KPMG Taseer Hadi & Co.
Chartered Accountants

Pak-Iran Joint Investment Company Limited

Financial Statements
For the year ended 31 December 2010

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

We have audited the annexed statement of financial position of **Pak - Iran Joint Investment Company Limited** ("the Company") as at 31 December 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

b) in our opinion:

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

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2010 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).

KPMG Taseer Hadi & Co

KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Taufiq

Date: 0 2 FEB 2011

Karachi

Pak - Iran Joint Investment Company Limited

Statement of Financial Position

As at 31 December 2010

	Note	2010	2009
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	5	**10,552**	2,633
Balances with other banks	6	**352,808**	1,309,451
Lendings to financial institutions	7	**600,000**	446,250
Investments	8	**7,160,982**	5,326,675
Advances	9.	**2,103,430**	945,387
Operating fixed assets	10	**44,762**	26,071
Deferred tax asset - net	11	**21,661**	109,799
Other assets	12	**176,414**	119,188
		10,470,609	8,285,454
LIABILITIES			
Bills payable		-	-
Borrowings from financial institutions	13	**2,863,481**	1,857,327
Deposits and other accounts		-	-
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	14	**172,683**	134,609
		3,036,164	1,991,936
NET ASSETS		**7,434,445**	6,293,518
REPRESENTED BY			
Share capital	15	**6,000,000**	5,000,000
Advance against share capital	16	-	490,825
Reserves	17	**279,204**	163,533
Unappropriated profit		**1,116,823**	654,137
		7,396,027	6,308,495
Surplus / (deficit) on revaluation of assets - net of tax	18	**38,418**	(14,977)
		7,434,445	6,293,518
CONTINGENCIES AND COMMITMENTS	19		

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

Chairman | **Chief Executive and Managing Director** | **Director** | **Director**

Pak - Iran Joint Investment Company Limited
Profit and Loss Account
For the year ended 31 December 2010

	Note	2010	2009
		(Rupees in '000)	
Mark-up / return / interest earned	20	1,030,191	809,863
Mark-up / return / interest expensed	21	193,494	124,744
Net mark-up / interest income		836,697	685,119
Reversal / (provision) against non performing loans and advances	9.4	154,350	(191,991)
Reversal / (provision) against lendings to financial institutions	7.3	48,750	(48,750)
Provision for diminution in value of investments	8.3	(123,145)	(15,004)
Bad debts written off directly		-	-
		79,955	(255,745)
Net mark-up / return / interest income after provisions		916,652	429,374
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		7,185	17,906
Dividend income		22,564	17,924
Income from dealing in foreign currencies		-	-
Gain on sale of securities - net	22	134,480	126,684
(Loss) / gain on sale of fixed assets		(259)	1,812
Unrealised gain on revaluation of investments classified as held for trading	8.1	7,201	(627)
Other income		-	-
Total non mark-up / return / interest income		171,171	163,699
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	23	191,647	97,529
Other provisions / write offs		-	-
Other charges	24	17,592	12,554
Total non mark-up / interest expenses		209,239	110,083
Extraordinary items		-	-
PROFIT BEFORE TAXATION		878,584	482,990
Taxation - Current	25	236,515	212,353
- Prior year		-	(280)
- Deferred		63,712	(100,500)
		300,227	111,573
PROFIT AFTER TAXATION		578,357	371,417
		(Rupees)	
Basic and diluted earnings per share	26	0.98	0.74

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

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Chairman	Chief Executive and Managing Director	Director	Director

Pak - Iran Joint Investment Company Limited

Statement of Comprehensive Income

For the year ended 31 December 2010

	2010	2009
	(Rupees in '000)	
Profit after taxation for the year	**578,357**	371,417
Other comprehensive income	-	-
Total comprehensive income for the year	**578,357**	371,417

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

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

Chairman | **Chief Executive and Managing Director** | **Director** | **Director**

Pak - Iran Joint Investment Company Limited

Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital	Advance against share capital	Statutory reserves	Unappropriated profit	Total
	----------	----------	(Rupees in '000)	----------	----------
Balance as at 31 December 2008	5,000,000	-	89,250	357,003	5,446,253
Total comprehensive income for the year ended 31 December 2009	-	-	-	371,417	371,417
Transfer to statutory reserve	-	-	74,283	(74,283)	-
Transactions with owners recognised directly in equity					
Issue of right shares	-	490,825	-	-	490,825
Balance as at 31 December 2009	5,000,000	490,825	163,533	654,137	6,308,495
Total comprehensive income for the year ended 31 December 2010	-	-	-	578,357	578,357
Transfer to statutory reserve	-	-	115,671	(115,671)	-
Transactions with owners recognised directly in equity					-
Advance against share capital	490,825	(490,825)	-	-	-
Issue of right shares	509,175	-	-	-	509,175
Balance as at 31 December 2010	**6,000,000**	**-**	**279,204**	**1,116,823**	**7,396,027**

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

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Chairman	Chief Executive and Managing Director	Director	Director

Pak - Iran Joint Investment Company Limited
Cash Flow Statement
For the year ended 31 December 2010

	Note	2010	2009
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		878,584	482,990
Dividend income		(22,564)	(17,924)
		856,020	465,066
Adjustments:			
Depreciation		7,420	5,986
Amortisation		2,020	2,020
(Reversal) / provision against loans and advances		(154,350)	191,991
(Reversal) / provision against lendings to financial institutions		(48,750)	48,750
(Reversal) / provision for compensated absences		(408)	1,252
Provision for government levies		17,572	12,554
Provision for Gratuity		2,071	3,750
Unrealised gain on held for trading securities		(7,201)	627
Loss / (profit) on sale of operating fixed assets		259	(1,812)
Provision against diminution in value of investments		123,145	15,004
		(58,222)	280,122
		797,798	745,188
(Increase) / decrease in operating assets			
Lendings to financial institutions		(105,000)	116,000
Advances		(1,003,693)	(772,560)
Other assets (excluding advance taxation)		(53,198)	(71,162)
		(1,161,891)	(727,722)
Increase / (decrease) in operating liabilities			
Borrowings from financial institutions		1,006,154	1,397,370
Other liabilities (excluding current taxation)		63,861	5,771
		1,070,015	1,403,141
Income taxes paid		(257,111)	(133,313)
Net cash flow from operating activities		448,811	1,287,294
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(1,728,772)	(2,875,877)
Net investments in held to maturity securities		(68,937)	204,987
Net investments in held for trading securities		(99,147)	(124,644)
Dividend received		18,536	17,024
Sale proceeds from sale of operating fixed assets		2,320	4,176
Investments in operating fixed assets		(30,710)	(14,964)
Net cash used in investing activities		(1,906,710)	(2,789,298)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of right shares		509,175	-
Advance against share capital		-	490,825
Net cash generated from financing activities		509,175	490,825
Decrease in cash and cash equivalents		(948,724)	(1,011,179)
Cash and cash equivalents at beginning of the year		1,312,084	2,323,263
Cash and cash equivalents at end of the year	27	363,360	1,312,084

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

Chairman	Chief Executive and Managing Director	Director	Director

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 was shifted to ICCI building, Clifton, Karachi during the year from 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, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 1, 2011:

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 01, 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 July 01, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on Company's financial statements.

- IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after January 01, 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 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 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 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 1, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.

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- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 1, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The amendment has no impact on financial statements of the Company.

- Amendments to IFRS 7 - Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after July 1, 2011). The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Cash and cash equivalents

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

4.2 Repurchase agreements

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

a) Sale under repurchase obligations

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

b) Purchase under resale obligations

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

4.3 Investments

The Company classifies its investments as follows:

a) Held for trading

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

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b) **Held to maturity**

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

c) **Available for sale**

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

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

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

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

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

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

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 taken to profit and loss account.

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4.4 Advances

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

4.5 Operating fixed assets and depreciation

Tangible assets

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

Normal repairs and maintenance are charged to 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.

4.6 Taxation

Current

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

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.

4.7 Foreign currencies

Foreign currency transactions

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

Functional and presentation currency

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

Translation gains and losses

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

4.8 Revenue recognition

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

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

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

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

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4.9 Impairment

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

4.10 Off setting

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

4.11 Other provisions

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

4.12 Dividend and appropriation to reserve

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

4.13 Earnings per share

The Company presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

4.14 Segment information

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

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Business segments

Following are the main segments of the Company:

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

4.15 Staff retirement benefit

Defined Benefit plan

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

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

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

Defined contribution plan

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

4.16 Employees' compensated absences

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

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5. CASH AND BALANCES WITH TREASURY BANKS

	Note	2010	2009
		(Rupees in '000)	
In hand			
Local currency		50	38
Foreign currencies		1,502	713
		1,552	751
With State Bank of Pakistan in			
Local currency current account		8,510	887
With National Bank of Pakistan in			
Local currency current account		30	30
Local currency deposit account	5.1	460	965
		490	995
		10,552	2,633

5.1 This carries mark-up at rates ranging from 5% to 15.5% per annum (2009: 5% to 15.5% per annum).

6. BALANCES WITH OTHER BANKS

	Note	2010	2009
Inside Pakistan			
In current accounts		23,553	325
In deposit accounts	6.1	29,255	209,126
		52,808	209,451
Term Deposit Receipts	6.2	300,000	1,100,000
		352,808	1,309,451

6.1 These carry mark-up at the rate of 5% per annum (2009: 5% per annum).

6.2 These carry mark-up at 13.85% per annum (2009: 12.8% to 12.95% per annum) with maturity falling due on 14 February 2011. (2009: March 2010).

7. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2010	2009
Letters of placement	7.2	600,000	495,000
Specific provisions against lendings to financial institution:	7.3	-	(48,750)
Lendings to financial institutions - net of provision		600,000	446,250

7.1 **Particulars of lendings to financial institutions - gross**

	2010	2009
In local currency	600,000	495,000
In foreign currencies	-	-
	600,000	495,000

7.2 These placements carry mark-up at rates ranging from 13.10% to 13.15% per annum (2009 : 12.75% to 15%) with maturity upto 10 February 2011 (2009: January 2010).

7.3 The provision is reversed during the year due to recovery.

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8. INVESTMENTS

8.1 Investments by types

	Note	2010 Held by company	2010 Given as collateral	2010 Total	2009 Held by company	2009 Given as collateral	2009 Total
		(Rupees in '000)					
Held for trading securities							
Fully paid up ordinary shares / certificates / units - Listed		223,791	-	223,791	124,644	-	124,644
Available for sale securities							
Market treasury bills		147,137	2,465,000	2,612,137	555,201	1,871,377	2,426,578
Fully paid up ordinary shares / certificates / units - Listed		901,371	-	901,371	809,046	-	809,046
Fully paid up ordinary shares - Unlisted		296,860	-	296,860	-	-	-
Sukuk bonds-Unlisted		417,338	-	417,338	293,902	-	293,902
Term finance certificates		2,718,164	-	2,718,164	1,712,625	-	1,712,625
		4,480,870	2,465,000	6,945,870	3,370,774	1,871,377	5,242,151
Held to maturity securities							
Commercial papers		68,937	-	68,937	-	-	-
Investments at cost		4,773,598	2,465,000	7,238,598	3,495,418	1,871,377	5,366,795
Provision for diminution in value of investments	8.3	(138,149)	-	(138,149)	(15,004)	-	(15,004)
Investments - net of provisions		4,635,449	2,465,000	7,100,449	3,480,414	1,871,377	5,351,791
Surplus / (deficit) on revaluation of 'held for trading' securities		7,201	-	7,201	(627)	-	(627)
Surplus / (deficit) on revaluation of 'available for sale' securities	18	54,997	(1,665)	53,332	(21,777)	(2,712)	(24,489)
Total investments at market value		4,697,647	2,463,335	7,160,982	3,458,010	1,868,665	5,326,675

8.2 Investments by segments

	Note	2010	2009
		(Rupees in '000)	
Federal Government securities			
- Market treasury bills	8.4	2,612,137	2,426,578
Fully paid up ordinary shares / certificates / units			
- Listed		1,125,162	933,690
- Unlisted		296,860	-
		1,422,022	933,690
Term finance certificates (TFCs)			
- Listed		1,974,286	1,412,625
- Unlisted		743,878	300,000
		2,718,164	1,712,625
Commercial papers		68,937	-
Sukuk bonds - unlisted		417,338	293,902
Total investments at cost		7,238,598	5,366,795
Provision for diminution in value of investments	8.3	(138,149)	(15,004)
Investments - net of provisions		7,100,449	5,351,791
Surplus / deficit on revaluation of held for trading securities		7,201	(627)
Surplus / deficit revaluation of available for sale securities	18	53,332	(24,489)
Total investments at market value		7,160,982	5,326,675

8.3 Particulars of provision for diminution in value of investments

	Note	2010	2009
Opening balance		15,004	-
Charge for the year - net		123,145	15,004
Closing balance	8.3.1	138,149	15,004

8.3.1 Particulars of provision in respect of type and segment

	2010	2009
Available for Sale securities		
- Fully paid up ordinary shares / certificates / units - Listed	81,019	15,004
- Fully paid up ordinary shares - Unlisted	29,005	-
- Sukuk bonds - Unlisted	28,125	-
	138,149	15,004

8.4 Market Treasury Bills carry yield ranging from 12.84% to 13.17% per annum (2009 : 11.65% to 13.05% per annum) with maturities upto 24 March 2011 (2009: March 2010).

