

PAK OMAN INVESTMENT COMPANY LIMITED

ANNUAL REPORT 2012



BADSHAHI MOSQUE



SULTAN QABOOS GRAND MOSQUE



MINAR-E-PAKISTAN



FRERE HALL



MUTTRAH FORT



KARACHI MUNICIPAL CORPORATION



SOHAR FORT



KHYBAR PASS



JABRIN CASTLE



NAKHAL FORT



NATIONAL MONUMENT



RIYAM PARK MONUMENT

PROUD HERITAGE

ANNUAL REPORT 2012

Through symbols of nationhood, we highlight the joint pride that drives us at Pak Oman to bring greater financial prosperity.

A SYMBOL OF FORTITUDE

NAKHAL FORT

Nakhal Fort is one of the most prominent historical monuments in the Sultanate of Oman. It derives its name from the Wilaya itself. The fort's architecture does not follow a particular pattern, as it was designed around an irregularly shaped rock. The construction of the castle dates back to the pre-Islamic era.



COMPANY PROFILE

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

A KEEN EYE FOR PROFITABILITY

VISION

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

MISSION

Pak Oman will endeavor to provide cutting edge financial solutions to meet the requirement 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.

THE IDENTITY OF A NATION

NATIONAL MONUMENT

The National Monument in Islamabad, Pakistan represents the nation's four provinces and three territories. After a competition among many renowned architects, Arif Masood's plan was selected for the final design. The blooming flower shape of the monument represents Pakistan's progress as a rapidly developing country.



COMPANY OBJECTIVES

Pak Oman Investment Company Limited has the following objectives:

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 undertaking financially viable projects that meet socio-economic development goals.

CORE VALUES

All activities and decisions, at Pak Oman Investment Company are to be 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.

THE HALLMARK OF UNITY

KARACHI MUNICIPAL CORPORATION

The Karachi Municipal Corporation (KMC) Building is one of the many historic buildings located at M. A. Jinnah Road and has evolved to an iconic status as one of the landmark structures of Karachi, Pakistan. The foundation stone for the KMC Building was laid in 1927, construction was completed in 1930, followed by the inauguration in 1932.



CODE OF ETHICS / BUSINESS PRACTICES

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, regulation 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

SHAPING THE FUTURE OF INVESTMENTS

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GATEWAY TO A NEW FRONTIER

MUTTRAH FORT

The Muttrah Fort in Oman was built by the Portuguese in the 1580's. The Fort dominates the eastern end of the harbor and is used for military purposes. It consists of three circular towers one of which still houses old cannons.



BOARD & 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 Mubark
Al Athobi
Director

Mr. Mustafa Bin Ali Sulaiman
Director

Mr. Yusuf Khan
Director

Mr. M. Zubair Motiwala
Director

Audit Committee

Mr. Hamed Sloom Mubark Al
Athobi
Chairman

Mr. Yusuf Khan
Member

Mr. M. Zubair Motiwala
Member

Mr. Mustafa Bin Ali Sulaiman
Member

Executive Committee

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

Mr. Agha Ahmed Shah
Member

Mr. Yusuf Khan
Member

Mr. M. Zubair Motiwala
Member

Board's HR Committee for Remuneration & Compensation

Mr. M. Zubair Motiwala
Chairman

Mr. Agha Ahmed Shah
Member

Mr. Mustafa Bin Ali Sulaiman
Member

Mr. Hamed Sloom Mubark
Al Athobi
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 Falzyab
Head Corporate Banking

Mr. Zaimal R. Khan
Head Risk Management

Mr. S. M. Shoalb Omar
Head HR and Administration

Mr. Mohammad Shoalb
Head Treasury

Syed Abdullah Jamal Ahmed
Head Internal Audit

Mr. Mohammad Naeem Saeed
Head Information Technology

Syed Khaled Raza
Head Credit Administration

Mr. Kashif M. Khan
Regional Head, North

Mr. Nafees Ahmad
Regional Head, Central

Mr. Noaman Abdul Majid
Country Manager, Oman

BOARD OF DIRECTORS

From Left to Right

Mr. Agha Ahmed Shah
Managing Director &
Chief Executive Officer

Mr. Hamed Sloom
Mubark Al Athobi
Director

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

Mr. M. Zubair Motiwala
Director

Mr. Mustafa Bin Ali Sulaiman
Director

Mr. Yusuf Khan
Director



MANAGEMENT TEAM

From Left to Right

Mr. Mohammad Shoaib
Treasurer

Mr. S. M. Shoaib Omair
Head HR & Administration

Mr. Khurram Faizyab
Head Corporate Banking

Mr. Agha Ahmed Shah
Managing Director &
Chief Executive Officer

Mr. Jehangir Shah
Deputy Managing Director

Mr. Zaim R. Khan
Head Risk Management

Syed Abdullah Jamal Ahmed
Head Internal Audit

Mr. Mohammad Naeem Saeed
Head Information Technology

Mr. Mohammad Jamal Nasir
Chief Financial Officer

Syed Khaled Raza
Head Credit Administration



AN ICON OF DEVELOPMENT

FRERE HALL

Frere Hall is one of the few well-preserved buildings from the days of the British Raj that still exists in Karachi, Pakistan. Built in honor of Sir Henry Bartle Edward Frere (1815-1884) who was known for promoting economic development in the port city of Karachi.



BOARD OF DIRECTORS



Yahya Bin Said Bin Abdullah Al Jabri

Chairman of the Special Economic Zone at Duqm

His Excellency Yahya Said Al Jabri holds senior positions in Oman's leading business and financial sectors.

His Excellency Yahya Bin Said Bin Abdullah Al Jabri 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 wherein he attained degrees in advanced Management programmes.

He holds senior positions in Oman's leading business & financial sectors such as being a member of the Board of Directors at the Central Bank of Oman, a Board member of the Civil Service Pension Fund, a Board member of the Oman Investment Fund, Chairman of Pak Oman Investment Company and Chairman of the Capital Market Authority.

Earlier in his career, Excellency also represented Oman International Bank (Former) in the capacity of General Manager, where he was responsible for the complete operational aspect of the Bank which comprised of 81 local and 4 overseas branches in India & Pakistan.

On June 1999, he was appointed as the Executive President of the Capital Market Authority which is a regulatory entity entrusted with the function of upgrading the efficiency of the capital market, regulating its operations and establishing the rules of professional conduct among the participants of the

securities market which would help protect investors from unsound and unfair practices in the interest of the national economy.

He is also currently a member of the Hawkamah Institute for Corporate Governance.

On the 30th of October 2011 H.E. has been appointed as the Chairman of the Special Economic Zone Authority at Duqm which is taking shape in a strategic location at the northern Al Wusta region. This is a giant project which is part of the government's efforts to accelerate the growth rate and maintain sustainable economic and social development aimed at diversification of resources particularly on areas like foreign trade, investment, tourism and fisheries and creation of new job opportunities for the citizens.

THE RESOLUTION FOR PROGRESS

MINAR-E-PAKISTAN

Built in the 1960's to commemorate the Lahore Resolution, the tower is constructed on the site where, on 23 March 1940, seven years before the formation of Pakistan, the Muslim League passed the Pakistan Resolution. This was the first official declaration to establish a separate homeland for the Muslims living in the Indian Subcontinent.



Mr. Mustafa Bin Ali Sulaiman

Director General - Ministry of Finance
Sultanate of Oman

Director - Pak Oman Investment
Company

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 previously served as a Director of Gulf International Bank, Bahrain and Al-Batnah Hotels Company (SAOG), Sultanate of Oman.

Mr. Sulaiman has extensive experience in the fields of taxation, investigation of financial statements, Fund Management, Forex trading and cash flow management.

THE ROUTE TO SUCCESS

KHYBER PASS

The Khyber Pass located at the entrance to Peshawar, is a mountain pass linking Pakistan and Afghanistan. It has served as a trade route between south and north Asia for centuries. The Khyber Pass is a key passage along the infamous Silk Route that links multiple Asian countries.



Mr. Hamed Sloom Mubark Al Athobi

Sultanate of Oman
Director - Pak Oman Investment Company

Mr. Hamed Sloom Mubark Al Athobi has 17 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 at 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, Salalah Methanol Co., 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.

Mr. Athobi holds an MBA from the University of Strathclyde, UK and a Professional Diploma in Accountancy from the Association of Accounting Technicians.

THE BIRTHPLACE OF LEGENDS

SOHAR FORT

Sohar Fort situated in Sohar, Oman lies 200 kilometers (124 mi) north of Muscat. Sohar was an ancient capital of Oman. Many believe it to be the birthplace of Sinbad the Sailor and is more recently known as Oman's industrial hub due to the massive developments in the Sohar industrial Port.



Mr. Agha Ahmed Shah

Managing Director &
Chief Executive Officer
Pak Oman Investment
Company Limited

Mr. Agha Ahmed Shah is a career banker with 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 Limited 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

He is also a member of the Executive Committee of the Pakistan Banks Association.

Mr. Agha Ahmed Shah is a career banker with over 28 years of banking experience in the field of Corporate & Investment Banking and Risk Management.

THE ART OF MAGNIFICENCE

JABRIN CASTLE

Jabrin Castle in Oman was built by Imam Biliarab in 1675 during the reign of Ya'aruba dynasty. Located outside of Nizwa province in Oman, it is famed for its artistry and majestic look. Painted ceilings and inscriptions of Quranic verses add to the magnificence of the castle, and is a specific example of the Oman architectural style and culture during its glorious past.



Mr. M. Zubair Motiwala

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

In recognition of Mr. Motiwala's exceptional leadership skills and business acumen, he has been appointed Honorary Consul General of the Republic of Burundi.

Mr. Muhammad Zubair Motiwala is the Chairman Sindh Board of Investment since July 2011 and nominated as a Special Assistant to Chief Minister Sindh (with Minister Status) since October 2012. 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 President, Karachi Chamber of Commerce & Industry in 2000 and the Chairman of All Pakistan Textile Processing Mills Association. In 1996, Mr. 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.

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 Youth 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 Director 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.

PRINCIPLES OF SOUND LEADERSHIP

RIYAM PARK MONUMENT

The Riyam Park in Muscat, Oman has a monument shaped like an incense burner, which is traditional to the people of Oman. Riyam lies between Muscat and Muttrah, and is where a peace treaty was signed with the Portuguese in 1648.



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 is currently posted as Finance Secretary, Government of AJ&K and in the past has served in key positions such as Joint Secretary (External Finance) and Joint Secretary (Development) Ministry of Finance; 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. He has also worked with the Asian Development Bank, USAID and UNDP. Mr. Khan holds

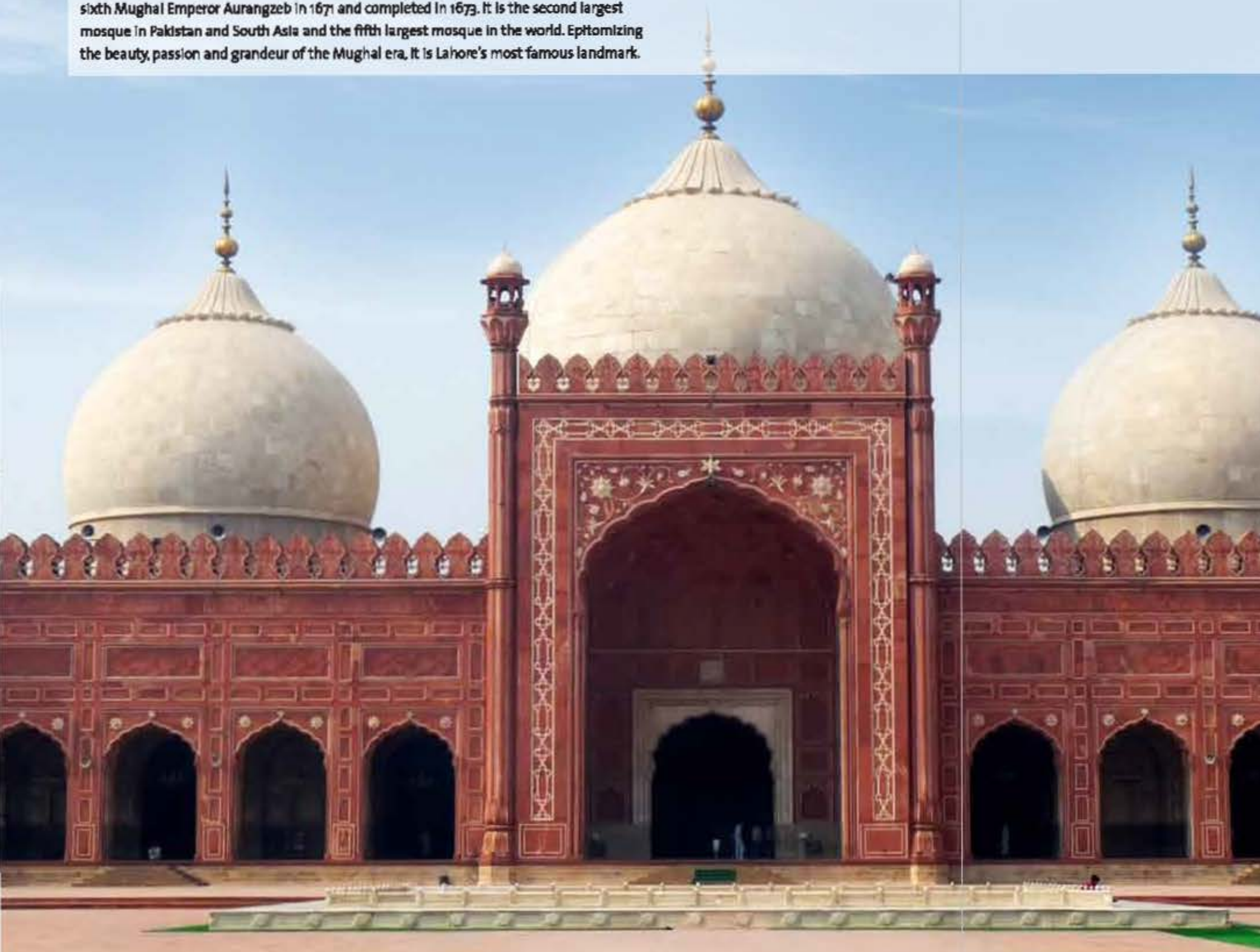
a Master of Philosophy (MPhil) in Development Studies from the University of Cambridge, UK. He knows eight languages.

Mr. Khan holds a Master of Philosophy (MPhil) in Development Studies from the University of Cambridge, UK.

AN EMBLEM OF TRADITION

BADSHAHI MOSQUE

The Badshahi Mosque or the 'Royal Mosque' in Lahore, Pakistan was commissioned by the sixth Mughal Emperor Aurangzeb in 1671 and completed in 1673. It is the second largest mosque in Pakistan and South Asia and the fifth largest mosque in the world. Epitomizing the beauty, passion and grandeur of the Mughal era, it is Lahore's most famous landmark.



CHAIRMAN'S REVIEW



I am pleased to report that despite the challenging economic environment, 2012 was another good year of Pak Oman Investment Company Limited. Our performance has shown that we are in the right markets, with the right strategy, and have the right leadership in place to deliver consistent value for our shareholders.

- Alhamdulillah, your Company has recorded a profit after tax of Rs 428 million (US\$ 4.4 million) compared to a profit after tax of Rs 348 million (US\$ 3.6 million) in 2011. As at December 31, 2012, Company's Total Assets stood at Rs 19 billion (US\$ 191 million).
- The Company maintained its Credit Rating of AA+ and Corporate Governance Rating of CCR 9 by JCR-VIS Credit Rating Company.
- It continued booking new business / accounts in a very difficult year.

OVERVIEW OF OPERATIONS

Corporate Banking

In FY2012, Pakistan's economy recovered modestly from the previous year's devastating floods to grow by 3.7%. Agricultural growth picked up by 3.1%, markedly easing inflationary pressure. The recovery, however, did not extend to large-scale manufacturing, which was hobbled by a significant increase in power load shedding during most of the year, reducing growth in large-scale manufacturing to only 1.2%, even lower than the flood-induced slowdown of 1.8% in FY2011. Pharmaceuticals strengthened, but the production of textiles stagnated and that of automobiles, chemicals, iron, and steel contracted. Factors such as acute power shortages leading to under utilization of industrial capacity and rise in the cost of production, the long-standing issue of inter-corporate circular debt, considerable decline in foreign

direct investment, worsening security and law & order concerns and high commodity prices all had a role to play in keeping the process of economic recovery in Pakistan weak at best.

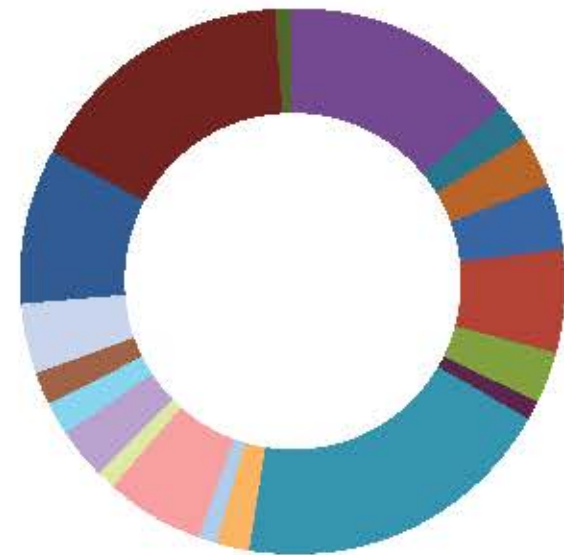
Under these conditions, Corporate Banking continued with a conservative approach to lending in 2012 by booking selected quality customers in key growth areas. This has been successfully achieved, with disbursements made during 2012 totalling Rs 2.8 billion against an annual target of Rs 2.5 billion.

Textile continued to remain the dominant sector of the portfolio, comprising around 19% of the total loan portfolio. This sector has benefited from the appreciation of US Dollar and stable yarn and cotton prices. The other significant sectors in our portfolio are Power (16%), Agriculture (14%) and Food, Beverages & Tobacco (9%). In the Power sector, no new exposure was taken thereby reducing its share to approximately 16% of our portfolio.

In 2012, Corporate Banking has continued the strategy of booking top end export oriented customers and servicing them through State Bank of Pakistan's (SBP) subsidized funding facilities. Through this strategy, Corporate has managed to address the issue of mismatch between its assets and corresponding liabilities, and yet earn a fixed percentage spread.

A renewed focus on recoveries continues to pay dividends as Corporate Banking was able to reverse Rs 107 million of provisioning held in various accounts. In the process, one litigation account was fully settled during the year by pursuing an out of court settlement. The Company continued to closely monitor its flagged accounts, due to which nine such accounts were fully settled during the year.

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



■ Agriculture	14%
■ Engineering	2%
■ Electronics	3%
■ Auto & Allied	4%
■ Oil & Gas Marketing / Exploration / Other	6%
■ Chemicals / Fertilizers	3%
■ Paper, Board & Packaging	1%
■ Textile	19%
■ Construction / Housing	2%
■ Cement	1%
■ Sugar	6%
■ Finance	1%
■ Communications & Media	3%
■ Transportation	2%
■ Healthcare	2%
■ Others	4%
■ Food, Beverages & Tobacco	9%
■ Power	16%
■ Pharmaceutical	1%

Investment Banking

Despite a difficult working environment, Investment Banking Department of Pak Oman continued to provide tailor made solutions to its target customer base.

During the year, Pak Oman acted as Advisor & Arranger to Transworld Associates (Pvt.) Ltd. - operators of Pakistan's first private sector submarine fiber optic cable which provides International bandwidth services to the country's leading ISPs and telecom operators - and successfully arranged Rs 169 million financing for them for purchase of bandwidth.

Pak Oman also acted as one of the Lead Restructuring Advisors to Worldcall Telecom Ltd. and successfully restructured the outstanding amount of Rs 1,644 million of its listed Term Finance Certificate issue.

Treasury

The monetary easing stance of State Bank of Pakistan resulted in a reduction of discount rate from 12% in January 2012 to 9.5% in December 2012. Major reason cited by the State Bank was a continuous decline in CPI inflation, the need to boost credit off take and slow economic activity. As a result, yields on investment with longer tenor decreased significantly in comparison to shorter tenor ones.

The Company took advantage of this declining trend in interest rate and booked a capital gain of Rs 142 million on its government and corporate debt securities portfolio. Furthermore, the Company has also built a healthy Pakistan Investment Bonds (PIBs) portfolio of Rs 3.6 billion; an increase of 200% over the previous year.

Strategy of deposit mobilization from retail clientele has started paying off as dependence on fewer clients with large deposits has been reduced. This has also helped in bringing down the average cost of deposits.

Risk Management

Pak Oman has stringent and robust risk management policies and procedures. It constantly endeavours to be better prepared to meet any future challenges may it be internal or external. 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 events.

Support Operations

Finance, Information Technology, Human Resources and Administration played their role in supporting core operations of the Company. Information Technology Department placed special emphasis on the re-development of existing application systems in order to bring necessary improvements and reap the benefits of latest technologies. Necessary improvements were also made in IT infrastructure by upgrading hardware and software to improve 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 2012, the Company's contribution to the national exchequer was Rs 353 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 The Citizens Foundation. The Citizens Foundation is currently running 730 schools nationwide for the education of less privileged. Reached over 102,000 children across Pakistan the Citizens Foundation provides quality education.

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. In addition to monthly financial assistance POICL have organized various events to raise funds for Darul Sukun and support towards the construction and furnishing of its new wing of affiliated homes.

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 Center, the first

of its kind in Pakistan, operating according to International medical standards. It is run by a Committee "Friends of Burns Centre". Although there is a lack of availability for burn treatments in the country, the Centre manages to cater to approximately 20,000 patients per year, with an average of 500-600 in-patients from all over Pakistan with severe burns, completely free of cost.

Pak Oman's Friends of Life Committee instigated a project with the 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.

In addition to above Pak Oman has financially supported The Kidney Center and Patients' Aid Foundation of Jinnah Postgraduate Medical 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.

Pak Oman remained in the forefront of relief efforts and had contributed generously in Prime Minister's Relief Fund in the last two years flood.

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

2013 and Beyond

We remain cautious on the economic outlook, besides, lower interest rates and shrinking spreads. However, with a proven strategy, I believe we are well positioned to capitalize on growth opportunities in the coming year to the benefit of our shareholders, employees and customers.

In order to meet minimum equity requirement and to increase fund size of our subsidiary Pak Oman Asset Management Company Limited (POAMCL), your Board has decided to look into a merger option for POAMCL with another Asset Management Company in 2013.

Further, your Board has also decided to increase its equity investment in Pak Oman Microfinance Bank to the extent of Rs 50 million in order to meet the minimum equity requirement prescribed by the State Bank of Pakistan for Microfinance Banks.

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: February 28, 2013

A TESTAMENT TO PERSEVERANCE

SULTAN QABOOS GRAND MOSQUE

Work began on the construction of the Sultan Qaboos Grand Mosque complex on a site located between Muscat and Seeb early in 1995. It was completed six years later and Inaugurated by His Majesty the Sultan in May 2001. The mosque can accommodate up to 20,000 worshippers.



DIRECTORS' REPORT



On behalf of the Board of Directors, I have great pleasure in presenting the Eleventh 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, 2012.

Economy

Macroeconomic stability emanating from fiscal weakness will remain a challenge in 2013. Constrained by energy shortages and a weak global economy, the export growth remains subdued. However, robust growth in remittances from overseas Pakistanis provides a support to the balance of payment position.

GDP growth is expected around 3.5% against a projected 4.3% for the year 2012-13.

Broadening of tax base, solving the energy crises, controlling inflation, enhancing FDI, reducing subsidies and the global economic conditions will remain major challenges for 2013.

Operational Review

The economy witnessed significant turbulence during the year. During 2012, the State Bank of Pakistan kept reducing its discount rate, owing to a decrease in the inflation rate, which resulted in a decline in average spreads. In this backdrop, Alhamdulillah your company has recorded a profit before tax of Rs 606 million (US\$ 6.2 million) as compared to a profit before tax of Rs 579 million (US\$ 6 million) in 2011. Further, during the year under review your company has successfully reversed Rs 114 million (US\$ 1.17 million) of provisioned accounts. Your company also took advantage of decreasing yield on Government securities by booking gains

of Rs 137 million on the sale of such Government securities in the secondary market.

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\$ 24.6 million). After accounting for mark-up and interest expense of Rs 1,304 million (US\$ 13.4 million) and total administrative and other expenses of Rs 312 million (US\$ 3.2 million), your company achieved a profit before provisions of Rs 781 million (US\$ 8 million). However, during the year total provisions on loans / investments were Rs 175 million (US\$ 1.8 million). As a result, the Company achieved profit before tax of Rs 606 million (US\$ 6.2 million) [2011: Rs 579 million (US\$ 6 million)] and profit after tax of Rs 428 million (US\$ 4.4 million) [2011: Rs 348 million (US\$ 3.6 million)] respectively.

During 2012, Pak Oman Investment Company Limited continued to build a well-diversified asset portfolio, comprising of loans and leases, corporate bonds and investment in government securities. As at December 31, 2012, Company's Total Assets stood at Rs 19 billion (US\$ 191 million).

Financial Results

	For the year ended 2012	
	Rs million	US\$ million
Total Assets	18,578	191.2
Advances	6,347	65.3
Investments	10,229	105.3
Profit after taxation	428	4.4

Appropriations

The Board has recommended following appropriations:

	For the year ended 2012	
	Rs million	US\$ million
To Statutory Reserve	85.7	0.88
Cash Dividend @ Rs 0.40 per share	246	2.53

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 indicates a 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 2012-2013.

Pak Oman Microfinance Bank

Pak Oman Microfinance Bank Limited continued to play its role for alleviating poverty in the country. However, aftermaths of the 2011 floods and poor law and order situation in some parts of the country is impacting the performance of the Bank, which are likely to dissipate with the passage of time.

The salient features of Pak Oman Microfinance Bank's performance are;

Operational branches	16
Service centres	5
Borrowers	58,107
Deposit holders	16,020
Customers	74,127
Disbursements	Rs 974,200,000
Deposits	Rs 29,127,253
Number of loans	58,107
Average loan size	Rs 16,766

Going forward, Pak Oman Microfinance Bank plans to steadily increase its outreach by opening one more Branch and two Service Centres in 2013. In addition, 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.

In order to meet its minimum equity requirement, Pak Oman Microfinance Bank plans to issue right shares of Rs 150 million in the first half of 2013.

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 meet its minimum equity requirement and to increase its fund size, the company is currently looking into a possible merger with another Asset Management Company. Pak Oman Advantage Islamic Income Fund posted a return of 10.92%, Pak Oman Islamic Asset Allocation Fund posted a return of 11.79%, Pak Oman Advantage Asset Allocation Fund posted a return of -0.89%, Pak Oman Advantage Fund posted a return of 10.52% and Pak Oman Government Securities Fund posted a return of 10.48% during the fiscal year 2012.

