PAÏR

ANNUAL REPORT | 2012

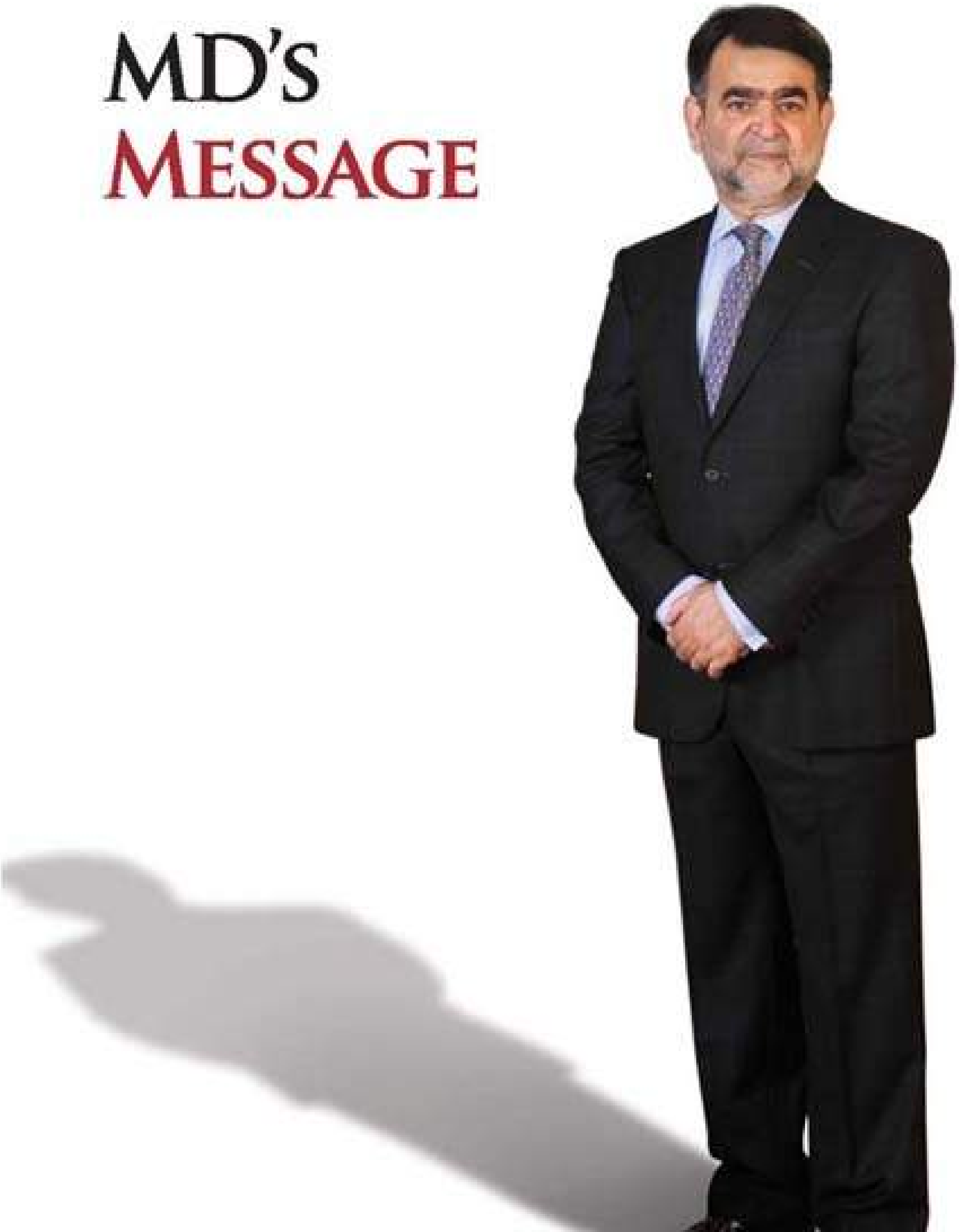
BUILDING A STRATEGIC FORESIGHT

Annual Report | 2012

BUILDING A STRATEGIC FORESIGHT

It takes more than traditional business practices to lead a successful organisation; it takes the tools and ability to recognise and understand the trends that help predict future challenges and opportunities. PAÏR takes pride in inculcating process that supports the development of strategies to future oriented businesses and organisations. It helps us gain a better understanding of how trends, discontinuities and uncertainties might impact upon the future of our organisation. This foresight has enabled us to position ourselves as an intermediary that enables and promotes the flow of investments to boost the economic growth bringing us one step closer to our objectives.

MD's
MESSAGE



It gives me immense pleasure to present to you the Annual Report of PAÏR Investment Company Limited for the financial year 2012.

Over the year, our people demonstrated once again that the work we do matters. We positively contributed to the growth of the economy reflected by significant growth in our loan and advances portfolio which has increased by 75% from FY 2011. We understand that being a DFI our role is to invest in sustainable economic growth of Pakistan while keeping our operation profitable. We believe that we were successful to manage this delicate balance and in future, we will continue to do so.

We are particularly proud on the completion of all policies and procedures documentation as required by State Bank of Pakistan. These procedures are developed under best known internationally accepted standards – the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework and in consultation with one of the Big Four Audit Firm. We have developed all the policies and have documented all key processes in user friendly manuals.

We have also initiated automation of our Credit Management System, by investing in a tailor made software which has partially been completed and we hope that by mid-2013 will be live on this system.

We began the year with a planned strategy of increasing our client activity by strengthening our frontline in the North & South region to develop core base with significant increase in our assets which grew by 33%.

The continuous declining bench rates would have had negative impact on our profit after tax however our strategy of increasing our asset base not only absorbed the negative impact on the contrary we were able to deliver exceptional results. Our profit after tax showed 81% increase from FY 2011.

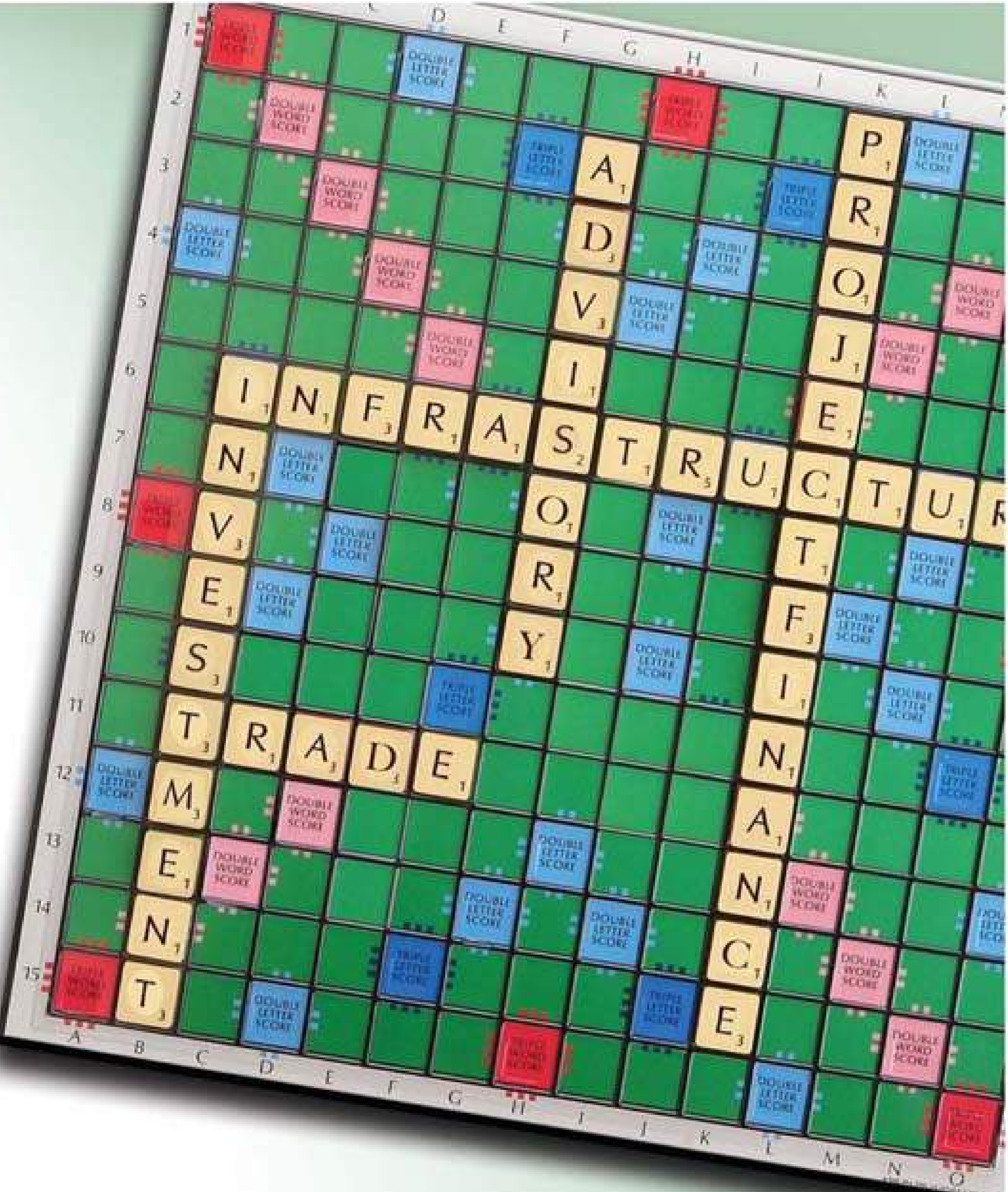
There is always room for improvement and we continuously strive to do so, but the strengths that are embedded in this company — our people, client relationships, product capabilities and strong balance sheet — provide us with a foundation that is rock solid and an ability to critically look at ourselves continuously to improve and bring effectiveness.

Looking ahead we feel that 2013 will bring us new and better opportunities which we should be ready to encash. A lot depends on the external factors which are beyond our control however we need to hedge ourselves against adverse impact.

CONTENTS

THINKING QUICKLY & CREATIVELY

Quick and creative thinking in order to reach a decision increasingly happens at all levels of a business. At PAÏR decisions are made on the basis of information and analysis available keeping the external business environment in mind. Our proactive thinking begins with selection and communication of principles to use and ends with the application of those principles to the situation at hand, which is the key reason of our success.


ADVISORY
PROJECT
INFRASTRUCTUR
INVESTMENT
TRADE
FINANCE
DOUBLE LETTER SCORE
DOUBLE WORD SCORE
TRIPLE LETTER SCORE
TRIPLE WORD SCORE

ABOUT PAÏR

VISION

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

MISSION

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

ENTITY RATING

Assigned by PACRA

Medium to Long Term

AA- (Double A-) with "Positive Outlook"
This denotes a very low expectation of credit risk indicating a very strong capacity for timely payment of financial commitment. This capacity is not significantly vulnerable to foresee events.

Short Term

A1+ (A One Plus) with "Positive Outlook"
This denotes that obligations are supported by the highest capacity for timely repayments.

CORE VALUES

OUR CLIENTS COME FIRST:

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

OUR PEOPLE AND CULTURE:

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

Professional Quality of Work:

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

Teamwork:

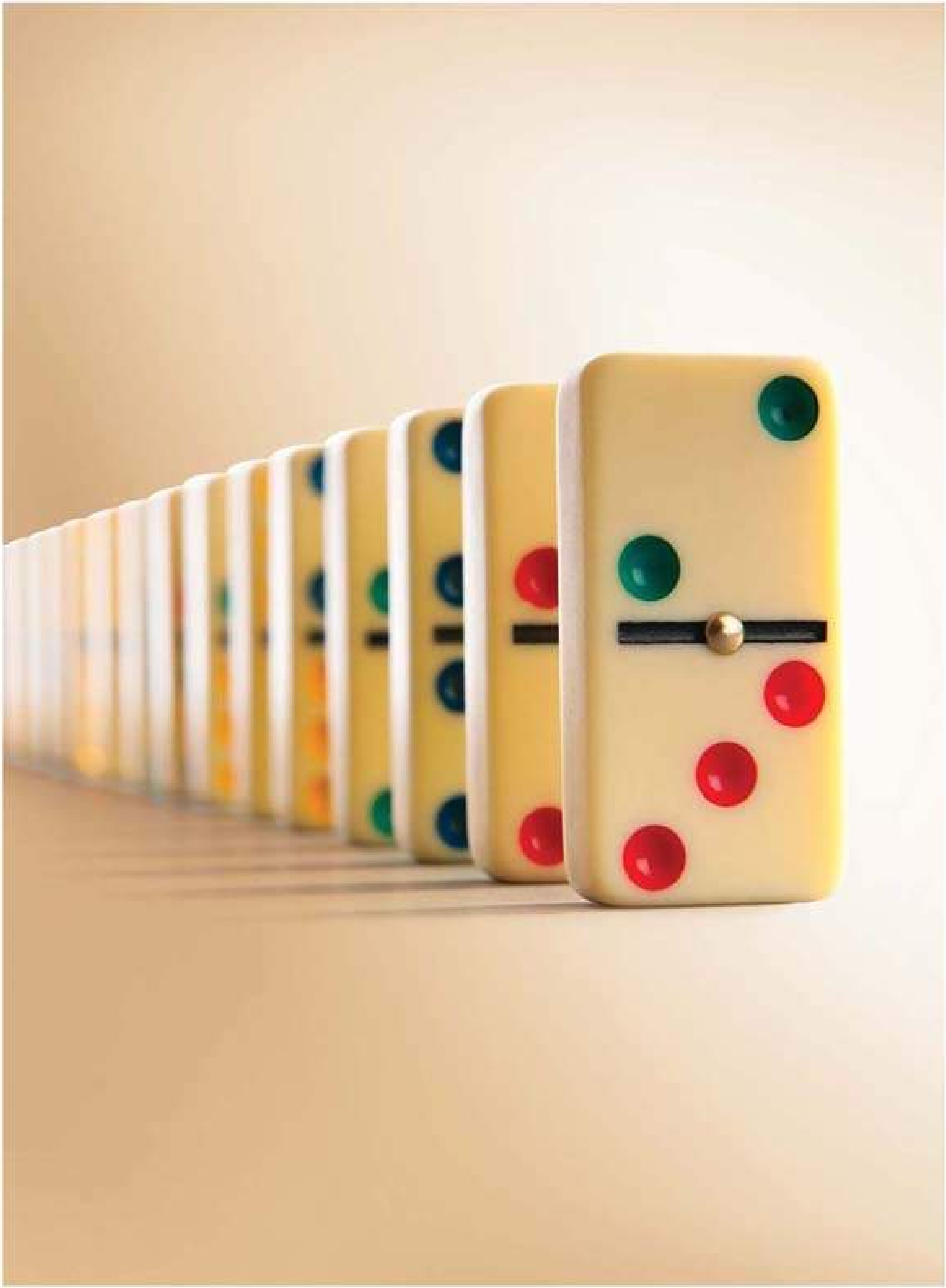
We focus on being team players and working as a team in order to achieve Individual, Departmental and Company growth hence maximizing output and results.

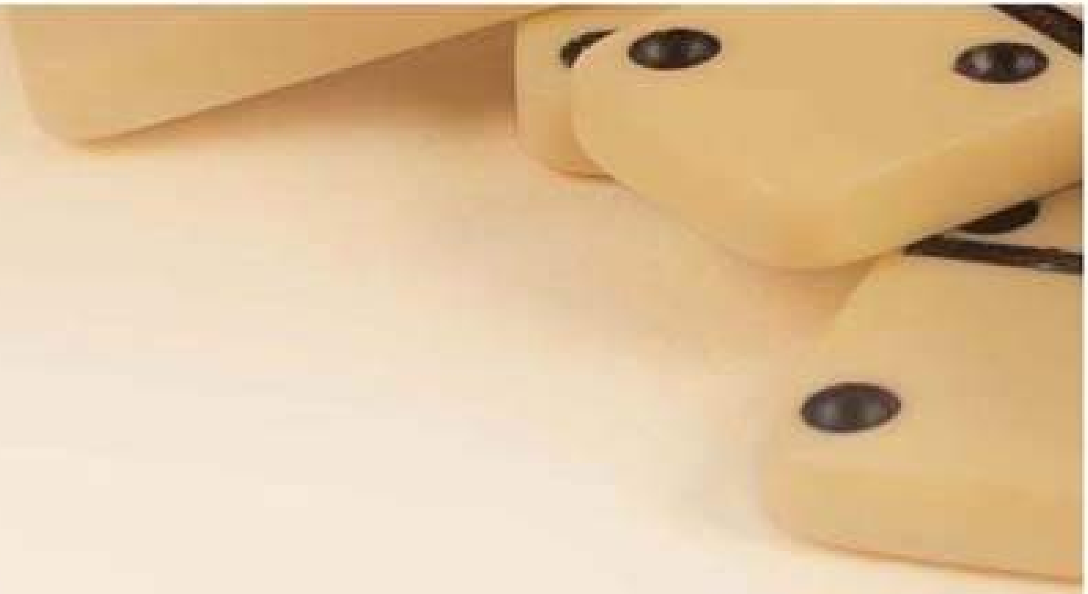
Constant Upgrade and Development:

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

Integrity, Confidentiality and Honesty:

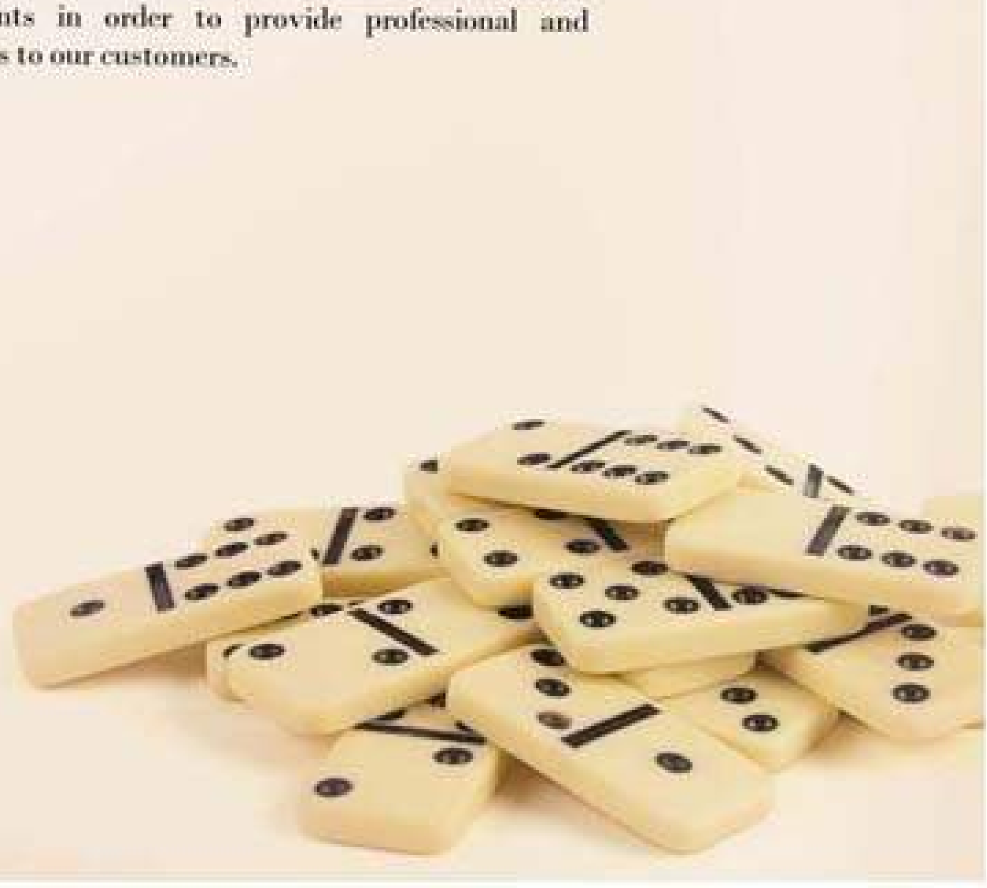
We maintain high ethical standards of integrity, confidentiality and honesty in everything we do as that is what sets us apart from the crowd and gives us our own unique identity.