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8.5 Quality of held for trading securities

Number of Shares / Certificates / Units 2010	2009		Market value 2010	Market value 2009	Cost 2010	Cost 2009	Long / medium term credit rating (Entity)	Rated by
			----------	(Rupees in '000)	----------			
		Shares / Certificates / Units in Listed Companies						
455,000	105,000	Adamjee Insurance Company Limited	39,813	12,947	41,029	12,358	AA	PACRA
5,601	-	Agritech Limited	134	-	133	-	SD	PACRA
30,000	50,000	Attock Refinery Limited	3,740	6,897	3,668	6,909	AA/A1+	PACRA
371,734	-	Bank Alfalah Limited	4,167	-	4,019	-	AA/A1+	PACRA
170,550	-	D.G. Khan Cement Company Limited	5,145	-	5,287	-	Not Rated	
105,269	100,000	Engro Corporation Limited (Formerly Engro Chemical Pakistan Limited)	20,402	18,327	19,323	18,109	AA/A1+	PACRA
-	250,000	Engro Polymer and Chemicals Limited	-	4,485	-	5,452	Not Rated	
-	50,000	Fauji Fertilizer Bin Qasim Limited	-	1,307	-	1,277	Not Rated	
-	50,000	Habib Bank Limited	-	6,172	-	6,229	AA+	PACRA
235,231	-	ICI Pakistan Limited	33,930	-	31,155	-	Not Rated	
135,000	-	Kot Addu Power Company Limited	5,492	-	5,538	-	Not Rated	
37,899	-	KASB Securities Limited	169	-	164	-	A/A1	PACRA
-	75,000	MCB Bank Limited	-	16,476	-	16,337	AA+/A1+	PACRA
50,000	200,000	National Bank of Pakistan	3,841	14,874	3,702	15,651	AAA	JCR-VIS
375,000	-	Nishat Power Limited	6,086	-	6,102		AA-/A1+	PACRA
425,600	-	Nishat Mills Limited	27,311	-	25,584		A+/A1	PACRA
-	275,000	Oil & Gas Development Company Limited	-	30,418	-	29,160	AAA	JCR-VIS
40,000	-	Pakistan Oil Fields Limited	11,838	-	11,674	-	Not Rated	
180,000	-	Pakistan State Oil Company Limited	53,133	-	50,459	-	AA+ / A1+	PACRA
744,296	350,000	Pakistan Telecommunication Company Limited	14,454	6,178	14,332	6,842	Not Rated	
50,000	-	Sui Northern Gas Pipelines Company Limited	1,337	-	1,622	-	AA- / A1+	PACRA
-	50,000	The Hub Power Company Limited	-	1,554	-	1,582	AA+ / A1+	PACRA
-	75,000	United Bank Limited	-	4,384	-	4,738	AA+	JCR-VIS
			230,992	124,019	223,791	124,644		

8.6 Quality of available for sale securities

Number of Shares / Certificates / Units 2010	2009		Market value 2010	Market value 2009	Cost 2010	Cost 2009	Long / medium term credit rating (Entity)	Rated by
		Market Treasury Bills	2,610,373	2,423,062	2,612,137	2,426,578	Unrated - Government Securities	
		Shares / Certificates / Units in Listed Companies						
9,999,999	10,011,494	ABL Income Fund	100,096	100,208	100,000	100,000	A+	JCR-VIS
-	635,000	Adamjee Insurance Company Limited	-	78,296	-	64,556	AA	PACRA
8,333,333	-	Agritech Limited	200,000	-	250,000	-	SD	PACRA
225,500	225,500	Al Meezan Mutual Fund	1,874	1,488	2,946	2,946	Not Rated	
40,000	500,000	Azgard Nine Limited	386	10,395	866	13,527	SD	PACRA
550,025	975,025	Bank Alfalah Limited	6,166	13,426	8,561	15,883	AA / A1+	PACRA
175,000	175,000	BankIslami Pakistan Limited	635	1,027	3,323	3,323	A / A1	PACRA
-	40,000	Byco Petroleum Pakistan Limited	-	380	-	761	Not Rated	
50,000	500,000	D.G. Khan Cement Company Limited	1,509	16,280	1,725	17,821	Not Rated	
		Engro Corporation Limited					Not Rated	
130,000	484,800	(Formerly Engro Chemical Pakistan Limited)	25,195	88,849	24,562	74,747	Not Rated	
2,177,249	1,830,000	Engro Polymer and Chemicals Limited	31,069	32,830	37,133	39,943	Not Rated	
9,447	-	Fauji Fertilizer Bin Qasim Limited	338	-	267	-	Not Rated	
199,400	82,500	Fauji Fertilizer Company Limited	25,096	8,492	22,066	7,618	Not Rated	
952,109	974,184	Faysal Savings Growth Fund	100,114	100,253	100,000	100,000	A	JCR-VIS
562,500	562,500	Golden Arrow Stock Fund	1,778	1,688	3,448	3,448	Not Rated	
-	100,000	Habib Bank Limited	-	12,344	-	12,488	AA+	JCR-VIS
486,408	-	HBL Money Market Fund	50,062	-	50,000	-	AA+	JCR-VIS
365,000	-	ICI Pakistan Limited	52,648	-	46,380	-	Not Rated	
-	10,329	IGI Insurance Company Limited	-	908	-	1,084	AA	PACRA
248,112	-	IGI Income Fund	25,020	-	25,000	-	A+	JCR-VIS
352,104	-	KASB Securities Limited	1,574	-	1,550	-	A/A1	PACRA
650,000	386,221	Kot Addu Power Company Limited	26,442	17,716	27,774	15,867	Not Rated	
958,229	968,581	MCB Dynamic Cash Fund	100,116	100,204	100,000	100,000	A+	PACRA
175,000	75,000	National Bank of Pakistan	13,444	5,578	12,228	5,159	AAA	JCR-VIS
-	5,000,000	NIT Government Bond Fund	-	50,668	-	50,000	Not Rated	
-	350,000	Oil & Gas Development Company Limited	-	38,714	-	36,136	AAA	JCR-VIS
1,341,500	1,341,500	PACE (Pakistan) Limited	3,662	7,848	14,092	14,092	A / A1	PACRA
25,000	-	Packages Limited	3,215	-	3,303	-	AA/A1+	PACRA
-	100,000	Pakistan Oilfields Limited	-	23,077	-	19,061	Not Rated	
25,000	70,000	Pakistan Petroleum Limited	5,429	13,271	4,307	12,660	Not Rated	
910,000	910,000	Pakistan Premier Fund Limited	8,390	5,415	11,599	11,599	Not Rated	
100,000	-	Pakistan State Oil Company Limited	29,518	-	27,142	-	AA+ / A1+	PACRA
-	1,775,000	Pakistan Telecommunication Company Limited	-	31,329	-	32,385	Not Rated	
-	135,500	Safeway Mutual Fund	-	833	-	1,538	Not Rated	
-	32,000	Shell (Pakistan) Limited	-	8,012	-	8,640	Not Rated	
459,479	-	Sui Northern Gas Pipelines Company Limited	12,286	-	15,081	-	AA- / A1+	PACRA
85,070	234,000	Sui Southern Gas Company Limited	1,822	3,143	1,454	3,278	AA / A1+	PACRA
200,000	1,475,000	The Hub Power Company Limited	7,482	45,843	6,564	10,186	AA+ / A1+	PACRA
			835,366	818,515	901,371	809,046		