In 2012, Pak Oman continued to build a well-diversified asset portfolio, comprising of loans and leases, corporate bonds and investment in government securities.

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:

- These financial statements, prepared by the Management, present fairly its state of affairs, the result of its operations, cash flows, and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure from them has been appropriately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no doubts regarding the Company's ability to continue as a going concern.
- One of the directors of the Company has completed the "Directors Training Certification". Other directors have attended "Directors' Orientation Workshop".
- 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 2012 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. M. Zubair Motiwala	5
Mr. Mustafa Bin Ali Sulaiman	5
Mr. Hamed Sloom Mubarak Al Athobi	5
Mr. Yusuf Khan	5
Mr. Agha Ahmed Shah	5

Directors

There was a change in Board of Directors during the year, 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, 2012 according to their un-audited financial statements were Rs 77.2 million and Rs 49.3 million respectively.

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.

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, 2013.

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

Sponsors

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 Officer
Karachi: February 28, 2013

SIX YEARS FINANCIAL SUMMARY

December 31	2012	2011	2010	2009	2008	2007
	----- (Rupees in '000) -----					
STATEMENT OF FINANCIAL POSITION						
ASSETS						
Cash and balances with treasury and other banks	260,159	275,705	731,123	664,330	557,108	1,667,019
Lendings to financial institutions	833,119	1,321,745	2,454,610	2,846,936	3,137,180	3,706,071
Investments - net	10,229,027	10,589,968	9,143,686	10,775,046	6,996,478	9,063,700
Advances - net	6,347,059	5,767,026	5,947,929	5,514,114	5,740,174	6,878,787
Operating fixed assets	58,725	63,811	65,082	62,538	67,109	73,877
Other assets	849,852	798,082	832,559	701,775	894,565	462,491
Total assets	18,577,941	18,816,337	19,174,989	20,564,739	17,392,614	21,851,945
LIABILITIES						
Borrowings	6,546,367	6,648,716	6,145,349	8,895,096	7,491,561	11,776,222
Deposits and other accounts	4,351,000	4,695,693	5,561,165	4,562,089	3,023,121	2,168,358
Other liabilities	519,504	626,355	731,585	684,653	605,109	535,608
Total Liabilities	11,416,871	11,970,764	12,438,099	14,141,838	11,119,791	14,480,188
NET ASSETS	7,161,070	6,845,573	6,736,890	6,422,901	6,272,823	7,371,757
REPRESENTED BY						
Share capital	6,150,000	6,150,000	6,150,000	6,150,000	6,150,000	6,150,000
Reserves & Unappropriated profit	1,008,022	794,918	692,896	414,920	1,022,413	1,323,460
	7,158,022	6,944,918	6,842,896	6,564,920	7,172,413	7,473,460
Surplus / (deficit) on revaluation of assets - net of deferred tax	3,048	(99,345)	(106,006)	(142,019)	(899,590)	(101,703)
	7,161,070	6,845,573	6,736,890	6,422,901	6,272,823	7,371,757

December 31	2012	2011	2010	2009	2008	2007
	----- (Rupees in '000) -----					
PROFITABILITY						
Mark-up/Return/Interest earned	2,048,783	2,264,147	2,224,130	2,319,194	2,038,155	1,572,096
Mark-up/Return/Interest expensed	(1,304,300)	(1,513,542)	(1,462,002)	(1,636,815)	(1,318,404)	(1,063,943)
Net mark-up/interest income	744,483	750,605	762,128	682,379	719,751	508,153
Fee, commission and brokerage income	13,969	11,185	22,013	15,693	51,432	49,041
Capital gain & dividend income	331,868	119,437	181,968	4,500	(115,157)	441,885
Other income	1,978	2,355	2,332	43	1,675	546
Total non markup/interest income	347,815	132,977	206,313	20,236	(62,050)	491,472
Gross Income	1,092,298	883,582	968,441	702,615	657,701	999,625
Administrative expenses and other charges	(311,967)	(269,204)	(248,755)	(246,628)	(277,645)	(224,383)
Profit before provisions	780,331	614,378	719,686	455,987	380,056	775,242
Provisions	(174,808)	(35,085)	(337,929)	(1,109,806)	(253,496)	(99,166)
Profit / (loss) before taxation	605,523	579,293	381,757	(653,819)	126,560	676,076
Taxation	(177,169)	(231,271)	(103,781)	46,326	(120,107)	(152,771)
Profit / (loss) after taxation	428,354	348,022	277,976	(607,493)	6,453	523,305
CASH FLOW STATEMENT - SUMMARY						
Cash flow from operating activities	2,533,492	(2,451,484)	1,810,305	52,313	363,978	258,803
Cash flow from investing activities	(2,324,966)	2,251,437	(1,733,597)	(33,351)	(1,000,219)	(3,378,103)
Cash flow from financing activities	(224,072)	(255,371)	(9,915)	(11,740)	(320,670)	2,839,203
Cash and cash equivalents at the beginning of the year	275,705	731,123	664,330	657,108	1,614,019	1,894,116
*Cash and cash equivalents at the end of the year	260,159	275,705	731,123	664,330	657,108	1,614,019
Financial Ratios						
Return on Equity	6.1%	5.0%	4.1%	-8.8%	0.1%	9.7%
Return on Assets	2.3%	1.8%	1.4%	-3.2%	-	2.8%
Profit / (loss) before tax ratio	55.4%	65.6%	39.4%	-93.1%	19.2%	67.6%
Gross spread ratio	36.3%	33.2%	34.3%	29.4%	35.3%	32.3%
Total Assets to shareholders' fund	2.59	2.75	2.85	3.20	2.77	2.96
Weighted average cost of debt	11.73%	13.13%	11.62%	13.66%	10.78%	8.57%
Capital adequacy ratio (CAR)	41.45%	41.72%	37.48%	35.72%	40.81%	42.45%
Share Information						
Cash dividend per share	4%	3.5%	4%	-	-	5%
Basic and diluted earnings / (loss) per share	0.70	0.57	0.45	(0.99)	0.01	1.22
Breakup value per shares - Without surplus on revaluation of assets	11.64	11.29	11.13	10.67	11.66	12.15
Breakup value per shares - With surplus on revaluation of assets	11.64	11.13	10.95	10.44	10.20	11.99

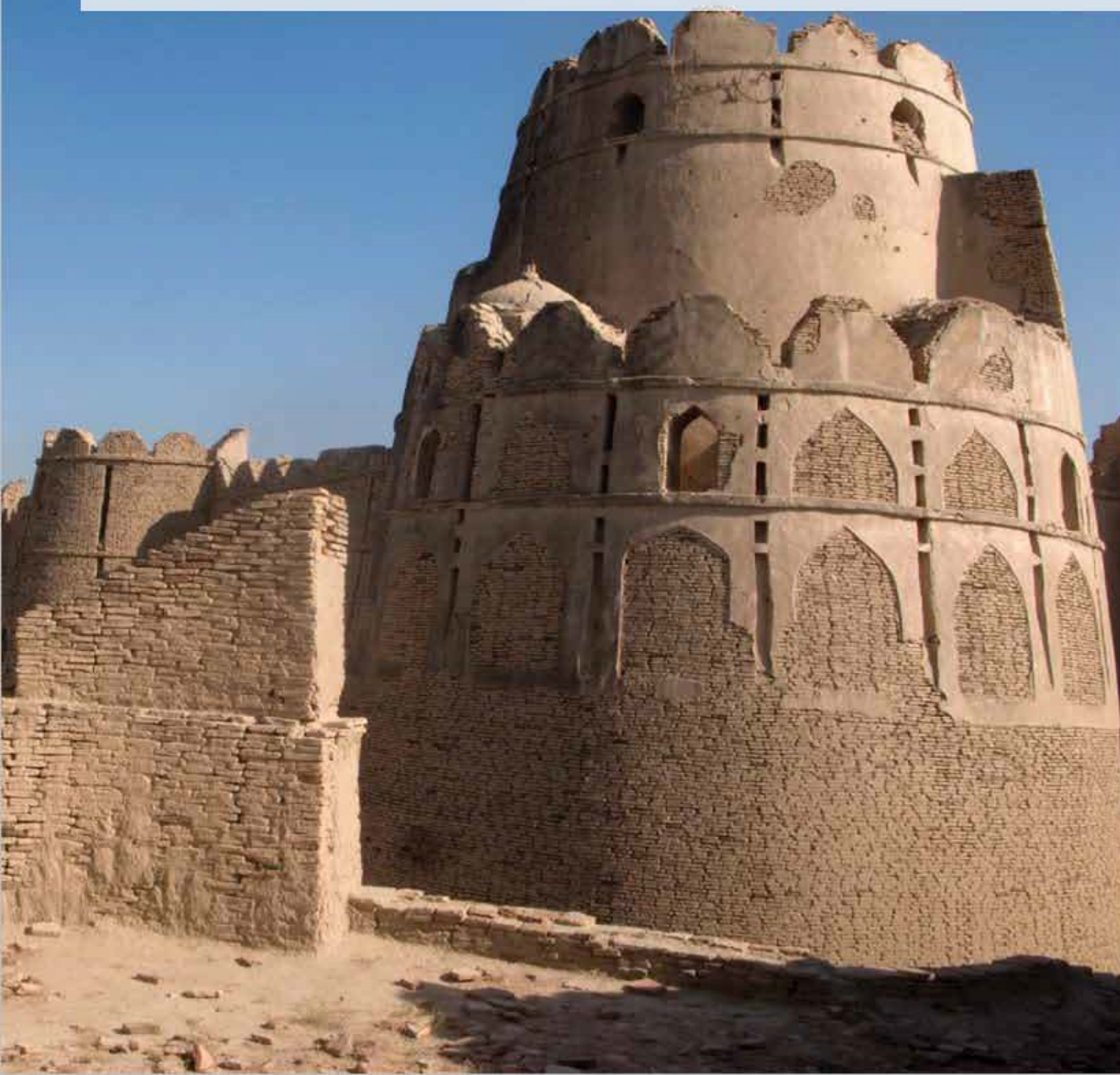
* Cash and cash equivalents comprise cash and balances with treasury banks, balances with other banks and placements with financial institutions having maturities of three (3) months or less.



THE MARK OF INVINCIBILITY

KHAIRPUR FORT

Fort Diji located at Khairpur, Pakistan, was considered invincible and served as the residence of the Emirs of Khairpur in times of peace. It is, therefore, the ancestral home of the royal house. During times of war, Zenana (female members of the royal family), would be shifted to Shahgarh Fort. Throughout its history, however, the fort was never attacked.



REVIEW REPORT TO THE MEMBERS

on Statement of Compliance with 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 (the Board) of Pak-Orman Investment Company Limited (the Company) to comply with the Regulations 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 the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance (the statement) 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, the Listing Regulations of Karachi Stock Exchange requires the Company to place before the Board for their consideration and approval of 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 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, 2012.

M. Yousuf Adil Saleem & Co
Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Karachi: February 28, 2013

STATEMENT OF COMPLIANCE

with the Code of Corporate Governance for the year ended December 31, 2012

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

The Company has applied the principles contained in the CCG in the following manner:

- At present the Board of Directors comprises of one executive and five non-executive directors. All directors are nominees of the Government of the Islamic Republic of Pakistan and the Sultanate of Oman under articles of the Joint Venture agreement signed between the two Governments.

Category	Names
Executive Director	Mr. Agha Ahmed Shah, MD & CEO
Non-Executive Directors	H.E. Yahya Bin Said Bin Abdullah Al-Jabri Mr. M. Zubair Motiwala Mr. Mustafa Bin Ali Sulaiman Mr. Hamed Sloom Mubarak Al Athobi Mr. Yusuf Khan

- The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).
- All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- No casual vacancy occurred on the Board during the year ended December 31, 2012.
- The Company has prepared a "Code of Conduct", and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.
- 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.
- 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, other executive and non-executive directors, have been taken by the Board.
- The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- One of the directors of the Company has completed the "Directors Training Certification". Other directors have attended "Directors' Orientation Workshop".

- The Board has approved the appointment of CFO, the Company Secretary and the Head of Internal Audit, including their remuneration and terms and conditions of employment.
- The directors' report for the year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
- The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
- The directors, CEO and executives do not hold any interest in the shares of the Company.
- The Company has complied with all the corporate and financial reporting requirements of the CCG.
- The Board has formed an audit committee, which comprises of four non-executive directors.
- The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the CCG. The terms of reference of the committee have been formed and advised to the Committee for compliance.
- The Board has formed an HR committee for remuneration & compensation. It comprises of four members, of which three are non-executive directors including the chairman.
- The Board has set up an effective internal audit function.
- 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 the Institute of Chartered Accountants of Pakistan.
- 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.
- We confirm that all other material principles enshrined in the CCG have been complied with.

Yahya Bin Said Bin Abdullah Al-Jabri
Chairman

Karachi: February 28, 2013

Agha Ahmed Shah
Managing Director & Chief Executive Officer

STATEMENT OF INTERNAL CONTROLS

For the year ended December 31, 2012

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 Pak Oman Investment Company Limited (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

Karachi: February 28, 2013

S. Abdullah Jamal Ahmed

Chief Internal Auditor

Deloitte.

M. Yousuf Adil Saleem & Co
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

to the Members

We have audited the annexed unconsolidated statement of financial position of Pak-Oman Investment Company Limited (the Company) as at December 31, 2012 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof (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 unconsolidated statement of financial position and unconsolidated profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii. the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.
- c. in our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof 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, 2012 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.

M. Yousuf Adil Saleem & Co

Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Karachi: February 28, 2013

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2012

2012	2011		Note	2012	2011
----(US\$ in '000)----				----(Rupees in '000)----	
		ASSETS			
1,049	686	Cash and balances with treasury banks	6	101,865	66,647
1,629	2,152	Balances with other banks	7	158,294	209,058
8,576	13,605	Lendings to financial institutions	8	833,119	1,321,745
105,291	109,007	Investments - net	9	10,229,027	10,589,968
65,333	59,362	Advances - net	10	6,347,059	5,767,026
604	657	Operating fixed assets	11	58,725	63,811
4,893	4,414	Deferred tax assets - net	12	475,398	428,823
3,854	3,801	Other assets	13	374,454	369,259
191,229	193,684			18,577,941	18,816,337
		LIABILITIES			
-	-	Bills payable		-	-
67,384	68,438	Borrowings	14	6,546,367	6,648,716
44,787	48,335	Deposits and other accounts	15	4,351,000	4,695,693
-	-	Sub-ordinated loans		-	-
109	199	Liabilities against assets subject to finance lease	16	10,556	19,378
-	-	Deferred tax liabilities		-	-
5,238	6,248	Other liabilities	17	508,948	606,977
117,518	123,220			11,416,871	11,970,764
73,711	70,464	NET ASSETS		7,161,070	6,845,573
		REPRESENTED BY			
63,304	63,304	Share capital	18	6,150,000	6,150,000
5,877	4,996	Reserves	19	570,983	485,312
4,499	3,187	Unappropriated profit		437,039	309,606
73,680	71,487			7,158,022	6,944,918
31	(1,023)	Surplus / (deficit) on revaluation of assets - net of deferred tax	20	3,048	(99,345)
73,711	70,464			7,161,070	6,845,573
		Contingencies and commitments	21		

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

Managing Director and Chief Executive Officer

Chairman

UNCONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2012

2012	2011		Note	2012	2011
----(US\$ in '000)----				----(Rupees in '000)----	
21,089	23,306	Mark-up / return / interest earned	22	2,048,783	2,264,147
13,426	15,579	Mark-up / return / interest expensed	23	1,304,300	1,513,542
7,663	7,727	Net mark-up / interest income		744,483	750,605
(570)	(1,373)	Reversal of provision against non-performing advances	10.6	(55,410)	(133,405)
2,370	1,734	Provision for diminution in the value of investments	9.3	230,218	168,490
-	-	Bad debts written off directly		-	-
1,800	361			174,808	35,085
5,863	7,366	Net mark-up / interest income after provisions		569,675	715,520
		NON MARK-UP / INTEREST INCOME			
144	115	Fee, commission and brokerage income		13,969	11,185
899	1,278	Dividend income		87,316	124,132
-	-	Income from dealing in foreign currencies		-	-
2,375	126	Gain on sale of securities	24	230,758	12,255
142	(174)	Unrealised gain / (loss) on revaluation of Investments classified as held-for-trading		13,794	(16,950)
20	24	Other income	25	1,978	2,355
3,580	1,369	Total non mark-up / interest income		347,815	132,977
9,443	8,735			917,490	848,497
		NON MARK-UP / INTEREST EXPENSES			
3,123	2,616	Administrative expenses	26	303,445	254,100
-	-	Other provisions / write offs		-	-
87	156	Other charges	27	8,522	15,104
3,210	2,772	Total non mark-up / interest expenses		311,967	269,204
6,233	5,963			605,523	579,293
-	-	Extra ordinary / unusual items		-	-
6,233	5,963	PROFIT BEFORE TAXATION		605,523	579,293
		Taxation	28		
2,684	2,202	-current		260,722	213,911
-	-	-prior years		-	-
(860)	179	-deferred		(83,553)	17,360
1,824	2,381			177,169	231,271
4,409	3,582	PROFIT AFTER TAXATION		428,354	348,022
3,187	2,062	Unappropriated profit brought forward		309,606	200,328
7,596	5,644	Profit available for appropriation	10.2	737,960	548,350
		Basic and diluted earnings per share	29	0.70	0.57
0.0072	0.0058				

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

Managing Director and Chief Executive Officer

Chairman

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012

2012	2011		2012	2011
----(US\$ in '000)----			----(Rupees in '000)----	
4,409	3,582	Profit after taxation	428,354	348,022
-	-	Other comprehensive income	-	-
<u>4,409</u>	<u>3,582</u>	Total comprehensive income for the year	<u>428,354</u>	<u>348,022</u>

Deficit / surplus on revaluation of assets has been reported in accordance with the requirements of the 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.

Managing Director and Chief Executive Officer

Chairman

UNCONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2012

2012	2011		Note	2012	2011
----(US\$ in '000)----				----(Rupees in '000)----	
6,233	5,963	CASH FLOWS FROM OPERATING ACTIVITIES		605,523	579,293
(899)	(1,278)	Profit before taxation		(87,316)	(124,132)
<u>5,334</u>	<u>4,685</u>	Less: Dividend income		<u>518,207</u>	<u>455,161</u>
		Adjustments:			
159	162	Depreciation	11.1	15,485	15,739
24	20	Amortization of intangible assets	11.2	2,316	1,939
(142)	174	Unrealised (gain) / loss on revaluation of investments classified as held-for-trading		(13,794)	16,950
(13)	(24)	Gain on sale of operating fixed assets	25	(1,230)	(2,355)
(570)	(1,373)	Reversal of provision against non-performing advances	10.6	(55,410)	(133,405)
2,370	1,734	Provision for diminution in the value of investments	9.3	230,218	168,490
18	18	Finance charges on leased assets		1,772	1,776
<u>1,846</u>	<u>711</u>			<u>179,357</u>	<u>69,134</u>
<u>7,180</u>	<u>5,396</u>			<u>697,564</u>	<u>524,295</u>
		Decrease / (increase) in operating assets			
5,030	11,661	Lendings to financial institutions		488,626	1,132,865
27,945	(39,130)	Net investments in held-for-trading securities		2,714,815	(3,801,465)
(5,555)	3,235	Advances - net		(539,623)	314,308
(209)	677	Other assets		(20,325)	65,711
<u>27,211</u>	<u>(23,557)</u>			<u>2,643,493</u>	<u>(2,288,581)</u>
		(Decrease) / increase in operating liabilities			
(1,054)	5,181	Borrowings		(102,349)	503,367
(3,548)	(8,909)	Deposits and other accounts		(344,693)	(865,472)
(777)	(1,185)	Other liabilities		(75,604)	(115,221)
<u>(5,379)</u>	<u>(4,913)</u>			<u>(522,646)</u>	<u>(477,326)</u>
29,012	(23,074)	Finance charges paid on leased assets		2,818,411	(2,241,612)
(20)	(19)	Income tax paid		(1,927)	(1,838)
<u>(2,913)</u>	<u>(2,141)</u>	Net cash from / (used in) operating activities		<u>(282,992)</u>	<u>(208,034)</u>
<u>26,079</u>	<u>(25,234)</u>			<u>2,533,492</u>	<u>(2,451,484)</u>
		CASH FLOWS FROM INVESTING ACTIVITIES			
(24,919)	21,483	Net (investments in) / proceeds from available-for-sale securities		(2,420,844)	2,087,069
51	574	Net proceeds from held-to-maturity securities		4,917	55,726
-	-	Investments in associates		-	-
1,055	1,123	Dividend income received		102,446	109,147
(150)	(67)	Purchase of operating fixed assets		(14,545)	(6,470)
31	61	Sale proceeds on sale of operating fixed assets		3,060	5,965
<u>(23,932)</u>	<u>23,174</u>	Net cash (used in) / from investing activities		<u>(2,324,966)</u>	<u>2,251,437</u>
		CASH FLOWS FROM FINANCING ACTIVITIES			
(91)	(96)	Payments of finance lease obligations		(8,822)	(9,371)
(2,216)	(2,532)	Dividend paid		(215,250)	(246,000)
<u>(2,307)</u>	<u>(2,628)</u>	Net cash used in financing activities		<u>(224,072)</u>	<u>(255,371)</u>
		Decrease in cash and cash equivalents		<u>(15,546)</u>	<u>(455,418)</u>
2,838	7,526	Cash and cash equivalents at beginning of the year		275,705	731,123
<u>2,678</u>	<u>2,838</u>	Cash and cash equivalents at end of the year	30	<u>260,159</u>	<u>275,705</u>

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

Managing Director and Chief Executive Officer

Chairman

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2012

	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, 2011	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
Comprehensive income						
Profit for the year ended December 31, 2012	-	-	-	-	428,354	428,354
Other comprehensive income - net of tax	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	428,354	428,354
Transfers						
Transfer to statutory reserve	-	85,671	-	-	(85,671)	-
Transaction with owners recognised directly in equity						
Dividend for the year ended December 31, 2011 (Re. 0.35 per share)	-	-	-	-	(215,250)	(215,250)
Balance as at December 31, 2012	6,150,000	559,353	11,630	-	437,039	7,158,022

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

Managing Director and Chief Executive Officer

Chairman

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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, Gwadar 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 unconsolidated 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. 97.1497 to 1 US Dollar has been used for 2012 and 2011 as it was the prevalent rate as on December 31, 2012.

2.3 Use of estimates and judgements

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.

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.

3 STATEMENT OF COMPLIANCE

3.1 These unconsolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (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 New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2012

The following standards, amendments and interpretations are effective for the year ended December 31, 2012. 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.

Amendments to IAS 12 - Income Taxes – Deferred Tax: Recovery of Underlying Assets	Effective from accounting period beginning on or after January 1, 2012
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The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset.

Amendments to IFRS 7 - Financial Instruments: Disclosures - Transfer of financial assets	Effective from accounting period beginning on or after July 1, 2011
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The amendment provides enhanced disclosures for 'transferred financial assets that are derecognized in their entirety' and transferred assets that are not derecognized in their entirety.

3.3 New accounting standards and IFRS interpretations that are not yet effective

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.

Amendments to IAS 1 - Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income	Effective from accounting period beginning on or after July 01, 2012
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The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans).

Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information

Effective from accounting period beginning on or after January 01, 2013

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

Amendments to IAS 16 - Property, Plant and Equipment – Classification of servicing equipment

Effective from accounting period beginning on or after January 01, 2013

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction

Effective from accounting period beginning on or after January 01, 2013

The amendment clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities

Effective from accounting period beginning on or after January 01, 2014

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. It will be necessary to assess the impact to the entity by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

Amendments to IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities

Effective from accounting period beginning on or after January 01, 2013

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities

Effective from accounting period beginning on or after January 01, 2013

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of

netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine

Effective from accounting period beginning on or after January 01, 2013

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity.

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- 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 not adoption of IFRS 10 and IFRS 11
- IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to not adoption of IFRS 10 and IFRS 11.

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 will be that instead of recognising actuarial gains or losses into profit and loss account, all actuarial gains or losses will be recognised into other comprehensive income.

4 BASIS OF MEASUREMENT

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

The unconsolidated 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 securities 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 investments 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 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.

5.7 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 / (lose) recognized is surplus / (deficit) or 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, 2012.

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 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 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, 2012.

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.

6 CASH AND BALANCES WITH TREASURY BANKS

	Note	2012 ----(Rupees in '000)----	2011
Cash in hand			
Local currency		53	57
Foreign currency		139	122
Cheques in hand		-	2,500
Balances with State Bank of Pakistan in local currency			
Current accounts	6.1	101,673	63,968
		<u>101,865</u>	<u>66,647</u>

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

7 BALANCES WITH OTHER BANKS

	Note	2012 ----(Rupees in '000)----	2011
In Pakistan:			
current account		4,407	2,961
deposit accounts	7.1	153,611	205,580
		<u>158,018</u>	<u>208,541</u>
Outside Pakistan:			
current accounts		276	517
		<u>158,294</u>	<u>209,058</u>

7.1 These include term deposit receipts (TDRs) due for maturity within 1 month aggregating Rs. 150 million (2011: Rs. 200 million). These carry mark-up rates ranging from 9.5 to 10.35 percent per annum (2011: 13.05 percent per annum).

8 LENDINGS TO FINANCIAL INSTITUTIONS

		2012	2011
Reverse repurchase agreement lendings	8.1 & 8.3	820,091	1,202,094
Certificate of investments (COIs)	8.4	13,028	119,651
	8.2	<u>833,119</u>	<u>1,321,745</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 rates ranging from 8.5 to 10.4 percent per annum (2011: 11.75 to 12.5 percent per annum) and will mature within 35 days (2011: 2 months).

8.2 Particulars of lendings

In local currency	833,119	1,321,745
In foreign currency	-	-
	<u>833,119</u>	<u>1,321,745</u>

8.3 Securities held as collateral against lendings to financial institutions

Notes	2012			2011		
	Held by the company	Further given as collateral	Total	Held by the company	Further given as collateral	Total
	----- (Rupees in '000) -----					
Market Treasury Bills	-	231,188	231,188	19,561	180,054	199,615
Pakistan Investment Bonds	160,409	428,494	588,903	49,745	952,734	1,002,479
	<u>160,409</u>	<u>659,682</u>	<u>820,091</u>	<u>69,306</u>	<u>1,132,788</u>	<u>1,202,094</u>

8.3.1 Market value of the securities amounting to Rs. 826.880 million (2011: Rs. 1,202.033 million).

8.4 COIs are due for maturity beginning from 1 month to 20 months (2011: 3 months to 33 months). The rate of return on COIs are 12 percent per annum (2011: 12 to 13 percent per annum).