WINNING
STRATEGY IS OUR
KEY INSTRUMENT TO SUCCESS

Our winning strategy has components that are designed to shorten the odds of success by helping us make the right choices. The first two are closely intertwined: figuring out what winning looks like and which markets to play in when seeking that victory. PAÏR implements strategic plans to maximise the value of our investments in order to provide professional and innovative services to our customers.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Bijan Rahimi	Chairman
Aamer Mahmood Hussain	Director
Ghader Soleimani	Director
Abdul Akbar Shirfzada	Director
Seyed Ahmad Araghchi	Director
Syed Ahmad Iqbal Ashraf	Managing Director & Chief Executive Officer
Zulfiqar Alam	Chief Financial Officer
Amir Aizaz	Company Secretary

AUDIT COMMITTEE

Abdul Akbar Shirfzada	Chairman
Aamer Mahmood Hussain	Member
Bijan Rahimi	Member
Syed Adnan Raza	Secretary-Audit Committee

RISK MANAGEMENT COMMITTEE

Seyed Ahmad Araghchi	Chairman
Aamer Mahmood Hussain	Member
Syed Ahmad Iqbal Ashraf	Managing Director & Chief Executive Officer
Sajjad Akhtar	Secretary-Risk Management Committee

HUMAN RESOURCE COMMITTEE

Bijan Rahimi	Chairman
Aamer Mahmood Hussain	Member
Syed Ahmad Iqbal Ashraf	Managing Director & Chief Executive Officer
Amir Aizaz	Secretary-Human Resource Committee

INVESTMENT STRATEGIC COMMITTEE

Aamer Mahmood Hussain	Chairman
Seyed Ahmad Araghchi	Member
Syed Ahmad Iqbal Ashraf	Managing Director & Chief Executive Officer
Ahmad Bilal Darr	Secretary-Investment Strategic Committee

AUDITORS

Grant Thornton
Anjum Asim Shahid Rahman
Chartered Accountants

LEGAL ADVISORS

Mandviwalla & Zafar
Advocates and Legel Consultants

BANKERS

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

BOARD COMMITTEES
TERMS OF REFERENCE

AUDIT COMMITTEE OF BOARD

Primary responsibilities of the Audit Committee of Board (ACOB) are to determine appropriateness of measures taken by the Management to safeguard DFI's assets, ensure integrity of the financial statements and recommend appointment of the external auditors and close coordination with them to fulfill statutory and Code of Corporate Governance requirements.

ACOB is inter-alia responsible to ascertain the effectiveness of the Internal Control System including financial and operational controls, ensuring adequate and effective accounting and reporting structure and monitoring compliance with the best practices of the corporate governance. The other function of ACOB includes assurance that an independent and effective internal audit function is in place.

THE BOARD RISK MANAGEMENT COMMITTEE

The Board Risk Management Committee (BRMC) is responsible to ensure a continuous Board level formal oversight of the credit, market, liquidity and operational risks embedded in PAÏR's operations. It assists Board of Directors in determining the strategic direction of PAÏR by providing overall risk perspective to the relevant business units and Risk Management Unit. It ensures implementation of risk related policies including review and monitoring of Company's overall portfolio, review of risk limits under Company's overall risk appetite determined through risk assessment rating methodologies by keeping in view the nature, size and complexity of the transactions.

Human Resource & Compensation Committee

The main tasks of the Human Resource & Compensation Committee are to ensure review of existing policies and revision in these policies as deemed necessary, development of in-house expertise, approval and revision of organization setup, setup of latest criterions for recruitment, training and performance appraisals.

Strategic Investment Committee

The main task of the Strategic Investment Committee is to review long term strategic plan, operational plan and material strategic initiatives, including acquisitions, mergers, disposals, strategic projects/ investments, joint ventures and any new business/expansion and recommending such to the Board for approval.

PRUDENT PLANNING TO REACH THE DESTINATION

Prudent planning is a tool that is used to set the organisational vision, and build alignment to that vision and strategic direction throughout all levels of the organisation in order to reach its defined destination.

PAÏR desires to be a strong and successful financial institution and in recognition of the continued uncertainty of the economic outlook it aims to stand apart with its discreet planning.

PAÏR - AT A GLANCE

Mark-up / return / interest earned

Rs. 1,487 Million

Despite the continuous decline in key interest rate, our total interest income increased by 12.4% as compared to FY 2011

Non Markup / Interest Income

Rs. 172 Million

Significant growth of 194.9% in Non Interest income as compared to FY 2011

Profit after tax

Rs. 440 Million

Profit after tax increased by 81.4% as compared to FY 2011

Total Assets

Rs. 15,737 Million

Healthy growth of 32.85%

Loan & Advances

Rs. 4,325 Million

74.75% increase in loan & advance portfolio in FY 2012

Investments

Rs. 10,842 Million

20.81% increase in investment portfolio

Break-up value

Rs. 13.67 per share

Growth of 6.06% in FY 2012

Earnings per share

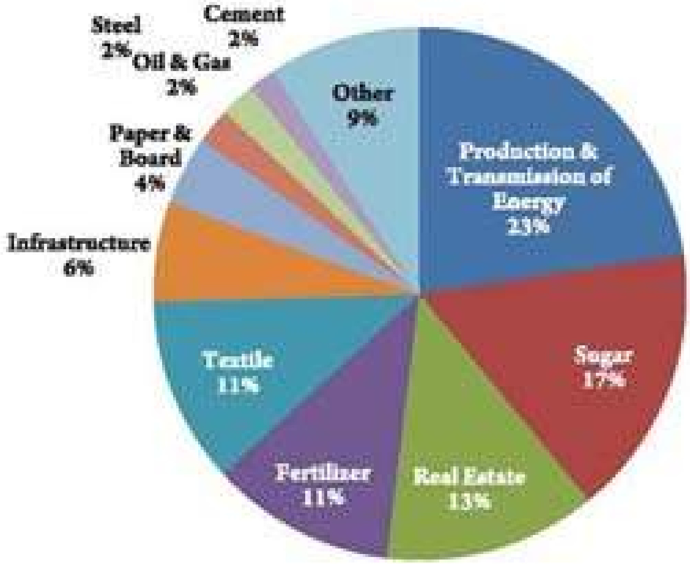
Rs. 0.73 per share

Increased from Rs. 0.40 per share in FY 2011

Capital Adequacy Ratio

54.27%

The capital position continues to be strong with good levels of organic equity generation.

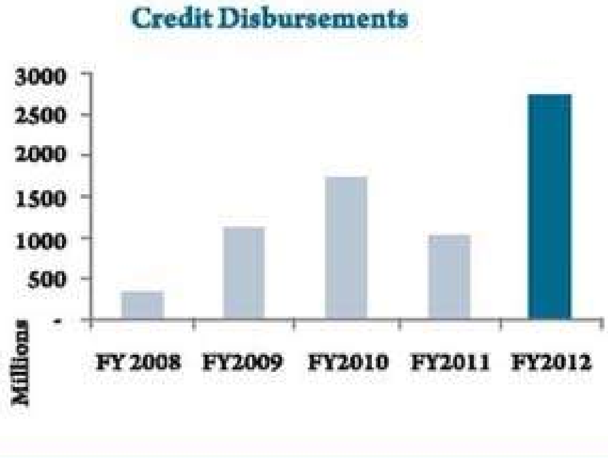


Concentration of Advances

FINANCIAL SUMMARY

	2012	2011	2010	2009	2008	2007
	Rupees in '000					
Statement of Financial Position						
Share capital	6,000,000	6,000,000	6,000,000	5,000,000	5,000,000	4,000,000
Advance against share capital	-	-	-	490,825	-	-
Reserves & unappropriated profit	2,028,600	1,638,576	1,396,027	817,670	446,253	128,107
Borrowing from financial institutions	6,721,178	3,695,484	2,863,481	1,857,327	459,957	-
Deposits and other accounts	545,080	260,000	-	-	-	-
Lendings to financial institutions	-	-	600,000	446,250	611,000	600,000
Investments	10,841,572	8,974,337	7,160,982	5,326,675	2,440,498	714,747
Advances	4,325,337	2,475,156	2,103,430	945,387	364,818	-
Total Assets	15,736,521	11,845,119	10,470,609	8,285,454	5,815,466	4,193,169
Total Liabilities	7,537,154	4,114,422	3,036,164	1,991,936	492,480	65,707
Net Assets	8,199,367	7,730,697	7,434,445	6,293,518	5,322,986	4,127,462
Profit & Loss Account						
Mark-up / return / interest earned	1,487,341	1,323,067	1,030,191	809,863	527,054	235,459
Mark-up / return / interest expensed	678,102	402,712	193,494	124,744	31,898	-
Fee, commission and brokerage income	23,359	12,797	7,185	17,906	3,621	-
Dividend income and capital gain	146,901	51,960	157,044	144,608	91,141	459
Provisions and impairment	702,286	596,219	916,652	429,374	457,656	-
Operating expenses	239,010	167,757	209,239	110,083	82,513	39,078
Profit before taxation	635,367	486,802	878,584	482,990	469,905	196,840
Profit after taxation	440,024	242,549	578,357	371,417	318,146	128,107
Cash Dividend	50,000	-	-	-	-	-

GRAPH



SIX YEAR'S VERTICAL ANALYSIS

STATEMENT OF FINANCIAL POSITION / PROFIT & LOSS ACCOUNT

Statement of Financial Position	2012	%	2011	%
Assets				
Cash and balances with treasury banks	43,999	0.28	9,143	0.08
Balances with other banks	106,586	0.68	20,675	0.17
Lendings to financial institutions	-	-	-	-
Investments	10,841,572	68.88	8,974,337	75.76
Advances	4,325,337	27.49	2,475,156	20.90
Operating fixed assets	56,047	0.36	48,060	0.41
Deferred tax assets - net	109,689	0.70	80,756	0.68
Other assets	253,291	1.61	236,992	2.00
Total Assets	15,736,521	100.00	11,845,119	100.00
Liabilities				
Borrowings from financial institutions	6,721,178	42.71	3,695,484	31.20
Deposits and other accounts	545,080	3.46	260,000	2.19
Other liabilities	270,896	1.73	158,938	1.34
Total Liabilities	7,537,154	47.90	4,114,422	34.73
Net Assets	8,199,367	52.10	7,730,697	65.27
Represented By:				
Share Capital	6,000,000	38.13	6,000,000	50.65
Advance against share capital	-	-	-	-
Reserves	415,719	2.64	327,714	2.77
Unappropriated Profit	1,612,881	10.25	1,310,862	11.07
Surplus / (deficit) on revaluation of assets - net of tax	170,767	1.08	92,121	0.78
Total Equity and Liabilities	8,199,367	52.10	7,730,697	65.27

Profit and Loss Account				
Mark-up / return / interest earned	1,487,341	89.63	1,323,067	95.78
Fee, commission and brokerage income	23,359	1.41	12,797	0.93
Dividend income	18,093	1.09	20,492	1.48
Gain on sale of securities - net	128,809	7.76	31,468	2.28
Other income	1,830	0.11	(6,417)	(0.47)
Total Income	1,659,432	100.00	1,381,407	100.00
Mark-up / return / interest expensed	678,102	40.86	402,712	29.15
Provision and impairment	106,953	6.45	324,136	23.46
Total non mark-up / interest expenses	239,010	14.40	167,757	12.14
Taxation - net	195,343	11.77	244,253	17.68
Profit after taxation	440,024	26.52	242,549	17.56

Rupees in '000

2010	%	2009	%	2008	%	2007	%
10,552	0.10	2,633	0.03	506,887	8.72	19,302	0.46
352,808	3.37	1,309,451	15.80	1,816,376	31.23	2,808,657	66.98
600,000	5.73	446,250	5.39	611,000	10.51	600,000	14.31
7,160,982	68.39	5,326,675	64.29	2,477,998	42.60	714,747	17.05
2,103,430	20.09	945,387	11.41	327,318	5.63	-	-
44,762	0.43	26,071	0.31	21,478	0.37	14,310	0.34
21,661	0.21	109,799	1.33	7,283	0.13	-	-
176,414	1.68	119,188	1.44	47,126	0.81	36,153	0.86
10,470,609	100.00	8,285,454	100.00	5,815,466	100.00	4,193,169	100.00
2,863,481	27.35	1,857,327	22.42	459,957	7.91	-	-
-	-	-	-	-	-	1,478	0.04
172,683	1.65	134,609	1.62	32,523	0.56	64,229	1.53
3,036,164	29.00	1,991,936	24.04	492,480	8.47	65,707	1.57
7,434,445	71.00	6,293,518	75.96	5,322,986	91.53	4,127,462	98.43
6,000,000	57.30	5,000,000	60.35	5,000,000	85.98	4,000,000	95.39
-	-	490,825	5.92	-	-	-	-
279,204	2.67	163,533	1.97	89,250	1.53	25,621	0.62
1,116,823	10.66	654,137	7.90	357,003	6.14	102,486	2.44
38,418	0.37	(14,977)	(0.18)	(123,267)	(2.12)	(645)	(0.02)
7,434,445	71.00	6,293,518	75.96	5,322,986	91.53	4,127,462	98.43
1,030,191	85.75	809,863	83.19	527,054	84.76	235,459	99.81
7,185	0.60	17,906	1.84	3,621	0.58	-	-
22,564	1.88	17,924	1.84	60,266	9.69	-	-
134,480	11.19	126,684	13.01	-	-	459	0.19
6,942	0.58	1,185	0.12	30,875	4.97	-	-
1,201,362	100.00	973,562	100.00	621,816	100.00	235,918	100.00
193,494	16.11	124,744	12.81	31,898	5.13	-	-
(79,955)	(6.66)	255,745	26.27	37,500	6.03	-	-
209,239	17.42	110,083	11.31	82,513	13.27	39,078	16.56
300,227	24.99	111,573	11.46	151,759	24.41	68,733	29.13
578,357	48.14	371,417	38.15	318,146	51.16	128,107	54.30

SIX YEAR'S HORIZONTAL ANALYSIS

STATEMENT OF FINANCIAL POSITION / PROFIT & LOSS ACCOUNT

Statement of Financial Position	2012	%	2011	%
Assets				
Cash and balances with treasury banks	43,999	381.23	9,143	(13.35)
Balances with other banks	106,586	415.53	20,675	(94.14)
Lendings to financial institutions	-	-	-	(100.00)
Investments	10,841,572	20.81	8,974,337	25.32
Advances	4,325,337	74.75	2,475,156	17.67
Operating fixed assets	56,047	16.62	48,060	7.37
Deferred tax assets - net	109,689	35.83	80,756	272.82
Other assets	253,291	6.88	236,992	34.34
Total Assets	**15,736,521**	**32.85**	**11,845,119**	**13.13**
Total equity	8,199,367	6.06	7,730,697	3.98
Borrowings from financial institutions	6,721,178	81.88	3,695,484	29.06
Deposits and other accounts	545,080	109.65	260,000	100.00
Other liabilities	270,896	70.44	158,938	(7.96)
Total Equity and Liabilities	**15,736,521**	**32.85**	**11,845,119**	**13.13**
Profit and Loss Account				
Mark-up / return / interest earned	1,487,341	12.42	1,323,067	28.43
Mark-up / return / interest expensed	678,102	68.38	402,712	108.13
Net mark-up / interest income	809,239	(12.07)	920,355	10.00
Net mark-up / interest income after Provision	702,286	17.79	596,219	(34.96)
Non Markup / Interest Income				
Fee, commission and brokerage income	23,359	82.54	12,797	78.11
Dividend income	18,093	(11.71)	20,492	(9.18)
Income from dealing in foreign currencies	745	2,158.15	33	100.00
Gain on sale of securities - net	128,809	309.33	31,468	(76.60)
Gain / (loss) on sale of fixed assets	431	85.69	232	(189.58)
Unrealised gain / (loss) on revaluation of investments classified as 'held for trading'	608	(107.53)	(8,080)	(212.21)
Other income	46	(96.71)	1,398	
Total non mark-up / return / interest income	172,091	194.98	58,340	(65.92)
Total non mark-up / interest expenses	239,010	42.47	167,757	(19.83)
Profit before taxation	635,367	30.52	486,802	(44.59)
Taxation - net	195,343	(20.02)	244,253	(18.64)
Profit after taxation	**440,024**	**81.42**	**242,549**	**(58.06)**
Basic and diluted earnings per share	0.73	81.41	0.40	(58.65)

