ANNUAL REPORT

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Pak Kuwait

Pakistan Kuwait Investment Company (Private) Limited

الشركة الباكستانية الكويتيه للاستثمار (الخاصة) المحدودة

A joint venture between the Governments of Pakistan and Kuwait

A JOINT VENTURE

The Company is a joint venture between the Governments of Kuwait and Pakistan

COMPANY DESCRIPTION

Pakistan Kuwait Investment Company (Private) Limited (PKIC) is Pakistan's leading Development Financial Institution (DFI) engaged in investment and development banking activities in Pakistan. Established in 1979, the company initiated operations with a paid-up capital of Rs. 62.50 million. Over the years paid-up capital and reserves have increased manifold reflecting upon the company's impressive performance since inception.

PKIC continues to serve as a medium for catalyzing infrastructure development and enhancing real economic activity, helping the nation in achieving a steep yet sustainable growth trajectory.

VISION

Be the financial house of excellence facilitating the expansion and modernization of industries in Pakistan

MISSION

- Play a key role in the development of industrial and economic infrastructure of Pakistan
- Develop a team of quality professionals with a wide spectrum of expertise
- Maintain high standards of Corporate Governance
- Provide value and optimize returns for all our stakeholders
- Pursue our corporate values

CORPORATE VALUES

- Maintain highest standards of integrity and professionalism in all business transactions
- Provide innovative business solutions
- Attract, motivate and retain highly skilled professionals
- Strive for continuous quality improvement
- Continue to be a socially responsible corporate citizen

Pak Kuwait

CONTENTS

CORPORATE INFORMATION

Mr. Abdullah Abdulwahab Al-Ramadhan	Chairman
Mr. Mohammad Reyad Al-Mutawa	Director
Syed Atif Salman Hashmi	Director
Mr. Naveed Alauddin	Director
Mr. Bader Fawaz Al-Qattan	Director
Mr. Shaharyar Ahmad	Managing Director

LEGAL ADVISOR

M/s. KMS Law Associate Advocates and
Corporate Consultants

AUDITORS

M/S. Ernst & Young Ford Rhodes Sidat Hyder

REGISTERED OFFICE

4th Floor, Block-C, Finance & Trade Centre,
Shahrah-e-Faisal, Karachi- 74400(Pakistan)
Ph: (92-21) 35630901-7 UAN: (92-21) 111-611-611
Fax: (92-21) 35630940
E-mail: info@pkic.com Website: www.pkic.com

REPRESENTATIVE OFFICE

LAHORE

Siddiq Trade Centre, 1st Floor, Office # 104
Main Boulevard Gulberg, Lahore.
Ph: (92-42) 35781726-27 UAN: (92-42) 111-611-611
Fax: (92-42) 35781725

BOARD OF DIRECTORS

Abdullah Abdulwahab Al-Ramadhan
Chairman

Shaharyar Ahmad
Managing Director

Mohammad Reyad Al-Mutawa
Director

Bader Fawaz Al-Qattan
Director

Syed Atif Salman Hashmi
Director

Naveed Alauddin
Director

Executive Committee

Abdullah Abdulwahab Al-Ramadhan
Member

Shaharyar Ahmad
Member

Audit Committee

Syed Atif Salman Hashmi
Chairman

Naveed Alauddin
Member

Mohammad Reyad Al-Mutawa
Member

Risk Management Committee

Abdullah Abdulwahab Al-Ramadhan
Chairman

Naveed Alauddin
Member

Bader Fawaz Al-Qattan
Member

MANAGEMENT

Shaharyar Ahmad
Managing Director

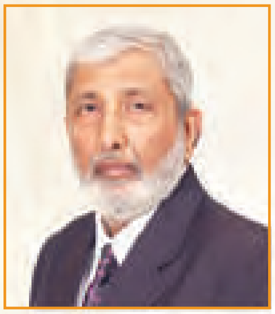
Rana Ahmed Humayun
Deputy General Manager &
Chief Financial Officer

M.Tauseef Ansari
Head of Investment Banking &
Corporate Finance

Syed Ehsan Ahmed
Head of Capital Markets &
Treasury

Faisal Khan
Head of Risk Management

Mazhar Sharif
Head of Internal Audit



Lt. Col. ® Asad Anwar Wajih
Head of Human Resources and Administration

Khurram Salman
Head of Compliance

Aurangzeb M. Amin
Company Secretary

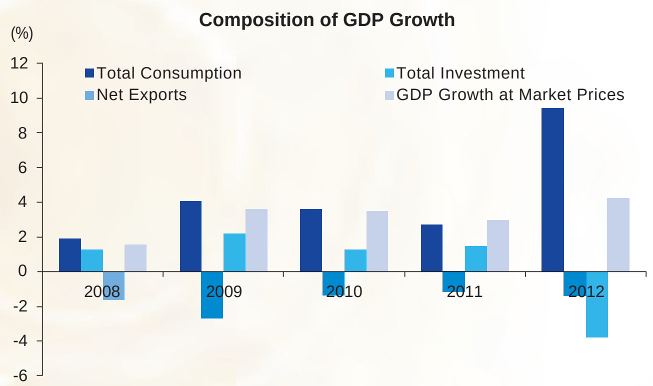
Directors' Report

The Directors' of Pakistan Kuwait Investment Company (Private) Ltd (the Company) are pleased to present their Annual Report and Audited Financial Statements, setting out the detailed financial results of the Company together with the Consolidated Financial Statements of the Group for the year ended December 31, 2012, together with Auditors' Reports thereon.

Economic Review

Pakistan's economic growth increased from 3% in 2011 to 3.7% in 2012 on the back of improvement in agricultural output. The recovery in the agricultural sector was also due to absence of floods this year barring torrential rains in Sindh. Higher crop output is also expected to support the overall GDP growth next year. These crops not only serve as industrial raw materials but they also support consumption as agriculture is the livelihood of the majority of Pakistani population. The Large Scale Manufacturing (LSM) sector continued to struggle due to shortage of energy. Consumption oriented sectors drove the overall LSM index higher while export oriented sectors underperformed the overall index. The services sector performed well and contributed majority of the incremental economic output of Pakistan.

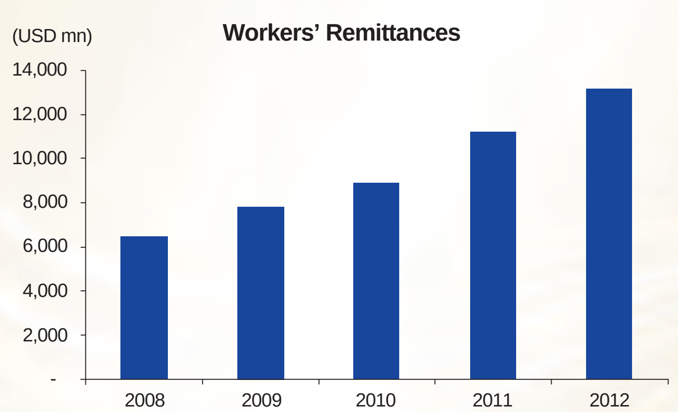
Consumption continued to drive the overall economy on the back of rising farm income due to higher commodity prices and growing remittances from Pakistanis working abroad. On the other hand, Investment and Net Exports remained a drag on overall GDP growth.



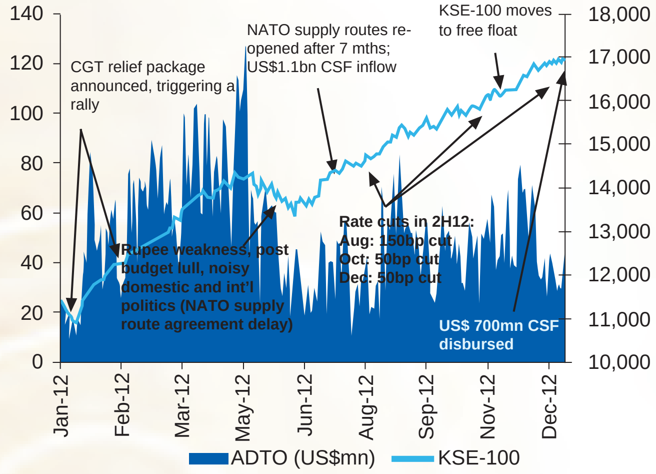
The fiscal situation of the country continued to remain vulnerable as expenditure growth outpaced revenue growth. The fiscal deficit remained 6.6% of GDP, which was significantly higher than initial target of 4% for 2012. Financing of the deficit remained tilted towards the domestic sources, crowding out the private sector. Private sector credit grew by approximately 7% during the year to reach PKR 3.7 trillion, while the ADR of the banking system declined to 52.6% in Sep-12 from 53.6% in Dec-11. Deposit growth remained significantly higher at 18% thereby increasing the Investments by the commercial banks in the government securities.

Inflation remained under control in 2012 where average CPI inflation for the period Jan-Dec 2012 remained 9.73% against 11.97% during the same period last year. Cognizant of this fact, the SBP reduced the discount rate by 250 bps from 12% to 9.5% during the year 2012 to enhance economic growth and promote investment.

Balance of Payments remained under pressure during 2012 as the impact of rising exports and robust remittances was neutralized by higher imports and debt repayments. PKR depreciated against USD approximately 8% during the year to reach PKR 97.25 / USD.



The equity market performed well during 2012 and the benchmark KSE100 index posted a return of 49% compared to a negative return of 6% during 2011. Regulatory changes related to Capital Gains Tax, improvement in US-Pakistan relations and declining interest rates provided impetus to the market along with increasing corporate earnings.



