BALANCES WITH OTHER BANKS

In Pakistan			
current account		2,961	2,330
deposit accounts	7.1	206,053	661,492
		209,014	663,822
Outside Pakistan			
current accounts		517	347
		209,531	664,169

- 7.1 These include term deposit receipts (TDRs) due for maturity within 3 months aggregating Rs. 200 million (2010: Rs. 250 million). The rate of return on these TDRs is 13.05 (2010: 13.85) percent per annum.

8 LENDINGS TO FINANCIAL INSTITUTIONS

Reverse repurchase agreement lendings	8.1	1,202,094	2,189,741
Certificate of investments (COIs)	8.4	119,651	264,869
Placements		-	12,857
		1,321,745	2,467,467

- 8.1 These are short-term lendings to different financial institutions secured against government securities as disclosed in note 8.3 which are purchased under resale obligations. These carry mark-up at rates ranging from 11.75 to 12.5 (2010: 13.51 to 14) percent per annum and will mature within 2 months (2010: 3 months).

8.2 Particulars of lendings

In local currency		1,321,745	2,467,467
In foreign currency		-	-
		1,321,745	2,467,467

8.3 Securities held as collateral against lendings to financial institutions

	2011			2010		
	Held by the holding company	Further given as collateral	Total	Held by the holding company	Further given as collateral	Total
Rupees in '000						
Market Treasury Bills	19,561	180,054	199,615	-	-	-
Pakistan Investment Bonds	49,745	952,734	1,002,479	163,225	2,026,516	2,189,741
	69,306	1,132,788	1,202,094	163,225	2,026,516	2,189,741

- 8.3.1 Market value of the securities amounted to Rs. 1,202.033 million (2010: Rs. 2,135.519 million).

- 8.4 COIs are due for maturity beginning from 3 months to 33 months (2010: 3 months to 33 months). The rate of return on COIs range from 12 to 13 percent per annum (2010: 12 to 14 percent per annum).

	Note	2011			2010		
		Held by the Group	Given as collateral	Total	Held by the Group	Given as collateral	Total
Rupees in '000							
9.1 Investments by types	9.6						
Held-for-trading securities							
Pakistan Investment Bonds	9.4 & 9.6.1	17,293	663,597	680,890	113,479	25,556	139,035
Market Treasury Bills (T-Bills)	9.4 & 9.6.1	586,634	2,625,176	3,211,810	19,097	-	19,097
Listed ordinary shares	9.6.2.1	101,633	-	101,633	27,913	-	27,913
Mutual funds units	9.6.7.1	-	-	-	25,000	-	25,000
Sukuk certificates	9.6.6.1	-	-	-	9,124	-	9,124
Term finance certificates (TFCs)	9.6.4.1 & 9.6.5.1	45,031	-	45,031	51,258	-	51,258
		750,591	3,288,773	4,039,364	245,871	25,556	271,427
Available-for-sale securities							
Pakistan Investment Bonds	9.4 & 9.6.1	97,041	212,890	309,931	48,658	472,516	521,174
Market Treasury Bills (T-Bills)	9.4 & 9.6.1	9,140	573,859	582,999	668,776	1,249,421	1,918,197
Listed ordinary shares	9.6.2.2	251,314	11,066	262,380	273,718	12,206	285,924
Unlisted ordinary shares	9.6.3	131,333	226,000	357,333	208,333	226,000	434,333
Unlisted preference shares	9.6.8	269,744	-	269,744	-	-	-
Mutual funds units	9.6.7.2	14,337	-	14,337	184,211	-	184,211
Sukuk certificates	9.6.6.2	970,838	-	970,838	1,311,891	-	1,311,891
Term finance certificates (TFCs)	9.6.4.2 & 9.6.5.2	3,088,510	178,469	3,266,979	3,271,840	189,887	3,461,727
		4,832,257	1,202,284	6,034,541	5,967,427	2,150,030	8,117,457
Held-to-maturity securities							
Pakistan Investment Bonds	9.5	207,493	-	207,493	263,219	-	263,219
Associates							
Japan Power Generation Limited		-	-	-	-	-	-
Pak Oman Advantage Fund		296,899	-	296,899	286,702	-	286,702
Pak Oman Advantage Islamic Income Fund		105,332	-	105,332	103,327	-	103,327
Pak Oman Islamic Asset Allocation fund (formerly: Pak Oman Advantage Islamic Fund)		103,920	-	103,920	129,786	-	129,786
Pak Oman Advantage Asset Allocation Fund (formerly: Pak Oman Advantage Stock Fund)		89,180	-	89,180	167,434	-	167,434
Pak Oman Government Securities Fund		57,181	-	57,181	-	-	-
Pak Oman Micro Finance Bank Limited		233,724	-	233,724	228,611	-	228,611
	9.6.9	886,236	-	886,236	915,860	-	915,860
Investments at cost		6,676,577	4,491,057	11,167,634	7,392,377	2,175,586	9,567,963
Less: Provision for diminution in the value of investments	9.3	373,952	-	373,952	318,946	-	318,946
Investments - net of provisions		6,302,625	4,491,057	10,793,682	7,073,431	2,175,586	9,249,017
(Loss) / gain on revaluation of held-for-trading securities	9.7	(5,267)	(10,855)	(16,122)	(1,656)	(170)	(1,826)
(Deficit) / surplus on revaluation of available-for-sale securities	21	(150,239)	5,553	(144,686)	(86,231)	(31,507)	(117,738)
Total investments at carrying value		6,147,119	4,485,755	10,632,874	6,985,544	2,143,909	9,129,453

	Note	2011	2010
Rupees in '000			
9.2 Investments by segments	9.6		
Federal Government Securities			
Pakistan Investment Bonds	9.4 & 9.6.1	1,198,314	923,428
Market Treasury Bills	9.4 & 9.6.1	3,794,809	1,937,294
		<u>4,993,123</u>	<u>2,860,722</u>
Fully paid up ordinary shares			
Listed companies	9.6.2	364,013	313,837
Unlisted companies	9.6.3	357,333	434,333
		<u>721,346</u>	<u>748,170</u>
Term finance certificates (TFCs)			
Listed	9.6.4	2,371,544	2,682,030
Unlisted	9.6.5	940,466	830,955
		<u>3,312,010</u>	<u>3,512,985</u>
Sukuk certificates-Unlisted			
	9.6.6	970,838	1,321,015
Other investments			
Investments in mutual funds	9.6.7	14,337	209,211
Preference shares-unlisted	9.6.8	269,744	-
		<u>284,081</u>	<u>209,211</u>
Investments in associates			
	9.6.9	886,236	915,860
Total investments at cost			
		<u>11,167,634</u>	<u>9,567,963</u>
Less: Provision for diminution in the value of investments	9.3	373,952	318,946
Investments (net of provisions)			
		<u>10,793,682</u>	<u>9,249,017</u>
(Loss) / gain on revaluation of held-for-trading securities	9.7	(16,122)	(1,826)
Deficit on revaluation of available-for-sale securities	21	(144,686)	(117,738)
Total investments at carrying value			
		<u><u>10,632,874</u></u>	<u><u>9,129,453</u></u>
9.3 Particulars of provision for diminution in the value of investments			
Opening balance		318,946	600,103
Charge for the year		144,579	88,162
Reversal for the year		(84,293)	(2,037)
		<u>60,286</u>	<u>86,125</u>
Transfer to capital gain due to disposal of relevant investments		(5,280)	(367,282)
Closing balance	9.3.1	<u><u>373,952</u></u>	<u><u>318,946</u></u>
9.3.1 Particulars of provision in respect of types and segments			
Available-for-sale securities			
Shares			
-Listed		54,638	-
-Unlisted		47,555	120,726
Term Finance Certificate			
-Listed		139,469	53,358
-Unlisted		29,694	31,935
Sukuk-unlisted		95,026	100,077
Investment in Mutual Funds		7,570	12,850
		<u><u>373,952</u></u>	<u><u>318,946</u></u>

9.4 The rate of return on PIBs maturing between June 2013 to August 2018 (2010: April 2011 to August 2018), ranges from 11.25 to 12 (2010: 8 to 14) percent per annum. The rates of return on market treasury bills maturing between March 2012 to November 2012 (2010: March 2011 to July 2011), ranges from 11.80 to 13.80 (2010: 12.28 to 13.48) percent per annum.

9.5 The rate of return on PIBs maturing on June 2013 (2010: April 2011 to June 2013) are 9 (2010: 9 to 14) percent per annum.

9.6 **Detailed information relating to investments including quality of available-for-sale securities is given below:**

9.6.1 **Government Securities**

	2011		2010	
	Market value	Rating	Market value	Rating
	Rupees in '000	Securities	Rupees in '000	Securities
9.6.1.1 Held-for-trading				
Pakistan Investment Bonds				
10-Years	1,399	Unrated	3,361	Unrated
7-Years	-	-	27,532	Unrated
5-Years	655,546	Unrated	14,105	Unrated
3-Years	15,034	Unrated	94,062	Unrated
	<u>671,979</u>		<u>139,060</u>	
Market Treasury Bills				
12 months	1,252,793	Unrated	-	-
06-months	1,957,209	Unrated	-	-
03-months	-	-	19,091	Unrated
	<u>3,210,002</u>		<u>19,091</u>	
9.6.1.2 Available-for-sale				
Pakistan Investment Bonds				
10-Years	108,975	Unrated	408,888	Unrated
7-Years	86,493	Unrated	81,679	Unrated
3-Years	113,665	Unrated	-	-
	<u>309,133</u>		<u>490,567</u>	
Market Treasury Bills				
12 months	584,658	Unrated	1,727,712	Unrated
06-months	-	-	187,572	Unrated
	<u>584,658</u>		<u>1,915,284</u>	
	<u>4,775,772</u>		<u>2,564,002</u>	

9.6.1.3 **Held-to-maturity**

10-Years

10-Years

	2011		2010	
	Amortized Cost	Rating	Amortized Cost	Rating
	Rupees in '000	Securities	Rupees in '000	Securities
10-Years	207,493	Unrated	263,219	Unrated

9.6.2 Listed shares

9.6.2.1	Held-for-trading	Rating	No. of shares held		Cost		Market value	
			2011	2010	2011	2010	2011	2010
Rupees in '000								
Commercial banks								
	Allied Bank Limited	AA/A1+	-	40,548	-	2,837	-	2,844
	Standard Chartered (Bank) Limited	AAA/A1+	1,031,896	-	7,739	-	8,245	-
	National Bank of Pakistan Limited	AAA/A-1+	-	16,000	-	1,236	-	1,229
	Silk Bank Limited	A-/A-2	-	801,268	-	16,174	-	2,099
Electricity								
	HUB Power Co. Limited	AA+/A1+	76,900	-	3,292	-	2,630	-
Oil and gas								
	Pakistan Oilfield Limited	Unrated	186,000	-	68,072	-	64,440	-
	Pakistan Petroleum Limited	Unrated	124,202	-	22,530	-	20,905	-
Personal Goods								
	Nishat Mills Limited	AA-/A1+	-	6,459	-	412	-	415
Chemical								
	LOTTE Pakistan PTA Limited	Unrated	-	1,000,000	-	5,775	-	13,700
Glass and Ceramics								
	Tariq Glass Industries Limited	Unrated	-	53,000	-	1,479	-	1,088
					101,633	27,913	96,220	21,375
9.6.2.2	Available-for-sale							
Cement								
	Dewan Cement Limited	D	15,162,780	15,162,780	23,502	23,502	18,953	33,965
Fertilizer								
	Fatima Fertilizer Company Limited	Unrated	-	4,245,916	-	55,869	-	47,894
Non Life Insurance								
	Adamjee Insurance Company Limited	Unrated	-	342,706	-	29,352	-	29,987
Chemical								
	LOTTE Pakistan PTA Limited	Unrated	4,212,878	3,100,000	65,642	42,534	39,053	42,470
Commercial Banks								
	National Bank of Pakistan	AAA/A-1+	1,154,103	620,696	70,107	43,762	47,376	47,682
	Silk Bank Limited	A-/A-2	-	4,842,083	-	13,167	-	12,686
	Askari Bank Limited	AA/A1+	641,783	-	6,864	-	6,437	-
	Allied Bank Limited	AA/A1+	489,243	834,618	26,696	50,230	26,356	58,548
Personal Goods								
	Nishat Mills Limited	AA-/A1+	284,288	-	16,818	-	11,499	-
	Nishat (Chunian) Limited	Unrated	122,130	-	2,406	-	2,182	-
Refinery / Oil & Gas								
	National Refinery Limited	Unrated	-	101,260	-	27,508	-	27,724
	Pakistan State Oil	AA+/A1+	174,705	-	50,345	-	39,694	-
					262,380	285,924	191,550	300,956
					364,013	313,837	287,770	322,331