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Number of Shares / Certificates / Units 2010	2009		Breakup value * 2010	2009	Cost 2010	2009	Long / medium term credit rating	Rated by
		Shares in unlisted companies						
		Dawood Islamic Bank Limited Chief Executive: Mr. Pervez Said Percentage holding: 5.92%						
29,685,986	-		267,855	-	296,860	-	BBB+	JCR - VIS

* Breakup value is based on 30 September 2010 unaudited financial statements.

Number of Certificates of Rs. 5,000 each 2010	2009		Market value 2010	2009	Cost 2010	2009	Long / medium term credit rating (Entity)	Rated by
			(Rupees in '000)					
		Sukuk						
18,992	30,000	Eden Housing Limited	94,959	122,591	108,525	131,250	NPA	MUFAP
5,625	12,000	Sitara Peroxide Limited	28,125	45,000	56,250	60,000	NPA	MUFAP
50,513	20,530	Liberty Powertech Limited	252,563	102,652	252,563	102,652	-	-
			375,647	270,243	417,338	293,902		
		Term Finance Certificates						
		Listed						
70,000	30,000	Allied Bank Limited	336,556	134,250	320,101	134,250	AA-	PACRA
49,136	49,136	Askari Bank Limited	249,265	239,187	245,582	245,680	AA-	PACRA
15,200	15,200	Bank Alfalah Limited - II	74,945	74,172	71,569	72,545	AA-	PACRA
5,000	5,000	Bank Alfalah Limited - III	24,503	24,061	23,559	23,088	AA-	PACRA
20,000	20,000	Bank Alfalah Limited - IV	100,994	97,033	99,960	100,000	AA-	PACRA
20,204	-	Bank Al Habib Limited - II	100,383	-	101,071	-	AA	PACRA
8,000	8,000	Escorts Investment Bank Limited	19,825	33,018	19,695	32,465	A	JCR-VIS
39,037	37,024	Engro Fertilizer Limited - I (Formerly Engro Chemical Pakistan Limited)	196,313	195,185	195,107	195,185	AA	PACRA
37,024	-	Engro Fertilizer Limited - II (Formerly Engro Chemical Pakistan Limited)	181,237	172,024	178,819	177,892	AA	PACRA
60,000	50,000	NIB Bank Limited	291,729	229,306	276,155	223,937	A+	PACRA
25,000	25,000	Orix Leasing Pakistan Limited	61,954	104,523	62,697	102,695	AA+	PACRA
40,000	-	Pak Arab Fertilizers Limited	183,671	-	185,548	-	AA	MUFAP
6,000	6,000	Trust Investment Bank Limited	21,340	26,845	22,491	29,988	BBB	PACRA
60,000	40,000	United Bank Limited (IV)	285,137	176,243	271,892	174,900	AA	JCR-VIS
			2,127,852	1,505,847	2,074,246	1,512,625		
		Unlisted						
45,000	-	Faysal Bank Limited (Pre-IPO)	225,000	-	225,000	-	Not Rated	
50,000	-	Martin Dow Pharmaceutical (Pakistan) Limited	245,150	-	245,150	-	Not Rated	
40,000	40,000	Pak Electron Limited	173,810	200,000	173,768	200,000	Not Rated	
			643,960	200,000	643,918	200,000		
		Total	6,861,053	5,217,667	6,945,870	5,242,151		

9. ADVANCES

	Note	2010	2009
		(Rupees in '000)	
Loans in Pakistan		2,163,938	1,148,623
Staff loans	9.2	14,633	26,255
Advances - gross		2,178,571	1,174,878
Provision for non-performing loans and advances	9.3	(75,141)	(229,491)
Advances - net of provision		2,103,430	945,387

9.1 Particulars of advances - gross

		2010	2009
9.1.1	In local currency	2,178,571	1,174,878
	In foreign currencies	-	-
		2,178,571	1,174,878
9.1.2	Short-term (upto one year)	680,579	478,188
	Long-term (over one year)	1,497,992	696,690
		2,178,571	1,174,878

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

9.3 Advances includes Rs. 75.1 million (2009: Rs. 433 million) which have been placed under non-performing status as detailed below:

2010

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

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
	443,011	-	443,011	229,491	-	229,491	229,491	-	229,491

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

	2010			2009		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	229,491	-	229,491	37,500	-	37,500
Charge for the year	141	-	141	191,991	-	191,991
Reversals	(154,491)	-	(154,491)	-	-	-
	(154,350)	-	(154,350)	191,991	-	191,991
Amounts written off	-	-	-	-	-	-
Closing balance	75,141	-	75,141	229,491	-	229,491

9.4.1 Particulars of provision for non-performing advances

	2010			2009		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	75,141	-	75,141	229,491	-	229,491

9.5 Particulars of write offs:

There was NIL advances written off during the year.