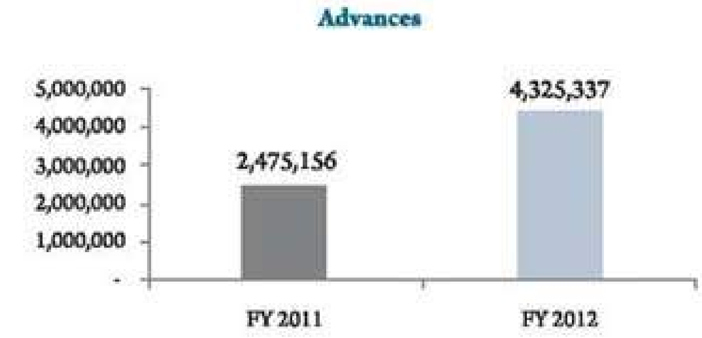
Rupees in '000

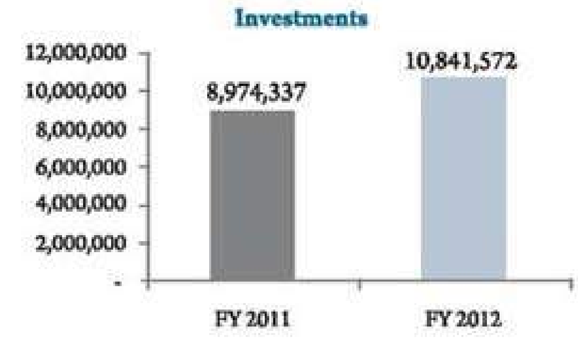
2010	%	2009	%	2008	%	2007
10,552	300.76	2,633	(99.48)	506,887	2,526.09	19,302
352,808	(73.06)	1,309,451	(27.91)	1,816,376	(35.33)	2,808,657
600,000	34.45	446,250	(26.96)	611,000	1.83	600,000
7,160,982	34.44	5,326,675	114.96	2,477,998	246.70	714,747
2,103,430	122.49	945,387	188.83	327,318	100.00	-
44,762	71.69	26,071	21.38	21,478	50.09	14,310
21,661	(80.27)	109,799	1,407.61	7,283	100.00	-
176,414	48.01	119,188	152.91	47,126	30.35	36,153
10,470,609	**26.37**	**8,285,454**	**42.47**	**5,815,466**	**38.69**	**4,193,169**
7,434,445	18.13	6,293,518	18.23	5,322,986	28.97	4,127,462
2,863,481	54.17	1,857,327	303.80	459,957	100.00	-
-	-	-	-	-	(100.00)	1,478
172,683	28.28	134,609	313.89	32,523	(49.36)	64,229
10,470,609	**26.37**	**8,285,454**	**42.47**	**5,815,466**	**38.69**	**4,193,169**
1,030,191	27.21	809,863	53.66	527,054	123.84	235,459
193,494	55.11	124,744	291.07	31,898	100.00	-
836,697	22.12	685,119	38.36	495,156	110.29	235,459
916,652	113.49	429,374	(6.18)	457,656	100.00	235,459
7,185	(59.87)	17,906	394.50	3,621	100.00	-
22,564	25.89	17,924	(70.26)	60,266	100.00	-
-	-	-	-	-	-	-
134,480	6.15	126,684	310.31	30,875	6,626.58	459
(259)	(114.29)	1,812	100.00	-	-	-
7,201	(1,248.48)	(627)	(100.00)	-	-	-
-	-	-	-		-	
171,171	4.56	163,699	72.75	94,762	20,545.32	459
209,239	90.07	110,083	33.41	82,513	111.15	39,078
878,584	**81.91**	**482,990**	**2.78**	**469,905**	**138.72**	**196,840**
300,227	169.09	111,573	(26.48)	151,759	120.79	68,733
578,357	**55.72**	**371,417**	**16.74**	**318,146**	**148.34**	**128,107**
0.98	32.10	0.74	-	0.74	45.10	0.51

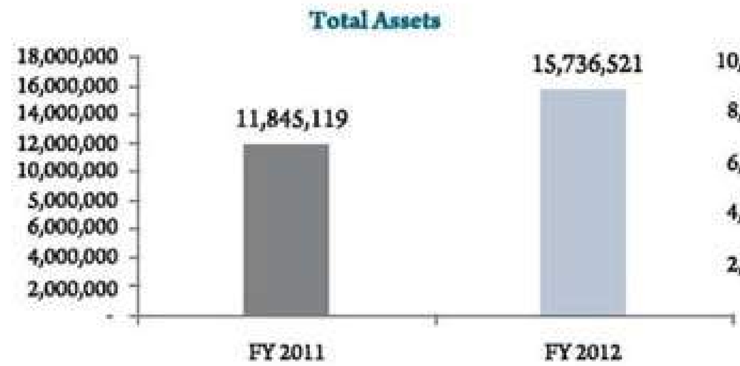
GRAPHS

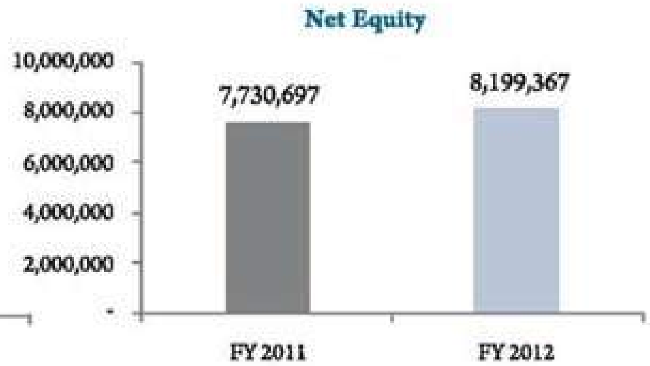
STATEMENT OF FINANCIAL POSITION

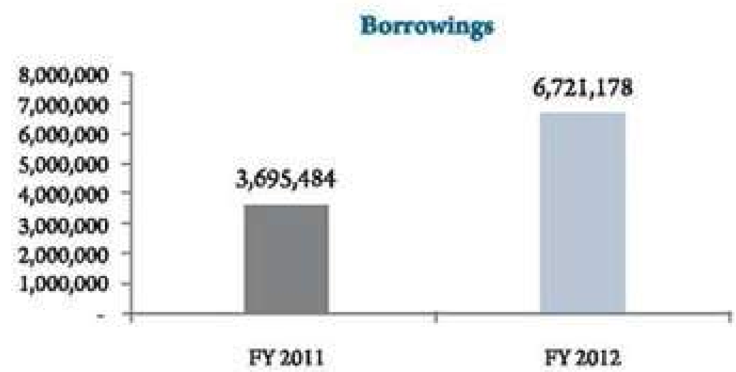
Rupees in '000





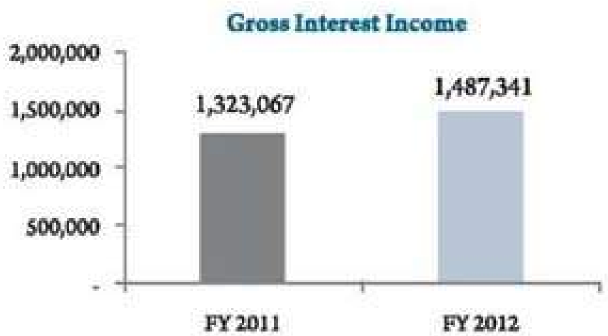


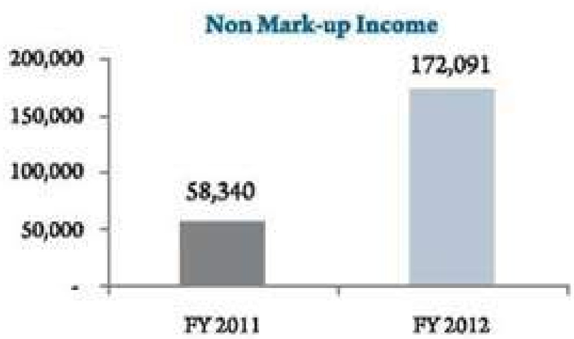




PROFIT & LOSS

Rupees in '000





CASH FLOW SUMMARY

	Rupees in '000					
	2012	2011	2010	2009	2008	2007
Operating Activities	1,966,241	1,708,563	448,811	1,287,294	378,383	(441,361)
Investing Activities	(1,820,474)	(2,042,105)	(1,906,710)	(2,789,298)	(1,883,079)	(730,680)
Financing Activities	(25,000)	-	509,175	490,825	1,000,000	4,000,000
Cash and Cash Equivalents at year end	120,767	(333,542)	(948,724)	(1,011,179)	(504,696)	2,827,959

KEY FINANCIAL RATIOS

	2012	2011	2010	2009	2008	2007
Profitability Ratios (%)						
Operating Margin	38.29	35.24	73.13	49.61	75.57	83.44
Net Profit Margin	26.52	17.56	48.14	38.15	51.16	54.30
Yield on Investment	12.15	12.87	13.60	15.04	13.91	0.10
Yield on Advances	12.26	13.44	11.20	17.62	22.04	-
Debt Equity Ratio	88.62	51.17	38.52	29.51	8.64	0.04
Administration Cost to Revenue	14.40	12.14	17.42	11.31	13.27	16.56
Non Mark-up Expenses to Assets	1.52	1.42	2.00	1.33	1.42	0.93
Profit before Tax Ratio	42.72	36.79	85.28	59.64	89.16	83.60
Non Mark-up Income to Total Income	10.37	4.22	14.25	16.81	15.24	0.19
Return to Shareholders (%)						
Return on Average Assets (ROA)	4.61	4.36	9.37	6.85	9.39	4.69
Return on Average Equity (ROE)	7.98	6.42	12.80	8.32	9.94	4.77
Return on Capital Employed (ROCE)	2.85	2.08	5.62	4.56	5.50	3.10
Earnings per Share	0.73	0.40	0.98	0.74	0.74	0.51
Earning Growth	1.20	1.15	1.23	1.57	2.64	1.00
Profit Growth	1.31	0.55	1.82	1.03	2.39	1.00
Breakup Value per Share	13.67	12.88	12.57	12.59	12.37	16.59
Performance / Liquidity (%)						
Total Assets Turnover	12.03	12.38	12.81	13.81	12.43	5.63
Total Liabilities / Equity	91.92	53.22	40.84	31.65	9.25	1.59
Paid-up Capital / Total Assets	38.13	50.65	57.30	60.35	85.98	95.39
Equity / Total Assets	52.10	65.26	71.00	75.96	91.53	98.43

STATEMENT OF
VALUE ADDED

	2012		2011		2010	
WEALTH GENERATED						
Financial & other Income	1,659,432		1,389,487		1,281,317	
Financial & other Expenses	875,345		813,037		275,549	
	784,087		576,450		1,005,768	

	2012	%age	2011	%age	2010	%age
WEALTH DISTRIBUTED						
To Employees						
Salaries, benefits and related costs	125,143	15.96%	74,385	12.90%	117,744	11.71%
To Government						
Income Tax	195,343	24.90%	244,253	42.37%	300,227	29.85%
To Shareholders						
Cash dividend	50,000	6.38%	-	-	-	-
Stock dividend	-	-	-	-	-	-
Retained for reinvestment & future growth						
Depreciation, amortisation and retained profit	413,601	52.76%	257,812	44.73%	587,797	58.44%
	784,087		576,450		1,005,768	

OFFERING SMART FINANCIAL SOLUTIONS

Our services are aimed at delivering solution to clients by structuring their needs and advising them for future growth. We are self driven with quick turn around time.

THE CORPORATE &
INVESTMENT BANKING GROUP

The Corporate and Investment Banking Group (CIBG) is an integral part of PAÏR Investment Company Limited offering our services to medium and large businesses and industrial conglomerates and to the government sector to fulfill their needs. The Group which is structured as North & South regions is committed in providing its clients exclusive products and services at their doorstep.

The CIBG operates in the competitive business environment with the underlying focus of a Development Financial Institution (DFI). Our aim is to create and deliver long term sustainable value for all our customers by providing them the right solutions.

Rima Athar
Head of Corporate Finance (South)

PRODUCTS & SERVICES

The Corporate and Investment Banking Group primarily concentrates on, Corporate Finance, Project Finance and Investment Banking related services. Our teams specialise in, Advisory, Divestitures, Financial and Balance Sheet Restructuring, Mergers and Acquisition etc. We offer traditional as well as innovative products and services to match the ever changing business and economic dynamics of Pakistan.

PAÏR focuses on tailor-made products and services which facilitate our clients in achieving at cost which are economical, yet provide investment returns which meet their criteria.

Abid Kitchlew
Head of Corporate Finance (North)

The Group's Strategic Corporate and Investment Banking solutions include Short, Medium and Term Loans, Letter of Guarantees, Long Term Finance Facility (LTFF) for export oriented projects, Advisory, Arrangement and Distribution of Debt and Structured Finance Syndicated Transactions.

Our knowledgeable and skilled teams, actively structure, Debt Capital Market Instruments like Commercial Papers, Term Finance Certificates (TFC), Private Equity Raising, Equity Participation, Structured and Asset Backed Securities, Pre-IPO, IPO, Offer for Sale and Underwriting.

Shahid Iqbal Choudhri
Head of Business Development (North)

OUR MOTIVATION

In line with the Vision and Mission of PAÏR, we strive to assist the corporate sector to realize their growth targets whereby creating jobs in the real economy. We exert our efforts to contribute, through playing a positive role in our capacity, to help the government sector in delivering stability whereby supporting the budgeted growth plans.

OUR SUCCESS

PAÏR provides customized solutions through specialist services and products structured by a team of high quality professionals that help our clients meet their strategic objectives. We continue to give due attention to our clients to address their specific financial requirements and with that view we consistently invest in building, training and developing our human resources and their capabilities.

The Corporate and Investment Banking Group closely works with its clients to fully understand their businesses in-order to build long term relations with them. For PAÏR strongly believes in building relationships by sharing benefits and delivering the best to our customers.

FOCUS OF PAÏR - CORPORATE AND INVESTMENT BANKING GROUP

The Corporate and Investment Banking Group of PAÏR has been able to create an impressionable foothold in the financial sector by providing array of services to the customers through offering customized products to fit the needs of the business. Despite having a positive outlook towards the market going forward PAÏR aims to have a prudent approach in terms of Client Selection, maintain focus on mileage based transactions giving emphasis on value addition and innovative financial solutions by providing advisory services.

All this is made possible by becoming an active player in the capital market, by undertaking Infrastructure Projects via Public - Private Partnership under Project Financing. For the purpose, PAÏR is in contact with various governmental bodies and other significant players in the Financial Market with a view to explore various projects and joint ventures. PAÏR is also aimed to generate more Interest and Non-Interest based income through Book Building, Retainership based advisory services to sick units for revamping and restructuring, Corporate Restructuring of target companies with diversified business setup, Underwriting, LTFF facility for Export Oriented Companies. In this regards PAÏR has and continues to aim to provide financial advisory in the amalgamation / merger of companies.

PRODUCT DIVERSITY

Even with limitation imposed by SBP on DFIs including PAÏR on the extent and nature of business which can be undertaken, PAÏR has been able to provide the customers with variety of products ranging from Long term to Medium term and Short term Advances. Due to the limitations faced, PAÏR provides customised products which would fit the requirements of the customers yet staying within the regulatory requirements.

Our presence in the capital markets is equally there, vis-à-vis the balance sheet size. PAÏR has participated in the Pre-IPOs, IPOs, Offer for Sale, Underwriting and other financial advisory including merger advisory. Our portfolio includes investments which have been generated through primary market activity as well as secondary market activity.

TREASURY & INVESTMENT GROUP

CORE OBJECTIVE / MISSION

Ahmad Bilal Darr

Head of Treasury & Investment

Treasury & Investments Unit (T&IU) is a profit center contributing towards Assets and Profitability of the Company. The Unit's main focus is to increase shareholders' wealth and to ensure sustainability of asset base.

PRODUCT UNIVERSE

Apart from managing the internal liquidity needs of the Company, the Unit is functioning with the objective to invest in diversified product range constituting Interbank Money Market, Fixed Income, Mutual funds and Capital Market instruments.

T&IU STRUCTURE

Jahangeer Jamil

Head of Equity Desk

T&IU is working under the supervision of Head of Treasury & Investments who reports to the MD/CEO of the Company. The investment decisions and portfolio building of Treasury and Investments products is governed through 'Investment Committee' which is the Senior Management decision making forum of the Company. The Chairman of the Committee is the MD/CEO and the Secretary is the Head of Treasury & Investments.

PERFORMANCE HIGHLIGHTS - 2012

The year 2012 witnessed number of uncertainties on both economic and industrial front. Consistent decline in Policy rates coupled with the accumulating public debt, deteriorating external accounts, devaluation of Pak Rupee, lack of 'political will' on major economic issues including massive power shortages, chronic budget deficit, crowding out private sector, deteriorating investment climate are the factors contributing to social disconnect and hampering the economic and business growth.

Despite these major events, prompt decisions taken by T&IU under the approval authority of MD/CEO and Investment Committee have enabled the Company to maintain desirable portfolio return while carrying investment grade assets and no provision/impairment in the T&IU book. The portfolio of Treasury & Investments stands at Rupees 8.63 billion with YoY growth of 28%, T&IU's diversified portfolio building in terms of both product range and business sector has enabled the Company to reduce the impact of external risk factors prevailing in the market. Contrary to the declining trend of interest rates in CY2012 and keeping the fact into consideration that more than 95% of the T&IU assets are interest rate sensitive, the T&IU has been able to maintain lucrative net interest margin during the year. T&IU's annual interbank market turnover during the year CY2012 stood at Rupees 234 billion, which reflects active participation in interbank market. During the year, the Unit has not only over-achieved assets and net profit targets of Business Plan 2012, but it has also been able to maintain its asset quality despite uncertainties in the market. Relative to the peer groups in the industry, T&IU performance depicts stronger picture in terms of asset quality, profitability and diversification of portfolio with optimal risk and return tradeoffs.

GOVERNANCE STRUCTURE

T&IU has contributed well to establish an end to end Governance infrastructure of the Company; T&IU has adopted approved Policy and Procedural Manual under COSO/ICFR framework to standardise systems & operational activities and to improve work efficiency. The Unit has also implemented an Automated Portfolio and Asset Management System (IPAMS) and is continuously engaged to upgrade the quality of the systems and procedures.

HUMAN RESOURCE DEPARTMENT

Amir Aizaz
Company Secretary
Head of HR & Administration

Work in partnership with and in support of the other Department Heads. Demonstrate excellence and leadership by providing proactive, innovative and efficient human resources solutions to ensure a high performance workforce.

The HRD developing qualified individuals necessary to successfully support the mission and vision of the Company. The department is configured a small team with service areas of expertise to ensure focus and commitment: Department Management, Information Systems, HR Central, Employment, Benefits, Payroll and Compensation.

HRD is committed to strengthening the Company's ability to develop and implement outreach initiatives to diversified resources that will support and serve Company. This is being accomplished by using streamlined employment practices and targeted recruitment sources that ensure equal employment opportunity, comprehensive benefit and competitive and appropriate pay structures, and competency based employee development opportunities.

HRD has always utilised technology strategically to deliver its services in all facets of human resources support.