9.6.3 Particulars of investments held in shares of unlisted companies

9.6.3.1 Available-for-sale

Shareholding upto 10%	No. of shares held		Cost		Share holding %	Break-up value per share (Rupees)	Latest available financial statement	Name of the Chief Executive
	2011	2010	2011	2010				
Rupees in '000								
Alhamra Avenue (Private) Limited	5,000,000	5,000,000	50,000	50,000	3.12	9.27	30-Jun-2011**	Mr. Habib Ahmed
Systems Limited	934,053	622,702	10,000	10,000	2.40	20.92	31-Dec-2010**	Mr. Ashraf Kapadia
Vision Network Television Limited	-	4,400,000	-	77,000	4.80	-	30-Jun-2009**	Mr. Zafar Siddiqui
Pakistan Textile City Limited	5,000,000	5,000,000	50,000	50,000	4.00	7.60	30-Jun-2011**	Mr. Zaheer A. Hussain
Techlogix International Limited	1,872,197	1,872,197	21,333	21,333	1.84	3.27	31-Dec-2010*	Mr. Kewan Qadre Khawaja
Orient Power Co. (Private) Limited	22,600,000	22,600,000	226,000	226,000	5.43	11.81	30-Jun-2011**	Mr. Nadeem Baber
			357,333	434,333				

*Audited consolidated financial statements
**Audited financial statement

9.6.4 Listed Term-finance certificates

	Rate of interest	Profit payment	Maturity	Long term rating	No. of certificates held		Market value	
					2011	2010	2011	2010
Rupees in '000								
9.6.4.1 Held-for-trading								
NIB Bank Limited	6 month Kibor + 1.15%	Half yearly	5-Mar-15	A+	-	10,000	-	48,622
9.6.4.2 Available-for-sale								
Investment bank/ companies/securities								
Jahangir Siddiqui and Company Limited IV	6 month Kibor + 2.5%	Half yearly	22-May-12	AA	19,397	19,397	48,707	97,274
Escort Investment Bank Limited	5%	Half yearly	15-Mar-12	BB	4,031	4,031	4,455	9,989
Commercial banks								
Allied Bank Limited I	6 month Kibor + 1.9%	Half yearly	6-Dec-14	AA-	25,078	25,078	125,420	122,973
Allied Bank Limited II	6 month Kibor + 0.85%	Half yearly	28-Aug-19	AA-	13,962	13,962	66,150	67,129
Askari Bank Limited I	6 month Kibor + 1.5%	Half yearly	4-Feb-13	AA-	463	-	2,307	-
Askari Bank Limited II	6 month Kibor + 1.5%	Half yearly	31-Oct-13	AA-	3,000	1,000	14,899	4,888
Askari Bank Limited III	6 month Kibor + 2.5%	Half yearly	18-Nov-19	AA-	50,949	48,136	260,594	244,192
Bank Al-Falah Limited III	6 month Kibor + 1.5%	Half yearly	25-Nov-13	AA-	1,000	1,000	4,971	4,901
Standard Chartered Bank Limited II	10.75%	Half yearly	21-Jan-11	-	-	17,392	-	21,709
Standard Chartered Bank Limited III	6 month Kibor +2%	Half yearly	1-Feb-13	AAA	23,240	23,240	83,177	111,251
Faysal Bank Limited	6 month Kibor + 1.4%	Half yearly	12-Nov-14	AA-	17,681	17,681	87,671	85,630
NIB Bank Limited	6 month Kibor + 1.15%	Half yearly	5-Mar-15	A+	65,367	56,167	319,873	273,093
Bank Al Habib Limited I	6 month Kibor + 1.5%	Half yearly	15-Jul-12	AA	12,700	10,900	38,330	51,558
United Bank Limited-IV	6 month Kibor + 0.85%	Half yearly	14-Feb-18	AA	10,300	34,600	51,274	164,429
Soneri Bank Limited	6 month Kibor + 1.6%	Half yearly	5-May-13	A+	10,000	-	37,171	-
Summit Bank Limited	6 month Kibor + 3.25%	Half yearly	27-Oct-18	A(SO)	10,000	-	48,066	-
Technology and communication								
Telecard Limited	6 month Kibor + 3.75%	Half yearly	27-Nov-13	D	56,716	56,716	83,300	100,776
Pakistan Mobile Communication Limited	6 month Kibor + 2.85%	Half yearly	31-May-13	A+	26,000	26,000	65,072	108,141
WorldCall Telecom Limited	6 month Kibor + 1.6%	Half yearly	7-Oct-13	A	108,623	108,623	269,836	452,053
Chemical								
Engro Fertilizers Limited II	6 month Kibor + 1.55%	Half yearly	30-Nov-15	AA	30,177	36,177	147,645	177,091
Pak Arab Fertilizers Limited	6 month Kibor + 1.5%	Half yearly	28-Feb-13	AA	10,000	10,000	37,166	45,590
Personal goods								
Azgard Nine Limited (Note 9.6.4.4)	6 month Kibor + 2.4%	Half yearly	20-Sep-17	D	15,000	15,000	52,803	54,357
Leasing								
Saudi Pak Leasing Company Limited	6%	Monthly	13-Mar-17	D	28,469	28,469	-	75,867
Orix Leasing Pakistan Ltd.II	3 month Kibor + 2.15%	Quarterly	30-Jun-14	AA+	500	-	51,772	-
Miscellaneous								
Pace (Pakistan) Limited	6 month Kibor + 2%	Half yearly	15-Feb-17	D	60,230	60,230	202,284	292,079
							2,102,943	2,564,970
							2,102,943	2,613,592

9.6.4.3 The face value of each certificate held in listed TFCs is Rs. 5,000 (2010: Rs. 5,000) per certificate as at December 31, 2011 except for Orix Leasing Pakistan Limited having face value per TFC of Rs. 100,000 (2010: NIL)

9.6.4.4 In respect of term finance certificates of Azgard Nine Limited and Agritech Limited, the State Bank of Pakistan vide letter number BSD/BRP-1/000776/2012 dated January 18, 2012 and BSD/BRP-1/001485/2012 dated February 02, 2012 has granted the relaxation for provisioning requirement under Prudential Regulations till February 28, 2012. Consequently, no provision has been recognized in these financial statements in respect of these term finance certificates.

	Rate of interest	Profit payment	Maturity	Long term rating	No. of certificates held		Market value	
					2011	2010	2011	2010
							Rupees in '000	
9.6.5 Unlisted Term Finance Certificate								
9.6.5.1 Held-for-trading								
Commercial banks								
Bank Al Habib Limited - PPTFC	15.00%	Half yearly	30-Jun-21	AA	8,500	-	45,041	-
Chemical								
Engro Fertilizers Limited - PPTFC	6 month Kibor + 1.25%	Half yearly	18-Mar-18	AA	-	760	-	3,426
							45,041	3,426
9.6.5.2 Available-for-sale								
Commercial banks								
Faysal Bank Limited - PPTFC	6 month Kibor + 2.25%	Half yearly	27-Dec-17	AA-	30,000	30,000	155,067	150,000
Bank Al Habib Limited - PPTFC	15.50%	Quarterly	15-Jun-17	AA	10,000	10,000	53,512	49,940
Bank Al-Falah Limited - IV	6 month Kibor + 2.5%	Half yearly	2-Dec-17	AA-	33,000	30,000	165,528	150,086
Development Financial Institutions								
Pak-Libya Holding Co. (Pvt) Ltd - PPTFC	6 month Kibor + 1.6%	Half yearly	7-Feb-16	AA	8,000	-	40,774	-
Chemical								
Engro Fertilizers Limited - PPTFC	6 month Kibor + 1.70%	Half yearly	18-Mar-18	AA	44,500	43,740	220,006	204,837
Agri Tech Limited (Note 9.6.4.4)	6 month Kibor + 1.75%	Half yearly	29-Nov-17	D	20,000	20,000	99,907	99,920
Personal goods								
Kunjah Textile Mills Limited	6 month Kibor + 3%	Half yearly	23-Apr-14	Unrated	3,000	3,000	-	15,000
Nishat (Chunain) Limited - PPTFC	3 month Kibor + 2.25%	Quarterly	30-Sep-15	A+	10,000	10,000	46,875	50,000
Azgard Nine Limited - III (Note 9.6.4.4)	6 month Kibor + 2.25%	Half yearly	4-Dec-17	D	2,000	2,000	9,992	9,992
Azgard Nine Limited - IV (Note 9.6.4.4)	3 month Kibor + 1%	Quarterly	18-May-13	D	5,000	5,000	25,000	25,000
Leasing								
Security Leasing Corporation Limited	NIL	NIL	29-Mar-14	Unrated	12,000	12,000	9,231	18,281
Cement								
Gharibwal Cement Limited	3 month Kibor	Half yearly	30-Sep-16	D(SO)	2,406	2,406	-	12,013
Miscellaneous								
Avari Hotels Limited	6 month Kibor + 3.25%	Half yearly	30-Oct-14	A-(SO)	10,000	10,000	40,519	42,457
							866,411	827,526
							911,452	830,952

	Rate of interest	Profit payment	Maturity	Long term rating	No. of certificates held		Market value	
					2011	2010	2011	2010
Rupees in '000								
9.6.6 Investment in Unlisted Sukuk								
9.6.6.1 Held-for-trading								
Cement								
Kohat cement	3 month Kibor + 1.5%	Quarterly	20-Sep-16	Unrated	-	4,000	-	13,012
9.6.6.2 Available-for-sale								
Personal Goods								
Amtex Limited	3 month Kibor + 2%	Quarterly	12-Oct-12	Unrated	22,000	22,000	81,091	80,666
Engineering Services								
Karachi Shipyard & Engineering Works Limited-II	6 month Kibor + 0.4%	Half yearly	4-Feb-16	Unrated	-	40	-	200
Leasing								
Security Leasing Corporation Limited	-	Monthly	19-Mar-14	Unrated	10,000	10,000	12,885	25,391
Security Leasing Corporation Limited II	-	Monthly	19-Mar-14	Unrated	10,000	10,000	15,461	30,469
Orix Leasing Pakistan Limited	6 month Kibor + 1.25%	Half yearly	29-Jun-12	AA+	15,000	15,000	12,525	37,500
Energy								
Sitara Energy Limited	6 month Kibor + 1.95%	Half yearly	31-Mar-12	Unrated	40,000	40,000	38,989	78,748
Liberty Power Tech (Private) Limited	3 month Kibor + 3%	Quarterly	18-Mar-21	AA-	60,000	60,000	290,280	300,000
Oil & Gas								
Sui Southern Gas Company Limited	3 month Kibor + 0.8%	Quarterly	29-Jun-12	AA	6	6	100,311	300,836
Cement								
Kohat Cement	3 month Kibor + 1.5%	Quarterly	20-Sep-16	Unrated	4,000	-	9,433	-
Miscellaneous								
Al-Razi HealthCare (Private) Limited	6 month Kibor + 2.5%	Monthly	4-Nov-17	Unrated	30,000	30,000	150,000	150,000
Century Papers & Board Mills Limited	6 month Kibor + 1.35%	Half yearly	25-Sep-14	Unrated	10,000	10,000	29,667	38,448
House Building Finance Corporation Limited	6 month Kibor + 1%	Half yearly	8-May-14	Unrated	55,035	55,035	133,228	184,633
New Allied Electronic Industries (Private) Limited	3 month Kibor + 2.6%	Quarterly	25-Jul-12	Unrated	272,000	272,000	-	85,000
							873,870	1,311,891
							873,870	1,324,903

9.6.6.3 The face value of each certificate held in unlisted Sukuks is Rs. 5,000 (2010: Rs. 5,000) per certificate as at December 31, 2011 except for Sui Southern Gas Company Limited and New Allied Electronic Industries (Private) Limited having face value per Sukuk of Rs. 100,000,000 (2010: Rs. 100,000,000) and Rs. 312.5 (2010: Rs. 312.5) respectively.