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

Debts due by executives or officers of the Company or any of them either severally or jointly with any other persons	2010	2009
	(Rupees in '000)	
Balance at beginning of the year	26,108	16,888
Loans granted during the year	4,928	10,592
Repayments during the year	(16,879)	(1,372)
Balance at end of the year	14,157	26,108

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10. OPERATING FIXED ASSETS

		2010	2009
		(Rupees in '000)	
Capital work-in-progress	*10.1*	750	3,677
Property and equipment	*10.2*	42,548	18,864
Intangible asset	*10.3*	1,464	3,530
		44,762	26,071

10.1 Capital work-in-progress

Civil works	750	3,677

10.2 Property and equipment

2010

	Cost			Accumulated depreciation			Net book value at 31 December 2010	Annual rate of depreciation %
	At 1 January 2010	Additions / (disposals)	At 31 December 2010	At 1 January 2010	Charge / (disposals)	At 31 December 2010		
	(Rupees in '000)							
Owned								
Furniture and fixtures	2,759	22,645	23,550	956	1,109	1,152	22,398	20%
		(1,854)			(913)			
Electrical, office and computer equipment	10,117	7,056	15,853	4,110	2,366	5,640	10,213	20 to 25%
		(1,320)			(836)			
Vehicles	15,678	3,523	16,878	4,624	3,945	6,941	9,937	25%
		(2,323)			(1,628)			
	28,554	33,224	56,281	9,690	7,420	13,733	42,548	
		(5,497)			(3,377)			

2009

	Cost			Accumulated depreciation			Net book value at 31 December 2009	Annual rate of depreciation %
	At 1 January 2009	Additions	At 31 December 2009	At 1 January 2009	Depreciation for the year	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	15,678	3,149	3,388	4,624	11,054	25%
		(4,278)			(1,913)			
	21,595	11,237	28,554	5,617	5,986	9,690	18,864	
		(4,278)			(1,913)			

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10.3 Intangible assets

	2010							
	Cost			Accumulated amortisation			Net book value at 31 December 2010	Annual rate of amortisation %
	At 1 January 2010	Additions / Disposal	At 31 December 2010	At 1 January 2010	Amortisation for the year	At 31 December 2010		
	(Rupees in '000)							
Computer software	6,059	(46)	6,013	2,529	2,020	4,549	1,464	33%
2010	6,059	(46)	6,013	2,529	2,020	4,549	1,464	
2009	2,059	4,000	6,059	509	2,020	2,529	3,530	33%

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

Particulars	Cost	Book value	Sale price / insurance	Mode of settlement / disposal	Particulars of buyers
Mitsubishi Lancer	1,059	353	745	As per policy	Mr. Rehmat Ali Hasni
Generator	1,320	484	530	As per policy	Mr. Aizaz Sarfaraz (CEO / MD)

11. DEFERRED TAX ASSETS / (LIABILITIES) - NET

		2010	2009
		(Rupees in '000)	
Deferred tax assets / (liabilities) - net	*11.1*	21,661	109,799

11.1 The balance of deferred taxation comprises

	2010	2009
Debit / (credit) balances arising on account of:		
(Surplus) / deficit on revaluation of assets - net	(14,914)	9,512
Provision for compensated absences	1,076	1,219
Accelerated tax depreciation allowance	(1,961)	370
Provision for gratuity	2,037	1,313
Provision against non performing loans	26,299	80,322
Provision against investments	9,124	-
Provision against lending to financial institutions	-	17,063
	21,661	109,799

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11.2 Movement in temporary differences during the year

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

	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
	7,283	100,500	2,016	109,799

12. OTHER ASSETS

	2010	2009
	(Rupees in '000)	
Income / mark-up accrued in local currency	**154,751**	104,851
Dividend receivable	**5,088**	1,060
Security deposits	**6,268**	6,617
Advances, deposits, advance rent and other prepayments	**10,307**	6,660
	176,414	119,188

13. BORROWINGS FROM FINANCIAL INSTITUTIONS

In Pakistan (local currency)	*13.1*	**2,863,481**	1,857,327

13.1 Details of borrowings Secured / Unsecured

Secured			
Repurchase agreement borrowings	*13.2*	**2,863,481**	1,857,327

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13.2 These carry mark-up at rates ranging from 12.70% to 13.80% per annum (2009: 12.05% to 12.4) and are secured against Government Securities having carrying amount of Rs. 2,465.0 million (2009: Rs. 1,868.67 million). The borrowings will mature upto 5 January 2011 (2009: January 2010).

14. OTHER LIABILITIES

	2010	2009
	(Rupees in '000)	
Mark-up / return / interest payable in local currency	**4,656**	6,560
Payable to an associated undertaking	**5,722**	-
Accrued expenses	**47,692**	1,491
Government levies payable	**39,524**	21,952
Provision for taxation - net	**40,442**	85,464
Provision for compensated absences	**3,075**	3,483
Provision for gratuity	**5,821**	3,750
Provision for bonus to employees	**24,500**	9,825
Others	**1,251**	2,084
	172,683	134,609

15. SHARE CAPITAL

15.1 Authorised capital

2010	2009		2010	2009
(Number of shares)				
1,000,000,000	1,000,000,000	Ordinary shares of Rs. 10 each	**10,000,000**	10,000,000

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

2010	2009		2010	2009
(Number of shares)			(Rupees in '000)	
600,000,000	500,000,000	Ordinary shares of Rs. 10 each issued for cash	**6,000,000**	5,000,000

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

	2010		2009	
	Number of shares held	Percentage of shareholding	Number of shares held	Percentage of shareholding
Name of shareholder				
Government of Pakistan *	**300,000,000**	**50%**	250,000,000	50%
Iran Foreign Investment Company *	**300,000,000**	**50%**	250,000,000	50%
	600,000,000	**100%**	500,000,000	100%

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

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16. ADVANCE AGAINST SHARE CAPITAL

		2010	2009
		(Rupees in '000)	
Advance against Share Capital		-	490,825

17. RESERVES -STATUTORY RESERVES

At beginning of the year		163,533	89,250
Transfer during the year		115,671	74,283
	17.1	279,204	163,533

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

18. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX

Surplus arising on revaluation of quoted equity securities		15,014	9,464
Deficit arising on revaluation of T-Bills		(1,764)	(3,517)
Surplus / (deficit) arising on revaluation of TFCs		53,648	(6,777)
Deficit arising on revaluation of Sukuk Bonds		(13,566)	(23,659)
		53,332	(24,489)
Related deferred tax (liability) / asset	*11.1*	(14,914)	9,512
		38,418	(14,977)