> ***All this improvement is great, but all that does is get us in the game to play for improvements that we need in the future, so that we can be aggressive in the marketplace.***
>
> ***by Rick Wagoner***

In FY 2011, HRD articulated its strategy for the design, implementation and administration of benefits programs that are competitive, comprehensive, affordable and compliant. The goal is to ensure that the overall benefits package successfully serves as a useful tool in the attraction and retention of key talent for the Company. In FY 2012, the focus will be on streamlining plan administration, improving employee communication and education efforts, enhancing tools and employing robust internal controls and metrics. All of this must be done in the context of an increasingly complex regulatory environment, particularly in light of management initiatives impacting the benefits arena. In FY 2012, the HRD introduce & implement with the assistance of management several benefits for Company's Employees such as nominate one staff each year for Hajj (thorough balloting) on Company's account, Leave Fare Assistance and Eid Bonus.

POLICIES &
PROCEDURES

THE COMMITTEE OF SPONSORING ORGANISATIONS OF THE TREADWAY COMMISSION (COSO)

PAÏR in FY 2012 has undertaken an exceptional effort to institutionalise its systems and procedures under best known framework COSO to enhance the efficiency and effectiveness of internal controls and monitoring system.

PAÏR has also developed risk and controls matrix and segregation of duties matrix for each unit under the same COSO exercise. In a period of less than eighteen months, over 20 policies with 6 standard operating procedures manuals have been developed/updated.

To ensure the consistency in the process of compliance with the relevant SBP guidelines, PAÏR has adopted a structured roadmap identifying various activities/stages to develop and deploy Internal Controls through COSO Framework and engage "Ernst & Young" for entity level documentation of key business activities and evaluation not only to achieve the compliance of SBP guidelines but to set direction of the Company for developing internal control environment in a manner which should complement smooth flow of operations with defined responsibilities. It ensures:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Zulfiqar Alam
Chief Financial Officer

Adnan Raza
Head of Internal Audit

Salman Raza
Head of Credit

PLANNING
ONE STEP AHEAD

Planning is a step-by-step process with definite objectives and end products that can be implemented and evaluated.

As a company that aims to position itself as an intermediary to enable and promote the flow of investments, PAÏR identifies the crucial role of planning that articulates not only where its going but also the actions needed to make progress, and achieve desired results.

DIRECTORS' REPORT 2012

FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2012

On behalf of the Board of Directors, I am pleased to present the Financial Statements of PAÏR Investment Company Limited (PAÏR) for the year ended December 31, 2012. These Financial Statements have been prepared in compliance with the requirements of BSD Circular No. 11 dated August 04, 2004 and BSD Circular No. 14 of September 24, 2004.

ECONOMIC OVERVIEW

With persistent pressure on the external account and resultant impact on the Pak Rupee, the country is likely to head back to the IMF for another program. Though the current account deficit is expected to be lower by approx 54% (1.1% of GDP) in FY13, its financing has become a difficult task and that too with repayments lined up for FY13. This has started to take its toll on local currency as Pak Rupee has depreciated by 3% in the last three months which is not ideal for an economy whose major portion of imports is oil.

On the fiscal side, the current turbulence was widely anticipated as we move into the election year and the government's spending spree shows a pre-election hangover which cannot be termed as extraordinary. With major subsidies (power which is 26% of total expected fiscal deficit) already been utilised in full during just 5M FY13, we believe the targeted 4% fiscal deficit for FY13 would be easily crossed and would hit 6.5% of GDP by year end (FY13).

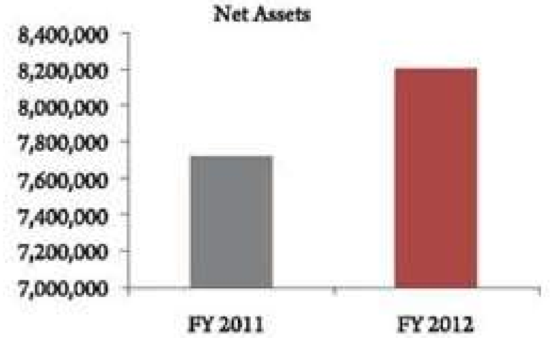
COMPANY PERFORMANCE GENERAL OVERVIEW

Our core strengths, helping customers pursue opportunities and helping companies build their businesses in the Pakistan are aligned with the trends that are redefining Pakistan's economy. Our central mission has been to support economic progress. We have applied our passion to serve our customers to fulfill their needs.

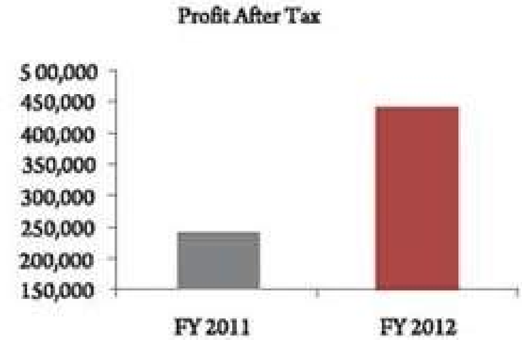
For the Year (Rupees in million)	2012	2011
Net Markup Based Income	809	920
Non Markup Income	172	59
Total Income	981	979
Non Markup/interest expenses	239	168
Profit Before Provisions	742	811
Provisions	107	324
Profit Before Taxation	635	487
Taxation	195	244
Profit After Taxation	440	243

At Year end (Rupees in million)	2012	2011
Total Assets	15,737	11,845
Liabilities	7,537	4,114
Share Capital	6,000	6,000
Reserves	416	328
Unappropriated Profit	1,613	1,311
Surplus on Revaluation	171	92

Our Company is in strong shape and is well-positioned for the future. Full-year 2012 profit after tax of Rupees 440 million represented an increase of 81% over 2011. The total assets stood at Rupees 15.73 billion as of December 31, 2012 as compared to Rupees 11.84 billion for the previous year.

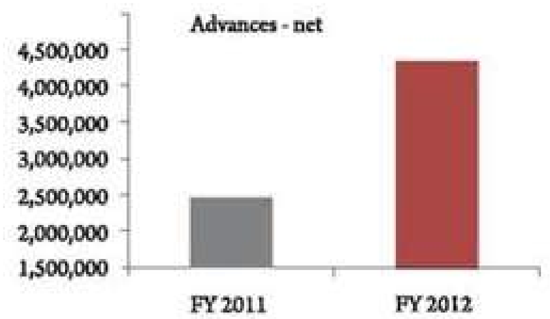


All amount in Rupees in "000"

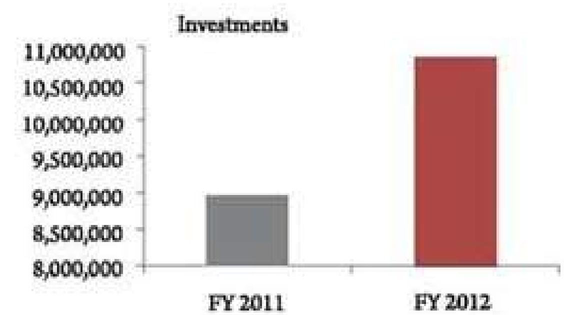


All amount in Rupees in "000"

Gross Mark-up income of the Company increased by 12% YoY from Rupees 1,323 million to Rupees 1,487 million as the Company increased its corporate loans portfolio by 75% YoY from Rupees 2.475 billion to Rupees 4.325 billion while managing its financial cost efficiently. However, the growth in Mark-up income is diluted by decline in KIBOR which we foresee to impact us in the following year as well. Discount rate decreased from 12% in October 2011 to 9.5% in December 2012.



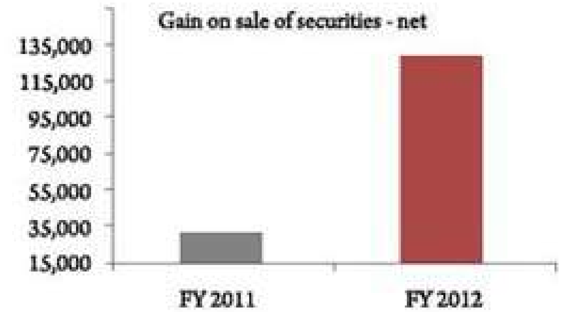
All amount in Rupees in "000"



All amount in Rupees in "000"

Non markup based income rose by almost three times YoY to Rupees 172 million from Rupees 58 million on the back of a significant increase in gain on sale of securities (from Rupees 31 million to Rupees 129 million) and fee and commission income (from Rupees 13 million to Rupees 23 million).

All amount in Rupees in "000"



All amount in Rupees in "000"

Our primary sources of funding are secured financings, unsecured borrowings and deposits. We seek to maintain broad and diversified funding sources to reduce maturity mismatch and gaps. PAÏR has obtained another Term Finance Facilities from a Commercial Bank to fund growth of its assets. Furthermore, the Company also issued Certificates of Investment and hired a dedicated liability team enabling to provide its clients, products according to their liquidity profile. In FY 2013 the Company is focused to build a stable deposit base.

Administrative expenses increased by 42% YoY from Rupees 168 million to Rupees 239 million due to the prevailing inflation and increased operation of the Company.

We are particularly proud of the progress we have made in enhancing our system and internal controls. We have developed all the policies and have documented all key processes in user friendly manuals. This enables us to better serve our clients, monitor our activities and increase operational efficiencies.

CREDIT RATING

PAÏR has been assigned a long-Term Entity Rating of 'AA-' (Double A Minus) and a short term Entity Rating of 'A1+' (A One Plus) with "Positive Outlook" by Pakistan Credit Rating Agency Limited (PACRA) based on the audited accounts for the period ended December 31, 2011. The ratings have a "Positive Outlook" which incorporates consistent efforts made by the management putting in the requisite infrastructure in place to implement its business strategy.

STATEMENT OF INTERNAL CONTROLS

The Board is pleased to endorse the statement made by management relating to internal controls. The Management's Statement on Internal Controls is included in the Annual Report.

COMMITTEE OF SPONSORING ORGANISATIONS OF THE TREADWAY COMMISSION (COSO) FRAMEWORK

Concerted efforts have been made to follow SBP Guidelines on Internal Controls, identification, evaluation and management of risks in the entire activities of the Company; and evaluation and streamlining of procedures remains an ongoing process. Hence PAÏR has undertaken a detailed exercise through an international, well-established firm of Chartered Accountants for documentation and benchmarking of existing processes and controls including financial reporting related controls on internationally accepted standards – the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Framework. The consultants have carried out the documentation of the Company's activities which included scoping, process level mapping, documentation of processes and entity level activities, identifying risks and control and development of remediation and testing plans.

The Company has completed all the Stages for all the key areas as set out in the structured roadmap except one.

DEPOSIT MOBILISATION

During the year, the Company raised deposits from diversified sources including individuals and corporates. Furthermore, dedicated liability marketing team was hired to raise deposits from government entities, corporate, employee benefit funds and high net worth individuals. Our target is to build a sustainable deposit base to fund our asset growth.

PRODUCT INNOVATION

The Company continues to improve efficiencies, enhance market competitiveness and deliver customer service at improved levels. In this regard, major investments have been made in upgrading technology and the skill set of Human Resources. We continue our strong commitment to provide state-of-the-art services and facilities to our customers.

To better serve our customers and to provide them hassle free product, Leasing is added in our portfolio of products. Primarily, the Company is focusing on Corporate Entities to provide lease financing against Plant & Machinery, Equipment, Commercial Vehicles and Vehicle fleets.

During the Year 2012, PAÏR took approval from Board of Directors (BoD) to act as Issuing and Paying Agent (IPA) for Commercial Paper ("CP") based on the SBP Guidelines. Commercial Paper is an unsecured instrument with a maturity 30 days to one year. Acting in capacity of an IPA shall, in future, allow PAÏR to exploit new avenues of fee income, give extra mileage in terms of creating goodwill and diversify sources of short-term financing. Based on the approval sought from BoD, PAÏR is now in a position not only to issue Commercial Papers for reputable companies, but also act as an IPA for the issue, thereby enhancing the market presence of PAÏR coupled with exploiting new ways of generating business.

IT INFRASTRUCTURE

We have made a significant investment in technology to increase our efficiency and will continue to upgrade our present IT infrastructure. During the current year, the Company started the implementation of its Loan Management System which is now in final stage of implementation. Significant modifications have been made in the system to cater the requirement of a Development Finance Institution. Furthermore, in FY 2013, the Company intends to upgrade its existing IT infrastructure including Treasury & Investments.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The Board of Directors of PAÏR, for the purpose of establishing a framework of good corporate governance has implemented the relevant provisions of the Code of Corporate Governance for the year ended December 31, 2012. Review Report on the Statement of Compliance with the Code of Corporate Governance from the external auditors is annexed with this report. As required under the Code of Corporate Governance, the Board of Directors state that:

- The financial statements prepared by the management of PAÏR present fairly its state of affairs, the results of its operations, cash flows and changes in equity.

- Proper books of accounts of the Company have been maintained.

- Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.

- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departure there from has been adequately disclosed.

- As a continuous process, efforts have been made to effectively implement the internal control system. An effective and sound system of internal control is in the process of being designed in accordance with the requirements of the regulatory authorities.

- There is no doubt regarding PAÏR's ability to continue as a going concern.

- There has been no material departure from the best practices of the Code of Corporate Governance.

- Key operating and financial data for the years since the incorporation of PAÏR in summarised form is included in the Annual Report.

- During the year, an Orientation Course on Code of Corporate Governance was conducted for the Board of Directors

RISK MANAGEMENT FRAMEWORK

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

The prevailing economic situation has led the Company to set its focus towards deployment of stringent risk management policies to assess, mitigate and monitor major risks associated with business operations of the Company. Accordingly, your Company has established a set of activities and creates core functions to administer, manage and report in order to complement its core business objectives and to remain abreast with latest developments & challenges to safeguard shareholders' interests/enhance shareholder's wealth.

The Company is, engaged in implementing a robust Internal Capital Adequacy Assessment Process (ICAAP) to establish more risk sensitive assessment, Capital planning, formalization of Company-wide Risk Appetite and to remain abreast with the internal and external risks that may impact future operations of the company. The deployment of this process allowed an adequate management of capital, development of risk appetite and concentrations levels with respect to the transaction level risk profiling as well as integrated portfolio management.

The Risk Management Unit is fully involved in the development of entity wide policies, procedures, systems and reporting mechanism to achieve and maintain entity wide best rating status and adaption of risk management principals in true letter and spirit.

PAÏR's Risk Management broadly covers following functions:

Credit Risk:

This is the risk of financial loss if a customer or counterparty fails to meet a contractual payment. It arises mainly from direct lending and debt securities. Our governance structure and control framework are designed to manage all stages of the economic and financial cycles. Currently the management has deployed a "Credit" function specialised to assess and advice transaction structure terms and spearheading credit policy of the Company. PAÏR's Credit Risk is managed at three levels:

1. Assessment of transaction structure proposed by business units is reviewed by credit & risk units.
2. Transaction Evaluations: This covers External and Internal Risk Rating Assessment of Obligor and Security Indicators.
3. Credit Portfolio Management: This covers assessment of industry/sector limits monitoring, ratings migrations and periodic portfolio risk reviews.

Market Risk:

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

Liquidity and Funding Risk:

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

PAÏR has in place a comprehensive and conservative set of liquidity and funding policies to address the Company specific and broader industry liquidity events. The Company has created adequate funding mix with reasonable tenor/ gap ladder management and funding sources from various financial institutions and market operations. Funding plans are duly supported by routine money market operations, borrowing from financial institutions and certificate of investments. Our principal objective is to be able to fund the Company and to enable our core business to continue to generate revenues, even under adverse circumstances.

We manage liquidity risk according to the following principles:

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

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

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

OPERATIONAL RISK:

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

EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

There have not been any material events that occurred subsequent to the date of the statement of the financial position that require adjustments to the enclosed financial statements, except those which have already been made or disclosed.

HUMAN RESOURCE

Our work would not be possible without the strength of a skilled workforce. We ensure that our people are equipped with the support systems needed to realise their professional growth, make meaningful contributions and develop pride in their work. The distinct perspectives of our team members add value for our clients and customers.

We understand that a client relationship is only as strong as our professionals managing that relationship. The most important thing we can do to enhance the value for our clients is to continue to retain our competent and experienced people and continue to hire the most talented individuals. We are committed to being a Company where the best people want to work, where opportunities are widely available, and where employees are encouraged to fulfill their professional and personal goals.

CORPORATE SOCIAL RESPONSIBILITY

We aim to conduct our business that create value for our customers, clients, partners, shareholders, people and most important our society. We understand that being good corporate citizen start with operating responsibly. We have engrained this philosophy in our business operations, in our culture and in our business decisions.

EARTHQUAKE RELIEF

The recent earthquake that have hit Iran and the destruction and devastation it has caused to Iranian people, we at PAÏR were saddened by it and extended our sincerest grief for the lives lost and destruction caused. PAÏR has supported relief efforts to earthquake victims through monetary donations of Rupees 1.0 million.

ENERGY CONSERVATION

We understand the need to save energy as our country suffer from energy crisis. We have installed energy savers to reduce our electricity consumption. Furthermore, PAÏR is also following an internal program to reduce energy consumption by encouraging employees to switch off lights, computer monitors and other electronic equipment when not required.

CONTRIBUTION TO NATIONAL EXCHEQUER

During the year, PAÏR has paid Rupees 233 million in form of Income Taxes to the Government of Pakistan.

BOARD OF DIRECTORS AND THEIR MEETINGS

Four (4) Board Meetings were held during the year 2012. The director(s) who were not able to attend any of the meeting(s) were duly granted leave of absence by the Board. The directors attended the meetings, are as under:

Name of Directors	No. of Meetings Attended	Attendance In % terms
Mr. Bijan Rahimi, Chairman	4 out of 4 meetings	100%
Mr. Syed Ahmad Iqbal Ashraf, Managing Director & Chief Executive Officer	4 out of 4 meetings	100%
Mr. Ghader Soleimani – Director	4 out of 4 meetings	100%
Mr. Aamer Mahmood Hussain – Director (Appointed by Ministry of Finance Notification dated January 20, 2012)	3 out of 3 meetings	100%
Mr. Abdul Akbar Shirfzada – Director (Appointed by Ministry of Finance Notification dated May 21, 2012)	2 out of 2 meetings	100%
Mr. Seyed Ahmad Araghchi – Director (Appointed by IFIC Notification dated August 27, 2012)	1 out of 1 meetings	100%
Mr. Farrakh Qayyum – Director (Replaced by Ministry of Finance Notification dated May 21, 2012)	2 out of 2 meetings	100%
Mr. Yawar Zia – Director (Replaced by Ministry of Finance Notification dated January 20, 2012)	Nil	Nil
Mr. Haji Ghorbani – Director (Replaced by IFIC Notification dated August 27, 2012)	Nil	Nil

DIVIDEND

The Board of Directors has announced and declared a cash dividend of Rupees 50 million for the year ended December 31, 2012.