	Rating	No. of Units / shares held		Cost		Market value	
		2011	2010	2011	2010	2011	2010
Rupees in '000							
9.6.7 Other Investments							
Investment in Mutual Funds							
9.6.7.1 Held-for-trading							
PICIC Cash Fund	AA+(f)	-	248,802	-	25,000	-	25,015
9.6.7.2 Available-for-sale							
Open-end mutual fund							
IGI Aggressive Income Fund	A-(f)	-	3,014,544	-	159,874	-	131,292
Closed-end mutual fund							
NAMCO Balance Fund	MFR 3	1,548,360	2,433,667	14,337	24,337	7,819	10,050
				14,337	184,211	7,819	141,342
				14,337	209,211	7,819	166,357

	Rate of interest	Rating	No. of shares held		Cost	
			2011	2010	2011	2010
Rupees in '000						
9.6.8 Preference shares unlisted						
9.6.8.1 Available-for-sale						
Orient Power Company Limited (Note 22.2)	6 month Kibor+2.5%	Cumulative Unrated	26,974,445	-	269,744	-

9.6.9 Investment in associates

9.6.9.1 The Company holds investment in ordinary shares / units of Rs. 10 each in the following entities:

	2011	2010	2011	2010	Holding	Break-up value per share / unit (Rupees)	Latest available financial statements	Name of the chief executive
	No. of shares / unit		Rupees in '000					
9.6.9.2 Quoted								
Japan Power Generation Limited (JPGL) (Note 9.6.10.1 & 22.1)	30,560,189	30,560,189	-	-	19.59%	(20.39)	31-Dec-11**	Mr. Khan Ahmed Saleem
Pak Oman Advantage Fund	27,359,000	27,359,000	296,899	286,702	27.36%	10.85	31-Dec-11**	Ms. Hina Ghazanfar
Pak Oman Islamic Asset Allocation Fund	2,000,000	2,180,148	103,920	129,786	98.63%	51.96	31-Dec-11**	Ms. Hina Ghazanfar
Pak Oman Advantage Asset Allocation Fund	2,000,000	2,915,330	89,180	167,434	83.34%	44.59	31-Dec-11**	Ms. Hina Ghazanfar
Pak Oman Advantage Islamic Income Fund	2,004,077	2,003,976	105,332	103,327	33.63%	52.56	31-Dec-11**	Ms. Hina Ghazanfar
Pak Oman Government Securirties Fund	5,587,197	-	57,181	-	16.70%	10.23	31-Dec-11**	Ms. Hina Ghazanfar
Unquoted								
Pak Oman Micro Finance Bank Limited	25,110,788	25,110,788	233,724	228,611	33.40%	9.38	31-Dec-11*	Mr. Munawar Suleman
			886,236	915,860				

* Audited financial statements

**Reviewed financial statements.

9.6.10 Associates - Key Information

Particulars	Pak Oman Advantage Fund	Pak Oman Advantage Islamic Income Fund	Pak Oman Islamic Asset Allocation Fund	Pak Oman Advantage Asset Allocation Fund	Pak Oman Government Securirties Fund	Japan Power Generation Limited	Pak Oman Micro Finance Bank Limited
Rupees in '000							
Assets	1,095,281	318,417	114,975	119,532	345,506	8,675,816	747,665
Liabilities	10,086	5,186	9,624	12,520	3,152	10,691,335	48,149
Profit / (loss) before taxation	127,143	41,900	5,585	(12,476)	15,891	(1,419,507)	7,112
Profit / (loss) after taxation	127,143	41,900	5,585	(12,476)	15,891	(1,421,373)	4,952

- 9.6.10.1 The Company exercises significant influence on the financial and operational policies of JPGL due to representation of four directors out of thirteen directors. Accordingly, investment in JPGL is accounted for as investment in associate in these financial statements.
- 9.6.10.2 The above associates are incorporated in Pakistan.
- 9.6.11 Associates form part of strategic investment of the Company. These shares are in the custody of CDC 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.

	Note	2011	2010
Rupees in '000			
9.7 Unrealised gain / (loss) on revaluation of investments classified as held-for-trading			
Federal Government Securities			
- Market Treasury Bills		(8,911)	(6)
- Pakistan Investment Bonds		(1,808)	25
		(10,719)	19
Shares-listed		(5,413)	(6,538)
Term finance certificates (TFCs)			
-Listed		-	790
-Unlisted		10	-
		10	790
Sukuk		-	3,888
Mutual fund units		-	15
		(16,122)	(1,826)

10 ADVANCES

In Pakistan			
Loans, cash credit, running finance, etc in Pakistan		5,660,050	5,770,577
Net investment in finance leases in Pakistan	10.3.1	969,287	1,185,762
Advance against leases		-	3,360
Staff loans	10.4	110,448	92,971
Advances - Gross	10.1	6,739,785	7,052,670
Less: Provision for non-performing loans and advances	10.6	974,224	1,107,629
Advances - net of provision		5,765,561	5,945,041
10.1 Particulars of advances (Gross)			
10.1.1 In local currency	10.1.3	6,739,785	7,052,670
10.1.2 In foreign currency		-	-
10.1.3 Short term (for upto one year)		2,698,736	2,983,947
Long term (for over one year)		4,041,049	4,068,723
		6,739,785	7,052,670

10.2 In accordance with BSD Circular No. 2 dated January 27, 2009 and issued by the SBP, the holding company has further availed the benefit of FSV against the non-performing advances and term finance certificates. Had this benefit of FSV not been taken by the holding company, the specific provision against non-performing advances and term finance certificates would have been higher by Rs. 63.703 million (net of tax Rs. 41.407 million) and profit before taxation for the year ended December 31, 2011 would have been reduced by the same amount. As of December 31, 2011, the holding company has availed total accumulated FSV benefit amounting to Rs. 123.682 million (net of tax Rs. 80.393 million). Accordingly accumulated profit of Rs. 80.393 million will not be available for the distribution as cash or stock dividend to shareholders of the holding company as required by the aforementioned SBP directives.

10.3 Net investment in finance lease

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

	2011			2010		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	Rupees in '000					
Lease rentals receivable	522,951	424,792	947,743	630,811	587,195	1,218,006
Residual value	96,720	76,972	173,692	75,257	96,450	171,707
Minimum lease payments	619,671	501,764	1,121,435	706,068	683,645	1,389,713
Financial charges for future periods	(81,834)	(70,314)	(152,148)	(113,505)	(90,446)	(203,951)
Present value of minimum lease payments	537,837	431,450	969,287	592,563	593,199	1,185,762

10.3.1.1 In respect of the aforementioned finance leases the Group holds an aggregate sum of Rs. 165.859 million (2010: Rs. 163.639 million) as security deposits on behalf of the lessees which are included under 'other liabilities' (note 17).

10.3.1.2 The Group has entered into lease agreements of various vehicles and plant and machinery. The amount recoverable under these arrangements are receivable by the year 2016 and are subject to finance income at rates ranging between 14.30 to 18.31 (2010: 10 to 19.64) percent per annum

10.4 Staff loans include personal loans and house loans given to employees in accordance with their terms of appointment. House loans carry mark-up at a rate of 5 (2010: 5) percent per annum, while no mark-up is charged on personal loans.

10.4.1 Staff loans include an amount of Rs. 20.926 million (2010: Rs.9.832 million) advanced to the holding company's Chief Executive.

10.5 Particulars of classification

Advances include Rs. 1,199.078 million (2010: Rs. 1,221.006 million) which have been placed under the non-performing status as detailed below:

	2011								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees in '000								
Substandard	126,121	-	126,121	31,530	-	31,530	31,530	-	31,530
Doubtful	59,595	-	59,595	22,298	-	22,298	22,298	-	22,298
Loss	1,013,362	-	1,013,362	920,396	-	920,396	920,396	-	920,396
	<u>1,199,078</u>	<u>-</u>	<u>1,199,078</u>	<u>974,224</u>	<u>-</u>	<u>974,224</u>	<u>974,224</u>	<u>-</u>	<u>974,224</u>

	2010								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees in '000								
Substandard	20,988	-	20,988	8,125	-	8,125	8,125	-	8,125
Doubtful	23,617	-	23,617	6,949	-	6,949	6,949	-	6,949
Loss	1,176,401	-	1,176,401	1,092,555	-	1,092,555	1,092,555	-	1,092,555
	<u>1,221,006</u>	<u>-</u>	<u>1,221,006</u>	<u>1,107,629</u>	<u>-</u>	<u>-</u>	<u>1,107,629</u>	<u>-</u>	<u>1,107,629</u>

10.6 Particulars of provisions against non-performing advances

	Note	2011			2010		
		Specific	General	Total	Specific	General	Total
		Rupees in '000					
Opening balance		1,107,629	-	1,107,629	926,015	-	926,015
Charge during the year		53,828	-	53,828	205,531	-	205,531
Reversal during the year		(187,233)	-	(187,233)	(23,917)	-	(23,917)
Net charge		(133,405)	-	(133,405)	181,614	-	181,614
Less: Amounts written off during the year	10.7	-	-	-	-	-	-
Closing balance		<u>974,224</u>	<u>-</u>	<u>974,224</u>	<u>1,107,629</u>	<u>-</u>	<u>1,107,629</u>

10.6.1 Particulars of provisions against non-performing advances

	2011			2010		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local currency	974,224	-	974,224	1,107,629	-	1,107,629
In foreign currencies	-	-	-	-	-	-
	<u>974,224</u>	<u>-</u>	<u>974,224</u>	<u>1,107,629</u>	<u>-</u>	<u>1,107,629</u>

	2011	2010
	Rupees in '000	
10.7 Particulars of write offs		
Against provisions	-	-
Directly charged to profit and loss account	-	-
	-	-
10.7.1 Write offs of Rs. 500,000 and above	-	-
Write offs of below Rs 500,000	-	-
	-	-
10.7.2 Statement showing written off loans or any other financial relief of five hundred thousand rupees or above provided during the year ended December 31, 2011.		

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
Rupees in '000											
1.	Bawany Air Product Ltd. Khasara # 52/53 R.C.D High way Mouza Pathra, Tehsil Hub, Lasbella Balochistan	Mr. Hanif Y. Bawany 42301-1182162-3	Mr. Yahya Ahmed Bawany	5,492	1,692	1,278	8,462	-	1,686	1,201	2,887
		Ms. Momiza Kapadia 42301-9584267-6	Mr. M. Yousuf Kapadia								
		Mr. Vali Mohammad M. Yahya 300876661	Mr. Yahya Ahmed Bawany								
		Mr. Siraj A. Kadir 42301-0792735-7	Mr. A. Kadir								
		Mr. Wazir Ahmed Jogezi 61101-4445311-9	Mr. Mohammad Usman Khan Jogezi								
		Mr. Zakaria A. Ghaffar 42201-0528180-3	Mr. Abdul Ghaffar								
		Mr. Mohammad Ashraf 500303136	Mr. Yahya Ahmed Bawany								
				5,492	1,692	1,278	8,462	-	1,686	1,201	2,887

Note

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

Debts due by directors, executives or officers of the Company or any of them either severally or jointly with any other persons.