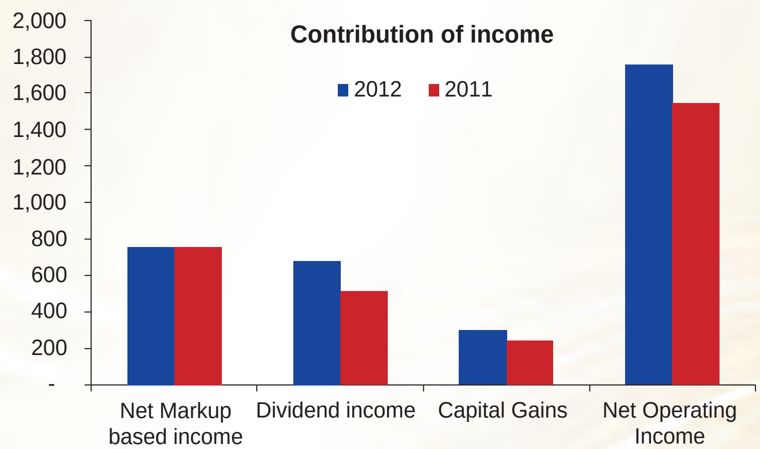
Performance of the Company

The Company recorded a Profit after Tax of PKR 856 million for 2012, which is 40% higher than PKR 613 million recorded in 2011. The balance sheet stood at PKR 26,626 million as of Dec 31, 2012 as compared to PKR 20,807 million for the previous year.

For the Year (PKR million)	2012	2011
Net Markup Based Income	757	757
Non Markup Income	1,001	785
Total Income	1,758	1,542
Admin Expenses	440	462
Profit before Provisions	1,318	1,080
Provisions / (Reversal of Provisions)	144	208
Profit Before Taxation	1,174	872
Taxation	318	259
Profit After Taxation	856	613

At Year end (PKR million)	2012	2011
Total Assets	26,626	20,807
Liabilities	16,220	11,223
Share Capital	6,000	6,000
Reserves	4,170	3,675

Net markup based income of the Company remained flat at PKR 757 million despite a decline of 250 bps in the discount rate. The Company proactively managed its assets and liabilities and prevented any decline in the net markup based income. Non markup income of the Company grew by 28% YoY from PKR 785 million to PKR 1,001 million on the back of higher income from share portfolio. Higher dividend income from associates and improvement in capital gains supported the bottom line.



The Company was able to reduce its Administrative & General expenses by 5% YoY to PKR 440 million as it exercised a strict control over its expenditure.

In order to further enhance organizational efficiency, the Company continued to strive for betterment and improvements in its policies, procedures and technological platform.

Dividend

The Board of Directors is pleased to recommend a cash dividend of PKR 450 million for the year ended December 31, 2012. With this declaration, the cumulative dividend (cash and stock) payout amount to PKR 11,246 million since the inception of the Company.

Earnings Per Share

The basic and diluted earning per share has increased from PKR 2,554 to PKR 3,565 on share of PKR 25,000/- each.

Future Outlook

The Company would continue to support Pakistan's economy through prudent investments in the strategic sectors of the economy while improving its profitability.

Risk Management Framework

All material risks faced by the Company are assessed in a proactive way within the Enterprise-wide Risk Framework. The ultimate responsibility of risk management and setting the overall risk management policy lies with the Board of Directors. The Board manages its responsibility through its subcommittees, namely Risk Management Committee (RMC) and Audit Committee. At the management level, the risks are actively assessed and key decisions are taken by the Asset and Liability Management Committee (ALCO) and Credit Committee (CC), in the light of directives issued by the Board.

Prudent and effective risk management is and has always been a significant success factor in steering the Company's growth and profitability. The Company fully recognizes that the risk management function is fundamental to its business, an essential element of the Company's strategy and an important tool in the implementation of long term vision.

The Company has implemented an integrated Risk Management Framework that enables determination of risk strategy, establishment of portfolio limits and delegation of authorities. Risk exposures, trends, benchmarks, portfolio analysis are reported to Risk Management Committee of the Board, on a quarterly basis, by the Risk Management function. The Management has a clear understanding and appreciation of Credit, Market, Liquidity and Operational Risks and has synchronized the distinct risks into the operating parameters, in order to manage them within acceptable limits. The Company is fully compliant with Capital Adequacy Requirements of the State Bank of Pakistan under the Standardized Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk. The Company continues to invest in systems and people as part of its process of strengthening the risk management function.

Entity rating of the Company

The Company has been assigned 'AAA' rating by JCR-VIS and PACRA. The short term rating of the Company is 'A1+'. The Company's ratings derive strength from its low risk profile along with the support of the two governments.

The Company has been assigned a Corporate Governance Rating 'CGR-9' by JCR-VIS. The assigned rating denotes a high level of Corporate Governance.

Compliance with Code of Corporate Governance

The Directors confirm the compliance of the requirements of the Code of Corporate Governance relevant for the year ended December 31, 2012 as practicably applicable. In this connection, the compliance of relevant clauses of the code is stated below:

- These financial statements present fairly the state of affairs of the Company, the result of its operations, cash flow and changes in equity.

- The Company has maintained proper books of accounts.

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

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

- The system of internal control is sound in design and has been effectively implemented and monitored. The controls which are in place are being continuously reviewed by the Internal Audit department and the process of review and monitoring will continue with the object to improve further.

- All liabilities in regard to the payment on account of taxes, duties, levies and charges have been fully provided and will be paid in due course or where claim was not acknowledged as liability the same is disclosed as contingent liabilities in the notes to the accounts.

- There is no doubt about the Company's ability to continue as a going concern.

- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

- The Board of Directors and employees of the Company have signed 'Statement of Ethics and Business Practices'.

Board Meetings

Five meetings of the Board of Directors of the Company were held in the year 2012 as per following schedule:

1st	Meeting	January 6, 2012
2nd	Meeting	February 17, 2012
3rd	Meeting	May 12, 2012
4th	Meeting	August 26, 2012
5th	Meeting	December 9, 2012

Audit Committee Meetings

Four meetings of the Audit Committee of the Company were held in the year 2012 as per following schedule:

1st	Meeting	February 17, 2012
2nd	Meeting	May 12, 2012
3rd	Meeting	August 26, 2012
4th	Meeting	December 9, 2012

Risk Management Committee Meetings

Four meetings of the Risk Management Committee of the Company were held in the year 2012 as per following schedule:

1st	Meeting	February 17, 2012
2nd	Meeting	May 12, 2012
3rd	Meeting	August 26, 2012
4th	Meeting	December 9, 2012

Details of Attendance are as follows

Board Meetings Details:

Name of Directors	Meetings during tenure	Meetings attended
Mr. Salah Al-Muraikhi (Non-executive Director)	2	2
Mr. Mohammad Al-Hamad (Non-executive Director)	2	2
Mr. Abdullah Abdulwahab Al-Ramadhan (in place of Mr. Salah Al-Muraikhi) (Non-executive Director)	3	3
Mr. Mohamad Reyad Al-Mutawa (Non-executive Director)	5	4
Mr. Bader Al-Qattan (in place of Mr. Mohammad Al- Hamad) (Non-executive Director)	3	3
Mr. Asif Bajwa (Non-executive Director)	1	1
Mr. Naveed Alauddin (in place of Mr. Asif Bajwa) (Non-executive Director)	4	4
Syed Atif Salman Hashmi (Non-executive Director)	5	5
Mr. Ashraf Wathra (in place of Mr. Shamsul Hasan) (Executive Director)	1	1
Mr. Shaharyar Ahmad (in place of Mr. Ashraf Wathra) (Executive Director)	1	1

Risk Management Committee Meetings Details:

Name of Directors	Meetings during tenure	Meetings attended
Mr. Salah Al-Muraikhi	1	1
Mr. Mohammad Al-Hamad	1	1
Mr. Abdullah Abdulwahab Al-Ramadhan (in place of Mr. Salah Al-Muraikhi)	3	3
Mr. Bader Al-Qattan (in place of Mr. Mohammad Al- Hamad)	3	3
Mr. Naveed Alauddin (in place of Mr. Asif Bajwa)	4	4

Audit Committee Meetings Details:

Name of Directors	Meetings during tenure	Meetings attended
Syed Atif Salman Hashmi	4	4
Mr. Mohamad Reyad Al-Mutawa	4	4
Mr. Naveed Alauddin (in place of Mr. Asif Bajwa)	3	3
Mr. Asif Bajwa	1	1

Summarized Operating and Financial Data for the Last Six Years

(Rs. in million)

	2012	2011	2010	2009	2008	2007
Paid up Capital	6,000	6,000	6,000	6,000	6,000	6,000
Reserves	4,170	3,675	3,422	2,885	2,369	6,951
Total Assets	26,626	20,807	22,898	24,206	15,469	24,406
Profit before tax	1,174	872	841	592	(4,072)	1,743
Net Profit after tax	856	613	537	516	(4,102)	1,449
Cash Dividend	450	360	360	-	-	480
Stock Dividend	-	-	-	-	-	-

Statement of Investments of Provident and Gratuity Funds

Investments of Provident and Gratuity Funds as at December 31, 2012 according to their respective un-audited accounts were PKR 143.828 million and PKR 105.473 million, respectively. Investment of Provident Fund and Gratuity Fund amounted to PKR 129.959 million and PKR 91.517 million respectively, as at December 31, 2011 according to its audited accounts.

Auditors

The present auditors M/s Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants, retire and being eligible, offer themselves for reappointment. As required under the Code of Corporate Governance, the Audit Committee has recommended the appointment of M/s Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants as auditors of the Company for the year ending December 31, 2013.

Acknowledgement

We would like to express our sincere appreciation to our shareholders for having reposed confidence in us with their consistent support and guidance. We are also grateful to the Government of Pakistan, the Ministry of Finance, the State Bank of Pakistan, and the Securities & Exchange Commission of Pakistan for their guidance to the Company at all times.

An institution cannot be successful without its people, who are to be complimented for performing well under difficult circumstances. We would like to place on record the appreciation of the Board for the role of the team members for their commitment and dedication to work.

On behalf of the Board of Directors

Chairman

Managing Director

Date: February 04, 2013
Karachi.

