PAÏR Investment Company Limited

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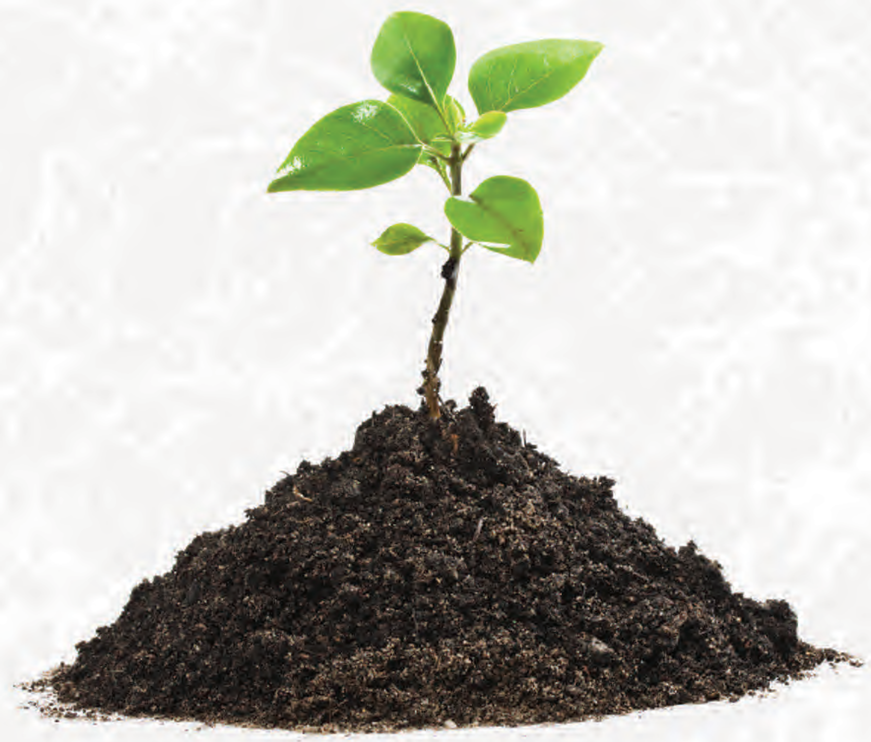


Growing for tomorrow

Annual Report 2011

Growing for tomorrow

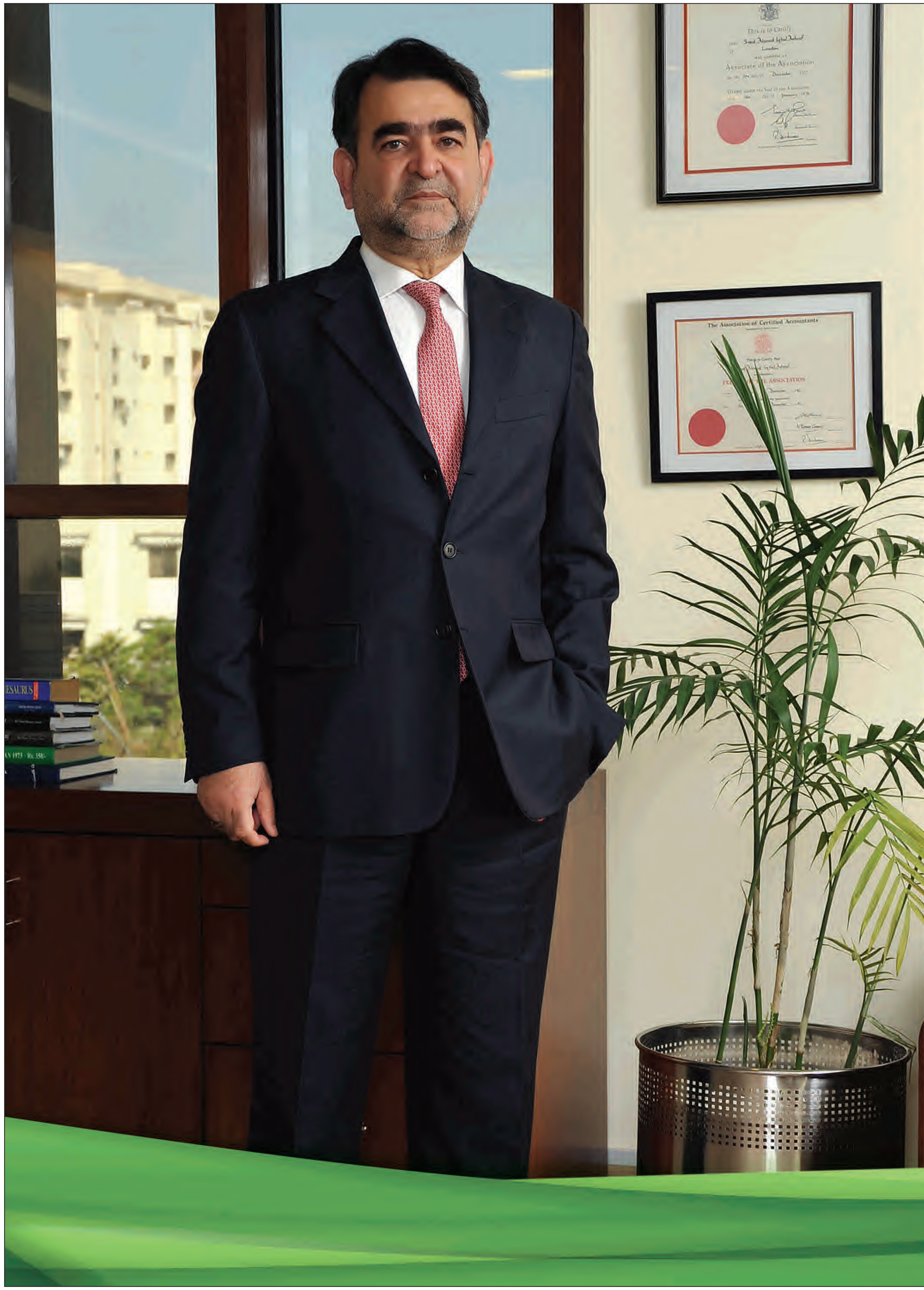
Growth is a natural process. When nurtured, a seedling quickly matures and blossoms into a tree, providing shelter and fruit that benefits all.

On similar ground, Pakistan and Iran have turned a new leaf together and made a new beginning on the national economic front: a joint venture company - PAÏR Investment Company Limited.

In the sowing of this seed, a collective aim and mission permeates to foster agricultural growth, industrial development, build infrastructure and harbor the financial sector.

Investments made through committed professionalism and expertise are bound to bear fruition, in time.

Currently, PAÏR Investment Company Limited has just started the journey of growth. Being a seedling with capital and reserves of over Rs. 7.7 Billion and investments of up to Rs. 2.5 Billion in different projects.



Managing Director and Chief Executive Officer's Message

It is my pleasure to present PAÏR Investment Company Limited's (PAÏR's) Annual Report for the financial year ended 31 December 2011. I would like to thank the Ministry of Finance, Government of Pakistan and the Iran Foreign Investment Company representing Government of Iran, the Members of the Board and the Staff of PAÏR for supporting and helping the Company to further strengthen its position as a leading financial institution in Pakistan.

Through hard work, perseverance and passion demonstrated and delivered by our people, I believe we have largely succeeded in addressing the challenges faced by the Company when I became the Managing Director and Chief Executive Officer a little more than seven months ago. Moreover, despite all the difficulty in the economy, our people have steadfastly maintained solid revenue performance which in fact increased by 15%.

Our clients' interest comes first as we believe that our success comes from them and if they are served well; our success will follow. We stay close to our clients and listen to their evolving needs and provide them with solutions that suit them best.

In 2011 we took some bold decisions, some of which were painful but necessary. I am sure these will yield good dividends in 2012 and beyond.

Lastly, I would like to highlight the continued support and guidance of both; the Government of Pakistan, represented by the Ministry of Finance; specifically Dr. Waqar Masood Khan-Secretary Economic Affairs Division and Ms. Nazrat Bashir-Additional Secretary Finance and the Government of Iran, represented by the Iran Foreign Investment Company; specifically Mr. Hossein Fazeli- Chairman & CEO of the Board of Directors and Mr. Alireza Samimifar-Deputy Managing Director along with other regulatory and authorized bodies as the State Bank of Pakistan and the Securities & Exchange Commission of Pakistan.

My gratitude and appreciation goes out to all who played a vital role in making PAÏR an institution of choice and helping it reach the level it has reached today.

Mr. Syed Ahmad Iqbal Ashraf; Managing Director & Chief Executive Officer of PAÏR Investment Company Limited (PAÏR) (right), Mr. Hossein Fazeli; Chairman & CEO of the Board of Directors (centre) and Mr. Alireza Samimifar; Deputy Managing Director of Iran Foreign Investment Company (IFIC) (left).

Growing for tomorrow

PAÏR Investment Company Limited (PAÏR) is formed as a Joint Venture between the Governments of Pakistan and Iran to promote investment into Pakistan and to enhance trade flows between the two neighboring brotherly Islamic countries. As such, it has been created with a view to act as a channel to attract Iranian investment into Pakistan and to facilitate trade flows between the two countries.

In view of the above, the two neighboring brotherly Islamic countries have come together in a renewed and improved relationship in order to advance this re-established development and healthy growth progression and hence achieve our common goal resulting in benefit to both the countries.

Together they become One for growth.

Core Values of PAÏR Investment Company Limited

The following are our core values:

Our Clients come First

Each and every client is different and so are their needs. Hence, we at PAÏR tend to our clients by tailoring our service in such a manner so that our clients' needs are satisfied and ultimately our success is guaranteed.

Our People and Culture

Our people are our greatest asset. We continuously strive on improving our working standards and ambiance in order to provide the best environment for our employees' personal and professional growth.

Professional Quality of Work

We strive very hard to maintain our work quality and standards with those of internationally accepted professional levels by constantly improving our quality, timelines and results.

Teamwork

We focus on being team players and working as a team in order to achieve individual, departmental and company growth hence maximizing output and results.

Constant Upgrade and Development

We are constantly adapting the latest trends and technologies in all fields from international standards of accounting and compliance to latest technology in the I.T. related field to professional development of our employees by conducting presentations and providing them with trainings on the latest implemented software usage or organizing staff training sessions, workshops and activities related to their respective fields.

Integrity, Confidentiality and Honesty

We maintain high ethical standards of integrity, confidentiality and honesty in everything we do as that is what sets us apart from the crowd and gives us our own unique identity.

Contents

Vision

To be the Premier Development Finance Institution of Pakistan and contribute to the economic development of both the brotherly countries through investment and Pakistan-Iran trade flows.

Mission

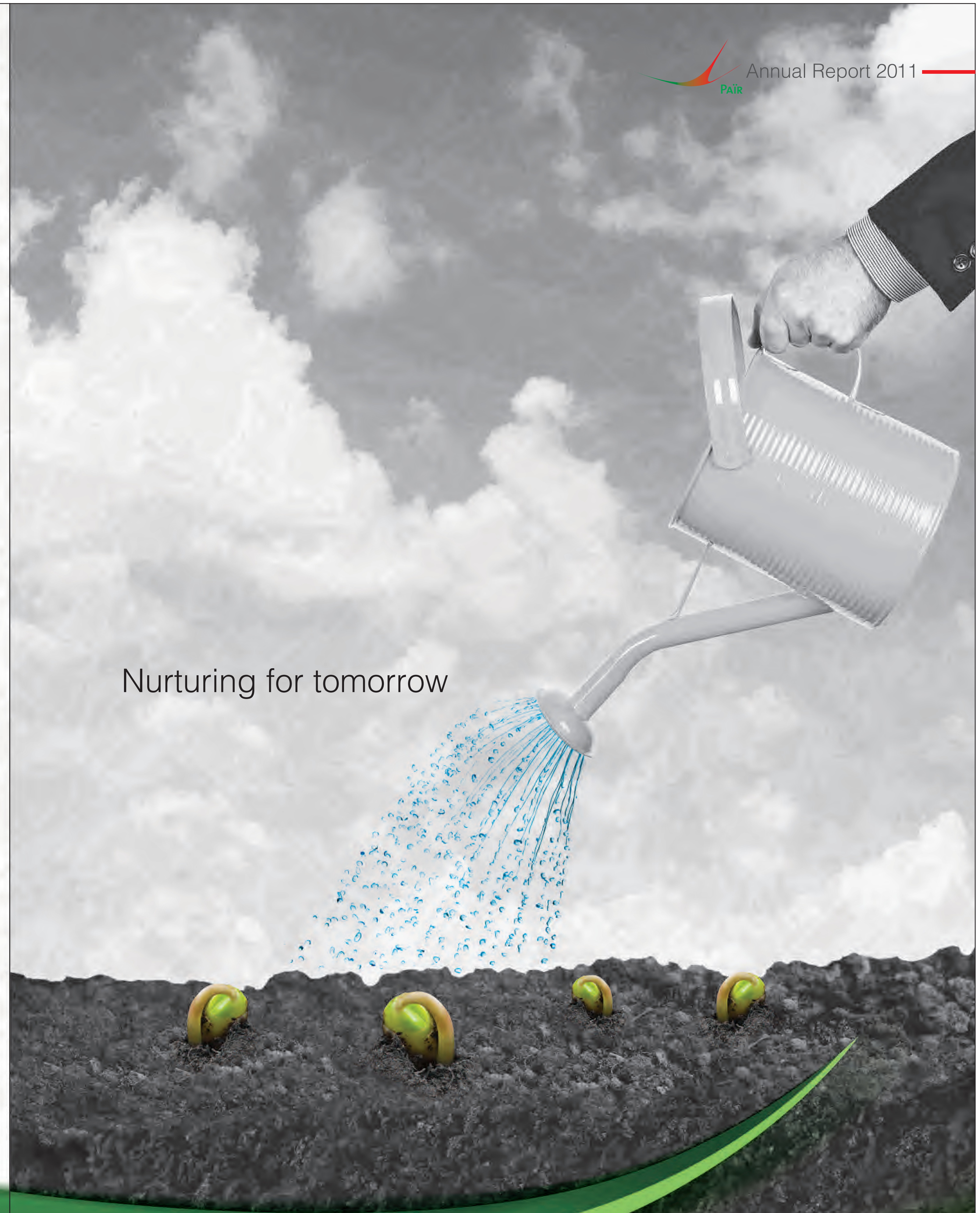
Our company is committed to developing the economic relationship between Pakistan and Iran through investment into projects in Pakistan and enhancing the two way trade by providing the most professional and innovative services to our customers. We focus on providing a range of products and services to our customers (both Pakistani and Irani) in a manner which creates value for them and promotes investment flows and trade between the two countries.