9 INVESTMENTS - net

Notes	2012			2011			
	Held by the company	Further given as collateral	Total	Held by the company	Further 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	13,366	612,226	625,592	17,293	663,597	680,890
Market Treasury Bills (T-Bills)	9.4 & 9.6.1	50,812	648,145	698,957	586,634	2,625,176	3,211,810
Listed ordinary shares	9.6.2.1	-	-	-	101,633	-	101,633
Term finance certificates (TFCs)	9.6.4.1 & 9.6.5.1	-	-	-	45,031	-	45,031
		64,178	1,260,371	1,324,549	750,591	3,288,773	4,039,364
Available-for-sale securities							
Pakistan Investment Bonds (PIBs)	9.4 & 9.6.1	154,242	2,647,324	2,801,566	97,041	212,890	309,931
Market Treasury Bills (T-Bills)	9.4 & 9.6.1	485,026	653,294	1,138,320	9,140	573,859	582,999
Listed ordinary shares	9.6.2.2	213,693	-	213,693	251,314	11,066	262,380
Unlisted ordinary shares	9.6.3	131,333	226,000	357,333	131,333	226,000	357,333
Unlisted preference shares	9.6.8	231,744	-	231,744	269,744	-	269,744
Mutual funds units	9.6.7.1	14,337	-	14,337	14,337	-	14,337
Term finance certificates (TFCs)	9.6.4.2 & 9.6.5.2	2,772,238	177,691	2,949,929	3,088,510	178,469	3,266,979
Sukuk certificates	9.6.6.1	724,373	-	724,373	961,405	-	961,405
National Saving Bonds	9.6.7.2	9,999	-	9,999	-	-	-
		4,736,985	3,704,309	8,441,294	4,822,824	1,202,284	6,025,108
Held-to-maturity securities							
Pakistan Investment Bonds (PIBs)	9.5	202,576	-	202,576	207,493	-	207,493

Notes	2012			2011		
	Held by the company	Further given as collateral	Total	Held by the company	Further given as collateral	Total
	------(Rupees in 000)-----					
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	92,414	-	92,414	92,414	-	92,414
Pak Oman Advantage Asset Allocation Fund	84,078	-	84,078	84,078	-	84,078
Pak Oman Microfinance Bank Limited	251,108	-	251,108	251,108	-	251,108
	835,016	70,726	905,742	835,016	70,726	905,742
Subsidiary						
Pak Oman Asset Management Company Limited	168,300	-	168,300	168,300	-	168,300
	6,007,055	5,035,406	11,042,461	6,784,224	4,561,783	11,346,007
Investments at cost						
Less: Provision for diminution in the value of investments	746,520	59,271	805,791	535,960	59,271	595,231
	5,260,535	4,976,135	10,236,670	6,248,264	4,502,512	10,750,776
Investments - net of provisions						
Deficit on revaluation of held-for-trading securities	(119)	(2,209)	(2,328)	(5,267)	(10,855)	(16,122)
Deficit / (surplus) on revaluation of available-for-sale securities	(40,896)	35,581	(5,315)	(150,239)	5,553	(144,686)
	5,219,520	5,009,507	10,229,027	6,092,758	4,497,210	10,589,968
Total investments at carrying value						

	Note	2012 ----(Rupees in '000)----	2011 ----(Rupees in '000)----
9.2 Investments by segments			
Federal Government Securities			
Pakistan Investment Bonds	9.4, 9.5 & 9.6.1	3,629,734	1,198,314
Market Treasury Bills	9.4 & 9.6.1	1,837,277	3,794,809
		<u>5,467,011</u>	<u>4,993,123</u>
Fully paid up ordinary shares			
Listed companies	9.6.2	213,693	364,013
Unlisted companies	9.6.3	357,333	357,333
		<u>571,026</u>	<u>721,346</u>
Term finance certificates (TFCs)			
Listed	9.6.4	2,046,467	2,371,544
Unlisted	9.6.5	903,462	940,466
		<u>2,949,929</u>	<u>3,312,010</u>
Sukuk certificates-Unlisted	9.6.6	724,373	961,405
Other investments			
Investments in mutual funds	9.6.7.1	14,337	14,337
National Saving Bonds	9.6.7.2	9,999	-
Preference shares-unlisted	9.6.8	231,744	269,744
		<u>256,080</u>	<u>284,081</u>
Investments in associates	9.6.9	905,742	905,742
Investment in subsidiary	9.6.10	168,300	168,300
Total investments at cost		<u>11,042,461</u>	<u>11,346,007</u>
Less: Provision for diminution in the value of investments	9.3	805,791	595,231
Investments (net of provisions)		<u>10,236,670</u>	<u>10,750,776</u>
Deficit on revaluation of held-for-trading securities	9.7	(2,328)	(16,122)
Deficit on revaluation of available-for-sale securities	20	(5,315)	(144,686)
Total investments at carrying value		<u>10,229,027</u>	<u>10,589,968</u>

9.3 Particulars of provision for diminution in the value of investments

Opening balance		595,231	432,021
Charge for the year		237,056	252,783
Reversal for the year		(6,838)	(84,293)
		<u>230,218</u>	<u>168,490</u>
Transfer from mark-up		49,980	-
Transfer to advances	10.6	(15,000)	-
Transfer to capital gain due to disposal of relevant investments		(54,638)	(5,280)
Closing balance	9.3.1	<u>805,791</u>	<u>595,231</u>

	Note	2012 ----(Rupees in '000)----	2011 ----(Rupees in '000)----
9.3.1 Particulars of provision in respect of types and segments			
Available-for-sale securities			
Shares			
-Listed		42,149	54,638
-Unlisted		55,795	47,555
Term Finance Certificates			
-Listed		234,520	139,469
-Unlisted		114,530	29,694
Sukuk-unlisted		118,826	95,026
Investment in Mutual Funds		7,679	7,570
		<u>573,499</u>	<u>373,952</u>
Associates		102,783	102,783
Subsidiary		129,509	118,496
		<u>805,791</u>	<u>595,231</u>

9.4 The rates of return on PIBs maturing between June 2013 to August 2021 (2011: June 2013 to August 2018), range from 5.2 to 14.02 (2011: 5.2 to 14.22) percent per annum. The rates of return on market treasury bills maturing between January 2013 to November 2013 (2011: March 2012 to November 2012), range from 9.19 to 9.5 (2011: 11.80 to 13.80) percent per annum.

9.5 The rate of return on PIBs maturing on June 2013 (2011: June 2013) is 6.17 to 6.51 (2011: 6.17 to 6.51) percent per annum.

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

	2012		2011	
	Market value	Rating	Market value	Rating
9.6.1 Government Securities				
9.6.1.1 Held-for-trading				
	Rupees in '000		Rupees in '000	
Pakistan Investment Bonds				
15 years	13,230	Unrated	-	-
10 years	-	-	1,399	Unrated
5 years	609,606	Unrated	655,546	Unrated
3 years	-	-	15,034	Unrated
	<u>622,836</u>		<u>671,979</u>	
Market Treasury Bills				
12 months	472,200	Unrated	1,252,793	Unrated
06 months	227,185	Unrated	1,957,209	Unrated
	<u>699,385</u>		<u>3,210,002</u>	
9.6.1.2 Available-for-sale				
Pakistan Investment Bonds				
10 years	1,225,096	Unrated	108,975	Unrated
7 years	-	-	86,493	Unrated
5 years	1,607,978	Unrated	-	-
3 years	-	-	113,665	Unrated
	<u>2,833,074</u>		<u>309,133</u>	
Market Treasury Bills				
12 months	1,139,193	Unrated	584,658	Unrated
	<u>5,294,488</u>		<u>4,775,772</u>	
9.6.1.3 Held-to-maturity				
Pakistan Investment Bonds				
10 years	202,576	Unrated	207,493	Unrated

	2012		2011	
	Amortized Cost	Rating	Amortized Cost	Rating
	Rupees in '000		Rupees in '000	

9.6.2 Listed shares

	Rating	No. of shares held		Cost		Market value	
		2012	2011	2012	2011	2012	2011
----- (Rupees in '000) -----							
9.6.2.1 Held-for-trading							
Commercial banks							
Standard Chartered (Bank) Limited	AAA / A1+	-	1,031,896	-	7,739	-	8,245
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
				-	101,633	-	96,220
9.6.2.2 Available-for-sale							
Cement							
Dewan Cement Limited	D	-	15,162,780	-	23,502	-	18,953
Fertilizer							
Fauji Fertilizer Company Limited	Unrated	300,000	-	36,298	-	35,142	-
Electricity							
HUB Power Co. Limited	AA+ / A1+	594,994	-	22,134	-	26,918	-
Chemical							
LOTTE Pakistan PTA Limited	Unrated	-	4,212,878	-	65,642	-	39,053
Agritech Limited (9.6.4.4)	D	1,629,911	-	57,046	-	19,021	-
Commercial Banks							
National Bank of Pakistan	AAA / A-1+	234,500	1,154,103	11,740	70,107	11,582	47,376
Askari Bank Limited	AA / A1+	-	641,783	-	6,864	-	6,437
Allied Bank Limited	AA / A1+	386,499	489,243	19,172	26,696	28,404	26,356
Soneri Bank Limited	AA- / A1+	552,225	-	3,910	-	3,915	-
Personal Goods							
Nishat Mills Limited	AA- / A1+	-	284,288	-	16,818	-	11,499
Nishat (Chunian) Limited	Unrated	-	122,130	-	2,406	-	2,182
Financial Services							
Next Capital Limited	Unrated	808,400	-	8,084	-	3,961	-
Refinery / Oil & Gas							
Pakistan Oilfield Limited	Unrated	60,500	-	20,949	-	26,471	-
Pakistan State Oil	AA+ / A1+	145,806	174,705	34,360	50,345	33,857	39,694
				213,693	262,380	189,271	191,550
				<u>213,693</u>	<u>364,013</u>	<u>189,271</u>	<u>287,770</u>

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
	2012	2011	2012	2011				
----(Rupees in '000)----								
Shareholding upto 10%								
Alhamra Avenue (Pvt) Limited	5,000,000	5,000,000	50,000	50,000	3.12	9.21	30-Jun-2012*	Mr. Habib Ahmad
Systems Limited	934,053	934,053	10,000	10,000	2.40	18.65	31-Dec-2011*	Mr. Ashraf Kapadia
Vision Systems Inc.	36,037	-	-	-	2.40	100.91	31-Dec-2011*	Mr. Arshad Masood
Pakistan Textile City Limited (note 9.6.13)	5,000,000	5,000,000	50,000	50,000	4.00	6.61	30-Jun-2012*	Mr. Zaheer A. Hussain
Techlogix International Limited	1,872,197	1,872,197	21,333	21,333	1.84	4.20	31-Dec-2011**	Mr. Kewan Qadre Khawaja
Orient Power Co. (Pvt) Limited (note 21.2)	22,600,000	22,600,000	226,000	226,000	5.43	13.56	30-Jun-2012*	Mr. Nadeem Baber
			<u>357,333</u>	<u>357,333</u>				

*Audited financial statement

**Audited consolidated financial statements

9.6.4 Listed Term-finance certificates

	Rate of interest	Profit Payment	Maturity	Long Term rating	No. of certificates held		Market value	
					2012	2011	2012	2011
----(Rupees in '000)----								
9.6.4.1 Held-for-trading								
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	-	48,707
Escort Investment Bank Limited	8%	Half yearly	15-Mar-16	BBB / A3	4,031	4,031	2,970	4,455
Commercial banks								
Allied Bank Limited I	6 month Kibor+1.9%	Half yearly	6-Dec-14	AA	25,078	25,078	127,341	125,420
Allied Bank Limited II	6 month Kibor+0.85%	Half yearly	28-Aug-19	AA	13,962	13,962	67,984	66,150
Askari Bank Limited I	6 month Kibor+1.5%	Half yearly	4-Feb-13	AA-	463	463	2,307	2,307
Askari Bank Limited II	6 month Kibor+1.5%	Half yearly	31-Oct-13	AA-	3,000	3,000	15,095	14,899
Askari Bank Limited III	6 month Kibor+2.5%	Half yearly	18-Nov-19	AA-	50,949	50,949	280,987	260,594
Bank Al-Falah Limited III	6 month Kibor+1.5%	Half yearly	25-Nov-13	AA-	1,000	1,000	3,343	4,971
Standard Chartered Bank Limited III	6 month Kibor+2%	Half yearly	1-Feb-13	AAA	6,740	23,240	8,443	83,177
Faysal Bank Limited	6 month Kibor+1.4%	Half yearly	12-Nov-14	AA-	17,681	17,681	89,596	87,671
NIB Bank Limited	6 month Kibor+1.15%	Half yearly	5-Mar-15	A+	63,106	65,367	315,753	319,873
Bank Al Habib Limited I	6 month Kibor+1.5%	Half yearly	15-Jul-12	AA	-	12,700	-	38,330
United Bank Limited-IV	6 month Kibor+0.85%	Half yearly	14-Feb-18	AA	16,300	10,300	83,146	51,274
Soneri Bank Limited	6 month Kibor+1.6%	Half yearly	5-May-13	A+	8,500	10,000	10,552	37,171
Summit Bank Limited	6 month Kibor+3.25%	Half yearly	27-Oct-18	A-(SO)	10,000	10,000	47,717	48,066
Technology and communication								
Telecard Limited	6 month Kibor+3.75%	Half yearly	27-May-15	Unrated	56,716	56,716	78,046	83,300
Pakistan Mobile Communication Limited	6 month Kibor+2.85%	Half yearly	31-May-13	AA-	26,000	26,000	21,722	65,072
Worldcall Telecom Limited	6 month Kibor+1.6%	Half yearly	7-Oct-15	D	108,623	108,623	162,836	269,836
Chemical								
Engro Fertilizers Limited II	6 month Kibor+1.55%	Half yearly	30-Nov-15	A	30,177	30,177	146,868	147,645
Pak Arab Fertilizers Limited	6 month Kibor+1.5%	Half yearly	28-Feb-13	AA	10,000	10,000	15,006	37,166
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	17,024	52,803
Leasing								
Saudi Pak Leasing Company Limited	6%	Monthly	13-Mar-17	Unrated	28,469	28,469	-	-
Orix Leasing Pakistan Limited II	3 month Kibor+2.15%	Quarterly	30-Jun-14	AA+	500	500	29,786	51,772
Electricity								
KESC AZM Certificate	14.75%	Quarterly	3-Jul-15	AA	10,000	-	49,990	-
Miscellaneous								
Pace (Pakistan) Limited	6 month Kibor+2%	Half yearly	15-Feb-17	D	60,230	60,230	190,663	202,282
							<u>1,767,175</u>	<u>2,102,941</u>
							<u>1,767,175</u>	<u>2,102,941</u>

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

9.6.4.4 In respect of term finance certificates of Azgard Nine Limited and Agritech Limited, and listed shares of Agritech Limited, the State Bank of Pakistan vide letter number BPRD/BRD-(Policy)/2013-1857 dated February 15, 2013 has advised to record the provision and impairment on existing credit exposure and mark-to-market loss on shares in a phased manner upto 10%, 25%, 50%, 75% and 100% by December 31, 2012, March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013 respectively calculated under Prudential Regulations. On prudent basis the company has recorded 50% provision on credit exposure and 100% impairment on mark-to-market loss on shares in these financial statements.

Rate of interest	Profit Payment	Maturity	Long Term rating	No. of certificates held		Market value	
				2012	2011	2012	2011

---(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
							-	45,041

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	153,487	155,067
Bank Al Habib Limited - PPTFC	15.50%	Quarterly	15-Jun-17	AA	10,000	10,000	55,883	53,512
Bank Al-Falah Limited - IV	6 month Kibor + 2.5%	Half yearly	2-Dec-17	AA-	33,000	33,000	172,495	165,528

Development Financial Institutions

Pak-Libya Holding Co. (Pvt) Ltd - PPTFC	6 month Kibor + 1.6%	Half yearly	7-Feb-16	AA	8,000	8,000	40,287	40,774
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Chemical

Engro Fertilizers Limited - PPTFC	6 month Kibor + 1.70%	Half yearly	18-Mar-18	A	44,500	44,500	200,306	220,006
Agritech Limited (Note 9.6.4.4)	6 month Kibor + 1.75%	Half yearly	29-Nov-19	D	20,000	20,000	63,987	99,907
Agritech Limited (Note 9.6.4.4)	Zero coupon	Half yearly	1-Jan-15	D	4,309	-	-	-

Personal goods

Kunjah Textile Mills Limited	6 month Kibor + 3%	Half yearly	23-Apr-14	Unrated	-	3,000	-	-
Nishat Chunain Limited - PPTFC	3 month Kibor + 2.25%	Quarterly	30-Sep-15	A	10,000	10,000	37,500	46,875
Azgard Nine Limited - III (Note 9.6.4.4)	6 month Kibor + 2.25%	Half yearly	4-Dec-17	D	2,000	2,000	3,024	9,992
Azgard Nine Limited - IV (Note 9.6.4.4)	3 month Kibor + 1%	Quarterly	18-Nov-15	D	5,000	5,000	11,155	25,000
Azgard Nine Limited - IV (Note 9.6.4.4)	Zero coupon	Half yearly	31-Mar-17	D	5,687	-	-	-

Leasing companies

Security Leasing Corporation Limited	-	Monthly	29-Mar-14	Unrated	12,000	12,000	-	9,231
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Miscellaneous

Avari Hotels Limited	12 month Kibor + 2.50%	Yearly	30-Oct-14	Unrated	10,000	10,000	40,981	40,517
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779,105

866,409

779,105

911,450

9.6.6 Investment in Unlisted Sukuk

Rate of interest	Profit Payment	Maturity	Long Term rating	No. of certificates held		Market value	
				2012	2011	2012	2011

---(Rupees in '000)---

9.6.6.1 Available-for-sale

Personal Goods

Arntex Limited	3 month Kibor + 2%	Quarterly	12-Oct-12	Unrated	22,000	22,000	79,612	81,091
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Leasing

Security Leasing Corporation Limited	-	Monthly	19-Mar-14	Unrated	10,000	10,000	-	12,885
Security Leasing Corporation Limited II	-	Monthly	19-Mar-14	Unrated	10,000	10,000	-	15,461
Orix Leasing Pakistan Limited	6 month Kibor + 1.25%	Half yearly	29-Jun-12	Unrated	-	15,000	-	12,525

Energy

Sitara Energy Limited	6 month Kibor + 1.95%	Half yearly	31-Mar-12	Unrated	-	40,000	-	38,989
Liberty PowerTech (Private) Limited	3 month Kibor + 3%	Quarterly	18-Mar-21	A+	60,000	60,000	275,645	290,280

Oil & Gas

Sui Southern Gas Company Limited	3 month Kibor + 0.8%	Quarterly	29-Jun-12	AA	-	6	-	100,311
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Miscellaneous

Al-Razi HealthCare (Pvt.) Limited	6 month Kibor + 2.5%	Monthly	4-Nov-17	Unrated	30,000	30,000	148,000	150,000
Century Papers & Board Mills Limited	6 month Kibor + 1.35%	Half yearly	25-Sep-14	Unrated	10,000	10,000	19,635	29,667
House Building Finance Corporation Limited	6 month Kibor + 1%	Half yearly	8-May-14	Unrated	55,035	55,035	81,579	133,229
New Allied Electronic Industries (Pvt.) Limited	3 month Kibor + 2.6%	Quarterly	25-Jul-12	Unrated	272,000	272,000	-	-

604,471

864,438

9.6.6.2 The face value of each certificate held in unlisted Sukuks is Rs. 5,000 (2011: Rs. 5,000) per certificate at issue date except for New Allied Electronic Industries (Private) Limited having face value per Sukuk of Rs. 312.5 (2011: Rs. 312.5) respectively.

	Rating	No. of shares held		Cost		Market value	
		2012	2011	2012	2011	2012	2011
---(Rupees in '000)---							
9.6.7 Other Investments							
9.6.7.1 Investment in Mutual Funds							
Closed-end mutual fund							
NAMCO Balance Fund	Unrated	1,580,875	1,548,360	14,337	14,337	7,509	7,819
9.6.7.2 Bonds							
National Savings Bonds- 3 Year	Unrated	1,000	-	9,999	-	9,400	-

	Rate of Interest	Rating	No. of shares held		Cost	
			2012	2011	2012	2011
---(Rupees in '000)---						
9.6.8 Preference shares unlisted						
9.6.8.1 Available for Sale						
Orient Power Company Limited	6 month KIBOR+2.5% Cumulative	Unrated	26,974,445	26,974,445	231,744	269,744

9.6.8.1.1 Unlisted preference shares are redeemable within two years of their issuance.

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:

9.6.9.2 Quoted	2012		2011		Holding	Break-up value per share/unit Rupees	Latest available financial statements	Name of the chief executive
	Number of shares / units	Rupees in '000	Number of shares / units	Rupees in '000				
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%	(19.73)	30-Sep-12**	Mr. Khan Ahmed Saleem
Pak Oman Advantage Fund	27,109,000	27,109,000	262,828	262,828	27.11%	10.92	31-Dec-12**	Ms. Hina Ghazanfar
Pak Oman Islamic Asset Allocation Fund	2,000,000	2,000,000	92,414	92,414	64.97%	56.22	31-Dec-12**	Ms. Hina Ghazanfar
Pak Oman Advantage Asset Allocation Fund	2,000,000	2,000,000	84,078	84,078	69.39%	57.05	31-Dec-12**	Ms. Hina Ghazanfar
Pak Oman Advantage Islamic Income Fund	2,003,976	2,003,976	92,667	92,667	35.36%	52.62	31-Dec-12**	Ms. Hina Ghazanfar
Unquoted								
Pak Oman Micro Finance Bank Limited (Note 9.6.13)	25,110,788	25,110,788	251,108	251,108	33.40%	9.30	31-Dec-12*	Mr. Munawar Suleman
			905,742	905,742				

**Reviewed financial statements.
* Unaudited financial statements

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

Particulars	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
Assets	1,110,279	302,216	175,745	167,469	8,792,091	746,985
Liabilities	18,110	3,970	2,698	3,037	11,871,200	47,423
Profit / (loss) before taxation	98,574	23,384	24,269	33,328	(1,063,469)	290
Profit / (loss) after taxation	98,574	23,384	24,269	33,328	(1,065,130)	227

9.6.10 Subsidiary

	2012		2011		Percentage of Holding %	Break-up value per share	Latest available reviewed statements	Name of the Chief Executive
	Number of shares	Rupees in '000	Number of shares	Rupees in '000				
Pak Oman Asset Management Company Limited (Note 9.6.11 and 9.6.12)	16,830,000	16,830,000	168,300	168,300	51	2.30	31-Dec-12	Ms. Hina Ghazanfar

9.6.11 Investment in subsidiary is 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.

9.6.12 The Board of Directors of the Company, in their meeting held on December 30, 2012, has approved the amalgamation of the subsidiary company with other group. The negotiations for amalgamation is under process till the approval of financial statements from Board of Directors.

9.6.13 Investment in these securities forms part of strategic investment of the Company and can not be sold for a period of five years from the last date of purchase of securities.

9.7 (Deficit) / surplus on revaluation of held-for-trading securities

	Note	2012 ----(Rupees in '000)----	2011
Federal Government Securities			
- Market Treasury Bills		428	(1,808)
- Pakistan Investment Bonds		(2,756)	(8,911)
		<u>(2,328)</u>	<u>(10,719)</u>
Shares-listed		-	(5,413)
Term finance certificates (TFCs) - Unlisted		-	10
		<u>(2,328)</u>	<u>(16,122)</u>

10 ADVANCES - net

In Pakistan

Loans, cash credit, running finance, etc in Pakistan		6,215,491	5,660,050
Net investment in finance leases in Pakistan	10.3	928,382	970,752
Advance against leases		8,504	-
Staff loans	10.4	128,496	110,448
Advances - Gross	10.1	7,280,873	6,741,250
Less: Provision for non-performing loans and advances	10.6	933,814	974,224
Advances - net of provision		<u>6,347,059</u>	<u>5,767,026</u>

10.1 Particulars of advances (Gross)

10.1.1 In local currency	10.1.3	<u>7,280,873</u>	<u>6,741,250</u>
10.1.2 In foreign currency		-	-
10.1.3 Short term (for upto one year)		3,532,069	2,699,915
Long term (for over one year)		3,748,804	4,041,335
		<u>7,280,873</u>	<u>6,741,250</u>

10.2 In accordance with BSD Circular No. 2 dated January 27, 2009 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. 169.78 million (net of tax Rs. 110.36 million) and profit before taxation for the year ended December 31, 2012 would have been reduced by the same amount. As of December 31, 2012, the Company has availed total accumulated FSV benefit amounting to Rs. 293.47 million (net of tax Rs. 190.75 million). Accordingly, accumulated profit of Rs. 190.75 (net of transfer to statutory reserves Rs. 152.6 million) will not be available for the distribution as cash or stock dividend to the 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 :

	2012			2011		
	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	492,501	413,014	905,515	523,894	424,956	948,850
Residual value	71,320	86,001	157,321	97,071	77,107	174,178
Minimum lease payments	563,821	499,015	1,062,836	620,965	502,063	1,123,028
Financial charges for future periods	(64,257)	(70,197)	(134,454)	(81,949)	(70,327)	(152,276)
Present value of minimum lease payments	<u>499,564</u>	<u>428,818</u>	<u>928,382</u>	<u>539,016</u>	<u>431,736</u>	<u>970,752</u>

10.3.1.1 In respect of the aforementioned finance leases the Company holds an aggregate sum of Rs. 138.977 million (2011: Rs. 166.344 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 2017 and are subject to finance income at rates ranging between 11.25 to 16.24 (2011: 14.30 to 18.31) 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 (2011: 5) percent per annum, while no mark-up is charged on personal loans.

10.4.1 Staff loans include an amount of Rs. 21.124 million (2011: Rs. 20.926 million) advanced to the Company's Chief Executive.

10.5 Particulars of classification

Advances include Rs. 1,182,906 million (2011: Rs. 1,199,078 million) which have been placed under the non-performing status as detailed below:

	2012								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Substandard	94,878	-	94,878	-	-	-	-	-	-
Doubtful	128,266	-	128,266	63,061	-	63,061	63,061	-	63,061
Loss	959,762	-	959,762	870,753	-	870,753	870,753	-	870,753
	1,182,906	-	1,182,906	933,814	-	933,814	933,814	-	933,814

	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
	1,199,078	-	1,199,078	974,224	-	974,224	974,224	-	974,224

10.6 Particulars of provisions against non-performing advances

	Note	2012			2011		
		Specific	General	Total	Specific	General	Total
		(Rupees in '000)					
Opening balance		974,224	-	974,224	1,107,629	-	1,107,629
Charge during the year		51,966	-	51,966	53,828	-	53,828
Reversal during the year		(107,376)	-	(107,376)	(187,233)	-	(187,233)
Net charge		(55,410)	-	(55,410)	(133,405)	-	(133,405)
Less: Amounts written off during the year	10.7	-	-	-	-	-	-
Transfer from investments	9.3	15,000	-	15,000	-	-	-
Closing balance		933,814	-	933,814	974,224	-	974,224

10.6.1 Particulars of provisions against non-performing advances

	2012			2011		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	933,814	-	933,814	974,224	-	974,224
In foreign currencies	-	-	-	-	-	-
	933,814	-	933,814	974,224	-	974,224

Note

2012
2011
---(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, 2012.

