



KPMG Taseer Hadi & Co.
Chartered Accountants

**Pak-Iran Joint Investment Company
Limited**

Financial Statements
For the year ended 31 December
2009



KPMG Taseer Hadi & Co.
Chartered Accountants
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Auditors' Report to the Members

We have audited the annexed balance sheet of **Pak - Iran Joint Investment Company Limited** ("the Company") as at 31 December 2009 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 balance sheet 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 except for the change specified in note 4.1 with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;



- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 2009 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).

Date: 03 JUN 2010

Karachi

KPMG Taseer Hadi & Co.
KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Taufiq

Pak - Iran Joint Investment Company Limited

Balance Sheet

As at 31 December 2009

	Note	2009	2008
(Rupees in '000)			
ASSETS			
Cash and balances with treasury banks	5	2,633	506,887
Balances with other banks	6	1,309,451	1,816,376
Lendings to financial institutions	7	446,250	611,000
Investments	8	5,326,675	2,440,498
Advances	9	945,387	364,818
Operating fixed assets	10	26,071	21,478
Deferred tax asset - net	11	109,799	7,283
Other assets	12	119,188	47,126
		<u>8,285,454</u>	<u>5,815,466</u>
LIABILITIES			
Bills payable		-	-
Borrowings from financial institutions	13	1,857,327	459,957
Deposits and other accounts		-	-
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	14	134,609	32,523
		<u>1,991,936</u>	<u>492,480</u>
NET ASSETS		<u><u>6,293,518</u></u>	<u><u>5,322,986</u></u>
REPRESENTED BY			
Share capital	15	5,000,000	5,000,000
Advance against share capital	16	490,825	-
Reserves	17	163,533	89,250
Unappropriated profit		654,137	357,003
		<u>6,308,495</u>	<u>5,446,253</u>
Deficit on revaluation of assets - net of tax	18	(14,977)	(123,267)
		<u><u>6,293,518</u></u>	<u><u>5,322,986</u></u>
CONTINGENCIES AND COMMITMENTS	19		

The annexed notes 1 to 38 form an integral part of these financial statements.

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N. Kohzadi

Chairman

[Signature]
Chief Executive and
Managing Director

[Signature]
Director

G. Solari
Director

Pak - Iran Joint Investment Company Limited

Profit and Loss Account

For the year ended 31 December 2009

	Note	2009	2008
(Rupees in '000)			
Mark-up / return / interest earned	20	809,863	527,054
Mark-up / return / interest expensed	21	124,744	31,898
Net mark-up / interest income		685,119	495,156
Provision against non performing loans and advances		(191,991)	(37,500)
Provision against lendings to financial institutions		(48,750)	-
Provision for diminution in value of investments	8.3	(15,004)	-
Bad debts written off directly		-	-
		(255,745)	(37,500)
Net mark-up / return / interest income after provisions		429,374	457,656
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		17,906	3,621
Dividend income		17,924	60,266
Income from dealing in foreign currencies		-	-
Gain on sale of securities - net	22	126,684	30,875
Gain on sale of fixed assets		1,812	-
Unrealised loss on revaluation of investments classified as held for trading		(627)	-
Other income		-	-
Total non mark-up / return / interest income		163,699	94,762
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	23	97,529	73,115
Other provisions / write offs		-	-
Other charges - Workers Welfare Fund		12,554	9,398
Total non mark-up / interest expenses		110,083	82,513
Extraordinary items		-	-
PROFIT BEFORE TAXATION		482,990	469,905
Taxation - Current	24	212,353	152,923
- Prior year		(280)	101
- Deferred		(100,500)	(1,265)
		111,573	151,759
PROFIT AFTER TAXATION		371,417	318,146
(Rupees)			
Basic and diluted earnings per share	25	0.74	0.74

The annexed notes 1 to 38 form an integral part of these financial statements.

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N. Kohzadeh

Chairman

Chief Executive and
Managing Director

Director

G. S. R.

Director

Pak - Iran Joint Investment Company Limited
Statement of Comprehensive Income
For the year ended 31 December 2009

	2009	2008
	(Rupees in '000)	
Profit after taxation for the year	371,417	318,146
Other comprehensive income	-	-
Total comprehensive income for the year	<u><u>371,417</u></u>	<u><u>318,146</u></u>

The annexed notes 1 to 38 form an integral part of these financial statements.

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N. Kohzade
Chairman


Chief Executive and
Managing Director


Director


Director

Pak - Iran Joint Investment Company Limited
Cash Flow Statement
For the year ended 31 December 2009

Note	2009	2008
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	482,990	469,905
Dividend income	(17,924)	(60,266)
	<u>465,066</u>	<u>409,639</u>
Adjustments:		
Depreciation	5,986	4,639
Amortisation	2,020	509
Provision against loans and advances	191,991	37,500
Provision against lendings to financial institutions	48,750	-
Provision for compensated absences	1,252	2,231
Provision for Worker's Welfare Fund	12,554	9,398
Provision for Gratuity	3,750	-
Unrealised gain on held for trading securities	627	-
Profit on sale of operating fixed assets	(1,812)	-
Provision against diminution in value of investments	15,004	-
	<u>280,122</u>	<u>54,277</u>
	745,188	463,916
(Increase) / decrease in operating assets		
Lendings to financial institutions	116,000	(11,000)
Advances	(772,560)	(327,318)
Other assets (excluding advance taxation)	(71,162)	(10,813)
	<u>(727,722)</u>	<u>(349,131)</u>
Increase / (decrease) in operating liabilities		
Borrowings from financial institutions	1,397,370	459,957
Other liabilities (excluding current taxation)	5,771	(590)
	<u>1,403,141</u>	<u>459,367</u>
Income taxes paid	(133,313)	(195,769)
Net cash flow from operating activities	<u>1,287,294</u>	<u>378,383</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	(2,875,877)	(1,725,882)
Net investments in held to maturity securities	204,987	(204,987)
Net investments in held for trading securities	(124,644)	-
Dividend received	17,024	60,106
Sale proceeds from sale of operating fixed assets	4,176	-
Investments in operating fixed assets	(14,964)	(12,316)
Net cash used in investing activities	<u>(2,789,298)</u>	<u>(1,883,079)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of right shares	-	1,000,000
Advance against share capital	490,825	-
Net cash generated from financing activities	<u>490,825</u>	<u>1,000,000</u>
Decrease in cash and cash equivalents	(1,011,179)	(504,696)
Cash and cash equivalents at beginning of the year	2,323,263	2,827,959
Cash and cash equivalents at end of the year	<u>1,312,084</u>	<u>2,323,263</u>

The annexed notes 1 to 38 form an integral part of these financial statements.

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N. Kobzadu
Chairman

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Chief Executive and
Managing Director

Handwritten signature
Director


G. S. Ai
Director

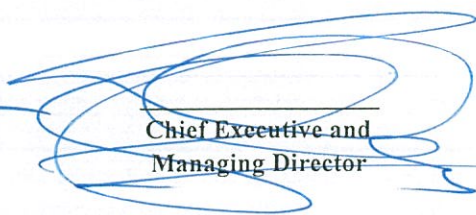
Pak - Iran Joint Investment Company Limited
 Statement of Changes in Equity
 For the year ended 31 December 2009

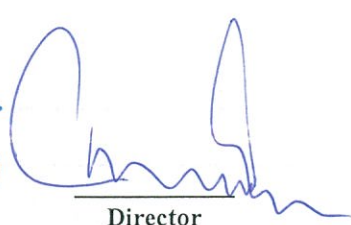
	Share capital	Advance against share capital	Statutory reserves	Unappropriated profit	Total
	(Rupees in '000)				
Balance as at 31 December 2007	4,000,000	-	25,621	102,486	4,128,107
Total comprehensive income for the year ended 31 December 2008 - profit for the year	-	-	-	318,146	318,146
Transfer to statutory reserve	-	-	63,629	(63,629)	-
<i>Transactions with owners recognised directly in equity</i>					
Issue of right shares	1,000,000	-	-	-	1,000,000
Balance as at 31 December 2008	<u>5,000,000</u>	<u>-</u>	<u>89,250</u>	<u>357,003</u>	<u>5,446,253</u>
Total comprehensive income for the year ended 31 December 2009 - profit for the year	-	-	-	371,417	371,417
Transfer to statutory reserve	-	-	74,283	(74,283)	-
<i>Transactions with owners recognised directly in equity</i>					
Advance against share capital	-	490,825	-	-	490,825
Balance as at 31 December 2009	<u>5,000,000</u>	<u>490,825</u>	<u>163,533</u>	<u>654,137</u>	<u>6,308,495</u>


The annexed notes 1 to 38 form an integral part of these financial statements.