Entity Rating	Assigned by PACRA
Medium to Long Term	AA- (Double A-)

This denotes a very low expectation of credit risk indicating a very strong capacity for timely payment of financial commitment. This capacity is not significantly vulnerable to foresee events.

Short Term	A1+ (A One Plus)

This denotes that obligations are supported by the highest capacity for timely repayments.



Corporate Information

Board of Directors

Bijan Rahimi	Chairman
Farrakh Qayyum	Director
Ghader Soleimani	Director
Aamer Mahmood Hussain	Director
Syed Ahmad Iqbal Ashraf	Managing Director and Chief Executive Officer
Zulfiqar Alam	Chief Financial Officer
Amir Aizaz	Company Secretary

Audit Committee

Farrakh Qayyum	Chairman
Aamer Mahmood Hussain	Member
Bijan Rahimi	Member
Syed Adnan Raza	Secretary-Audit Committee

Risk Management Committee

Ghader Soleimani	Chairman
Syed Ahmad Iqbal Ashraf	Managing Director and Chief Executive Officer
Sajjad Akhtar	Secretary-Risk Management Committee

Human Resources Compensation Committee

Farrakh Qayyum	Chairman
Bijan Rahimi	Member
Syed Ahmad Iqbal Ashraf	Managing Director and Chief Executive Officer
Amir Aizaz	Secretary-Human Resources Compensation Committee

Auditor
KPMG Taseer Hadi & Co.
Chartered Accountants

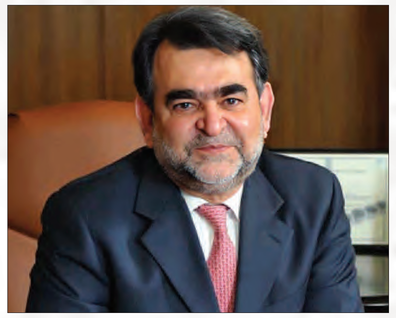
Legal Advisor
Mandviwalla & Zafar

Bankers
Askari Commercial Bank Limited
KASB Bank Limited
MCB Bank Limited
National Bank of Pakistan
Habib Bank Limited
United Bank Limited
Allied Bank Limited

Financial Summary

	2011	2010	2009	2008
		(Rupees in '000)		
Balance Sheet				
Shareholders' capital	**6,000,000**	6,000,000	5,000,000	5,000,000
Advance against share capital	**-**	-	490,825	-
Reserves & unappropriated profit	**1,638,576**	1,396,027	817,670	446,253
Borrowing from financial institutions	**3,695,484**	2,863,481	1,857,327	459,957
Deposits and other accounts	**260,000**	-	-	-
Lendings to financial institutions	**-**	600,000	446,250	611,000
Investments	**8,974,337**	7,160,982	5,326,675	2,440,498
Advances	**2,475,156**	2,103,430	945,387	364,818
Profit & Loss				
Markup income	**1,323,067**	1,030,191	809,863	527,054
Markup expense	**402,712**	193,494	124,744	31,898
Profit before tax	**486,802**	878,584	482,990	469,905
Investors' Information				
EPS (Earning Per Share) (Rs)	**0.40**	0.98	0.74	0.74
Profit before tax ratio	**2.01**	1.52	1.30	1.48
Return on equity (%)	**3.18%**	7.82%	5.89%	5.84%
Income / Expense	**1.54**	3.18	1.98	4.09

Directors' Report 2011



On behalf of the Board of Directors, I am pleased to present the Financial Statements of PAÏR Investment Company Limited (PAÏR) for the year ended December 31, 2011. These Financial Statements have been prepared in compliance with the requirements of BSD Circular No. 11 dated August 04, 2004 and BSD Circular No. 14 of September 24, 2004.

Economic Overview

The economy has been in a consolidation phase over the past year, following the worst floods in history in the latter part of 2010. On the positive side, the government in an effort to initiate the reforms process took some steps to mobilize revenues by expanding the sales tax net and also remained committed to keeping its borrowings from central bank within permissible limits. Moreover, inflation retreated from its peak of 15.5% in Dec 2010 to 10.2% in Nov 2011 off a high base. This encouraged the State Bank to support growth outlook and reduce its discount rate by 200bps to 12%.

On the external front, the current account balance has started to feel the pinch in the past few months owing to export demand weighed down by the slowing global macro cycle. In addition, firm trend in international oil prices stoked by political situation in the MENA region has also had an adverse impact on the country's import bill, leading to above expected current account deficit. Remittances on the other hand have managed to maintain a decent 18% YoY growth and remain the key support to current account framework. This lack of foreign inflows has led to the recent deterioration in performance of the currency where Rupee has lost 4.6% against dollar since June 2011.

Company Performance General Overview

In a number of important respects, 2011 was a year of transition for PAÏR. In 2011, PAÏR re-examined its balance sheet, operational and business capabilities to identify the potentials and challenges. A comprehensive exercise was conducted to develop strategies to explore potentials and mitigate challenges, implementation of which is successfully underway as we write this report to you.

We believe that our growth and results are driven by economic conditions prevailing in the country, business environment, our clients, who turned to PAÏR for their business needs & advice and the focused commitment and dedication of our people to serving our clients' needs and to strengthen our culture of teamwork and excellence.

For FY 11, PAÏR has generated a net markup/interest income of Rs 920.3 Million, 10% higher from FY 10. The net profit before tax of Rs 486.8 Million which is lower by 44.6% reported in the previous financial year (NPBT 2010: 878.6 Milllion). Earnings per share were Rs 0.40 in FY 2011 as compared to Rs 0.98 in FY 2010.

The main reason for this decline in profit is due to the provisions booked against the nonperforming loans and investments. Previously, in FY 2010, PAÏR settled its money market outstanding of First Dawood Investment Bank Limited by acquiring Burj Bank Limited (Formerly Dawood Islamic Bank Limited) shares and reversed the provision created against it amounting to Rs 145.5 Million. In June 2011, PAÏR revalued investment based on comparable companies valuation basis and recorded a provision of Rs 163.95 Million. Had PAÏR revalued its investment in Burj Bank at comparable company basis on December 31, 2010, the profit before tax for the year ended December 31, 2010 would have reduced by Rs 163.95 Million to Rs 714.6 Million instead of Rs 878.6 Million.

PAÏR's Total Assets rose to Rs 11.8 Billion, an increase of Rs 1.3 Billion against previous period, mainly due to notable build up of Investments portfolio. In view of the prevailing business conditions, the Company remained cautious in lending which declined by Rs 600 Million. Investment portfolio grew significantly by Rs 1.8 Billion from Rs 7.1 Billion registered in 2010 to Rs 8.9 Billion. Despite slow growth in private sector credit off-take, advances portfolio grew by 17.7%.

In August 2011, Stock Market showed a sudden decline, PAÏR took a decision and sold 85% of its equity desk portfolio as a result booked a loss of Rs 55 Million in September 2011 but had it not taken the decision to exit from the stock market on a timely basis, we would have suffered further loss of over Rs 60 Million.

PAÏR is diversifying its funding sources and have obtained a medium Term Finance Facility from a Commercial Bank to fund growth of our assets. Furthermore, we also initiated funds via Certificate of Investments and are in the process of establishing deposit mobilization team to reduce the overall funding cost and diversifying funding sources.

In summary, 2011 was a difficult year for PAÏR in which it has faced challenges on all fronts including the economic front but we believe PAÏR has the appropriate strategy for sustainable growth to enter in 2012 with resilience and momentum.

Financial Highlights

A summary of the financial performance and operating results of PAÏR during the year is given below:

Description of Items	FY 2011	FY 2010	Growth
	(Rupees in '000)		
Income from operations (Treasury & Lending)	**1,323,067**	1,030,191	28.43%
Income from investments (Capital Market)	**43,880**	164,245	-73.28%
Fee and Commission Income	**12,797**	7,185	78.11%
Cost of Borrowing	**(402,712)**	(193,494)	108.13%
Provision for diminution in value of investments	**(281,623)**	(123,145)	128.69%
(Provision) / Reversal against Non-Performing Loans	**(42,513)**	154,350	-127.54%
Administrative and operating expenses	**(167,757)**	(209,239)	-19.83%
Profit before taxation	**486,802**	878,584	-44.59%
Profit after taxation	**242,549**	578,357	-58.06%
Shareholders' equity	**7,730,697**	7,434,445	3.98%
Total borrowings	**3,955,484**	2,863,481	38.14%
Placements with banks and financial institutions	**-**	600,000	-100.00%
Investments	**8,974,337**	7,160,982	25.32%
Loans and advances	**2,475,156**	2,103,430	17.67%
Total Assets	**11,845,119**	10,470,609	13.13%

Human Resource

Our people are important to us. We value them. We provide a safe and inspiring work environment for them. We also offer our people opportunities to learn and improve their personal and professional skills.

We are committed to being a company where the best people want to work, where opportunities are widely available, and where employees are encouraged to fulfill their professional and personal goals.

We will continue to be the best company at talent acquisition, development and retention. Especially in a business based on relationships, people are crucial to success and our goal must be nothing less than to employ the best people in the industry.

IT Infrastructure

PAÏR has signed an agreement with a reputable vendor for the purchase of Credit & Risk Module which is in the process of implementation. This is in addition to our Treasury & Investment and Accounting Module. The implementation is being overlooked by a Steering Committee, comprising senior management of the company, also keeps track of progress made in achieving established milestones, as well as making sure that there is complete synergy between the project team and the rest of the business units.

Lahore Office

In FY 11, PAÏR achieved another milestone by opening its branch office in Lahore, the country's second largest urban metropolis. Although newly established, the Lahore Office has made their presence felt in Northern part of Pakistan and has started introducing PAÏR to customers based in Punjab. In FY 12, we believe Lahore Office will be a substantial contributor in our top line.

Tehran Office

Pakistan and Iran are not only geographically linked with each other but are bound together in culture, language, religion, ethnicity and traditions since times immemorial. Our belief is that there are profitable opportunities in Pakistan where Iranian Investors can take advantage and can collaborate with Pakistani entrepreneurs for joint venture project. With this intention, PAÏR is ready to open a Liaison Office in Iran which will promote Iranian investment in Pakistan and to further strengthen the economic ties between the two brotherly Islamic Countries. We expect this office to be functional by June 2012.

Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework

While concerted efforts were made to follow SBP Guidelines on Internal Controls, identification, evaluation and management of risks within each of the DFI's activities; and evaluation and streamlining of procedures remains an ongoing process. Hence PAÏR is currently undertaking a detailed exercise through an International, well-established firm of Chartered Accountants for documentation and benchmarking of existing processes and controls including financial reporting related controls on internationally accepted standards – the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework. The project is in its advance stage with significant benchmarking of controls already taken place and is expected to fully complete in FY12.

Credit Rating

PAÏR has been assigned a long term Entity Rating of 'AA-' (Double A Minus) and a short term Entity Rating of 'A1+' (A One Plus) by Pakistan Credit Rating Agency Limited (PACRA) based on the audited accounts for the period ended December 31, 2010.

Corporate and Financial Reporting Framework

The Board of Directors of PAÏR, for the purpose of establishing a framework of good corporate governance has implemented the relevant provisions of the Code of Corporate Governance for the year ended December 31, 2011. Review report on the Statement of Compliance with the Code of Corporate Governance from the external auditors is annexed with this report. As required under the Code of Corporate Governance, the Board of Directors state that:

- The financial statements prepared by the management of PAÏR present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgement.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departure therefrom has been adequately disclosed.
- As a continuous process, efforts have been made to effectively implement the internal control system. An effective and sound system of internal control is in the process of being designed in accordance with the requirements of the regulatory authorities.
- There is no doubt regarding PAÏR's ability to continue as a going concern.
- There has been no material departure from the best practices of the Code of Corporate Governance.
- Key operating and financial data for the years since the incorporation of PAÏR in summarized form is included in the annual report.

Risk Management Framework

The prevailing economic uncertainty has led the company to have a higher concentration towards assessing, mitigating and monitoring of risks. Accordingly, your Company has established a set of activities to manage uncertainty and threats in the business operating environment, with a core objective to remain abreast with latest developments & changes in 'risk' activities to safeguard/ enhance Shareholder's Value.

An independent Risk Management Unit is working as a core function to strengthen Company-wide Risk Management activities by adopting Basel II Framework. PAÏR is fully compliant with the Capital Adequacy Requirements of the State Bank of Pakistan under the Standardized Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

The Company is therefore, engaged in implementing a robust Internal Capital Adequacy Assessment Process (ICAAP) to establish more risk sensitive assessment, Capital planning, formalization of Company-wide Risk Appetite, and to remain abreast with the internal and external uncertainties that impact shareholder's wealth. This process allowed an adequate management of capital with respect to the transaction level risk profiling of PAÏR as well as integrated portfolio management.

The RMU is fully involved in the development of entity wide policies, procedures and systems after which the company will be able to achieve entity wide risk management principals in true nature and spirit.

PAÏR's Risk Management broadly covers following functions:

Credit Risk

This is the risk of financial loss if a customer or counterparty fails to meet a contractual payment. It arises mainly from direct lending and debts securities. Our governance structures and control frameworks are designed to manage all stages of the economic and financial cycles, including the current difficult environment.

PAÏR's Credit Risk is managed at two levels:

1. Transaction Evaluations: This covers External and Internal Risk Rating Assessment of Obligor and Security Indicators.
2. Credit Portfolio Management: This covers assessment of industry/sector limits monitoring, ratings migrations and periodic portfolio risk reviews.

Market Risk

We use a range of tools to manage and control market risk exposures. In doing so, we optimize return on risk, while maintaining a market profile consistent with the industry best practices. We have developed market risk policy in consultation with a reputable consultant to ensure alignment of business requirements with the measurement tools for calculating and reporting of Interest Rate Risk and Equity Price Risk management.

Liquidity and Funding Risk

The objective of PAÏR's liquidity and funding framework is to ensure the Company can meet its foreseeable funding commitments when they are due and respond quickly to unforeseen liquidity requirements managed through a diversified and liquid asset base.

PAÏR has in place a comprehensive and conservative set of liquidity and funding policies to address the Company specific and broader industry liquidity events. Our principal objective is to be able to fund the Company and to enable our core business to continue to generate revenues, even under adverse circumstances.

We manage liquidity risk according to the following principles:

Excess Liquidity: We maintain substantial excess liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment.

Asset-Liability Management: We assess anticipated holding periods for our assets and their potential illiquidity in a stressed environment managed through the asset liability gap and bucket wise maturity mismatch.