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

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

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

1. The Board of Directors of the Company comprises of 5 non-executive directors and one executive director. All the directors are nominees of the respective joint venture partner governments under requirements of the Joint Venture Agreement between them. At present the Board includes:

Category	Names
Executive Directors	• Mr. Shaharyar Ahmad
Non-Executive Directors	• Mr. Abdullah Abdulwahab Al-Ramadhan • Mr. Mohammad R. Al-Mutawa • Mr. Bader Fawaz Al-Qattan • Syed Atif Salman Hashmi • Mr. Naveed Alauddin

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking Company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. The casual vacancies occurring on the Board on January 20, 2012 and April 2, 2012 were filled up by the directors within 15 days.

5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been approved and signed by the Board of Directors and also signed by the employees of the Company.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

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, other executive and non-executive directors, have been taken by the Board / shareholders.

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

9. Although formal orientation courses have not been arranged during the year, the directors have been provided with the copies of the Prudential Regulations, Memorandum and Articles of the Association of the Company and the Code of Corporate Governance. The directors are well conversant with their duties and responsibilities. We plan to conduct a training program for our directors during the year 2013.

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

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

12. The directors, CEO and executives do not hold any interest in the shares of the Company.

13. The Company has complied with all the corporate and financial reporting requirements of the CCG.

14. The Board has formed an Audit Committee. It comprises of 3 members, all of them are non-executive Directors including the Chairman.

15. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the CCG. The terms of reference of the committee have been formed and advised to the Committee for compliance.

16. Although Human Resource and Remuneration Committee (HR&R) has not been constituted, the Board has assigned human resource related responsibilities to its Executive Committee. It comprises 2 members, of whom 1 is non-executive director.

17. The Board has set up 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 ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.

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 guidelines in this regard.

20. We confirm that all other material principles enshrined in the CCG have been complied with.

Shaharyar Ahmad
Managing Director

Dated: February 4, 2013
Karachi.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O.Box 15541, Karachi 75530, Pakistan
Tel: +9221 3565 0007
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Review Report to the Members on Statement of Compliance with the Best Practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) for the year ended 31 December 2012 prepared by the Board of Directors (the Board) of Pakistan Kuwait Investment Company (Private) Limited (the Company) to comply with the Regulation G-1 of Prudential Regulation for Corporate / Commercial Banking issued by the State Bank of Pakistan.

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

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub - Regulation (x) of Listing Regulation 35 notified by The Karachi Stock Exchange Limited requires the Company to place before the Board 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 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 does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code, effective for the year ended 31 December 2012.

Ernst & Young Ford Rhodes Sidat Hyder

KARACHI: February 04, 2013

CHARTERED ACCOUNTANTS

Statement on Internal Controls

Reporting on internal control system

The company endeavors to follow the SBP's Internal Control Guidelines. It is the responsibility of the company's management to establish and maintain an adequate and effective system of internal control that could help in company's efforts to attain a professional and efficient working environment throughout the company. The Internal Control System comprises of various inter-related components including Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring.

Management ensures the efficient and effective Internal Control System by identifying control objectives, reviewing pertinent policies / procedures and establishing relevant control procedures. All policies and procedures are reviewed and compared with existing practices and necessary amendments made where required on timely basis.

Alongside this appropriate test of transactions, observation of control environment, sharing of findings of Internal Control System and ensuring relevant appropriate follow-ups / corrective actions are also being done by the management on regular basis.

Internal Control System in the company is designed to manage, rather than eliminate the risk of failure to achieve the business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Evaluation of existing internal control system

The company has made efforts to ensure during the year 2012 that an effective and efficient Internal Control System is implemented and no compromise is made in implementing the desired control procedures and maintaining suitable control environment in general. However, it is an ongoing process that includes identification, evaluation and management of significant risks faced by the company.

The observations and weaknesses identified by the auditors, both internal and external, have been taken care of and necessary steps have been taken by the management in the due time so as to ensure non-repetition of those exceptions and eliminations of such weaknesses to the maximum possible level. The management has also given timely and satisfactory response to the recommendations and suggestions made by its auditors.

We assess that the internal control system, customer services and operations have been maintained as compared to previous year in all areas / departments of the company. Further, due attention and focus is to enhance competence level and knowledge of the employees.

Head of Internal Audit

Deputy General Manager & CFO

Managing Director

Chairman Audit Committee

Date: February 04, 2013
Karachi

Pak Kuwait

Pak Kuwait

Unconsolidated Financial Statements

For the year ended December 31, 2012

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O.Box 15541, Karachi 75530, Pakistan
Tel: +9221 3565 0007
Fax: +9221 3568 1965
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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed unconsolidated statement of financial position of Pakistan Kuwait Investment Company (Private) Limited (the Company) as at 31 December 2012, and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated cash flow statement 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 purpose of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with 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 above said statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, we report that:

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

(b) in our opinion:

(i) the unconsolidated statement of financial position and unconsolidated profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes in accounting policies as disclosed in note 5.1 to the accompanying financial statements, with which we concur;

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

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

(c) in our opinion, and to the best of our information and according to the explanations given to us the unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated cash flow statement 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 (XLVII of 1984), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2012 and its true balance of the profit, its comprehensive income, its changes in equity and its cash flows 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).

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants

Audit Engagement Partner: Omer Chughtai

February 04, 2013
Karachi

Unconsolidated Statement of Financial Position

As at December 31, 2012

2012	2011		Note	2012	2011
(USD in '000)				(Rupees in '000)	
		ASSETS			
336	4,558	Cash and balances with treasury banks	6	32,650	442,766
7,334	237	Balances with other banks	7	712,522	23,035
-	-	Lendings to financial institutions	8	-	-
203,738	129,791	Investments	9	19,793,097	12,609,173
53,962	67,463	Advances	10	5,242,401	6,554,035
2,175	2,491	Operating fixed assets	11	211,333	242,025
2,803	2,835	Deferred tax assets	12	272,346	275,407
3,718	6,795	Other assets	13	361,204	660,098
274,066	214,170			26,625,553	20,806,539
		LIABILITIES			
-	-	Bills payable		-	-
152,753	94,304	Borrowings	14	14,839,975	9,161,654
10,452	17,773	Deposits and other accounts	15	1,015,429	1,726,601
-	-	Subordinated loans		-	-
-	-	Liabilities against assets subject to finance lease		-	-
-	-	Deferred tax liabilities		-	-
3,744	3,438	Other liabilities	16	363,758	333,971
166,949	115,515			16,219,162	11,222,226
107,117	98,655	NET ASSETS		10,406,391	9,584,313
		REPRESENTED BY			
61,760	61,760	Share capital	17	6,000,000	6,000,000
33,824	32,063	Reserves	17.3	3,285,976	3,114,865
9,103	5,763	Unappropriated profit		884,331	559,890
104,687	99,586			10,170,307	9,674,755
		Surplus / (deficit) on revaluation of			
2,430	(931)	'available-for-sale' securities - net of tax	18	236,084	(90,442)
107,117	98,655			10,406,391	9,584,313
		CONTINGENCIES AND COMMITMENTS	19		

The annexed notes 1 to 42 and annexure I and II form an integral part of these financial statements.

Chairman | Chief Executive | Director

Unconsolidated Profit and Loss Account

For the year ended December 31, 2012

2012	2011		Note	2012	2011
(USD in '000)				(Rupees in '000)	
24,318	22,665	Mark-up / return / interest earned	20	2,362,356	2,201,933
16,528	14,877	Mark-up / return / interest expensed	21	1,605,660	1,445,302
7,790	7,788	Net mark-up / interest income		756,696	756,631
		Provision against non-performing loans and			
607	1,618	advances - net	10.4	58,952	157,175
-	(233)	Recovery against written off advances		-	(22,594)
		Reversal of provision against non-performing			
(29)	(185)	lending to financial institutions		(2,822)	(18,000)
		Provision for diminution / impairment			
435	942	in the value of investments	9.3	42,248	91,502
-	-	Bad debts written off directly		-	-
1,013	2,142			98,378	208,083
6,777	5,646	Net mark-up / interest income after provisions		658,318	548,548
		NON MARK-UP / INTEREST INCOME			
2	36	Fee, commission and brokerage income		228	3,535
6,977	5,279	Dividend income		677,734	512,823
-	-	Income from dealing in foreign currencies		-	-
3,099	2,505	Gain on sale of securities	22	301,083	243,346
		Unrealised loss on revaluation of			
-	-	'held-for-trading' securities		(25)	-
223	267	Other income	23	21,708	25,894
10,301	8,087	Total non mark-up / interest income		1,000,728	785,598
		NON MARK-UP / INTEREST EXPENSES			
4,520	4,758	Administrative expenses	24	439,156	462,230
471	-	Provision for impairment on operating fixed assets	11.1.3	45,724	-
-	-	Other provisions / write offs		-	-
5	-	Other charges	25	452	-
4,996	4,758	Total non mark-up / interest expenses		485,332	462,230
-	-	Extra ordinary / unusual items		-	-
12,082	8,975	PROFIT BEFORE TAXATION		1,173,714	871,916
		Taxation			
3,869	2,843	- Current	26	375,890	276,229
-	-	- Prior years		-	-
(594)	(177)	- Deferred	26	(57,728)	(17,205)
3,275	2,666			318,162	259,024
8,807	6,309	PROFIT AFTER TAXATION		855,552	612,892
5,763	4,422	Unappropriated profit brought forward		559,890	429,576
14,570	10,731	Unappropriated profit carried forward		1,415,442	1,042,468
(USD)		Basic earnings per share		(Rupees)	
37	26	(On share of Rs. 25,000 each)	27	3,565	2,554
(USD)		Diluted earnings per share		(Rupees)	
37	26	(On share of Rs. 25,000 each)	28	3,565	2,554

The annexed notes 1 to 42 and annexure I and II form an integral part of these financial statements.