Sr. No.	Name and address of the borrower	Name of individuals/partners/directors with CNIC No.	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.	Naeem Saleem (Pvt) Ltd Hotel Taj Mahal, the Abbot Road, Lahore.	Muhammad Saleem CNIC 35202-6170872-1	S/o Mr. Sardar Muhammad	12,000	2,617	-	14,617	-	1,217	-	1,217
		Mr. Nadeem Saleem CNIC 35202-3022676-5	S/o Mr. Muhammad Saleem								
2.	New Allied Electronics Industries (Pvt) Ltd	Mian Pervez Akhter CNIC 42301-7176596-3	Mian Muhammad Rafique Anwer	32,619	10,583	10,438	53,640	-	12,906	12,465	25,371
	7th Floor, Lakson Square Building No.1, Sarwar Hussain Shaheed Road, Karachi.	Mr. Abdul Rauf CNIC 42201-3539213-1	Mr. Abdul Ghafoor Attique	44,619	13,200	10,438	68,257	-	14,123	12,465	26,588

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

	Note	2012		2011	
		---(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		110,448	92,971		
Loans granted during the year		48,688	39,017		
Repayments		(30,640)	(21,540)		
Balance at end of the year		128,496	110,448		
Debts due by subsidiary company, controlled firms and other related parties					
Balance at beginning of the year		345,388	637,836		
Loans granted during the year		-	-		
Repayments		(20,475)	(292,448)		
Balance at end of the year		324,913	345,388		
	10.8.1	453,409	455,836		

10.8.1 This includes an amount of Rs. 68.2 million due from Japan Power Generation Limited (an associated company) classified as non performing loan under loss category. The Company has recorded provision for entire amount due as at December 31, 2012.

10.9 Maximum total amount of advances including temporary advances granted during the year amounts to Rs. 457 (2011: Rs. 735) million. The maximum amount has been calculated by reference to month end balance.

11 OPERATING FIXED ASSETS

	11.1	11.2	2012	2011
Property and equipment			54,223	60,185
Intangibles			1,666	3,626
Advance for capital expenditure			2,836	-
			58,725	63,811

11.1 Property and equipment

Description	Cost			Depreciation			Net book value		Rate %
	As at January 1, 2012	Addition (deletion) during the year	As at December 31, 2012	As at January 1, 2012	During the year/ (on disposals)	As at December 31, 2012	As at December 31, 2012		
(Rupees in '000)									
Owned									
Office premises*	42,126	-	42,126	15,445	2,106	17,551	24,575	5	
Improvement	8,422	-	8,422	7,194	613	7,807	615	20	
Office equipment	8,599	173	8,772	7,078	633	7,711	1,061	20	
Computer equipment	16,002	1,670	16,798	12,657	2,604	14,466	2,332	33-33	
		(874)			(795)				
Furniture and fixtures	11,696	100	11,546	9,854	707	10,415	1,131	20	
		(250)			(146)				
Vehicles	2,358	9,410	11,768	2,266	1,066	3,332	8,436	20	
Assets subject to finance lease									
Vehicles	42,284	-	37,761	16,808	7,756	21,688	16,073	20	
		(4,523)			(2,876)				
2012	131,487	11,353	137,193	71,302	15,485	82,970	54,223		
		(5,647)			(3,817)				

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	
		(170)			(141)				
Computer equipment	15,555	984	16,002	10,916	2,278	12,657	3,345	33-33	
		(537)			(537)				
Furniture and fixtures	10,946	900	11,696	8,550	1,388	9,854	1,842	20	
		(150)			(84)				
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)				

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

11.1.1 Details of disposals of assets 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 / (loss)	Mode of disposal	Particulars of purchaser
(Rupees in '000)							
Furniture and fixtures	150	76	74	74	-	Company Policy	Mr. Mohammad Ahmer Siddiqui (Former Executive)
Furniture and fixtures	100	70	30	30	-	Company Policy	Mr. Shahzad Moosani (Former Executive)
	250	146	104	104	-		
Vehicles							
Toyota Corolla	800	757	43	255	212	Company policy	Mr. Shahzad Moosani (Former Executive)
Suzuki Liana	700	513	187	357	170	Company policy	Mr. Kazi Khurram Abbasi (Executive)
Suzuki Cultus	700	583	117	383	266	Company policy	Mr. Azeem Dada (Executive)
Honda Civic	1,529	229	1,300	1,353	53	Company policy	Mr. Ahmer Siddiqui (Former Executive)
Suzuki Liana	794	794	-	580	580	Negotiations	M/S Auto One 3/29, Khalid Bin Walid road, Karachi
	4,523	2,876	1,647	2,928	1,281		
Computer equipment	102	23	79	-	(79)	Board approval	Mr. Muhammad Iqbal Awan (Former Non Executive Director)
Computer equipment	772	772	-	28	28	Negotiations	M/s Hussain Computer
	5,647	3,817	1,830	3,060	1,230		

11.2 Intangible assets

	Cost			Depreciation			Net book value	Rate %
	As at January 1, 2012	Addition during the year	As at December 31, 2012	As at January 1, 2012	During the year	As at December 31, 2012	As at December 31, 2012	
(Rupees in '000)								
Software licences	11,070	356	11,426	7,444	2,316	9,760	1,666	33-33

	Cost			Depreciation			Net book value	Rate %
	As at January 1, 2011	Addition during the year	As at December 31, 2011	As at January 1, 2011	During the year	As at December 31, 2011	As at December 31, 2011	
(Rupees in '000)								
Software licenses	9,196	1,874	11,070	5,505	1,939	7,444	3,626	33-33

12 DEFERRED TAX ASSETS - net

Deferred tax assets arising in respect of:

Provision for diminution in the value of investments		211,119	150,584
Amortisation of premium on federal government securities		17,121	14,445
Revaluation on investments classified as held-for-trading		815	4,154
Revaluation on investments classified as available-for-sale	20	8,363	45,341
Provision against non-performing loans and advances		326,835	340,978
		564,253	555,502

Less: Deferred tax liabilities arising in respect of:

Assets subject to finance leases		(1,930)	(2,134)
Accelerated tax depreciation allowances		814	(16)
Net investment in finance leases		(87,739)	(123,016)
Dividend receivable		-	(1,513)
		(88,855)	(126,679)
	12.1	475,398	428,823

12.1 Movement of deferred tax

	Recognized in			Recognized in			
	January 1, 2011	Profit and loss Account	Surplus on revaluation of securities	December 31, 2011	Profit and loss Account	Surplus on revaluation of securities	December 31, 2012
------(Rupees in '000)-----							
Deferred tax assets arising in respect of:							
Provision for diminution in the value of investments	121,860	28,724	-	150,584	60,535	-	211,119
Amortisation of premium on federal government securities	53,581	(39,136)	-	14,445	2,676	-	17,121
Revaluation on investments classified as held-for-trading	(7)	4,161	-	4,154	(3,339)	-	815
Revaluation on investments classified as available-for-sale	11,732	-	33,609	45,341	-	(36,978)	8,363
Provision against non-performing loans and advances	387,670	(46,692)	-	340,978	(14,143)	-	326,835
	<u>574,836</u>	<u>(52,943)</u>	<u>33,609</u>	<u>555,502</u>	<u>45,729</u>	<u>(36,978)</u>	<u>564,253</u>
Less: deferred tax liabilities arising in respect of:							
Assets subject to finance leases	2,452	(4,586)	-	(2,134)	204	-	(1,930)
Accelerated tax depreciation allowances	(860)	844	-	(16)	830	-	814
Net Investment in finance leases	(163,839)	40,823	-	(123,016)	35,277	-	(87,739)
Dividend receivable	(15)	(1,498)	-	(1,513)	1,513	-	-
	<u>(162,262)</u>	<u>35,583</u>	<u>-</u>	<u>(126,679)</u>	<u>37,824</u>	<u>-</u>	<u>(88,855)</u>
	<u>412,574</u>	<u>(17,360)</u>	<u>33,609</u>	<u>428,823</u>	<u>83,553</u>	<u>(36,978)</u>	<u>475,398</u>

13 OTHER ASSETS

	Note	2012 ---(Rupees in '000)---	2011
Mark-up/Return/Interest receivable in local currency		306,472	300,705
Dividend income receivable		-	15,130
Mark-up/profit receivable on purchase of securities		51,785	27,068
Security deposits		4,804	4,768
Prepayments		7,569	7,478
Receivable against sale of investments		-	12,936
Employee gratuity fund	32.4	-	781
Others		3,824	393
		<u>374,454</u>	<u>369,259</u>

13.1 The above balances include an aggregate amount of Rs. 370 million (2011: Rs. 364.246 million) due within a year.

14 BORROWINGS

In Pakistan	6,546,367	6,648,716
Outside Pakistan	-	-
	<u>6,546,367</u>	<u>6,648,716</u>

14.1 Particulars of borrowings with respect to currencies

In local currency	6,546,367	6,648,716
In foreign currencies	-	-
	<u>6,546,367</u>	<u>6,648,716</u>

14.2 Particulars of borrowings

Secured			
Borrowings from the State Bank of Pakistan:			
-LTF-EOP	14.3	98,718	161,669
-LTFF	14.3	833,994	825,328
Repurchase agreement borrowings	14.4	5,205,861	5,199,973
Short-term running finance	14.5	57,794	11,746
		<u>6,196,367</u>	<u>6,198,716</u>
Unsecured			
Placements	14.6	350,000	450,000
		<u>6,546,367</u>	<u>6,648,716</u>

14.3 The Company has entered into agreements for financing with the SBP of 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 (2011: 5 to 11 percent per annum). These are repayable within 7 years (2011: 8 years)

14.4 The rate of return on these repurchase agreement borrowings, maturing in January 2013 (2011: January 2012), ranges between 7.75 to 9.48 (2011: 11.80 to 12) percent per annum. Securities having cost of Rs 5,220.671 million (2011: Rs 5,208.310 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% (2011: three month KIBOR + 1.25%). 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 2013 to February 2013 (2011: January 2012) ranges between 9.80 to 10.10 (2011: 12.30 to 13.45) percent per annum.

15 DEPOSITS AND OTHER ACCOUNTS

Certificates of investment - remunerative (in local currency)

Financial institutions

Others

Note	2012	2011
	---(Rupees in '000)---	
	731,747	803,819
	3,619,253	3,891,874
15.1 & 15.2	<u>4,351,000</u>	<u>4,695,693</u>

15.1 The rate of return on deposits maturing between January 2013 to May 2014 (2011: January 2012 to December 2013) is 9 to 13.75 (2011: 11.40 to 13.85) 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

	2012			2011		
	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	6,117	932	5,185	9,718	2,028	7,690
Later than one year but not later than five years	5,703	332	5,371	13,112	1,424	11,688
	<u>11,820</u>	<u>1,264</u>	<u>10,556</u>	<u>22,830</u>	<u>3,452</u>	<u>19,378</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 (2011: 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.

17 OTHER LIABILITIES

Mark-up/Return/Interest payable in local currency

Accrued expenses

Staff gratuity

Security deposits against investment in finance leases

Taxation

Others

Note	2012	2011
	---(Rupees in '000)---	
	180,330	236,806
	54,599	46,995
32.2	2,121	-
10.3.1.1	138,977	166,344
	115,886	138,156
	17,035	18,676
	<u>508,948</u>	<u>606,977</u>

18 SHARE CAPITAL

18.1 Authorized Capital

	2012	2011		2012	2011
	Number of shares			---(Rupees in '000)---	
	<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs.10 each	<u>10,000,000</u>	<u>10,000,000</u>

18.2 Issued, subscribed and paid-up

	<u>615,000,000</u>	<u>615,000,000</u>	Ordinary shares of Rs.10 each	<u>6,150,000</u>	<u>6,150,000</u>
	<u>615,000,000</u>	<u>615,000,000</u>		<u>6,150,000</u>	<u>6,150,000</u>

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 (2011: 307,495,900) ordinary shares of the Company, while 4,100 (2011: 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, 2012.

19 RESERVES

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

20 SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - net of deferred tax

	Note	2012 ---(Rupees in '000)---	2011
20.1 Surplus / (deficit) on revaluation of Available-for-sale securities			
Federal Government Securities			
- Market Treasury Bills		873	1,659
- Pakistan Investment Bonds		31,508	(798)
		32,381	861
Shares-listed		17,727	(16,192)
Term Finance Certificates			
- Listed		(44,772)	(129,134)
- Unlisted		(9,827)	668
		(54,599)	(128,466)
Sukuk-unlisted		(1,076)	(1,941)
National Saving Bonds		(599)	-
Investment in Mutual Funds		851	1,052
		(5,315)	(144,686)
Deferred tax asset recognized	12	8,363	45,341
		3,048	(99,345)

21 CONTINGENCIES AND COMMITMENTS

	Note	2012 ----(Rupees in '000)----	2011
Transaction related contingent liability:			
Guarantees		-	3,500
Pledge of shares on behalf of Japan Power Generation 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		235,657	2,135,261
Purchase of government securities		-	98,362
Commitments for loans and advances and net investment in finance leases			
		1,016,982	299,523
Commitments for the acquisition of operating fixed assets			
		709	-
21.1 Shares in Japan Power Generation Limited (JPGL) (an associate) aggregating 17,622,878 having a cost of Rs. 70.726 (2011: 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 Investment in unlisted shares in Orient Power Company (Private) Limited (related party) aggregating 22,600,000 having a cost of Rs. 226 million are pledged as security against a syndicate finance facility obtained by Orient Power Company (Private) Limited.			

22 MARK- UP / RETURN / INTEREST EARNED

	2012 ----(Rupees in '000)----	2011
On loans and advances to		
Customers	818,201	930,518
Financial institutions	2,569	1,588
	820,770	932,106
On investments in:		
Available-for-sale	880,343	938,513
Held-to-maturity	13,083	14,299
Held-for-trading	155,178	155,741
	1,048,604	1,108,553
On securities purchased under resale agreements	139,132	180,361
On deposit with financial institutions	12,204	22,486
On placements	3,597	4,196
On certificate of investments	24,476	16,445
	<u>2,048,783</u>	<u>2,264,147</u>

23 MARK-UP / RETURN / INTEREST EXPENSED

On secured borrowings		
Repurchase agreement borrowings	564,337	506,137
Long-term borrowings	83,474	94,069
Short-term borrowings	4,309	55,108
	652,120	655,314
On un-secured borrowings:		
Placements	81,653	117,736
Certificate of investments	570,527	740,492
	652,180	858,228
	<u>1,304,300</u>	<u>1,513,542</u>

24 GAIN / (LOSS) ON SALE OF SECURITIES

Federal Government Securities		
- Market Treasury Bills	17,020	29,675
- Pakistan Investment Bonds	120,320	37,431
	137,340	67,106
Term Finance Certificates		
Shares	4,313	29,315
- Listed	89,105	(12,249)
- Unlisted	-	(38,500)
	89,105	(50,749)
Mutual fund units	-	(33,417)
	<u>230,758</u>	<u>12,255</u>

	Note	2012 ----(Rupees in '000)----	2011
25 OTHER INCOME			
Gain on sale of property and equipment		1,230	2,355
Exchange gain on revaluation		42	-
Late payment charges on dividend income		706	-
		<u>1,978</u>	<u>2,355</u>

26 ADMINISTRATIVE EXPENSES

Salaries, allowances and employees' benefits		139,867	107,222
Contribution to defined contribution plan		9,345	7,955
Charge for defined benefit plan	32.8	9,842	5,933
Non-executive directors' fee / remuneration	34	14,717	12,496
Chief executive's remuneration	34	25,415	19,211
Board meeting expenses		6,322	4,305
Traveling and accommodation		12,212	9,059
Rent, rates and taxes		13,186	11,689
Utilities		1,953	1,938
Communication		6,379	6,282
Professional training		1,213	947
Advertisement and business promotion		1,313	1,343
Membership and subscriptions		2,025	1,612
Printing, stationery and periodicals		2,827	3,460
Depreciation	11.1	15,485	15,739
Amortization of intangible assets	11.2	2,316	1,939
Auditors' remuneration	26.1	1,715	896
Legal and professional charges		8,807	12,279
Repairs and maintenance		5,757	5,289
Transportation		11,186	9,754
Insurance		5,560	4,825
Finance charges on leased assets		1,772	1,776
Entertainment and canteen expenses		2,020	2,158
Donation	26.2	726	4,644
Others		1,485	1,349
		<u>303,445</u>	<u>254,100</u>

	2012 ----(Rupees in '000)----	2011
26.1 Auditors' remuneration		
Audit fee	440	400
Half yearly review	148	147
Special certifications and others	951	321
Out of pocket expenses	176	28
	<u>1,715</u>	<u>896</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. 0.100 million to a single donee are as follows:

Prime Minister's Flood Relief Fund	-	4,000
Al-Mehrab Tibbi Imdad	140	140
The Kidney Centre Post Graduation Training Institute	-	200
Burns Centre	140	140
	<u>280</u>	<u>4,480</u>

27 OTHER CHARGES

SBP Penalties	-	5,615
Fees and commission	8,522	9,489
	<u>8,522</u>	<u>15,104</u>

28 TAXATION

For the year		
Current	260,722	213,911
Deferred	(83,553)	17,360
	<u>177,169</u>	<u>231,271</u>

28.1 Relationship between tax expense and accounting profit

Profit before taxation	605,523	579,293
Tax at the applicable rate of 35 %	211,933	202,753
Tax effect of income taxed at different rate	(21,829)	(29,544)
Tax effect of exempt capital gain	(25,454)	25,445
Tax effect of exempt provision for diminution in the value of investments	14,790	30,247
Net tax effect of income not subject to tax and expenses that are not allowable in determining taxable income tax charge	(2,271)	2,370
	<u>177,169</u>	<u>231,271</u>

28.2 In the year 2011, 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 and July 13, 2012 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.

29 EARNINGS PER SHARE

		2012	2011
Profit after taxation	Rupees in '000	<u>428,354</u>	<u>348,022</u>
Weighted average number of ordinary shares in issue	Numbers in '000	<u>615,000</u>	<u>615,000</u>
Basic earnings per share	Rupees	<u>0.70</u>	<u>0.57</u>
Diluted earnings per share	Rupees	<u>0.70</u>	<u>0.57</u>

29.1 There were no convertible dilutive potential ordinary shares outstanding on December 31, 2012 and 2011.

30 CASH AND CASH EQUIVALENTS

	Note	2012	2011
		----(Rupees in '000)----	
Cash and balances with treasury banks	6	101,865	66,647
Balances with other banks	7	158,294	209,058
		<u>260,159</u>	<u>275,705</u>

31 STAFF STRENGTH

	Number	
Permanent	59	61
Temporary/on contractual basis	8	10
Company's own staff strength at end of the year	<u>67</u>	<u>71</u>
Outsourced	26	27
Total staff strength	<u>93</u>	<u>98</u>

32 DEFINED BENEFIT PLAN

General Description

32.1 General description of the 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, 2012 using the Projected Unit Credit Method (PUCM). The following significant assumptions were used for the actuarial valuation:

	2012	2011
	Percent per annum	
Discount rate	11.50	12.50
Expected rate of increase in salary levels	11.50	12.50
Expected rate of return on plan assets	11.50	12.50

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	2012	2011
		----(Rupees in '000)----	
32.2 Reconciliation of amount receivable from defined benefit plan			
Present value of defined benefit obligation	32.3	52,079	38,207
Fair value of plan assets	32.5	(49,958)	(38,988)
	32.4	<u>2,121</u>	<u>(781)</u>

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

Present value of obligation as at January 1	38,207	30,787
Current service cost	7,880	7,382
Interest cost	4,655	4,087
Benefits paid	(1,936)	(3,195)
Actuarial loss / (gain) on obligation	3,273	(854)
Present value of obligation as at December 31	<u>52,079</u>	<u>38,207</u>

32.4 Movement in receivable from defined benefit plan:

Opening liability	(781)	(769)
Expense for the year	9,842	5,933
Contributions to the fund	(6,940)	(5,945)
Closing liability / (asset)	<u>2,121</u>	<u>(781)</u>

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

	Note	2012 ----(Rupees in '000)----	2011
Fair value of plan assets as at January 1		38,988	31,557
Expected return on plan assets		5,186	4,615
Contributions		6,940	5,945
Benefits paid		(1,936)	(3,195)
Actuarial gain on plan assets		780	66
Fair value of plan assets as at December 31	32.7	<u>49,958</u>	<u>38,988</u>

32.6 Actual return on plan assets during the year was Rs. 5.966 million (2011: Rs. 4.681 million).

32.7 The plan assets are comprised as follows:

Particulars	Note	2012		2011	
		Rupees in '000	%	Rupees in '000	%
Market Treasury Bills		-	-	10,365	27.80
Pakistan Investment Bonds		9,000	18.60	11,352	30.44
Special Saving Certificates (SSCs)		10,000	20.67	-	-
Term Finance Certificates		6,219	12.85	5,836	15.65
Certificate of Investments	32.7.1	23,150	47.84	8,150	21.86
Amount in Bank		20	0.04	1,577	4.23
Other asset		-	-	9	0.02
		<u>48,389</u>	<u>100</u>	<u>37,289</u>	<u>100</u>

32.7.1 These includes Certificate of Investment held with the Company. These carry mark-up at rates ranging from 9.15 to 10.50 percent per annum. (2011: 12 to 13.25).

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

	2012 ----(Rupees in '000)----	2011
Current service cost	7,880	7,382
Interest cost	4,655	4,086
Expected return on plan assets	(5,186)	(4,615)
Actuarial loss / (gain) recognised	<u>2,493</u>	<u>(920)</u>
	<u>9,842</u>	<u>5,933</u>

32.9 Net unrecognised actuarial (losses) / gains

	2012	2011
Net unrecognised actuarial gains / (losses) as at January 1	-	-
Actuarial (loss) / gain on obligation	(3,273)	854
Actuarial gain on plan assets	780	66
	<u>(2,493)</u>	<u>920</u>
Actuarial loss / (gain) recognised for the year	2,493	(920)
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	2012	2011	2010	2009	2008
		----(Rupees in '000)----				
Present value of defined benefit obligation	32.3	52,079	38,207	30,787	25,514	26,408
Fair value of plan assets	32.5	(49,958)	(38,988)	(31,557)	(25,263)	(16,139)
Deficit / (Surplus)		<u>2,121</u>	<u>(781)</u>	<u>(770)</u>	<u>251</u>	<u>10,269</u>
Experience adjustments on defined benefit obligation	32.3	3,273	(854)	(496)	(1,224)	5,415
Experience adjustments on assets	32.5	(780)	(66)	(86)	670	(572)

32.11 Expected gratuity expense for the next year

The expected gratuity expense for the next year ending December 31, 2013 works out to Rs. 8.312 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

	2012 ----(Rupees in '000)----	2011
Contribution from the Company	9,345	7,955
Contribution from employees	9,345	7,955
	<u>18,690</u>	<u>15,910</u>

34 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Non-Executive Directors		Executives	
	2012	2011	2012	2011	2012	2011
	----(Rupees in '000)----					
Fees / remuneration	-	-	14,717	12,496	-	-
Managerial remuneration	24,075	17,937	-	-	125,405	102,284
Charge for defined benefit plan	816	786	-	-	8,605	4,643
Contribution to defined contribution plan	1,269	1,058	-	-	7,559	6,396
Medical	552	467	-	-	-	-
Utilities	712	738	-	-	190	239
Membership fee	76	69	-	-	42	41
	<u>27,500</u>	<u>21,055</u>	<u>14,717</u>	<u>12,496</u>	<u>141,801</u>	<u>113,603</u>
Number of persons	1	1	5	5	52	49

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

35 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 2.3 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

	2012		2011	
	Book value	Fair Value	Book Value	Fair Value
----- (Rupees in '000) -----				
Assets				
Cash and balances with treasury banks	101,865	101,865	66,647	66,647
Balances with other banks	158,294	158,294	209,058	209,058
Lendings to financial institutions	833,119	833,119	1,321,745	1,321,745
Investments	9,387,277	9,384,557	9,737,205	9,721,078
Advances	6,347,059	6,347,059	5,767,026	5,767,026
Other assets	366,885	366,885	361,000	361,000
	<u>17,194,499</u>	<u>17,191,779</u>	<u>17,462,681</u>	<u>17,446,554</u>
Liabilities				
Borrowings from financial institutions	6,546,367	6,546,367	6,648,716	6,648,716
Deposits and other accounts	4,351,000	4,351,000	4,695,693	4,695,693
Liabilities against assets subject to finance lease	10,556	10,556	19,378	19,378
Other liabilities	390,941	390,941	468,821	468,821
	<u>11,298,864</u>	<u>11,298,864</u>	<u>11,832,608</u>	<u>11,832,608</u>
	<u>5,895,635</u>	<u>5,892,915</u>	<u>5,630,073</u>	<u>5,613,946</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.