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 N. Kohzadeh
 Chairman


 Chief Executive and
 Managing Director


 Director


 G. S. S. S. S.
 Director

Pak - Iran Joint Investment Company Limited

Notes to the Financial Statements

For the year ended 31 December 2009

1. STATUS AND NATURE OF BUSINESS

Pak - Iran Joint 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 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 is situated at Progressive Plaza, Beaumont Road, 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.

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.

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The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for DFIs through BSD Circular letter No. 11 dated 11 September 2002 till further instructions. In addition the Securities and Exchange Commission of Pakistan has deferred the applicability of International Financial Reporting Standard 7, Financial Instruments: Disclosures (IFRS 7) 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. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars.

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

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than increase in disclosures in certain cases.

Revised IFRS 3 Business Combinations (applicable for annual periods beginning on or after 1 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit or loss and any non-controlling (minority) interest to be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of an acquiree on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the Company's financial statements.

Amended IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard is not likely to have an effect on the Company's financial statements.

IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Company's operations.

IFRIC 17 - Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009) states that when a company distributes non cash assets to its shareholders as dividend the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognized in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognized in the income statement. As the Company does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Company's financial statements.

The International Accounting Standards Board made certain amendments to existing standards as part of its second annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Company's 2010 financial statements. These amendments are unlikely to have an impact on the Company's financial statements.

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Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). Currently effective IFRSs require attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro-rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Company's financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Company's financial statements.

IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after 1 January 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

Amendments to IFRIC 14 and IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Company's financial statements.

Improvements to IFRSs 2008 - Amendments to IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations - (effective for annual periods beginning on or after 1 July 2009). The amendments specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale if criteria in IFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. This amendment is not likely to have any impact on the Company's Financial Statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Changes in accounting policies

Starting 1 January 2009, the Company has changed its accounting policies in the following areas:

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The Company has applied "Revised IAS 1 Presentation of Financial Statements (2007)" which became effective from 1 January 2009. This standard required the Company to present in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

The Company has applied "IFRS 8 Operating Segments" from 1st January 2009. The Company determines and presents the operating segments based on the informations that is internally provided to the Managing Director / Chief Executive Officer, who is the Company's chief operating decision maker which is in detail and has been aggregated in line with the format issued by SBP. The new accounting policy disclosed in note 4.15 has no impact on segments previously disclosed.

Comparative information has been re-presented so that it is in conformity with the revised standards. Since the changes in accounting policies only affect presentation of financial statements, there is no impact on earnings per share.

4.2 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.

4.3 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.

4.4 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.

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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.

Unquoted equity securities excluding investments in subsidiaries and associates are valued at the lower of cost and break-up value. 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 directly in equity is removed from equity 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.

Profit or loss on sale of investments is included in profit and loss account.

4.5 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.

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4.6 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 income 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.

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.

4.7 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.

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 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.

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4.6 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.

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4.7 Taxation

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A deferred tax asset is recognised only to the extent that it is probable that future taxable profits would 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.

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4.8 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.

4.9 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 till maturity.

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.

4.10 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.

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4.11 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.

4.12 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.

4.13 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.

4.14 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.

4.15 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.

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4.16 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.

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.

4.17 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.

5. CASH AND BALANCES WITH TREASURY BANKS

	2009	2008
	(Rupees in '000)	
In hand		
Local currency	38	2
Foreign currencies	713	203
	<u>751</u>	<u>205</u>
With State Bank of Pakistan in		
Local currency current account	887	1,184
With National Bank of Pakistan in		
Local currency current account	30	30
Local currency deposit account	965	505,468
	5.1	
	<u>995</u>	<u>505,498</u>
	<u>2,633</u>	<u>506,887</u>

- 5.1 These carry mark-up at rates ranging from 5% to 15.5% per annum (2008: 5% to 17.5% per annum) with maturity upto January 2010 (2008: March 2009).

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6. BALANCES WITH OTHER BANKS

2009 2008
(Rupees in '000)

Inside Pakistan			
In current accounts		325	504
In deposit accounts	6.1	<u>209,126</u>	<u>315,872</u>
		<u>209,451</u>	<u>316,376</u>
Term Deposit Receipts	6.2	<u>1,100,000</u>	<u>1,500,000</u>
		<u><u>1,309,451</u></u>	<u><u>1,816,376</u></u>

6.1 These carry mark-up at the rate of 5% per annum (2008: 5% per annum).

6.2 These carry mark-up at rates ranging from 12.8% to 12.95% per annum (2008: 15.5% to 17.5% per annum) with maturity upto March 2010 (2008: March 2009).

7. LENDINGS TO FINANCIAL INSTITUTIONS

Letters of placement	7.2	495,000	586,000
Reverse repurchase agreement lendings	7.3	-	25,000
		<u>495,000</u>	<u>611,000</u>
Specific provisions against lendings to financial institution:	7.4	<u>(48,750)</u>	-
Lendings to financial institutions - net of provision		<u><u>446,250</u></u>	<u><u>611,000</u></u>

7.1 Particulars of lendings to financial institutions - gross

In local currency	495,000	611,000
In foreign currencies	-	-
	<u>495,000</u>	<u>611,000</u>

7.2 These placements carry mark-up at rates ranging from 12.75% to 15% per annum (2008 : 21% to 23%) with maturity upto January 2010 (2008: January 2009).

7.3 Securities held as collateral against lendings to financial institutions

	2009			2008		
	Held by company	Further given as collateral	Total	Held by company	Further given as collateral	Total
	------(Rupees in '000)-----					
Listed shares	-	-	-	25,000	-	25,000

7.4 Lendings include a clean placement of Rs.195 million to an Investment Bank which has been classified as Sub-standard by the State Bank of Pakistan and this amount of Rs.48.75 million represents the relevant provision.

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8. INVESTMENTS

8.1 Investments by types	2009			2008		
	Held by company	Given as collateral	Total	Held by company	Given as collateral	Total
(Rupees in '000)						
Held for trading securities						
Fully paid up ordinary shares / certificates / units - Listed	124,644	-	124,644	-	-	-
Available for sale securities						
Market treasury bills	555,201	1,871,377	2,426,578	1,012,911	463,730	1,476,641
Fully paid up ordinary shares / certificates / units - Listed	809,046	-	809,046	159,871	-	159,871
Sukuk bonds-unlisted	293,902	-	293,902	210,000	-	210,000
Term finance certificates	1,712,625	-	1,712,625	519,762	-	519,762
	3,370,774	1,871,377	5,242,151	1,902,544	463,730	2,366,274
Held to maturity securities						
Commercial papers	-	-	-	204,987	-	204,987
Investments at cost	3,495,418	1,871,377	5,366,795	2,107,531	463,730	2,571,261
Provision for diminution in value of investments	8.3 (15,004)	-	(15,004)	-	-	-
Investments - net of provisions	3,480,414	1,871,377	5,351,791	2,107,531	463,730	2,571,261
Deficit on revaluation of 'held for trading' securities	(627)	-	(627)	-	-	-
Deficit on revaluation of 'available for sale' securities	18 (21,777)	(2,712)	(24,489)	(127,156)	(3,607)	(130,763)
Total investments at market value	3,458,010	1,868,665	5,326,675	1,980,375	460,123	2,440,498

8.2 Investments by segments

	2009	2008
(Rupees in '000)		
Federal Government securities		
- Market treasury bills	8.4 2,426,578	1,476,641
Fully paid up ordinary shares / certificates / units		
- Listed	933,690	159,871
- Unlisted	-	-
	933,690	159,871
Term finance certificates (TFCs)		
- Listed	1,412,625	369,762
- Unlisted	300,000	150,000
	1,712,625	519,762
Commercial papers	-	204,987
Sukuk bonds - unlisted	293,902	210,000
Total investments at cost	5,366,795	2,571,261
Provision for diminution in value of investments	8.3 (15,004)	-
Investments - net of provisions	5,351,791	2,571,261
Deficit on revaluation of 'held for trading' securities	(627)	-
Deficit on revaluation of available for sale securities	18 (24,489)	(130,763)
Total investments at market value	5,326,675	2,440,498

8.3 Particulars of provision for diminution in value of investments

Opening balance	-	-
Charge for the year	8.3.1 (15,004)	-
Closing balance	(15,004)	-

8.3.1 Particulars of provision in respect of Type and Segment

Available for Sale securities		
- Fully paid up ordinary shares / certificates / units - Listed	(15,004)	-

8.4 Market Treasury Bills carry yield ranging from 11.65% to 13.05% (2008 : 10.51% to 13.05%) per annum with maturities upto March 2010 (2008: March 2009).