Contingency Funding Plan: We maintain a contingency funding plan to provide a framework for analyzing and responding to a liquidity crisis situation.

Operational Risk

Operational risk is inherent in every business and includes the risk of loss from fraud, unauthorized activities, error, omission, inefficiency, systems failure or from external events. The management has developed Operational Risk Policy in consultation with a reputable consultant. The operational risk function will be fully invoked by adopting the methodology for Risk and Control Self Assessment after approval and deployment of Entity wide Polices and Procedures, related risk and controls matrixes and segregation of duties matrixes. The Company also developed a Disaster Recovery Plan and related Business Continuity Plan for the continuation of operations in case any disruption occurs.

Corporate Social Responsibility

Energy Conservation

Keeping in view the ongoing energy crisis in the country, PAÏR has installed energy saver bulbs to reduce its electricity consumption. Furthermore, PAÏR is also following an internal program to reduce energy consumption by encouraging employees to switch off lights, computer monitors and other electronic equipment when not required.

Contribution to National Exchequer

During the year, PAÏR has paid Rs 311.2 Million in Income Taxes to the Government of Pakistan.

Board of Directors and their Meetings

Three (3) Board Meetings were held during the year 2011. The director(s) who were not able to attend any of the meeting(s) were duly granted leave of absence by the Board. The directors of your company attended the meetings, as under:

Name of Directors	No. of Meetings Attended	Attendance in % terms
Mr. Bijan Rahimi *Chairman (appointed w.e.f. Jan 1, 2011)*	2 out of 2 meetings	100%
Mr. Syed Ahmad Iqbal Ashraf *Managing Director and Chief Executive Officer (appointed w.e.f. June 1, 2011)*	2 out of 2 meetings	100%
Mr. Farrakh Qayyum *Director*	3 out of 3 meetings	100%
Mr. Yawar Zia *Director*	3 out of 3 meetings	100%
Mr. Ghader Soleimani *Director*	3 out of 3 meetings	100%
Mr. Nowrouz Kohzadi *Chairman (replaced w.e.f. March 10, 2011)*	1 out of 1 meeting	100%
Mr. Aizaz Sarfraz *Ex MD/CEO (replaced w.e.f. May 31, 2011)*	1 out of 1 meetings	100%
Mr. Haji Ghorbani *Director*	Nil	Nil

Future Outlook

In FY12, whilst there are likely to be downside risks to global trade and investment, we believe the Pakistan economy is now in a better position to weather uncertainties given its improving economic fundamentals. We will primarily be driven by customers' needs and our commitment to proactively deliver high value propositions through a wide range of market-relevant products and services. Our prime focus will remain in providing our services and financing to projects which provide sustainable long term economic growth and infrastructure. We are committed to excel by increasing operational efficiencies and quality of our services by focusing on clients need.

Auditor

The Auditor; M/S. KMPG Taseer Hadi & Co., Chartered Accountants have completed their term of five years and are not eligible for reappointment as per the regulations. Therefore, upon recommendation of the Audit Committee, the Board recommends appointment of M/S. Anjum Asim Shahid Rahman & Co., Chartered Accountants, as the statutory auditor of the Company for the financial year 2012.

Earning Per Share

Basic and Diluted earnings per share have been disclosed in note 26 of the financial statements.

Pattern of Shareholding

Shareholders	Shareholding
Government of Pakistan through Ministry of Finance	50%
Government of Iran through Iran Foreign Investment Company	50%
Total	**100%**

Appreciation and Acknowledgement

We would also like to take this opportunity to place on record our sincere gratitude to the Iran Foreign Investment Company, Ministry of Finance-Government of Pakistan, State Bank of Pakistan and Securities & Exchange Commission of Pakistan for their support and continued guidance. We would also like to thank our valued customers for their trust and support. Last but not the least; we are also thankful to our staff for their continued dedication and hard work in improving our Company's performance.

Karachi: January 31, 2012

On behalf of the Board

Syed Ahmad Iqbal Ashraf
Managing Director and Chief Executive Officer

Statement of Internal Controls

The Management of the PAÏR Investment Company Limited (PAÏR) is responsible for establishing the Internal Control System with the main objectives of ensuring effectiveness and efficiency of operations; reliability of financial reporting; safeguarding of assets; and compliance with applicable laws and regulations. The Internal Control System evolves over the years, as it is an ongoing process and is included in PAÏR's policies, procedures, financial limits, etc. This system continues to be reviewed, refined and improved from time to time and immediate corrective action is taken to minimize risks which are inherent in companies business and operations.

The Board of Directors of PAÏR is responsible for ensuring that an adequate and effective Internal Control System exists in their company and that the senior management is maintaining and monitoring the performance of that system accordingly. The board is evaluating the Internal Control system through board level sub committees i.e. Internal Audit Committee and Risk Management Committee. Besides Internal Audit's /Risk's Evaluation of internal controls, the external auditors, during the course of statutory audit, evaluate internal controls of the company.

All significant and material findings of the internal audit review are reported to the Audit Committee of the Board of Directors. The Audit/Risk Committees actively monitor implementations to ensure that identified risks are mitigated to safeguard the interest of the company.

PAÏR's internal control system has been designed to provide reasonable assurance to the company's management and Board of Directors to achieve the objectives of Internal Controls but all Internal Control Systems, no matter how well designed, have inherent limitations that they may not entirely eliminate mis-statements. However, monitoring of control activities is also an ongoing process that includes identification, evaluation, management and reporting of significant risk faced by the company.

While concerted efforts were made to follow SBP Guidelines on Internal Controls, identification, evaluation and management of risks within each of the DFI's activities; and evaluation and change of procedures remains an ongoing process. Hence PAÏR is currently undertaking a detailed exercise through an International, well-established firm of Chartered Accountants for documentation and benchmarking of existing processes and controls including financial reporting related controls on internationally accepted standards – the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework. The project is in its advance stage with significant benchmarking of controls already taken place and is expected to fully complete in 2012. Any gaps arising from such exercise shall be identified and implemented employing a risk-based, proactive approach across PAÏR.

The Board of Directors being ultimately responsible for the Internal Control System endorses the management evaluation and efforts to adopt above mentioned internationally accepted standards to improve controls, processes and to ensure effective risk management.

Bijan Rahimi
Chairman

Syed Ahmad Iqbal Ashraf
Managing Director and Chief Executive Officer

Karachi: January 31, 2012

Statement of Value Added

	2011	%age	2010	%age	2009	%age	2008	%age
Wealth Generated								
Financial & Other Income	**1,389,487**		1,281,317		973,562		621,816	
Financial & Other Expenses	**813,037**		275,549		423,558		104,497	
	576,450		1,005,768		550,004		517,319	
Wealth Distributed								
To Employees								
Salaries, benefits and related costs	**74,385**	**12.90%**	117,744	11.71%	59,008	10.73%	42,266	8.17%
To Government								
Income Tax	**244,253**	**42.37%**	300,227	29.85%	111,573	20.29%	151,759	29.34%
To Shareholders								
Cash dividend	**-**	**-**	-	-	-	-	-	-
Stock dividend	**-**	**-**	-	-	-	-	-	-
Retained for reinvestment & future growth								
Depreciation, amortisation and retained profit	**257,812**	**44.73%**	587,797	58.44%	379,423	68.99%	323,294	62.49%
	576,450		1,005,768		550,004		517,319	

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 prepared by the Board of Directors of PAÏR Investment Company Limited ("the Company") to comply with Regulation G-1 of Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control system sufficient to plan the audit and develop an effective audit approach. We 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, sub-Regulation (xiii)(a) of Listing Regulation 35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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

KPMG Taseer Hadi & Co.

January 31, 2012
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Statement of Compliance with the Code of Corporate Governance

For the year ended December 31, 2011

This statement is being presented to comply with the Code of Corporate Governance framed by the Securities and Exchange Commission of Pakistan and as required by paragraph 3 of BSD Circular No. 15 dated June 13, 2002 issued by the State Bank of Pakistan.

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

1. The company encourages representations of independent non-executive directors. At present the Board has only one executive director.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the resident directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Shareholder has nominated a director to fill the casual vacancy in Board which arose last year however due to pending internal approval of the shareholder; it was not filled in the current year. Further, clearance by the State Bank of Pakistan in respect of appointment of two directors is outstanding.
5. The company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the company.
6. The Board has developed a vision/mission statement and overall corporate strategy of the company. Some of the significant policies have been developed and approved by the Board and remaining is under the process of development and will be presented to the Board for approval. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter except for the Second & Third Quarter which was held in June 2011 & October 2011. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Directors are conversant of the relevant laws applicable to the company, its policies and procedures and provisions of Memorandum and Articles of Association and are aware of their duties and responsibilities.
10. The Board has approved the appointment of the CFO and the Company Secretary and as authorized by the Board, their remuneration and terms and conditions of employment were determined by the CEO.
11. The Directors' Report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and Executives do not hold any interests in the shares of the company.
14. The company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee, which comprises of three non-executive Directors.
16. The Audit Committee met at least once in every quarter prior to approval of interim and final results of the company as required by the Code except for the Second Quarter which was held in June 2011. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Company has established an effective internal audit function.
18. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guideline in this regard.
20. We confirm that all material principles contained in the Code except disclosed above have been complied.

Bijan Rahimi
Chairman

Syed Ahmad Iqbal Ashraf
Managing Director and Chief Executive Officer

Karachi: January 31, 2012

Auditors' Report to the Members

We have audited the annexed statement of financial position of PAÏR Investment Company Limited ("the Company") as at 31 December 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

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

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

b) in our opinion:

i) the statement of financial position and profit and loss account together with the notes thereon, have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

ii) the expenditure incurred during the year was for the purpose of the Company's business; and

iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of the profit, its cash flows and changes in equity for the year then ended; and

d) in our opinion no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

January 31, 2012
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Taufiq

Statement of Financial Position

As at 31 December 2011

	Note	2011	2010
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	5	**9,143**	10,552
Balances with other banks	6	**20,675**	352,808
Lendings to financial institutions	7	**-**	600,000
Investments	8	**8,974,337**	7,160,982
Advances	9	**2,475,156**	2,103,430
Operating fixed assets	10	**48,060**	44,762
Deferred tax assets - net	11	**80,756**	21,661
Other assets	12	**236,992**	176,414
		11,845,119	10,470,609
LIABILITIES			
Bills payable		**-**	-
Borrowings from financial institutions	13	**3,695,484**	2,863,481
Deposits and other accounts	14	**260,000**	-
Sub-ordinated loans		**-**	-
Liabilities against assets subject to finance lease		**-**	-
Deferred tax liabilities		**-**	-
Other liabilities	15	**158,938**	172,683
		4,114,422	3,036,164
NET ASSETS		**7,730,697**	7,434,445
REPRESENTED BY			
Share capital	16	**6,000,000**	6,000,000
Reserves	17	**327,714**	279,204
Unappropriated profit		**1,310,862**	1,116,823
		7,638,576	7,396,027
Surplus on revaluation of assets - net of tax	18	**92,121**	38,418
		7,730,697	7,434,445
CONTINGENCIES AND COMMITMENTS	19		

The annexed notes 1 to 37 form an integral part of these financial statements.

Chairman	Managing Director and Chief Executive Officer	Director	Director

Profit and Loss Account

For the Year Ended 31 December 2011

	Note	2011	2010
		(Rupees in '000)	
Mark-up / return / interest earned	20	**1,323,067**	1,030,191
Mark-up / return / interest expensed	21	**402,712**	193,494
Net mark-up / interest income		**920,355**	836,697
(Provision) / reversal against non performing loans and advances	9.4	**(42,513)**	154,350
Reversal against lendings to financial institutions		**-**	48,750
Provision for diminution in value of investments	8.3	**(281,623)**	(123,145)
Bad debts written off directly		**-**	-
		(324,136)	79,955
Net mark-up / return / interest income after provisions		**596,219**	916,652
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		**12,797**	7,185
Dividend income		**20,492**	22,564
Income from dealing in foreign currencies		**33**	-
Gain on sale of securities - net	22	**31,468**	134,480
Gain / (loss) on sale of fixed assets		**232**	(259)
Unrealised (loss) / Gain on revaluation of investments classified as held for trading		**(8,080)**	7,201
Other income		**1,398**	-
Total non mark-up / return / interest income		**58,340**	171,171
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	23	**150,135**	191,647
Other provisions / write offs		**-**	-
Other charges	24	**17,622**	17,592
Total non mark-up / interest expenses		**167,757**	209,239
Extraordinary items		**-**	-
PROFIT BEFORE TAXATION		**486,802**	878,584
Taxation - Current	25	**276,684**	236,515
- Prior year		**10,348**	-
- Deferred		**(42,779)**	63,712
		244,253	300,227
PROFIT AFTER TAXATION		**242,549**	578,357
		(Rupees)	
Basic and diluted earnings per share	26	**0.40**	0.98

The annexed notes 1 to 37 form an integral part of these financial statements.

Chairman	Managing Director and Chief Executive Officer	Director	Director

Statement of Comprehensive Income

For the Year Ended 31 December 2011

	2011	2010
	(Rupees in '000)	
Profit after taxation for the year	**242,549**	578,357
Other comprehensive income	-	-
Total comprehensive income for the year	**242,549**	578,357

Surplus / deficit on revaluation of "Available-for-Sale" securities is presented under a separate head below equity as "surplus / deficit on revaluation of assets" in accordance with the requirements specified by the Companies Ordinance, 1984, and the State Bank of Pakistan vide its BSD Circular 20 dated August 4, 2000 and BSD Circular 10 dated July 13, 2004.

The annexed notes 1 to 37 form an integral part of these financial statements.