19. CONTINGENCIES AND COMMITMENTS

19.1 Commitments for civil works		-	8,805
19.2 Commitments to extend credit		671,770	411,736
19.3 Commitments in respect of repo transactions			
Repurchase		2,423,481	1,863,887

20. MARK-UP / RETURN / INTEREST EARNED

On loans and advances to Customers	170,710	112,153
On investments in:		
- Available for sale securities	682,718	419,629
- Held to maturity securities	1,923	23,157
On deposits with financial institutions	840	1,186
On securities purchased under resale agreements	1,596	5,050
On placements	172,404	248,688
	1,030,191	809,863

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21. MARK-UP / RETURN / INTEREST EXPENSED

		2010	2009
		(Rupees in '000)	
Securities sold under repurchase agreements		177,595	119,154
Other short-term borrowings		15,899	5,590
		193,494	124,744

22. GAIN ON SALE OF SECURITIES

On listed shares and mutual funds		134,480	126,684
On listed Term Finance Certificates		-	-
		134,480	126,684

23. ADMINISTRATIVE EXPENSES

Salaries, allowances and benefits		113,069	52,886
Contribution to defined benefit plan	*29.7*	2,071	3,750
Contribution to defined contribution plan	*30*	2,604	2,372
Non-executive directors' fee	*31*	2,430	2,309
Rent and utilities		15,300	10,098
Repairs and maintenance		3,337	956
Insurance		1,539	1,200
Communication		1,623	832
Advertisement		1,135	252
Depreciation	*10.2*	7,420	5,986
Amortisation	*10.3*	2,020	2,020
Printing and stationery		899	692
Legal and professional charges		10,597	1,564
Travelling, conveyance and entertainment		7,174	6,760
Brokerage and commissions		4,552	-
Bank charges		247	504
Fee and subscriptions		3,608	1,542
Auditors' remuneration	*23.1*	475	400
Donations and charity	*23.2*	9,941	-
Others		1,606	3,406
		191,647	97,529

23.1 Auditors' remuneration

Audit fee		325	275
Half yearly review		100	75
Special certifications and others		25	25
Out of pocket expenses		25	25
		475	400

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		2010	2009
23.2	**Particulars of donations and charity**	**(Rupees in '000)**	
	Donation to Prime Minister Relief Fund	**4,941**	-
	Donation to Army Relief Fund	**4,500**	-
	Others	**500**	-
		9,941	-

None of any director / executive or their spouse has interest in the donee.

24.	**OTHER CHARGES**		
	Penalties imposed by State Bank of Pakistan	**20**	-
	Government levies	**17,572**	12,554
		17,592	12,554

25.	**TAXATION**			
	Current		**236,515**	212,353
	Prior year		-	(280)
	Deferred		**63,712**	(100,500)
		25.2	**300,227**	111,573

25.1 Current status of tax assessments

The return for tax years 2007 to 2009 have been filed under the Universal Self Assessment Scheme which provides that return filed is deemed to be an assessment order. However, these returns may be selected for detail audit within five years and the Commissioner of Income Tax may amend the assessment in case of objection raised in audit. No return of tax is selected for detail audit.

25.2	**Relationship between tax expense and accounting profit**		
	Profit before tax	**878,584**	482,990
	Tax on income @ 35%	**307,504**	169,047
	Net tax effect on income taxed at reduced rates	**(19,276)**	(4,481)
	Net tax effect on income subject to FTR	**(1,796)**	(4,476)
	Net tax effect of income / expenses not subject to tax	**(25,073)**	(44,339)
	Tax effect of expenses that are not deductible in determining taxable profit	**(23,861)**	94,866
	Net deductible temporary difference	**63,712**	(100,500)
	Prior years charge	-	(280)
	Others	**(983)**	1,736
	Tax charge	**300,227**	111,573

26.	**BASIC / DILUTED EARNINGS PER SHARE**		
	Profit after taxation for the year	**578,357**	371,417
		(Number of shares in '000)	
	Weighted average number of ordinary shares outstanding	**591,667**	500,000
		(Rupees)	
	Basic / diluted earnings per share	**0.98**	0.74

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27. CASH AND CASH EQUIVALENTS

	2010	2009
	(Rupees in '000)	
Cash and balances with treasury banks	10,552	2,633
Balances with other banks	352,808	1,309,451
	363,360	1,312,084

28. STAFF STRENGTH

	(Number)	
Permanent	38	29
Contractual	-	7
Company's own staff strength at the end of the year	38	36
Outsourced	2	2
Total staff strength	40	38

29. DEFINED BENEFIT PLAN

29.1 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.

29.2 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 29.3 to 29.7 has been obtained from the actuarial valuation carried out as at 31 December 2009.

	2010	2009
- Discount rate	12.75%	12.75%
- Expected rate of increase in salaries	10.60%	10.60%
- Withdrawal rate before normal retirement age	"rare"	"rare"

29.3 Reconciliation of payable to defined benefit plan

	(Rupees in '000)	
Present value of defined benefit obligations	5,821	3,750
Fair value of any plan assets	-	-
Net actuarial gains or losses not recognised	-	-
	5,821	3,750

29.4 Movement in defined benefit obligation

Obligation at the beginning of the year	3,750	-
Current service cost	1,593	3,427
Interest cost	478	323
Benefits paid by the fund	-	-
Actuarial (gain) / loss on obligation	-	-
Obligation at the end of the year	5,821	3,750

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29.5 Movement in fair value of plan assets

	2010	2009
	(Rupees in '000)	
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	-	-

29.6 Movement in payable to defined benefit plan

Opening balance	3,750	-
Charge for the year	2,071	3,750
Closing balance	5,821	3,750

29.7 Charge for defined benefit plan

Current service cost	1,593	3,427
Interest cost	478	323
Expected return on plan assets	-	-
Amortisation of (gain) / loss	-	-
	2,071	3,750

30. DEFINED CONTRIBUTION PLAN

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

Contribution from the Company	2,604	2,372
Contribution from the employees	2,604	2,372

31. COMPENSATION OF DIRECTORS AND EXECUTIVES

	2010			2009		
	Chief Executive / Managing Director	Directors	Executives	Chief Executive / Managing Director	Directors	Executives
	(Rupees in '000)					
Fees	-	2,430	-	-	2,309	-
Managerial remuneration	9,801	-	14,846	10,890	-	14,102
Contribution to defined contribution plan	799	-	1,243	726	-	1,291
Medical	40,500	-	1,742	194	-	1,351
Rent and house maintenance	3,194	-	5,938	2,904	-	5,641
Utilities	799	-	1,485	726	-	1,410
Others	698	-	1,303	934	-	1,218
	55,791	2,430	26,557	16,374	2,309	25,013
Number of persons	1	5	14	1	5	12