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8.5 Quality of held for trading securities

No. of Shares / Certificates / Units			Market value		Cost		Long / medium term credit rating	Rated by
			2009	2008	2009	2008		
		(Rupees in '000)						(Entity)
2009	2008	Shares / Certificates / Units in Listed Companies						
105,000	-	Adamjee Insurance Company Limited	12,947	-	12,358	-	AA	PACRA
50,000	-	Attock Refinery Limited	6,897	-	6,909	-	AA/A1+	PACRA
100,000	-	Engro Chemicals (Pakistan) Limited	18,327	-	18,109	-	AA/A1+	PACRA
250,000	-	Engro Polymer and Chemicals Limited	4,485	-	5,452	-	-	-
50,000	-	Fauji Fertilizer Bin Qasim Limited	1,307	-	1,277	-	-	-
50,000	-	Habib Bank Limited	6,172	-	6,229	-	AA+	JCR-VIS
50,000	-	The Hub Power Company Limited	1,554	-	1,582	-	AA+ / A1+	PACRA
75,000	-	MCB Bank Limited	16,476	-	16,337	-	-	-
200,000	-	National Bank of Pakistan	14,874	-	15,651	-	AAA	JCR-VIS
275,000	-	Oil & Gas Development Company Limited	30,418	-	29,160	-	AAA	JCR-VIS
350,000	-	Pakistan Telecommunication Company Limited	6,178	-	6,842	-	-	-
75,000	-	United Bank Limited	4,384	-	4,738	-	AA+	JCR-VIS
			<u>124,019</u>	<u>-</u>	<u>124,644</u>	<u>-</u>		

8.6 Quality of available for sale securities

			Market value		Cost		Long / medium term credit rating	Rated by
			2009	2008	2009	2008		
		(Rupees in '000)						(Entity)
		Market Treasury Bills	<u>2,423,062</u>	<u>1,472,423</u>	<u>2,426,578</u>	<u>1,476,641</u>	Unrated - Government Securities	
		Shares / Certificates / Units in Listed Companies						
10,011,494	-	ABL Income Fund	100,208	-	100,000	-	A+	JCR-VIS
635,000	40,000	Adamjee Insurance Company Limited	78,296	4,074	64,556	9,585	AA	PACRA
225,500	225,500	Al Meezan Mutual Fund	1,488	807	2,946	2,946	-	-
500,000	-	Azgard Nine Limited	10,395	-	13,527	-	A+ / A1	PACRA
975,025	177,800	Bank Alfalah Limited	13,426	2,975	15,883	8,293	AA / A1+	PACRA
175,000	200,000	BankIslami Pakistan Limited	1,027	1,450	3,323	3,798	A / A1	PACRA
40,000	40,000	Byco Petroleum Pakistan Limited	380	186	761	761	-	-
500,000	297,800	D.G. Khan Cement Company Limited	16,280	6,334	17,821	15,794	-	-
-	156,745	Dawood Money Market Fund	-	9,764	-	15,000	-	-
484,800	30,000	Engro Chemical (Pakistan) Limited	88,849	2,894	74,747	6,165	AA / A1+	PACRA
1,830,000	-	Engro Polymer and Chemicals Limited	32,830	-	39,943	-	-	-
974,184	-	Faisal Savings Growth Fund	100,253	-	100,000	-	A	JCR-VIS
82,500	-	Fauji Fertilizer Company Limited	8,492	-	7,618	-	-	-
562,500	562,500	Golden Arrow Stock Fund	1,688	1,148	3,448	3,449	-	-
100,000	55,000	Habib Bank Limited	12,344	4,117	12,488	9,536	AA+	JCR-VIS
1,475,000	446,000	The Hub Power Company Limited	45,843	6,284	40,486	10,238	AA+ / A1+	PACRA
10,329	2,700	IGI Insurance Company Limited	908	311	1,084	497	AA	PACRA
386,221	42,000	Kot Addu Power Company Limited	17,716	1,326	15,867	1,875	-	-
968,581	-	MCB Dynamic Cash Fund	100,204	-	100,000	-	-	-
75,000	200,000	National Bank of Pakistan	5,578	10,064	5,159	24,105	AAA	JCR-VIS
-	100,100	Nishat Mills Limited	-	2,262	-	6,217	A+ / A1	PACRA
5,000,000	-	NIT Government Bond Fund	50,668	-	50,000	-	-	-
350,000	80,200	Oil & Gas Development Company Limited	38,714	4,009	36,136	9,034	AAA	JCR-VIS
1,341,500	276,500	PACE (Pakistan) Limited	7,848	2,389	14,092	7,815	A / A1	PACRA
100,000	6,000	Pakistan Oilfields Limited	23,077	615	19,061	1,424	-	-
70,000	-	Pakistan Petroleum Limited	13,271	-	12,660	-	-	-
910,000	910,000	Pakistan Premier Fund Limited	5,415	1,838	11,599	11,599	-	-
1,775,000	300,000	Pakistan Telecommunication Company Limited	31,329	5,067	32,385	10,202	-	-
135,500	135,500	Safeway Mutual Fund	833	1,762	1,538	1,538	-	-
32,000	-	Shell (Pakistan) Limited	8,012	-	8,640	-	-	-
234,000	-	Sui Southern Gas Company Limited.	3,143	-	3,278	-	AA- / A1+	PACRA
			<u>818,515</u>	<u>69,676</u>	<u>809,046</u>	<u>159,871</u>		

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No. of Certificates of Rs. 5,000 each		Market value		Cost		Long/ medium term credit rating	Rated by	
		2009	2008	2009	2008			
2009	2008	------(Rupees in '000)-----				(Entity)		
Sukuk								
30,000	30,000	Eden Housing Limited	122,591	132,800	131,250	150,000	BBB+	JCR-VIS
12,000	12,000	Sitara Peroxide Limited	45,000	60,000	60,000	60,000	Unrated	-
20,530	-	Liberty Powertech Limited	102,652	-	102,652	-	-	-
			<u>270,243</u>	<u>192,800</u>	<u>293,902</u>	<u>210,000</u>		
Term Finance Certificates								
<i>Listed</i>								
30,000	-	Allied Bank Limited	134,250	-	134,250	-	AA-	PACRA
49,136	-	Askari Bank Limited	239,187	-	245,680	-	AA-	PACRA
15,200	-	Bank Alfalah Limited - II	74,172	-	72,545	-	AA-	PACRA
5,000	-	Bank Alfalah Limited - III	24,061	-	23,088	-	AA-	PACRA
20,000	-	Bank Alfalah Limited - IV	97,033	-	100,000	-	AA-	PACRA
8,000	8,000	Escorts Investment Bank Limited	33,018	37,075	32,465	38,517	A+	JCR-VIS
37,024	-	Engro Chemical Pakistan Limited	172,024	-	177,892	-	AA	PACRA
50,000	2,000	NIB Bank Limited	229,306	79,233	223,937	89,762	A+	PACRA
25,000	25,000	Orix Leasing Pakistan Limited	104,523	120,639	102,695	123,501	AA+	PACRA
6,000	6,000	Trust Investment Bank Limited	26,845	26,682	29,988	30,000	BBB	PACRA
40,000	20,000	United Bank Limited (IV)	176,243	86,983	174,900	87,982	AA	JCR-VIS
			<u>1,310,662</u>	<u>350,612</u>	<u>1,317,440</u>	<u>369,762</u>		
<i>Unlisted</i>								
40,000	-	Pak Electron Limited	200,000	-	200,000	-	unrated	-
39,037	-	Engro Chemical Pakistan	195,185	-	195,185	-	unrated	-
-	30,000	Allied Bank Limited (Pre-IPO)	-	150,000	-	150,000	-	-
			<u>395,185</u>	<u>150,000</u>	<u>395,185</u>	<u>150,000</u>		
Total			<u><u>5,217,667</u></u>	<u><u>2,235,511</u></u>	<u><u>5,242,151</u></u>	<u><u>2,366,274</u></u>		