Chairman	Managing Director and Chief Executive Officer	Director	Director

Cash Flow Statement

For the Year Ended 31 December 2011

	Note	2011	2010
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**486,802**	878,584
Dividend income		**(20,492)**	(22,564)
		466,310	856,020
Adjustments:			
Depreciation		**13,419**	7,420
Amortisation		**1,844**	2,020
Provision / (reversal) against loans and advances		**42,513**	(154,350)
Reversal against lendings to financial institutions		-	(48,750)
Reversal for compensated absences		-	(408)
Provision for government levies		**17,500**	17,572
Provision for gratuity		**3,216**	2,071
Unrealised loss / (gain) on held for trading securities		**8,080**	(7,201)
(Gain) / loss on sale of operating fixed assets		**(232)**	259
Provision against diminution in value of investments		**281,623**	123,145
		367,963	(58,222)
		834,273	797,798
(Increase) / decrease in operating assets			
Lendings to financial institutions		**600,000**	(105,000)
Advances		**(414,239)**	(1,003,693)
Other assets (excluding advance taxation)		**(65,665)**	(53,198)
		120,096	(1,161,891)
Increase / (decrease) in operating liabilities			
Borrowings from financial institutions		**832,003**	1,006,154
Deposits and other accounts		**260,000**	-
Other liabilities (excluding current taxation)		**(23,768)**	63,861
		1,068,235	1,070,015
Income taxes paid		**(311,294)**	(257,111)
Gratuity paid		**(2,747)**	-
Net cash flow from operating activities		**1,708,563**	448,811
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		**(2,339,476)**	(1,728,772)
Net investments in held to maturity securities		**68,937**	(68,937)
Net investments in held for trading securities		**221,184**	(99,147)
Dividend received		**25,580**	18,536
Sale proceeds from sale of operating fixed assets		**1,926**	2,320
Investments in operating fixed assets		**(20,256)**	(30,710)
Net cash used in investing activities		**(2,042,105)**	(1,906,710)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of right shares		-	509,175
Net cash generated from financing activities		-	509,175
Decrease in cash and cash equivalents		**(333,542)**	(948,724)
Cash and cash equivalents at beginning of the year		**363,360**	1,312,084
Cash and cash equivalents at end of the year	27	**29,818**	363,360

The annexed notes 1 to 37 form an integral part of these financial statements.

Chairman	Managing Director and Chief Executive Officer	Director	Director

Statement of Changes in Equity

For the Year Ended 31 December 2011

	Share capital	Advance against share capital	Statutory reserves	Unappropriated profit	Total
			(Rupees in '000)		
Balance as at 31 December 2009	5,000,000	490,825	163,533	654,137	6,308,495
Total comprehensive income for the year ended 31 December 2010	-	-	-	578,357	578,357
Transfer to statutory reserve	-	-	115,671	(115,671)	-
Transactions with owners recognised directly in equity					
Advance against share capital	490,825	(490,825)	-	-	-
Issue of right shares	509,175	-	-	-	509,175
Balance as at 31 December 2010	6,000,000	-	279,204	1,116,823	7,396,027
Total comprehensive income for the year ended 31 December 2011	-	-	-	242,549	242,549
Transfer to statutory reserve	-	-	48,510	(48,510)	-
Transactions with owners recognised directly in equity					-
Issue of right shares	-	-	-	-	-
Balance as at 31 December 2011	**6,000,000**	**-**	**327,714**	**1,310,862**	**7,638,576**

The annexed notes 1 to 37 form an integral part of these financial statements.

Chairman	Managing Director and Chief Executive Officer	Director	Director

Notes to the Financial Statements

For the Year Ended 31 December 2011

1. STATUS AND NATURE OF BUSINESS

PAÏR Investment Company Limited is an unlisted public limited company incorporated in Pakistan on 15 January 2007 under the Companies Ordinance, 1984. The Company has been notified as a Development Financial Institution (DFI) by the Ministry of Finance, Government of Pakistan.

The Company is a 50 : 50 Joint Venture between Government of Pakistan and Iran Foreign Investment Company which is owned by the Government of Iran. It is engaged in financing for industrial and commercial projects, capital and money market operations and other investment banking activities. Its registered office and principal office is situated at ICCI Building, Clifton, Karachi.

2. BASIS OF PRESENTATION

2.1 Basis of measurement

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

2.2 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the Company's functional and presentation currency. The amounts are rounded to nearest thousand rupees.

2.3 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following:

- Provision against non-performing advances (Note 4.4)
- Valuation and depreciation rates for fixed assets (Note 4.5)
- Deferred taxation (Note 4.6)
- Income taxes (Note 4.6)
- Employees' defined benefit plan (Note 4.15)
- Classification and valuation of financial instruments and impairment (Note 4.3)

3. STATEMENT OF COMPLIANCE

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

The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39 - 'Financial Instruments: Recognition and Measurement' and IAS 40 - 'Investment Property' for DFIs in Pakistan. In addition the Securities and Exchange Commission of Pakistan has deferred the applicability of International Financial Reporting Standard (IFRS) 7 - 'Financial Instruments: Disclosures' vide SRO 411(I) / 2008 till further orders. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

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

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Company.

- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company.

- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below:

4.1 Cash and cash equivalents

Cash and cash equivalents represent cash and balances with treasury banks and balances with other banks in current, deposit and saving accounts.

4.2 Repurchase agreements

The Company enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

a) Sale under repurchase obligations

Securities sold subject to a re-purchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The differential in sale and re-purchase value is accrued over the period of the agreement and recorded as an expense.

b) Purchase under resale obligations

Securities purchased under agreement to resell (reverse repo) are included in lendings to financial institutions. The differential between the contracted price and resale price is amortised over the period of the agreement and recorded as income.

4.3 Investments

The Company classifies its investments as follows:

a) Held for trading

These are securities, which are either acquired for generating a profit from short-term fluctuation in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit making exists.

b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the Company has the positive intent and ability to hold to maturity. These investments are carried at amortised cost.

c) Available for sale

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

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

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

Premium or discount on acquisition of investments is amortised through the profit and loss account over the remaining period till maturity using effective interest method.

In accordance with the requirements of the State Bank of Pakistan, quoted securities other than those classified as 'held to maturity' are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities classified as 'available for sale', is taken to a separate account shown in the balance sheet below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account. Cost of investment is determined on weighted average basis.

In accordance with the BSD circular No. 14 dated September 24, 2004 issued by the State Bank of Pakistan, investments classified as 'held to maturity' are carried at amortised cost less impairment, if any.

Management has determined fair value of certain investments by using quotations from active market, and review of conditions and information about the financial instruments. These estimates are subjective in nature and involve some uncertainties and matter of judgement (e.g. evaluation, interest rates, etc.) and therefore, cannot be determined with precision.

Unquoted equity securities excluding investments in subsidiaries and associates are valued at the lower of cost and break-up value less impairment losses, if any. Break-up value of unquoted equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in subsidiaries and associates if any (which qualify for accounting under International Accounting Standard - 28) are carried at cost less impairment, if any.

Impairment loss in respect of investments charged as available for sale (except term finance certificates) and held to maturity is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an investment below its cost is also considered an objective evidence of impairment. Provisions for diminution in the value of term finance certificates, bonds and sukuks is made as per the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised below equity is removed and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in profit and loss account.

Gain or loss on sale of investments is taken to profit and loss account.

4.4 Advances

Advances are stated net of provision for doubtful debts. Specific provision for doubtful debts is determined on the basis of 'Prudential Regulations' issued by SBP and the other directives issued by the State Bank of Pakistan and charged to the profit and loss account. Advances are written off when there is no realistic prospect of recovery.

The Company reviews its loan portfolio to assess the amount of non-performing advances and provision required there against on a regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrowers and the requirements of the Prudential Regulations are considered.

4.5 Operating fixed assets and depreciation

Tangible assets

Operating fixed assets except capital work in progress, are stated at cost less accumulated depreciation and impairment loss, if any. Capital work in progress are stated at cost less impairment, if any. Depreciation is charged to profit and loss account on straight line basis so as to write-off the assets over their expected economic lives at the rates specified in note 10.2 to these financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Full month depreciation is charged in the month the assets are available for use and no depreciation is charged in the month of disposal.

Normal repairs and maintenance are charged to profit and loss account as and when incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment.

Gains and losses on disposal of assets are included in profit and loss account.

The Company reviews the rate of depreciation / useful life, residual values and value of assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property and equipments with a corresponding effect on the depreciation charge and impairment.

Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and impairment losses, if any. Intangible assets are amortised from the month when these are available for use, using the straight line method, whereby the cost of an intangible asset is amortised over the period which takes into account the economic benefits that will be available to the Company. The residual value, useful life and amortisation method is reviewed and adjusted, if appropriate, at each balance sheet date.

4.6 Taxation

Current

Provision for current taxation is based on the taxable income at the current rates of taxation after taking into account available tax credit and rebates, if any. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments / developments made during the year. The charge for current tax is calculated using prevailing tax rates enacted at the balance sheet date and, any adjustments to tax payable relating to prior years.

In making the estimates for income taxes currently payable by the Company, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provisions for deferred taxes, estimates of the Company's future taxable profits are also taken into account.

Deferred

Deferred tax is recognised using the balance sheet method on all temporary differences between the amounts attributed to the assets and liabilities for financial reporting purposes and amounts used for taxation purpose. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits would be available against which it can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is not probable that related tax benefits will be realised.

4.7 Foreign currencies

Foreign currency transactions

Monetary assets and liabilities in foreign currencies are translated into Pakistan Rupees at the exchange rates prevailing at the balance sheet date. Foreign currency transactions during the period are recorded at the rates prevailing on the date of transaction.

Functional and presentation currency

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

Translation gains and losses

Exchange gains and losses are included in profit and loss account.

4.8 Revenue recognition

Mark-up / return / interest income and expenses are recognised on a time proportion basis taking into account effective yield on the instrument, except where recovery is considered doubtful, the income is recognised on receipt basis. Interest / return / mark-up on rescheduled / restructured advances and investments is recognised as permitted by the Prudential Regulations issued by the State Bank of Pakistan.

A gain / (loss) on sale of securities is recognised in profit and loss account at the time of sale of relevant securities.

The surplus / (deficit) arising on revaluation of the Company's held for trading investment portfolio is taken to the profit and loss account.

Premium or discount on acquisition of investments is capitalised and amortised through the profit and loss account over the remaining period through effective interest method.

Dividend income is recognised when the Company's right to receive the dividend is established.

Fee, commission and brokerage income is recognised as the services are rendered.

4.9 Impairment

The carrying amount of the Company's assets (other than deferred tax asset) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss account. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

4.10 Off setting

Financial assets and financial liabilities are only offset and the net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognised amount and the Company intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

4.11 Other provisions

Other provisions are recognised when the Company has a legal or constructive obligation as a result of a past event, and it is probable that outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimate.

4.12 Dividend and appropriation to reserve

Dividend and appropriation to reserves, except appropriation which are required by the law after the balance sheet date, are recognised as liability in the Company's financial statements in the period in which these are approved.

4.13 Earnings per share

The Company presents earnings per share (EPS) data for its ordinary shares. 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.

4.14 Segment information

A segment is distinguishable component of the Company that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The operations of the Company are currently based in Pakistan, therefore, information relating to geographical segment is not relevant. The Company's primary format of reporting is based on business segments.

Business segments

Following are the main segments of the Company:

Corporate Finance	Undertakes advisory services including mergers and acquisitions, listed and unlisted debt syndications, trustee activities and other investment banking activities.
Trading and Sales	Undertakes Company's fund management activities through leveraging and investing in liquid assets such as short term placements, government securities and reverse repo activities. It carries out spread based activities in the inter bank market and manages the interest rate risk exposure of the Company.
Commercial Banking	Includes loans, advances, leases and other transactions with corporate customers.

4.15 Staff retirement benefit

Defined benefit plan

The Company operates an approved funded gratuity scheme for all its permanent employees. Annual contributions are made to the scheme in accordance with the actuarial recommendations. The actuarial valuation is carried out using the projected unit credit method. The cumulative unrecognised actuarial gains and losses at each valuation date are amortised over the average remaining working lives of the employees in excess of the higher of the following corridor limits at the end of the last reporting year:

i) 10% of the present value of the defined benefit obligation; and
ii) 10% of the fair value of the plan assets.

Gratuity is payable to staff two-thirds on completion of three years of service and fully on completion of five years' service under the scheme.

The Company has adopted certain actuarial assumptions as disclosed in the note 29.2 for valuation of defined benefit obligation and fair value of plan assets, based on actuarial advice. Any change in the assumptions in future years would affect the amount of unrecognised gains and losses in those years which will be charged to the equity.

Defined contribution plan

The Company operates a recognised provident fund scheme for its employees. Equal monthly contributions are made, both by the Company and the employees, to the fund at the rate of 10% of the basic salary.

4.16 Employees' compensated absences

Employees' entitlement to annual leave is recognised when they accrue to employees. A provision is made for estimated liability for annual leave as a result of services rendered by the employee against un-availed leaves upto the balance sheet date.

	Note	2011	2010
		(Rupees in '000)	
5. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		**55**	50
Foreign currencies		**814**	1,502
		869	1,552
With State Bank of Pakistan in			
Local currency current account		**7,740**	8,510
With National Bank of Pakistan in			
Local currency current account		**30**	30
Local currency deposit account	5.1	**504**	460
		534	490
		9,143	10,552

5.1 This carries mark-up at rates ranging from 5% to 15.5% per annum (2010: 5% to 15.5% per annum).

	Note	2011	2010
6. BALANCES WITH OTHER BANKS			
Inside Pakistan			
- In current accounts		**3,100**	23,553
- In deposit accounts	6.1	**17,575**	29,255
		20,675	52,808
Term Deposit Receipts		**-**	300,000
		20,675	352,808

6.1 These carry mark-up at the rate of 5% to 8% per annum (2010: 5% per annum).

	2011	2010
7. LENDINGS TO FINANCIAL INSTITUTIONS		
Letters of placement	-	600,000
Specific provisions against lendings to financial institutions	-	-
Lendings to financial institutions - net of provision	-	600,000
7.1 Particulars of lendings to financial institutions - gross		
In local currency	-	600,000
In foreign currencies	-	-
	-	600,000

8. INVESTMENTS

8.1 Investments by types

	Note	2011 Held by company	2011 Given as collateral	2011 Total	2010 Held by company	2010 Given as collateral	2010 Total
		(Rupees in '000)					
Held for trading securities							
Fully paid up ordinary shares / certificates /units - Listed		2,607	-	2,607	223,791	-	223,791
Available for sale securities							
Market treasury bills		179,402	3,779,000	3,958,402	147,137	2,465,000	2,612,137
Fully paid up ordinary shares / certificates / units - Listed		1,369,323	-	1,369,323	901,371	-	901,371
Fully paid up ordinary shares - Unlisted		296,860	-	296,860	296,860	-	296,860
Sukuk bonds-Unlisted		414,776	-	414,776	417,338	-	417,338
Term finance certificates		3,262,301	-	3,262,301	2,718,164	-	2,718,164
		5,522,662	3,779,000	9,301,662	4,480,870	2,465,000	6,945,870
Held to maturity securities							
Commercial papers		-	-	-	68,937	-	68,937
Investments at cost		5,525,269	3,779,000	9,304,269	4,773,598	2,465,000	7,238,598
Provision for diminution in value of investments	8.3	(419,772)	-	(419,772)	(138,149)	-	(138,149)
Investments - net of provisions		5,105,497	3,779,000	8,884,497	4,635,449	2,465,000	7,100,449
(Deficit) / surplus on revaluation of 'held for trading' securities		(879)	-	(879)	7,201	-	7,201
Surplus on revaluation of 'available for sale' securities	18	90,719	-	90,719	54,997	(1,665)	53,332
Total investments at market value		5,195,337	3,779,000	8,974,337	4,697,647	2,463,335	7,160,982

	Note	2011	2010
		(Rupees in '000)	
8.2 Investments by segments			
Federal Government securities			
- Market treasury bills	8.4	3,958,402	2,612,137
Fully paid up ordinary shares / certificates / units			
- Listed		1,371,930	1,125,162
- Unlisted		296,860	296,860
		1,668,790	1,422,022
Term finance certificates (TFCs)			
- Listed		2,784,796	1,974,286
- Unlisted		477,505	743,878
		3,262,301	2,718,164
Commercial papers		-	68,937
Sukuk bonds - unlisted		414,776	417,338
Total investments at cost		9,304,269	7,238,598
Provision for diminution in value of investments	8.3	(419,772)	(138,149)
Investments - net of provisions		8,884,497	7,100,449
(Deficit) / surplus on revaluation of held for trading securities		(879)	7,201
Surplus on revaluation of available for sale securities	18	90,719	53,332
Total investments at market value		8,974,337	7,160,982
8.3 Particulars of provision for diminution in value of investments			
Opening balance		138,149	15,004
Charge for the year - net		281,623	123,145
Closing balance	8.3.1	419,772	138,149
8.3.1 Particulars of provision in respect of type and segment			
Available for Sale securities			
- Fully paid up ordinary shares / certificates / units - Listed		169,259	81,019
- Fully paid up ordinary shares - Unlisted		192,959	29,005
- Sukuk Bonds - Unlisted		54,405	28,125
- Term Finance Certificates - Listed		3,149	-
		419,772	138,149

8.4 Market Treasury Bills carry yield ranging from 11.73% to 13.92% per annum (2010 : 12.84% to 13.17% per annum) with maturities upto 15 November 2012 (2010: March 2011).