Balance at beginning of the year
Loans granted during the year
Repayments
Balance at end of the year

92,971	117,446
39,017	22,106
(21,540)	(46,581)
110,448	92,971

Debts due by other related parties

Balance at beginning of the year
Loans granted during the year
Repayments
Balance at end of the year

71,088	74,263
-	-
(1,423)	(3,175)
69,665	71,088
180,113	164,059

10.9 Maximum total amount of advances including temporary advances granted during the year amounts to Rs. 185.591 (2010: Rs. 185.524) million. The maximum amount has been calculated by reference to month end balance.

2011

2010

Rupees in '000

11 OPERATING FIXED ASSETS

Property and equipment			
Intangible	11.1	64,642	70,869
	11.2	3,634	4,032
		68,276	74,901

11.1 Property and equipment

Description	Cost			Depreciation			Net book value	Rate %
	As at January 1, 2011	Addition (deletion) during the year	As at December 31, 2011	As at January 1, 2011	During the year/ (on disposals)	As at December 31, 2011	As at December 31, 2011	
Rupees in '000								
Owned								
Office premises *	42,126	-	42,126	13,339	2,106	15,445	26,681	5
Improvement	16,846	653	17,499	12,704	2,636	15,340	2,159	20
Office equipment	12,057	651	12,526	8,602	1,601	10,058	2,468	20
Computer equipment	22,433	1,237	22,989	17,179	2,784	19,282	3,707	33.33
Furniture and fixtures	14,434	900	15,100	10,520	2,067	12,464	2,636	20
Vehicles	8,682	1,529	7,650	6,202	1,899	6,977	673	20
		(2,561)			(1,124)			
Assets subject to finance lease								
Vehicles	38,571	13,547	43,639	15,734	7,916	17,321	26,318	20
		(8,479)			(6,329)			
2011	155,149	18,517	161,529	84,280	21,009	96,887	64,642	
		(12,137)			(8,402)			

Description	Cost			Depreciation			Net book value	Rate %
	As at January 1, 2010	Addition (deletion) during the year	As at December 31, 2010	As at January 1, 2010	During the year/ (on disposals)	As at December 31, 2010	As at December 31, 2010	
Rupees in '000								
Owned								
Office premises*	42,126	-	42,126	11,233	2,106	13,339	28,787	5
Improvement	16,980	26	16,846	9,919	2,932	12,704	4,142	20
Office equipment	11,988	355	12,057	6,743	2,129	8,602	3,455	20
Computer equipment	18,474	5,021	22,433	15,002	3,184	17,179	5,254	33.33
Furniture and fixtures	14,469	445	14,434	8,622	2,233	10,520	3,914	20
Vehicles	11,180	368	8,682	5,762	1,911	6,202	2,480	20
		(2,866)			(1,471)			
Assets subject to finance lease								
Vehicles	35,104	10,949	38,571	14,240	6,923	15,734	22,837	20
		(7,482)			(5,429)			
2010	150,321	17,164	155,149	71,521	21,418	84,280	70,869	
		(12,336)			(8,659)			

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

11.1.1 Details of disposals whose original cost or the book value exceeds Rs. 1 million or Rs. 250,000 whichever is less and property and equipment disposed off to the Chief Executive or to a director or to executives or to any other related party, irrespective of the values, are as follows :

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain	Mode of disposal	Particulars of purchaser
Rupees in '000							
Furniture and fixtures	150	84	66	66	-	Company policy	Mr. Rehan Saeed Khan (Former Executive)
Vehicles							
Toyota Corolla	1,462	98	1,364	1,450	86	Company policy	Mr. Rehan Saeed Khan (Former Executive)
Honda City	776	748	28	255	227	Company policy	Mr. Rehan Saeed Khan (Former Executive)
Suzuki Cultus	666	411	255	443	188	Company policy	Mr. Tassaduq Aslam (Executive)
Honda City	700	408	292	461	169	Company policy	Mr. Saeed Rana (Executive)
Honda Civic	1,000	1,000	-	270	270	Company policy	Mr. Kashif M. Khan (Executive)
Honda Civic	700	700	-	193	193	Company policy	Mr. Nafees Ahmad (Executive)
Suzuki Liana	700	572	128	351	223	Company policy	Mr. Azhar Ali Shahidi (Executive)
Honda City	869	841	28	287	259	Company policy	Mr. Saeed A. Bhayat (Executive)
Suzuki Liana	700	478	222	418	196	Company policy	Ms. Saba Tariq Tajik (Former Executive)
Suzuki Cultus	700	420	280	280	-	Company policy	Late Mr. Muhammad Yousuf (Former Executive)
Honda City	800	533	267	543	276	Company policy	Mr. Ahmer Siddiqui (Executive)
Suzuki Cultus	868	217	651	850	199	Negotiations	Mandviwala Motors (Pvt) Ltd. Mandviwala Chambers, Old Queens Road, Karachi
Mitsubishi Lancer	1,099	1,027	72	212	140	Company policy	Mr. Nabeel Malik (Former Executive)
	11,040	7,453	3,587	6,013	2,426		
Others	947	865	82	140	58	Negotiations	Various buyers
	12,137	8,402	3,735	6,219	2,484		

11.2 Intangible assets

	Cost			Amortization			Net book value	
	As at January 1, 2011	Addition during the year	As at December 31, 2011	As at January 1, 2011	Addition during the year	As at December 31, 2011	As at December 31, 2011	Rate %
Rupees in '000								
Software licenses	17,607	1,874	19,481	13,575	2,272	15,847	3,634	33.33

Intangible assets

	Cost			Amortization			Net book value	
	As at January 1, 2010	Addition during the year	As at December 31, 2010	As at January 1, 2010	Addition during the year	As at December 31, 2010	As at December 31, 2010	Rate %
Rupees in '000								
Software licenses	12,564	5,043	17,607	10,162	3,413	13,575	4,032	33.33

2011

2010

Rupees in '000

12

DEFERRED TAX ASSETS

Deferred tax assets arising in respect of:

Provision for diminution in the value of investments	109,111	107,134
Amortisation of premium on federal government securities	14,445	53,581
Revaluation on investments classified as held-for-trading	4,154	(7)
Revaluation on investments classified as available-for-sale	45,341	11,732
Provision against non-performing loans and advances	340,978	387,670
Unassessed tax losses of subsidiary	-	6,581
	<u>514,029</u>	<u>566,691</u>

Less: Deferred tax (liabilities) arising in respect of:

Assets subject to finance leases	(2,134)	2,452
Accelerated tax depreciation allowances	(16)	(860)
Net investment in finance leases	(123,016)	(163,839)
Dividend receivable	(1,513)	(15)
	<u>(126,679)</u>	<u>(162,262)</u>
	<u>387,350</u>	<u>404,429</u>

12.1 Movement of deferred tax

	Recognized in				Recognized in		
	January 1, 2009	Profit and Loss Account	Surplus on revaluation of securities	December 31, 2010	Profit and Loss Account	Surplus on revaluation of securities	December 31, 2011
	Rupees in '000						
Deferred tax assets arising in respect of:							
Provision for diminution in the value of investments	76,990	30,144	-	107,134	1,977	-	109,111
Amortisation of premium on federal government securities	59,632	(6,051)	-	53,581	(39,136)	-	14,445
Revaluation on investments classified as held-for-trading	(178)	171	-	(7)	4,161	-	4,154
Revaluation on investments classified as available-for-sale	12,134	-	(402)	11,732	-	33,609	45,341
Provision against non-performing loans and advances	324,105	63,565	-	387,670	(46,692)	-	340,978
Unassessed tax losses of subsidiary	10,481	(3,900)	-	6,581	(6,581)	-	-
	<u>483,164</u>	<u>83,929</u>	<u>(402)</u>	<u>566,691</u>	<u>(86,271)</u>	<u>33,609</u>	<u>514,029</u>
Less: deferred tax liabilities arising in respect of:							
Assets subject to finance leases	2,056	396	-	2,452	(4,586)	-	(2,134)
Accelerated tax depreciation allowances	(1,225)	365	-	(860)	844	-	(16)
Net Investment in finance leases	(160,292)	(3,547)	-	(163,839)	40,823	-	(123,016)
Dividend receivable	-	(15)	-	(15)	(1,498)	-	(1,513)
	<u>(159,461)</u>	<u>(2,801)</u>	<u>-</u>	<u>(162,262)</u>	<u>35,583</u>	<u>-</u>	<u>(126,679)</u>
	<u>323,703</u>	<u>81,128</u>	<u>(402)</u>	<u>404,429</u>	<u>(50,688)</u>	<u>33,609</u>	<u>387,350</u>

Note

2011

2010

Rupees in '000

13 OTHER ASSETS

Mark-up / Return / Interest receivable in local currency		302,976	318,848
Dividend income receivable		15,130	145
Mark-up / profit receivable on purchase of securities		27,068	32,374
Security deposits		5,982	3,660
Prepayments		10,747	10,499
Receivable against sale of investments		12,936	59,405
Receivable from funds		10,786	11,024
Employee gratuity fund	33.4	781	769
Non-banking assets acquired in satisfaction of claims		-	-
Others		622	520
		<u>387,028</u>	<u>437,244</u>

13.1 The above balances include an aggregate amount of Rs. 381.873 million (2010: Rs. 433.584 million) due within a year.

14 BORROWINGS

In Pakistan		6,648,716	6,145,349
Outside Pakistan		-	-
		<u>6,648,716</u>	<u>6,145,349</u>

14.1 Particulars of borrowings with respect to currencies

In local currency		6,648,716	6,145,349
In foreign currencies		-	-
		<u>6,648,716</u>	<u>6,145,349</u>

14.2 Particulars of borrowings**Secured**

Borrowings from the State Bank of Pakistan:

-LTF-EOP	14.3	161,669	250,523
-LTFF	14.3	825,328	465,035
Repurchase agreement borrowings	14.4	5,199,973	3,742,523
Long-term borrowings		-	433,333
Short-term borrowings		-	500,000
Short-term running finance	14.5	11,746	172,415
		<u>6,198,716</u>	<u>5,563,829</u>
Unsecured			
Placements	14.6	450,000	581,520
		<u>6,648,716</u>	<u>6,145,349</u>

14.3 The holding 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 holding company at the date of maturity of the finances by directly debiting the current account maintained by the holding company with the SBP. The rate of return ranges from 5 to 11 (2010: 5 to 8.8) percent per annum. These are repayable within 8 years (2010: 7 years).

14.4 The rate of return on these repurchase agreement borrowings maturing in January 2012 (2010: January 2011 to February 2011), ranges between 11.80 to 12 (2010: 12.83 to 13.30) percent per annum. Securities having cost of Rs. 5,208.310 million (2010: Rs. 3,771.218 million) have been pledged against these borrowings.

- 14.5 The rate of return on these short-term running finance facilities is 3 month Kibor+1.25% (2010: 1 to 3 month Kibor+1.25% to 1.75%). The above facilities are secured against term finance certificates, shares and loan and advances receivable.
- 14.6 The rates of return on these placements, maturing in January 2012 (2010: January 2011) ranges between 12.30 to 13.45 (2010: 12.50 to 13.75) percent per annum.