9. ADVANCES

	2009	2008	
	(Rupees in '000)		
Loans in Pakistan	9.1.3	1,148,623	385,000
Staff loans	9.2 & 9.3	26,255	17,318
Advances - gross		<u>1,174,878</u>	<u>402,318</u>
Provision for non-performing loans and advances	9.5	<u>(229,491)</u>	<u>(37,500)</u>
Advances - net of provision		<u><u>945,387</u></u>	<u><u>364,818</u></u>
9.1 Particulars of advances - gross			
9.1.1 In local currency		1,174,878	402,318
In foreign currencies		-	-
		<u>1,174,878</u>	<u>402,318</u>
9.1.2 Short-term (upto one year)		478,188	335,309
Long-term (over one year)		696,690	67,009
		<u>1,174,878</u>	<u>402,318</u>

9.1.3 This includes an advance against investment with an Investment Bank ("the borrower") amounting to Rs. 291 million. It was classified as placement which was due to mature on 6 December 2008. The placement was not repaid on the due date, however, the mark-up on the outstanding placement was received upto 31 December 2009. For settlement of the above placement, a Settlement Agreement was signed with the borrower, through which the borrower has agreed to transfer 29,685,986 sponsor shares of Rs. 10 each of one of its group companies which will settle both the principal and the mark-up. The Company is hopeful that the sponsor shares will be transferred in name of the Company after 31 March 2010 and the Company has obtained a stay order from High Court ruling the shares in its favour by restraining sponsors of that bank to transfer those shares to any other person.

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.

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

	2009	2008
	(Rupees in '000)	
Debts due by executives or officers of the Company or any of them either severally or jointly with any other persons		
Balance at beginning of the year	16,888	-
Loans granted during the year	10,592	17,700
Repayments during the year	(1,372)	(812)
Balance at end of the year	<u>26,108</u>	<u>16,888</u>

9.4 In accordance with BSD Circular No. 10 dated 20 October 2009 issued by the State Bank of Pakistan, the DFI has availed the benefit of classification / provisioning requirements in respect of rescheduling / restructuring of classified loans and advances. Had the benefit of classification / provisioning not been availed by the DFI the specific provision against non-performing advances would have been higher and consequently profit before taxation and advances (net of provisions) as at 31 December 2009 would have been lower by approximately Rs. 145.50 million. Increase in profit would not be available for the distribution of cash and stock dividend to the shareholders.

9.5 Advances includes Rs. 443 million (2008: Nil) which have been placed under non-performing status as detailed below:

	2009								
	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	77,011	-	77,011	8,991	-	8,991	8,991	-	8,991
Doubtful	291,000	-	291,000	145,500	-	145,500	145,500	-	145,500
Loss	75,000	-	75,000	75,000	-	75,000	75,000	-	75,000
	<u>443,011</u>	<u>-</u>	<u>443,011</u>	<u>229,491</u>	<u>-</u>	<u>229,491</u>	<u>229,491</u>	<u>-</u>	<u>229,491</u>

	2008								
	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	75,000	-	75,000	37,500	-	37,500	37,500	-	37,500
Loss	-	-	-	-	-	-	-	-	-
	<u>75,000</u>	<u>-</u>	<u>75,000</u>	<u>37,500</u>	<u>-</u>	<u>37,500</u>	<u>37,500</u>	<u>-</u>	<u>37,500</u>

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

	2009			2008		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
Opening balance	37,500	-	37,500	-	-	-
Charge for the year	191,991	-	191,991	37,500	-	37,500
Reversals	-	-	-	-	-	-
	191,991	-	191,991	37,500	-	37,500
Amounts written off	-	-	-	-	-	-
Closing balance	<u>229,491</u>	<u>-</u>	<u>229,491</u>	<u>37,500</u>	<u>-</u>	<u>37,500</u>

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9.7 Particulars of provision for non-performing advances

	2009			2008		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	229,491	-	229,491	37,500	-	37,500

10. OPERATING FIXED ASSETS

		2009	2008
		(Rupees in '000)	
Capital work-in-progress	10.1	3,677	3,950
Property and equipment	10.2	18,864	15,978
Intangible asset	10.3	3,530	1,550
		<u>26,071</u>	<u>21,478</u>

10.1 Capital work-in-progress

	2009	2008
Civil works	3,677	750
Intangibles	-	3,200
	<u>3,677</u>	<u>3,950</u>

10.2 Property and equipment

	2009						Net book value at 31 December 2009	Annual rate of depreciation %
	Cost			Accumulated depreciation				
	At 1 January 2009	Additions / (disposals)	At 31 December 2009	At 1 January 2009	Charge / (disposals)	At 31 December 2009		
	(Rupees in '000)							
Owned								
Furniture and fixtures	1,754	1,005	2,759	407	549	956	1,803	20%
Electrical, office and computer equipment	8,595	1,522	10,117	2,061	2,049	4,110	6,007	20 to 25%
Vehicles	11,246	8,710 (4,278)	15,678	3,149	3,388 (1,913)	4,624	11,054	25%
	<u>21,595</u>	<u>6,959</u>	<u>28,554</u>	<u>5,617</u>	<u>4,073</u>	<u>9,690</u>	<u>18,864</u>	

	2008						Net book value at 31 December 2008	Annual rate of depreciation %
	Cost			Accumulated depreciation				
	At 1 January 2008	Additions	At 31 December 2008	At 1 January 2008	Depreciation for the year	At 31 December 2008		
	(Rupees in '000)							
Owned								
Furniture and fixtures	1,709	45	1,754	57	350	407	1,347	20%
Electrical, office and computer equipment	6,359	2,236	8,595	371	1,690	2,061	6,534	20 to 25%
Vehicles	7,220	4,026	11,246	550	2,599	3,149	8,097	25%
	<u>15,288</u>	<u>6,307</u>	<u>21,595</u>	<u>978</u>	<u>4,639</u>	<u>5,617</u>	<u>15,978</u>	

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10.3 Intangible assets

	2009						Net book value at 31 December 2009	Annual rate of amortisation %
	Cost			Accumulated amortisation				
	At 1 January 2009	Additions	At 31 December 2009	At 1 January 2009	Amortisation for the year	At 31 December 2009		
(Rupees in '000)								
Computer software	2,059	4,000	6,059	509	2,020	2,529	3,530	33%
2009	2,059	4,000	6,059	509	2,020	2,529	3,530	
2008	-	2,059	2,059	-	509	509	1,550	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 (whichever is less):

Particulars	Cost	Book value	Sale price / insurance	Mode of settlement / disposal	Particulars of buyers / insurance companies
Vehicles					
Toyota Camry	2,750	1,438	3,000	Insurance claim	TPL Direct Insurance Limited
Honda Civic	1,528	923	1,173	As per rules	Mr. M. Ali Siddiqui

11. DEFERRED TAX ASSETS / (LIABILITIES) - NET

	2009	2008
	(Rupees in '000)	
Deferred tax assets / (liabilities) - net	11.1	109,799
		7,283

11.1 The balance of deferred taxation comprises

Debit / (credit) balances arising on account of:

Deficit on revaluation of assets - net	9,512	7,496
Provision for compensated absences	1,219	781
Accelerated tax depreciation allowance	370	(994)
Provision for gratuity	1,313	-
Provision against non performing loans	80,322	-
Provision against lending to financial institutions	17,063	-
	<u>109,799</u>	<u>7,283</u>

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11.2 Movement in temporary differences during the year

	Balance 1 January 2009	Recognised in profit and loss	Recognised in equity	Balance 31 December 2009
(Rupees in '000)				
Debit / (credit) balances arising on account of				
Deficit on revaluation of assets - net	7,496		2,016	9,512
Provision for compensated absences	781	438	-	1,219
Accelerated tax depreciation allowance	(994)	1,364	-	370
Provision for gratuity	-	1,313	-	1,313
Provision against non performing loans	-	80,322	-	80,322
Provision against lending to financial institutions	-	17,063	-	17,063
	<u>7,283</u>	<u>100,500</u>	<u>2,016</u>	<u>109,799</u>

	Balance 1 January 2008	Recognised in profit and loss	Recognised in equity	Balance 31 December 2008
(Rupees in '000)				
Debit / (credit) balances arising on account of				
Deficit on revaluation of assets - net	-	-	7,496	7,496
Provision for compensated absences	-	781	-	781
Accelerated tax depreciation allowance	(1,478)	484	-	(994)
	<u>(1,478)</u>	<u>1,265</u>	<u>7,496</u>	<u>7,283</u>

12. OTHER ASSETS

	2009	2008
(Rupees in '000)		
Income / mark-up accrued in local currency	104,851	43,185
Dividend receivable	1,060	160
Security deposits	6,617	2,294
Advances, deposits, advance rent and other prepayments	6,660	1,487
	<u>119,188</u>	<u>47,126</u>

13. BORROWINGS FROM FINANCIAL INSTITUTIONS

In Pakistan (local currency)	13.1	<u>1,857,327</u>	<u>459,957</u>
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13.1 Details of borrowings Secured / Unsecured

Secured

Repurchase agreement borrowings	13.2	<u>1,857,327</u>	<u>459,957</u>
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13.2 These carry mark-up at rates ranging from 12.05% to 12.4% per annum (2008: 14.9%) and are secured against Government Securities having carrying amount of Rs. 1,868.665 million (2008: 460.123 million). The borrowings will mature upto January 2010 (2008: January 2009).

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14. OTHER LIABILITIES	2009	2008
	(Rupees in '000)	
Mark-up / return / interest payable in local currency	6,560	188
Payable to an associated undertaking	-	5,392
Accrued expenses	1,491	743
Workers' Welfare Fund payable	21,952	9,398
Provision for taxation - net	85,464	6,704
Provision for compensated absences	3,483	2,231
Provision for gratuity	3,750	-
Provision for bonus to employees	9,825	5,400
Others	2,084	2,467
	<u>134,609</u>	<u>32,523</u>

15. SHARE CAPITAL

15.1 Authorised capital

2009	2008		2009	2008
(Number of shares)			(Rupees in '000)	
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs. 10 each	<u>10,000,000</u>	<u>10,000,000</u>

15.2 Issued, subscribed and paid-up capital Ordinary Shares of Rs.10 each

2009	2008		2009	2008
(Number of shares)			(Rupees in '000)	
500,000,000	400,000,000	Ordinary shares of Rs. 10 each issued for cash	5,000,000	4,000,000
-	100,000,000	Right shares of Rs. 10 each issued for cash	-	1,000,000
<u>500,000,000</u>	<u>500,000,000</u>		<u>5,000,000</u>	<u>5,000,000</u>

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

Name of shareholder	2009		2008	
	Number of shares held	Percentage of shareholding	Number of shares held	Percentage of shareholding
Government of Pakistan *	250,000,000	50%	250,000,000	50%
Iran Foreign Investment Company *	250,000,000	50%	250,000,000	50%
	<u>500,000,000</u>	<u>100%</u>	<u>500,000,000</u>	<u>100%</u>

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

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16. ADVANCE AGAINST SHARE CAPITAL	2009	2008
	(Rupees in '000)	
Advance against Share Capital	<u>490,825</u>	<u>-</u>
<p>This amount was received during the year from Iranian Foreign Investment Company (IFIC) for the issue of shares to meet the State Bank of Pakistan's minimum capital requirement for Banks/DFIs which it introduced vide its BSD Circular No.7 dated 15 April 2009. The Company obtained extension from State Bank of Pakistan till 31 January 2010 for fulfillment of requirement which was later fulfilled by issuing shares to Pakistan Government and IFIC.</p>		
17. RESERVES -STATUTORY RESERVES		
At beginning of the year	89,250	25,621
Transfer during the year	74,283	63,629
	<i>17.1</i> <u>163,533</u>	<u>89,250</u>
17.1	<p>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.</p>	
18. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX		
Surplus arising on revaluation of quoted equity securities	9,464	(90,195)
Deficit arising on revaluation of T-Bills	(3,517)	(4,218)
Deficit arising on revaluation of TFCs	(6,777)	(19,150)
Deficit arising on revaluation of Sukuk Bonds	(23,659)	(17,200)
	<u>(24,489)</u>	<u>(130,763)</u>
Related deferred tax asset	<i>11.1</i> <u>9,512</u>	<u>7,496</u>
	<u>(14,977)</u>	<u>(123,267)</u>
19. CONTINGENCIES AND COMMITMENTS		
19.1 Commitments for the acquisition of computer software	<u>-</u>	<u>800</u>
19.2 Commitments for civil works	<u>8,805</u>	<u>-</u>
19.3 Commitments to extend credit	<u>411,736</u>	<u>-</u>
19.4 Commitments in respect of repo transactions		
Repurchase	<u>1,863,887</u>	<u>460,333</u>
Resale	<u>-</u>	<u>25,822</u>

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20. MARK-UP / RETURN / INTEREST EARNED	2009	2008
	(Rupees in '000)	
On loans and advances to Customers	112,153	36,072
On investments in:		
- Available for sale securities	419,629	95,670
- Held to maturity securities	23,157	35,315
On deposits with financial institutions	1,186	85,431
On securities purchased under resale agreements	5,050	4,778
On placements	248,688	231,462
Financing in respect of continuous funding system	-	38,326
	<u>809,863</u>	<u>527,054</u>
21. MARK-UP / RETURN / INTEREST EXPENSED		
Securities sold under repurchase agreements	119,154	15,630
Other short-term borrowings	5,590	16,268
	<u>124,744</u>	<u>31,898</u>
22. GAIN ON SALE OF SECURITIES		
On listed shares and mutual funds	126,684	6,993
On listed Term Finance Certificates	-	23,882
	<u>126,684</u>	<u>30,875</u>
23. ADMINISTRATIVE EXPENSES		
Salaries, allowances and benefits	52,886	40,418
Contribution to defined benefit plan	28 3,750	-
Contribution to defined contribution plan	29 2,372	1,848
Non-executive directors' fee	30 2,309	2,762
Rent and utilities	10,098	3,752
Repairs and maintenance	956	613
Insurance	1,200	796
Communication	832	680
Advertisement	252	156
Depreciation	10.2 5,986	4,639
Amortisation	10.3 2,020	509
Printing and stationery	692	414
Legal and professional charges	1,564	1,689
Travelling, conveyance and entertainment	4,685	4,239
Vehicle running and maintenance	2,075	1,975
Brokerage and commissions	-	3,531
Bank charges	504	46
Fee and subscriptions	1,542	2,653
Auditors' remuneration	23.1 400	300
Others	3,406	2,095
<i>W.M.C.N</i>	<u>97,529</u>	<u>73,115</u>