8.5 Quality of held for trading securities

Number of Shares / Certificates / Units 2011	Number of Shares / Certificates / Units 2010		Market value 2011	Market value 2010	Cost 2011	Cost 2010	Long / medium term credit rating (Entity)	Rated by
			(Rupees in '000)					
		Shares / Certificates / Units in Listed Companies						
-	455,000	Adamjee Insurance Company Limited	-	39,813	-	41,029	AA	PACRA
-	5,601	Agritech Limited	-	134	-	133	D	PACRA
-	30,000	Attock Refinery Limited	-	3,740	-	3,668	AA/A1+	PACRA
-	371,734	Bank Alfalah Limited	-	4,167	-	4,019	AA/A1+	PACRA
-	170,550	D.G. Khan Cement Company Limited	-	5,145	-	5,287	Not Rated	
-	105,269	Engro Corporation Limited (Formerly Engro Chemical Pakistan Limited)	-	20,402	-	19,323	AA/A1+	PACRA
-	235,231	ICI Pakistan Limited	-	33,930	-	31,155	Not Rated	
-	135,000	Kot Addu Power Company Limited	-	5,492	-	5,538	Not Rated	
-	37,899	KASB Securities Limited	-	169	-	164	A/A1	PACRA
-	50,000	National Bank of Pakistan	-	3,841	-	3,702	AAA/A1+	JCR-VIS
-	375,000	Nishat Power Limited	-	6,086	-	6,102	AA-/A1+	PACRA
-	425,600	Nishat Mills Limited	-	27,311	-	25,584	A-/A1	PACRA
-	40,000	Pakistan Oil Fields Limited	-	11,838	-	11,674	Not Rated	
-	180,000	Pakistan State Oil Company Limited	-	53,133	-	50,459	AA+/A1+	PACRA
-	744,296	Pakistan Telecommunication Company Limited	-	14,454	-	14,332	Not Rated	
110,011	50,000	Sui Northern Gas Pipelines Company Limited	**1,728**	1,337	**2,607**	1,622	AA /A1+	PACRA
			1,728	230,992	**2,607**	223,791		

8.6 Quality of available for sale securities

Number of Shares / Certificates / Units 2011	Number of Shares / Certificates / Units 2010		Market value 2011	Market value 2010	Cost 2011	Cost 2010	Long / medium term credit rating (Entity)	Rated by
			(Rupees in '000)					
		Market Treasury Bills	**3,956,831**	2,610,373	**3,958,402**	2,612,137	Unrated - Government Securities	
		Shares / Certificates / Units in Listed Companies						
10,161,432	9,999,999	ABL Income Fund	**101,801**	100,096	**100,027**	100,000	AA/A1+	PACRA
294,805	-	Adamjee Insurance Company Limited	**13,711**	-	**18,961**	-	AA	PACRA
8,332,058	8,333,333	Agritech Limited	**127,980**	200,000	**249,962**	250,000	D	PACRA
-	225,500	Al Meezan Mutual Fund	-	1,874	-	2,946	Not Rated	
2,054,738	-	Askari Sovereign Cash Fund	**206,493**	-	**198,425**	-	AA+	PACRA
-	40,000	Azgard Nine Limited	-	386	-	866	D	PACRA
-	550,025	Bank Alfalah Limited	-	6,166		8,561	AA/A1+	PACRA
-	175,000	BankIslami Pakistan Limited	-	635	-	3,323	A/A1	PACRA
-	50,000	D.G. Khan Cement Company Limited	-	1,509	-	1,725	Not Rated	
129,519	130,000	Engro Corporation Limited (Formerly Engro Chemical Pakistan Limited)	**12,006**	25,195	**19,202**	24,562	AA/A1+	PACRA
1,015,000	2,177,249	Engro Polymer and Chemicals Limited	**7,379**	31,069	**17,311**	37,133	Not Rated	
90,000	9,447	Fauji Fertilizer Bin Qasim Limited	**3,819**	338	**4,296**	267	Not Rated	
10,000	199,400	Fauji Fertilizer Company Limited	**1,495**	25,096	**1,550**	22,066	Not Rated	
979,172	952,109	Faysal Savings Growth Fund	**101,413**	100,114	**100,000**	100,000	A	JCR-VIS
75,000	562,500	Golden Arrow Stock Fund	**203**	1,778	**460**	3,448	Not Rated	
1,483,063	486,408	HBL Money Market Fund	**153,068**	50,062	**150,000**	50,000	AA+	JCR-VIS
1,969	365,000	ICI Pakistan Limited	**237**	52,648	**229**	46,380	Not Rated	
-	248,112	IGI Income Fund	-	25,020	-	25,000	A+	JCR-VIS
170,099	352,104	KASB Securities Limited	**379**	1,574	**749**	1,550	A/A1	PACRA
200,000	-	Karachi Electric Supply Corporation	**320**	-	**554**	-	Not Rated	
175,000	650,000	Kot Addu Power Company Limited	**7,231**	26,442	**7,488**	27,774	Not Rated	
20,000	-	MCB Bank Limited	**2,692**	-	**2,955**	-	AA+/A1+	PACRA
991,744	-	MCB Cash Management Optimizer Fund	**102,036**	-	**100,000**	-	AA+	PACRA
984,456	958,229	MCB Dynamic Cash Fund	**101,864**	100,116	**100,000**	100,000	A+	PACRA
187,500	175,000	National Bank of Pakistan	**7,697**	13,444	**11,336**	12,228	AAA/A1+	JCR-VIS
390,000	-	Nishat Power Limited	**5,051**	-	**6,736**	-	AA-/A1+	PACRA
140,000	-	Nishat Mills Limited	**5,663**	-	**5,993**	-	A-/A1	PACRA
1,000,000	1,341,500	PACE (Pakistan) Limited	**1,300**	3,662	**10,504**	14,092	D	PACRA
40,000	25,000	Packages Limited	**3,309**	3,215	**5,319**	3,303	AA/A1+	PACRA
-	25,000	Pakistan Petroleum Limited	-	5,429	-	4,307	Not Rated	
-	910,000	Pakistan Premier Fund Limited	-	8,390	-	11,599	Not Rated	
125,500	100,000	Pakistan State Oil Company Limited	**28,515**	29,518	**35,487**	27,142	AA+/A1+	PACRA
555	-	Shell (Pakistan) Limited	**106**	-	**119**	-	Not Rated	
482,453	459,479	Sui Northern Gas Pipelines Company Limited	**7,579**	12,286	**15,081**	15,081	AA/A1+	PACRA
120,823	85,070	Sui Southern Gas Company Limited	**2,331**	1,822	**2,659**	1,454	AA-/A1+	PACRA
150,000	200,000	The Hub Power Company Limited	**5,130**	7,482	**5,488**	6,564	AA+/A1+	PACRA
2,052,510	-	UBL Liquidity Plus Fund	**206,223**	-	**198,432**	-	AA+	JCR-VIS
			1,217,031	835,366	**1,369,323**	901,371		

Number of Shares / Certificates / Units 2011	2010		Note	Book value 2011	Book value 2010	Cost 2011	Cost 2010	Long / medium term credit rating	Rated by
				(Rupees in '000)					
		Shares in unlisted companies							
		Burj Bank Limited							
		(Formerly Dawood Islamic Bank Limited)							
		Chief Executive: Ahmed Khizer Khan							
29,685,986	29,685,986	Percentage holding: 4.01%	8.6.1	*103,901	267,855	296,860	296,860	A/A2	JCR - VIS

8.6.1 *These are valued at Rs. 3.5 per share being the fair value of comparable company, as the Company considers that the breakup value of Rs. 8.3 per share (based on 30 September 2011 unaudited financial statements) is not representative of its recoverable amount. Accordingly, an impairment loss of Rs. 6.5 per share is recognized in these financial statements.

Number of Certificates of Rs. 5,000 each 2011	2010		Market value 2011	Market value 2010	Cost 2011	Cost 2010	Long / medium term credit rating (Entity)	Rated by
			(Rupees in '000)					
		Sukuk						
30,000	30,000	Eden Housing Limited	67,860	94,959	94,140	108,525	-	-
12,000	12,000	Sitara Peroxide Limited	28,125	28,125	56,250	56,250	-	-
54,648	50,513	Liberty Powertech Limited	264,386	252,563	264,386	252,563	AA-	PACRA
			360,371	375,647	414,776	417,338		
		Term Finance Certificates						
		Listed						
70,000	70,000	Allied Bank Limited	331,649	336,556	321,765	320,101	AA/A1+	PACRA
69,136	49,136	Askari Bank Limited	353,616	249,265	349,199	245,582	AA/A1+	PACRA
15,200	15,200	Bank Alfalah Limited - II	50,526	74,945	49,146	71,569	AA/A1+	PACRA
5,000	5,000	Bank Alfalah Limited - III	24,855	24,503	24,066	23,559	AA/A1+	PACRA
20,000	20,000	Bank Alfalah Limited - IV	100,320	100,994	99,920	99,960	AA/A1+	PACRA
20,204	20,204	Bank Al Habib Limited - II	103,656	100,383	100,838	101,071	AA+/A1+	PACRA
8,000	8,000	Escorts Investment Bank Limited	8,841	19,825	11,990	19,695	BBB-/A3	PACRA
		Engro Fertilizer Limited - I						
39,037	39,037	(Formerly Engro Chemical Pakistan Limited)	198,055	196,313	195,029	195,107	AA/A1+	PACRA
		Engro Fertilizer Limited - II						
37,024	37,024	(Formerly Engro Chemical Pakistan Limited)	181,144	181,237	179,717	178,819	AA/A1+	PACRA
60,000	60,00	NIB Bank Limited	293,610	291,729	280,780	276,155	AA-/A1+	PACRA
25,000	25,000	Orix Leasing Pakistan Limited (25 May 2007)	20,153	61,954	20,713	62,697	AA/A1+	PACRA
25,000	-	Orix Leasing Pakistan Limited (30 June 2011)	129,429	-	125,000	-	AA/A1+	
40,000	40,000	Pak Arab Fertilizers Limited	148,665	183,671	146,427	185,548	AA	JCR-VIS
6,000	6,000	Trust Investment Bank Limited	14,391	21,340	14,994	22,491	BBB/A3	PACRA
93,600	60,000	United Bank Limited (IV)	465,948	285,137	438,984	271,892	AA	JCR-VIS
20,000	-	Summit Bank	96,132	-	100,000	-	A(SO)	JCR-VIS
65,000	-	Faysal Bank Limited	335,978	-	326,228	-	AA/A1+	PACRA
			2,856,968	2,127,852	2,784,796	2,074,246		
		Unlisted						
-	45,000	Faysal Bank Limited (Pre-IPO)	-	225,000	-	225,000	AA/A1+	PACRA
50,000	50,000	Martin Dow Pharmaceutical (Pakistan) Limited	165,600	245,150	165,600	245,150	A	JCR-VIS
40,000	40,000	Pak Electron Limited	161,907	173,810	161,905	173,768	A-/A2	PACRA
30,000	-	Askari Bank Limited	150,000	-	150,000	-	AA-	PACRA
			477,507	643,960	477,505	643,918		
		Total	8,972,609	6,861,053	9,301,662	6,945,870		

	Note	2011	2010
		(Rupees in '000)	
9. ADVANCES			
Loans in Pakistan		2,574,149	2,163,938
Staff loans	9.2	18,661	14,633
Advances - gross		2,592,810	2,178,571
Provision for non-performing loans and advances	9.3	(117,654)	(75,141)
Advances - net of provision		2,475,156	2,103,430
9.1 Particulars of advances - gross			
9.1.1 In local currency		2,592,810	2,178,571
In foreign currencies		-	-
		2,592,810	2,178,571
9.1.2 Short-term (up to one year)		730,498	680,579
Long-term (over one year)		1,862,312	1,497,992
		2,592,810	2,178,571

9.2 Staff loans include personal loans and house loans advanced to employees in accordance with their terms of employment. These personal loans and house loans carry mark-up at the rates of 3% and 5% respectively.

9.3 Advances include Rs. 393.1 Million (2010: Rs. 75.1 Million) which has been placed under non-performing status as detailed below:

	2011								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Category of classification									
Other assets especially mentioned	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	393,141	-	393,141	117,654	-	117,654	117,654	-	117,654
	393,141	-	393,141	117,654	-	117,654	117,654	-	117,654

	2010								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Category of classification									
Other assets especially mentioned	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	75,141	-	75,141	75,141	-	75,141	75,141	-	75,141
	75,141	-	75,141	75,141	-	75,141	75,141	-	75,141

9.4 Particulars of provision for non-performing advances - in local currency

	2011			2010		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	75,141	-	75,141	229,491	-	229,491
Charge for the year	42,513	-	42,513	141	-	141
Reversals	-	-	-	(154,491)	-	(154,491)
	42,513	-	42,513	(154,350)	-	(154,350)
Amounts written off	-	-	-	-	-	-
Closing balance	117,654	-	117,654	75,141	-	75,141

9.4.1 Particulars of provision for non-performing advances

	2011			2010		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	117,654	-	117,654	75,141	-	75,141

9.5 Particulars of write offs

There were no advances written off during the year.