Note	2011	2010
	Rupees in '000	

15 DEPOSITS AND OTHER ACCOUNTS

Certificates of investment - remunerative (in local currency)

Financial institutions		803,819	763,119
Others		3,891,874	4,798,046
	15.1 & 15.2	<u>4,695,693</u>	<u>5,561,165</u>

- 15.1 The rate of return on deposits maturing between January 2012 to December 2013 (2010: January 2011 to January 2013). The rate of return is 11.40 to 13.85 (2010: 12 to 13.7) percent per annum.
- 15.2 These include Certificate of Investments purchased by gratuity fund of the Company as disclosed in note 33.7.1.

16 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2011			2010		
	Minimum lease Payments	Financial charges for future periods	Principal outstanding	Minimum lease Payments	Financial charges for future periods	Principal outstanding
	Rupees in '000					
Not later than one year	9,983	2,067	7,916	10,067	1,654	8,413
Later than one year but not later than five years	13,396	1,454	11,942	8,486	921	7,565
	<u>23,379</u>	<u>3,521</u>	<u>19,858</u>	<u>18,553</u>	<u>2,575</u>	<u>15,978</u>

- 16.1 The Group has entered into lease agreements with financial institutions for lease of vehicles. Lease rentals are payable in quarterly and monthly installments. Financial charges included in lease rentals are determined on the basis of discount factors applied at the rates ranging from 10.58 to 15 (2010: 10.58 to 16) percent per annum. At the end of lease term, the Group has option to acquire the assets, subject to adjustment of security deposits.

Note	2011	2010
	Rupees in '000	

17 OTHER LIABILITIES

Mark-up / Return / Interest payable in local currency		236,806	245,004
Accrued expenses		46,995	64,270
Security deposits against investment in finance leases	10.3.1.1	165,857	163,639
Payable against purchase of investments		-	44,338
Taxation		125,396	121,602
Others		23,947	69,632
		<u>599,001</u>	<u>708,485</u>

18.1 Authorized Capital

2011	2010		2011	2010
Number of shares			Rupees in '000	
1,000,000,000	1,000,000,000	Ordinary shares of Rs.10 each	10,000,000	10,000,000

18.2 Issued, subscribed and paid-up

615,000,000	615,000,000	Ordinary shares of Rs.10 each	6,150,000	6,150,000
615,000,000	615,000,000		6,150,000	6,150,000

18.3 The Ministry of Finance on behalf of the Government of Pakistan and the Sultanate of Oman through its Ministry of Finance each holds 307,495,900 (2010: 307,495,900) ordinary shares of the holding Company. While 4,100 (2010: 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.

18.4 Capital management policies and procedures

The Group's objectives when managing capital are:

- to comply with the capital requirements set by the regulators;
- to safeguard Group'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. 6 billion as at December 31, 2009 and in future periods till further notification issued by SBP, 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 10%.

The holding 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 39, summarizes the composition of regulatory capital and the ratios of the company for the year ended December 31, 2011.

19 RESERVES

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

2011	2010
Rupees in '000	

20 NON-CONTROLLING INTEREST

Opening balance	74,309	96,469
Change during the year	(26,459)	(22,160)
Closing balance	47,850	74,309

21 DEFICIT ON REVALUATION OF SECURITIES - Net of deferred tax

21.1 Deficit on revaluation of Available-for-sale securities

Federal Government Securities		
- Market Treasury Bills	1,659	(2,913)
- Pakistan Investment Bonds	(798)	(30,607)
	861	(33,520)
Shares-listed	(16,192)	15,032
Term Finance Certificates		
- Listed	(129,134)	(69,231)
- Unlisted	668	-
	(128,466)	(69,231)
Sukuk-unlisted	(1,941)	-
Investment in Mutual Funds	1,052	(30,019)
	(144,686)	(117,738)
Deferred tax asset recognized	12 45,341	11,732
	(99,345)	(106,006)
Associate's share of surplus of revaluation of available-for-sale securities	(4,553)	-
	(103,898)	(106,006)

22 CONTINGENCIES AND COMMITMENTS

Transaction related contingent liability:

guarantees		3,500	11,301
import letters of credit		-	13,730
Pledge of shares on behalf of Japan Power Company Limited	22.1	70,726	70,726
Pledge of shares on behalf of Orient Power Company (Pvt.) Limited	22.2	226,000	226,000
Commitments for:			
Sale of government securities		2,135,261	-
Purchase of government securities		98,362	-
Commitments for loans and advances and net investment in finance leases		299,523	303,930

- 22.1 Shares in Japan Power Generation Limited (JPGL) (an associate) aggregating 17,622,878 having a cost of Rs. 70.726 (2010: Rs.70.726) million are pledged as security on behalf of that associate company against a syndicate finance facility obtained by it (the associate company).
- 22.2 Shares in Orient Power Company (Private) Limited (related party) aggregating 22,600,000 having a cost of Rs. 226 million are pledged as security on behalf of that Orient Power Company (Private) Limited against a syndicate finance facility obtained by Orient Power Company (Private) Limited.
- 22.3 During the financial year ended June 30, 2011, POAMCL received the notices from the Deputy Commissioner Inland Revenue (DCIR) demanding payment of federal excise duty (FED) of Rs. 13.816 million levied on asset management services rendered by POAMCL (for the financial years ended from 2007 to 2010). However, management was of the view that FED was not applicable on asset management companies. Furthermore, MUFAP also took an advice from a professional firm of Chartered Accountants who vide its letter dated June 16, 2011 opined that services rendered by asset management companies are not subject to levy of FED under Federal Excise Duty Act, 2005. Later, POAMCL filed a petition in the High Court of Sindh (the Court) which granted the stayorder to the POAMCL and also directed management to file its explanation and appear before the respective officer. The case is now pending at CIT and POAMCL has not received any date from the CIT department.

Based on the opinion taken by MUFAP from the firm of Chartered Accountants, management is confident that no amount of FED would be paid by the POAMCL.

	2011	2010
	Rupees in '000	
23 MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to		
customers	930,518	810,635
financial institutions	1,283	8,975
	931,801	819,610
On investments in		
available-for-sale	938,513	913,608
held-to-maturity	14,299	20,167
held-for-trading	160,455	206,771
	1,113,267	1,140,546
On securities purchased under resale agreements	180,361	224,173
On deposit with financial institutions	24,147	39,827
On placements	4,681	5,197
On certificate of investments	16,445	2,118
	2,270,702	2,231,471

24 MARK-UP / RETURN / INTEREST EXPENSED		
On secured borrowings		
Repurchase agreement borrowings	506,137	477,609
Long-term borrowings	94,069	126,085
Short-term borrowings	55,108	66,799
	655,314	670,493
On un-secured borrowings		
Placements	117,736	120,013
Certificate of investments	740,492	671,496
	858,228	791,509
	1,513,542	1,462,002

		2011	2010
		Rupees in '000	
25	GAIN / (LOSS) ON SALE OF SECURITIES		
	Federal Government Securities		
	-Market Treasury Bills	29,675	(1,643)
	-Pakistan Investment Bonds	37,431	(18,777)
		67,106	(20,420)
	Shares / units		
	-Listed	(38,183)	77,063
	-Unlisted	(38,500)	-
		(76,683)	77,063
	Term Finance Certificates	31,781	49,924
		22,204	106,567
26	OTHER INCOME		
	Gain on sale of property and equipment	2,484	3,111
	Exchange gain on revaluation	241	2
		2,725	3,113
27	ADMINISTRATIVE EXPENSES		
	Salaries, allowances and employees' benefits	151,701	150,425
	Contribution to defined contribution plan	9,178	7,933
	Charge for defined benefit plan	33.8	6,485
	Non-executive directors' fee	35	189
	Non-executive directors' fee of POAMCL		3,460
	Chief executive's remuneration	35	13,996
	Board meeting expenses		13,673
	Traveling and accommodation		16,591
	Rent, rates and taxes		16,025
	Utilities		2,844
	Communication		6,702
	Professional training		841
	Advertisement and business promotion		1,673
	Membership and subscriptions		5,947
	Printing, stationery and periodicals		5,393
	Depreciation	11.1	21,418
	Amortization of intangible assets	11.2	3,413
	Auditors' remuneration	27.1	1,375
	Legal and professional charges		11,491
	Repairs and maintenance		5,553
	Transportation		8,143
	Insurance		4,909
	Finance charges on leased assets		2,479
	Entertainment and canteen expenses		2,236
	Donation	27.2	5,651
	Transaction cost		204
	Commission		2,898
	Shahriah advisor fee		2,480
	Others		2,428
		335,648	326,855

	Note	2011	2010
Rupees in '000			
27.1 Auditors' remuneration			
Audit fee		400	351
Half yearly review		147	175
Auditors' remuneration of subsidiary company		382	303
Special certifications and others		321	413
Out of pocket expenses		28	133
		<u>1,278</u>	<u>1,375</u>
27.2 Donations were not made to any donee in which a director or his spouse had any interest at any time during the year.			
27.2.1 Donations made in excess of Rs. 0.100 million to a single donee are as follows:			
Prime Minister's Flood Relief Fund		4,000	1,500
Army Flood Relief Fund		-	2,500
Pak Oman AMC Flood Relief Fund		-	1,000
Al-Mehrab Tibbi Imdad		140	140
The Kidney Centre Post Graduation Training Institute		200	200
Burns Centre		140	140
Zindagi Trust		500	-
		<u>4,980</u>	<u>5,480</u>

28 OTHER CHARGES

SBP Penalties		5,615	-
Fees and commission		19,605	16,933
		<u>25,220</u>	<u>16,933</u>

29 TAXATION

For the year			
Current		215,002	203,781
Deferred	12.1	50,688	(81,128)
		<u>265,690</u>	<u>122,653</u>
29.1 Relationship between tax expense and accounting profit			
Profit before taxation		<u>623,211</u>	<u>455,452</u>
Tax at the applicable rate of 35 %		218,124	159,408
Tax effect of income taxed at different rate		(29,544)	(18,357)
Tax effect of exempt capital gain		25,445	(17,250)
Tax effect of exempt provision for diminution in the value of investments		19,123	-
Net tax effect of income not subject to tax and expenses that are not allowable in determining taxable income tax charge		32,542	(1,148)
		<u>265,690</u>	<u>122,653</u>
29.2 POAMCL has not recognised deferred tax asset due to uncertainty with regards to availability of future taxable profits against which deferred tax asset would be utilised. As on December 31, 2011, the total unrecognised deferred tax asset is amounting to Rs. 82.365 million (June 30, 2011: Rs. 74.356 million) mainly arising on account of accumulated tax losses and deductible temporary differences.			

29.3 In the current year, the holding Company received an order under section 122 (1) of the Income Tax Ordinance 2001 for tax year 2005 wherein major issue raised by Deputy Commissioner Inland Revenue related to disallowance of allocation of common expenses.

The holding company has filed an appeal against the said order. The appeal has been heard on December 20, 2011 by the Commissioner Inland revenue, however the order has not been received as yet.

The effect of aforementioned matter amounts to Rs. 10.08 million. No provision has been made against the aforementioned matter based on the opinion of the holding company's tax consultants who expect favorable outcome of the case.

		2011	2010	
		Rupees in '000		
30	EARNINGS PER SHARE			
	Profit attributable to shareholders of the holding company	Rupees in '000	383,980	354,959
	Weighted average number of ordinary shares in issue	Rupees in '000	615,000	615,000
	Basic earnings per share	Rupees	0.62	0.58
	Diluted earnings per share	Rupees	0.62	0.58

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

31	CASH AND CASH EQUIVALENTS			
	Cash and balances with treasury banks	6	66,679	70,420
	Balances with other banks	7	209,531	664,169
	Placements	8	-	12,857
			276,210	747,446

32	STAFF STRENGTH			
			Number	
	Permanent		98	100
	Temporary / on contractual basis		23	27
	Group's own staff strength at end of the year		121	127
	Outsourced		27	22
	Total staff strength		148	149

33 DEFINED BENEFIT PLAN

General Description

33.1 General description of the holding company's type of defined benefit plan and accounting policy for recognising actuarial gains and losses is disclosed in note 5.11 to the consolidated financial statements.