Chairman　　Chief Executive　　Director

Unconsolidated Statement of Comprehensive Income

For the year ended December 31, 2012

2012	2011		2012	2011
(USD in '000)			(Rupees in '000)	
8,807	6,309	Profit for the year	855,552	612,892
-	-	Other comprehensive income	-	-
8,807	6,309	Comprehensive income transferred to equity	855,552	612,892
		Component of comprehensive income not transferred to equity		
3,987	(2,730)	Surplus / (deficit) on revaluation of 'available-for-sale' securities	387,315	(265,239)
(626)	(221)	Deferred tax on revaluation of 'available-for-sale' securities	(60,789)	(21,431)
12,168	3,358	Total comprehensive income	1,182,078	326,222

The annexed notes 1 to 42 and annexure I and II form an integral part of these financial statements.

Chairman

Chief Executive

Director

Unconsolidated Statement of Changes in Equity

For the year ended December 31, 2012

	Share capital	Reserves Statutory	Unappropriated profit	Total
	------------------------------(Rupees in '000)			-------------------------------
Balance as at January 1, 2011	6,000,000	2,992,287	429,576	9,421,863
Profit for the year ended December 31, 2011	-	-	612,892	612,892
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	612,892	612,892
Final dividend for the year ended December 31, 2010 @ Rs.1,500 per share approved subsequent to year end	-	-	(360,000)	(360,000)
Transfer to statutory reserve	-	122,578	(122,578)	-
Balance as at December 31, 2011	6,000,000	3,114,865	559,890	9,674,755
Profit for the year ended December 31, 2012	-	-	855,552	855,552
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	855,552	855,552
Final dividend for the year ended December 31, 2011 @ Rs.1,500 per share approved subsequent to year end	-	-	(360,000)	(360,000)
Transfer to statutory reserve	-	171,111	(171,111)	-
Balance as at December 31, 2012	6,000,000	3,285,976	884,331	10,170,307

The annexed notes 1 to 42 and annexure I and II form an integral part of these financial statements.

Chairman | Chief Executive | Director

Unconsolidated Cash Flow Statement

For the year ended December 31, 2012

2012	2011		Note	2012	2011
(USD in '000)				(Rupees in '000)	
		CASH FLOW FROM OPERATING ACTIVITIES			
12,082	8,975	Profit before taxation		1,173,714	871,916
(6,977)	(5,279)	Less: Dividend income		(677,734)	(512,823)
5,105	3,696			495,980	359,093
		Adjustments for:			
138	157	Depreciation		13,359	15,228
59	18	Amortization		5,726	1,783
471	-	Provision for impairment on operating fixed assets		45,724	-
607	1,618	Provision against non-performing loans and advances - net		58,952	157,175
-	(233)	Recovery against written off advances		-	(22,594)
(29)	(185)	Reversal of provision against non performing lending to financial institutions		(2,822)	(18,000)
435	942	Provision for diminution / impairment in the value of investments		42,248	91,502
(15)	(12)	Gain on disposal of operating fixed assets		(1,434)	(1,151)
-	-	Unrealised loss on revaluation of 'held-for-trading' securities		25	-
1,666	2,305			161,778	223,943
6,771	6,001			657,758	583,036
		Decrease / (increase) in operating assets			
29	2,759	Lendings to financial institutions		2,822	268,000
(66)	(368)	'Held-for-trading' securities		(6,385)	(35,712)
12,894	(17,699)	Advances		1,252,682	(1,719,426)
995	(442)	Others assets (excluding advance taxation)		96,639	(42,948)
13,852	(15,750)			1,345,758	(1,530,086)
		Increase / (decrease) in operating liabilities			
58,448	(6,647)	Borrowings		5,678,321	(645,715)
(7,320)	(14,533)	Deposits and other accounts		(711,172)	(1,411,911)
307	-	Other liabilities (excluding current taxation)		29,787	(36)
51,435	(21,180)			4,996,936	(2,057,662)
72,058	(30,929)			7,000,452	(3,004,712)
(1,785)	(3,448)	Income tax paid		(173,411)	(334,931)
70,273	(34,377)	*Net cash inflow / (outflow) in operating activities*		6,827,041	(3,339,643)
		CASH FLOW FROM INVESTING ACTIVITIES			
(70,330)	23,420	Net investment in 'available-for-sale' securities / subsidiaries		(6,832,498)	2,275,239
6,974	5,279	Dividend income received		677,511	512,823
(351)	(416)	Investments in operating fixed assets		(34,137)	(40,416)
15	33	Sale proceeds of operating fixed assets		1,454	3,167
(63,692)	28,316	*Net cash (outflow) / inflow from investing activities*		(6,187,670)	2,750,813
		CASH FLOW FROM FINANCING ACTIVITIES			
(3,706)	(3,706)	Dividend paid		(360,000)	(360,000)
(3,706)	(3,706)	*Net cash used in financing activities*		(360,000)	(360,000)
2,875	(9,767)	Increase / (decrease) in cash and cash equivalents		279,371	(948,830)
4,795	14,562	Cash and cash equivalents at beginning of the year		465,801	1,414,631
7,670	4,795	Cash and cash equivalents at end of the year	29	745,172	465,801

The annexed notes 1 to 42 and annexure I and II form an integral part of these financial statements.

Chairman   Chief Executive   Director

Notes to and Forming Part of the Unconsolidated Financial Statements

For the year ended December 31, 2012

1. STATUS AND NATURE OF BUSINESS

Pakistan Kuwait Investment Company (Private) Limited ("Company") was incorporated in Pakistan as a Private Limited Company on March 17, 1979. The registered office is situated at 4th Floor, Block 'C', Finance and Trade Centre, Shahrah-e-Faisal, Karachi. The Company has its representative office in Lahore. The Company is a 50:50 joint venture between the Governments of Pakistan and Kuwait. The objective of the Company is to profitably promote industrial investments in Pakistan.

The Company has a 100% owned subsidiary, First Choice Securities Limited (FCSL). FCSL's principal business includes equity brokerage, commodity brokerage, equity research and corporate advisory services. FCSL has not started its operations.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the requirements of the format prescribed by the State Bank of Pakistan's (SBP) BSD Circular No. 4 dated February 17, 2006 and BSD Circular letter No. 07 dated April 20, 2010.

These financial statements are separate financial statements of the Company in which investments in its subsidiary and associates are accounted for on the basis of direct equity interest rather than on the basis of reported results. Consolidated financial statements are prepared separately.

The US Dollar amounts presented in the statement of financial position, profit and loss account, statement of comprehensive income and cash flow statement are converted at the rate of Rs. 97.15, prevalent at December 31, 2012, for 2012 and 2011. This additional information is presented only for the convenience of users of the financial statements.

3. STATEMENT OF COMPLIANCE

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

The SBP through its BSD Circular letter No. 11 dated September 11, 2002 has deferred the implementation of IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 40 'Investment Property' for Non-Banking Financial Institutions (NBFIs) in Pakistan. Further, SECP has deferred the implementation of IFRS 7 'Financial Instruments: Disclosures' through SRO 411(1)/2008. Accordingly, the requirements of these IFRS and their respective interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), have not been considered in preparation of these financial statements.

4. 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.

The financial statements are presented in Pakistan Rupees which is the Company's functional currency.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Standards, interpretations and amendments effective in current year

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as follows:

The Company has adopted the following amended IFRS which became effective during the year:

IAS 12 – Income Taxes - Recovery of Underlying Assets (Amendment)

The adoption of the above amendments did not have any material effect on the financial statements.

5.2 Accounting standards not yet effective

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards or interpretations.

Standard or interpretation	Effective date (accounting periods) beginning
IAS 1 – Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	01 July 2012
IAS 19 – Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	01 January 2013
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	01 January 2013

The Company expects that the adoption of the above revisions, amendments and interpretations of the standards will not materially affect the Company's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2013. The Company expects that such improvements will not have any material impact on the Company's financial statements in the period of initial application which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

	Effective date (accounting periods) beginning
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2015
IFRS 10 – Consolidated Financial Statements	01 January 2013
IFRS 11 – Joint Arrangements	01 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 – Fair Value Measurment	01 January 2013

5.3 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury and other banks in current and deposit accounts.

5.4 Lendings to / borrowings from financial institutions

The Company enters into secured and unsecured lending and borrowing transactions with financial institutions. These are recorded as under:

Sale under repurchase agreement

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repo agreement.

Purchase under resale agreement

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. Amounts paid under these agreements are included in reverse repurchase agreement lendings. The difference between purchase and resale price is accrued as income over the term of the reverse repo agreement.

Other borrowings

Other borrowings including borrowings from SBP are recorded at the proceeds received. Mark-up on such borrowings is charged to the profit and loss account on a time proportion basis.

Other lendings

Lendings are stated net of provision. Mark-up on such lendings is charged to the profit and loss account on a time proportion basis except mark-up on impaired / delinquent lendings, which is recognized on receipt basis.

5.5 Investments

Classification

The Company classifies its investments other than those in associates and subsidiary based on the criteria set out in BSD Circular Nos. 10, 11 and 14 dated July 13, 2004, August 04, 2004 and September 24, 2004 respectively. The investments are classified in the following categories as per SBP guidelines:

- Held for trading investments, investments which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and shall be sold within 90 days.

- Held-to-maturity investments, the Company classifies non derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Company evaluates its intention and ability to hold such investment to maturity.

- Available-for-sale investments, investments which are not eligible to be classified as 'held for trading' or 'held to maturity' are classified as 'available-for-sale'.

- Strategic investments, investments that meet the threshold as specified in the Prudential Regulations issued by SBP shall be classified as strategic investments.

Initial Recognition

Investments that are held for trading are measured at their fair values in accordance with requirements of SBP. An investment (other than investment that is held for trading) is measured at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the investment.

Subsequent Recognition

Investments in government securities and quoted investments, categorised as ‘held-for-trading’ and ‘available-for-sale’ are valued at rates quoted on PKRV (Reuters Page) and market values as at the date of statement of financial position respectively. Any surplus or deficit arising as a result of revaluation of securities categorised as ‘held-for-trading’ is taken to profit and loss account and that of ‘available-for-sale’ is taken to the statement of financial position, and shown below equity.