36 SEGMENT ANALYSIS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate finance	Trading & sales	Commercial banking
	----- (Rupees in '000) -----		
2012			
Total income	8,903	1,562,566	825,129
Total expenses	46,760	1,186,932	557,383
Net income / (loss)	(37,857)	375,634	267,746
Segment assets (gross)	-	12,614,438	7,703,108
Segment non-performing loans	-	-	1,182,906
Investments provided for	-	1,404,614	-
Segment provision required *	-	805,791	933,814
Segment liabilities	-	6,618,191	4,798,680
Segment return on net assets (%)	-	7.24%	13.59%
Segment return on assets (ROA) (%)	-	3.18%	3.96%
Segment cost of funds (%)	-	7.10%	7.31%
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%

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

37 RELATED PARTY TRANSACTIONS

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 Microfinance 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 - (due to common directorship)

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	2012				2011			
	As at January 1, 2012	Given during the year	Repaid during the year	As at December 31, 2012	As at January 1, 2011	Given during the year	Repaid during the year	As at December 31, 2011
	----- (Rupees in '000) -----							
Investments								
Subsidiary	168,300	-	-	168,300	168,300	-	-	168,300
Associates	905,742	-	-	905,742	905,742	-	-	905,742
Other related parties	495,744	-	(38,000)	457,744	226,000	269,744	-	495,744
	<u>1,569,786</u>	<u>-</u>	<u>(38,000)</u>	<u>1,531,786</u>	<u>1,300,042</u>	<u>269,744</u>	<u>-</u>	<u>1,569,786</u>
Advances								
Subsidiary	1,465	-	(1,465)	-	2,888	-	(1,423)	1,465
Associates	68,200	-	-	68,200	68,200	-	-	68,200
Key Management personnel	65,877	16,947	(13,917)	68,907	46,384	31,703	(12,210)	65,877
Other related parties	275,723	-	(19,010)	256,713	566,748	-	(291,025)	275,723
	<u>411,265</u>	<u>16,947</u>	<u>(34,392)</u>	<u>393,820</u>	<u>684,220</u>	<u>31,703</u>	<u>(304,658)</u>	<u>411,265</u>
Deposits								
Associates	353,819	383,888	(295,960)	441,747	388,119	353,819	(388,119)	353,819
Key Management personnel	10,021	44,396	(40,476)	13,941	4,500	31,811	(26,290)	10,021
Other related parties	13,500	101,291	(75,502)	39,289	46,763	13,500	(46,763)	13,500
	<u>377,340</u>	<u>529,575</u>	<u>(411,938)</u>	<u>494,977</u>	<u>439,382</u>	<u>399,130</u>	<u>(461,172)</u>	<u>377,340</u>
Borrowings								
Associates	100,000	-	(100,000)	-	63,520	100,000	(63,520)	100,000
	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>	<u>63,520</u>	<u>100,000</u>	<u>(63,520)</u>	<u>100,000</u>

	2012	2011
	----- (Rupees in '000) -----	
Other receivables from		
Gratuity fund	-	781
Associates	12	344
Other payable		
Gratuity fund	2,121	-
Lease deposits from Subsidiary	-	487

	2012	2011
	----(Rupees in '000)----	
Mark-up income		
Subsidiary	82	305
Key Management personnel	2,910	2,880
Other related parties	41,059	75,466
Dividend income		
Associates	47,752	74,040
Other related parties	23,227	15,130
Fee income		
Other related parties	-	4,750
Other income		
Other related parties	706	-
Mark-up expense on deposits		
Associates	53,529	47,746
Key Management personnel	1,387	1,036
Other related parties	4,103	1,388
Mark-up expense on borrowing		
Associates	441	13,221
Expenses for the year		
Remuneration to key management personnel	88,707	71,811
Non-executive director's fee / remuneration	14,717	12,496
Charge for defined contribution plan	9,345	7,955
Charge for defined benefit plan	9,842	5,933
Outright sale of Government Securities		
Other related parties	31,734	103,847
Outright purchase of Government Securities		
Other related parties	40,079	-
Outright sale of Term Finance Certificates (TFCs)		
Other related parties	98	-

38 CAPITAL ADEQUACY

The Company's CAR as at December 31, 2012 was 41.45% 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 41.45% 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:

	2012	2011
	----(Rupees in '000)----	
Regulatory Capital Base		
Tier I Capital		
Share Capital	6,150,000	6,150,000
Reserves	570,983	485,312
Unappropriated profit	437,039	309,606
	<u>7,158,022</u>	<u>6,944,918</u>
Deductions:		
Book value of intangibles	1,666	3,626
Shortfall in provisions required against classified assets irrespective of any relaxation allowed	-	-
Deficit on account of revaluation of available-for-sale investment	5,315	144,686
Investments in TFCs of other banks exceeding the prescribed limit	679,366	880,548
Other deductions (50% of the amount calculated on CAP 2)	276,364	281,870
	<u>962,711</u>	<u>1,310,730</u>
Total eligible Tier I Capital	<u>6,195,311</u>	<u>5,634,188</u>
Supplementary Capital		
Tier II Capital		
Subordinated debt (up to 50% of total Tier 1 Capital)	-	-
General provision or general reserves for loan losses up to maximum of 1.25% of risk weighted assets.	-	-
Revaluation reserve (up to 45%)	-	-
Other deductions (50% of the amount calculated on CAP 2)	(276,364)	(281,870)
	<u>(276,364)</u>	<u>(281,870)</u>
Total Eligible Tier II Capital	<u>(276,364)</u>	<u>(281,870)</u>
Eligible Tier III Capital	-	-
Total Supplementary Capital eligible for capital adequacy ratio (Maximum upto 100% of Total eligible Tier I Capital)	-	-
Total Eligible Capital	<u>5,918,947</u>	<u>5,352,318</u>
Risk Weighted Amounts		
Total Credit Risk Weighted Amount	8,047,927	7,024,006
Total Market Risk Weighted Amount	4,477,892	4,445,665
Total Operational Risk Weighted Amount	1,752,999	1,359,066
Total Risk Weighted Amount	<u>14,278,818</u>	<u>12,828,737</u>
Capital Adequacy Ratios		
Credit Risk Capital Adequacy Ratio	73.55%	76.20%
Tier 1 Capital to Total Risk Weighted Amount	43.39%	43.92%
Total Capital Adequacy Ratio	41.45%	41.72%

39 RISK MANAGEMENT

The Company has set up objectives and policies to manage the risks that arise in connection with financial instruments. The risk management framework and policies of the Company are guided by specific objectives to ensure that comprehensive and adequate risk management policies are established to mitigate the salient risk elements in operations of the company. The establishment of the overall financial risk management objectives is consistent and in tandem with the strategy to create and enhance shareholders' value, whilst guided by a prudent and robust framework of risk management policies. In achieving the objective of 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	x	x	x

Credit exposures subject to Standardised Approach

Exposures	Rating Category	2012			2011		
		Amount Outstanding	Deduction CRM*	Net Amount	Amount Outstanding	Deduction CRM*	Net Amount
(Rupees in '000)							
Corporate	0	-	-	-	-	-	
	1	585,989	588,903	1,174,892	742,842	476,807	
	2	1,147,358	(100,225)	1,047,133	871,993	(97,730)	
	3-4	100,000	-	100,000	292,716	-	
	5-6	-	-	-	-	-	
	Unrated	4,969,243	(488,678)	4,480,565	3,748,154	(379,077)	
		<u>6,802,590</u>	<u>-</u>	<u>6,802,590</u>	<u>5,655,705</u>	<u>-</u>	
Banks	0	-	-	-	-	-	
	1	58,294	-	58,294	59,058	-	
	2-3	100,000	-	100,000	150,000	-	
	Unrated	-	-	-	-	-	
		<u>158,294</u>	<u>-</u>	<u>158,294</u>	<u>209,058</u>	<u>-</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

	Advances (Gross)		Deposits		Contingencies & commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
2012						
Financial institution	105,161	1.44	731,747	16.82	235,657	15.20
Textile	1,292,534	17.75	3,315	0.08	452,382	29.18
Transportation and communication	332,519	4.57	555,013	12.76	25,000	1.61
Power	1,106,438	15.20	-	-	296,726	19.14
Electronics	160,079	2.20	-	-	-	-
Food and beverage	1,592,412	21.87	-	-	302,540	19.52
Services	334,241	4.59	80,000	1.84	100,000	6.45
Engineering and allied products	158,017	2.17	-	-	-	-
Chemical and pharmaceuticals	367,233	5.04	-	-	90,000	5.81
Automobiles	258,545	3.55	-	-	-	-
Fuel and energy	474,917	6.52	-	-	44,560	2.87
Construction	107,394	1.48	-	-	-	-
Cement	45,953	0.63	-	-	-	-
Sugar	384,205	5.28	-	-	-	-
Paper and board /packaging	92,215	1.27	-	-	2,500	0.16
Healthcare	150,000	2.06	-	-	-	-
Individual	128,496	1.76	428,190	9.84	-	-
Others	190,514	2.62	2,552,735	58.67	709	0.06
	7,280,873	100.00	4,351,000	100.00	1,550,074	100.00

	Advances (Gross)		Deposits		Contingencies & commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
2011						
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
	6,741,250	100.00	4,695,693	100.00	2,833,372	100.00

39.2.2 Segment by sector

	Advances (Gross)		Deposits		Contingencies & commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
2012						
Public / Government	1,289,506	17.71	650,000	14.94	44,560	2.87
Private	5,991,367	82.29	3,701,000	85.06	1,505,514	97.13
	7,280,873	100	4,351,000	100	1,550,074	100

	Advances (Gross)		Deposits		Contingencies & commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
2011						
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
	6,741,250	100	4,695,693	100	2,833,372	100

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

	2012		2011	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	----- (Rupees in '000) -----			
Automobile	258,545	258,545	268,545	268,545
Cement	45,953	45,953	65,000	65,000
Textile	454,834	331,808	412,899	300,720
Chemical and pharmaceuticals	38,616	34,411	38,962	34,758
Construction	57,395	53,675	82,250	53,675
Engineering and allied products	86,073	86,073	92,073	92,073
Electronics	50,000	-	32,619	32,619
Fuel and energy	89,194	34,053	89,194	22,298
Food and beverages	16,435	15,935	19,197	18,697
Financial institution	5,161	5,161	-	-
Power	68,200	68,200	68,200	68,200
Sugar	-	-	11,825	11,825
Transportation & Communication	12,500	-	18,314	5,814
	1,182,906	933,814	1,199,078	974,224

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

	2012		2011	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	----- (Rupees in '000) -----			
Public/Government	-	-	-	-
Private	1,182,906	933,814	1,199,078	974,224
	1,182,906	933,814	1,199,078	974,224

39.2.5 Geographical segment analysis

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- (Rupees in '000) -----			
Pakistan	605,523	18,576,424	7,161,070	1,550,074
Middle East	-	1,517	-	-
	605,523	18,577,941	7,161,070	1,550,074

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 16band 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 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) -----			
Pakistan Rupees	18,577,465	11,416,871	-	7,160,594
United States Dollar	147	-	-	147
Omani Riyal	329	-	-	329
	18,577,941	11,416,871	-	7,161,070

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, 2012

	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												
		101,865	-	-	-	-	-	-	-	-	-	101,865
Balances with other banks	9.97%	158,294	153,611	-	-	-	-	-	-	-	-	4,683
Lending to financial institutions	9.80%	833,119	820,456	212	1,207	-	11,244	-	-	-	-	-
Investments	10.87%	9,387,277	108,012	1,509,922	1,861,075	1,615,890	8,994	63,898	3,373,571	115,853	-	730,0620
Advances	12.92%	6,347,059	2,182,413	2,449,580	647,730	151,235	267,669	230,855	307,753	78,600	16,333	14,891
Other assets		366,885	-	-	-	-	-	-	-	-	-	366,885
		17,194,499	3,264,492	3,959,714	2,510,012	1,767,125	287,907	294,753	3,681,324	194,453	16,333	1,218,386
Liabilities												
Borrowings from financial institutions												
	9.04%	6,546,367	5,471,422	194,064	59,264	114,383	207,033	216,375	246,022	37,804	-	-
Deposits and other accounts	10.75%	4,351,000	1,222,984	1,350,195	1,103,129	381,674	293,018	-	-	-	-	-
Liabilities against assets subject to finance leases	13.68%	10,556	640	942	1,577	2,026	4,882	489	-	-	-	-
Other liabilities		390,941	-	-	-	-	-	-	-	-	-	390,941
		11,298,864	6,695,046	1,545,201	1,163,970	498,083	504,933	216,864	246,022	37,804	-	390,941
On-balance sheet gap		5,895,635	(3,430,554)	2,414,513	1,346,042	1,269,042	(217,026)	77,889	3,435,302	156,649	16,333	827,445
Non-Financial assets												
Non-Financial assets		1,383,442	-	-	-	-	-	-	-	-	-	-
Non-Financial liabilities		118,007	-	-	-	-	-	-	-	-	-	-
Total Net Assets		7,161,070	-	-	-	-	-	-	-	-	-	-
Total yield/profit risk sensitivity gap			(3,430,554)	2,414,513	1,346,042	1,269,042	(217,026)	77,889	3,435,302	156,649	16,333	
Cumulative yield/profit risk sensitivity gap			(3,430,554)	(1,016,041)	330,001	1,599,043	1,382,017	1,459,906	4,895,208	5,051,857	5,068,190	

Mismatch of interest rate sensitive assets and liabilities for the year ended December 31, 2011

	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												
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	

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 - Based on contractual maturity of assets and liabilities

Maturities of assets and liabilities as at December 31, 2012

	Total	Up to 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	101,865	101,865	-	-	-	-	-	-	-	-
Balances with other banks	158,294	158,294	-	-	-	-	-	-	-	-
Lending to financial institutions	833,119	820,456	212	1,207	-	11,244	-	-	-	-
Investments	10,229,027	136,426	272,767	690,804	2,070,739	674,457	549,188	4,886,676	947,970	-
Advances	6,347,059	199,427	1,458,387	377,794	685,963	1,101,829	822,001	1,156,140	529,185	16,333
Other assets	374,454	71,536	215,889	81,226	999	-	-	4,804	-	-
Operating fixed assets	58,725	2,311	4,622	6,208	8,514	12,012	6,804	4,212	10,532	3,510
Deferred tax assets	475,398	(21,363)	(17,168)	(23,930)	(54,385)	(45,072)	(7,744)	646,012	(1,482)	530
	18,577,941	1,468,952	1,934,709	1,133,309	2,711,830	1,754,470	1,370,249	6,697,844	1,486,205	20,373
Liabilities										
Borrowings from financial institutions	6,546,367	5,471,422	194,064	59,264	114,383	207,033	216,375	246,022	37,804	-
Deposits and other accounts	4,351,000	1,222,984	1,350,195	1,103,129	381,674	293,018	-	-	-	-
Liabilities against assets subject to finance leases	10,556	640	942	1,577	2,026	4,882	489	-	-	-
Others liabilities	508,948	87,741	110,167	65,595	174,194	37,276	10,879	23,096	-	-
Deferred liabilities	-	-	-	-	-	-	-	-	-	-
	11,416,871	6,782,787	1,655,368	1,229,565	672,277	542,209	227,743	269,118	37,804	-
Net assets	7,161,070	(5,313,835)	279,341	(96,256)	2,039,553	1,212,261	1,142,506	6,428,726	1,448,401	20,373
Share capital	6,150,000									
Reserves	570,983									
Unappropriated profit	437,039									
	7,158,022									
Surplus on revaluation of investment - net of tax	3,048									
	7,161,070									

Maturities of assets and liabilities as at December 31, 2011

	Total	Up to 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	66,647	-	-	-	-	-	-	-	-
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	126,510	2,186,698	904,598	1,719,767	1,616,060	4,176,177	2,440,166	1,178,552	-
Advances	5,767,026	251,002	296,896	776,325	609,756	1,150,552	873,886	925,388	869,020	14,201
Other assets	369,259	110,311	164,083	88,409	1,443	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)	(76,645)	(43,383)	(15,609)	634,055	(1,709)	(13)
	18,816,337	1,632,911	3,040,427	1,758,002	2,265,547	2,737,501	1,297,159	4,008,589	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	606,977	113,009	150,369	20,820	241,932	33,952	35,324	11,571	-	-
	11,970,764	7,037,793	2,151,757	622,253	1,070,264	451,583	232,025	281,374	123,715	-
Net assets	6,845,573	(5,404,882)	888,670	1,135,749	1,195,283	2,285,918	1,065,134	3,727,215	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									

The contractual maturities of assets and liabilities do not significantly differ with the expected maturities except operating fixed assets and deferred tax assets which do not have any contractual maturities. The maturities of operating fixed assets and deferred tax assets have been reported based on their pattern of usage and recoverability of the underlying assets on which deferred tax asset has been recorded.

39.4.2 Maturities of assets and liabilities - Based on the working prepared by the Asset and Liabilities Management Committee (ALCO)

Maturities of assets and liabilities as at December 31, 2012

	Total	Up to 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	101,865	101,865	-	-	-	-	-	-	-	-
Balances with other banks	158,294	158,294	-	-	-	-	-	-	-	-
Lending to financial institutions	833,119	820,456	212	1,207	-	11,244	-	-	-	-
Investments	10,229,027	136,426	272,767	690,804	2,070,739	674,457	549,188	4,886,676	947,970	-
Advances	6,347,059	199,427	1,458,387	377,794	685,963	1,101,829	822,001	1,156,140	529,185	16,333
Other assets	374,454	71,536	215,889	81,226	999	-	-	4,804	-	-
Operating fixed assets	58,725	2,311	4,622	6,208	8,514	12,012	6,804	4,212	10,532	3,510
Deferred tax assets	475,398	(21,363)	(17,168)	(23,930)	(54,385)	(45,072)	(7,744)	646,012	(1,482)	530
	18,577,941	1,468,952	1,934,709	1,133,309	2,711,830	1,754,470	1,370,249	6,697,844	1,486,205	20,373
Liabilities										
Borrowings from financial institutions	6,546,367	5,471,422	194,064	59,264	114,383	207,033	216,375	246,022	37,804	-
Deposits and other accounts	4,351,000	1,222,984	1,350,195	1,103,129	381,674	293,018	-	-	-	-
Liabilities against assets subject to finance leases	10,556	640	942	1,577	2,026	4,882	489	-	-	-
Others liabilities	508,948	87,741	110,167	65,595	174,194	37,276	10,879	23,096	-	-
Deferred liabilities	-	-	-	-	-	-	-	-	-	-
	11,416,871	6,782,787	1,655,368	1,229,565	672,277	542,209	227,743	269,118	37,804	-
Net assets	7,161,070	(5,313,835)	279,341	(96,256)	2,039,553	1,212,261	1,142,506	6,428,726	1,448,401	20,373
Share capital	6,150,000									
Reserves	570,983									
Unappropriated profit	437,039									
	7,158,022									
Surplus on revaluation of investment - net of tax	3,048									
	7,161,070									

Maturities of assets and liabilities as at December 31, 2011

	Total	Up to 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	66,647	-	-	-	-	-	-	-	-
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	126,510	2,186,698	904,598	1,719,767	1,616,060	417,617	2,440,166	1,178,552	-
Advances	5,767,026	251,002	296,896	776,325	609,756	1,150,552	873,886	925,388	869,020	14,201
Other assets	369,259	110,311	164,083	88,409	1,443	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)	(76,645)	(43,383)	(15,609)	634,055	(1,709)	(13)
	18,816,337	1,632,911	3,040,427	1,758,002	2,265,547	2,737,501	1,297,159	4,008,589	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	606,977	113,009	150,369	20,820	241,932	33,952	35,324	11,571	-	-
	11,970,764	7,037,793	2,151,757	622,253	1,070,264	451,583	232,025	281,374	123,715	-
Net assets	6,845,573	(5,404,882)	888,670	1,135,749	1,195,283	2,285,918	1,065,134	3,727,215	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									

The contractual maturities of assets and liabilities do not significantly differ with the expected maturities except operating fixed assets and deferred tax assets which do not have any contractual maturities. The maturities of operating fixed assets and deferred tax assets have been reported based on their pattern of usage and recoverability of the underlying assets on which deferred tax asset has been recorded.

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, Orix Leasing Pakistan Limited and Standard Chartered Bank (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 February 28, 2013 have:

- Proposed 4% cash dividend amounting to Rs 246 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 February 28, 2013 by the Board of Directors of the Company.

Managing Director and Chief Executive Officer

Chairman

FINANCE THAT SPEAKS VOLUMES

Deloitte.

M. Yousuf Adil Saleem & Co
Chartered Accountants

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, 2012 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 financial statements of the subsidiary company covering period from January 1, 2012 to December 31, 2012 have been extracted from audited financial statements for the year ended June 30, 2012 and reviewed financial statements for the six months ended December 31, 2012.

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, 2012 and the results of their operations for the year then ended.

M. Yousuf Adil Saleem & Co
Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Karachi: February 28, 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012

2012	2011		2012	2011
----(US\$ in '000)----			----(Rupees in '000)----	
4,597	3,680	Profit after taxation	446,586	357,521
-	-	Other comprehensive income	-	-
<u>4,597</u>	<u>3,680</u>	Total comprehensive income for the year	<u>446,586</u>	<u>357,521</u>
Total comprehensive income attributable to:				
4,706	3,952	Shareholders of the holding company	457,168	383,980
(109)	(272)	Non-controlling interest	(10,582)	(26,459)
<u>4,597</u>	<u>3,680</u>		<u>446,586</u>	<u>357,521</u>

Deficit / surplus on revaluation of assets has been reported in accordance with the requirements of the 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.

Managing Director and Chief Executive Officer

Chairman

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2012

2012	2011	Note	2012	2011
----(US\$ in '000)----			----(Rupees in '000)----	
6,470	6,415		628,470	623,211
407	516		39,564	50,092
<u>6,063</u>	<u>5,899</u>		<u>588,906</u>	<u>573,119</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
188	216		18,261	21,009
24	23		2,324	2,272
(142)	174		(13,794)	16,950
(14)	(26)		(1,335)	(2,484)
(921)	(557)		(89,517)	(54,151)
(570)	(1,373)		(55,410)	(133,405)
2,256	621		219,205	60,286
19	19		1,849	1,837
840	(903)		81,583	(87,686)
<u>6,903</u>	<u>4,996</u>		<u>670,489</u>	<u>485,433</u>
Decrease / (increase) in operating assets				
5,030	11,661		488,626	1,132,865
27,909	(38,812)		2,711,372	(3,770,591)
(5,570)	3,221		(541,088)	312,885
(173)	671		(16,831)	65,201
<u>27,196</u>	<u>(23,259)</u>		<u>2,642,079</u>	<u>(2,259,640)</u>
(Decrease) / increase in operating liabilities				
-	-		-	-
(1,054)	5,181		(102,349)	503,367
(3,548)	(8,909)		(344,693)	(865,472)
(785)	(1,164)		(76,219)	(113,216)
(5,387)	(4,892)		(523,261)	(475,321)
28,712	(23,155)		2,789,307	(2,249,528)
(21)	(20)		(2,004)	(1,899)
(2,947)	(2,174)		(286,254)	(211,208)
<u>25,744</u>	<u>(25,349)</u>		<u>2,501,049</u>	<u>(2,462,635)</u>
Net cash from / (used in) operating activities				
CASH FLOWS FROM INVESTING ACTIVITIES				
(24,822)	21,386		(2,411,411)	2,077,636
51	574		4,917	55,726
752	815		73,073	79,222
563	361		54,694	35,107
(164)	(70)		(15,971)	(6,844)
38	64		3,699	6,219
<u>(23,582)</u>	<u>23,130</u>		<u>(2,290,999)</u>	<u>2,247,066</u>
Net cash (used in) / from investing activities				
CASH FLOWS FROM FINANCING ACTIVITIES				
(93)	(100)		(9,056)	(9,667)
(2,216)	(2,532)		(215,250)	(246,000)
(2,309)	(2,632)		(224,306)	(255,667)
(147)	(4,851)		(14,256)	(471,236)
2,843	7,694		276,210	747,446
<u>2,696</u>	<u>2,843</u>		<u>261,954</u>	<u>276,210</u>
Net cash used in financing activities				
Decrease in cash and cash equivalents				
Cash and cash equivalents at beginning of the year				
Cash and cash equivalents at end of the year				

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

Managing Director and Chief Executive Officer

Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2012

	Issued, subscribed and paid-up capital	Attributable to the shareholders of the holding company			Unappropriated profit	Sub total	Non-controlling interest	Total
		Reserves						
		Statutory reserve	General reserve	Reserve for contingencies				
----- (Rupees in '000) -----								
Balance as at January 1, 2011	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
Comprehensive income:								
Profit / (loss) for the year ended December 31, 2012	-	-	-	-	457,168	457,168	(10,582)	446,586
Other comprehensive income - net of tax	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	457,168	457,168	(10,582)	446,586
Transfers:								
Transfer to statutory reserve	-	85,671	-	-	(85,671)	-	-	-
Transaction with owners recognised directly in equity								
Dividend for the year ended December 31, 2011 (Re. 0.35 per share)	-	-	-	-	(215,250)	(215,250)	-	(215,250)
Balance as at December 31, 2012	6,150,000	559,353	11,630	-	452,759	7,173,742	37,268	7,211,010

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

Managing Director and Chief Executive Officer

Chairman

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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, Gwadar 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 Horizon Vista, Mezzanine Floor-2, Plot No Com-10, Scheme-5, Block 4 Clifton, 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 %	
			2012	2011
Pak Oman Advantage Fund	Pakistan	Established as a 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.	35.36	33.63

Entity	Country of incorporation	Nature of business	Holding %	
			2012	2011
Pak Oman Islamic Asset Allocation fund	Pakistan	Established as an open end scheme under the Non-Banking Finance Companies Rules, 2003 and Notified Entities Regulations, 2008.	64.97	98.63
Pak Oman Advantage Asset Allocation Fund	Pakistan	Established as an open end scheme under the Non-Banking Finance Companies Rules, 2003 and Notified Entities Regulations, 2008.	94.27	83.34
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 Microfinance Bank Limited	Pakistan	Incorporated under the Companies Ordinance, 1984 and is engaged in providing microfinance 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

2.1 Consolidated Financial Statements

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, 2012 and the condensed interim financial statements of subsidiary, POAMCL as on and for the half year ended December 31, 2012 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, 2012. 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 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. 97:1497 to 1 US Dollar has been used for 2012 and 2011 as it was the prevalent rate as on December 31, 2012.

2.3 Use of estimates and judgements

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.

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.

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 New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2012

The following standards, amendments and interpretations are effective for the year ended December 31, 2012. 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 financial statements other than certain additional disclosures.

Amendments to IAS 12 - Income Taxes – Deferred Tax: Recovery of Underlying Assets

Effective from accounting period beginning on or after January 1, 2012

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset.

Amendments to IFRS 7 - Financial Instruments: Disclosures - Transfer of financial assets

Effective from accounting period beginning on or after July 1, 2011

"The amendment provides enhanced disclosures for 'transferred financial assets that are derecognized in their entirety' and transferred assets that are not derecognized in their entirety.

3.3 New accounting standards and IFRS interpretations that are not yet effective

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.

Amendments to IAS 1 - Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income

Effective from accounting period beginning on or after July 01, 2012

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans).

Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative Information

Effective from accounting period beginning on or after January 01, 2013

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

Amendments to IAS 16 - Property, Plant and Equipment – Classification of servicing equipment

Effective from accounting period beginning on or after January 01, 2013

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction

Effective from accounting period beginning on or after January 01, 2013

The amendment clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

Amendments to IAS 32 Financial Instruments Presentation Offsetting financial assets and financial liabilities

Effective from accounting period beginning on or after January 01, 2014

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the entity by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

Amendments to IAS 34 - Interim Financial Reporting Interim reporting of segment information for total assets and total liabilities

Effective from accounting period beginning on or after January 01, 2013

"The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures."

Amendments to IFRS 7 - Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities

Effective from accounting period beginning on or after January 01, 2013

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine

Effective from accounting period beginning on or after January 01, 2013

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity.

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- 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 not adoption of IFRS 10 and IFRS 11
- IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to not adoption of IFRS 10 IFRS 11.

The potential impact of standards, amendments and interpretations not yet effective on the consolidated financial statements of 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 will be that instead of recognising actuarial gains or losses into profit and loss account, all actuarial gains or losses will be recognised into other comprehensive income.

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 securities 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 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 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 investments 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 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, 2012.

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, 2012.

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.