STATEMENT OF INVESTMENTS OF PROVIDENT FUND

Investments (including bank balances) of Provident Fund as at December 31, 2012 according to the Un-audited Financial Statements were Rupees 26 million (FY 2011: 15 million).

FUTURE OUTLOOK

Pakistan faces a challenging economic environment in FY13. The projected GDP growth for Fiscal Year 2012-2013 is in the range of 3% - 3.5% which needs to accelerate considerably to absorb growing labour force. Inflation has fallen recently but is expected to be back in double digits by the middle of next year if corrective measures are not taken to reverse monetary financing of the fiscal deficit. Pakistan's external accounts are deteriorating, with incoming investment slowing and the central bank's reserves dropping. Decisive and far-sighted action is needed to address this challenging outlook, including raising taxes and cutting expenditures, especially subsidies.

We see little improvement in credit off-take especially from industrial circles amid worsening energy shortages in the country, thus the NIMs will continue deteriorating as the full scale impact of easing cycle materialises in CY13. And the situation will be more worrisome for small banks having higher cost of deposits. The same is all set to drag the sector bottom-line down by 4-12% in CY13 whereas the impact of expected monetary tightening would come into play in 1HCY14. The risk of non-performing loans amid energy crisis and expectation of increase in base rates in 2HCY13 will continue play its role in impacting the profitability of banking sector in FY 2013.

PAÏR is well-positioned to seize the opportunities as they unfold to us. Despite the soft economy and deteriorating law & order conditions over the past year, we judged it important to continue making key investments in the long-term. However, in line with the banking sector, movement in key interest rates may have a direct negative impact on our profitability in FY13.

We are in the right business and in the right segment — where the growth is our prime objective. Our strategy in a nutshell is to position our Company to seize the trends for our clients' benefit, remain committed to responsible finance and the basics of banking, and serve the real economy, not ourselves.

The short-term outlook for Pakistan economy remains cloudy. But for the long term, we have positioned our company to seize and capitalize on the trends that we believe will define the Pakistan's economy.

APPOINTMENT OF AUDITORS

The present Auditors M/s Anjum Asim Shahid Rahman, Chartered Accountants retired and being eligible, offer themselves for re-appointment. As required by the Code of Corporate Governance, the Audit Committee has recommended appointment of M/s Anjum Asim Shahid Rahman, Chartered Accountants, as the statutory auditors of the Company for the financial year 2013.

EARNINGS PER SHARE

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

PATTERN OF SHAREHOLDING

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

APPRECIATION AND ACKNOWLEDGEMENT

We take this opportunity to express our gratitude to our customers and business partners for their continued support and trust. We offer sincere appreciation to the Iran Foreign Investment Company, Ministry of Finance - Government of Pakistan, State Bank of Pakistan and Securities & Exchange Commission of Pakistan for their guidance and cooperation extended to the Company. Finally, we are also thankful to our associates and staff for their committed services provided to our valued customers.

On Behalf of the Board of Directors

Syed Ahmad Iqbal Ashraf
Managing Director/CEO

Lahore: March 13, 2013

STATEMENT OF
INTERNAL CONTROL

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievements of the Company's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. Management assumes the responsibility of establishing and maintaining adequate internal controls and procedures under the policies approved by the Board. In this connection the Company has documented Procedures and Manuals, which incorporates the internal controls applicable while conducting any Company affairs. These procedures are revised and updated as and when required.

The Internal Audit (IA) of the Company reviews the adequacy and implementation of internal controls on a regular basis and deficiencies if any are followed up until they are rectified. Quarterly updates on unresolved significant issues highlighted by the IA are reviewed by the Audit Committee of the Board of Directors together with the recommendations for improvements.

The system of internal control is designed to minimize the risk of failure to achieve the organisation's policies, aims and objectives; it can therefore, only provide reasonable and not absolute assurance against material misstatements or loss. The system of internal controls being followed by the Company is considered adequate and sound in design and is being effectively implemented and monitored.

PAÏR is duly observing compliance with the requirements and timelines of Staged Roadmap for implementation of the State Bank of Pakistan (SBP) Internal Control Guidelines. PAÏR has adopted internationally accepted COSO Internal Controls - Integrated Framework for overall set of Internal Controls for ensuring compliance with SBP Guidelines.

As at December 31, 2012, the Company has completed all the Stages for all key areas as set out in the structured roadmap except one which is in advance stage of completion. Furthermore, the external auditors have submitted the "Long-Form Review Report" for the completed stages as on September 30, 2012 which was submitted to SBP and is circulated to the Audit Committee for their review in January 2013.

Incharge Compliance	Incharge Internal Audit	Chief Financial Officer

March 13, 2013

REVIEW REPORT TO THE MEMBERS

ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Investment Company Limited ("the company") to comply with Regulation G-1 of Prudential Regulations for Corporate/Commercial Banking issued by the State Bank of Pakistan.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control system sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the code of Corporate Governance as applicable to the Company for the year ended December 31, 2012

Karachi

Dated: March 13, 2013

Anjum Asim Shahid Rahman
Chartered Accountants
Muhammad Shaukat Naseeb

STATEMENT OF COMPLIANCE
WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

1. The company encourages representations of independent non-executive directors. At present the Board has only one executive director.

2. The directors have confirmed that none of them is serving as a director in more than seven listed companies, including this company.

3. All the resident directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to a Banking Company, a DFI or a NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. The casual vacancies in Board which arouse during the year were duly filled except one causal vacancy which is yet to be filled. Furthermore, clearance by the State Bank of Pakistan in respect of appointment of one director is outstanding.

5. The Company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the Company.

6. The Board has developed a vision/mission statement and overall corporate strategy of the Company. Some of the significant policies have been developed and approved by the Board and remaining are under the process of development and will be presented to the Board for approval. The complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Directors are conversant of the relevant laws applicable to the Company, its policies and procedures and provisions of Memorandum and Articles of Association and are aware of their duties and responsibilities.

10. The Board has approved the appointment of the CFO and the Company Secretary and as authorise by the Board, their remuneration and terms and conditions of employment were determined by the CEO.

11. The Directors' Report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. The Directors, CEO and Executives do not hold any interests in the shares of the Company.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee, which comprises of three non-executive Directors.

16. The Audit Committee met at least once in every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

17. The Company has established an effective internal audit function.

18. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guideline in this regard.

20. We confirm that all material principles contained in the Code except disclosed above have been complied.

Bijan Rahimi
Chairman

Syed Ahmad Iqbal Ashraf
Managing Director/CEO

Lahore: March 13, 2013

Grant Thornton
An instinct for growth™

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PAÏR INVESTMENT COMPANY LIMITED

We have audited the annexed statement of financial position of **PAÏR Investment Company Limited** (the Company) as at **December 31, 2012** 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 Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial 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 accounts have been kept by the Company as required by the Companies Ordinance, 1984 (XLVII of 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 stated in note 4 of the financial statements;

(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 objectives of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and give a true and fair view of the state of the Company's affairs as at December 31, 2012, and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and

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

The financial statements of the Company for the year ended December 31, 2011 were audited by KPMG Taseer Hadi & Co., Chartered Accountants who through their report dated January 31, 2012 expressed an unqualified opinion thereon.

Karachi

Dated: March 13, 2013

Anjum Asim Shahid Rahman
Chartered Accountants
Muhammad Shaukat Naseeb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AIMING
HIGH FOR VICTORY

PAÏR is growth oriented and aims to be the Premier Development Finance Institution of Pakistan in order to boost the economic development. Our diligent efforts are focused on creating quality assets that enhance sustainable earnings.

PAÏR INVESTMENT COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012

	Note	2012	2011
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	5	43,999	9,143
Balances with other banks	6	106,586	20,675
Lendings to financial institutions	7	-	-
Investments	8	10,841,572	8,974,337
Advances	9	4,325,337	2,475,156
Operating fixed assets	10	56,047	48,060
Deferred tax assets	11	109,689	80,756
Other assets	12	253,291	236,992
		15,736,521	11,845,119
LIABILITIES			
Bills payable		-	-
Borrowings	13	6,721,178	3,695,484
Deposits and other accounts	14	545,080	260,000
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	15	270,896	158,938
		7,537,154	4,114,422
NET ASSETS		8,199,367	7,730,697
REPRESENTED BY			
Share capital	16	6,000,000	6,000,000
Reserves	17	415,719	327,714
Unappropriated profit		1,612,881	1,310,862
		8,028,600	7,638,576
Surplus on revaluation of assets - net of deferred tax	18	170,767	92,121
		8,199,367	7,730,697
CONTINGENCIES AND COMMITMENTS	19		

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

Chairman | Managing Director and Chief Executive Officer | Director | Director

PAÏR INVESTMENT COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011
		---------(Rupees in '000)--------	
Mark-up / return / interest earned	20	1,487,341	1,323,067
Mark-up / return / interest expensed	21	678,102	402,712
Net mark-up / interest income		809,239	920,355
Provision against non-performing loans and advances	9.4	87,500	42,513
Provision against lendings to financial institutions		-	-
Provision for diminution in the value of investments	8.3	19,453	281,623
Bad debts written-off directly		-	-
		106,953	324,136
Net mark-up / interest income after provisions		702,286	596,219
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		23,359	12,797
Dividend income		18,093	20,492
Income from dealing in foreign currencies		745	33
Gain on sale of securities - net	22	128,809	31,468
Gain on sale of fixed assets		431	232
Unrealised gain / (loss) on revaluation of investments classified as 'held for trading'		608	(8,080)
Other income		46	1,398
Total non mark-up / interest income		172,091	58,340
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	23	224,405	150,135
Other provisions / write offs		-	-
Other charges	24	14,605	17,622
Total non mark-up / interest expenses		239,010	167,757
Extraordinary / unusual items		-	-
PROFIT BEFORE TAXATION		635,367	486,802
Taxation			
- Current	25	232,659	276,684
- Prior years		-	10,348
- Deferred		(37,316)	(42,779)
		195,343	244,253
PROFIT AFTER TAXATION		440,024	242,549
Basic and diluted earnings per share - Rupees	26	0.73	0.40

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

Chairman	Managing Director and Chief Executive Officer	Director	Director

PAÏR INVESTMENT COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011
	---------(Rupees in '000)---------	
Profit after taxation for the year	440,024	242,549
Other comprehensive income	-	-
Total Comprehensive Income for the year	440,024	242,549

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

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

Chairman | Managing Director and Chief Executive Officer | Director | Director

PAÏR INVESTMENT COMPANY LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011
		--------(Rupees in '000)--------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		635,367	486,802
Less: Dividend income		(18,093)	(20,492)
		617,274	466,310
Adjustments for:			
Depreciation		20,472	13,419
Amortisation		3,105	1,844
Provision against non-performing loans and advances		87,500	42,513
Provision for government levies		14,604	17,500
Provision for gratuity		6,561	3,216
Unrealised (gain)/loss on revaluation of 'held for trading' investments		(608)	8,080
Gain on sale of fixed assets		(431)	(232)
Provision for diminution in the value of investments		19,453	281,623
		150,656	367,963
		767,930	834,273
(Increase)/decrease in operating assets			
Lendings to financial institutions		-	600,000
Advances		(1,937,681)	(414,239)
Others assets (excluding advance taxation)		(16,299)	(65,665)
		(1,953,980)	120,096
Increase/(decrease) in operating liabilities			
Borrowings		3,025,694	832,003
Deposits and other accounts		285,080	260,000
Other liabilities (excluding current taxation)		137,789	(23,768)
		3,448,563	1,068,235
		2,262,513	2,022,604
Income tax paid - net		(295,191)	(311,294)
Gratuity paid		(1,081)	(2,747)
Net cash flows from operating activities		1,966,241	1,708,563
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in 'available for sale' securities		(1,804,565)	(2,339,476)
Net investments in 'held to maturity' securities		-	68,937
Net investments in 'held for trading' securities		(2,869)	221,184
Dividend income received		18,093	25,580
Sale proceeds of property and equipment disposed off		1,732	1,926
Investment in operating fixed assets		(32,865)	(20,256)
Net cash flows from investing activities		(1,820,474)	(2,042,105)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(25,000)	-
Net Cash flows from financing activities		(25,000)	-
Increase/(decrease) in cash and cash equivalents		120,767	(333,542)
Cash and cash equivalents at beginning of the year		29,818	363,360
Cash and cash equivalents at end of the year	27	150,585	29,818

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

Chairman	Managing Director and Chief Executive Officer	Director	Director

PAÏR INVESTMENT COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	Share capital	Statutory reserves	Unappropriated profit	Total
		(Rupees in '000)			
Balance as at December 31, 2010		6,000,000	279,204	1,116,823	7,396,027
Total comprehensive Income for the year ended December 31, 2011		-	-	242,549	242,549
Transfer to statutory reserve	17	-	48,510	(48,510)	-
Balance as at December 31, 2011		6,000,000	327,714	1,310,862	7,638,576
Total comprehensive Income for the year ended December 31, 2012		-	-	440,024	440,024
Transfer to statutory reserve	17	-	88,005	(88,005)	-
Transactions with owners recognised directly in equity					
Cash dividend		-	-	(50,000)	(50,000)
Balance as at December 31, 2012		6,000,000	415,719	1,612,881	8,028,600

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

Chairman

Managing Director
and Chief Executive Officer

Director

Director

1. STATUS AND NATURE OF BUSINESS

PAÏR Investment Company Limited, "the Company" is an unlisted Public Limited Company incorporated in Pakistan on January 15, 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 Joint Venture (50:50) between Government of Pakistan and Iran Foreign Investment Company which is owned by the Government of Iran. The Company's objectives interalia includes financing for industrial and commercial projects, capital and money market operations and other investment banking activities. Its registered and principal office is situated at ICCI Building, Clifton, Karachi.

2. BASIS OF PRESENTATION

2.1 Basis of measurement

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

2.2 Functional and presentation currency

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

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such the 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 Banking Companies Ordinance, 1962. In case requirements differ, the provisions and directions issued under Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 shall prevail.

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. 10 dated August 26, 2002. Further, according to the notification of SECP dated April 28, 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for financial institutions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by SBP.

IFRS 8, "Operating Segments" is effective for the DFI's accounting period beginning on or after January 1, 2009. All banking companies and DFI's in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, "Revised Forms of Annual Financial Statements", effective from the accounting year ended December 31, 2006. The management of the Company believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

3.1 Standards, amendments or interpretations to published approved accounting standards

New / Revised standards, amendments and interpretations to existing standards effective from current period but not relevant to the Company:

The following standards, amendments to approved accounting standard is effective for accounting periods beginning on or after January 1, 2012.

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

The application of improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in these financial statements.

Standards, amendments and interpretations to published approved accounting standards that are not yet effective and have not been adopted early by the Company:

The following standards, amendments and interpretations of International Financial Reporting Standards will be effective for accounting periods beginning on or after the dates specified below:

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after July 01, 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.

- The IASB aims to replace IAS 39 "Financial Instruments: Recognition and Measurement" (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and recognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 01, 2015. Chapters dealing with impairment methodology and hedge accounting are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues.

  The Company's management have yet to assess the impact of this new standard on the Company's consolidated financial statements. However, Management does not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

- IAS 19 "Employee Benefits" (amended 2011) - (effective for annual periods beginning on or after January 01, 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on the financial statements of the Company.

- Amendments to IFRS 1 - addresses how a first-time adopter would account for a government loan with a below market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.

- IAS 27 "Separate Financial Statements" (2011) - (effective for annual periods beginning on or after January 01, 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective January 01, 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company.

- IAS 28 "Investments in Associates" (2011) - (effective for annual periods beginning on or after January 01, 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on the financial statements of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) - (effective for annual periods beginning on or after January 01, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 - Financial Instruments: Presentation. The amendments clarify the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The amendments have no impact on the financial statements of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) - (effective for annual periods beginning on or after January 01, 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the balance sheet or subject to master netting agreement or similar arrangement. The amendments have no impact on the financial statements of the Company.

- IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. IFRS 13 applies prospectively for annual periods beginning on or after January 01, 2013. Management has not adopted the standard early and therefore will not affect the financial statements of the company.

Consolidation standards

A package of new consolidation standards is effective for annual periods beginning or after January 01, 2013. Information on these new standards is presented below. However these shall not have any impact on the Company's financial statements.

- IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" (IAS 27) and SIC 12 "Consolidation - Special Purpose Entities". IFRS 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Company's investees are considered to be subsidiaries and therefore change the scope of consolidation. However, the requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary remain the same. Management's provisional analysis is that IFRS 10 will not change the classification (as subsidiaries or otherwise) of any of the Company's existing investees at December 31, 2012.

- IFRS 11 supersedes IAS 31 "Interests in Joint Ventures" (IAS 31). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates. The Company does not have any joint arrangements as at December 31, 2012.

- IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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:

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.

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 Critical accounting estimates and judgments

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

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

- Classification and valuation of financial instruments and impairment (Note 4.4)
- Provision against non-performing advances (Note 4.5)
- Valuation and depreciation rates for fixed assets (Note 4.6)
- Deferred taxation (Note 4.7)
- Income taxes (Note 4.7)
- Employees' defined benefit plan (Note 4.16)
- Government levies (Note 24)

4.4 Investments

The Company classifies its investments as follows:

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.

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.

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.

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.

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. Cost of investment is determined on weighted average basis.

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

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

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

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

4.5 Advances

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

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

4.6 Operating fixed assets and depreciation

Tangible assets

Operating fixed assets except capital work in progress, are stated at cost less accumulated depreciation and impairment loss, if any. Capital work in progress are stated at cost less impairment, if any. Depreciation is charged to profit and loss account on straight line basis so as to write-off the assets over their expected economic lives at the rates specified in note 10.1 to these financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Full month depreciation is charged in the month the assets are available for use and no depreciation is charged in the month of disposal.

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

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

Intangible assets

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

4.7 Taxation

Current

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

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

Deferred

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

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

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

4.8 Foreign currencies

Foreign currency transactions

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

Functional and presentation currency

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

Translation gains and losses

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

4.9 Revenue recognition

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

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

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

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

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

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

4.10 Impairment

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

4.11 Off setting

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

4.12 Other provisions

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

4.13 Dividend and appropriation to reserves

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

4.14 Earnings per share

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

4.15 Segment information

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

Business segments

Following are the main segments of the Company:

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

4.16 Staff retirement benefit

Defined Benefit plan

The Company operates an unapproved unfunded 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.