Furthermore, investments classified as ‘held-to-maturity’ are stated at their amortised cost less impairment in value, if any.

Unquoted investments are stated at lower of cost and break-up value based on latest available financial statements.

Investments in quoted subsidiaries and associates are stated at cost less impairment in value, if any. Unquoted associates and subsidiaries are stated at lower of cost and break-up value based on latest available financial statements.

Impairment loss is recognised whenever the carrying amount of an investment exceeds its recoverable amount. An impairment loss is taken to profit and loss account. Gain / loss on sale of investments during the year is included in profit and loss account.

Premium or discount on acquisition of government securities and listed term finance certificates is amortised over the period to maturity under effective interest method.

5.6 Trade date accounting

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

5.7 Advances including net investment in finance leases

Advances are stated net of provision for doubtful debts. Provision for doubtful debts is determined on the basis of 'Prudential Regulations' issued by the SBP and the Credit Policy of the Company. The provision is charged to the profit and loss account.

Advances are written off when there are no realistic prospects of recovery.

Leases, where substantially all risks and rewards incidental to ownership of an asset are transferred to the lessee, are classified as finance lease. A receivable is recognised at an amount equal to the present value of the lease payments. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

5.8 Operating fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment loss (if any) except leasehold land which is stated at cost.

Depreciation is charged to profit and loss account applying the straight line method whereby the cost of an asset is written off over its estimated useful life. Depreciation is charged in the month of purchase and no depreciation is charged in the month of disposal. Depreciation is charged at the rates stated in note 11.1.

Maintenance and normal repairs are charged to income as and when incurred.

Gain or loss on the sale or retirement of fixed assets is taken to profit and loss account.

5.9 Intangible assets

Intangible assets with definite useful lives are stated at cost less accumulated amortization and accumulated impairment loss (if any). Amortization is charged on a straight line basis over their estimated useful lives. Amortization is charged at the rates stated in note 11.2.

5.10 Certificates of investment (COI) / deposits

COI / deposits are initially recorded at the amount of proceeds received. Mark-up accrued is recognized separately as part of other liabilities and is charged to the profit and loss account on a time proportion basis.

5.11 Revenue recognition

i) Dividend income is recognised when the Company's right to receive payment is established.

ii) Income from loans, term finance certificates, debentures, bank deposits, government securities and reverse repo transactions is recognised under effective interest method, except where recovery is considered doubtful, the income is recognised on receipt basis.

iii) The Company follows the finance method in recognising income on lease contracts. Under this method the unearned income i.e. the excess of aggregate lease rentals and the estimated residual value over the cost of the leased asset is deferred and then amortised over the term of the lease, so as to produce a constant rate of return on net investment in the lease.

iv) Gain on sale of securities is recognised at the time of sale of relevant securities.

v) Advisory income is recognised as the services are rendered.

5.12 Taxation

Current

The charge for current taxation is based on taxable income at the current rates of taxation after taking into account the tax credits and tax rebates available, if any and any adjustments to any tax payable relating to prior years.

Deferred

The Company accounts for deferred taxation using the balance sheet liability method providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Deferred tax assets and liabilitites are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and any unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, carry forward of unused tax assets and unused tax losses can be utilised.

Deferred tax on surplus / (deficit) on revaluation of investments is charged / (credited) to the same account.

5.13 Staff retirement benefits

Defined benefit plan

The Company operates a funded gratuity scheme for all its eligible permanent employees. 'Projected unit credit method' has been used for actuarial valuation. Actuarial gains or losses in excess of 10% of the present value of defined benefit obligation and fair value of plan assets, whichever is higher, are recognised over the expected average remaining working life of the employees.

The last actuarial valuation of the employees' defined benefit plan was conducted as of December 31, 2012.

Defined contribution plan

The Company also 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 salary. Contributions from the Company are charged to profit and loss account for the year.

5.14 Employees' compensated absences

Liability in respect of employees' compensated absences is recognised on the basis of actuarial valuation and is accounted for in the period in which these are earned. The actuarial valuation is carried out using 'Projected unit credit method'.

The last actuarial valuation of the employees' compensated absences was conducted as of December 31, 2012.

5.15 Derivative financial instruments

Derivative financial instruments are initially measured at fair value and subsequently remeasured at fair value. The gain or loss on remeasurement to fair value is recognised in profit and loss account.

5.16 Impairment

The carrying amount of the assets, other than deferred tax asset and investments, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are reversed when there is an indication that impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

5.17 Provisions

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

5.18 Foreign currency

Foreign currency transactions are recorded at the rates prevailing on the date of transactions. Monetary assets and liabilities in foreign currency are reported in Pakistan Rupees at the rates of exchange prevailing on the date of statement of financial position. Exchange gains and losses are included in income currently.

5.19 Off-setting of financial assets and financial liabilities

'Financial assets' and 'financial liabilities' are only offset and the net amount is reported in the statement of financial position if the Company has a legal right to set-off the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

5.20 Earnings per share

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

5.21 Dividend distribution

Dividends (including bonus dividend) are recognized in the period in which these are approved.

5.22 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 Company's primary format of reporting is based on business segments.

Business segments

Following are the main segments of the Company:

Corporate Finance	Includes loans, advances, leases and other transactions with corporate customers.
Treasury	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.
Capital Market	Includes trading in listed securities with a view to trade and earn the benefit of market fluctuations and to hold securities for dividend income and capital gain.
Investment Banking	Undertakes advisory services including mergers and acquisitions, listed debt syndication, trustee activities and other investment banking activities.

Geographical segments

All the Company's business segments operate in Pakistan only.

5.23 Accounting estimates and judgement

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form basis of making the judgements about carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision 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 its revision and future periods if the revision affects both current and future periods.

Judgements made by the management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 40.

6. CASH AND BALANCES WITH TREASURY BANKS

	Note	2012	2011
		(Rupees in '000)	
Cash in hand in local currency		50	60
With State Bank of Pakistan in			
- local currency current account		32,588	42,593
With National Bank of Pakistan in			
- local currency current account		12	113
- local currency deposit account		-	400,000
		32,650	442,766

7. BALANCES WITH OTHER BANKS

	Note	2012	2011
In Pakistan			
- current account		88	171
- deposit account	7.1	712,434	22,864
		712,522	23,035

7.1 This includes placements amounting to Rs. 700 million (2011: nil). The return on these placements ranges between 9.50 and 9.95 (2011: nil) percent per annum and the maturity is between 32 days and 59 days after the statement of financial position date.

8. LENDINGS TO FINANCIAL INSTITUTIONS

	2012	2011
	(Rupees in '000)	
Certificates of investment (COIs) in local currency	-	2,822
Provision against COI	-	(2,822)
	-	-

9. INVESTMENTS

9.1 Investments by type

	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							
Shares of listed companies		6,410	-	6,410	-	-	-
Available-for-sale securities							
Market treasury bills		2,573,779	10,684,921	13,258,700	831,191	6,031,097	6,862,288
Pakistan investment bonds		1,642,868	-	1,642,868	1,640,304	-	1,640,304
Shares of listed companies		1,801,211	-	1,801,211	1,392,625	-	1,392,625
Shares of unlisted companies		127,686	-	127,686	136,926	-	136,926
Listed preference shares		55,029	-	55,029	93,399	-	93,399
Listed term finance certificates		82,037	-	82,037	121,109	-	121,109
Unlisted term finance certificates		608,168	-	608,168	608,398	-	608,398
		6,890,778	10,684,921	17,575,699	4,823,952	6,031,097	10,855,049
Associates		2,095,242	-	2,095,242	2,112,507	-	2,112,507
Subsidiaries		60,000	-	60,000	60,000	-	60,000
Total investments - at cost		9,052,430	10,684,921	19,737,351	6,996,459	6,031,097	13,027,556
Provision for diminution / impairment in the value of investments	9.3 & 40.3	(221,235)	-	(221,235)	(308,074)	-	(308,074)
Total investments - net of provisions		8,831,195	10,684,921	19,516,116	6,688,385	6,031,097	12,719,482
Deficit on revaluation of 'held-for-trading' securities	9.4	(25)	-	(25)	-	-	-
Surplus / (deficit) on revaluation of 'available-for-sale' securities	18	267,333	9,673	277,006	(97,006)	(13,303)	(110,309)
Total investments at market value		9,098,503	10,694,594	19,793,097	6,591,379	6,017,794	12,609,173

9.2 Investments by segments

	Note	2012	2011
		(Rupees in '000)	
Federal Government Securities			
- Market treasury bills	9.2.1	13,258,700	6,862,288
- Pakistan investment bonds	9.2.2	1,642,868	1,640,304
Fully paid up Ordinary Shares			
- Listed companies		1,807,621	1,392,625
- Unlisted companies	9.2.3	127,686	136,926
		1,935,307	1,529,551
Preference Shares			
- Listed companies		55,029	93,399
Term Finance Certificates (TFCs)			
- Listed		82,037	121,109
- Unlisted		608,168	608,398
		690,205	729,507
Investments in Associates			
Ordinary shares-listed companies			
- Meezan Bank Limited	9.2.4	1,519,905	1,519,905
- The General Tyre & Rubber Co. of Pakistan Ltd.		173,480	173,480
Mutual Funds			
- Al Meezan Mutual Fund		92,279	109,544
- Meezan Balanced Fund		110,578	110,578
Ordinary shares-unlisted companies			
- Al Meezan Investment Management Limited	9.2.3	27,750	27,750
- Plexus (Private) Limited		15,000	15,000
- Pak Kuwait Takaful Company Limited		120,000	120,000
- National Clearing Company of Pakistan Limited		11,250	11,250
- Falcon Greenwood (Private) Limited		25,000	25,000
		2,095,242	2,112,507
Subsidiary - unlisted ordinary shares			
- First Choice Securities Limited		60,000	60,000
Total investments - at cost		19,737,351	13,027,556
Provision for diminution / impairment in the value of investments	9.3 & 40.3	(221,235)	(308,074)
Total investments - net of provisions		19,516,116	12,719,482
Deficit on revaluation of 'held-for-trading' securities	9.4	(25)	-
Surplus / (deficit) on revaluation of 'available-for-sale' securities		277,006	(110,309)
		276,981	(110,309)
Total investments		19,793,097	12,609,173

9.2.1 The investments in market treasury bills are maturing between January 24, 2013 and May 16, 2013 (2011: September 20, 2012 and November 1, 2012) and the effective interest ranges between 9.27 and 11.87 (2011: 11.80 and 12.80) percent per annum.