Principal actuarial assumptions

The latest actuarial valuation for defined benefit plan scheme was carried out as at December 31, 2011 using the Projected Unit Credit method. The following significant assumptions were used for the actuarial valuation:

	Note	2011	2010
		Percent per annum	
Discount rate		12.50	14.00
Expected rate of increase in salary levels		12.50	14.00
Expected rate of return on plan assets		12.50	14.00

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

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

33.2 Reconciliation of amount receivable from defined benefit plan

		Rupees in '000	
Present value of defined benefit obligation	33.3	38,207	30,787
Fair value of plan assets	33.5	(38,988)	(31,556)
	33.4	<u>(781)</u>	<u>(769)</u>

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

Present value of obligation as at January 1		30,787	25,514
Current service cost		7,382	5,858
Interest cost		4,087	3,941
Benefits paid		(3,195)	(4,030)
Actuarial gain on obligation		(854)	(496)
Present value of obligation as at December 31		<u>38,207</u>	<u>30,787</u>

33.4 Movement in receivable from defined benefit plan:

Opening asset		(769)	(553)
Expense for the year	33.8	5,933	6,485
Contributions to the fund		(5,945)	(6,701)
Closing asset		<u>(781)</u>	<u>(769)</u>

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

Fair value of plan assets as at January 1		31,556	25,262
Expected return on plan assets		4,615	3,537
Contributions		5,945	6,701
Benefits paid		(3,195)	(4,030)
Actuarial gain on plan assets		66	86
Fair value of plan assets as at December 31	33.7	<u>38,987</u>	<u>31,556</u>

33.6 Actual return on plan assets during the year was Rs. 4.681 million (2010: Rs. 3.623 million).

33.7 The plan assets are comprised as follows:

Particulars	2011		2010	
	Rupees in '000	%	Rupees in '000	%
Market Treasury Bills	10,365	27.80	1,005	3.31
Pakistan Investment Bonds	11,352	30.44	-	-
Term Finance Certificates	5,836	15.65	6,409	21.11
Certificate of Investments	8,150	21.86	22,362	73.65
Amount in Bank	1,577	4.23	586	1.93
Other Asset	9	0.02	-	-
	<u>37,289</u>	<u>100</u>	<u>30,362</u>	<u>100</u>

33.7.1 These includes Certificate of Investment held with the holding company. These carry mark-up at rates ranging from 12 to 13.25 (2010: 12.25 to 12.70) percent per annum.

33.8 The amount recognised in the profit and loss account is as follows:

	2011	2010
	Rupees in '000	
Current service cost	7,382	5,858
Interest cost	4,086	3,941
Expected return on plan assets	(4,615)	(3,537)
Vested past service cost	-	805
Actuarial gain recognised	(920)	(582)
	<u>5,933</u>	<u>6,485</u>

33.9 Net unrecognised actuarial (losses) / gains

	2011	2010
Net unrecognised actuarial gains / (losses) as at January 1	-	-
Actuarial gain on obligation	854	496
Actuarial gain on plan assets	66	86
	<u>920</u>	<u>582</u>
Actuarial gain / (loss) recognised for the year	(920)	(582)
Net unrecognised actuarial (losses) / gains as at December 31	<u>-</u>	<u>-</u>

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

	Note	2011	2010	2009	2008	2007
		Rupees in '000				
Present value of defined benefit obligation	33.3	38,207	30,787	25,514	26,408	14,220
Fair value of plan assets	33.5	(38,987)	(31,556)	(25,262)	(16,139)	(9,835)
(Surplus) / Deficit		<u>(780)</u>	<u>(769)</u>	<u>252</u>	<u>10,269</u>	<u>4,385</u>
Experience adjustments on defined benefit obligation	33.3	<u>(854)</u>	<u>(496)</u>	<u>(1,224)</u>	<u>5,415</u>	<u>1,955</u>
Experience adjustments on assets	33.5	<u>(66)</u>	<u>(86)</u>	<u>670</u>	<u>(572)</u>	<u>(496)</u>

33.11 Expected gratuity expense for the next year

The expected gratuity expense for the next year ending December 31, 2012 works out to Rs. 7.571 million.

34.1 The Group also operates a provident fund scheme for all its permanent employees.

	2011	2010
	Rupees in '000	
34.2 Contribution to the fund made during the year by the holding company		
Contribution from the holding company	7,955	6,962
Contribution from the employees of holding company	7,955	6,962
	<u>15,910</u>	<u>13,924</u>
34.3 Contribution to the fund made during the year by the subsidiary company		
Contribution from the subsidiary company	2,281	1,891
Contribution from the employees of subsidiary company	2,281	1,891
	<u>4,562</u>	<u>3,782</u>

	Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	Rupees in '000					
Fees	-	-	217	189	-	-
Managerial remuneration	16,879	11,960	-	-	133,986	103,750
Charge for defined benefit plan	786	833	-	-	4,643	6,794
Contribution to defined contribution plan	1,058	920	-	-	8,157	5,489
Medical	467	439	-	-	-	-
Utilities	609	622	-	-	-	-
Membership fee	69	55	-	-	-	-
	<u>19,868</u>	<u>14,829</u>	<u>217</u>	<u>189</u>	<u>146,786</u>	<u>116,033</u>
Number of persons	1	1	5	5	63	56

35.1 The managing director and executives are provided with free use of holding 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.

35.2 It includes particulars of Chief executive and executives of POAMCL.

The fair value of traded investments is based on quoted market prices, and has been disclosed in note 9. Unquoted equity investments are determined on the basis of break-up value of these investments as per the latest available audited financial statements. The provision for impairment of investments has been determined in accordance with the Group's accounting policy as stated in notes 5.4 and 5.20 to these consolidated financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to the absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment advances has been calculated in accordance with the holding company's accounting policy as stated in note 5.6.2.

The maturity and re-pricing profile and effective rates are stated in notes 40.4.1 and 40.3.5 respectively.

In the opinion of management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently repriced.

36.1 On-balance sheet financial instruments

Assets

	2011		2010	
	Book value	Fair value	Book value	Fair value
Rupees in '000				
Cash and balances with treasury banks	66,679	66,679	70,420	70,420
Balances with other banks	209,531	209,531	664,169	664,169
Lendings to financial institutions	1,321,745	1,321,745	2,467,467	2,467,467
Investments	9,746,638	9,730,511	8,213,593	7,263,801
Advances	5,765,561	5,765,561	5,945,041	5,945,041
Other assets	375,500	375,500	425,976	425,976
	17,485,654	17,469,527	17,786,666	16,836,874

Liabilities

Borrowings from financial institutions	6,648,716	6,648,716	6,145,349	6,145,349
Deposits and other accounts	4,695,693	4,695,693	5,561,165	5,561,165
Liabilities against assets subject to finance lease	19,858	19,858	15,978	15,978
Other liabilities	473,605	473,605	546,576	546,576
	11,837,872	11,837,872	12,269,068	12,269,068
	5,647,782	5,631,655	5,517,598	4,567,806

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

	Corporate finance	Trading & sales	Commercial banking	Assets management
	Rupees in '000			
2011				
Total income	8,291	1,436,887	933,679	45,645
Total expenses	39,690	1,162,326	507,611	91,664
Net income / (loss)	(31,399)	274,561	426,068	(46,019)
Segment assets (Gross)	-	12,956,985	7,138,612	91,623
Segment non-performing loans	-	-	1,199,078	-
Investments provided for	-	1,227,846	-	-
Segment provision required *	-	373,952	974,224	-
Segment liabilities	-	7,332,208	4,638,069	(7,009)
Segment return on net assets (%)	-	5.23%	27.91%	(46.66%)
Segment return on assets (ROA) (%)	-	2.18%	6.91%	(50.23%)
Segment cost of funds (%)	-	8.29%	8.17%	-

2010				
Total income	12,432	1,633,291	828,243	55,015
Total expenses	39,280	1,182,133	757,083	95,033
Net income	(26,848)	451,158	71,160	(40,018)
Segment assets (Gross)	-	13,013,722	7,445,711	147,416
Segment non-performing loans	-	-	1,221,006	-
Investments provided for	-	488,724	-	-
Segment provision required*	-	306,096	1,107,629	-
Segment liabilities	-	7,820,340	4,617,163	(6,526)
Segment return on net assets (%)	-	9.23%	4.14%	(26%)
Segment return on assets (ROA) (%)	-	3.55%	1.12%	(27.15%)
Segment cost of funds (%)	-	8.02%	7.83%	-

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

The Group has related party relationship with its associates, employee benefit plans, company having common directors and its key management personnel (including their associates). The details of investments in associates are stated in note 9 to these consolidated financial statements.

Contributions to the accounts in respect of staff retirement benefits are made in accordance with actuarial valuation/terms of the contribution plan. Remuneration of the key management personnel are in accordance with the terms of their employment. Advances are given to employees as per the Company's Policy. Transactions with other related parties are carried out on commercial terms and as per market rates.

The details of transactions with related parties, other than those which have been specifically disclosed elsewhere in the financial statements are as follows:

38.1 Associates

Pak Oman Micro Finance Bank Limited
 Japan Power Generation Limited
 Pak Oman Advantage Fund
 Pak Oman Advantage Islamic Income Fund
 Pak Oman Islamic Asset Allocation Fund
 Pak Oman Advantage Asset Allocation Fund
 Pak Oman Government Securities Fund

38.2 Key management personnel

All heads of departments
 Directors

38.3 Retirement benefit fund

Defined benefit plan
 Defined contribution plan

38.4 Other related party

Orient Power Company (Private) Limited

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

Nature of related party transaction	2011				2010			
	As at 1-Jan 2011	Given during the year	Repaid during the year	As at 31-Dec 2011	As at 1-Jan 2010	Given during the year	Repaid during the year	As at 31-Dec 2010
Rupees in '000								
Investments								
Associates	915,860	398,063	(427,687)	886,236	967,214	116,684	(168,038)	915,860
Other related parties	226,000	269,744	-	495,744	-	226,000	-	226,000
	<u>1,141,860</u>	<u>667,807</u>	<u>(427,687)</u>	<u>1,381,980</u>	<u>967,214</u>	<u>342,684</u>	<u>(168,038)</u>	<u>1,141,860</u>
Advances								
Associates	68,200	-	-	68,200	68,200	-	-	68,200
Key Management personnel	46,384	31,703	(12,210)	65,877	53,630	16,199	(23,445)	46,384
Other related parties	566,748	-	(291,025)	275,723	318,314	636,497	(388,063)	566,748
	<u>681,332</u>	<u>31,703</u>	<u>(303,235)</u>	<u>409,800</u>	<u>440,144</u>	<u>652,696</u>	<u>(411,508)</u>	<u>681,332</u>
Deposits								
Associates	388,119	353,819	(388,119)	353,819	211,861	388,119	(211,861)	388,119
Key Management personnel	4,500	27,067	(23,246)	8,321	1,236	8,173	(4,909)	4,500
Other related parties	46,763	13,500	(46,763)	13,500	35,825	53,380	(42,442)	46,763
	<u>439,382</u>	<u>394,386</u>	<u>(458,128)</u>	<u>375,640</u>	<u>248,922</u>	<u>449,672</u>	<u>(259,212)</u>	<u>439,382</u>
Borrowings								
Associates	63,520	100,000	(63,520)	100,000	-	63,520	-	63,520
	<u>63,520</u>	<u>100,000</u>	<u>(63,520)</u>	<u>100,000</u>	<u>-</u>	<u>63,520</u>	<u>-</u>	<u>63,520</u>

	2011	2010
	Rupees in '000	
Other receivables from:		
Gratuity fund	781	769
Associates	344	-
Other related parties	-	138
Formation cost receivable from associates	14,334	8,738
Management fee receivable from associates	2,860	2,287
Formation cost received from associates	4,987	3,250
Management fee received from associates	29,232	12,736
Lease deposits from Subsidiary	487	596
Mark-up income		
Key Management personnel	2,880	2,356
Other related parties	75,466	104,508
Dividend income		
Associates	74,040	37,198
Other related parties	15,130	-
Fee income		
Other related parties	4,750	6,370
Mark-up expense on Deposits		
Associates	47,746	47,828
Key Management personnel	884	196
Other related parties	1,388	5,176
Mark-up expense on Borrowing		
Associates	13,221	7,679
Expenses for the year		
Remuneration to key management personnel	82,394	61,462
Non-executive director's fee	217	189
Charge for defined contribution plan	10,236	8,853
Charge for defined benefit plan	5,933	6,485
Outright sale of Government Securities		
Other related parties	103,847	6,277

The Group's Capital adequacy ratio (CAR) as at December 31, 2011 was 41.25% of its risk weighted exposure.