23.1 Auditors' remuneration	2009	2008
	(Rupees in '000)	
Audit fee	275	175
Half yearly review	75	75
Special certifications and others	25	25
Out of pocket expenses	25	25
	<u>400</u>	<u>300</u>
24. TAXATION		
Current	212,353	152,923
Prior year	(280)	101
Deferred	(100,500)	(1,265)
	<u>111,573</u>	<u>151,759</u>
24.1 Relationship between tax expense and accounting profit		
Profit before tax	<u>482,990</u>	<u>469,905</u>
Tax on income @ 35%	169,047	164,467
Net tax effect on income taxed at reduced rates	(4,481)	(15,067)
Net tax effect on income subject to FTR	(4,476)	
Net tax effect of income / expenses not subject to tax	(44,339)	(10,806)
Tax effect of expenses that are not deductible in determining taxable profit	94,866	13,125
Net deductible temporary difference	(100,500)	(1,265)
Prior years charge	(280)	101
Others	1,736	1,204
Tax charge	<u>111,573</u>	<u>151,759</u>
25. BASIC / DILUTED EARNINGS PER SHARE		
Profit after taxation for the year	<u>371,417</u>	<u>318,146</u>
	(Number of shares in '000)	
Weighted average number of ordinary shares outstanding	<u>500,000</u>	<u>430,274</u>
	(Rupees)	
Basic / diluted earnings per share	<u>0.74</u>	<u>0.74</u>
26. CASH AND CASH EQUIVALENTS		
	(Rupees in '000)	
Cash and balances with treasury banks	2,633	506,887
Balances with other banks	1,309,451	1,816,376
	<u>1,312,084</u>	<u>2,323,263</u>

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27. STAFF STRENGTH

	2009	2008
	(Number)	
Permanent	29	22
Contractual	7	2
Company's own staff strength at the end of the year	36	24
Outsourced	2	2
Total staff strength	38	26

28. DEFINED BENEFIT PLAN

28.1 General description

As mentioned in note 4.16, 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.

28.2 Principal actuarial assumptions

The actuarial valuation was carried out as at 31 December 2009 using the "Projected Unit Credit Actuarial Cost Method". The information provided in notes 27.2 to 27.8 has been obtained from the actuarial valuation carried out as at 31 December 2009.

	2009
- Discount rate	12.75%
- Expected rate of increase in salaries	10.60%
- Withdrawal rate before normal retirement age	"rare"

28.3 Reconciliation of payable to defined benefit plan

(Rupees in '000)

Present value of defined benefit obligations	3,750
Fair value of any plan assets	-
Net actuarial gains or losses not recognised	-
	3,750

28.4 Movement in defined benefit obligation

Obligation at the beginning of the year	-
Current service cost	3,427
Interest cost	323
Benefits paid by the fund	-
Actuarial (gain) / loss on obligation	-
Obligation at the end of the year	3,750

28.5 Movement in fair value of plan assets

Fair value at the beginning of the year	-
Expected return on plan assets	-
Contribution by the Company	-
Benefits paid by the fund	-
Actuarial gain / (loss) on plan assets	-
Fair value at the end of the year	-

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28.6 Movement in payable to defined benefit plan

2009
(Rupees in '000)

Opening balance	-
Charge for the year	3,750
Company's contribution to the fund made during the year	(3,750)
Closing balance	-

28.7 Charge for defined benefit plan

Current service cost	3,427
Interest cost	323
Expected return on plan assets	-
Amortisation of (gain) / loss	-
	<u>3,750</u>

28.8 The expected gratuity expense for the next year commencing January 01, 2010 works out to Rs. 2.071 million.

29. 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.

	2009 (Rupees in '000)	2008 (Rupees in '000)
Contribution from the Company	<u>2,372</u>	<u>1,848</u>
Contribution from the employees	<u>2,372</u>	<u>1,848</u>

30. COMPENSATION OF DIRECTORS AND EXECUTIVES

	2009			2008		
	Chief Executive / Managing Director	Directors	Executives	Chief Executive / Managing Director	Directors	Executives
	(Rupees in '000)					
Fees	-	2,309	-	-	2,762	-
Managerial remuneration	10,890	-	14,102	6,600	-	13,439
Contribution to defined contribution plan	726	-	1,291	660	-	976
Medical	194	-	1,351	155	-	820
Rent and house maintenance	2,904	-	5,641	2,640	-	4,203
Utilities	726	-	1,410	660	-	1,051
Others	934	-	1,218	825	-	1,145
	<u>16,374</u>	<u>2,309</u>	<u>25,013</u>	<u>11,540</u>	<u>2,762</u>	<u>21,634</u>
Number of persons	<u>1</u>	<u>5</u>	<u>12</u>	<u>1</u>	<u>5</u>	<u>9</u>

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

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31. FAIR VALUE OF FINANCIAL INSTRUMENTS

31.1 On balance sheet financial instruments

	2009		2008	
	Book value (Rupees in '000)	Fair value	Book value (Rupees in '000)	Fair value
Assets				
- Cash and balances with treasury banks	2,633	2,633	506,887	506,887
- Balances with other banks	1,309,451	1,309,451	1,816,376	1,816,376
- Lendings to financial institutions	446,250	446,250	611,000	611,000
- Investments	5,326,675	5,326,675	2,477,998	2,477,998
- Advances	945,387	945,387	327,318	327,318
- Other assets	119,188	119,188	45,705	45,705
	<u>8,149,584</u>	<u>8,149,584</u>	<u>5,785,284</u>	<u>5,785,284</u>
Liabilities				
- Borrowings from financial institutions	1,857,327	1,857,327	459,957	459,957
- Other liabilities	134,609	134,609	32,523	32,523
	<u>1,991,936</u>	<u>1,991,936</u>	<u>492,480</u>	<u>492,480</u>

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.

32. 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)-----			
2009				
Total income	17,906	843,503	112,153	973,562
Total expenses	9,023	425,036	56,513	490,572
Net income before tax	<u>8,883</u>	<u>418,467</u>	<u>55,640</u>	<u>482,990</u>
Segment assets	-	7,156,237	1,129,217	8,285,454
Investments provided for	-	638,011	-	638,011
Segment provision required*	-	278,241	-	278,241
Segment liabilities	-	1,991,936	-	1,991,936
Segment return on assets (ROA)(%)	-	5.85%	4.93%	
Segment cost of funds(%)	-	21.34%	-	
2008				
Total income	3,621	582,123	36,072	621,816
Total expenses	480	146,644	4,787	151,911
Net income before tax	<u>3,141</u>	<u>435,479</u>	<u>31,285</u>	<u>469,905</u>
Segment assets	-	5,348,156	467,310	5,815,466
Investments provided for	-	75,000	-	75,000
Segment provision required*	-	37,500	-	37,500
Segment liabilities	-	492,480	-	1,971,562
Segment return on assets (ROA)(%)	-	8.14%	6.69%	
Segment cost of funds(%)	-	10.69%	-	

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

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33. 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:

33.1 The Key Management Personnel / Directors compensation are as follows:

	2009	2008
	(Rupees in '000)	
Loans and advances to key management personnel		
Balance at beginning of the year	16,888	-
Loans granted during the year	10,592	17,700
Repayments during the year	(1,372)	(812)
Balance at end of the year	<u>26,108</u>	<u>16,888</u>
Mark-up earned on loans and advances to key management personnel	<u>977</u>	<u>425</u>
Non-executive directors' remuneration	<u>2,309</u>	<u>2,762</u>
Salaries and benefits	<u>29,332</u>	<u>29,827</u>
Contribution to defined contribution plan	<u>1,677</u>	<u>1,603</u>
33.2 Contribution to defined contribution plan	<u>2,372</u>	<u>1,848</u>
33.3 Advance against share capital		
Government of Pakistan	<u>-</u>	<u>500,000</u>
Iran Foreign Investment Company	<u>490,825</u>	<u>500,000</u>
33.4 Payable to Iran Foreign Investment Company (Associates)	<u>-</u>	<u>5,392</u>

34. CAPITAL - ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

34.1 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.

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34.2 Capital structure

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

	2009	2008
	(Rupees in '000)	
Tier I Capital		
1.1 Fully Paid-up capital	5,000,000	5,000,000
1.2 Advance against share capital	490,825	-
1.3 Reserves as disclosed on the Balance Sheet	163,533	89,250
1.4 Un-appropriated profits	654,137	357,003
	<u>6,308,495</u>	<u>5,446,253</u>
Deductions:		
1.4 Book value of intangible assets	(3,530)	(1,550)
1.5 Deficit on account of revaluation of investments held in AFS category	(24,489)	(130,763)
	<u>(28,019)</u>	<u>(132,313)</u>
Total eligible Tier I capital	<u>6,280,476</u>	<u>5,313,940</u>
Tier II Capital	-	-
Total eligible Tier III Capital	-	-
Total Regulatory Capital	<u>6,280,476</u>	<u>5,313,940</u>

34.3 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 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 that might be possible with greater gearing and the advantages and security afforded 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.