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

Defined contribution plan

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

4.17 Employees' compensated absences

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

5. CASH AND BALANCES WITH TREASURY BANKS	Note	2012	2011
		-------(Rupees in '000)-------	
In hand			
Local currency		29	55
Foreign currencies		658	814
		687	869
With State Bank of Pakistan in			
Local currency current account	5.1	43,282	7,740
With National Bank of Pakistan in			
Local currency current account		30	30
Local currency deposit account	5.2	-	504
		30	534
		43,999	9,143

5.1 This represents current account maintained with State Bank of Pakistan for Cash Reserve Requirement of State Bank of Pakistan.

5.2 This carries mark-up at the rate NiL (2011: 5% to 15.5% per annum).

6. BALANCES WITH OTHER BANKS

	Note	2012	2011
In Pakistan			
Current accounts		29,062	3,100
Deposit accounts	6.1	77,524	17,575
		106,586	20,675

6.1 These carry mark-up at the rate of 5% to 7.5% per annum (2011: 5% to 8% per annum)

7. LENDINGS TO FINANCIAL INSTITUTIONS

	2012	2011
Letter of placements	-	-
Specific provisions against lendings to financial institutions	-	-
Lendings to financial institutions - net of provision	-	-

7.1 Particulars of lendings to financial institutions - gross

	2012	2011
In local currency	-	-
In foreign currencies	-	-
	-	-

8. INVESTMENTS

8.1 Investments by types

	Note	2012 Held by the Company	2012 Given as collateral	2012 Total	2011 Held by the Company	2011 Given as collateral	2011 Total
		(Rupees in '000)					
Held for trading securities							
Listed ordinary shares	8.5	5,476	-	5,476	2,607	-	2,607
Available for sale	8.6						
Market treasury bills		547,714	4,654,098	5,201,812	179,402	3,779,000	3,958,402
Mutual funds units		1,304,564	-	1,304,564	947,344	-	947,344
Listed ordinary shares		424,132	-	424,132	421,979	-	421,979
Unlisted ordinary shares		296,860	-	296,860	296,860	-	296,860
Sukuk bonds		368,655	-	368,655	414,776	-	414,776
Term finance certificates - Listed		2,841,581	-	2,841,581	2,784,796	-	2,784,796
Term finance certificates - Unlisted		660,240	-	660,240	477,505	-	477,505
		6,443,746	4,654,098	11,097,844	5,522,662	3,779,000	9,301,662
Held to maturity securities		-	-	-	-	-	-
Investments at cost		6,449,222	4,654,098	11,103,320	5,525,269	3,779,000	9,304,269
Provision for diminution in value of investments	8.3	(439,225)	-	(439,225)	(419,772)	-	(419,772)
Investments - net of provisions		6,009,997	4,654,098	10,664,095	5,105,497	3,779,000	8,884,497
(Deficit) on revaluation of 'held for trading' securities		(271)	-	(271)	(879)	-	(879)
Surplus / (deficit) on revaluation of 'available for sale' securities	18	174,816	2,932	177,748	92,219	(1,500)	90,719
Total investments at market value		6,184,542	4,657,030	10,841,572	5,196,837	3,777,500	8,974,337

8.2 Investments by segments	Note	2012	2011
		---------(Rupees in '000)---------	
Federal Government securities			
- Market treasury bills		5,201,812	3,958,402
Mutual funds units			
- Listed	8.1	1,304,564	947,344
- Unlisted		-	-
		1,304,564	947,344
Fully paid up ordinary shares			
- Listed		429,608	424,586
- Unlisted		296,860	296,860
		726,468	721,446
Term finance certificates			
- Listed		2,841,581	2,784,796
- Unlisted		660,240	477,505
		3,501,821	3,262,301
Sukuk certificates - unlisted		368,655	414,776
Total investments at cost		11,103,320	9,304,269
Provision for diminution in value of investments		(439,225)	(419,772)
Investments - net of provisions		10,664,095	8,884,497
(Deficit) on revaluation of 'held for trading' securities		(271)	(879)
Surplus on revaluation of 'available for sale' securities		177,748	90,719
Total investments at market value		10,841,572	8,974,337

8.3 Particulars of provision held against diminution in value of investments

	2012	2011
Opening balance	419,772	138,149
Charge for the year - net	19,453	281,623
Closing balance	439,225	419,772

Particulars of provision in respect of types and segments

	2012	2011
Available for sale securities		
Fully paid up ordinary shares - listed	158,904	169,002
Fully paid up ordinary shares - unlisted	192,959	192,959
Mutual funds	-	257
Sukuk bonds - unlisted	45,129	54,405
Term finance certificates - listed	14,394	3,149
Term finance certificates - unlisted	27,839	-
	439,225	419,772

8.4 Market Treasury bills carry yield ranging from 9.23% to 11.83% per annum (2011: 11.73% to 13.92% per annum) with maturities upto May 16, 2013 (2011: November 15, 2012)

8.5 Quality of held for trading securities

Number of Shares 2012	Number of Shares 2011		Market value 2012	Market value 2011	Cost 2012	Cost 2011	Long / medium term credit rating (Entity)	Rated by
			(Rupees in '000)					
		Shares in Listed Companies						
300,000	-	Pakistan Telecommunication Company Limited	5,205	-	5,476	-	Not Rated	
-	110,011	Sui Northern Gas Pipelines Company Limited	-	1,728	-	2,607	AA/A1+	PACRA
			5,205	1,728	5,476	2,607		

8.6 Quality of available for sale securities

Number of Shares 2012	Number of Shares 2011		Market value 2012	Market value 2011	Cost 2012	Cost 2011	Long / medium term credit rating (Entity)	Rated by
		Market Treasury Bills	5,205,322	3,956,831	5,201,812	3,958,402	Unrated - Government Securities	
		Shares / Certificates / Units in Listed Companies						
125,000	294,805	Adamjee Insurance Company Limited	8,518	13,711	8,737	18,961	AA	PACRA
8,332,058	8,332,058	Agritech Limited	97,235	127,980	249,962	249,962	D	PACRA
18,471	-	AKZO Nobel Pakistan Limited	1,598	-	2,565	-	Not Rated	
50,000	-	Berger Paints Pakistan Limited	1,159	-	1,273	-	Not Rated	
175,000	129,519	Engro Corporation Limited	16,107	12,006	17,191	19,202	A/A1	PACRA
-	1,015,000	Engro Polymer and Chemicals Limited	-	7,379	-	17,311	Not Rated	
600,000	90,000	Fauji Fertilizer Bin Qasim Limited	23,154	3,819	26,292	4,296	Not Rated	
200,000	10,000	Fauji Fertilizer Company Limited	23,428	1,495	23,917	1,550	Not Rated	
49,500	-	General Tyre and Rubber Co. of Pakistan	1,314	-	1,423	-	Not Rated	
25,000	-	GlaxoSmithKline (Pakistan) Limited	1,833	-	1,777	-	Not Rated	
47,300	-	Habib Bank Limited	5,572	-	5,264	-	AAA/A-1+	JCR-VIS
-	1,969	ICI Pakistan Limited	-	237	-	229	Not Rated	
-	170,099	KASB Securities Limited	-	379	-	749	*A-/A2	PACRA
-	200,000	Karachi Electric Supply Company	-	320	-	554	A-/A2	PACRA
115,000	175,000	Kot Addu Power Company Limited	5,680	7,231	4,967	7,488	AA+/A-1+	JCR-VIS
-	20,000	MCB Bank Limited	-	2,692	-	2,955	AA+/A1+	PACRA
100,000	187,500	National Bank of Pakistan	4,939	7,697	4,663	11,336	AAA/A-1+	JCR-VIS
750,000	-	Next Capital Limited	3,675	-	7,500	-	Not Rated	
100,000	-	Nishat Chunian Power Limited	2,101	-	1,455	-	A/A-2	JCR-VIS
-	390,000	Nishat Power Limited	-	5,663	-	5,993	A+/A1	PACRA
120,000	140,000	Nishat Mills Limited	7,662	5,051	7,514	6,736	AA-/A1+	PACRA
75,000	1,000,000	PACE (Pakistan) Limited	224	1,300	788	10,504	*D	PACRA
1,500	40,000	Packages Limited	227	3,309	199	5,319	AA/A1+	PACRA
190,000	125,500	Pakistan State Oil Company Limited	44,120	28,515	43,121	35,487	AA+/A1+	PACRA
116,550	-	Soneri Bank Limited	826	-	757	-	AA-/A1+	PACRA
2,000	555	Shell (Pakistan) Limited	272	106	294	119	Not Rated	
99,500	482,453	Sui Northern Gas Pipelines Company Limited	2,313	7,579	2,514	15,081	AA/A1+	PACRA
218,517	120,823	Sui Southern Gas Company Limited	4,482	2,331	4,754	2,659	AA-/A1+	PACRA
-	150,000	The Hub Power Company Limited	-	5,130	-	5,488	AA+/A1+	PACRA
720,500	-	TPL Trakker Limited	6,513	-	7,205	-	A-/A2	PACRA
			262,952	243,930	424,132	421,979		

Number of Certificates / Units 2012	Number of Certificates / Units 2011		Market value 2012	Market value 2011	Cost 2012	Cost 2011	Long / medium term credit rating (Entity)	Rated by
		Certificates / Units in Listed Mutual Funds						
10,958,927	-	ABL Cash Fund	109,731	-	100,000	-	AA+	JCR-VIS
10,069,532	10,161,432	ABL Income Fund	100,848	101,801	100,000	100,027	A+	JCR-VIS
2,091,632	2,054,738	Askari Sovereign Cash Fund	210,271	206,493	200,638	198,425	AA+	PACRA
-	979,172	Faysal Savings Growth Fund	-	101,413	-	100,000	AA-	JCR-VIS
1,037,238	-	First Habib Cash Fund	103,890	-	100,000	-	AA	JCR-VIS
-	75,000	Golden Arrow Stock Fund	-	203	-	460	Not Rated	
2,043,571	1,483,063	HBL Money Market Fund	206,828	153,068	200,000	150,000	AA	JCR-VIS
1,006,125	991,744	MCB Cash Management Optimizer Fund	100,885	102,036	100,000	100,000	AA	PACRA
996,220	984,456	MCB Dynamic Cash Fund	101,173	101,864	100,000	100,000	A+	PACRA
10,183,384	-	NAFA Financial Sector Income Fund	105,226	-	100,000	-	A+	PACRA
10,903,074	-	NAFA Govt. Securities Liquid Fund	109,614	-	100,000	-	AAA	PACRA
2,130,394	2,052,510	UBL Liquidity Plus Fund	213,631	206,223	203,926	198,432	AA+	JCR-VIS
			1,362,097	973,101	1,304,564	947,344		

Number of Shares / Certificates / Units 2012	2011		Note	Book value 2012	2011	Cost 2012	2011	Long / medium term credit rating (Entity)	Rated by
		Shares in Unlisted Companies		(Rupees in '000)					
		Burj Bank Limited (Formerly Dawood Islamic Bank Limited) Chief Executive: Ahmed Khizer Khan							
29,685,986	29,685,986	Percentage holding: 4.01%	8.6.1	*103,901	103,901	296,860	296,860	A/A-1	JCR-VIS

8.6.1 * These shares were valued at Rs. 3.5 per share being the fair value of comparable company, as the Company considers that the breakup value is not representative of its recoverable amount. Accordingly, an impairment loss of Rs. 6.5 per share was recognized in 2011. Breakup value is Rs. 7.97 per share as at September 30, 2012.

Number of Certificates of Rs. 5,000 each 2012	2011		Note	Market value 2012	2011	Cost 2012	2011	Long / medium term credit rating (Entity)	Rated by
				(Rupees in '000)					
		Sukuk							
30,000	30,000	Eden Housing Limited		45,994	67,860	64,650	94,140	Not Rated	
12,000	12,000	Sitara Peroxide Limited	8.6.2	26,473	28,125	52,947	56,250	Not Rated	
54,648	54,648	Liberty Powertech Limited	8.6.3	251,058	264,386	251,058	264,386	A1+	PACRA
				323,525	360,371	368,655	414,776		
		Term Finance Certificates							
		Listed							
70,000	70,000	Allied Bank Limited		340,848	331,649	323,741	321,765	AA	PACRA
69,136	69,136	Askari Bank Limited		381,290	353,616	348,721	349,199	AA-	PACRA
-	15,200	Bank Alfalah Limited - II		-	50,526	-	49,146	AA-	PACRA
5,000	5,000	Bank Alfalah Limited - III		16,718	24,855	16,338	24,066	AA-	PACRA
20,000	20,000	Bank Alfalah Limited - IV		104,542	100,320	99,880	99,920	AA-	PACRA
20,204	20,204	Bank Al Habib Limited - II		103,907	103,656	100,798	100,838	AA	PACRA
8,000	8,000	Escorts Investment Bank Limited		5,894	8,841	7,994	11,990	BB	JCR-VIS
39,037	39,037	Engro Fertilizer Limited - I		163,304	198,055	179,492	195,029	A	PACRA
37,024	37,024	Engro Fertilizer Limited - II		180,192	181,144	180,785	179,717	A	PACRA
65,000	65,000	Faysal Bank Limited		332,555	335,978	325,910	326,228	AA-	JCR-VIS
89,700	60,000	NIB Bank Limited		448,816	293,610	429,411	280,780	A+	PACRA
-	25,000	Orix Leasing Pakistan Limited (May 25, 2007)		-	20,153	-	20,713	AA-	PACRA
37,700	25,000	Orix Leasing Pakistan Limited (June 30, 2011)		112,294	129,429	113,643	125,000	AA+	PACRA
40,000	40,000	Pak Arab Fertilizers Limited		60,023	148,665	59,855	146,427	AA	JCR-VIS
20,000	20,000	Summit Bank Limited		95,435	96,132	99,954	100,000	A-	JCR-VIS
6,000	6,000	Trust Investment Bank Limited(July 04, 2008)		-	14,391	11,245	14,994	*D	PACRA
113,600	93,600	United Bank Limited (IV)		579,468	465,948	543,814	438,984	AA	JCR-VIS
				2,925,286	2,856,968	2,841,581	2,784,796		
		Unlisted							
60,000	30,000	Askari Bank Limited		322,716	150,000	301,984	150,000	AA-	PACRA
38,400	-	JDW Sugar Mills Limited		64,152	-	62,951	-	A+	JCR-VIS
50,000	50,000	Martin Dow Pharmaceutical (Pakistan) Limited		133,400	165,600	133,400	165,600	A	JCR-VIS
40,000	40,000	Pak Electron Limited		134,066	161,907	161,905	161,905	Withdrawn	
				654,334	477,507	660,240	477,505		
		Total		9,475,320	7,999,508	9,793,280	8,354,318		

* These ratings are in withdrawals list on PACRA website.

In accordance with BSD Circular No. 1 dated October 21, 2011 issued by the State Bank of Pakistan, the Company has availed the benefit of Forced Sales Values (FSVs) against the non-performing investments. Had this benefit of FSV not been taken by the Company, the specific provision against impaired investment would have been higher by Rs. 53.113 million (2011: Nil). Further, this amount arising from availing the benefit of FSV is not available for distribution amongst the shareholders either in the form of cash or stock dividend.

9. ADVANCES

	2012	2011
	---------(Rupees in '000)---------	
In Pakistan		
Loans	4,420,992	2,574,149
Staff loans	109,499	18,661
Advances - gross	4,530,491	2,592,810
Provision against non-performing loans and advances	(205,154)	(117,654)
Advances - net of provision	4,325,337	2,475,156

9.1 Particulars of advances - gross

In local currency	4,530,491	2,592,810
In foreign currencies	-	-
	4,530,491	2,592,810
Short-term (upto one year)	602,778	730,498
Long-term (over one year)	3,927,713	1,862,312
	4,530,491	2,592,810

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

9.3 Advances include Rs. 741.447 million (2011: Rs. 393.141 million) which has been placed under non-performing status as detailed below:

	2012								
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Category of classification									
Other assets especially mentioned	-	-	-	-	-	-	-	-	-
Substandard	350,000	-	350,000	87,500	-	87,500	87,500	-	87,500
Doubtful	-	-	-	-	-	-	-	-	-
Loss	391,447	-	391,447	117,654	-	117,654	117,654	-	117,654
	741,447	-	741,447	205,154	-	205,154	205,154	-	205,154

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

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

	2012			2011		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	117,654	-	117,654	75,141	-	75,141
Charge for the year	87,500	-	87,500	42,513	-	42,513
Reversals	-	-	-	-	-	-
	87,500	-	87,500	42,513	-	42,513
Amounts written off	-	-	-	-	-	-
Closing balance	205,154	-	205,154	117,654	-	117,654

9.4.1 Particulars of provision for non-performing advances:

	2012			2011		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	205,154	-	205,154	117,654	-	117,654

9.5 Particulars of write offs

There were no advances written off during the year.

9.6 In accordance with BSD Circular No. 1 dated October 21, 2011 issued by the State Bank of Pakistan, the Company has availed the benefit of Forced Sales Values (FSVs) against the non-performing advances. Had this benefit of FSV not been taken by the Company, the specific provision against non-performing advances would have been higher by Rs. 273.793 million (2011: 275.487 million). Further, this amount arising from availing the benefit of FSV is not available for distribution amongst the shareholders either in the form of cash or stock dividend.

9.7 State Bank of Pakistan has allowed relaxation under Prudential Regulation R-8 to the extent of provision required against exposure on Gulistan Spinning Mills Limited in its Letter No. BPRD/BRD-04/Faysal/2013/1695, till March 31, 2013.