The calculation of capital adequacy enables the Group to assess the long term soundness. The Group has successfully managed in the past and will in the future its Capital requirements/needs. Based on the directives of the Board, the Group has built a health portfolio of assets and liabilities focusing on quality. CAR of 41.25% demonstrates that the Group is geared to absorb major risks/shocks in the present market scenario. The Group 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 is as follows:

	2011	2010
	Rupees in '000	
Regulatory Capital Base		
Tier I Capital		
Share Capital	6,150,000	6,150,000
Reserves	485,312	492,568
Unappropriated Profit	296,512	151,276
Non Controlling Interest (Minority interest)	47,850	74,309
	6,979,674	6,868,153
Deductions:		
Book value of intangibles	3,634	4,032
Shortfall in provisions required against classified assets irrespective of any relaxation allowed	-	81,499
Deficit on account of revaluation of available-for-sale investment	149,239	117,738
Investments in TFCs of other banks exceeding the prescribed limit	877,527	884,566
Other deductions (50% of the amount calculated on CAP 2)	265,312	257,657
	1,295,712	1,345,492
Total Eligible Tier I Capital	5,683,962	5,522,661
Supplementary 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.	-	-
Revaluation reserve (up to 45%)	-	-
Other deductions (50% of the amount calculated on CAP 2)	(265,312)	(257,657)
Total Eligible Tier II Capital	(265,312)	(257,657)
Eligible Tier III Capital	-	-
Total Supplementary Capital eligible for capital adequacy ratio (Maximum upto 100% of Total eligible Tier I Capital)		
Total Eligible Capital	5,418,650	5,265,004
Risk Weighted Amounts		
Total Credit Risk Weighted Amount	7,003,388	7,763,144
Total Market Risk Weighted Amount	4,591,521	4,666,426
Total Operational Risk Weighted Amount	1,541,187	1,554,016
Total Risk Weighted Amount	13,136,096	13,983,586
Capital Adequacy Ratios		
Credit Risk Capital Adequacy Ratio	77.37%	67.82%
Tier 1 Capital to Total Risk Weighted Amount	43.27%	39.49%
Total Capital Adequacy Ratio	41.25%	37.65%

The Group 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 Group 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 holding Group. 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 maximizing returns to shareholders, the board of directors takes cognizance of the risk elements that the Group is confronted with in its operations. In view of the multi-faceted risks inherent in the financial sector, the Group 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 Group'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.

40.1 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 Group 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 Group.

The Group uses both external and internal ratings to evaluate risk. The Group 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

Exposures	Rating Category	2011			2010		
		Amount Outstanding	Deduction CRM*	Net amount	Amount Outstanding	Deduction CRM*	Net amount
Rupees in '000							
Corporate	0	-	-	-	-	-	-
	1	742,842	476,807	1,219,649	848,061	787,122	1,635,183
	2	871,993	(97,729)	774,264	494,597	(250,047)	244,550
	3-4	292,716	-	292,716	362,500	-	362,500
	5-6	-	-	-	89,469	-	89,469
	Unrated	3,746,689	(379,078)	3,367,611	4,996,057	(537,075)	4,458,982
		<u>5,654,240</u>	<u>-</u>	<u>5,654,240</u>	<u>6,790,684</u>	<u>-</u>	<u>6,790,684</u>
Banks	0	-	-	-	-	-	-
	1	59,531	-	59,531	1,277,027	802,619	2,079,646
	2-3	150,000	-	150,000	-	-	-
	Unrated	-	-	-	802,619	(802,619)	-
		<u>209,531</u>	<u>-</u>	<u>209,531</u>	<u>2,079,646</u>	<u>-</u>	<u>2,079,646</u>
Sovereigns etc							
Unrated							

*CRM= Credit Risk Mitigation

The accounting policies and methods used by the Group 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 consolidated financial statements.

40.2 Segmental information

40.2.1 Segment by class of business

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Financial institution	5,161	0.08	803,819	17.12	2,160,020	76.23
Textile	1,283,329	19.04	3,000	0.06	87,390	3.08
Transportation and communication	373,057	5.54	160,000	3.41	108,490	3.83
Power	1,192,490	17.69	50,000	1.06	296,726	10.47
Electronics	166,863	2.48	-	-	50,000	1.76
Food and beverage	904,536	13.42	-	-	25,408	0.90
Services	286,215	4.25	90,000	1.92	1,600	0.06
Engineering and allied products	197,632	2.93	-	-	13,196	0.46
Chemical and pharmaceuticals	402,236	5.97	232,000	4.94	-	-
Automobiles	268,545	3.98	-	-	-	-
Fuel and energy	415,910	6.17	-	-	9,039	0.31
Construction	164,291	2.44	-	-	-	-
Cement	65,000	0.96	-	-	-	-
Sugar	499,085	7.41	-	-	-	-
Paper and board /packaging	70,910	1.05	-	-	7,900	0.28
Healthcare	158,238	2.35	-	-	-	-
Individual	110,448	1.64	389,289	8.29	-	-
Others	175,839	2.61	2,967,585	63.20	73,603	2.62
	<u>6,739,785</u>	<u>100.00</u>	<u>4,695,693</u>	<u>100.00</u>	<u>2,833,372</u>	<u>100.00</u>

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Financial institution	14,119	0.20	763,119	13.72	-	-
Textile	1,367,859	19.39	-	-	234,500	37.48
Transportation and communication	384,440	5.45	310,000	5.57	-	-
Power	1,546,146	21.92	150,000	2.70	318,257	50.87
Electronics	272,380	3.86	-	-	-	-
Food and beverage	371,933	5.27	-	-	49,380	7.89
Services	412,789	5.85	150,000	2.70	-	-
Engineering and allied products	169,374	2.40	-	-	-	-
Chemical and pharmaceuticals	569,252	8.07	85,000	1.53	720	0.12
Automobiles	271,879	3.85	-	-	-	-
Fuel and energy	161,518	2.29	-	-	4,360	0.70
Construction	343,670	4.87	-	-	-	-
Cement	78,333	1.11	-	-	-	-
Sugar	660,793	9.37	-	-	-	-
Paper and board /packaging	36,598	0.52	-	-	16,500	2.64
Healthcare	166,285	2.36	-	-	-	-
Individual	92,971	1.32	465,518	8.37	-	-
Others	132,331	1.88	3,637,528	65.41	1,970	0.30
	<u>7,052,670</u>	<u>100.00</u>	<u>5,561,165</u>	<u>100.00</u>	<u>625,687</u>	<u>100.00</u>

40.2.2 Segment by sector

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	687,415	10.20	1,450,000	30.88	39,539	1.40
Private	6,052,370	89.80	3,245,693	69.12	2,793,833	98.60
	<u>6,739,785</u>	<u>100.00</u>	<u>4,695,693</u>	<u>100.00</u>	<u>2,833,372</u>	<u>100.00</u>

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	94,840	1.34	2,600,000	46.75	-	-
Private	6,957,830	98.66	2,961,165	53.25	625,687	100.00
	<u>7,052,670</u>	<u>100.00</u>	<u>5,561,165</u>	<u>100.00</u>	<u>625,687</u>	<u>100.00</u>

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

	2011		2010	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	Rupees in '000			
Automobile	268,545	268,545	271,879	271,879
Cement	65,000	65,000	70,000	70,000
Textile	412,899	300,720	308,308	284,470
Chemical and pharmaceuticals	38,962	34,758	129,075	124,870
Construction	82,250	53,675	75,250	53,675
Engineering and allied products	92,073	92,073	93,023	93,023
Electronics	32,619	32,619	41,775	41,775
Fuel and energy	89,194	22,298	89,600	49,621
Food and beverages	19,197	18,697	19,197	18,697
Financial institution	-	-	11,613	5,000
Power	68,200	68,200	68,200	68,200
Sugar	11,825	11,825	19,469	19,469
Transportation & Communication	18,314	5,814	23,617	6,950
	<u>1,199,078</u>	<u>974,224</u>	<u>1,221,006</u>	<u>1,107,629</u>

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

	2011		2010	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	Rupees in '000			
Public/Government	-	-	-	-
Private	1,199,078	974,224	1,221,006	1,107,629
	<u>1,199,078</u>	<u>974,224</u>	<u>1,221,006</u>	<u>1,107,629</u>

40.2.5 Geographical segment analysis

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Rupees in '000				
Pakistan	623,211	18,837,003	6,875,776	2,833,372
Middle East	-	2,041	-	-
	623,211	18,839,044	6,875,776	2,833,372

40.3 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 Group comprises of business unit actually undertaking the risk, the Risk Management Department, Asset and Liability Committee and the Investment Committee.

40.3.1 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 Group are exposed to interest rate risk. The Group is using a 16 band reprising 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 Group has also developed value-at-risk (VAR) model internally.

40.3.2 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 Group is not exposed to major foreign currency risk as its assets and liabilities are primarily denominated in Pakistani rupees.

	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Rupees in '000				
Pakistan Rupees	18,838,473	11,963,268	-	6,875,205
United States Dollar	136	-	-	136
Omani Riyal	435	-	-	435
	18,839,044	11,963,268	-	6,875,776

40.3.3 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 Group is exposed to such risk due to investment activities undertaken on a day-to-day basis. The Group has established a Capital Market Review Committee to monitor the equity portfolio and the future strategy pertaining thereto.

40.3.4 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 the Group 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 (ALCO)

The ALCO will be responsible for monitoring of the tolerance limits.