9.2.2 The investments in Pakistan investment bonds are maturing between August 30, 2013 and September 3, 2019 (2011: August 30, 2013 and September 3, 2019) and the effective interest ranges between 11.45 and 13.18 (2011: 11.45 and 13.18) percent per annum.

9.2.3 The investments also include Faysal Management Services (Private) Limited and Al-Meezan Investment Management Limited which can be sold only with prior permission of SECP.

9.2.4 Investments in shares of Meezan Bank Limited costing Rs. 1,520 million and market value of Rs. 8,144 million (2011: Cost Rs. 1,520 million, market value Rs.4,187 million) are held as strategic investment in terms of Prudential Regulation applicable to Corporate / Commercial Banking which can be sold only with prior permission of SBP.

9.3 Particulars for impairment / diminution in the value of investments	2012	2011
	(Rupees in ‘000)	
Opening balance	308,074	267,620
Charge for the year	42,248	91,502
Reversals due to sale of impaired securities	(129,087)	(51,048)
	(86,839)	40,454
Closing balance	221,235	308,074

9.3.1 Particulars of provision in respect of type and segment

'Available-for-sale' securities	158,273	230,587
Associates	62,962	77,487
	221,235	308,074

9.4 Deficit on revaluation of 'held-for-trading' securities

Fully paid up ordinary shares	(25)	-
	(25)	-

9.5 Information relating to quality of 'available-for-sale' securities and investments in shares of listed and unlisted companies, redeemable capital required to be disclosed as part of the financial statements under the SBP's BSD Circular No. 4 dated February 17, 2006, are given in Annexures "I" and "II", which are an integral part of these financial statements.

10.	ADVANCES	Note	2012	2011
			(Rupees in '000)	
	In Pakistan			
	Advances		5,567,283	6,622,329
	Net investment in finance leases	10.2	1,311,860	1,509,496
			6,879,143	8,131,825
	Provision for non-performing advances	10.4	(1,636,742)	(1,577,790)
	Advances net of provision		5,242,401	6,554,035

10.1	Particulars of gross advances		
	In local currency	6,879,143	8,131,825
	Short term (for upto one year)	3,379,965	2,261,669
	Long term (for over one year)	3,499,178	5,870,156
		6,879,143	8,131,825

10.2 Net investment in finance leases

	2012				2011			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	(Rupees in '000)							
Lease rentals receivable	910,945	512,939	38,709	1,462,593	897,871	834,580	58,449	1,790,900
Residual value	52,405	50,344	-	102,749	48,215	32,967	717	81,899
Minimum lease payments	963,350	563,283	38,709	1,565,342	946,086	867,547	59,166	1,872,799
Financial charges for future periods	162,022	86,197	5,263	253,482	194,322	158,980	10,001	363,303
Present value of minimum lease payments	801,328	477,086	33,446	1,311,860	751,764	708,567	49,165	1,509,496

10.2.1 The Company has entered into lease agreements with various companies for lease of vehicles and plant and machinery. The amount recoverable under these arrangements are receivable latest by the year 2020 and are subject to finance income at rates ranging between 7.0 and 21.83 (2011: 7.0 and 21.83) percent per annum.

10.2.2 In respect of the aforementioned finance leases the Company holds an aggregate sum of Rs. 80.535 million (2011: Rs. 81.723 million) as security deposits on behalf of the lessees which are included under other liabilities (note 16).

10.3 Advances include Rs. 1,771.283 million (2011: Rs 1,723.232 million) which have been placed under non-performing status as detailed below:

Category of classification	2012			2011		
	Classified Advances	Provision Required	Provision Held	Classified Advances	Provision Required	Provision Held
	(Rupees in '000)					
Substandard	-	-	-	4,167	1,042	1,042
Doubtful	269,081	134,540	134,540	284,633	142,316	142,316
Loss	1,502,202	1,502,202	1,502,202	1,434,432	1,434,432	1,434,432
	1,771,283	1,636,742	1,636,742	1,723,232	1,577,790	1,577,790

10.4 Particulars of provision against non-performing advances - specific

	2012	2011
	(Rupees in '000)	
Opening balance	1,577,790	1,420,615
Charge for the year	83,074	270,662
Reversals	(24,122)	(113,487)
	58,952	157,175
Amounts written off	-	-
Closing balance	1,636,742	1,577,790

		2012	2011
10.4.1	Local currency	1,636,742	1,577,790
	Foreign currency	-	-
		1,636,742	1,577,790

10.5 Particulars of write offs

The Company has not written off any loans and advances or allowed any financial relief during the year.

10.6 Particulars of loans and advances to staff included in advances	Note	2012	2011
		(Rupees in '000)	
Opening balance		143,730	132,280
Disbursements during the year		37,251	35,761
Repayments during the year		(57,020)	(24,311)
		(19,769)	11,450
Balance at end of the year		123,961	143,730

11. OPERATING FIXED ASSETS

	Note	2012	2011
Property and equipment	11.1	171,318	229,332
Intangible assets	11.2	40,015	12,693
		211,333	242,025

11.1 Property and equipment

	2012								
	Cost			Depreciation			Impairment	Net book	Rate of
	As at January 1, 2012	Additions / (disposals)	As at December 31, 2012	As at January 1, 2012	Charge / (disposals)	As at December 31, 2012	(Note 11.1.3)	value as at December 31,2012	depreciation
	(Rupees in '000)								%
Leasehold land	100	-	100	-	-	-	-	100	-
Building on lease hold land	237,503	-	237,503	40,386	463	40,849	45,724	150,930	2.50 - 20.00
Furniture and fixtures	17,367	-	14,262	10,303	1,489	8,707	-	5,555	20.00
		(3,105)			(3,085)				
Motor vehicles	12,998	-	12,016	7,711	1,741	8,470	-	3,546	20.00
		(982)			(982)				
Office equipment	50,121	956	50,435	30,474	9,605	39,437	-	10,998	33.33
		(642)			(642)				
Electrical appliances	2,072	133	1,684	1,955	61	1,495	-	189	20.00
		(521)			(521)				
	320,161	1,089	316,000	90,829	13,359	98,958	45,724	171,318	
		(5,250)			(5,230)				

	2011								
	Cost			Depreciation			Impairment	Net book	Rate of
	As at January 1, 2011	Additions / (disposals)	As at December 31, 2011	As at January 1, 2011	Charge / (disposals)	As at December 31, 2011		value as at December 31, 2011	depreciation
	(Rupees in '000)								%
Leasehold land	100	-	100	-	-	-	-	100	-
Building on lease hold land	233,522	3,981	237,503	34,340	6,046	40,386	-	197,117	2.50 - 20.00
Furniture and fixtures	10,184	7,183	17,367	9,988	315	10,303	-	7,064	20.00
Motor vehicles	20,281	1,810	12,998	12,854	1,934	7,711	-	5,287	20.00
		(9,093)			(7,077)				
Office equipment	38,746	17,691	50,121	29,919	6,871	30,474	-	19,647	33.33
		(6,316)			(6,316)				
Electrical appliances	1,972	100	2,072	1,893	62	1,955	-	117	20.00
	304,805	30,765	320,161	88,994	15,228	90,829	-	229,332	
		(15,409)			(13,393)				

11.1.1 Included in cost of property and equipment are fully depreciated items still in use having cost of:

	2012
	(Rupees in '000)
Furniture and fixtures	6,793
Motor vehicles	2,980
Office equipment	22,375
Electrical appliances	1,382

11.1.2 The Company hasn't disposed off fixed assets whose orignal cost or the book value exceeds Rs. 1 million or Rs. 250,000 which ever is less and the Company also hasn't disposed off fixed assets to the chief executive or to a director or to executives or to any related party, irrespective of the value.

11.1.3 During the year, the Company has on the advice of SBP, recorded an impairment of Rs. 45.724 million on property acquired as settlement against lending under COI to an investment bank.