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

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

	Note	2011	2010
		(Rupees in '000)	
Balance at beginning of the year		14,157	26,108
Loans granted during the year		5,954	4,928
Repayments during the year		(1,812)	(16,879)
Balance at end of the year		18,299	14,157

10. OPERATING FIXED ASSETS

	Note	2011	2010
Capital work-in-progress - Civil works	10.1	255	750
Property and equipment	10.2	46,438	42,548
Intangible asset	10.3	1,367	1,464
		48,060	44,762

10.1 These pertain to the civil works being done at the Company's new branch being established in Lahore.

10.2 Property and equipment

	2011							
	Cost			Accumulated depreciation			Net Book value at 31 December 2011	Annual rate of depreciation %
	At 1 January 2011	Additions/ (disposals)/ adjustments	At 31 December 2011	At 1 January 2011	Charge/ (disposals)/ adjustments	At 31 December 2011		
	(Rupees in '000)							
Owned								
Furniture and fixtures	20,375	5,691 (1,276)	24,790	887	4,405 (1,042)	4,250	20,540	20%
Electrical, office and computer equipment	19,028	6,113	25,141	5,905	4,686	10,591	14,550	20% to 25%
Vehicles	16,878	7,200 (3,854)	20,224	6,941	4,328 (2,393)	8,876	11,348	25%
	56,281	19,004 (5,130)	70,155	13,733	13,419 (3,435)	23,717	46,438	

	2010							
	Cost			Accumulated depreciation			Net Book value at 31 December 2010	Annual rate of depreciation %
	At 1 January 2010	Additions/ (disposals)/ adjustments*	At 31 December 2010	At 1 January 2010	Charge/ (disposals)/ adjustments*	At 31 December 2010		
	(Rupees in '000)							
Owned								
Furniture and fixtures	2,759	22,645 (1,854) (3,175)*	20,375	956	1,109 (913) (265)*	887	19,488	20%
Electrical, office and computer equipment	10,117	7,056 (1,320) 3,175 *	19,028	4,110	2,366 (836) 265*	5,905	13,123	20% to 25%
Vehicles	15,678	3,523 (2,323)	16,878	4,624	3,945 (1,628)	6,941	9,937	25%
	28,554	33,224 (5,497)	56,281	9,690	7,420 (3,377)	13,733	42,548	

10.3 Intangible assets

	2011							
	Cost			Accumulated amortisation			Net Book value at 31 December 2011	Annual rate of amortisation %
	At 1 January 2011	Additions/ (disposals)	At 31 December 2011	At 1 January 2011	Amortisation for the year	At 31 December 2011		
	(Rupees in '000)							
Computer software	**6,013**	**1,747**	**7,760**	**4,549**	**1,844**	**6,393**	**1,367**	**33%**
2011	**6,013**	**1,747**	**7,760**	**4,549**	**1,844**	**6,393**	**1,367**	
2010	6,059	(46)	6,013	2,529	2,020	4,549	1,464	33%

10.4 Disposals / deletions of property and equipment with original cost or book value in excess of rupees one million or two hundred fifty thousand respectively (which ever is less):

Particulars	Cost	Model	Book value	Sale price / insurance	Mode of settlement / disposal	Particulars of buyers
Corolla GLI	1,005	2007	-	101	Terms of employment	Mr. Amir Aizaz (Company Secretary)
Corolla GLI	1,005	2007	-	101	Terms of employment	Mr. Ahmad Bilal Darr (Head of Treasury)
Honda Civic	1,844	2011	1,460	1,725	Negotiation	Mr. Nadir Quraishi

11. DEFERRED TAX ASSETS / (LIABILITIES) - NET

	Note	2011	2010
		(Rupees in '000)	
Deferred tax assets / (liabilities) - net	11.1	**80,756**	21,661

11.1 The balance of deferred taxation comprises

	2011	2010
Debit / (credit) balances arising on account of:		
Deficit / (surplus) on revaluation of assets - net	**1,402**	(14,914)
Provision for compensated absences	**-**	1,076
Accelerated tax depreciation allowance	**(2,808)**	(1,961)
Provision for gratuity	**2,201**	2,037
Provision against non-performing loans	**41,179**	26,299
Provision against investments	**38,782**	9,124
	80,756	21,661

11.2 Movement in temporary differences during the year

	Balance 1 January 2011	Recognised in profit and loss	Recognised in equity	Balance 31 December 2011
	(Rupees in '000)			
Debit / (credit) balances arising on account of				
(Surplus) / deficit on revaluation of assets - net	**(14,914)**	**-**	**16,316**	**1,402**
Provision for compensated absences	**1,076**	**(1,076)**	**-**	**-**
Accelerated tax depreciation allowance	**(1,961)**	**(847)**	**-**	**(2,808)**
Provision for gratuity	**2,037**	**164**	**-**	**2,201**
Provision against non-performing loans	**26,299**	**14,880**	**-**	**41,179**
Provision against investments	**9,124**	**29,658**	**-**	**38,782**
	21,661	**42,779**	**16,316**	**80,756**

	Balance 1 January 2010	Recognised in profit and loss	Recognised in equity	Balance 31 December 2010
	(Rupees in '000)			
Debit / (credit) balances arising on account of				
(Surplus) / deficit on revaluation of assets - net	9,512	-	(24,426)	(14,914)
Provision for compensated absences	1,219	(143)	-	1,076
Accelerated tax depreciation allowance	370	(2,331)	-	(1,961)
Provision for gratuity	1,313	724	-	2,037
Provision against non-performing loans	80,322	(54,023)	-	26,299
Provision against investments	-	9,124	-	9,124
Provision against lending to financial institutions	17,063	(17,063)	-	-
	109,799	(63,712)	(24,426)	21,661

12. OTHER ASSETS

	2011	2010
	(Rupees in '000)	
Income / mark-up accrued in local currency	**201,639**	154,751
Dividend receivable	**-**	5,088
Security deposits	**6,508**	6,268
Advances, deposits, advance rent and other prepayments	**28,845**	10,307
	236,992	176,414

	Note	2011	2010
		(Rupees in '000)	
13. BORROWINGS FROM FINANCIAL INSTITUTIONS			
In Pakistan (local currency)	13.1	**3,695,484**	2,863,481
13.1 Details of borrowings Secured / Unsecured			
Secured			
Borrowing from State Bank of Pakistan against refinance scheme	13.2	**42,750**	-
Repurchase agreement borrowings	13.3	**3,452,734**	2,863,481
		3,495,484	2,863,481
Unsecured			
Clean borrowings		**200,000**	-
		3,695,484	2,863,481

13.2 These carry mark-up at the rate of 9.0% per annum (2010: Nil) The borrowing will mature up to November 2019.

13.3 These carry mark-up at rates ranging from 11.90% to 12 % per annum (2010: 12.70% to 13.80% per annum) and are secured against Government Securities having carrying amount of Rs. 3,779.0 Million (2010: Rs. 2,465.0 Million). The borrowings will mature up to February 2012 (2010: January 2011).

14. Deposits and other accounts	2011	2010
Certificates of Investments - remunerative (in local currency)		
Financial institutions	**250,000**	-
Others	**10,000**	-
	260,000	-

14.1 The rate of return on these deposits is from 11.60 % to 12.40% (2010: Nil) with maturities up to January 2012 (2010: Nil).

15. OTHER LIABILITIES	2011	2010
Mark-up / return / interest payable in local currency	**30,857**	4,656
Payable to an associated undertaking	**5,722**	5,722
Accrued expenses	**7,139**	47,692
Government levies payable	**52,920**	39,524
Provision for taxation - net	**32,496**	40,442
Provision for compensated absences	**-**	3,075
Provision for gratuity	**6,290**	5,821
Provision for bonus to employees	**22,014**	24,500
Others	**1,500**	1,251
	158,938	172,683

16. SHARE CAPITAL

16.1 Authorised capital

2011	2010		2011	2010
(Number of shares)				
1,000,000,000	1,000,000,000	Ordinary shares of Rs. 10 each	**10,000,000**	10,000,000

16.2 Issued, subscribed and paid-up capital

Ordinary Shares of Rs.10 each

2011	2010		2011	2010
(Number of shares)				
600,000,000	600,000,000	Ordinary shares of Rs. 10 each issued for cash	**6,000,000**	6,000,000

16.3 Major shareholders (holding more than 5% of total paid-up capital)

	2011		2010	
	Number of shares held	Percentage of shareholding	Number of shares held	Percentage of shareholding
Name of shareholder				
Government of Pakistan *	**300,000,000**	**50%**	300,000,000	50%
Iran Foreign Investment Company *	**300,000,000**	**50%**	300,000,000	50%
	600,000,000	**100%**	600,000,000	100%

*This includes nominal shares allotted to the nominee directors of the Company nominated by Government of Pakistan and Iran Foreign Investment Company.

	Note	2011	2010
		(Rupees in '000)	
17. RESERVES - STATUTORY RESERVES			
At beginning of the year		**279,204**	163,533
Transfer during the year		**48,510**	115,671
	17.1	**327,714**	279,204

17.1 According to BPD Circular No. 15 dated 31 May 2004 issued by SBP, an amount not less than 20% of the after tax profits shall be transferred to create a reserve fund till such time the reserve fund equals the amount of the paid-up capital and after that a sum not less than 5% of profit after tax shall be credited to the statutory reserve.

18. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX	Note	2011	2010
Surplus arising on revaluation of quoted equity securities		**16,964**	15,014
Deficit arising on revaluation of T-Bills		**(1,571)**	(1,764)
Surplus arising on revaluation of TFCs		**75,326**	53,648
Deficit arising on revaluation of Sukuk Bonds		**-**	(13,566)
		90,719	53,332
Related deferred tax asset / (liability)	11.1	**1,402**	(14,914)
		92,121	38,418

19. CONTINGENCIES AND COMMITMENTS

19.1 The department of inland revenue has re-opened the assessment for the tax years 2009 and 2010 and raised an additional demand in respect of allocation of expenses against exempt capital gains and dividend income subject to tax at reduced rate (as detailed in note 25.1).

The Company in consultation with the Tax Advisor has filed an appeal and is confident that the ultimate outcome on the matter would be in favour of the Company inter alia on the basis of the advice of the tax consultants.

	2011	2010
	(Rupees in '000)	
19.2 Commitments to extend credit	182,023	671,770
19.3 Commitments in respect of repo transactions		
Repurchase agreement borrowings	3,497,953	2,423,481

20. MARK-UP / RETURN / INTEREST EARNED

	2011	2010
On loans and advances to Customers	307,770	170,710
On investments in:		
- Available for sale securities	988,599	682,718
- Held to maturity securities	6,063	1,923
On deposits with financial institutions	676	840
On securities purchased under resale agreements	7,539	1,596
On placements	12,420	172,404
	1,323,067	1,030,191

21. MARK-UP / RETURN / INTEREST EXPENSED

	2011	2010
Securities sold under repurchase agreements	394,018	177,595
On deposits and other accounts	5,799	-
On borrowing from State Bank of Pakistan against refinance scheme	2,040	-
Other short-term borrowings	855	15,899
	402,712	193,494

22. GAIN ON SALE OF SECURITIES

	2011	2010
On listed shares and mutual funds	31,468	134,480

23. ADMINISTRATIVE EXPENSES

	Note	2011	2010
		(Rupees in '000)	
Salaries, allowances and benefits		67,390	113,069
Contribution to defined benefit plan	29.6	3,216	2,071
Contribution to defined contribution plan	30	3,779	2,604
Non-executive directors' fee	31	2,252	2,430
Rent and utilities		13,427	15,300
Repairs and maintenance		6,182	3,337
Insurance		1,817	1,539
Communication		2,439	1,623
Advertisement		475	1,135
Depreciation	10.2	13,419	7,420
Amortisation	10.3	1,844	2,020
Printing and stationery		2,473	899
Legal and professional charges		3,317	10,597
Travelling, conveyance and entertainment		11,422	7,174
Brokerage and commissions		3,576	4,552
Bank charges		267	247
Fee and subscriptions		7,486	3,608
Auditors' remuneration	23.1	1,353	475
Donations and charity	23.2	-	9,941
Others		4,001	1,606
		150,135	191,647

23.1 Auditors' remuneration

	2011	2010
Audit fee	450	325
Half yearly review	175	100
Special certifications and others	623	25
Out of pocket expenses	105	25
	1,353	475

23.2 Particulars of donations and charity

	2011	2010
Donation to Prime Minister relief fund	-	4,941
Donation to Army relief fund	-	4,500
Others	-	500
	-	9,941

None of the directors / executives or their spouses have interest in the above.

24. OTHER CHARGES

	2011	2010
Penalties imposed by State Bank of Pakistan	122	20
Government levies	17,500	17,572
	17,622	17,592

	Note	2011	2010
		(Rupees in '000)	
25. TAXATION			
Current		**276,684**	236,515
Prior year		**10,348**	-
Deferred		**(42,779)**	63,712
	25.2	**244,253**	300,227

25.1 Current status of tax assessments

The return for tax years 2007 to 2010 have been filed under the Universal Self Assessment Scheme which provides that return filed is deemed to be an assessment order. However, these returns may be selected for detail audit within five years and the Commissioner of Income Tax may amend the assessment in case of objection raised in audit. The department of inland revenue has re-opened the assessment for the tax years 2009 and 2010 and raised an additional demand of Rs. 25.292 Million in respect of allocation of expenses against exempt capital gains and dividend income subject to tax at reduced rate, against which the Company has made a partial provision amounting to Rs. 12.554 Million.

The Company has filed appeals with the Commissioner Appeal against the aforementioned orders and the management is confident that the outcome of the appeals will be in favour of the Company.