40.3.5 Mismatch of interest rate sensitive assets and liabilities as at December 31, 2011

Exposed to yield / interest risk											
Effective yield/ interest rate	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments
Rupees in '000											
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	66,679	-	-	-	-	-	-	-	-	-	66,679
Balances with other banks	209,531	105,580	100,473	-	-	-	-	-	-	-	3,478
Lending to financial institutions	12.37% 1,321,745	1,008,565	296,336	875	1,527	3,198	11,244	-	-	-	-
Investments	13.11% 9,746,638	290,585	3,568,235	2,457,393	1,248,086	386,564	19,121	785,807	115,736	-	875,111
Advances	15.06% 5,765,561	1,850,593	2,371,163	488,516	119,500	255,489	205,909	291,835	160,984	14,201	7,371
Other assets	375,500	-	-	-	-	-	-	-	-	-	375,500
	17,485,654	3,255,323	6,336,207	2,946,784	1,369,113	645,251	236,274	1,077,642	276,720	14,201	1,328,139
Liabilities											
Borrowings from financial institutions	11.47% 6,648,716	5,667,972	35,501	43,651	95,589	221,831	191,143	269,314	123,715	-	-
Deposits and other accounts	12.37% 4,695,693	1,256,053	1,964,703	555,771	729,007	190,159	-	-	-	-	-
Liabilities against assets subject to finance leases	13.82% 19,858	759	1,177	2,011	4,088	5,776	5,558	489	-	-	-
Other liabilities	473,605	-	-	-	-	-	-	-	-	-	473,605
	11,837,872	6,924,784	2,001,381	601,433	828,684	417,766	196,701	269,803	123,715	-	473,605
On-balance sheet gap	5,647,782	(3,669,461)	4,334,826	2,345,351	540,429	227,485	39,573	807,839	153,005	14,201	854,534
Non-financial assets	1,353,390										
Non-financial liabilities	125,396										
Total Net Assets	<u>6,875,776</u>										
Total yield / profit risk sensitivity gap		(3,669,461)	4,334,826	2,345,351	540,429	227,485	39,573	807,839	153,005	14,201	
Cumulative yield / profit risk sensitivity gap		(3,669,461)	665,365	3,010,716	3,551,145	3,778,630	3,818,203	4,626,042	4,779,047	4,793,248	

Mismatch of interest rate sensitive assets and liabilities as at December 31, 2010

Effective yield/ interest rate	Exposed to yield / interest risk									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years

Rupees in '000

On-balance sheet financial instruments

Assets

Cash and balances with treasury banks		70,420	-	-	-	-	-	-	-	-	-	70,420
Balances with other banks	11.00%	664,169	408,073	253,419	-	-	-	-	-	-	-	2,677
Lending to financial institutions	12.67%	2,467,467	1,318,964	1,136,872	1,248	1,976	5,209	3,198	-	-	-	-
Investments	12.35%	8,213,593	43,266	686,539	1,490,127	993,751	876,952	1,072,837	859,807	1,380,519	7,500	802,295
Advances	14.73%	5,945,041	75,956	501,410	600,251	826,106	1,158,353	872,943	864,868	1,023,096	14,290	7,768
Other assets		425,976	-	-	-	-	-	-	-	-	-	425,976
		17,786,666	1,846,259	2,578,240	2,091,626	1,821,833	2,040,514	1,948,978	1,724,675	2,403,615	21,790	1,309,136

Liabilities

Borrowings from financial institutions	11.63%	6,145,349	3,939,925	1,197,773	145,924	293,343	145,242	141,275	198,021	83,846	-	-
Deposits and other accounts	12.66%	5,561,165	1,283,814	1,925,030	842,532	1,493,289	1,500	15,000	-	-	-	-
Liabilities against assets subject to finance leases	15.98%	15,978	1,200	1,507	2,014	3,692	4,787	1,945	833	-	-	-
Other liabilities		546,576	-	-	-	-	-	-	-	-	-	546,576
		12,269,068	5,224,939	3,124,310	990,470	1,790,324	151,529	158,220	198,854	83,846	-	546,576
On-balance sheet gap		5,517,598	(3,378,680)	(546,070)	1,101,156	31,509	1,888,985	1,790,758	1,525,821	2,319,769	21,790	762,560

Non-financial assets	1,406,458
Non-financial liabilities	161,909
Total Net Assets	6,762,147

Total yield / profit risk sensitivity gap (3,378,680) (546,070) 1,101,156 31,509 1,888,985 1,790,758 1,525,821 2,319,769 21,790

Cumulative yield / profit risk sensitivity gap (3,378,680) (3,924,750) (2,823,594) (2,792,085) (903,100) 887,658 2,413,479 4,733,248 4,755,038

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

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

40.4 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 Group's business and operational activities.

The Group 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 Group.

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 Group monitors its Key Risk Indicators (KRI) and Loss Data reporting through an operational risk software.

The Group 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 Group's operations.

40.4.1 Maturities of assets and liabilities

Maturities of assets and liabilities as at December 31, 2011

	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Rupees in '000										
Assets										
Cash and balances with treasury banks	66,679	2,679	64,000	-	-	-	-	-	-	-
Balances with other banks	209,531	109,058	100,473	-	-	-	-	-	-	-
Lending to financial institutions	1,321,745	1,008,565	296,336	875	1,527	3,198	11,244	-	-	-
Investments	10,632,874	20,507	2,255,582	904,598	1,825,770	1,616,060	417,617	2,414,188	1,178,552	-
Advances	5,765,561	58,747	296,716	776,047	801,290	1,150,266	873,886	925,388	869,020	14,201
Other assets	387,028	95,898	179,361	106,577	37	40	205	4,910	-	-
Operating fixed assets	68,276	2,150	8,765	6,450	9,699	11,034	9,816	4,212	10,532	5,618
Deferred tax assets	387,350	(41,332)	(7,886)	(18,655)	(75,482)	(43,383)	(15,609)	591,419	(1,709)	(13)
	<u>18,839,044</u>	<u>1,256,272</u>	<u>3,193,347</u>	<u>1,775,892</u>	<u>2,562,841</u>	<u>2,737,215</u>	<u>1,297,159</u>	<u>3,940,117</u>	<u>2,056,395</u>	<u>19,806</u>
Liabilities										
Borrowings from financial institutions	6,648,716	5,667,972	35,501	43,651	95,589	221,831	191,143	269,314	123,715	-
Deposits and other accounts	4,695,693	1,256,053	1,964,703	555,771	729,007	190,159	-	-	-	-
Liabilities against assets subject to finance leases	19,858	759	1,177	2,011	4,088	5,776	5,558	489	-	-
Others liabilities	695,317	113,009	240,584	20,820	240,192	33,817	35,324	11,571	-	-
Deferred liabilities	-	-	-	-	-	-	-	-	-	-
	<u>12,059,584</u>	<u>7,037,793</u>	<u>2,241,965</u>	<u>622,253</u>	<u>1,068,876</u>	<u>451,583</u>	<u>232,025</u>	<u>281,374</u>	<u>123,715</u>	<u>-</u>
Net assets	<u>6,779,460</u>	<u>(5,781,521)</u>	<u>951,382</u>	<u>1,153,639</u>	<u>1,493,965</u>	<u>2,285,632</u>	<u>1,065,134</u>	<u>3,658,743</u>	<u>1,932,680</u>	<u>19,806</u>
Share capital	6,150,000									
Reserves	485,312									
Accumulated loss	296,512									
	<u>6,931,824</u>									
Deficit on revaluation of investment - net of tax	(103,898)									
Non controlling interest	47,850									
	<u>6,875,776</u>									

Maturities of assets and liabilities as at December 31, 2010

	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Rupees in '000										
Assets										
Cash and balances with treasury banks	70,420	3,373	67,047	-	-	-	-	-	-	-
Balances with other banks	664,169	410,750	253,419	-	-	-	-	-	-	-
Lending to financial institutions	2,467,467	1,318,964	1,136,872	1,248	1,976	5,209	3,198	-	-	-
Investments	9,129,453	43,266	788,461	1,515,142	1,293,733	876,952	1,072,837	2,151,043	1,380,519	7,500
Advances	5,945,041	76,479	502,425	601,673	828,727	1,160,540	872,943	864,868	1,023,096	14,290
Other assets	437,244	-	433,584	-	-	-	-	3,660	-	-
Operating fixed assets	74,901	1,971	13,760	5,912	11,146	11,052	8,593	4,212	10,532	7,723
Deferred tax assets	404,429	(4,403)	(20,343)	(6,467)	(89,692)	(90,294)	(13,922)	631,587	(1,505)	(532)
	<u>19,193,124</u>	<u>1,850,400</u>	<u>3,175,225</u>	<u>2,117,508</u>	<u>2,045,890</u>	<u>1,963,459</u>	<u>1,943,649</u>	<u>3,655,370</u>	<u>2,412,642</u>	<u>28,981</u>
Liabilities										
Borrowings from financial institutions	6,145,349	3,939,925	1,197,773	145,924	293,343	145,242	141,275	198,021	83,846	-
Deposits and other accounts	5,561,165	1,283,814	1,925,030	842,532	1,493,289	1,500	15,000	-	-	-
Liabilities against assets subject to finance leases	15,978	1,200	1,507	2,014	3,692	4,787	1,945	833	-	-
Others liabilities	708,485	-	418,889	10,323	183,166	41,233	29,076	25,798	-	-
Deferred liabilities	-	-	-	-	-	-	-	-	-	-
	<u>12,430,977</u>	<u>5,224,939</u>	<u>3,543,199</u>	<u>1,000,793</u>	<u>1,973,490</u>	<u>192,762</u>	<u>187,296</u>	<u>224,652</u>	<u>83,846</u>	<u>-</u>
Net assets	<u>6,762,147</u>	<u>(3,374,539)</u>	<u>(367,974)</u>	<u>1,116,715</u>	<u>72,400</u>	<u>1,770,697</u>	<u>1,756,353</u>	<u>3,430,718</u>	<u>2,328,796</u>	<u>28,981</u>
Share capital	6,150,000									
Reserves	492,568									
Accumulated loss	151,276									
	<u>6,793,844</u>									
Deficit on revaluation of investment - net of tax	(106,006)									
Non controlling interest	74,309									
	<u>6,762,147</u>									

41 Trust activities

- 41.1 The holding company is acting as trustee to Term Finance Certificates issued by Pakistan Mobile Communication Limited, Pak Arab Fertilizers Limited, United Bank Limited and Orix Leasing Pakistan Limited. The holding company is holding the trust properties in fiduciary capacity on behalf of the relevant beneficiaries. In this behalf, the holding company is fulfilling all its obligations and duties in accordance with the provisions of the respective trust documents.
- 41.2 POAMCL is managing six discretionary portfolio amounting to Rs. 74.050 million, the market value of the said portfolio is Rs. 78.783 million (including mark-up receivable of Rs. 0.197 million).

42 POST BALANCE SHEET EVENTS

The Board of Directors of the holding company in their meeting held on March 29, 2012 have:

- Proposed 3.5% cash dividend amounting to Rs. 215.250 million subject to the approval of the members at the annual general meeting .

These consolidated financial statements do not recognise the aforementioned appropriation as this has been proposed and approved subsequent to the statement of financial position date.

43 GENERAL

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

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

44 DATE OF AUTHORISATION

These financial statements were authorised on March 29, 2012 by the board of directors of the holding company.

COMPANY INFORMATION

Auditors

M. Yousuf Adil Saleem & Co.
Chartered Accountants
Member Firm of Deloitte Touche Tohmatsu

Legal Advisors

Mandviwalla & Zafar
Mohsin Tayebaly & Co.
Ijaz Ahmed & Associates

Tax Consultants

A.F. Ferguson & Co
Chartered Accountants
Member firm of PriceWaterhouse Coopers

For more information please visit our website
www.pakoman.com

Registered Head Office

First Floor, Tower A
Finance & Trade Center
Shahra-e-Faisal
Karachi
Tel: +9221 35630971-75, 35630985
Fax: +9221 35630969
Email: info@pakoman.com

Lahore Office

Office No 207, Second Floor
Siddique Trade Centre
72 Main Boulevard
Gulberg II
Lahore
Tel: +9242 35781893-95
Fax: +9242 35781892
Email: lahore@pakoman.com

Islamabad Office

Room 201,202, 2nd Floor
Khayal Plaza, Plot # 13-A
F/8 Markaz, Islamabad
Tel: +9251 2282615, 2255524
Fax: +9251 2255038
Email: islamabad@pakoman.com

Muscat Office

Office No. 505, P-Floor, Fahad Plaza
P.O.Box No.2218, P.C. 112, Ruwi
Sultanate of Oman
Tel: +968 24818523, 24812819
Fax: +968 24812565
Email: muscat@pakoman.com

Gwadar Office

Fish Harbour Road, West Bay
Gwadar
Tel: +92864 212020
Email: gwadar@pakoman.com

For more information
please visit our website
www.pakoman.com