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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 low risk. The Company's operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of SBP that seek to 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 organisation and aggregate the risks so as to take an integrated view.

In addition, SBP requires that the paid up capital of Development Financial Institutions (DFIs) should be raised to Rs. 6 billion by 31 December 2009. The Company obtained extension to increase its paid up share capital till 31 January 2010 to comply with the aforesaid requirement and subsequently the Share Capital was raised to Rs. 6 billion on 2 February 2010 after receiving payments from Pakistan Government and Iran Foreign Investment Company.

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

	2009	
	Capital requirements	Risk weighted assets
Credit risk		
Claims on:		
Banks	32,813	328,127
Corporates	127,570	1,275,696
Retail portfolio	472	4,719
Secured by residential property	700	6,995
Past due loans	36,183	361,829
Listed equity investments	137,115	1,371,158
Investments in fixed assets	2,254	22,541
All other assets	12,232	122,320
	349,339	3,493,385
Market risk		
Interest rate risk	-	-
Equity risk	93,084	1,163,550
	93,084	1,163,550
Operational risk	77,079	963,488
	519,502	5,620,423
Capital adequacy ratio		
Total eligible regulatory capital held (a)		6,280,476
Total risk weighted assets (b)		5,620,423
Capital adequacy ratio (a) / (b)* 100		111.74%

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35. 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).

Internal Capital Adequacy Assessment Process (ICAAP) and other Basel II techniques such as Earning at Risk and Value at Risk have been adopted in order to have more risk sensitive assessment and reporting. The Company's risk management will constantly evolve as its business activities change in response to credit, market, product and other developments.

35.1 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) and securities borrowing and 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.

As a benchmark of credit risk of a counterparty, external ratings are obtained through SBP authorized External Credit Rating Agencies. For better credit risk management the Company has designed an Internal Risk Rating Based Policy and methodology which has been approved by the Board of Directors.

The credit products mainly comprise of Fund based & Non-Fund based, including short term & long term financing, Project Finance, Term Lending, Reverse Repurchase, Bridge Finance, Investment in TFCs, Sukuk Bonds and Commercial Papers, etc. Exposures, except for term lending, are collateralized by cash equivalents, fixed and current assets including property plant and equipment, and land 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.

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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.

The Company classifies a claim as impaired if it considers that it will suffer a loss on that claim as a result of the obligor's inability to meet its commitments (including interest payments, principal repayments or other payments due) after realization of any available collateral.

35.1.1 Credit Risk – General Disclosures Basel II specific

The Company's adoption of Standardized approach of Basel II will further lead to the implementation of Foundation Internal Rating Based (FIRB) approach. An action plan has already been submitted to SBP along with the timelines of implementation. As an initial step of FIRB compliance, the Risk Management Unit has prepared a policy and methodology of Internal Rating System which has been approved by the Board of Directors.

35.1.2 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	716,512	-	716,512
	2	217,409	-	217,409
	3	26,845	-	26,845
	Unrated	996,844	-	996,844
Banks	1	3,497,966	(1,857,327)	1,640,639
	2,3	-	-	-
Retail		6,292	-	6,292
Sovereigns etc.		2,423,948	-	2,423,948
		<u>7,885,816</u>	<u>(1,857,327)</u>	<u>6,028,489</u>

CRM = Credit Risk Mitigation

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**35.1.2.1 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.

35.1.3 Segmental information

35.1.3.1 Segments by class of business

	2009					
	Advances - Gross		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Cement	75,000	6%	-	-	-	-
Sugar	150,000	14%	-	-	-	-
Electronics and electrical appliances	40,000	3%	-	-	-	-
Construction	280,000	24%	-	-	-	-
Power (electricity), gas, water, sanitary	50,938	4%	-	-	296,410	72%
Financial Services	368,011	31%	-	-	-	-
Individuals	184,674	16%	-	-	115,326	28%
	26,255	2%	-	-	-	-
	<u>1,174,878</u>	<u>100%</u>	<u>-</u>	<u>-</u>	<u>411,736</u>	<u>100%</u>

35.1.3.2 Segment by sector

	2009					
	Advances - Gross		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	50,938	4%	-	-	-	-
Private	1,123,940	96%	-	-	411,736	100%
	<u>1,174,878</u>	<u>100%</u>	<u>-</u>	<u>-</u>	<u>411,736</u>	<u>100%</u>

35.1.3.3 Segments by class of business

	2009		2008	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	(Rupees in '000)			
Cement	75,000	75,000	75,000	37,500
Financial	368,011	154,491	-	-
	<u>443,011</u>	<u>229,491</u>	<u>75,000</u>	<u>37,500</u>

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

Public / government	-	-	-	-
Private	443,011	229,491	75,000	37,500
	<u>443,011</u>	<u>229,491</u>	<u>75,000</u>	<u>37,500</u>

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35.1.3.5 Geographical segment analysis

	2009			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
----- (Rupees in '000) -----				
Pakistan	<u>482,990</u>	<u>8,285,454</u>	<u>6,293,518</u>	<u>411,736</u>
	2008			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
----- (Rupees in '000) -----				
Pakistan	<u>469,905</u>	<u>5,815,466</u>	<u>5,322,986</u>	<u>-</u>

35.2 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 2009 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 balance sheet respectively. Total book value of the equity position (listed shares and mutual funds) is Rs. 564,158 thousand whereas the market value is Rs. 581,772 thousand, i.e. a gain of Rs. 17,614 thousand in equity position.

35.3 Market risk

Trading activities are centered 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.

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35.3.1 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.

	2009			
	Assets	Liabilities	Off - balance sheet items	Net currency exposure
----- (Rupees in '000) -----				
Pakistan Rupees	8,284,741	1,991,936	-	6,292,805
US Dollars	713	-	-	713
UAE Dirhams	-	-	-	-
	<u>8,285,454</u>	<u>1,991,936</u>	<u>-</u>	<u>6,293,518</u>
	2008			
	Assets	Liabilities	Off - balance sheet items	Net currency exposure
----- (Rupees in '000) -----				
Pakistan Rupees	5,815,192	492,480	-	5,322,712
US Dollars	271	-	-	271
UAE Dirhams	3	-	-	3
	<u>5,815,466</u>	<u>492,480</u>	<u>-</u>	<u>5,322,986</u>

35.3.2 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" portfolio. Investment policy has been developed to discuss in detail the objectives / policies, risks / mitigates, limits / controls for exposures against price risk.

35.3.3 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 more risk sensitive measures such as earning at risk and economic value at risk.

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35.3.4 Mismatch of interest rate sensitive assets and liabilities

2009												
Effective yield / interest rate	Total	Exposed to yield / interest risk									Non-interest bearing financial instruments	
		Upto 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 year to 3 years	Over 3 year to 5 years	Over 5 year to 10 years	Over 10 years		
(Rupees in '000)												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	5.00%	2,633	965	-	-	-	-	-	-	-	-	1,668
Balances with other banks	12.74%	1,309,451	1,009,126	300,000	-	-	-	-	-	-	-	325
Lendings to financial institutions	13.94%	446,250	446,250	-	-	-	-	-	-	-	-	-
Investments	13.52%	5,326,675	26,845	3,201,880	711,000	459,420	-	-	-	-	-	927,530
Advances	15.81%	945,387	359,086	340,000	235,612	310	49	-	-	-	10,330	-
Other assets		112,528	-	-	-	-	-	-	-	-	-	112,528
		<u>8,142,924</u>	<u>1,842,272</u>	<u>3,841,880</u>	<u>946,612</u>	<u>459,730</u>	<u>49</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,330</u>	<u>1,042,051</u>
Liabilities												
Borrowings from financial institutions	12.19%	1,857,327	1,857,327	-	-	-	-	-	-	-	-	-
Other liabilities		132,525	-	-	-	-	-	-	-	-	-	132,525
On-balance sheet gap		<u>6,153,072</u>	<u>(15,055)</u>	<u>3,841,880</u>	<u>946,612</u>	<u>459,730</u>	<u>49</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,330</u>	<u>909,526</u>
Total yield / interest risk sensitivity gap		<u>6,153,072</u>	<u>(15,055)</u>	<u>3,841,880</u>	<u>946,612</u>	<u>459,730</u>	<u>49</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,330</u>	
Cumulative yield / interest risk sensitivity gap			<u>(15,055)</u>	<u>3,826,825</u>	<u>4,773,437</u>	<u>5,233,167</u>	<u>5,233,216</u>	<u>5,233,216</u>	<u>5,233,216</u>	<u>5,233,216</u>	<u>5,243,546</u>	