6 CASH AND BALANCES WITH TREASURY BANKS

	Note	2012 ----(Rupees in '000)----	2011
Cash in hand			
Local Currency		162	89
Foreign Currency		139	122
Cheques in hand		-	2,500
Balances with State Bank of Pakistan in local currency			
Current accounts	6.1	101,673	63,968
		<u>101,974</u>	<u>66,679</u>

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

Note
2012
----(Rupees in '000)----

7 BALANCES WITH OTHER BANKS

In Pakistan:			
current account		4,407	2,961
deposit accounts	7.1	155,297	206,053
		<u>159,704</u>	<u>209,014</u>
Outside Pakistan:			
current accounts		276	517
		<u>159,980</u>	<u>209,531</u>

7.1 These include term deposit receipts (TDRs) due for maturity within 1 month aggregating Rs. 150 million (2011: Rs. 200 million). These carry mark-up rates ranging from 9.5 to 10.35 (2010: 13.05) percent per annum.

8 LENDINGS TO FINANCIAL INSTITUTIONS

Reverse repurchase agreement lendings	8.1 & 8.3	820,091	1,202,094
Certificate of investments (COIs)	8.4	13,028	119,651
	8.2	<u>833,119</u>	<u>1,321,745</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 rates ranging from 8.5 to 10.4 (2011: 11.75 to 12.5) percent per annum and will mature within 35 days (2011: 2 months).

8.2 Particulars of lendings

In local currency		833,119	1,321,745
In foreign currency		-	-
		<u>833,119</u>	<u>1,321,745</u>

8.3 Securities held as collateral against lendings to financial institutions

Notes	2012			2011		
	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	-	231,188	231,188	19,561	180,054	199,615
Pakistan Investment Bonds	160,409	428,494	588,903	49,745	952,734	1,002,479
8.3.1	<u>160,409</u>	<u>659,682</u>	<u>820,091</u>	<u>69,306</u>	<u>1,132,788</u>	<u>1,202,094</u>

8.3.1 Market value of the securities amounting to Rs. 826.880 million (2011: Rs. 1,202.033 million)

8.4 COIs are due for maturity beginning from 1 month to 20 months (2011: 3 months to 33 months). The rate of return on COIs are 12 percent per annum (2011: 12 to 13 percent per annum).

9 INVESTMENTS - net

Notes	2012			2011		
	Held by the group	Further given as collateral	Total	Held by the group	Further given as collateral	Total
	(Rupees in '000)					

9.1 Investments by types

Held-for-trading securities

Notes	2012	2011					
	Held by the group	Further given as collateral	Total	Held by the group	Further given as collateral	Total	
Pakistan Investment Bonds	9.4 & 9.6.1	13,366	612,226	625,592	17,293	663,597	680,890
Market Treasury Bills (T-Bills)	9.4 & 9.6.1	50,812	648,145	698,957	586,634	2,625,176	3,211,810
Listed ordinary shares	9.6.2.1	-	-	-	101,633	-	101,633
Term finance certificates (TFCs)	9.6.4.1 & 9.6.5.1	-	-	-	45,031	-	45,031
Sukuk certificates	9.6.6.1	3,443	-	3,443	-	-	-
		<u>67,621</u>	<u>1,260,371</u>	<u>1,327,992</u>	<u>750,591</u>	<u>3,288,773</u>	<u>4,039,364</u>

Available-for-sale securities

Notes	2012	2011					
	Held by the group	Further given as collateral	Total	Held by the group	Further given as collateral	Total	
Pakistan Investment Bonds	9.4 & 9.6.1	154,242	2,647,324	2,801,566	97,041	212,890	309,931
Market Treasury Bills (T-Bills)	9.4 & 9.6.1	485,026	653,294	1,138,320	9,140	573,859	582,999
Listed ordinary shares	9.6.2.2	213,693	-	213,693	251,314	11,066	262,380
Unlisted ordinary shares	9.6.3	131,333	226,000	357,333	131,333	226,000	357,333
Unlisted preference shares	9.6.8	231,744	-	231,744	269,744	-	269,744

Notes

Mutual funds units 9.6.7.1
Term finance certificates (TFCs) 9.6.4.2 & 9.6.5.2
Sukuk certificates 9.6.6.2
National Saving Bonds 9.6.7.2

Held-to-maturity securities

Pakistan Investment Bonds 9.5

Associates

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

Pak Oman Microfinance Bank Limited

9.6.9

Investments at cost

Less: Provision for diminution in the value of investments

Investments - net of provisions

Deficit on revaluation of held-for-trading securities

(Deficit) / surplus on revaluation of available-for-sale securities

Total investments at carrying value

Notes	2012			2011		
	Held by the group	Further given as collateral	Total	Held by the group	Further given as collateral	Total
	(Rupees in '000)					
Mutual funds units	14,337	-	14,337	14,337	-	14,337
Term finance certificates (TFCs)	2,772,238	177,691	2,949,929	3,088,510	178,469	3,266,979
Sukuk certificates	724,373	-	724,373	970,838	-	970,838
National Saving Bonds	9,999	-	9,999	-	-	-
	<u>4,736,985</u>	<u>3,704,309</u>	<u>8,441,294</u>	<u>4,832,257</u>	<u>1,202,284</u>	<u>6,034,541</u>
Held-to-maturity securities	202,576	-	202,576	207,493	-	207,493
Associates	-	-	-	-	-	-
Japan Power Generation Limited	-	-	-	-	-	-
Pak Oman Advantage Fund	298,760	-	298,760	296,899	-	296,899
Pak Oman Advantage Islamic Income Fund	105,451	-	105,451	105,332	-	105,332
Pak Oman Islamic Asset Allocation fund	112,441	-	112,441	103,920	-	103,920
Pak Oman Advantage Asset Allocation Fund	155,015	-	155,015	89,180	-	89,180
Pak Oman Government Securities Fund	-	-	-	57,181	-	57,181
Pak Oman Microfinance Bank Limited	233,761	-	233,761	233,724	-	233,724
	<u>905,428</u>	<u>-</u>	<u>905,428</u>	<u>886,236</u>	<u>-</u>	<u>886,236</u>
Investments at cost	5,912,610	4,964,680	10,877,290	6,676,577	4,491,057	11,167,634
Less: Provision for diminution in the value of investments	573,499	-	573,499	373,952	-	373,952
Investments - net of provisions	<u>5,339,111</u>	<u>4,964,680</u>	<u>10,303,791</u>	<u>6,302,625</u>	<u>4,491,057</u>	<u>10,793,682</u>
Deficit on revaluation of held-for-trading securities	(119)	(2,209)	(2,328)	(5,267)	(10,855)	(16,122)
(Deficit) / surplus on revaluation of available-for-sale securities	(40,896)	35,581	(5,315)	(150,239)	5,553	(144,686)
Total investments at carrying value	<u>5,298,096</u>	<u>4,998,052</u>	<u>10,296,148</u>	<u>6,147,119</u>	<u>4,485,755</u>	<u>10,632,874</u>

	Note	2012 ----(Rupees in '000)----	2011 ----(Rupees in '000)----
9.2 Investments by segments	9.6		
Federal Government Securities			
Pakistan Investment Bonds	9.4, 9.5 & 9.6.1	3,629,734	1,198,314
Market Treasury Bills	9.4 & 9.6.1	1,837,277	3,794,809
		<u>5,467,011</u>	<u>4,993,123</u>
Fully paid up ordinary shares			
Listed companies	9.6.2	213,693	364,013
Unlisted companies	9.6.3	357,333	357,333
		<u>571,026</u>	<u>721,346</u>
Term finance certificates (TFCs)			
Listed	9.6.4	2,046,467	2,371,544
Unlisted	9.6.5	903,462	940,466
		<u>2,949,929</u>	<u>3,312,010</u>
Sukuk certificates-Unlisted	9.6.6	727,816	970,838
Other investments			
Investments in mutual funds	9.6.7.1	14,337	14,337
National Saving Bonds	9.6.7.2	9,999	-
Preference shares-unlisted	9.6.8	231,744	269,744
		<u>256,080</u>	<u>284,081</u>
Investments in associates	9.6.9	905,428	886,236
Total investments at cost		<u>10,877,290</u>	<u>11,167,634</u>
Less: Provision for diminution in the value of investments	9.3	573,499	373,952
Investments - net of provisions		<u>10,303,791</u>	<u>10,793,682</u>
Deficit on revaluation of held-for-trading securities	9.7	(2,328)	(16,122)
Deficit on revaluation of available-for-sale securities	21	(5,315)	(144,686)
Total investments at carrying value		<u>10,296,148</u>	<u>10,632,874</u>

9.3 Particulars of provision for diminution in the value of investments

Opening balance		373,952	318,946
Charge for the year		226,043	144,579
Reversal for the year		(6,838)	(84,293)
		<u>219,205</u>	<u>60,286</u>
Transfer from mark up		49,980	-
Transfer to advances	10.6	(15,000)	-
Transfer to capital gain due to disposal of relevant investments		(54,638)	(5,280)
Closing balance	9.3.1	<u>573,499</u>	<u>373,952</u>

	2012 ----(Rupees in '000)----	2011 ----(Rupees in '000)----
9.3.1 Particulars of provision in respect of types and segments		
Available-for-sale securities		
Shares		
-Listed	42,149	54,638
-Unlisted	55,795	47,555
Term Finance Certificates		
-Listed	234,520	139,469
-Unlisted	114,530	29,694
Sukuk-unlisted	118,826	95,026
Investment in Mutual Funds	7,679	7,570
	<u>573,499</u>	<u>373,952</u>

9.4 The rate of return on PIBs maturing between June 2013 to August 2021 (2011: June 2013 to August 2018), range from 5.2 to 14.02 (2011: 5.2 to 14.22) percent per annum. The rates of return on market treasury bills maturing between January 2013 to November 2013 (2011: March 2012 to November 2012), ranges from 9.19 to 9.5 (2011: 11.80 to 13.80) percent per annum.

9.5 The rate of return on PIBs maturing on June 2013 (2011: June 2013) is 6.17 to 6.51 (2011: 6.17 to 6.51) percent per annum.

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

	2012		2011	
	Market value	Rating	Market value	Rating
9.6.1 Government Securities				
9.6.1.1 Held-for-trading				
	Rupees in '000		Rupees in '000	
Pakistan Investment Bonds				
15 years	13,230	Unrated	-	-
10 years	-	-	1,399	Unrated
5 years	609,606	Unrated	655,546	Unrated
3 years	-	-	15,034	Unrated
	<u>622,836</u>		<u>671,979</u>	
Market Treasury Bills				
12 months	472,200	Unrated	1,252,793	Unrated
06 months	227,185	Unrated	1,957,209	Unrated
	<u>699,385</u>		<u>3,210,002</u>	
9.6.1.2 Available-for-sale				
Pakistan Investment Bonds				
10 years	1,225,096	Unrated	108,975	Unrated
7 years	-	-	86,493	Unrated
5 years	1,607,978	Unrated	-	-
3 years	-	-	113,665	Unrated
	<u>2,833,074</u>		<u>309,133</u>	
Market Treasury Bills				
12 months	1,139,193	Unrated	584,658	Unrated
	<u>5,294,488</u>		<u>4,775,772</u>	
9.6.1.3 Held-to-maturity				
Pakistan Investment Bonds				
10 years	202,576	Unrated	207,493	Unrated

	2012		2011	
	Amortized Cost	Rating	Amortized Cost	Rating
	Rupees in '000		Rupees in '000	

9.6.2 Listed shares

	Rating	No. of shares held		Cost		Market value	
		2012	2011	2012	2011	2012	2011
(Rupees in '000)							
9.6.2.1 Held-for-trading							
Commercial banks							
Standard Chartered (Bank) Limited	AAA / A1+	-	1,031,896	-	7,739	-	8,245
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
				-	101,633	-	96,220
9.6.2.2 Available-for-sale							
Cement							
Dewan Cement Limited	D	-	15,162,780	-	23,502	-	18,953
Fertilizer							
Fauji Fertilizer Company Limited	Unrated	300,000	-	36,298	-	35,142	-
Electricity							
HUB Power Co. Limited	AA+ / A1+	594,994	-	22,134	-	26,918	-
Chemical							
LOTTE Pakistan PTA Limited	Unrated	-	4,212,878	-	65,642	-	39,053
Agritech Limited (Note 9.6.4.4)	D	1,629,911	-	57,046	-	19,021	-
Commercial Banks							
National Bank of Pakistan	AAA / A-1+	234,500	1,154,103	11,740	70,107	11,582	47,376
Askari Bank Limited	AA / A1+	-	641,783	-	6,864	-	6,437
Allied Bank Limited	AA / A1+	386,499	489,243	19,172	26,696	28,404	26,356
Soneri Bank Limited	AA- / A1+	552,225	-	3,910	-	3,915	-
Personal Goods							
Nishat Mills Limited	AA- / A1+	-	284,288	-	16,818	-	11,499
Nishat (Chunian) Limited	Unrated	-	122,130	-	2,406	-	2,182
Financial Services							
Next Capital Limited	Unrated	808,400	-	8,084	-	3,961	-
Refinery / Oil & Gas							
Pakistan Oilfield Limited	Unrated	60,500	-	20,949	-	26,471	-
Pakistan State Oil	AA+ / A1+	145,806	174,705	34,360	50,345	33,857	39,694
				213,693	262,380	189,271	191,550
				<u>213,693</u>	<u>364,013</u>	<u>189,271</u>	<u>287,770</u>

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 statements	Name of the Chief Executive
	2012	2011	2012	2011				
	(Rupees in '000)							
Alhamra Avenue (Private) Limited	5,000,000	5,000,000	50,000	50,000	3.12	9.21	30-Jun-2012*	Mr. Habib Ahmad
Systems Limited	934,053	934,053	10,000	10,000	2.40	18.65	31-Dec-2011*	Mr. Ashraf Kapadia
Vision Systems Inc.	36,037	-	-	-	2.40	100.91	31-Dec-2011*	Mr. Arshad Masood
Pakistan Textile City Limited (Note 9.6.11)	5,000,000	5,000,000	50,000	50,000	4.00	6.61	30-Jun-2012*	Mr. Zaheer A. Hussain
Techlogix International Limited	1,872,197	1,872,197	21,333	21,333	1.84	4.20	31-Dec-2011**	Mr. Kewan Qadre Khawaja
Orient Power Co. (Pvt.) Limited (Note 22.2)	22,600,000	22,600,000	226,000	226,000	5.43	13.56	30-Jun-2012*	Mr. Nadeem Baber
			<u>357,333</u>	<u>357,333</u>				

*Audited financial statement

**Audited consolidated financial statements

9.6.4 Listed Term-finance certificates

	Rate of interest	Profit Payment	Maturity	Long Term rating	No. of certificates held		Market value	
					2012	2011	2012	2011
---(Rupees in '000)---								
9.6.4.1 Held-for-trading								
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	-	48,707
Escort Investment Bank Limited	8%	Half yearly	15-Mar-16	BBB / A3	4,031	4,031	2,970	4,455
Commercial banks								
Allied Bank Limited I	6 month Kibor + 1.9%	Half yearly	6-Dec-14	AA	25,078	25,078	127,341	125,420
Allied Bank Limited II	6 month Kibor + 0.85%	Half yearly	28-Aug-19	AA	13,962	13,962	67,984	66,150
Askari Bank Limited I	6 month Kibor + 1.5%	Half yearly	4-Feb-13	AA-	463	463	2,307	2,307
Askari Bank Limited II	6 month Kibor + 1.5%	Half yearly	31-Oct-13	AA-	3,000	3,000	15,095	14,899
Askari Bank Limited III	6 month Kibor + 2.5%	Half yearly	18-Nov-19	AA-	50,949	50,949	280,987	260,594
Bank Al-Falah Limited III	6 month Kibor + 1.5%	Half yearly	25-Nov-13	AA-	1,000	1,000	3,343	4,971
Standard Chartered Bank Limited III	6 month Kibor + 2%	Half yearly	1-Feb-13	AAA	6,740	23,240	8,443	83,177
Faysal Bank Limited	6 month Kibor + 1.4%	Half yearly	12-Nov-14	AA-	17,681	17,681	89,596	87,671
NIB Bank Limited	6 month Kibor + 1.15%	Half yearly	5-Mar-15	A+	63,106	65,367	315,753	319,873
Bank Al Habib Limited I	6 month Kibor + 1.5%	Half yearly	15-Jul-12	AA	-	12,700	-	38,330
United Bank Limited-IV	6 month Kibor + 0.85%	Half yearly	14-Feb-18	AA	16,300	10,300	83,146	51,274
Soneri Bank Limited	6 month Kibor + 1.6%	Half yearly	5-May-13	A+	8,500	10,000	10,552	37,171
Summit Bank Limited	6 month Kibor + 3.25%	Half yearly	27-Oct-18	A-(SO)	10,000	10,000	47,717	48,066
Technology and communication								
Telecard Limited	6 month Kibor + 3.75%	Half yearly	27-May-15	Unrated	56,716	56,716	78,046	83,300
Pakistan Mobile Communication Limited	6 month Kibor + 2.85%	Half yearly	31-May-13	AA-	26,000	26,000	21,722	65,072
Worldcall Telecom Limited	6 month Kibor + 1.6%	Half yearly	7-Oct-15	D	108,623	108,623	162,836	269,836
Chemical								
Engro Fertilizers Limited II	6 month Kibor + 1.55%	Half yearly	30-Nov-15	A	30,177	30,177	146,868	147,645
Pak Arab Fertilizers Limited	6 month Kibor + 1.5%	Half yearly	28-Feb-13	AA	10,000	10,000	15,006	37,166
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	17,024	52,803
Leasing								
Saudi Pak Leasing Company Limited	6%	Monthly	13-Mar-17	Unrated	28,469	28,469	-	-
Orix Leasing Pakistan Limited II	3 month Kibor + 2.15%	Quarterly	30-Jun-14	AA+	500	500	29,786	51,772
Electricity								
KESC AZM Certificate	14.75%	Quarterly	30-Oct-14	A-	10,000	-	49,990	-
Miscellaneous								
Pace (Pakistan) Limited	6 month Kibor + 2%	Half yearly	15-Feb-17	D	60,230	60,230	190,663	202,282
							<u>1,767,175</u>	<u>2,102,941</u>
							<u>1,767,175</u>	<u>2,102,941</u>

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

9.6.4.4 In respect of term finance certificates of Azgard Nine Limited and Agritech Limited, and listed shares of Agritech Limited, the State Bank of Pakistan vide letter number BPRD/BRD-(Policy)/2013-1857 dated February 15, 2013 has advised to record the provision and impairment on existing credit exposure and mark-to-market loss on shares in a phased manner upto 10%, 25%, 50%, 75% and 100% by December 31, 2012, March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013 respectively calculated under Prudential Regulations. On prudent basis the holding company has recorded 50% provision on credit exposure and 100% impairment on mark-to-market loss on shares in these financial statements.

Rate of interest	Profit Payment	Maturity	Long Term rating	No. of certificates held		Market value	
				2012	2011	2012	2011

----(Rupees in '000)----

9.6.5 Unlisted Term Finance Certificate

9.6.5.1 Held-for-trading

Commercial banks	Rate of interest	Profit Payment	Maturity	Long Term rating	No. of certificates held	Market value
Bank Al Habib Limited - PPTFC	15.00%	Half yearly	30-Jun-21	AA	8,500	45,041

9.6.5.2 Available-for-sale

Commercial banks	Rate of interest	Profit Payment	Maturity	Long Term rating	No. of certificates held	Market value
Faysal Bank Limited - PPTFC	6 month Kibor + 2.25%	Half yearly	27-Dec-17	AA-	30,000	153,487
Bank Al Habib Limited - PPTFC	15.50%	Quarterly	15-Jun-17	AA	10,000	55,883
Bank Al-Falah Limited - IV	6 month Kibor + 2.5%	Half yearly	2-Dec-17	AA-	33,000	172,495
Development Financial Institutions						
Pak-Libya Holding Co. (Pvt) Ltd - PPTFC	6 month Kibor + 1.6%	Half yearly	7-Feb-16	AA	8,000	40,287
Chemical						
Engro Fertilizers Limited - PPTFC	6 month Kibor + 1.70%	Half yearly	18-Mar-18	A	44,500	200,306
Agritech Limited (Note 9.6.4.4)	6 month Kibor + 1.75%	Half yearly	29-Nov-19	D	20,000	63,987
Agritech Limited (Note 9.6.4.4)	Zero coupon	Half yearly	1-Jan-15	D	4,309	-
Personal goods						
Kunjah Textile Mills Limited	6 month Kibor + 3%	Half yearly	23-Apr-14	Unrated	-	3,000
Nishat Chunain Limited - PPTFC	3 month Kibor + 2.25%	Quarterly	30-Sep-15	A	10,000	37,500
Azgard Nine Limited - III (Note 9.6.4.4)	6 month Kibor + 2.25%	Half yearly	4-Dec-17	D	2,000	3,024
Azgard Nine Limited - IV (Note 9.6.4.4)	3 month Kibor + 1%	Quarterly	18-Nov-15	D	5,000	11,155
Azgard Nine Limited - IV (Note 9.6.4.4)	Zero coupon	Half yearly	31-Mar-17	D	5,687	-
Leasing companies						
Security Leasing Corporation Limited	-	Monthly	29-Mar-14	Unrated	12,000	12,000
Miscellaneous						
Avani Hotels Limited	12 month Kibor + 2.50%	Yearly	30-Oct-14	Unrated	10,000	40,981
						779,105
						866,409
						779,105
						911,450

9.6.6 Investment in Unlisted Sukuk

Rate of interest	Profit Payment	Maturity	Long Term rating	No. of certificates held		Market value	
				2012	2011	2012	2011

----(Rupees in '000)----

9.6.6.1 Held for trading

Cement	Rate of interest	Profit Payment	Maturity	Long Term rating	No. of certificates held	Market value
Kohat Cement	3 month Kibor + 1.5%	Quarterly	20-Sep-16	Unrated	4,000	3,443

9.6.6.2 Available-for-sale

Personal Goods	Rate of interest	Profit Payment	Maturity	Long Term rating	No. of certificates held	Market value
Amtex Limited	3 month Kibor + 2%	Quarterly	12-Oct-12	Unrated	22,000	79,612
Leasing						
Security Leasing Corporation Limited	-	Monthly	19-Mar-14	Unrated	10,000	-
Security Leasing Corporation Limited II	-	Monthly	19-Mar-14	Unrated	10,000	-
Orix Leasing Pakistan Limited	6 month Kibor + 1.25%	Half yearly	29-Jun-12	Unrated	-	15,000
Energy						
Sitara Energy Limited	6 month Kibor + 1.95%	Half yearly	31-Mar-12	Unrated	-	40,000
Liberty Power Tech (Private) Limited	3 month Kibor + 3%	Quarterly	18-Mar-21	A+	60,000	275,645
Oil & Gas						
Sui Southern Gas Company Limited	3 month Kibor + 0.8%	Quarterly	29-Jun-12	AA	-	6
Cement						
Kohat Cement	3 month Kibor + 1.5%	Quarterly	20-Sep-16	Unrated	-	4,000
Miscellaneous						
Al-Razi HealthCare (Pvt.) Limited	6 month Kibor + 2.5%	Monthly	4-Nov-17	Unrated	30,000	148,000
Century Papers & Board Mills Limited	6 month Kibor + 1.35%	Half yearly	25-Sep-14	Unrated	10,000	19,635
House Building Finance Corporation Limited	6 month Kibor + 1%	Half yearly	8-May-14	Unrated	55,035	81,579
New Allied Electronic Industries (Pvt.) Limited	3 month Kibor + 2.6%	Quarterly	25-Jul-12	Unrated	272,000	-
						604,471
						607,914

9.6.6.3 The face value of each certificate held in unlisted Sukuks is Rs. 5,000 (2011: Rs. 5,000) per certificate at issue date except for New Allied Electronic Industries (Private) Limited having face value per Sukuk of Rs. 100,000,000 (2011: Rs. 100,000,000) and Rs. 312.5 (2011: Rs. 312.5) respectively.

	Rating	No. of shares held		Cost		Market value	
		2012	2011	2012	2011	2012	2011
------(Rupees in '000)-----							
9.6.7 Other Investments							
9.6.7.1 Investment in Mutual Funds							
Closed-end mutual fund							
NAMCO Balance Fund	Unrated	1,580,875	1,548,360	14,337	14,337	7,509	7,819
9.6.7.2 Bonds							
National Savings Bonds- 3 Year	Unrated	1,000	-	9,999	-	9,400	-

	Rate of interest	Rating	No. of shares held		Cost	
			2012	2011	2012	2011
---(Rupees in '000)---						
9.6.8 Preference shares unlisted						
9.6.8.1 Available for Sale						
Orient Power Company Limited	6 month KIBOR+2.5% Cumulative	Unrated	26,974,445	26,974,445	231,744	269,744

9.6.8.1.1 Unlisted preference shares are redeemable within two years of their issuance.

9.6.9 Investment in associates

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

	2012	2011	2012	2011	Holding	Break-up value per share/unit (Rupees)	Latest available financial statements	Name of the chief executive
	Number of shares / units	Rupees in '000	Rupees in '000	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%	(19.73)	30-Sep-12**	Mr. Khan Ahmed Saleem
Pak Oman Advantage Fund	27,359,000	27,359,000	298,760	296,899	27.36%	10.92	31-Dec-12**	Ms. Hina Ghazanfar
Pak Oman Islamic Asset Allocation Fund	2,000,000	2,000,000	112,441	103,920	98.63%	56.22	31-Dec-12**	Ms. Hina Ghazanfar
Pak Oman Advantage Asset Allocation Fund	2,717,185	2,000,000	155,015	89,180	83.34%	57.05	31-Dec-12**	Ms. Hina Ghazanfar
Pak Oman Advantage Islamic Income Fund	2,003,976	2,004,077	105,451	105,332	33.63%	52.62	31-Dec-12**	Ms. Hina Ghazanfar
Pak Oman Government Securities Fund	-	5,587,197	-	57,181	0.00%	10.30	31-Dec-12**	Ms. Hina Ghazanfar
Unquoted								
Pak Oman Microfinance Bank Limited (Note 9.6.11)	25,110,788	25,110,788	233,761	233,724	33.40%	9.30	31-Dec-12*	Mr. Munawar Suleman
			905,428	886,236				

* unaudited 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 Securities Fund	Japan Power Generation Limited	Pak Oman Microfinance Bank Limited
------(Rupees in '000)-----							
Assets	1,110,279	302,216	175,745	167,469	285,669	8,792,091	746,985
Liabilities	18,110	3,970	2,698	3,037	3,907	11,871,200	47,423
Profit / (loss) before taxation	98,574	23,384	24,269	33,328	30,700	(1,063,469)	290
Profit / (loss) after taxation	98,574	23,384	24,269	33,328	30,700	(1,065,130)	227

9.6.10.1 The holding 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 Investment in these securities forms part of strategic investment of the holding company and can not be sold for a period of five years from the last date of purchase of securities.