11.2 Intangible assets

	2012							
	Cost			Amortization			Net book value as at December 31, 2012	Rate of amortization
	As at January 1, 2012	Additions	As at December 31, 2012	As at January 1, 2012	Charge	As at December 31, 2012		
	(Rupees in '000)							%
Software	15,029	33,048	48,077	2,336	5,726	8,062	40,015	20.00
	15,029	33,048	48,077	2,336	5,726	8,062	40,015	

	2011							
	Cost			Amortization			Net book value as at December 31, 2011	Rate of amortization
	As at January 1, 2011	Additions	As at December 31, 2011	As at January 1, 2011	Charge	As at December 31, 2011		
	(Rupees in '000)							%
Software	5,378	9,651	15,029	553	1,783	2,336	12,693	20.00
	5,378	9,651	15,029	553	1,783	2,336	12,693	

12. DEFERRED TAX ASSETS

	Balance January 01, 2012	Recognised in profit and loss	Recognised in equity	Balance December 31, 2012
	(Rupees in '000)			
Debit / (credit) balances arising on account of				
Accelerated tax depreciation allowance	(38,193)	14,975	-	(23,218)
Provision for staff retirement gratuity and compensated absences	8,074	(121)	-	7,953
Finance lease arrangements	(275,474)	23,226	-	(252,248)
Provision against non-performing advances	561,133	19,646	-	580,779
Surplus / (deficit) on revaluation of 'held-for-trading' securities	-	2	-	2
Surplus / (deficit) on revaluation of 'available-for-sale' securities	19,867	-	(60,789)	(40,922)
	275,407	57,728	(60,789)	272,346

	Balance January 01, 2011	Recognised in profit and loss	Recognised in equity	Balance December 31, 2011
	----------------------------(Rupees in '000)------------------------------			
Debit / (credit) balances arising on account of				
Accelerated tax depreciation allowance	(11,830)	(26,363)	-	(38,193)
Provision for staff retirement gratuity and compensated absences	7,799	275	-	8,074
Finance lease arrangements	(270,143)	(5,331)	-	(275,474)
Provision against non-performing advances	512,421	48,712	-	561,133
Surplus / (deficit) on revaluation of 'held-for-trading' securities	88	(88)	-	-
Surplus / (deficit) on revaluation of 'available-for-sale' securities	41,298	-	(21,431)	19,867
	279,633	17,205	(21,431)	275,407

13. OTHER ASSETS

	Note	2012	2011
		(Rupees in '000)	
Income / mark-up accrued in local currency		147,559	219,656
Advances, deposits, prepayments and other receivables		33,461	57,779
Advance Tax		180,184	382,663
		361,204	660,098

14. BORROWINGS

	2012	2011
In Pakistan	14,839,975	9,161,654

14.1 Particulars of borrowings with respect to currencies

	2012	2011
In local currency	14,839,975	9,161,654

14.2 Details of borrowings secured / unsecured

	Note	2012	2011
Secured			
Repurchase agreement borrowings - Government securities	14.2.1	10,694,704	6,025,238
Borrowings from SBP			
Under Long Term Facility - Export Oriented Project (LTF-EOP)	14.2.2	71,899	116,044
Under Long Term Finance Facility (LTFF)	14.2.3	305,285	248,997
Under Finance Facility for Storage of Agricultural Produce (FFSAP)	14.2.4	18,087	21,375
Term Finance Facility	14.2.5	3,750,000	1,750,000
Unsecured			
Murabaha		-	1,000,000
		14,839,975	9,161,654

14.2.1 Repurchase agreement borrowings - Government Securities

The Company has arranged borrowings from various financial institutions against sale and repurchase of government securities. The mark-up on these finances range between 8.25 and 9.25 (2011: 11.65 and 11.93) percent per annum with maturity ranging from two days to four days (2011: three days to thirty eight days).

14.2.2 LTF-EOP facility from SBP

This represents a one time swap facility option under the scheme LTF - EOP allowed by the SBP through their SMED Circular No. 19 of 2006. The loan is repayable over a maximum period of 7.5 years from the date of first disbursement with mark-up payable at maximum of 5 percent per annum. The sanctioned limit was Rs. 1,000 million.

14.2.3 Borrowings from SBP under LTFF

Represents Long Term Finance Facility on concessional rates to promote industrial growth leading to exports. The loans availed under the facility shall be repayable within a maximum period of ten years including maximum grace period of one and a half years with mark-up payable at maximum of 10.10 percent per annum. SBP allocates an overall yearly limit under the facility to individual PFI. The sanctioned limit was Rs. 500 million.

14.2.4 Borrowings from SBP under FFSAP

This represents Financing Facilitity for Storage of Agricultural Produce (FFSAP) on concessional rates to develop the agricultural produce marketing and enhance storage capacity. The loans availed under the facility shall be repayable within a maximum period of seven years including a maximum grace period of six months with mark-up payable at maximum of 6.50 percent per annum. SBP allocates an overall yearly limit to individual PFI. The sanction limit was Rs. 500 million.

14.2.5 Term Finance Facility

The Company has availed long term finance facilities from two banks. The interest rate on these facilities ranges between 9.96 and 10.70 percent per annum (2011: 12.35 and 12.47) and are due for maturity between November 29, 2014 and October 1, 2015 (2011: November 29, 2014 and January 1, 2015).

15. DEPOSITS AND OTHER ACCOUNTS

	2012	2011
	(Rupees in '000)	
Certificates of investment (COI) / deposits	1,015,429	1,726,601

15.1 Particulars of deposits

In local currency	1,015,429	1,726,601

The profit rates on these COIs / deposits ranges between 9.20 and 12.25 (2011: 11.40 and 13.90) percent per annum. The COIs / deposits are due for maturity between January 4, 2013 and March 22, 2015 (2011: January 13, 2012 and March 22, 2015). Included in COIs / deposits is an amount of Rs. 1,012.929 million (2011: Rs. 1,724.101 million) payable within twelve months.

16. OTHER LIABILITIES

	Note	2012	2011
		(Rupees in '000)	
Mark-up / return / interest payable in local currency		96,874	126,859
Accrued liabilities		131,285	85,399
Staff retirement gratuity	31.1.4	4,988	3,868
Security deposits against finance lease	10.2.2	80,535	81,723
Employees' compensated absences		9,898	11,362
Payable on account of purchase of marketable securities		36,337	23,292
Other liabilities		3,841	1,468
		363,758	333,971

17. SHARE CAPITAL

17.1 Authorised Share Capital

2012	2011		2012	2011
(Number of shares)			(Rupees in '000)	
400,000	400,000	Ordinary shares of Rs. 25,000 each	10,000,000	10,000,000

17.2 Issued, Subscribed and Paid-up Share Capital

2012	2011		2012	2011
(Number of shares)				
25,950	25,950	Ordinary shares of Rs. 25,000 each issued for cash	648,750	648,750
214,050	214,050	Ordinary shares of Rs. 25,000 each issued as bonus shares	5,351,250	5,351,250
240,000	240,000		6,000,000	6,000,000

The SBP on behalf of the Government of Pakistan (GOP) and Kuwait Investment Authority (KIA) on behalf of Government of Kuwait each hold 120,000 (2011 : 120,000) ordinary shares of the Company as at December 31, 2012.

17.3 Reserves

	2012	2011
	(Rupees in '000)	
Statutory reserve	3,285,976	3,114,865
At beginning of the year	3,114,865	2,992,287
Add: Transfer during the year	171,111	122,578
	3,285,976	3,114,865

According to BPD Circular No. 15 dated May 31, 2004 issued by the 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. The Company has transferred 20% of its after tax profit for the year to this reserve amounting to Rs. 171.111 million (2011: 122.578 million).

18. SURPLUS / (DEFICIT) ON REVALUATION OF 'AVAILABLE-FOR-SALE' SECURITIES-NET OF TAX

	2012	2011
	(Rupees in '000)	
Federal government securities	88,214	(51,504)
Shares of listed companies	188,351	(58,997)
Listed term finance certificates	441	192
	277,006	(110,309)
Deferred tax	(40,922)	19,867
	236,084	(90,442)

19. CONTINGENCIES AND COMMITMENTS

19.1 Other Contingencies

19.1.1 The Income Tax Department has amended the deemed assessment orders for the tax years from 2004 to 2010, raising a tax demand of Rs. 1,856 million, mainly due to additions in respect of allocation of expenses against exempt capital gains and dividend income subject to tax at reduced rate.

In such orders, the Additional Commissioner Inland Revenue (ACIR) has not accepted the Company's contention on the matter of allocation of expenses on exempt capital gains and dividend income. The total additions made in tax years 2004 to 2010 under this head amounts to Rs. 3,612 million.

In tax year 2003, the same issue has been set aside by the Appellate Tribunal Inland Revenue (ATIR), with direction to the tax authorities that the allocation of financial cost has to be made taking into account the 'cost of investment' rather than 'gross turnover'. Further, the Company has made representation before Federal Board of Revenue for necessary clarification and has also referred the above matter to Alternate Dispute Resolution Committee (ADRC) a mechanism available to provide an opportunity to tax payers for an easy and efficient resolution of disputes.

Relying on the above decision of ATIR, the Commissioner Inland Revenue (Appeals) (CIR(A)) through his orders dated September 23, 2011 and November 30, 2012 for tax years 2004 to 2007 and tax year 2010 has set aside the issue for re-examination. The action was however maintained by the CIR(A) in the tax years 2008 and 2009 and appeals are currently pending before the ATIR.

The Company has already made provision of Rs. 723 million against the demand for the above-mentioned years based on cost of investment. The management is confident that the ultimate outcome of the appeal would be in favor of the Company inter alia on the basis of the advice of the tax consultants and the relevant law and the facts.