25.2 Relationship between tax expense and accounting profit

	2011	2010
Profit before tax	**486,802**	878,584
Tax on income @ 35%	**170,381**	307,504
Net tax effect on income taxed at reduced rates	**(5,123)**	(19,276)
Net tax effect on income subject to FTR	**(9,046)**	(1,796)
Net tax effect of income / expenses not subject to tax	**1,253**	(25,073)
Tax effect of expenses that are not deductible in determining taxable profit	**118,542**	(23,861)
Net deductible temporary difference	**(42,780)**	63,712
Prior years charge	**10,348**	-
Others	**678**	(983)
Tax charge	**244,253**	300,227

26. BASIC / DILUTED EARNINGS PER SHARE

	2011	2010
Profit after taxation for the year	**242,548**	578,357
	(Number of shares in '000)	
Weighted average number of ordinary shares outstanding during the year	**600,000**	591,667
	(Rupees)	
Basic / diluted earnings per share	**0.40**	0.98

	2011	2010
	(Rupees in '000)	
27. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks	**9,143**	10,552
Balances with other banks	**20,675**	352,808
	29,818	363,360

	2011	2010
28. STAFF STRENGTH	(Number)	
Permanent	**38**	38
Contractual	**5**	-
Company's own staff strength at the end of the year	**43**	38
Outsourced	**2**	2
Total staff strength	**45**	40

29. DEFINED BENEFIT PLAN

29.1 General description

As mentioned in note 4.15, the Company operates a funded gratuity scheme for all its permanent employees. The benefits under the gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service, in lump sum. The benefit is equal to one month's last drawn salary for each year of eligible service or part thereof, subject to a minimum of five years of service.

29.2 Principal actuarial assumptions

The actuarial valuation was carried out as at 31 December 2011 using the "Projected Unit Credit Actuarial Cost Method". The information provided in notes 29.3 to 29.6 has been obtained from the actuarial valuation carried out as at 31 December 2011.

	2011	2010
- Discount rate	**13.00%**	12.75%
- Expected rate of increase in salaries	**11.50%**	10.60%
- Withdrawal rate before normal retirement age	**"moderate"**	"rare"

29.3 Reconciliation of payable to defined benefit plan

	2011	2010
Present value of defined benefit obligations	**9,112**	5,821
Fair value of any plan assets	**-**	-
Net actuarial gains or losses not recognised	**(2,822)**	-
	6,290	5,821

	2011	2010
	(Rupees in '000)	
29.4 Movement in defined benefit obligation		
Obligation at the beginning of the year	5,821	3,750
Current service cost	2,195	1,593
Interest cost	938	478
Benefits paid by the fund	(2,747)	-
Actuarial loss on obligation	83	-
Obligation at the end of the year	6,290	5,821
29.5 Movement in payable to defined benefit plan		
Opening balance	5,821	3,750
Charge for the year	3,216	2,071
Benefit paid during the year	(2,747)	-
Closing balance	6,290	5,821
29.6 Charge for defined benefit plan		
Current service cost	2,195	1,593
Interest cost	938	478
Expected return on plan assets	-	-
Amortisation of loss / (gain)	83	-
	3,216	2,071

30. DEFINED CONTRIBUTION PLAN

The Company operates an approved provident fund scheme for all its permanent employees to which both the Company and employees contributes at 10% of basic salary in equal monthly contributions.

	2011	2010
Contribution from the Company	3,779	2,604
Contribution from the employees	3,779	2,604

31. COMPENSATION OF DIRECTORS AND EXECUTIVES

	2011			2010		
	Managing Director / Chief Executive Officer	Directors	Executives	Managing Director / Chief Executive Officer	Directors	Executives
	(Rupees in '000)					
Fees	-	2,252	-	-	2,430	-
Managerial remuneration	11,052	-	20,145	9,801	-	14,846
Contribution to defined contribution plan	1,105	-	1,841	799	-	1,243
Medical	88	-	2,122	40,500	-	1,742
Rent and house maintenance	4,807	-	7,879	3,194	-	5,938
Utilities	333	-	1,970	799	-	1,485
Others	792	-	2,145	698	-	1,303
	18,177	2,252	36,102	55,791	2,430	26,557
Number of persons	2	4	19	1	5	14

The Chief Executive Officer and executives are provided with free use of company maintained cars.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

32.1 On balance sheet financial instruments

	2011		2010	
	Book value	Fair value	Book value	Fair value
	(Rupees in '000)			
Assets				
Cash and balances with treasury banks	9,143	9,143	10,552	10,552
Balances with other banks	20,675	20,675	352,808	352,808
Lendings to financial institutions	-	-	600,000	600,000
Investments	8,974,337	8,974,337	7,160,982	7,160,982
Advances	2,475,156	2,475,156	2,103,430	2,103,430
Other assets	236,992	236,992	166,107	166,107
	11,716,303	11,716,303	10,393,879	10,393,879
Liabilities				
Borrowings from financial institutions	3,695,484	3,695,484	2,863,481	2,863,481
Deposits and other accounts	260,000	260,000	-	-
Other liabilities	158,938	158,938	172,683	172,683
	4,114,422	4,114,422	3,036,164	3,036,164

The fair value of traded investments is based on quoted market price.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values.

33. SEGMENT ANALYSIS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate finance	Trading and sales	Commercial banking	Total
	(Rupees in '000)			
2011				
Total income	12,797	1,068,921	307,770	1,389,488
Total expenses	1,545	529,726	39,198	570,469
Net income before tax	11,252	539,195	268,572	819,019
Segment assets	-	9,284,437	2,560,683	11,845,120
Investments provided for	-	815,415	393,141	1,208,556
Segment provision required*	-	419,772	117,654	537,426
Segment liabilities	-	3,843,975	270,447	4,114,422
Segment return on assets (ROA)(%)	-	5.81%	10.49%	6.91%
Segment cost of funds(%)	-	13.78%	14.49%	13.87%
2010				
Total income	7,185	1,103,422	170,710	1,281,317
Total expenses	2,258	346,819	53,656	402,733
Net income before tax	4,927	756,603	117,054	878,584
Segment assets	-	8,237,917	2,232,692	10,470,609
Investments provided for	-	701,884	75,141	777,025
Segment provision required*	-	138,149	75,141	213,290
Segment liabilities	-	3,036,164	-	3,036,164
Segment return on assets (ROA)(%)		9.18%	5.24%	8.39%
Segment cost of funds(%)		11.42%		

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

34. RELATED PARTY TRANSACTIONS

Related parties comprise of major shareholders, directors and key management personnel and their close family members and retirement benefit funds.

Transactions with employees as per the terms of employment and transactions with other related parties are executed substantially on the same terms, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk.

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

	2011	2010
	(Rupees in '000)	
34.1 The Key Management Personnel / Directors compensation are as follows:		
Loans and advances to key management personnel:		
- Balance at beginning of the year	14,157	26,108
- Loans granted during the year	5,954	4,928
- Repayments during the year	(1,812)	(16,879)
- Balance at end of the year	18,299	14,157
Mark-up earned on loans and advances to key management personnel	715	1,389
Non-executive directors' remuneration	2,252	2,430
Salaries and benefits	*49,032	75,291
Contribution to defined contribution plan	2,639	1,799
Disposal of fixed assets to key personnel	201	1,399
* This includes reversal of medical expenses of Ex-M.D./CEO amounting to Rs. 12.781 Million.		
34.2 Contribution to defined contribution plan	3,779	2,604
34.3 Issue of Shares to Associates		
Government of Pakistan	-	500,000
Iran Foreign Investment Company	-	500,000
34.4 (Receivable) / payable to Iran Foreign Investment Company - Net (Associates)	(138)	3,590

35. CAPITAL - ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

35.1 Scope of applications

The Company has implemented standardized approach of Basel II on standalone basis. The objectives of Basel II aim at providing standardization of the framework under which the Company operates so as to enhance efficiency by managing risk and returns for all stakeholders.

35.2 Capital structure

The risk weighted assets to capital ratio is calculated in accordance with SBP's guidelines on capital adequacy.

	2011	2010
	(Rupees in '000)	
Tier I Capital		
1.1 Fully Paid-up capital	6,000,000	6,000,000
1.4 Reserves as disclosed on the Balance Sheet	327,714	279,204
1.5 Un-appropriated profits	1,310,862	1,116,823
	7,638,576	7,396,027
Deductions:		
1.8 Book value of intangible assets	(1,367)	(1,464)
1.12 Investments in TFCs of other banks exceeding the prescribed limit (Appendix 1.1 Para 3 (iii))	(532,169)	-
	(533,536)	(1,464)
Total eligible Tier I Capital	7,105,040	7,394,563
Tier II Capital	-	-
Total eligible Tier III Capital	-	-
Total Regulatory Capital	7,105,040	7,394,563

35.3 Capital adequacy

The objective of capital management is to safeguard the Company's ability to continue as a going concern, so that it could continue to manage risk and provide adequate returns to shareholders by pricing products and services commensurate with the level of risk.

It is the policy of the Company to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognises the need to maintain a balance between the higher returns and manage acceptable risk appetite that might be possible with greater gearing and the advantages and security supported by a sound capital position.

Goals of managing capital

The goals of managing capital of the Company are as follows:
- To ensure availability of adequate capital at a reasonable cost so as to enable the Company to grow accordingly.
- To achieve a low cost of capital with appropriate mix of capital elements.
- To be an appropriately capitalized institution, as prescribed by regulatory authorities from time to time.
- To maintain highest quality ratings and to protect the Company against unexpected events.

The Capital of the Company is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 8 dated 27 June 2006. The adequacy of the capital is tested with reference to the Risk Weighted Assets of the Company.

The required capital adequacy ratio is maintained by the Company through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with acceptable level of risk. The Company's operations are categorized as at trading book and banking book and risk-weighted assets are determined according to specified requirements of SBP in order to seek and reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprises of credit, market and operational risk.

The calculation of Capital Adequacy enables the Company to assess its long-term soundness. It is critically important to continuously monitor the exposure across the entire organization and create aggregate view on the same by generating management level information trial to manage risk and return trade-offs.

The Company is in compliance of the Minimum Capital Requirement, set by the State Bank of Pakistan.

The capital requirements for the Company as per major risk categories are given below:

	2011		2010	
	Capital requirement	Risk weighted assets	Capital requirement	Risk weighted assets
Credit risk				
Claims on:				
Banks	780	7,804	19,401	194,012
Corporates	266,453	2,664,526	251,224	2,512,237
Public sector entities	130	1,295	6,369	63,692
Retail portfolio	99	987	140	1,403
Secured by residential property	602	6,021	444	4,439
Past due loans	47,029	470,294	-	-
Listed equity investments	282,190	2,821,901	213,186	2,131,858
Unlisted equity investments	15,585	155,851	40,178	401,783
Investments in fixed assets	4,806	48,060	4,330	43,298
All other assets	11,611	116,109	4,115	41,147
	629,285	6,292,848	539,387	5,393,869
Market risk				
Interest rate risk	-	-	-	-
Equity risk	39,338	491,723	109,210	1,365,120
	39,338	491,723	109,210	1,365,120
Operational risk	128,386	1,604,820	110,913	1,386,413
	797,009	8,389,391	759,510	8,145,402

Capital adequacy ratio

	2011	2010
Total eligible regulatory capital held (a)	7,105,040	7,394,563
Total risk weighted assets (b)	8,389,391	8,145,402
Capital adequacy ratio (a) / (b)*100	84.69%	90.78%

36. RISK MANAGEMENT

The primary risks associated with the Company's exposure are:

Credit Risk: the risk of loss resulting from client or counterparty default.

Market Risk: the exposure to market variables such as interest rates and equity prices.

Operational Risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and therefore includes legal risk.

The Company's Risk Management Unit has Basel Compliant, Credit, Market, Liquidity and Operational Risk functions. As an independent unit from business group, it reports administratively to CEO and functionally to Board Risk Management Committee (BRMC).

The Company's portfolio and exposures are governed through relevant policies, procedures and various risk measurement techniques by adopting Internal Capital Adequacy Assessment Process (ICAAP) and Stress Testing with a purpose to achieve efficiency, effectiveness and compliance. Internal Risk Rating mechanism and transaction level risk analytics have been adopted in order to have ongoing risk sensitive assessment and reporting. The Company is more focused towards implementing system based risk assessment by acquiring risk systems in order to have more efficiency in overall risk management processes.

36.1 Credit risk

Credit risk is the risk of loss to the Company as a result of failure by a client or counterparty to meet its contractual obligations. It is inherent in loans, commitments to lend, traded products, repurchase agreements (repos and reverse repos), placements and other lending transactions. The role of Credit Risk Management particularly includes:

- Participation in portfolio planning and management.
- Establishment of credit policies and standards that conform to regulatory requirements and the Company's overall objectives.
- Working with Business Units in keeping aggregate credit risk well within the Company's risk appetite.
- Organizing portfolio reviews focusing on quality assessment, risk profiles, industry concentrations.
- Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

The Company has designed an Internal Risk Rating Model and methodology to gauge credit risk elements in the banking book of the Company.

The credit products mainly comprise of Fund based & Non-Fund based, including short term and long term financing, Project Finance, Term Lending, Reverse Repurchase, Bridge Finance, Investment in TFCs , Sukuk Bonds and Placements with FIs, etc. Exposures are collateralized by cash equivalents fixed and current assets including property plant and equipment, land and building, hypothecation, pledge on stocks and receivables as the case may be. The Company manages limits and controls concentrations of credit risk as identified, in particular to individual counterparties and groups, and to industries, where appropriate.

Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The Company sets limits on its credit exposure to counterparty / groups by industry, product and geographical location, in line with SBP standards.

Stress testing on Credit portfolio is being carried out on regular basis to assess the impact of defaults on Company's earning and Capital adequacy. Credit concentration, rating migration, default shocks and risk aggregation of large exposures are few of the main tactics used to monitor ongoing changes in the Credit risk standing of the Company.

36.1.1 Credit Risk – General Disclosures Basel II specific

The Company is more focused on the intent of Basel II rather than treating it as a regulatory requirement. Therefore, in addition to the adoption of Standardized approach and reporting to SBP, the Company has already adopted the practice of ongoing assessment as required under the advanced approaches of Basel II .The Company has adopted Pillar II ICAAP requirements duly approved by the Board of Directors.

36.1.2 Credit Risk: Disclosure for portfolio subject to the Standardized Approach

For the calculation of Risk Weighted Assets under Standardized Approach, external credit ratings have been used for all exposures against banks lending, corporate lending and debt instruments. The external ratings are further mapped with SBP ratings scale to arrive at risk weights of each transaction.