9.7 (Deficit) / surplus on revaluation of held-for-trading securities

	Note	2012 ----(Rupees in '000)----	2011
Federal Government Securities			
- Market Treasury Bills		428	(1,808)
- Pakistan Investment Bonds		(2,756)	(8,911)
		(2,328)	(10,719)
Shares-listed		-	(5,413)
Term finance certificates (TFCs) - Unlisted		-	10
		(2,328)	(16,122)

10 ADVANCES - net

In Pakistan

Loans, cash credit, running finance, etc in Pakistan		6,215,491	5,660,050
Net investment in finance leases in Pakistan	10.3	928,382	969,287
Advance against leases		8,504	-
Staff loans	10.4	128,496	110,448
Advances - Gross	10.1	7,280,873	6,739,785
Less: Provision for non-performing loans and advances	10.6	933,814	974,224
Advances - net of provision		6,347,059	5,765,561

10.1 Particulars of advances (Gross)

10.1.1 In local currency	10.1.3	7,280,873	6,739,785
10.1.2 In foreign currency		-	-
10.1.3 Short term (for upto one year)		3,532,069	2,698,736
Long term (for over one year)		3,748,804	4,041,049
		7,280,873	6,739,785

10.2 In accordance with BSD Circular No. 2 dated January 27, 2009 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. 169.78 million (net of tax Rs. 110.36 million) and profit before taxation for the year ended December 31, 2012 would have been reduced by the same amount. As of December 31, 2012, the holding company has availed total accumulated FSV benefit amounting to Rs. 293.47 million (net of tax Rs. 190.75 million). Accordingly, accumulated profit of Rs. 190.75 (net of transfer to statutory reserves Rs. 152.6 million) will not be available for the distribution as cash or stock dividend to the 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 :

	2012			2011		
	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	492,501	413,014	905,515	522,951	424,792	947,743
Residual value	71,320	86,001	157,321	96,720	76,972	173,692
Minimum lease payments	563,821	499,015	1,062,836	619,671	501,764	1,121,435
Financial charges for future periods	(64,257)	(70,197)	(134,454)	(81,834)	(70,314)	(152,148)
Present value of minimum lease payments	499,564	428,818	928,382	537,837	431,450	969,287

10.3.1.1 In respect of the aforementioned finance leases the Group holds an aggregate sum of Rs. 138.977 million (2011: Rs. 165.857 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 2017 and are subject to finance income at rates ranging between 11.25 to 16.24 (2011: 14.30 to 18.31) 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 (2011: 5) percent per annum, while no mark-up is charged on personal loans.

10.4.1 Staff loans include an amount of Rs. 21.124 million (2011: Rs.20.926 million) advanced to the holding company's Chief Executive.

10.5 Particulars of classification

Advances include Rs. 1,182.906 million (2011: Rs. 1,199.078 million) which have been placed under the non-performing status as detailed below:

	2012								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- (Rupees in '000) -----								
Substandard	94,878	-	94,878	-	-	-	-	-	-
Doubtful	128,266	-	128,266	63,061	-	63,061	63,061	-	63,061
Loss	959,762	-	959,762	870,753	-	870,753	870,753	-	870,753
	1,182,906	-	1,182,906	933,814	-	933,814	933,814	-	933,814

	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
	1,199,078	-	1,199,078	974,224	-	974,224	974,224	-	974,224

10.6 Particulars of provisions against non-performing advances

	Note	2012			2011		
		Specific	General	Total	Specific	General	Total
		----- (Rupees in '000) -----					
Opening balance		974,224	-	974,224	1,107,629	-	1,107,629
Charge during the year		51,966	-	51,966	53,828	-	53,828
Reversal during the year		(107,376)	-	(107,376)	(187,233)	-	(187,233)
Net charge		(55,410)	-	(55,410)	(133,405)	-	(133,405)
Less: Amounts written off during the year	10.7	-	-	-	-	-	-
Transfer from investments	9.3	15,000	-	15,000	-	-	-
Closing balance		933,814	-	933,814	974,224	-	974,224

10.6.1 Particulars of provisions against non-performing advances

	2012			2011		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
In local currency	933,814	-	933,814	974,224	-	974,224
In foreign currencies	-	-	-	-	-	-
	933,814	-	933,814	974,224	-	974,224

10.7 Particulars of write offs

Against provisions

Directly charged to profit and loss account

2012
----- (Rupees in '000) -----

-
-
-

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, 2012.

Sr. No.	Name and address of the borrower	Name of individuals/partners/directors with CNIC No.	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.	Naeem Saleem (Pvt) Ltd Hotel Taj Mahal, the Abbot Road, Lahore.	Muhammad Saleem CNIC 35202-6170872-1 Mr. Nadeem Saleem CNIC 35202-3022676-5	S/o Mr. Sardar Muhammad S/o Mr. Muhammad Saleem	12,000	2,617	-	14,617	-	1,217	-	1,217
2.	New Allied Electronics Industries (Pvt) Ltd 7th Floor, Lakson Square Building No.1, Sarwar Hussain Shaheed Road, Karachi.	Mian Pervez Akhter CNIC 42301-7176596-3 Mr. Abdul Rauf CNIC 42201-3539213-1	Mian Muhammad Rafique Anwer Mr. Abdul Ghafoor Attique	32,619	10,583	10,438	53,640	-	12,906	12,465	25,371
				44,619	13,200	10,438	68,257	-	14,123	12,465	26,588

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

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

	Note	2012 ----(Rupees in '000)----	2011
Balance at beginning of the year		110,448	92,971
Loans granted during the year		48,688	39,017
Repayments		(30,640)	(21,540)
Balance at end of the year		<u>128,496</u>	<u>110,448</u>

Debts due by other related parties

	Note	2012 ----(Rupees in '000)----	2011
Balance at beginning of the year		343,923	634,948
Loans granted during the year		-	-
Repayments		(19,010)	(291,025)
Balance at end of the year		<u>324,913</u>	<u>343,923</u>
	10.8.1	<u>453,409</u>	<u>454,371</u>

10.8.1 This includes an amount of Rs. 68.2 million due from Japan Power Generation Limited (an associated company) classified as non performing loan under loss category. The holding company has recorded provision for entire amount due as at December 31, 2012.

10.9 Maximum total amount of advances including temporary advances granted during the year amounts to Rs. 456 (2011: Rs. 732) million. The maximum amount has been calculated by reference to month end balance.

11 OPERATING FIXED ASSETS

	Note	2012 ----(Rupees in '000)----	2011
Property and equipment	11.1	55,476	64,642
Intangibles	11.2	1,666	3,634
Advance for capital expenditure		4,156	-
		<u>61,298</u>	<u>68,276</u>

11.1 Property and equipment

Description	Cost			Depreciation			Net book value	
	As at January 1, 2012	Addition (deletion) during the year	As at December 31, 2012	As at January 1, 2012	During the year/ (on disposals)	As at December 31, 2012	As at December 31, 2012	Rate %
----- (Rupees in '000) -----								
Owned								
Office premises * Improvement	42,126	-	42,126	15,445	2,106	17,551	24,575	5
Office equipment	17,499	-	17,499	15,340	1,404	16,744	755	20
Computer equipment	12,526	173	12,699	10,058	1,230	11,288	1,411	20
Computer equipment	22,989	1,747 (874)	23,862	19,282	2,839 (795)	21,326	2,536	33.33
Furniture and fixtures	15,100	100 (250)	14,950	12,464	1,326 (146)	13,644	1,306	20
Vehicles	7,650	9,439 (3,000)	14,089	6,977	1,185 (2,709)	5,453	8,636	20
Assets subject to finance lease								
Vehicles	43,639	-	37,261	17,321	8,171	21,004	16,257	20
		(6,378)			(4,488)			
2012	<u>161,529</u>	<u>11,459 (10,502)</u>	<u>162,486</u>	<u>96,887</u>	<u>18,261 (8,138)</u>	<u>107,010</u>	<u>55,476</u>	

Description	Cost			Depreciation			Net book value	
	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	Rate %
----- (Rupees in '000) -----								
Owned								
Office premises* Improvement	42,126	-	42,126	13,339	2,106	15,445	26,681	5
Office equipment	16,846	653 (182)	17,499	12,704	2,636 (145)	15,340	2,159	20
Office equipment	12,057	651 (182)	12,526	8,602	1,601 (145)	10,058	2,468	20
Computer equipment	22,433	1,237 (681)	22,989	17,179	2,784 (681)	19,282	3,707	33.33
Furniture and fixtures	14,434	900 (234)	15,100	10,520	2,067 (123)	12,464	2,636	20
Vehicles	8,682	1,529 (2,561)	7,650	6,202	1,899 (1,124)	6,977	673	20
Assets subject to finance lease								
Vehicles	38,571	13,547 (8,479)	43,639	15,734	7,916 (6,329)	17,321	26,318	20
2011	<u>155,149</u>	<u>18,517 (12,137)</u>	<u>161,529</u>	<u>84,280</u>	<u>21,009 (8,402)</u>	<u>96,887</u>	<u>64,642</u>	

*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 / (loss)	Mode of disposal	Particulars of purchaser
------(Rupees in '000)-----							
Furniture and fixtures	150	76	74	74	-	Company Policy	Mr. Mohammad Ahmer Siddiqui (Former Executive)
Furniture and fixtures	100	70	30	30	-	Company Policy	Mr. Shahzad Moosani (Former Executive)
	250	146	104	104	-		
Vehicles							
Toyota Corolla	800	757	43	255	212	Company policy	Mr. Shahzad Moosani (Former Executive)
Suzuki Liana	700	513	187	357	170	Company policy	Mr. Kazi Khurram Abbasi (Executive)
Suzuki Cultus	700	583	117	383	266	Company policy	Mr. Azeem Dada (Executive)
Honda Civic	1,529	229	1,300	1,353	53	Company policy	Mr. Ahmer Siddiqui (Former Executive)
Suzuki Liana	794	794	-	580	580	Negotiations	M/S Auto One 3/29, Khalid Bin Walid road, Karachi
Honda Accord	2,500	2,334	166	166	-	Negotiations	Ms. Hina Ghazanfar (CEO of Pak Oman Asset Management Co)
Honda City	850	624	226	226	-	Company policy	Mr. Nam Hassan (Former Executive)
Suzuki alto	500	375	125	125	-	Company policy	Mr. Shayan Jafferri (Former Executive)
Toyota Corolla	1,005	988	17	122	105	Company policy	Mr. Zubair Aslam (Executive)
	9,378	7,197	2,181	3,567	1,386		
Computer equipment	102	23	79	-	(79)	Board approval	Mr. Muhammad Iqbal Awan (Former Non Executive Director)
Computer equipment	772	772	-	28	28	Negotiations	M/s Hussain Computer
	10,502	8,138	2,364	3,699	1,335		

11.2 Intangible assets

	Cost			Depreciation			Net book value	Rate %
	As at January 1, 2012	Addition during the year	As at December 31, 2012	As at January 1, 2012	During the year	As at December 31, 2012	As at December 31, 2012	
------(Rupees in '000)-----								
Software licenses	19,481	356	19,837	15,847	2,324	18,171	1,666	33.33

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

12 DEFERRED TAX ASSETS - net

Deferred tax assets arising in respect of:

	Note	2012 -----(Rupees in '000)----	2011
Provision for diminution in the value of investments		165,791	109,111
Amortisation of premium on federal government securities		17,121	14,445
Revaluation on investments classified as held-for-trading		815	4,154
Revaluation on investments classified as available-for-sale	21	8,363	45,341
Provision against non-performing loans and advances		326,835	340,978
Unassessed tax losses of subsidiary company		-	-
		518,925	514,029

Less: Deferred tax liabilities arising in respect of:

Assets subject to finance leases		(1,930)	(2,134)
Accelerated tax depreciation allowances		814	(16)
Net investment in finance leases		(87,739)	(123,016)
Dividend receivable		-	(1,513)
		(88,855)	(126,679)
	12.1	430,070	387,350

12.1 Movement of deferred tax

	January 1, 2011	Recognized in			Recognized in		
		Profit and loss Account	Surplus on revaluation of securities	December 31, 2011	Profit and loss Account	Surplus on revaluation of securities	December 31, 2012
------(Rupees in '000)-----							
Deferred tax assets arising in respect of:							
Provision for diminution in the value of investments	107,134	1,977	-	109,111	56,680	-	165,791
Amortisation of premium on federal government securities	53,581	(39,136)	-	14,445	2,676	-	17,121
Revaluation on investments classified as held-for-trading	(7)	4,161	-	4,154	(3,339)	-	815
Revaluation on investments classified as available-for-sale	11,732	-	33,609	45,341	-	(36,978)	8,363
Provision against non-performing loans and advances	387,670	(46,692)	-	340,978	(14,143)	-	326,835
Unassessed tax losses of subsidiary company	6,581	(6,581)	-	-	-	-	-
	<u>566,691</u>	<u>(86,271)</u>	<u>33,609</u>	<u>514,029</u>	<u>41,874</u>	<u>(36,978)</u>	<u>518,925</u>
Less: deferred tax liabilities arising in respect of:							
Assets subject to finance leases	2,452	(4,586)	-	(2,134)	204	-	(1,930)
Accelerated tax depreciation allowances	(860)	844	-	(16)	830	-	814
Net Investment in finance leases	(163,839)	40,823	-	(123,016)	35,277	-	(87,739)
Dividend receivable	(15)	(1,498)	-	(1,513)	1,513	-	-
	<u>(162,262)</u>	<u>35,583</u>	<u>-</u>	<u>(126,679)</u>	<u>37,824</u>	<u>-</u>	<u>(88,855)</u>
	<u>404,429</u>	<u>(50,688)</u>	<u>33,609</u>	<u>387,350</u>	<u>79,698</u>	<u>(36,978)</u>	<u>430,070</u>

13 OTHER ASSETS

	Note	2012 ---(Rupees in '000)---	2011
Mark-up / Return / Interest receivable in local currency		308,987	302,976
Dividend income receivable		-	15,130
Mark-up / profit receivable on purchase of securities		51,785	27,068
Security deposits		5,674	5,982
Prepayments		9,543	10,747
Receivable against sale of investments		-	12,936
Receivable from funds		8,470	10,786
Employee gratuity fund	33.2	-	781
Others		4,270	622
		<u>388,729</u>	<u>387,028</u>

13.1 The above balances include an aggregate amount of Rs. 384 million (2011: Rs. 382 million) due within a year.

14 BORROWINGS

In Pakistan	6,546,367	6,648,716
Outside Pakistan	-	-
	<u>6,546,367</u>	<u>6,648,716</u>

14.1 Particulars of borrowings with respect to currencies

In local currency	6,546,367	6,648,716
In foreign currencies	-	-
	<u>6,546,367</u>	<u>6,648,716</u>

14.2 Particulars of borrowings

Secured		
Borrowings from the State Bank of Pakistan:		
-LTF-EOP	14.3	98,718
-LTFF	14.3	833,994
Repurchase agreement borrowings	14.4	5,205,861
Short-term running finance	14.5	57,794
		<u>6,196,367</u>
Unsecured		
Placements	14.6	350,000
		<u>6,546,367</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 (2011: 5 to 11) percent per annum. These are repayable within 7 years (2011: 8 years).

14.4 The rate of return on these repurchase agreement borrowings, maturing in January 2013 (2011: January 2012), ranges between 7.75 to 9.48 (2011: 11.80 to 12) percent per annum. Securities having cost of Rs 5,220.671 million (2011: Rs 5,208.310 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% (2011: 1 to 3 month Kibor + 1.25%). The above facilities are secured against term finance certificates.

14.6 The rates of return on these placements, maturing in January 2013 to February 2013 (2011: January 2012) ranges between 9.80 to 10.10 (2011: 12.30 to 13.45) percent per annum.

15 DEPOSITS AND OTHER ACCOUNTS

Certificates of investment - remunerative (in local currency)

Financial institutions

Others

Note	2012	2011
	---(Rupees in '000)---	
	731,747	803,819
	3,619,253	3,891,874
15.1 & 15.2	<u>4,351,000</u>	<u>4,695,693</u>

15.1 The rate of return on deposits maturing between January 2013 to May 2014 (2011: January 2012 to December 2013) is 9 to 13.75 (2011: 11.40 to 13.85) percent per annum.

15.2 These include Certificate of Investments purchased by gratuity fund of the holding company as disclosed in note 33.7.1.

16 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2012			2011		
	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	6,241	954	5,287	9,983	2,067	7,916
Later than one year but not later than five years	5,849	334	5,515	13,396	1,454	11,942
	<u>12,090</u>	<u>1,288</u>	<u>10,802</u>	<u>23,379</u>	<u>3,521</u>	<u>19,858</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% (2011: 10.58% to 15%) per annum. At the end of lease term, the Group has option to acquire the assets, subject to adjustment of security deposits.

17 OTHER LIABILITIES

Mark-up / Return / Interest payable in local currency
Accrued expenses
Staff gratuity
Security deposits against investment in finance leases
Taxation
Others

Note	2012	2011
	---(Rupees in '000)---	
	180,330	236,806
	54,599	46,995
33.4	2,121	-
10.3.1.1	138,977	165,857
	100,724	125,396
	21,204	23,947
	<u>497,955</u>	<u>599,001</u>

18 SHARE CAPITAL

18.1 Authorized Capital

	2012	2011		2012	2011
	Number of shares			---(Rupees in '000)---	
	<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs.10 each	<u>10,000,000</u>	<u>10,000,000</u>

18.2 Issued, subscribed and paid-up

	<u>615,000,000</u>	<u>615,000,000</u>	Ordinary shares of Rs.10 each	<u>6,150,000</u>	<u>6,150,000</u>
	<u>615,000,000</u>	<u>615,000,000</u>		<u>6,150,000</u>	<u>6,150,000</u>

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 (2011: 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 Group'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, 2012.

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	2012 ---(Rupees in '000)---	2011
20 NON-CONTROLLING INTEREST			
Opening balance		47,850	74,309
Change during the year		(10,582)	(26,459)
Closing balance		<u>37,268</u>	<u>47,850</u>

21 SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - net of deferred tax

21.1 Surplus / (deficit) on revaluation of Available-for-sale securities

Federal Government Securities			
- Market Treasury Bills		873	1,659
- Pakistan Investment Bonds		31,508	(798)
		<u>32,381</u>	<u>861</u>
Shares-listed		17,727	(16,192)
Term Finance Certificates			
- Listed		(44,772)	(129,134)
- Unlisted		(9,827)	668
		<u>(54,599)</u>	<u>(128,466)</u>
Sukuk-unlisted		(1,076)	(1,941)
National Saving Bonds		(599)	-
Investment in Mutual Funds		851	1,052
		<u>(5,315)</u>	<u>(144,686)</u>
Deferred tax asset recognized	12	8,363	45,341
		3,048	(99,345)
Associate's share of deficit on revaluation of available-for-sale securities		(1,805)	(4,553)
		<u>1,243</u>	<u>(103,898)</u>

22 CONTINGENCIES AND COMMITMENTS

	Note	2012 ---(Rupees in '000)---	2011
Transaction related contingent liability:			
Guarantees		-	3,500
Pledge of shares on behalf of Japan Power Generation 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		235,657	2,135,261
Purchase of government securities		-	98,362
Commitments for loans and advances and net investment in finance leases		1,016,982	299,523
Commitments for the acquisition of operating fixed assets		709	-
22.1 Shares in Japan Power Generation Limited (JPGL) (an associate) aggregating 17,622,878 having a cost of Rs. 70,726 (2011: 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 Investment in unlisted shares in Orient Power Company (Private) Limited (related party) aggregating 22,600,000 having a cost of Rs. 226 million are pledged as security against a syndicate finance facility obtained by Orient Power Company (Private) Limited.			

23 MARK-UP / RETURN / INTEREST EARNED

	2012 ---(Rupees in '000)---	2011
On loans and advances to		
Customers	818,119	930,518
Financial institutions	2,569	1,283
	<u>820,688</u>	<u>931,801</u>
On investments in		
Available-for-sale	880,343	938,513
Held-to-maturity	13,083	14,299
Held-for-trading	156,793	160,455
	<u>1,050,219</u>	<u>1,113,267</u>
On securities purchased under resale agreements	139,132	180,361
On deposit with financial institutions	13,062	24,147
On placements	3,597	4,681
On certificate of investments	24,476	16,445
	<u>2,051,174</u>	<u>2,270,702</u>

24 MARK-UP / RETURN / INTEREST EXPENSED

On secured borrowings		
Repurchase agreement borrowings	564,337	506,137
Long-term borrowings	83,474	94,069
Short-term borrowings	4,309	55,108
	<u>652,120</u>	<u>655,314</u>
On un-secured borrowings		
Placements	81,653	117,736
Certificate of investments	570,527	740,492
	<u>652,180</u>	<u>858,228</u>
	<u>1,304,300</u>	<u>1,513,542</u>

25 GAIN / (LOSS) ON SALE OF SECURITIES

Federal Government Securities		
-Market Treasury Bills	17,020	29,675
-Pakistan Investment Bonds	120,320	37,431
	<u>137,340</u>	<u>67,106</u>
Shares / units		
-Listed	89,681	(38,183)
-Unlisted	-	(38,500)
	<u>89,681</u>	<u>(76,683)</u>
Term Finance Certificates	10,739	31,781
	<u>237,760</u>	<u>22,204</u>

26 OTHER INCOME

	Note	2012 ---(Rupees in '000)---	2011
Gain on sale of property and equipment		1,335	2,484
Exchange gain on revaluation		42	241
Late payment charges on dividend income		706	-
Liabilities no longer payable		1,017	-
Others		49	-
		<u>3,149</u>	<u>2,725</u>

27 ADMINISTRATIVE EXPENSES

Salaries, allowances and employees' benefits		174,481	151,701
Contribution to defined contribution plan		10,937	10,236
Charge for defined benefit plan	33.8	9,842	5,933
Non-executive directors' fee / remuneration	35	14,717	12,496
Non-executive directors' fee of POAMCL		3,360	2,911
Chief executive's remuneration	35	25,415	19,211
Board meeting expenses		6,322	4,305
Traveling and accommodation		14,749	13,685
Rent, rates and taxes		18,661	18,560
Utilities		3,733	3,895
Communication		6,469	6,435
Professional training		1,213	947
Advertisement and business promotion		1,313	1,343
Membership and subscriptions		5,294	4,466
Printing, stationery and periodicals		4,794	5,196
Depreciation	11.1	18,261	21,009
Amortization of intangible asset	11.2	2,324	2,272
Auditors' remuneration	27.1	1,977	1,278
Legal and professional charges		12,072	13,873
Repairs and maintenance		6,038	5,650
Transportation		14,017	12,563
Insurance		5,965	6,304
Finance charges on leased assets		1,849	1,837
Entertainment and canteen expenses		2,497	2,578
Donation	27.2	726	5,144
Transaction cost		56	17
Commission		-	306
Shahriah advisor fee		600	332
Others		3,860	1,165
		<u>371,542</u>	<u>335,648</u>

27.1 Auditors' remuneration

	Note	2012 ---(Rupees in '000)---	2011
Audit fee		440	400
Half yearly review		148	147
Auditors' remuneration of subsidiary company		262	382
Special certifications and others		951	321
Out of pocket expenses		176	28
		<u>1,977</u>	<u>1,278</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
Al-Mehrab Tibbi Imdad	140	140
The Kidney Centre Post Graduation Training Institute	-	200
Burns Centre	140	140
Zindagi Trust	-	500
	<u>280</u>	<u>4,980</u>

28 OTHER CHARGES

SBP Penalties	-	5,615
Fees and commission	14,946	19,605
	<u>14,946</u>	<u>25,220</u>

29 TAXATION

For the year		
Current		261,582
Deferred	12.1	(79,698)
		<u>181,884</u>
		<u>215,002</u>
		<u>50,688</u>
		<u>265,690</u>

29.1 Relationship between tax expense and accounting profit

Profit before taxation		628,470	623,211
Tax at the applicable rate of 35 %		219,965	218,124
Tax effect of income taxed at different rate		(21,829)	(29,544)
Tax effect of exempt capital gain		(25,454)	25,445
Tax effect of exempt provision for diminution in the value of investments		14,790	19,123
Net tax effect of income not subject to tax and expenses that are not allowable in determining taxable income tax charge		(5,588)	32,542
		<u>181,884</u>	<u>265,690</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, 2012, the total unrecognised deferred tax asset is amounting to Rs. 85.75 million (June 30, 2012: Rs. 82.16 million) mainly arising on account of accumulated tax losses and deductible temporary differences.

29.3 In the year 2011, 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 and July 13, 2012 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 consultant who expect favorable outcome of the case.

30 EARNINGS PER SHARE

		2012	2011
Profit attributable to shareholders of the holding company	Rupees in '000	457,168	383,980
Weighted average number of ordinary shares in issue	Numbers in '000	615,000	615,000
Basic earnings per share	Rupees	0.74	0.62
Diluted earnings per share	Rupees	0.74	0.62

30.1 There were no convertible dilutive potential ordinary shares outstanding on December 31, 2012 and 2011.

31 CASH AND CASH EQUIVALENTS

	Note	2012	2011
		----(Rupees in '000)----	
Cash and balances with treasury banks	6	101,974	66,679
Balances with other banks	7	159,980	209,531
		261,954	276,210

32 STAFF STRENGTH

	2012	2011
	Numbers	
Permanent	93	98
Temporary / on contractual basis	14	23
Group's own staff strength at end of the year	107	121
Outsourced	26	27
Total staff strength	133	148

33 DEFINED BENEFIT PLAN

General Description

33.1 General description of the holding company's 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, 2012 using the Projected Unit Credit method. The following significant assumptions were used for the actuarial valuation:

	2012	2011
	Percent per annum	
Discount rate	11.50	12.50
Expected rate of increase in salary levels	11.50	12.50
Expected rate of return on plan assets	11.50	12.50

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

	Note	2012	2011
		----(Rupees in '000)----	
Present value of defined benefit obligation	33.3	52,079	38,207
Fair value of plan assets	33.5	(49,958)	(38,988)
	33.4	2,121	(781)

	Note	2012 ----(Rupees in '000)----	2011
33.3 The movement in the defined benefit obligation over the year is as follows:			
Present value of obligation as at January 1		38,207	30,787
Current service cost		7,880	7,382
Interest cost		4,655	4,087
Benefits paid		(1,936)	(3,195)
Actuarial loss / (gain) on obligation		3,273	(854)
Present value of obligation as at December 31		<u>52,079</u>	<u>38,207</u>

33.4 Movement in receivable from defined benefit plan:

	Note	2012	2011
Opening asset		(781)	(769)
Expense for the year	33.8	9,842	5,933
Contributions to the fund		(6,940)	(5,945)
Closing liability / (asset)		<u>2,121</u>	<u>(781)</u>

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

	Note	2012	2011
Fair value of plan assets as at January 1		38,988	31,557
Expected return on plan assets		5,186	4,615
Contributions		6,940	5,945
Benefits paid		(1,936)	(3,195)
Actuarial gain on plan assets		780	66
Fair value of plan assets as at December 31	33.7	<u>49,958</u>	<u>38,988</u>

33.6 Actual return on plan assets during the year was Rs. 5,966 million (2011: Rs. 4,681 million).

33.7 The plan assets are comprised as follows:

Particulars	Note	2012		2011	
		Rupees in '000	%	Rupees in '000	%
Market Treasury Bills		-	-	10,365	27.80
Pakistan Investment Bonds		9,000	18.60	11,352	30.44
Special Saving Certificates (SSCs)		10,000	20.67	-	-
Term Finance Certificates		6,219	12.85	5,836	15.65
Certificate of Investments	33.7.1	23,150	47.84	8,150	21.86
Amount in Bank		20	0.04	1,577	4.23
Other asset		-	-	9	0.02
		<u>48,389</u>	<u>100</u>	<u>37,289</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 9.15 to 10 (2011: 12 to 13.25) percent per annum.