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

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

	Note	2012	2011
		(Rupees in '000)	
Balance at beginning of the year		**18,299**	14,157
Loans granted during the year		**92,927**	5,954
Repayments during the year		**(1,969)**	(1,812)
Balance at end of the year		**109,257**	18,299

10. OPERATING FIXED ASSETS

	Note	2012	2011
Capital work-in-progress		**-**	255
Property and equipment	*10.1*	**47,695**	46,438
Intangible assets	*10.2*	**8,352**	1,367
		56,047	48,060

10.1 Property and equipment

	Cost			Accumulated Depreciation			Net book value as at December 31, 2012	Annual rate of depreciation (%)
	As at January 1, 2012	Additions/ (Deletion)	As at December 31, 2012	As at January 1, 2012	Charge/ (disposals)	As at December 31, 2012		
	(Rupees in '000)							
Furniture and fixtures	24,790	361	25,151	4,250	5,010	9,260	15,891	20%
Electrical, office and computer equipment	25,141	2,277 (229)	27,189	10,591	5,125 (193)	15,523	11,666	20% to 25%
Motor vehicles	20,224	20,393 (2,657)	37,960	8,876	10,337 (1,391)	17,822	20,138	25% to 33%
2012	**70,155**	**23,031 (2,886)**	**90,300**	**23,717**	**20,472 (1,584)**	**42,605**	**47,695**	
2011	56,281	19,004 (5,130)	70,155	13,733	13,419 (3,435)	23,717	46,438	

10.1.1 Reconciliation of net book value

	Furniture and fixtures	Electrical, office and computer equipment	Motor vehicles	Total
	(Rupees in '000)			
As at January 1, 2011				
Cost	20,375	19,028	16,878	56,281
Accumulated depreciation	(887)	(5,905)	(6,941)	(13,733)
Net book value	19,488	13,123	9,937	42,548
Year ended December 31, 2011				
Opening net book value	19,488	13,123	9,937	42,548
Additions	5,691	6,113	7,200	19,004
Disposals	(1,276)	-	(3,854)	(5,130)
Depreciation charge	(4,405)	(4,686)	(4,328)	(13,419)
Accumulated depreciation on disposal	1,042	-	2,393	3,435
Closing net book value	**20,540**	**14,550**	**11,348**	**46,438**
As at January 1, 2012				
Cost	24,790	25,141	20,224	70,155
Accumulated depreciation	(4,250)	(10,591)	(8,876)	(23,717)
Net book value	20,540	14,550	11,348	46,438
Year ended December 31, 2012				
Opening net book value	20,540	14,550	11,348	46,438
Additions	361	2,277	20,393	23,031
Disposals	-	(229)	(2,657)	(2,886)
Depreciation charge	(5,010)	(5,125)	(10,337)	(20,472)
Accumulated depreciation on disposal	-	193	1,391	1,584
Closing net book value	**15,891**	**11,666**	**20,138**	**47,695**
Annual rate of depreciation %	**20%**	**20% to 25%**	**25% to 33%**	

10.2 Intangible assets

	Cost			Accumulated Amortisation			Net book	
	As at January 1, 2012	Additions/ (Deletion)	As at December 31, 2012	As at January 1, 2012	For the year/(On disposal)	As at December 31, 2012	value as at December 31, 2012	Amortisation Rate (%)
	(Rupees in '000)							
Computer Software	7,760	10,090	17,850	6,393	3,105	9,498	8,352	33%
2012	7,760	10,090	17,850	6,393	3,105	9,498	8,352	
2011	6,013	1,747	7,760	4,549	1,844	6,393	1,367	33%

10.3 The following operating fixed assets having cost of Rs. 1 million or above /net book value of Rs. 250,000 or above (whichever is lower) were disposed off during the year:

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain	Mode of disposal	Particulars of purchaser
	(Rupees in '000)						
Toyota Corolla GLI	1,529	(319)	1,210	1,435	225	Negotiation	Mr. Shahid Iqbal (Head of Business Development - Northern)
Toyota Corolla XLI	925	(925)	-	93	93	Terms of employment	Mr. Jahangir Jamil (Incharge Equity Desk)

10.4 Assets having cost of Rs. 9.267 million (2011: Nil) are fully depreciated.

11. DEFERRED TAX ASSETS

	2012	2011
	(Rupees in '000)	
Deferred tax assets	109,689	80,756

The balance of deferred taxation comprises

Debit / (credit) balances arising on account of:

	2012	2011
(Surplus) / deficit on revaluation of assets	(6,981)	1,402
Accelerated tax depreciation allowance	2,269	(2,808)
Provision for gratuity	4,120	2,201
Provision against non performing loans	71,804	41,179
Provision against investments	38,477	38,782
	109,689	80,756

Movement in temporary differences during the year:

	Balance January 1, 2012	Recognised in profit and loss	Recognised in equity	Balance December 31, 2012
	(Rupees in '000)			
Debit/(credit) balances arising on account of:				
Deficit/(surplus) on revaluation of assets-net	1,402	-	(8,383)	(6,981)
Accelerated tax depreciation allowance	(2,808)	5,077	-	2,269
Provision for gratuity	2,201	1,919	-	4,120
Provision against non-performing loans	41,179	30,625	-	71,804
Provision against investments	38,782	(305)	-	38,477
	80,756	37,316	(8,383)	109,689

	Balance January 1, 2012	Recognised in profit and loss	Recognised in equity	Balance December 31, 2011
	(Rupees in '000)			
Debit/(credit) balances arising on account of:				
(Surplus)/deficit on revaluation of assets-net	(14,914)	-	16,316	1,402
Provision for compensated absences	1,076	(1,076)	-	-
Accelerated tax depreciation allowance	(1,961)	(847)	-	(2,808)
Provision for gratuity	2,037	164	-	2,201
Provision against non-performing loans	26,299	14,880	-	41,179
Provision against investments	9,124	29,658	-	38,782
	21,661	42,779	16,316	80,756

		Note	2012	2011
12.	**OTHER ASSETS**		(Rupees in '000)	
	Income / mark-up accrued in local currency		**230,664**	201,639
	Security deposits		**6,508**	6,508
	Advances, deposits, advance rent and other prepayments		**16,119**	28,845
			253,291	236,992
13.	**BORROWINGS FROM FINANCIAL INSTITUTIONS**			
	In Pakistan (local currency)	13.1	**6,721,178**	3,695,484

13.1 Details of borrowings secured / unsecured

	Note	2012	2011
Secured			
Borrowing from SBP against refinance scheme	13.2	**36,174**	42,750
Repurchase agreement borrowings	13.3	**4,651,671**	3,452,734
Term borrowing	13.4	**1,833,333**	-
		6,521,178	3,495,484
Unsecured			
Call borrowings		**200,000**	200,000
		6,721,178	3,695,484

13.2 The DFI has entered into agreement with the State Bank of Pakistan for extending finance facility for storage agriculture facility to a customer. This borrowing carry mark-up rate of 6.5% per annum (2011: 6.5%). The borrowing will mature in November 2019.

13.3 These carry mark-up at the rates ranging from 9.3% to 9.4% per annum (2011: 11.90% to 12%) and are secured against government securities having carrying amount of Rs. 4,654 million (2011: Rs. 3,779 million). These borrowings will mature up to January 2013 (2011: February 2012).

13.4 This represent finance obtained from Allied Bank Limited to finance the regular business operations of the Company. The finance is secured by pledge of listed TFCs. It carries mark up at the rate of 6 months KIBOR + 0.5% per annum. It is repayable in semi annual installments and shall be repaid by 2017.

14. DEPOSITS AND OTHER ACCOUNTS

Certificates of Investments (COIs)- remunerative (in local currency)

	2012	2011
Financial institutions	-	250,000
Customers	545,080	10,000
	545,080	260,000

14.1 The mark-up rates on these COIs range between 0% to12% per annum (2011: 11.6% to 12.4% per annum). These COIs will mature up to July 2013 (2011: January 2012).

15. OTHER LIABILITIES

	2012	2011
	(Rupees in '000)	
Mark-up / return / interest payable in local currency	87,883	30,857
Payable to an associated undertaking	5,650	5,722
Accrued expenses	13,243	7,139
Government levies payable	67,524	52,920
Provision for taxation - net	38,419	32,496
Provision for compensated absences	1,907	-
Provision for gratuity	11,770	6,290
Provision for staff rewards	19,500	22,014
Dividend payable	25,000	-
Others	-	1,500
	270,896	158,938

16. SHARE CAPITAL

16.1 Authorised capital

2012	2011		2012	2011
(Number of Shares)				
1,000,000,000	1,000,000,000	Ordinary shares of Rs. 10 each	10,000,000	10,000,000

16.2 Issued, subscribed and paid-up capital

2012	2011			
(Number of Shares)				
600,000,000	600,000,000	Ordinary shares of Rs. 10 each issued for cash.	6,000,000	6,000,000
600,000,000	600,000,000		6,000,000	6,000,000

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

	2012		2011	
	Number of shares held	Percentage of shareholding	Number of shares held	Percentage of shareholding
Name of shareholder				
Government of Pakistan *	300,000,000	50%	300,000,000	50%
Iran Foreign Investment Company *	300,000,000	50%	300,000,000	50%
	600,000,000	100%	600,000,000	100%

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

		2012	2011
17.	**RESERVES**	**(Rupees in '000)**	
	Statutory Reserves		
	At beginning of the year	327,714	279,204
	Transfer during the year	88,005	48,510
		415,719	327,714

According to BPD Circular No. 15 dated May 31, 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 ON REVALUATION OF ASSETS - NET OF DEFERRED TAX**		
	Deficit arising on revaluation of quoted equity shares	(2,278)	(8,939)
	Surplus arising on revaluation of mutual funds	57,533	25,903
	Surplus / (deficit) arising on revaluation of T-Bills	3,510	(1,571)
	Surplus arising on revaluation of TFCs	118,983	75,326
	Deficit arising on revaluation of Sukuk Bonds	-	-
		177,748	90,719
	Related deferred tax (liability) / asset	(6,981)	1,402
		170,767	92,121

19. CONTINGENCIES AND COMMITMENTS

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

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

19.2	**Commitments in respect of repo transactions**		
	Repurchase agreement borrowings	4,665,784	3,497,953
19.3	**Commitments to extend credit**	1,566,668	182,023
19.4	**Transaction related contingent liabilities**		
	Guarantees in favour of:		
	- Government	-	-
	- Financial institution	-	-
	- Others	150,000	-
		150,000	-

20. MARK-UP/RETURN/INTEREST EARNED

	Note	2012	2011
		(Rupees in '000)	
On loans and advances to			
customers		401,068	280,345
financial institutions		14,624	26,699
employees		1,179	726
On investments in			
'available-for-sale' securities		1,056,313	988,599
'held-to-maturity' securities		-	6,063
On deposits with financial institutions		2,137	676
On securities purchased under resale agreements		-	7,539
On placements		12,020	12,420
		1,487,341	1,323,067

21. MARK-UP/RETURN/INTEREST EXPENSED

	Note	2012	2011
Deposits and other accounts		82,143	5,799
Securities sold under repurchase agreements		432,582	394,018
On Borrowing from State Bank of Pakistan against refinance scheme		2,475	2,040
Other short-term borrowings		48,832	855
Long term borrowings		112,070	-
		678,102	402,712

22. GAIN/(LOSS) ON SALE OF SECURITIES - NET

	Note	2012	2011
On listed shares		37,370	(16,796)
On mutual funds		91,439	48,264
		128,809	31,468

23. ADMINISTRATIVE EXPENSES

	Note	2012	2011
Salaries, allowances and benefits		114,246	67,390
Charge for defined benefit plan		6,561	3,216
Contribution to defined contribution plan		4,336	3,779
Non-executive directors' fee		2,340	2,252
Rent and utilities		15,102	13,427
Repairs and maintenance		7,080	6,182
Insurance		2,201	1,817
Communication		1,532	2,439
Advertisement		197	475
Depreciation		20,472	13,419
Amortisation		3,105	1,844
Printing and stationery		1,911	2,473
Legal and professional charges		2,052	3,317
Travelling, conveyance and entertainment		19,197	11,422
Brokerage and commissions		3,565	3,576
Bank charges		393	267
Fee and subscriptions		14,349	7,486
Auditors' remuneration	23.1	1,518	1,353
Donations and charity	23.2	1,000	-
Others		3,248	4,001
		224,405	150,135

		2012	2011
23.1	**Auditors' remuneration**	(Rupees in '000)	
	Audit fee	450	450
	Half yearly review	175	175
	Special certifications and others	650	623
	Out of pocket expenses	243	105
		1,518	1,353

23.2	**Particulars of donations and charity**		
	Donation to Earthquake Relief Fund	1,000	-
		1,000	-

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

24. OTHER CHARGES

Penalties imposed by State Bank of Pakistan	-	122
Government levies	14,605	17,500
	14,605	17,622

25. TAXATION

Current	232,659	276,684
Prior year	-	10,348
Deferred	(37,316)	(42,779)
	195,343	244,253

25.1 Current status of tax assessments

The return for tax years 2007 to 2013 have been filed under the Universal Self Assessment Scheme which provides that return filed is deemed to be an assessment order. However, these returns may be selected for detail audit within five years and the Commissioner of Income Tax may amend the assessment in case of objection raised in audit. The department of inland revenue has re-opened the assessment for the tax years 2009 and 2010 and raised an additional demand of Rs. 23.55 million in respect of allocation of expenses against exempt capital gains and dividend income subject to tax at reduced rate and Government Levies, against which the Company has made a partial provision amounting to Rs. 9.339 million.

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

	2012	2011
25.2 Relationship between tax expense and accounting profit	(Rupees in '000)	
Profit before tax	635,367	486,802
Tax on income @ 35%	222,378	170,381
Net tax effect on income taxed at reduced rates	(48,032)	(5,123)
Net tax effect on income subject to FTR	(5,840)	(9,046)
Net tax effect of income / expenses not subject to tax	(255)	1,253
Tax effect of expenses that are not deductible in determining taxable profit	18,444	118,542
Net deductible temporary difference	5,670	(42,780)
Prior years charge	-	10,348
Others	2,978	678
Tax charge	195,343	244,253

26. BASIC / DILUTED EARNINGS PER SHARE

	2012	2011
Profit after taxation for the year	440,024	242,549
	(Number of shares in '000)	
Weighted average number of ordinary shares outstanding during the year	600,000	600,000
	(Rupees)	
Basic/diluted earnings per share	0.73	0.40

27. CASH AND CASH EQUIVALENTS

	(Rupees in '000)	
Cash and balances with treasury banks	43,999	9,143
Balances with other banks	106,586	20,675
	150,585	29,818

28. STAFF STRENGTH

	(Number)	
Permanent	40	38
Contractual	2	5
Company's own staff strength at the end of the year	42	43
Outsourced	8	2
Total staff strength	50	45

29. DEFINED BENEFIT PLAN

29.1 General description

As mentioned in note 4.16, the Company operates an unapproved unfunded 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 two years of service

29.2 Principal actuarial assumptions

The actuarial valuation was carried out as at December 31, 2012 using the "Projected Unit Credit Actuarial Cost Method". The information provided in notes 29.3 to 29.6 has been obtained from the actuarial valuation carried out as at December 31, 2012.

	2012	2011
Discount rate	12%	13%
Expected rate of increase in salaries	10.50%	11.50%
Withdrawal rate before normal retirement age	"moderate"	"moderate"

(Rupees in '000)

29.3 Reconciliation of amount payable to defined benefit plan

	2012	2011
Present value of defined benefit obligations	14,320	9,112
Fair value of any plan assets	-	-
Net unrecognised actuarial gains	(2,550)	(2,822)
	11,770	6,290

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

	2012	2011
Present value of obligation at January 1,	9,112	7,391
Current service cost	4,577	2,195
Interest cost	1,460	938
Benefits paid during the year	(1,081)	(2,747)
Past service cost	312	-
Actuarial (gain) / loss on obligation	(60)	1,335
Present value of obligation at December 31,	14,320	9,112

29.5 Movement in payable to defined benefit plan

	2012	2011
Opening balance	6,290	5,821
Charge for the year	6,561	3,216
Benefit paid during the year	(1,081)	(2,747)
Closing balance	11,770	6,290

29.6 Charge for defined benefit plan

	2012	2011
Current service cost	4,577	2,195
Interest cost	1,460	938
Expected return on plan assets	-	-
Past service cost	312	-
Amortisation of loss	212	83
	6,561	3,216

30. DEFINED CONTRIBUTION PLAN

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

	(Rupees in '000)	
Contribution from the Company	**4,336**	3,779
Contribution from the employees	**4,336**	3,779
Employees covered under the plan	**33**	32

31. COMPENSATION OF DIRECTORS AND EXECUTIVES

	2012			2011		
	Managing Director & Chief Executive Officer	**Directors**	**Executives**	Managing Director & Chief Executive Officer	Directors	Executives
	(Rupees in '000)					
Fees	**-**	**2,340**	**-**	-	2,252	-
Managerial remuneration	**14,565**	**-**	**26,898**	11,052	-	20,145
Contribution to defined contribution plan	**1,457**	**-**	**2,690**	1,105	-	1,841
Rent and house maintenance	**6,555**	**-**	**10,759**	4,807	-	7,879
Utilities	**507**	**-**	**2,690**	333	-	1,970
Medical	**401**	**-**	**3,123**	88	-	2,122
Others	**1,866**	**-**	**6,836**	792	-	2,145
	25,351	**2,340**	**52,996**	18,177	2,252	36,102
Number of persons	**1**	***8**	**22**	2	4	19

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

*This also includes outgoing directors during the year.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

32.1 On balance sheet financial instruments

	2012		2011	
	Book value	Fair value	Book value	Fair value
	--------(Rupees in '000)--------		--------(Rupees in '000)--------	
Assets				
Cash and balances with treasury banks	43,999	43,999	9,143	9,143
Balances with other banks	106,586	106,586	20,675	20,675
Lendings to financial institutions	-	-	-	-
Investments	10,841,572	10,841,572	8,974,337	8,974,337
Advances	4,325,337	4,325,337	2,475,156	2,475,156
Other assets	253,291	253,291	236,992	236,992
	15,570,785	15,570,785	11,716,303	11,716,303
Liabilities				
Borrowings from financial institutions	6,721,178	6,721,178	3,695,484	3,695,484
Deposits and other accounts	545,080	545,080	260,000	260,000
Other liabilities	270,896	270,896	158,938	158,938
	7,537,154	7,537,154	4,114,422	4,114,422
Off-balance sheet financial instruments				
Forward purchase of foreign exchange	-	-	-	-
Forward agreements for borrowing	-	-	-	-
Forward sale of foreign exchange	-	-	-	-
Forward agreements for lending	-	-	-	-

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 is 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)			
2012				
Total income - Gross	21,950	957,110	680,372	1,659,432
Total markup / return / interest expense	-	481,899	196,203	678,102
Segment provision / (reversal) / impairment/ unrealised losses	-	(33,681)	140,634	106,953
	-	448,218	336,837	785,055
Net operating income	21,950	508,892	343,535	874,377
Administrative expenses and other charges				239,010
Profit before taxation				635,367
Segment assets	-	9,091,221	6,645,300	15,736,521
Segment non performing loans	-	25,306	1,522,324	1,547,630
Segment provision required and held	-	16,746	627,633	644,379
Segment liabilities	-	4,996,184	2,540,970	7,537,154
Segment return on assets (ROA)(%)	-	5.60%	5.17%	5.56%
Segment cost of funds(%)	-	9.65%	7.72%	9.00%
2011				
Total income - Gross	12,797	1,068,921	307,770	1,389,487
Total markup / return / interest expense	-	382,672	20,040	402,712
Segment provision / (reversal) / impairment/ unrealised losses	-	289,703	42,513	332,216
	-	672,376	62,553	734,928
Net operating income	12,797	396,545	245,217	654,559
Administrative expenses and other charges				167,757
Profit before taxation				486,802
Segment assets	-	9,284,437	2,560,683	11,845,120
Investments provided for	-	815,415	393,141	1,208,556
Segment provision required*	-	419,772	117,654	537,426
Segment liabilities	-	3,843,975	270,447	4,114,422
Segment return on assets (ROA)(%)	-	4.27%	9.58%	5.53%
Segment cost of funds(%)	-	9.96%	7.41%	9.79%

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

34. RELATED PARTY TRANSACTIONS

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

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

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

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

	2012	2011
	(Rupees in '000)	
Loans and advances to key management personnel:		
- Balance at beginning of the year	18,299	14,157
- Loans granted during the year	90,677	5,954
- Repayments during the year	(1,925)	(1,812)
- Balance at end of the year	107,051	18,299
Mark-up earned on loans and advances to key management personnel	1,096	715
Non-executive directors' remuneration	2,340	2,252
Salaries and benefits	59,090	*49,032
Contribution to defined contribution plan	3,345	2,639
Disposal of fixed assets to key personnel	1,541	201

* This includes reversal of medical expenses of Ex-M.D. amounting to Rs. 12.781 million.