Types of exposures and ECAI's used

Exposures	JCR-VIS	PACRA
Banks	✔	✔
Corporates	✔	✔

Credit exposures subject to standardised approach

Exposures	Rating Category	Amount Outstanding	Deduction CRM	Net amount
		(Rupees in '000)		
Corporate	1	1,349,430	-	1,349,430
	2	182,240	-	182,240
	3,4	24,669	-	24,669
	5,6	68,593	-	68,593
	Unrated	2,175,962	-	2,175,962
Banks	1	3,491,752	3,452,734	39,018
	2,3	-	-	-
Retail		1,316	-	1,316
Public sector entities	Unrated	2,589	-	2,589
Sovereigns		3,964,571	-	3,964,571
Others		3,483,022	-	3,483,022
		14,744,144	3,452,734	11,291,410

CRM = Credit Risk Mitigation

36.1.2.1 Credit Risk: Disclosure with respect to Credit Risk

Mitigation for Standardized approach - Basel II specific

The credit policy of the Company covers credit risk mitigation process and requirements for all secured transactions. Key elements include:

- Collateral type
- Collateral quality and ranking
- Collateral valuation process and;
- Margin requirements

Equitable Mortgage, Token Registered Mortgage, Hypothecation charge over Fixed Assets , Current Assets, Pledge of Shares, Lending against Government Securities (for repo style transaction), GOP Guarantee and Pledge of stocks are the main type of collaterals taken against the exposure.

36.1.3 Segmental information

36.1.3.1 Segments by class of business

2011

	Advances Gross		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Cement	75,000	3%	-	-	-	-
Sugar	473,934	18%	-	-	-	-
Electronics and electrical appliances	20,000	1%	-	-	-	-
Construction	518,000	20%	-	-	-	-
Power (electricity), gas, water, sanitary	694,387	27%	-	-	32,023	1%
Financial	133,333	5%	250,000	96%	3,497,953	95%
Services	309,495	12%	-	-	-	-
Others	350,000	13%	10,000	4%	150,000	4%
Individuals	18,661	1%	-	-	-	-
	2,592,810	100%	260,000	100%	3,679,976	100%

2010

	Advances Gross		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Cement	75,000	3%	-	-	-	-
Sugar	240,000	11%	-	-	-	-
Electronics and electrical appliances	30,000	1%	-	-	-	-
Construction	618,000	28%	-	-	-	-
Power (electricity), gas, water, sanitary	500,938	24%	-	-	671,770	22%
Financial	200,000	9%	-	-	2,423,481	78%
Services	300,000	14%	-	-	-	-
Others	200,000	9%	-	-	-	-
Individuals	14,633	1%	-	-	-	-
	2,178,571	100%	-	-	3,095,251	100%

36.1.3.2 Segment by sector

2011

	Advances Gross		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	-	-	250,000	96%	3,497,953	95%
Private	2,592,810	100%	10,000	4%	182,023	5%
	2,592,810	100%	260,000	100%	3,679,976	100%

2010

	Advances Gross		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	50,938	2%	-	-	2,423,630	78%
Private	2,127,633	98%	-	-	671,621	22%
	2,178,571	100%	-	-	3,095,251	100%

36.1.3.3 Segments by class of business

	2011 Classified Advances	2011 Specific Provisions Held	2010 Classified Advances	2010 Specific Provisions Held
	(Rupees in '000)			
Cement	75,000	75,000	75,000	75,000
Construction	318,000	42,513	-	-
Others	141	141	141	141
	393,141	117,654	75,141	75,141

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

	2011 Classified Advances	2011 Specific Provisions Held	2010 Classified Advances	2010 Specific Provisions Held
Public / government	-	-	-	-
Private	393,141	117,654	75,141	75,141
	393,141	117,654	75,141	75,141

36.1.3.5 Geographical segment analysis

	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
2011	(Rupees in '000)			
Pakistan	486,802	11,845,119	7,730,697	3,679,976
2010	(Rupees in '000)			
Pakistan	878,584	10,470,609	7,434,445	3,095,251

36.2 Equity position risk in the trading book-Basel II specific

Equity position risk in trading book arises due to changes in prices of individual stocks or levels of equity indices. The Company's equity trading book comprises of Treasury Capital Market's (TCM), Held for Trading (HFT) & Available for Sale (AFS) portfolios.

As of 31 December 2011 the equity portfolio of the Company comprises of investment in listed equities classified in Held for Trading (HFT) and Available for Sale (AFS) category. The marked to market valuation on the instruments is done on daily basis and any unrealised gain / loss is booked in the profit and loss account and the statement of financial position respectively.

36.3 Market risk

Trading activities are executed in the Treasury & Investment Unit (T&IU) and include market making, facilitation of client business and proprietary position taking. The Company is active in the Money Market, Fixed Income and Equity Market that carry interest rate and equity price risk on both trading and banking book respectively. Management level Market Risk Committee has been invoked to ensure specific & general risk assessment of all Market related products on timely basis.

Controls are also applied to prevent any undue risk concentrations in trading books, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to individual market risk variables, such as individual interest or equity price ('risk factors'), and on positions in the securities of individual issuers.

Market risk measures and controls are applied at the portfolio level, and concentration limits and other controls are applied where necessary to individual risk types, to particular books and to specific exposures. Portfolio risk measures are common to all market risks, but concentration limits and other controls are tailored to the nature of the activities and the risks they create.

The Company has developed Market Risk Policy, which covers the techniques to gauge, monitor and report the impact of interest rate and price risk implications.

36.3.1 Foreign exchange risk

Foreign Exchange Risk is the risk of loss resulting from changes in exchange rates. The Company does not carry any product specific Foreign Exchange Risk.

	Assets	Liabilities	Off-balance sheet items	Net currency exposure
2011	(Rupees in '000)			
Pakistan Rupees	11,844,305	4,114,422	-	7,729,883
US Dollars	814	-	-	814
	11,845,119	4,114,422	-	7,730,697
2010	(Rupees in '000)			
Pakistan Rupees	10,469,107	3,036,164	-	7,432,943
US Dollars	1,502	-	-	1,502
	10,470,609	3,036,164	-	7,434,445

36.3.2 Equity position risk

The objective of Held For Trading portfolio is to take advantages of short-term capital gains, while the Available For Sale portfolio is maintained with a medium-term view of capital gains and dividend income. The Company has also invested in mutual funds categorize as "Available for Sale" and "Half for Trading" portfolio. Investment policy has been developed to discuss in detail the objectives / policies, risks / mitigates, limits / controls for exposures against price risk.

36.3.3 Yield / Interest Rate Risk in the Banking Book (IRRBB)-Basel II Specific

The Company's Banking Book consists of significant amount of Interest Rate sensitive assets. The investment portfolio comprises of floating interest rate TFCs and Sukuk that are mainly linked to six month KIBOR. Therefore, the overall frequency of banking book interest rate is around six months. Interest rate position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date, the instrument's repayment nature varies from semi-annual payments to bullet maturity.

Capital Adequacy Stress test exercise has been conducted by using duration method for measuring the upward and downward shocks of interest rate. This provides the Company risk taking and absorption capacity and its implication on capital adequacy in the worst case scenarios. Furthermore, the Company is also using risk sensitive measures such as earning at risk and economic value at risk.

36.3.4 **Mismatch of interest rate sensitive assets and liabilities**

2011	Effective yield / interest rate	Total	Up to one month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years	Non-interest bearing financial instruments
			Exposed to yield / interest risk									
			(Rupees in '000)									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	5.00%	9,143	504	-	-	-	-	-	-	-	-	8,639
Balances with other banks	5.00%	20,675	17,575	-	-	-	-	-	-	-	-	3,100
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	13.38%	8,974,337	14,391	1,605,114	2,066,503	3,956,831	-	8,841	-	-	-	1,322,657
Advances	13.93%	2,475,156	236,166	871,912	830,321	200,741	263	312	-	42,750	17,204	275,487
Other assets		201,639	-	-	-	-	-	-	-	-	-	201,639
		11,680,950	268,636	2,477,026	2,896,824	4,157,572	263	9,153	-	42,750	17,204	1,811,522
Liabilities												
Borrowings from financial institutions	11.93%	3,955,484	2,886,180	1,026,554	-	-	-	-	-	42,750	-	-
Deposits and other accounts		260,000	-	-	-	-	-	-	-	-	-	260,000
Other liabilities		158,938	-	-	-	-	-	-	-	-	-	158,938
		4,374,422	2,886,180	1,026,554	-	-	-	-	-	42,750	-	418,938
On-balance sheet gap		7,306,528	(2,617,544)	1,450,472	2,896,824	4,157,572	263	9,153	-	-	17,204	1,392,584
Total yield / interest risk sensitivity gap		7,306,528	(2,617,544)	1,450,472	2,896,824	4,157,572	263	9,153	-	-	17,204	
Cumulative yield / interest risk sensitivity gap			(2,617,544)	(1,167,072)	1,729,752	5,887,324	5,887,587	5,896,740	5,896,740	5,896,740	5,913,944	

2010	Effective yield / interest rate	Total	Up to one month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years	Non-interest bearing financial instruments
			Exposed to yield / interest risk									
			(Rupees in '000)									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	5.00%	10,552	460	-	-	-	-	-	-	-	-	10,092
Balances with other banks	13.85%	352,808	29,255	300,000	-	-	-	-	-	-	-	23,553
Lendings to financial institutions	13.23%	600,000	300,000	300,000	-	-	-	-	-	-	-	-
Investments	14.15%	7,160,982	1,888,033	2,902,935	1,035,801	-	-	-	-	-	-	1,334,213
Advances	16.50%	2,103,430	600,000	730,000	758,938	-	-	-	-	-	14,492	-
Other assets		166,107	-	-	-	-	-	-	-	-	-	166,107
		10,393,879	2,817,748	4,232,935	1,794,739	-	-	-	-	-	14,492	1,533,965
Liabilities												
Borrowings from financial institutions	13.21%	2,863,481	2,663,481	200,000	-	-	-	-	-	-	-	-
Other liabilities		172,683	-	-	-	-	-	-	-	-	-	172,683
		3,036,164	2,663,481	200,000	-	-	-	-	-	-	-	172,683
On-balance sheet gap		7,357,715	154,267	4,032,935	1,794,739	-	-	-	-	-	14,492	1,361,282
Total yield / interest risk sensitivity gap		7,357,715	154,267	4,032,935	1,794,739	-	-	-	-	-	14,492	
Cumulative yield / interest risk sensitivity gap			154,267	4,187,202	5,981,941	5,981,941	5,981,941	5,981,941	5,981,941	5,981,941	5,996,433	

36.4 Liquidity risk

The Company's approach to liquidity management is to ensure, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage.

Liquidity risk policy has been designed that entails careful monitoring and control of the daily liquidity position, and regular liquidity stress tests under a variety of scenarios. Scenarios encompass both normal and stressed market conditions, including general market crises and the possibility that access to markets could be impacted by a stress event affecting some part of the Company's business.

The Company has developed Liquidity Risk Policy, which covers the techniques to gauge, monitor and report the impact of potential liquidity risk indicators and its implications.

Maturity of assets and liabilities

The maturity profile has been prepared on the basis of contractual maturities and the position is discussed by the Assets and Liabilities Management Committee (ALCO) on monthly basis. The withdrawal pattern of these cash-flows reflects a more meaningful analysis of the liquidity risk of the Company.

36.4.1 Maturities of assets and liabilities

2011

	Total	Up to one month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	9,143	9,143	-	-	-	-	-	-	-	-
Balances with other banks	20,675	20,675	-	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	8,974,337	42,776	61,283	1,026,197	4,359,015	306,394	336,380	1,093,519	1,748,773	-
Advances	2,475,156	18,560	66,911	103,199	424,175	789,108	353,521	368,945	341,045	9,692
Fixed assets	48,060	324	271	375	82	5,076	25,370	16,563	-	-
Deferred tax asset - net	80,756	-	-	-	80,756	-	-	-	-	-
Other assets	236,992	1,154	79,050	154,379	2,409	-	-	-	-	-
	11,845,119	92,632	207,515	1,284,150	4,866,437	1,100,578	715,271	1,479,027	2,089,818	9,692
Liabilities										
Borrowings from financial institutions	3,695,484	2,739,468	916,555	-	3,288	6,576	6,576	13,152	9,869	-
Deposits and other accounts	260,000	260,000	-	-	-	-	-	-	-	-
Other liabilities	158,938	42,120	32,495	28,304	50,297	5,722	-	-	-	-
	4,114,422	3,041,588	949,050	28,304	53,585	12,298	6,576	13,152	9,869	-
Net assets	7,730,697	(2,948,956)	(741,535)	1,255,846	4,812,852	1,088,280	708,695	1,465,875	2,079,949	9,692
Represented by:										
Share capital	6,000,000									
Advances against Issue of Shares	-									
Reserves	327,714									
Unappropriated profit	1,310,862									
Deficit on revaluation of assets-net of tax	92,121									
	7,730,697									

2010

	Total	Up to one month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	10,552	10,552	-	-	-	-	-	-	-	-
Balances with other banks	352,808	52,808	300,000	-	-	-	-	-	-	-
Lendings to financial institutions	600,000	300,000	300,000	-	-	-	-	-	-	-
Investments	7,160,982	1,094,501	1,815,801	208,841	626,525	267,855	81,779	2,342,967	722,713	-
Advances	2,103,430	39,750	341,484	59,166	250,548	346,925	267,384	308,613	482,154	7,406
Fixed assets	44,762	1,295	2,588	3,883	7,767	14,069	14,609	551	-	-
Deferred tax asset - net	21,661	-	-	-	21,661	-	-	-	-	-
Other assets	176,414	43,782	101,411	31,123	98	-	-	-	-	-
	10,470,609	1,542,688	2,861,284	303,013	906,599	628,849	363,772	2,652,131	1,204,867	7,406
Liabilities										
Borrowings from financial institutions	2,863,481	2,663,481	200,000	-	-	-	-	-	-	-
Other liabilities	172,683	53,599	38,279	36,035	39,048	5,722	-	-	-	-
	3,036,164	2,717,080	238,279	36,035	39,048	5,722	-	-	-	-
Net assets	7,434,445	(1,174,392)	2,623,005	266,978	867,551	623,127	363,772	2,652,131	1,204,867	7,406
Represented by:										
Share capital	6,000,000									
Advances against Issue of Shares	-									
Reserves	279,204									
Unappropriated profit	1,116,823									
Deficit on revaluation of assets-net of tax	38,418									
	7,434,445									

36.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. The management has developed Operational Risk Policy. The process of deployment will be streamlined with internal control function of the Company. Once the implementation process will be invoked the Company will be able to manage operational risk process in a more systematic way that includes analyzing current systems for data collection, migration, validation and retention for current and historical reference and calculation. Data warehousing solutions are being assessed for timely availability and storage of data.

36.5.1 Operational risk disclosure - Basel II specific

Basic Indicator approach of Basel II has been used to calculate Operational Risk charge of the Company.

37. DATE OF AUTHORIZATION

These financial statements were authorized for issue on January 31, 2012 by the Board of Directors of the Company.

Chairman	Managing Director and Chief Executive Officer	Director	Director