2008												
Effective yield / interest rate	Total	Exposed to yield / interest risk									Non-interest bearing financial instruments	
		Upto 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 year to 3 years	Over 3 year to 5 years	Over 5 year to 10 years	Over 10 years		
(Rupees in '000)												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	15.39%	506,887	505,468	-	-	-	-	-	-	-	-	1,419
Balances with other banks	16.18%	1,816,376	815,872	1,000,000	-	-	-	-	-	-	-	504
Lendings to financial institutions	21.92%	611,000	586,000	25,000	-	-	-	-	-	-	-	-
Investments	13.95%	2,477,998	26,682	1,978,201	403,439	-	-	-	-	-	-	69,676
Advances	15.41%	327,318	158	310,317	414	580	1,098	866	1,683	4,208	7,994	-
Other assets		45,705	-	-	-	-	-	-	-	-	-	45,705
		<u>5,785,284</u>	<u>1,934,180</u>	<u>3,313,518</u>	<u>403,853</u>	<u>580</u>	<u>1,098</u>	<u>866</u>	<u>1,683</u>	<u>4,208</u>	<u>7,994</u>	<u>117,304</u>
Liabilities												
Borrowings from financial institutions	14.90%	4,193,169	3,826,903	200,871	1,150	2,218	41,078	41,078	79,871	-	-	-
Other liabilities		-	-	-	-	-	-	-	-	-	-	-
On-balance sheet gap		<u>1,592,115</u>	<u>(1,892,723)</u>	<u>3,112,647</u>	<u>402,703</u>	<u>(1,638)</u>	<u>(39,980)</u>	<u>(40,212)</u>	<u>(78,188)</u>	<u>4,208</u>	<u>7,994</u>	<u>117,304</u>
Total yield / interest risk sensitivity gap		<u>1,592,115</u>	<u>(1,892,723)</u>	<u>3,112,647</u>	<u>402,703</u>	<u>(1,638)</u>	<u>(39,980)</u>	<u>(40,212)</u>	<u>(78,188)</u>	<u>4,208</u>	<u>7,994</u>	
Cumulative yield / interest risk sensitivity gap			<u>(1,892,723)</u>	<u>1,219,924</u>	<u>1,622,627</u>	<u>1,620,989</u>	<u>1,581,009</u>	<u>1,540,797</u>	<u>1,462,609</u>	<u>1,466,817</u>	<u>1,474,811</u>	

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35.4 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.

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.

35.4.1 Maturities of assets and liabilities

	2009									
	Total	Upto One month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 years 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	2,633	2,633	-	-	-	-	-	-	-	-
Balances with other banks	1,309,451	1,009,451	300,000	-	-	-	-	-	-	-
Lendings to financial institutions	446,250	446,250	-	-	-	-	-	-	-	-
Investments	5,326,675	23,682	2,113,813	50,755	1,326,808	176,195	171,016	240,056	1,224,350	-
Advances	945,387	4,082	226,166	39,200	208,740	94,612	82,135	154,222	118,854	17,376
Fixed assets	26,071	-	-	3,677	-	-	3,530	18,864	-	-
Deferred tax asset - net	109,799	17,063	80,322	-	1,231	11,183	-	-	-	-
Other assets	119,188	14,337	104,851	-	-	-	-	-	-	-
	8,285,454	1,517,498	2,825,152	93,632	1,536,779	285,520	272,015	394,278	1,343,204	17,376
Liabilities										
Borrowings from financial institutions	1,857,327	1,857,327	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	134,609	14,337	116,635	3,637	-	-	-	-	-	-
	1,991,936	1,871,664	116,635	3,637	-	-	-	-	-	-
Net assets	6,293,518	(354,166)	2,708,517	89,995	1,536,779	285,520	272,015	394,278	1,343,204	17,376
Represented by:										
Share capital	5,000,000									
Advances against Issue of Shares	490,825									
Reserves	163,533									
Unappropriated profit	654,137									
Deficit on revaluation of assets-net of tax	(14,977)									
	6,293,518									
2008										
	Total	Upto One month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 years 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	506,887	506,887	-	-	-	-	-	-	-	-
Balances with other banks	1,816,376	816,376	1,000,000	-	-	-	-	-	-	-
Lendings to financial institutions	611,000	586,000	25,000	-	-	-	-	-	-	-
Investments	2,477,998	-	1,677,433	22,179	110,768	114,963	114,963	131,051	306,641	-
Advances	327,318	158	5,317	414	5,580	271,098	10,866	21,683	4,208	7,994
Fixed assets	21,478	1,103	3,906	1,060	2,122	4,244	4,244	4,799	-	-
Deferred tax asset - net	7,283	-	-	-	-	7,283	-	-	-	-
Other assets	47,126	14,442	26,764	3,595	31	-	-	-	2,294	-
	5,815,466	1,924,966	2,738,420	27,248	118,501	397,588	130,073	157,533	313,143	7,994
Liabilities										
Borrowings from financial institutions	459,957	459,957	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	32,523	16,335	-	316	15,872	-	-	-	-	-
	492,480	476,292	-	316	15,872	-	-	-	-	-
Net assets	5,322,986	1,448,674	2,738,420	26,932	102,629	397,588	130,073	157,533	313,143	7,994
Represented by:										
Share capital	5,000,000									
Reserves	89,250									
Unappropriated profit	357,003									
Deficit on revaluation of assets-net of tax	(123,267)									
	5,322,986									

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35.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. At present, the management is in the process to streamline internal control function of the Company. Subsequent to the establishment of Internal Control function, 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.

A methodology for Risk and Control Self Assessment and Business Continuity Plan are the main steps for the proper implementation of operational risk management.

35.5.1 Operational risk disclosure - Basel II specific

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

36. Critical accounting estimates and judgements

i) Impairment of available for sale investments

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

ii) Investments stated at fair values

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.

iii) Held to maturity investments

The Company has classified certain investment as held to maturity. In this regard, judgement is involved in evaluating the intention and ability to hold these investments till their respective maturities.

iv) Taxation

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

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v) **Provision against advances**

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.

vi) **Fixed assets, depreciation and amortisation**

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.

vii) **Staff retirement benefit**

The Company has adopted certain actuarial assumptions as disclosed in the note 28.2 for valuation of defined benefit obligation and fair value of plan assets, based on actuarial advice. Any changes 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.

37. **GENERAL**

Corresponding figures have been rearranged and reclassified, whenever necessary, for better presentation and disclosure.

Reclassification from	Reclassification to	2009 (Rupees in '000)
<i>Balance Sheet</i>		
Investments	Advances	<u>75,000</u>
<i>Profit & loss</i>		
Provision against investments	Provision against advances	<u>37,500</u>

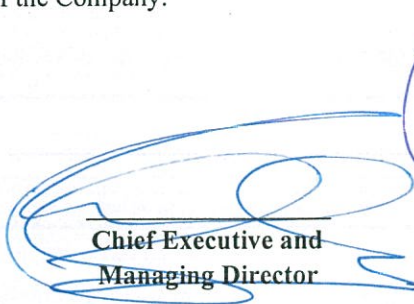
38. **DATE OF AUTHORIZATION**

These financial statements were authorized for issue on 03 JUN 2010 by the Board of Directors of the Company.

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N. Kohzadi

Chairman


Chief Executive and
Managing Director

Director

A. Solari
Director

03 JUN 2010