	2012	2011
34.2 Contribution to defined contribution plan	4,336	3,779
34.3 Receivable / (payable) to Iran Foreign Investment Company - Net (Associates)	675	(138)

35. CAPITAL - ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

35.1 Scope of applications

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

35.2 **Capital structure**

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

	2012	2011
Regulatory Capital Base	(Rupees in '000)	
Tier I Capital		
Shareholders Capital/Assigned Capital	**6,000,000**	6,000,000
Reserves	**415,719**	327,714
Unappropriated / unremitted profits (Net of Losses)	**1,612,881**	1,310,862
	8,028,600	7,638,576
Less: Adjustments		
Book value of intangible assets	**(8,352)**	(1,367)
Investments in TFCs of other banks exceeding the prescribed limit (Appendix 1.1 Para 3 (iii))	**(2,297,340)**	(532,169)
	(2,305,692)	(533,536)
Total Tier I Capital	**5,722,908**	7,105,040
Tier II Capital	-	-
Eligible Tier III Capital	-	-
Total Regulatory Capital	**5,722,908**	7,105,040

35.3 **Capital adequacy**

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

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

Goals of managing capital

The goals of managing capital of the Company are as follows:

- To ensure availability of adequate capital at a reasonable cost so as to enable the Company to grow accordingly.

- To achieve a low cost of capital with appropriate mix of capital elements.
- To be an appropriately capitalised institution, as prescribed by regulatory authorities from time to time.
- To maintain highest quality ratings and to protect the Company against unexpected events.

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

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

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

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

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

	2012		2011	
	Capital requirements	**Risk weighted assets**	Capital requirements	Risk weighted assets
Credit risk				
Claims on:				
Banks	**2,181**	**21,808**	780	7,804
Corporate	**520,884**	**5,208,835**	266,453	2,664,526
Public sector entities	**-**	**-**	130	1,295
Retail portfolio	**120**	**1,201**	99	987
Secured by residential property	**3,772**	**37,715**	602	6,021
Past due loans	**83,543**	**835,432**	47,029	470,294
Listed equity investments	**186,153**	**1,861,529**	282,190	2,821,901
Unlisted equity investments	**15,585**	**155,852**	15,585	155,851
Investments in fixed assets	**5,605**	**56,047**	4,806	48,060
All other assets	**13,232**	**132,316**	11,611	116,109
	831,075	**8,310,735**	629,285	6,292,848

	2012		2011	
Market risk				
Interest rate risk	-	-	-	-
Equity risk	42,904	536,300	39,338	491,723
	42,904	536,300	39,338	491,723
Operational risk	135,852	1,698,150	128,386	1,604,820
	1,009,831	10,545,185	797,009	8,389,391

Capital adequacy ratio

	2012	2011
Total eligible regulatory capital held (a)	5,722,908	7,105,040
Total risk weighted assets (b)	10,545,185	8,389,391
Capital adequacy ratio (a) / (b)*100	54.27%	84.69%

36. RISK MANAGEMENT

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

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

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

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

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

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

36.1 Credit risk

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

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

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

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

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

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

36.1.1 Credit Risk – General Disclosures Basel II specific

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

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

For the calculation of Risk Weighted Assets under Standardised 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	✓	✓
Corporate	✓	✓

Credit exposures subject to standardised approach

Exposures

	Rating Category	Amount Outstanding	Deduction	Net amount
		---------------(Rupees in '000)	---------------	
Corporate	1	1,067,303	-	**1,067,303**
	2	1,272,390	-	**1,272,390**
	3,4	5,033	-	**5,033**
	5,6	135,356	-	**135,356**
	Unrated	4,181,112	30,000	**4,151,112**
Banks	1	4,760,715	4,651,671	**109,044**
Sovereigns		5,248,604	-	**5,248,604**
Retail Portfolio		1,601	-	**1,601**
Residential Mortgage Finance		107,757	-	**107,757**
Past Due Loans		730,501	-	**730,501**
Listed Equity Investments		1,861,529	-	**1,861,529**
Unlisted Equity Investments		103,901	-	**103,901**
Cash and Cash Equivalents		687	-	**687**
Others		188,363	-	**188,363**
		19,664,852	**4,681,671**	**14,983,181**

CRM = Credit Risk Mitigation

36.1.2.1 **Credit Risk: Disclosure with respect to Credit Risk Mitigation for Standardised 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**

	2012					
	Advances - Gross		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Cement	75,000	2%	-	0%	-	0%
Sugar	685,108	15%	-	0%	600,000	10%
Electronics and electrical appliances	60,000	1%	30,000	5%	-	0%
Construction	563,365	13%	-	0%	-	0%
Power (electricity), gas, water, sanitary	998,804	22%	-	0%	-	0%
Financial	66,667	1%	-	0%	4,665,784	73%
Services	58,333	1%	500,000	92%	-	0%
Textile	500,000	11%	-	0%	150,000	2%
Transport, storage and communication	44,444	1%	-	0%	-	0%
Fertilizer	500,000	11%	-	0%	-	0%
Infrastructure	268,576	6%	-	0%	-	0%
Individuals	159,499	4%	5,080	1%	-	0%
Paper and board	177,778	4%	-	0%	-	0%
Steel	100,000	2%	-	0%	446,668	7%
Oil and gas	91,667	2%	-	0%	150,000	2%
Others	181,250	4%	10,000	2%	370,000	6%
	4,530,491	100%	545,080	100%	6,382,452	100%

	2011					
	Advances – Gross		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in 000')	Percent	(Rupees in 000')	Percent
Cement	75,000	3%	-	-	-	-
Sugar	473,934	18%	-	-	-	-
Electronics and electrical appliances	20,000	1%	-	-	-	-
Construction	518,000	20%	-	-	-	-
Power (electricity), gas, water, sanitary	694,387	27%	-	-	32,023	1%
Financial	133,333	5%	250,000	96%	3,497,953	95%
Services	309,495	12%	-	-	-	-
Individuals	18,661	1%	-	-	-	-
Others	350,000	13%	10,000	4%	150,000	4%
	2,592,810	100%	260,000	100%	3,679,976	100%

36.1.3.2 Segment by sector

	2012					
	Advances – Gross		**Deposits**		**Contingencies and commitments**	
	(Rupees in '000)	**Percent**	**(Rupees in '000)**	**Percent**	**(Rupees in '000)**	**Percent**
Public / Government	-	-	**500,000**	**92%**	**4,665,784**	**73%**
Private	**4,530,491**	**100%**	**45,080**	**8%**	**1,716,668**	**27%**
	4,530,491	**100%**	**545,080**	**100%**	**6,382,452**	**100%**

	2011					
	Advances – Gross		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	-	-	250,000	96%	3,497,953	95%
Private	2,592,810	100%	10,000	4%	182,023	5%
	2,592,810	100%	260,000	100%	3,679,976	100%

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

	2012		2011	
	Classified Advances	**Specific Provisions Held**	Classified Advances	Specific Provisions Held
	-----------------	(Rupees in '000)	-----------------	
Cement	**75,000**	**75,000**	75,000	75,0000
Construction	**316,306**	**42,513**	318,000	42,513
Textile	**350,000**	**87,500**	-	-
Others	**141**	**141**	141	141
	741,447	**205,154**	393,141	117,654

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

Public / Government	-	-	-	-
Private	**741,447**	**205,154**	393,141	117,654
	741,447	**205,154**	393,141	117,654

36.1.3.5 Geographical segment analysis

	2012			
	Profit before taxation	**Total assets employed**	**Net assets employed**	**Contingencies & commitments**
	-----------------	(Rupees in '000)	-----------------	
Pakistan	**635,367**	**15,736,521**	**8,199,367**	**6,382,452**

	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	-----------------	(Rupees in '000)	-----------------	
Pakistan	486,802	11,845,119	7,730,697	3,679,976

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) and Available for Sale (AFS) portfolios.

As of December 31, 2012, the equity portfolio of the Company comprises of investment in listed equities classified in Held for Trading (HFT) and Available for Sale (AFS) category. The marked to market valuation on the instruments is done on daily basis and any unrealised gain / loss is booked in the profit and loss account and the statement of financial position respectively.

36.3. Market risk

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

Controls are also applied to prevent any undue risk concentrations in trading books, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to individual market risk variables, such as individual interest or equity price ('risk factors'), and on positions in the securities of individual issuers. Market risk measures and controls are applied at the portfolio level, and concentration limits and other controls are applied where necessary to individual risk types, to particular books and to specific exposures. Portfolio risk measures are common to all market risks, but concentration limits and other controls are tailored to the nature of the activities and the risks they create.

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

36.3.1 Foreign exchange risk

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

	2012			
	Assets	Liabilities	Off - balance sheet items	Net currency exposure
	----------(Rupees in '000)----------			
Pakistan Rupees	15,736,329	7,537,154	-	8,199,175
US Dollars	192	-	-	192
Euros	466	-	-	466
	15,736,521	7,537,154	-	8,199,367

	2011			
	Assets	Liabilities	Off - balance sheet items	Net currency exposure
	(Rupees in '000)			
Pakistan Rupees	11,844,305	4,114,422	-	7,729,883
US Dollars	814	-	-	814
	11,845,119	4,114,422	-	7,730,697

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 categorise as "Available for Sale" and "Held for Trading" portfolio. Investment policy has been developed to discuss in detail the objectives / policies, risks / mitigates, limits controls for exposures against price risk.

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

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

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

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

	Effective yield / interest rate	2012										
		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 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)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.00%	43,999	-	-	-	-	-	-	-	-	-	43,999
Balances with other banks	5.00%	106,586	77,524	-	-	-	-	-	-	-	-	29,062
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	10.99%	10,841,572	1,246,803	4,510,311	3,345,460	-	-	4,845	-	-	-	1,734,153
Advances	12.38%	4,325,337	1,065,390	2,091,751	559,102	232	72,380	851	-	39,114	32,815	463,702
Other assets		230,664	-	-	-	-	-	-	-	-	-	230,664
		15,548,158	2,389,717	6,602,062	3,904,562	232	72,380	5,696	-	39,114	32,815	2,501,580
Liabilities												
Borrowings from financial institutions	9.81%	6,721,178	4,851,671	1,833,333	-	-	-	-	-	36,174		-
Deposits and other accounts	11.86%	545,080	10,000	35,000		500,000	-	-	-	-	-	80
Other liabilities		270,896	-	-	-	-	-	-	-	-	-	270,896
		7,537,154	4,861,671	1,868,333	-	500,000	-	-	-	36,174	-	270,976
On-balance sheet gap		8,011,004	(2,471,954)	4,733,729	3,904,562	(499,768)	72,380	5,696	-	2,940	32,815	2,230,604
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap		8,011,004	(2,471,954)	4,733,729	3,904,562	(499,768)	72,380	5,696	-	2,940	32,815	
Cumulative yield / interest risk sensitivity gap			(2,471,954)	2,261,775	6,166,337	5,666,569	5,738,949	5,744,645	5,744,645	5,747,585	5,780,400	

	Effective yield / interest rate	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	Non-interest bearing financial instruments
			2011									
			Exposed to yield / interest risk									
		(Rupees in '000)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	5.00%	9,143	504	-	-	-	-	-	-	-	-	8,639
Balances with other banks	5.00%	20,675	17,575	-	-	-	-	-	-	-	-	3,100
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	13.38%	8,974,337	14,391	1,605,114	2,066,503	3,956,831	-	8,841	-	-	-	1,322,657
Advances	15.29%	2,475,156	236,166	871,912	830,321	200,741	263	312	-	42,750	17,204	275,487
Other assets		201,639	-	-	-	-	-	-	-	-	-	201,639
		11,680,950	268,636	2,477,026	2,896,824	4,157,572	263	9,153	-	42,750	17,204	1,811,522
Liabilities												
Borrowings from financial institutions	11.90%	3,695,484	2,636,180	1,016,554	-	-	-	-	-	42,750	-	-
Deposits and other accounts	12.37%	260,000	260,000	-	-	-	-	-	-	-	-	-
Other liabilities		158,938	-	-	-	-	-	-	-	-	-	158,938
		4,114,422	2,896,180	1,016,554	-	-	-	-	-	42,750	-	158,938
On-balance sheet gap		7,566,528	(2,627,544)	1,460,472	2,896,824	4,157,572	263	9,153	-	-	17,204	1,652,584
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap		7,566,528	(2,627,544)	1,460,472	2,896,824	4,157,572	263	9,153	-	-	17,204	
Cumulative yield / interest risk sensitivity gap			(2,627,544)	(1,167,072)	1,729,752	5,887,324	5,887,587	5,896,740	5,896,740	5,896,740	5,913,944	

36.4 Liquidity risk

The Company's approach to liquidity management is to ensure, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage. Liquidity risk policy has been designed that entails careful monitoring and control of the daily liquidity position, and regular liquidity stress tests under a variety of scenarios. Scenarios encompass both normal and stressed market conditions, including general market crises and the possibility that access to markets could be impacted by a stress event affecting some part of the Company's business. The Company has developed Liquidity Risk Policy, which covers the techniques to gauge, monitor and report the impact of potential liquidity risk indicators and its implications.

36.4.1 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.

36.4.1.1 Maturities of assets and liabilities

	2012									
	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	43,999	43,999	-	-	-	-	-	-	-	-
Balances with other banks	106,586	106,586	-	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	10,841,572	1,015,770	2,569,893	3,174,056	468,724	408,744	578,508	765,744	1,860,133	-
Advances	4,325,337	310,435	533,473	264,571	693,623	778,969	561,234	864,901	300,572	17,559
Fixed assets	56,047	-	406	833	1,885	1,266	30,049	21,608	-	-
Deferred tax assets - net	109,689	-	-	-	109,689	-	-	-	-	-
Other assets	253,291	71,403	107,850	58,820	7,736	6,325	-	-	-	1,157
	15,736,521	**1,548,193**	**3,211,622**	**3,498,280**	**1,281,657**	**1,195,304**	**1,169,791**	**1,652,253**	**2,160,705**	**18,716**
Liabilities										
Borrowings from financial institutions	6,721,178	4,854,959	166,666	-	169,955	589,909	423,243	513,152	3,294	-
Deposits and other accounts	545,080	10,000	35,000	-	500,080					-
Other liabilities	270,896	128,334	37,602	34,408	64,902	5,650	-	-	-	-
	7,537,154	**4,993,293**	**239,268**	**34,408**	**734,937**	**595,559**	**423,243**	**513,152**	**3,294**	-
Net assets	**8,199,367**	**(3,445,100)**	**2,972,354**	**3,463,872**	**546,720**	**599,745**	**746,548**	**1,139,101**	**2,157,411**	**18,716**
Represented by:										
Share capital	**6,000,000**									
Reserves	**415,719**									
Unappropriated profit	**1,612,881**									
Surplus on revaluation of assets-net of deferred tax	**170,767**									
	8,199,367									

	2011									
	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 to10 years	Over 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	9,143	9,143	-	-	-	-	-	-	-	-
Balances with other banks	20,675	20,675	-	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	8,974,337	42,776	61,283	1,026,197	4,359,015	306,394	336,380	1,093,519	1,748,773	-
Advances	2,475,156	18,560	66,911	103,199	424,175	789,108	353,521	368,945	341,045	9,692
Fixed assets	48,060	324	271	375	82	5,076	25,370	16,562	-	-
Deferred tax assets - net	80,756	-	-	-	80,756	-	-	-	-	-
Other assets	236,992	1,154	79,050	154,379	2,409	-	-	-	-	-
	11,845,119	92,632	207,515	1,284,150	4,866,437	1,100,578	715,271	1,479,026	2,089,818	9,692
Liabilities										
Borrowings from financial institutions	3,695,484	2,739,468	916,555	-	3,288	6,576	6,576	13,152	9,869	-
Deposits and other accounts	260,000	260,000	-	-	-	-	-	-	-	-
Other liabilities	158,938	42,120	32,495	28,304	50,297	5,722	-	-	-	-
	4,114,422	3,041,588	949,050	28,304	53,585	12,298	6,576	13,152	9,869	-
Net assets	7,730,697	(2,948,956)	(741,535)	1,255,846	4,812,852	1,088,280	708,695	1,465,874	2,079,949	9,692

Represented by:	
Share capital	6,000,000
Reserves	327,714
Unappropriated profit	1,310,862
Surplus on revaluation of assets-net of deferred tax	92,121
	7,730,697

36.5 Operational risk

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

36.5.1 Operational risk disclosure - Basel II specific

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

37. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 13, 2013 by the Board of Directors of the Company.

Chairman	Managing Director and Chief Executive Officer	Director	Director

PAÏR

PAÏR Investment Company Limited

Head Office: Islamic Chamber of Commerce Building, ST-2/A, Block 9, Clifton, Karachi-75600.
Tel: +92 (21) 3582 9621-24 **Fax:** +92 (21) 3530 3526

Lahore Office: Siddique Trade Center, First Floor, Office # 115, Main Gulberg, Lahore.
Tel: +92 (42) 3578 2051-2 **Fax:** +92 (42) 3578 2050

Email: info@pijicl.com **Web:** www.pijicl.com