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

	2012 ----(Rupees in '000)----	2011
Current service cost	7,880	7,382
Interest cost	4,655	4,086
Expected return on plan assets	(5,186)	(4,615)
Actuarial loss / (gain) recognised	2,493	(920)
	<u>9,842</u>	<u>5,933</u>

33.9 Net unrecognised actuarial (losses) / gains

	2012	2011
Net unrecognised actuarial gains / (losses) as at January 1	-	-
Actuarial (loss) / gain on obligation	(3,273)	854
Actuarial gain on plan assets	780	66
	<u>(2,493)</u>	<u>920</u>
Actuarial loss / (gain) recognised for the year	2,493	(920)
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	2012	2011	2010	2009	2008
	----- (Rupees in '000) -----				
Present value of defined benefit obligation	33.3	52,079	38,207	30,787	25,514
Fair value of plan assets	33.5	(49,958)	(38,988)	(31,557)	(25,263)
Deficit / (Surplus)		<u>2,121</u>	<u>(781)</u>	<u>(770)</u>	<u>251</u>
Experience adjustments on defined benefit obligation	33.3	3,273	(854)	(496)	(1,224)
Experience adjustments on assets	33.5	(780)	(66)	(86)	670

33.11 Expected gratuity expense for the next year

The expected gratuity expense for the next year ending December 31, 2013 works out to Rs. 8.312 million.

34 DEFINED CONTRIBUTION PLAN

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

34.2 Contribution to the fund made during the year by the holding company

	2012	2011
	----(Rupees in '000)----	
Contribution from the holding company	9,345	7,955
Contribution from the employees of holding company	9,345	7,955
	<u>18,690</u>	<u>15,910</u>

34.3 Contribution to the fund made during the year by the subsidiary company

Contribution from the subsidiary company	1,592	2,281
Contribution from the employees of subsidiary company	1,592	2,281
	<u>3,184</u>	<u>4,562</u>

35 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Non-Executive Directors		Executives	
	2012	2011	2012	2011	2012	2011
	------(Rupees in '000)-----					
Fees / remuneration	-	-	14,717	12,496	-	-
Managerial remuneration	24,075	17,937	-	-	156,511	140,864
Charge for defined benefit plan	816	786	-	-	8,605	4,643
Contribution to defined contribution plan	1,269	1,058	-	-	8,682	8,157
Medical	552	467	-	-	-	-
Utilities	712	738	-	-	190	239
Membership fee	76	69	-	-	42	41
	<u>27,500</u>	<u>21,055</u>	<u>14,717</u>	<u>12,496</u>	<u>174,030</u>	<u>153,944</u>
Number of persons	<u>1</u>	<u>1</u>	<u>5</u>	<u>5</u>	<u>65</u>	<u>63</u>

35.1 The managing director and certain 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.

36 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 2.3 and 5.4 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, 40.4.2 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

	2012		2011	
	Book value	Fair Value	Book Value	Fair Value
	------(Rupees in '000)-----			
Assets				
Cash and balances with treasury banks	101,974	101,974	66,679	66,679
Balances with other banks	159,980	159,980	209,531	209,531
Lendings to financial institutions	833,119	833,119	1,321,745	1,321,745
Investments - net	9,390,720	9,388,000	9,746,638	9,730,511
Advances - net	6,347,059	6,347,059	5,765,561	5,765,561
Other assets	379,186	379,186	375,500	375,500
	<u>17,212,038</u>	<u>17,209,318</u>	<u>17,485,654</u>	<u>17,469,527</u>
Liabilities				
Borrowings	6,546,367	6,546,367	6,648,716	6,648,716
Deposits and other accounts	4,351,000	4,351,000	4,695,693	4,695,693
Liabilities against assets subject to finance lease	10,802	10,802	19,858	19,858
Other liabilities	395,110	395,110	473,605	473,605
	<u>11,303,279</u>	<u>11,303,279</u>	<u>11,837,872</u>	<u>11,837,872</u>
	<u>5,908,759</u>	<u>5,906,039</u>	<u>5,647,782</u>	<u>5,631,655</u>

37 SEGMENT ANALYSIS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate finance	Trading & sales	Commercial banking	Asset management
----- (Rupees in '000) -----				
2012				
Total income	8,903	1,595,235	825,047	53,868
Total expenses	46,760	1,175,919	557,383	74,521
Net income / (loss)	(37,857)	419,316	267,664	(20,653)
Segment assets (Gross)	-	12,357,271	7,703,108	65,311
Segment non-performing loans	-	-	1,182,906	-
Investments provided for	-	1,113,667	-	-
Segment provision required *	-	573,499	933,814	-
Segment liabilities	-	6,618,191	4,798,680	(10,747)
Segment return on net assets (%)	-	8.12%	13.58%	(27.15%)
Segment return on assets (ROA) (%)	-	3.56%	3.95%	(31.62%)
Segment cost of funds (%)	-	7.10%	7.31%	-
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	(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%	-

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

38 RELATED PARTY TRANSACTIONS

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 Group'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 Microfinance 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 - (due to common directorship)

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	2012				2011			
	As at January 1, 2012	Given during the year	Repaid during the year	As at December 31, 2012	As at January 1, 2011	Given during the year	Repaid during the year	As at December 31, 2011
----- (Rupees in '000) -----								
Investments								
Associates	886,236	1,010,318	(991,126)	905,428	915,860	398,063	(427,687)	886,236
Other related parties	495,744	-	(38,000)	457,744	226,000	269,744	-	495,744
	1,381,980	1,010,318	(1,029,126)	1,363,172	1,141,860	667,807	(427,687)	1,381,980
Advances								
Associates	68,200	-	-	68,200	68,200	-	-	68,200
Key Management personnel	65,877	16,947	(13,917)	68,907	46,384	31,703	(12,210)	65,877
Other related parties	275,723	-	(19,010)	256,713	566,748	-	(291,025)	275,723
	409,800	16,947	(32,927)	393,820	681,332	31,703	(303,235)	409,800
Deposits								
Associates	353,819	383,888	(295,960)	441,747	388,119	353,819	(388,119)	353,819
Key Management personnel	10,021	44,396	(40,476)	13,941	4,500	31,811	(26,290)	10,021
Other related parties	13,500	101,291	(75,502)	39,289	46,763	13,500	(46,763)	13,500
	377,340	529,575	(411,938)	494,977	439,382	399,130	(461,172)	377,340
Borrowings								
Associates	100,000	-	(100,000)	-	63,520	100,000	(63,520)	100,000
	100,000	-	(100,000)	-	63,520	100,000	(63,520)	100,000

	2012	2011
	----- (Rupees in '000) -----	
Other receivables from:		
Gratuity fund	-	781
Associates	12	344
Formation cost receivable from associates	3,300	14,334
Management fee receivable from associates	3,067	2,860
Formation cost received from associates	3,251	4,987
Management fee received from associates	33,610	29,232
Mark-up income		
Key Management personnel	2,910	2,880
Other related parties	41,059	75,466

	2012	2011
	----- (Rupees in '000) -----	
Dividend income		
Associates	47,752	74,040
Other related parties	23,227	15,130
Fee income		
Other related parties	-	4,750
Other income		
Other related parties	706	-
Mark-up expense on deposits		
Associates	53,529	47,746
Key Management personnel	1,387	1,036
Other related parties	4,103	1,388
Mark-up expense on borrowing		
Associates	441	13,221
Expenses for the year		
Remuneration to key management personnel	100,072	86,974
Non-executive director's fee / remuneration	14,717	12,496
Charge for defined contribution plan	10,937	10,236
Charge for defined benefit plan	9,842	5,933
Outright sale of Government Securities		
Other related parties	31,734	103,847
Outright purchase of Government Securities		
Other related parties	40,079	-
Outright sale of Term Finance Certificates (TFCs)		
Other related parties	98	-

39 CAPITAL ADEQUACY

The Group's Capital adequacy ratio (CAR) as at December 31, 2012 was 41.20% 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 healthy portfolio of assets and liabilities focusing on quality. CAR of 41.20% 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:

	2012	2011
	----(Rupees in '000)----	
Regulatory Capital Base		
Tier I Capital		
Share Capital	6,150,000	6,150,000
Reserves	570,983	485,312
Unappropriated Profit	452,759	296,512
Non Controlling Interest (Minority interest)	37,268	47,850
	<u>7,211,010</u>	<u>6,979,674</u>
Deductions:		
Book value of intangibles	1,666	3,634
Shortfall in provisions required against classified assets irrespective of any relaxation allowed	-	-
Deficit on account of revaluation of available-for-sale investment	7,120	149,239
Investments in TFCs of other banks exceeding the prescribed limit	674,248	877,527
Other deductions (50% of the amount calculated on CAP2)	266,261	265,312
	<u>949,295</u>	<u>1,295,712</u>
Total Eligible Tier I Capital	<u>6,261,715</u>	<u>5,683,962</u>
Supplementary Capital		
Tier II Capital		
Subordinated debt (up to 50% of total Tier 1 Capital)	-	-
General provision or general reserves for loan losses up to maximum of 1.25% of risk weighted assets.	-	-
Revaluation reserve (up to 45%)	-	-
Other deductions (50% of the amount calculated on CAP2)	(266,261)	(265,312)
	<u>(266,261)</u>	<u>(265,312)</u>
Total Eligible Tier II Capital	<u>(266,261)</u>	<u>(265,312)</u>
Eligible Tier III Capital		
Total Supplementary Capital eligible for capital adequacy ratio (Maximum upto 100% of Total eligible Tier I Capital)	-	-
Total Eligible Capital	<u>5,995,454</u>	<u>5,418,650</u>
Risk Weighted Amounts		
Total Credit Risk Weighted Amount	8,019,783	7,003,388
Total Market Risk Weighted Amount	4,650,071	4,591,521
Total Operational Risk Weighted Amount	1,881,355	1,541,187
Total Risk Weighted Amount	<u>14,551,209</u>	<u>13,136,096</u>
Capital Adequacy Ratios		
Credit Risk Capital Adequacy Ratio	74.76%	77.37%
Tier 1 Capital to Total Risk Weighted Amount	43.03%	43.27%
Total Capital Adequacy Ratio	41.20%	41.25%

40 RISK MANAGEMENT

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	x	x	x

Credit exposures subject to Standardised Approach

Exposures	Rating Category	2012			2011		
		Amount Outstanding	Deduction CRM*	Net Amount	Amount Outstanding	Deduction CRM*	Net Amount
(Rupees in '000)							
Corporate	0	-	-	-	-	-	-
	1	585,989	588,903	1,174,892	742,842	476,807	1,219,649
	2	1,147,358	(100,225)	1,047,133	871,993	(97,729)	774,264
	3-4	100,000	-	100,000	292,716	-	292,716
	5-6	-	-	-	-	-	-
	Unrated	4,969,243	(488,678)	4,480,565	3,746,689	(379,078)	3,367,611
		6,802,590	-	6,802,590	5,654,240	-	5,654,240
Banks	0	-	-	-	-	-	-
	1	59,980	-	59,980	59,531	-	59,531
	2-3	100,000	-	100,000	150,000	-	150,000
	Unrated	-	-	-	-	-	-
		159,980	-	159,980	209,531	-	209,531

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.

4.0.2 Segmental information

4.0.2.1 Segment by class of business

2012

	Advances (Gross)		Deposits		Contingencies & commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Financial institution	105,161	1.44	731,747	16.82	235,657	15.20
Textile	1,292,534	17.75	3,315	0.08	452,382	29.18
Transportation and communication	332,519	4.57	555,013	12.76	25,000	1.61
Power	1,106,438	15.20	-	-	296,726	19.14
Electronics	160,079	2.20	-	-	-	-
Food and beverage	1,592,412	21.87	-	-	302,540	19.52
Services	334,241	4.59	80,000	1.84	100,000	6.45
Engineering and allied products	158,017	2.17	-	-	-	-
Chemical and pharmaceuticals	367,233	5.04	-	-	90,000	5.81
Automobiles	258,545	3.55	-	-	-	-
Fuel and energy	474,917	6.52	-	-	44,560	2.87
Construction	107,394	1.48	-	-	-	-
Cement	45,953	0.63	-	-	-	-
Sugar	384,205	5.28	-	-	-	-
Paper and board /packaging	92,215	1.27	-	-	2,500	0.16
Healthcare	150,000	2.06	-	-	-	-
Individual	128,496	1.76	428,190	9.84	-	-
Others	190,514	2.62	2,552,735	58.66	709	0.06
	7,280,873	100.00	4,351,000	100.00	1,550,074	100.00

2011

	Advances (Gross)		Deposits		Contingencies & 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
	6,739,785	100.00	4,695,693	100.00	2,833,372	100.00

40.2.2 Segment by sector

	Advances (Gross)		Deposits		Contingencies & commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
2012						
Public / Government	1,289,506	17.71	650,000	14.94	44,560	2.87
Private	5,991,367	82.29	3,701,000	85.06	1,505,514	97.13
	<u>7,280,873</u>	<u>100</u>	<u>4,351,000</u>	<u>100</u>	<u>1,550,074</u>	<u>100</u>
2011						
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</u>	<u>4,695,693</u>	<u>100</u>	<u>2,833,372</u>	<u>100</u>

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

	2012		2011	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	----- (Rupees in '000) -----			
Automobile	258,545	258,545	268,545	268,545
Cement	45,953	45,953	65,000	65,000
Textile	454,834	331,808	412,899	300,720
Chemical and pharmaceuticals	38,616	34,411	38,962	34,758
Construction	57,395	53,675	82,250	53,675
Engineering and allied products	86,073	86,073	92,073	92,073
Electronics	50,000	-	32,619	32,619
Fuel and energy	89,194	34,053	89,194	22,298
Food and beverages	16,435	15,935	19,197	18,697
Financial institution	5,161	5,161	-	-
Power	68,200	68,200	68,200	68,200
Sugar	-	-	11,825	11,825
Transportation & Communication	12,500	-	18,314	5,814
	<u>1,182,906</u>	<u>933,814</u>	<u>1,199,078</u>	<u>974,224</u>

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

	2012		2011	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	----- (Rupees in '000) -----			
Public/Government	-	-	-	-
Private	1,182,906	933,814	1,199,078	974,224
	<u>1,182,906</u>	<u>933,814</u>	<u>1,199,078</u>	<u>974,224</u>

40.2.5 Geographical segment analysis

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- (Rupees in '000) -----			
Pakistan	628,470	18,616,860	7,212,253	1,550,074
Middle East	-	1,517	-	-
	<u>628,470</u>	<u>18,618,377</u>	<u>7,212,253</u>	<u>1,550,074</u>

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 16band 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	18,617,901	11,406,124	-	7,211,777
United States Dollar	147	-	-	147
Omani Riyal	329	-	-	329
	<u>18,618,377</u>	<u>11,406,124</u>	-	<u>7,212,253</u>

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 responsibility ies 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 for the year ended December 31, 2012

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	101,974	-	-	-	-	-	-	-	-	-	101,974
Balances with other banks	9.97% 159,980	155,297	-	-	-	-	-	-	-	-	4,683
Lending to financial institutions	9.80% 833,119	820,456	212	1,207	-	11,244	-	-	-	-	-
Investments	10.87% 9,390,720	108,012	1,509,922	1,861,075	1,619,333	8,994	63,898	3,373,571	115,853	-	730,062
Advances	12.92% 6,347,059	2,182,413	2,449,580	647,730	151,235	267,669	230,855	307,753	78,600	16,333	14,891
Other assets	379,186	-	-	-	-	-	-	-	-	-	379,186
	<u>17,212,038</u>	<u>3,266,178</u>	<u>3,959,714</u>	<u>2,510,012</u>	<u>1,770,568</u>	<u>287,907</u>	<u>294,753</u>	<u>3,681,324</u>	<u>194,453</u>	<u>16,333</u>	<u>1,230,796</u>
Liabilities											
Borrowings from financial institutions	9.04% 6,546,367	5,471,422	194,064	59,264	114,383	207,033	216,375	246,022	37,804	-	-
Deposits and other accounts	10.75% 4,351,000	1,222,984	1,350,195	1,103,129	381,674	293,018	-	-	-	-	-
Liabilities against assets subject to finance leases	13.68% 10,802	640	942	1,823	2,026	4,882	489	-	-	-	-
Other liabilities	395,110	-	-	-	-	-	-	-	-	-	395,110
	<u>11,303,279</u>	<u>6,695,046</u>	<u>1,545,201</u>	<u>1,164,216</u>	<u>498,083</u>	<u>504,933</u>	<u>216,864</u>	<u>246,022</u>	<u>37,804</u>	<u>-</u>	<u>395,110</u>
On-balance sheet gap	<u>5,908,759</u>	<u>(3,428,868)</u>	<u>2,414,513</u>	<u>1,345,796</u>	<u>1,272,485</u>	<u>(217,026)</u>	<u>77,889</u>	<u>3,435,302</u>	<u>156,649</u>	<u>16,333</u>	<u>835,686</u>
Non-financial assets	1,406,339										
Non-financial liabilities	102,845										
Total Net Assets	<u>7,212,253</u>										
Total yield / profit risk sensitivity gap		<u>(3,428,868)</u>	<u>2,414,513</u>	<u>1,345,796</u>	<u>1,272,485</u>	<u>(217,026)</u>	<u>77,889</u>	<u>3,435,302</u>	<u>156,649</u>	<u>16,333</u>	
Cumulative yield / profit risk sensitivity gap		<u>(3,428,868)</u>	<u>(1,014,355)</u>	<u>331,441</u>	<u>1,603,926</u>	<u>1,386,900</u>	<u>1,464,789</u>	<u>4,900,091</u>	<u>5,056,740</u>	<u>5,073,073</u>	

Mismatch of interest rate sensitive assets and liabilities for the year ended December 31, 2011

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	12.83% 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	7371
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											
Deposits and other accounts	11.47% 6,648,716	5,667,972	35,501	43,651	95,589	221,831	191,143	269,314	123,715	-	-
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	417,666	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	6,875,776										
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	

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 - Based on contractual maturity of assets and liabilities

Maturities of assets and liabilities as at December 31, 2012

Total	Up to 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	101,974	101,974	-	-	-	-	-	-	-
Balances with other banks	159,980	159,980	-	-	-	-	-	-	-
Lending to financial institutions	833,119	820,456	212	1,207	-	11,244	-	-	-
Investments	10,296,148	136,426	319,435	690,804	2,070,739	674,457	549,188	4,907,129	947,970
Advances	6,347,059	199,427	1,458,387	371,794	685,963	1,101,829	822,001	1,156,140	529,185
Other assets	388,729	71,536	230,022	81,226	999	-	-	4,946	-
Operating fixed assets	61,298	2,311	7,195	6,208	8,514	12,012	6,804	4,212	10,532
Deferred tax assets	430,070	(21,363)	(17,168)	(23,930)	(54,385)	(45,072)	(7,744)	600,684	(1,482)
	18,618,377	1,470,747	1,998,083	1,133,309	2,711,830	1,754,470	1,370,249	6,673,111	1,486,205
Liabilities									
Borrowings from financial institutions	6,546,367	5,471,422	194,064	59,264	114,383	207,033	216,375	246,022	37,804
Deposits and other accounts	4,351,000	1,222,984	1,350,195	1,103,129	381,674	293,018	-	-	-
Liabilities against assets subject to finance leases	10,802	640	1,188	1,577	2,026	4,882	489	-	-
Other liabilities	497,955	87,741	99,174	65,595	174,194	37,276	10,879	23,096	-
	11,406,124	6,782,787	1,644,621	1,229,565	672,277	542,209	227,743	269,118	37,804
Net assets	7,212,253	(5,312,040)	353,462	(96,256)	2,039,553	1,212,261	1,142,506	6,403,993	1,448,401
Share capital	6,150,000								
Reserves	570,983								
Unappropriated profit	452,759								
	7,173,742								
Surplus on revaluation of investment - net of tax	1,243								
Non controlling interest	37,268								
	7,212,253								

Maturities of assets and liabilities as at December 31, 2011

	Total	Up to 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	66,679	-	-	-	-	-	-	-	-
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	126,510	2,255,582	904,598	1,719,767	1,616,060	417,617	2,414,188	1,178,552	-
Advances	5,765,561	250,913	296,716	776,047	609,124	1,150,266	873,886	925,388	869,020	14,201
Other assets	387,028	110,311	181,710	88,409	1,443	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)	(76,645)	(43,383)	(15,609)	592,582	(1,709)	(13)
	18,839,044	1,632,854	3,131,696	1,757,724	2,264,915	2,737,215	1,297,159	3,941,280	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	19,858	759	1,177	2,011	4,088	5,776	5,558	489	-	-
Other liabilities	599,001	113,009	142,880	20,820	241,580	33,817	35,324	11,571	-	-
	11,963,268	7,037,793	2,144,261	622,253	1,070,264	451,583	232,025	281,374	123,715	-
Net assets	6,875,776	(5,404,939)	987,435	1,135,471	1,194,651	2,285,632	1,065,134	3,659,906	1,932,680	19,806
Share capital	6,150,000									
Reserves	485,312									
Unappropriated Profit	296,512									
	6,931,824									
Deficit on revaluation of investment - net of tax	(103,898)									
Non controlling interest	47,850									
	6,875,776									

The contractual maturities of assets and liabilities do not significantly differ with the expected maturities except operating fixed assets and deferred tax assets which do not have any contractual maturities. The maturities of operating fixed assets and deferred tax assets have been reported based on their pattern of usage and recoverability of the underlying assets on which deferred tax asset has been recorded.

40.4.2 Maturities of assets and liabilities - Based on the working prepared by the Asset and Liabilities Management Committee (ALCO)

Maturities of assets and liabilities as at December 31, 2012

	Total	Up to 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	101,974	101,974	-	-	-	-	-	-	-	-
Balances with other banks	159,980	159,980	-	-	-	-	-	-	-	-
Lending to financial institutions	833,119	820,456	212	1,207	-	11,244	-	-	-	-
Investments	10,296,148	136,426	319,435	690,804	2,070,739	674,457	549,188	4,907,129	947,970	-
Advances	6,347,059	199,427	1,458,387	377,794	685,963	1,101,829	822,001	1,156,140	529,185	16,333
Other assets	388,729	71,536	230,022	81,226	999	-	-	4,946	-	-
Operating fixed assets	61,298	2,311	7,195	6,208	8,514	12,012	6,804	4,212	10,532	3,510
Deferred tax assets	430,070	(21,363)	(17,168)	(23,930)	(54,385)	(45,072)	(7,744)	600,684	(1,482)	530
	18,618,377	1,470,747	1,998,083	1,133,309	2,711,830	1,754,470	1,370,249	6,673,111	1,486,205	20,373
Liabilities										
Borrowings from financial institutions	6,546,367	5,471,422	194,064	59,264	114,383	207,033	216,375	246,022	37,804	-
Deposits and other accounts	4,351,000	1,222,984	1,350,195	1,103,129	381,674	293,018	-	-	-	-
Liabilities against assets subject to finance leases	10,802	640	1,188	1,577	2,026	4,882	489	-	-	-
Other liabilities	497,955	87,741	99,174	65,595	174,194	37,276	10,879	23,096	-	-
	11,406,124	6,782,787	1,644,621	1,229,565	672,277	542,209	227,743	269,118	37,804	-
Net assets	7,212,253	(5,312,040)	353,462	(96,256)	2,039,553	1,212,261	1,142,506	6,403,993	1,448,401	20,373
Share capital	6,150,000									
Reserves	570,983									
Unappropriated profit	452,759									
	7,173,742									
Surplus on revaluation of investment - net of tax	1,243									
Non controlling interest	37,268									
	7,212,253									

Maturities of assets and liabilities as at December 31, 2011

	Total	Up to 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	66,679	-	-	-	-	-	-	-	-
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	126,510	2,255,582	904,598	1,719,767	1,616,060	417,617	2,414,188	1,178,552	-
Advances	5,765,561	250,913	296,716	776,047	609,124	1,150,266	873,886	925,388	869,020	14,201
Other assets	387,028	110,311	181,710	88,409	1,443	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)	(76,645)	(43,383)	(15,609)	592,582	(1,709)	(13)
	18,839,044	1,632,854	3,131,696	1,757,724	2,264,915	2,737,215	1,297,159	3,941,280	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	19,858	759	1,177	2,011	4,088	5,776	5,558	489	-	-
Other liabilities	599,001	113,009	142,880	20,820	241,580	33,817	35,324	11,571	-	-
	11,963,268	7,037,793	2,144,261	622,253	1,070,264	451,583	232,025	281,374	123,715	-
Net assets	6,875,776	(5,404,939)	987,435	1,135,471	1,194,651	2,285,632	1,065,134	3,659,906	1,932,680	19,806
Share capital	6,150,000									
Reserves	485,312									
Unappropriated Profit	296,512									
	6,931,824									
Deficit on revaluation of investment - net of tax	(103,898)									
Non controlling interest	47,850									
	6,875,776									

The contractual maturities of assets and liabilities do not significantly differ with the expected maturities except operating fixed assets and deferred tax assets which do not have any contractual maturities. The maturities of operating fixed assets and deferred tax assets have been reported based on their pattern of usage and recoverability of the underlying assets on which deferred tax asset has been recorded.

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, Orix Leasing Pakistan Limited and Standard Chartered Bank (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 eight (2011: six) discretionary portfolio and one (2011: Nil) non-discretionary portfolio amounting to Rs. 92.72 million (December 31, 2011: 74.050 million) and 51.23 million (2011: Nil) respectively. The market value of the said portfolio are Rs 98.83 million (2011: Rs. 78.87 million) and Rs 57.69 million (2011: Nil) respectively.

42 POST BALANCE SHEET EVENTS

The Board of Directors of the holding company in their meeting held on February 28, 2013 have:

- Proposed 4% cash dividend amounting to Rs 246 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-1+ (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 February 28, 2013 by the Board of Directors of the holding company.

Managing Director and Chief Executive Officer

Chairman

COMPANY INFORMATION

Auditors

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

Legal Advisor

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

Tax Consultant

A.F. Ferguson & Co.
Chartered Accountants
Member Firm of Price
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