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

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32. FAIR VALUE OF FINANCIAL INSTRUMENTS

32.1 On balance sheet financial instruments

	2010		2009	
	Book value	Fair value	Book value	Fair value
	(Rupees in '000)		(Rupees in '000)	
Assets				
Cash and balances with treasury banks	10,552	10,552	2,633	2,633
Balances with other banks	352,808	352,808	1,309,451	1,309,451
Lendings to financial institutions	600,000	600,000	446,250	446,250
Investments	7,160,982	7,160,982	5,326,675	5,326,675
Advances	2,103,430	2,103,430	945,387	945,387
Other assets	166,107	166,107	119,188	119,188
	10,393,879	10,393,879	8,149,584	8,149,584
Liabilities				
Borrowings from financial institutions	2,863,481	2,863,481	1,857,327	1,857,327
Other liabilities	172,683	172,683	134,609	134,609
	3,036,164	3,036,164	1,991,936	1,991,936

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

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

33. SEGMENT ANALYSIS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate finance	Trading and sales	Commercial banking	Total
	-----(Rupees in '000)-----			
2010				
Total income	7,185	1,103,422	170,710	1,281,317
Total expenses	2,258	346,819	53,656	402,733
Net income before tax	4,927	756,603	117,054	878,584
Segment assets	-	8,237,917	2,232,692	10,470,609
Investments provided for	-	701,884	75,141	777,025
Segment provision required*	-	138,149	75,141	213,290
Segment liabilities	-	3,036,164	-	3,036,164
Segment return on assets (ROA)(%)		9.18%	5.24%	
Segment cost of funds(%)		11.42%		
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	8,883	418,467	55,640	482,990
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%	-	

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

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34. RELATED PARTY TRANSACTIONS

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

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

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

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

	2010	2009
	(Rupees in '000)	
Loans and advances to key management personnel		
Balance at beginning of the year	26,108	16,888
Loans granted during the year	4,928	10,592
Repayments during the year	(16,879)	(1,372)
Balance at end of the year	14,157	26,108
Mark-up earned on loans and advances to key management personnel	1,389	977
Non-executive directors' remuneration	2,430	2,309
Salaries and benefits	75,291	29,332
Contribution to defined contribution plan	1,799	1,677
Disposal of fixed assets to key personnel	1,399	-

34.2 Contribution to defined contribution plan	2,604	2,372

34.3 Advance against share capital

Iran Foreign Investment Company	-	490,825

34.4 Issue of Shares to Associates

Government of Pakistan	500,000	-
Iran Foreign Investment Company	500,000	-

34.5 Payable to Iran Foreign Investment Company - Net (Associates)	3,590	-

35. CAPITAL - ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

35.1 Scope of applications

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

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35.2 Capital structure

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

	2010	2009
	(Rupees in '000)	
Tier I Capital		
1.1 Fully Paid-up capital	6,000,000	5,000,000
1.2 Advance against share capital	-	490,825
1.3 Reserves as disclosed on the Balance Sheet	279,204	163,533
1.4 Un-appropriated profits	1,116,823	654,137
	7,396,027	6,308,495
Deductions:		
1.4 Book value of intangible assets	(1,464)	(3,530)
1.5 Deficit on account of revaluation of investments held in AFS category	-	(24,489)
	(1,464)	(28,019)
Total eligible Tier I capital	7,394,563	6,280,476
Tier II Capital	-	-
Total eligible Tier III Capital	-	-
Total Regulatory Capital	7,394,563	6,280,476

35.3 Capital adequacy

The objective of capital management is to safeguard the Company's ability to continue as a going concern, so that it could continue to 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 2010. 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:

	2010		2009	
	Capital requirements	Risk weighted assets	Capital requirements	Risk weighted assets
Credit risk				
Claims on:				
Banks	19,401	194,012	32,813	328,127
Corporates	251,224	2,512,237	127,570	1,275,696
Public sector entities	6,369	63,692	-	-
Retail portfolio	140	1,403	472	4,719
Secured by residential property	444	4,439	700	6,995
Past due loans	-	-	36,183	361,829
Listed equity investments	213,186	2,131,858	137,115	1,371,158
Unlisted equity investments	40,178	401,783	-	-
Investments in fixed assets	4,330	43,298	2,254	22,541
All other assets	4,115	41,147	12,232	122,320
	539,387	5,393,869	349,339	3,493,385
Market risk				
Interest rate risk	-	-	-	-
Equity risk	109,210	1,365,120	93,084	1,163,550
	109,210	1,365,120	93,084	1,163,550
Operational risk	110,913	1,386,413	77,079	963,488
	759,510	8,145,402	519,502	5,620,423
Capital adequacy ratio				
Total eligible regulatory capital held (a)		7,394,563		6,280,476
Total risk weighted assets (b)		8,145,402		5,620,423
Capital adequacy ratio (a) / (b)*100		90.78%		111.74%

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36. RISK MANAGEMENT

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

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

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

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

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

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.

36.1 Credit risk

Credit risk is the risk of loss to the Company as a result of failure by a client or counterparty to meet its contractual obligations. It is inherent in loans, commitments to lend, traded products, repurchase agreements (repos and reverse repos) 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.

36.1.1 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.

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

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

Types of exposures and ECAI's used

Exposures	JCR-VIS	PACRA
Banks	✓	✓
Corporates	✓	✓

Credit exposures subject to standardised approach

Exposures	Rating Category	Amount Outstanding	Deduction CRM	Net amount
		----------------(Rupees in '000)-------------		
Corporate	1	1,108,627	-	1,108,627
	2	720,431	-	720,431
	3,4	22,924	-	22,924
	5,6	103,366	-	103,366
	Unrated	1,952,321	200,000	1,752,321
Banks	1	3,393,541	2,423,481	970,060
	2,3	127,382	-	127,382
Retail		1,871	-	1,871
Public sector entities	Unrated	127,382	-	127,382
Sovereigns		2,618,883	-	2,618,883
Others		2,498,392	-	2,498,392
		12,675,120	2,623,481	10,051,639

CRM = Credit Risk Mitigation

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36.1.2.1 Credit Risk: Disclosure with respect to Credit Risk Mitigation for Standardized approach - Basel II specific

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

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

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

36.1.3 Segmental information

36.1.3.1 Segments by class of business

	2010					
	Advances - Gross		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Cement	75,000	3%	-	-	-	-
Sugar	240,000	11%	-	-	-	-
Electronics and electrical appliances	30,000	1%	-	-	-	-
Construction	618,000	28%	-	-	-	-
Power (electricity), gas, water, sanitary	500,938	24%	-	-	671,770	100%
Financial	200,000	9%	-	-	-	-
Services	300,000	14%	-	-	-	-
Others	200,000	9%	-	-	-	-
Individuals	14,633	1%	-	-	-	-
	2,178,571	100%	-	-	671,770	100%

	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	368,011	31%	-	-	-	-
Services	184,674	16%	-	-	115,326	28%
Individuals	-	2%	-	-	-	-
	1,148,623	100%	-	-	411,736	100%

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36.1.3.2 Segment by sector

	2010					
	Advances - Gross		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	50,938	2%	-	-	149	0%
Private	2,127,633	98%	-	-	671,621	100%
	2,178,571	100%	-	-	671,770	100%

	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%
	1,174,878	100%	-	-	411,736	100%

36.1.3.3 Segments by class of business

	2010		2009	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	(Rupees in '000)			
Cement	75,000	75,000	75,000	75,000
Financial	-	-	368,011	154,491
Others	141	141	-	-
	75,141	75,141	443,011	229,491

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

Public / government	-	-	-	-
Private	75,141	75,141	443,011	229,491
	75,141	75,141	443,011	229,491

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36.1.3.5 Geographical segment analysis

	2010			
	Profit before taxation	**Total assets employed**	**Net assets employed**	**Contingencies & commitments**
	------ (Rupees in '000) ------			
Pakistan	878,584	10,470,609	7,434,445	671,770

	2009			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	------ (Rupees in '000) ------			
Pakistan	482,990	8,285,454	6,293,518	411,736

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

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

As of 31 December 2010 the equity portfolio of the Company comprises of investment in listed equities classified in Held for trading (HFT) and Available for Sale (AFS) category. The marked to market valuation on the instruments is done on daily basis and any unrealised gain / loss is booked in the profit and loss account and the statement of financial position respectively. Total book value of the equity position (listed shares and mutual funds) is Rs. 1,125 million whereas the market value is Rs. 1,066 million i.e. a loss of Rs. 59 million in equity position.

36.3 Market risk

Trading activities are cantered 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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36.3.1 Foreign exchange risk

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

	2010			
	Assets	**Liabilities**	**Off - balance sheet items**	**Net currency exposure**
	(Rupees in '000)			
Pakistan Rupees	10,469,107	3,036,164	-	7,432,943
US Dollars	1,502	-	-	1,502
	10,470,609	3,036,164	-	7,434,445

	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
	8,285,454	1,991,936	-	6,293,518

36.3.2 Equity position risk

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

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

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

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

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36.3.4 Mismatch of interest rate sensitive assets and liabilities

2010

	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%	10,552	460	-	-	-	-	-	-	-	-	10,092
Balances with other banks	13.85%	352,808	29,255	300,000	-	-	-	-	-	-	-	23,553
Lendings to financial institutions	13.23%	600,000	300,000	300,000	-	-	-	-	-	-	-	-
Investments	14.15%	7,160,982	1,888,033	2,902,935	1,035,801							1,334,213
Advances	16.50%	2,103,430	600,000	730,000	758,938	-	-	-	-	-	14,492	-
Other assets		166,107	-	-	-	-	-	-	-	-	-	166,107
		10,393,879	2,817,748	4,232,935	1,794,739	-	-	-	-	-	14,492	1,533,965
Liabilities												
Borrowings from financial institutions	13.21%	2,863,481	2,663,481	200,000	-	-	-	-	-	-	-	-
Other liabilities		172,683	-	-	-	-	-	-	-	-	-	172,683
		3,036,164	2,663,481	200,000	-	-	-	-	-	-	-	172,683
On-balance sheet gap		7,357,715	154,267	4,032,935	1,794,739	-	-	-	-	-	14,492	1,361,282
Total yield / interest risk sensitivity gap		7,357,715	154,267	4,032,935	1,794,739	-	-	-	-	-	14,492	
Cumulative yield / interest risk sensitivity gap			154,267	4,187,202	5,981,941	5,981,941	5,981,941	5,981,941	5,981,941	5,981,941	5,996,433	

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

36.4 Liquidity risk

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

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

Maturity of assets and liabilities

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

36.4.1 Maturities of assets and liabilities

	2010									
	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	10,552	10,552	-	-	-	-	-	-	-	-
Balances with other banks	352,808	52,808	300,000	-	-	-	-	-	-	-
Lendings to financial institutions	600,000	300,000	300,000	-	-	-	-	-	-	-
Investments	7,160,982	1,094,501	1,815,801	208,841	626,525	267,855	81,779	2,342,967	722,713	-
Advances	2,103,430	39,750	341,484	59,166	250,548	346,925	267,384	308,613	482,154	7,406
Fixed assets	44,762	1,295	2,588	3,883	7,767	14,069	14,609	551	-	-
Deferred tax asset - net	21,661	-	-	-	21,661	-	-	-	-	-
Other assets	176,414	43,782	101,411	31,123	98	-	-	-	-	-
	10,470,609	1,542,688	2,861,284	303,013	906,599	628,849	363,772	2,652,131	1,204,867	7,406
Liabilities										
Borrowings from financial institutions	2,863,481	2,663,481	200,000	-	-	-	-	-	-	-
Other liabilities	172,683	53,599	38,279	36,035	39,048	5,722	-	-	-	-
	3,036,164	2,717,080	238,279	36,035	39,048	5,722	-	-	-	-
Net assets	7,434,445	(1,174,392)	2,623,005	266,978	867,551	623,127	363,772	2,652,131	1,204,867	7,406

Represented by:	
Share capital	6,000,000
Advances against Issue of Shares	-
Reserves	279,204
Unappropriated profit	1,116,823
Deficit on revaluation of assets-net of tax	38,418
	7,434,445

	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

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36.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. 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.

36.5.1 Operational risk disclosure - Basel II specific

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

37. 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.

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 29.2 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.

38. DATE OF AUTHORIZATION

These financial statements were authorized for issue on 0 2 FEB 2011 by the Board of Directors of the Company.

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Chairman	Chief Executive and Managing Director	Director	Director