		Note	2012	2011
19.2.1	Letter of Comfort		(Rupees in '000)	
	Letter of comfort issued		64,000	-
19.3	Other Commitments			
	Commitment - acquisition of software		6,718	10,452
	Undisbursed sanctions for financial assistance in the form of:			
	- loans and advances		403,208	417,000
			409,926	427,452
20.	MARK - UP / RETURN / INTEREST EARNED			
	On loans and advances		788,341	855,832
	On investments in:			
	- 'Available-for-sale' securities		1,549,022	1,304,213
	On lendings to financial institutions		23,993	39,089
	On securities purchased under resale agreements - government securities		1,000	2,799
			2,362,356	2,201,933
21.	MARK-UP / RETURN / INTEREST EXPENSED			
	Deposits / COI		231,431	430,202
	Borrowings		391,790	237,182
	Securities sold under repurchase agreements - government securities		982,439	777,918
			1,605,660	1,445,302
22.	GAIN ON SALE OF SECURITIES			
	Federal government securities			
	- Market treasury bills		(7,497)	-
	- Pakistan investment bonds		-	-
	Shares - listed securities - net	22.1	308,680	239,339
	Shares - unlisted securities - net		(100)	4,007
			301,083	243,346

22.1 It includes reversal of impairment on sale of impaired securities as disclosed in note 9.3.

23. OTHER INCOME

	Note	2012	2011
		(Rupees in '000)	
Gain on sale of operating fixed assets		1,434	1,151
Space / arrangement income		16,486	15,737
Late payment charges		1,329	3,888
Prepayment charges		1,683	2,720
Unrealised exchange gain on investment		760	380
Others		16	2,018
		21,708	25,894

24. ADMINISTRATIVE EXPENSES

	Note	2012	2011
Salaries, allowances and employees' benefits		254,033	221,339
Directors' remuneration (including remuneration of Chief Executive)		13,764	27,819
Provision for gratuity	31.1.5	15,433	64,505
Employer's contribution to the provident fund		15,625	14,832
Travelling and conveyance		6,365	4,543
Rent and rates		7,646	9,479
Utilities		3,047	3,061
Communication		6,960	6,984
Professional training and staff welfare		1,952	1,454
Advertisements, periodicals and membership dues		1,663	2,090
Printing and stationery		2,477	3,014
Depreciation	11.1	13,359	15,228
Amortization	11.2	5,726	1,783
Auditor's remuneration	24.1	3,453	3,052
Legal, consultancy and other professional services		40,007	36,688
Repairs and maintenance		13,370	21,336
Motor vehicle expenses		863	1,644
Insurance		939	1,158
Donations	24.2	5,100	-
Workers' Welfare Fund		23,474	17,438
Entertainment		154	270
Bank charges		287	139
Miscellaneous		3,459	4,374
		439,156	462,230

24.1 Auditor's remuneration

	2012	2011
Audit fee	1,250	1,188
Fee for half yearly review	500	428
Special certifications and sundry advisory services	1,360	1,222
Out of pocket expenses	343	214
	3,453	3,052

24.2

During the year, the Company donated to the following recognized institutions:

Donee	
The Citizens Foundation	3,000
The Kidney Centre	1.000
Shaukat Khanum Memorial Trust	500
Layton Rehmatullah Benevolent Trust	500
Pakistan Bait-ul-Mal	100
	5,100

None of the directors or their spouse had any interest in the donations made.

25. OTHER CHARGES

	2012	2011
	(Rupees in '000)	
Penalties imposed by the SBP	442	-
Penalties imposed by the FBR	10	-
	452	-

26. TAXATION

For the year		
- Current	375,890	276,229
- Deferred	(57,728)	(17,205)
	318,162	259,024

26.1 Relationship between tax expense and accounting profit

Profit before taxation	1,173,714	871,916
Tax at the applicable rate of 35% (2011: 35%)	410,800	305,171
Net tax effect on income taxed at reduced rates	(171,597)	(129,684)
Net tax effect of expenses not subject to tax	61,791	32,026
Others	17,168	51,511
	318,162	259,024

27. BASIC EARNINGS PER SHARE

Profit for the year	855,552	612,892
	(Number in '000)	
Weighted average number of ordinary shares	240	240
	(Rupees)	
Basic earnings per share	3,565	2,554

28. DILUTED EARNINGS PER SHARE

	(Rupees in '000)	
Profit for the year	855,552	612,892
	(Number in '000)	
Weighted average number of ordinary shares	240	240
	(Rupees)	
Diluted earnings per share	3,565	2,554

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

29. CASH AND CASH EQUIVALENTS

	Note	2012	2011
		(Rupees in '000)	
Cash and balances with treasury banks	6	32,650	442,766
Balances with other banks	7	712,522	23,035
		745,172	465,801

30. STAFF STRENGTH

	(Number)	
Permanent	67	83
Temporary / on contractual basis	4	3
Own staff strength at the end of the year	71	86
Outsourced	28	31
Total staff strength	99	117

31. DEFINED BENEFIT PLAN

31.1 Staff retirement gratuity

31.1.1 The Company operates a funded gratuity scheme for all its eligible permanent employees .'Projected unit credit method' has been used for actuarial valuation.

31.1.2 Principal actuarial assumptions

	Note	2012	2011
		(% per annum)	
Discount rate		12.00	13.00
Expected rate of increase in salaries		12.00	13.00
Expected rate of return on investments		12.00	11.50
Normal retirement age		60 years	60 years

31.1.3 Reconciliation of payable to defined benefit plan

	Note	2012	2011
		(Rupees in '000)	
Present value of defined benefit obligations	31.1.6	124,031	106,149
Fair value of plan assets	31.1.7	(107,125)	(92,594)
		16,906	13,555
Unrecognised actuarial losses		(11,918)	(9,687)
		4,988	3,868

31.1.4 Movement in payable to defined benefit plan

	Note	2012	2011
Opening balance		3,868	12,415
Expense charged in the current year	31.1.5	15,433	64,505
Company's contribution to gratuity fund		(14,313)	(73,052)
Closing balance		4,988	3,868

31.1.5 Charge for defined benefit plan

	2012	2011
Current service cost	12,259	11,229
Interest cost	14,212	11,159
Expected return on plan assets	(11,038)	(2,809)
Recognized prior service cost	-	44,083
Actuarial loss amortised	-	843
	15,433	64,505

31.1.6 Reconciliation of present value of defined benefit obligation

	2012	2011
Opening balance of defined benefit obligation	106,149	43,568
Current service cost	12,259	11,229
Interest cost	14,212	11,159
Benefits paid during the year	(9,895)	(1,698)
Recognized prior service cost	-	44,083
Actuarial gain on obligation	1,306	(2,192)
Closing balance of defined benefit obligation	124,031	106,149

31.1.7 Reconciliation of fair value of plan assets	2012	2011
	(Rupees in '000)	
Opening fair value of plan assets	92,594	17,517
Expected return on plan assets during the year	11,038	2,809
Actual contributions made by the employer	14,313	73,052
Actual benefits paid during the year	(9,895)	(1,698)
Actuarial loss on plan assets	(925)	914
Closing fair value of plan assets	107,125	92,594

Actual return on plan assets is 10.36 % as at December 31, 2012 (12.70% as at December 31, 2011).

31.1.8 Historical information of defined benefit plan

	Present value of the defined benefit plan	Fair value of the plan assets	Deficit in the plan	Gain / (loss) on plan liabilities due to experience	Gain / (loss) on plan assets due to experience
	--------(Rupees in '000)--------				
2012	124,031	107,125	(16,906)	1,306	(925)
2011	106,149	92,594	(13,555)	1,490	914
2010	43,568	17,517	(26,051)	3,307	(238)
2009	42,248	14,111	(28,137)	3,655	(473)
2008	40,136	9,620	(30,516)	(10,335)	126
2007	27,370	7,198	(20,172)	(2,247)	(53)

31.1.9 Break up of investments	2012	2011
	%	
Market treasury bills	100	100
	100	100

31.1.10 The expected gratuity expense for the year ending December 31, 2013 works out to be Rs.14.287 million.

32. DEFINED CONTRIBUTION PLAN

The Company operates an approved funded contributory provident fund for all its permanent employees to which monthly contributions are made both by the Company (at 10 % of Salary), and by the employees (at the rate of 10 % - 30 %) of Salary.

33. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2012	2011	2012	2011	2012	2011
	--------(Rupees in '000)--------					
Fee	-	-	11,081	10,991	-	-
Managerial remuneration	2,400	9,360	-	-	183,607	128,153
Charge for defined benefit plan	-	-	-	-	12,347	41,591
Contribution to defined contribution plan	-	-	-	-	14,975	14,292
Rent and house maintenance	-	1,404	-	-	-	-
Utilities	19	1,174	-	-	-	-
Medical	-	46	-	-	-	1,724
Bonus paid	-	9,786	-	-	34,611	28,509
Others	264	808	-	-	-	-
	2,683	22,578	11,081	10,991	245,540	214,269
No. of persons	1	1	5	5	66	49

33.1 The remuneration of Chief Executive is on estimate basis, since the terms of employment have not been finalized as on December 31, 2012.

33.2 The Chief Executive and two executives are also provided with other facilities, including the free use of Company maintained car.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

34.1 On balance sheet financial instruments

	2012		2011	
	Book value	Fair value	Book value	Fair value
	(Rupees in '000)			
Financial Assets				
- Cash balances with treasury banks	32,650	32,650	442,766	442,766
- Balances with other banks	712,522	712,522	23,035	23,035
- Lendings to financial institutions	-	-	-	-
- Investments	19,793,097	26,876,943	12,609,173	15,556,056
- Advances	5,242,401	5,242,401	6,554,035	6,554,035
- Other assets	147,559	147,559	219,656	219,656
	25,928,229	33,012,075	19,848,665	22,795,548
Financial Liabilities				
- Borrowings	14,839,975	14,839,975	9,161,654	9,161,654
- Deposits and other accounts	1,015,429	1,015,429	1,726,601	1,726,601
- Other liabilities	358,770	358,770	330,103	330,103
	16,214,174	16,214,174	11,218,358	11,218,358

The fair value of investments in listed securities is based on market rates of the Karachi Stock Exchange. Fair value of unquoted equity investments is determined on the basis of break-up value based on the latest available financial statements.

Fair value of fixed term loans and advances, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments.

35. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2012					
	Corporate Finance	Treasury	Investment Banking	Capital Markets	Others	Total
	(Rupees in '000)					
Total income - gross	890,221	1,497,612	228	955,008	20,040	3,363,109
Total mark-up / return / interest expense	(293,746)	(1,311,914)	-	-	-	(1,605,660)
Segment provision / impairment / unrealised losses	(54,714)	2,822	-	(46,511)	-	(98,403)
	(348,460)	(1,309,092)	-	(46,511)	-	(1,704,063)
Net operating income	541,761	188,520	228	908,497	20,040	1,659,046
Administrative expenses and other charges						(485,332)
Profit before taxation						1,173,714
Segment assets - net	5,910,146	15,246,503	-	3,668,325	1,800,579	26,625,553
Segment non-performing loans	1,771,283	-	-	-	-	1,771,283
Segment provision required and held	1,636,742	-	-	-	-	1,636,742
Segment liabilities	4,225,806	11,710,134	-	-	283,222	16,219,162
Segment return on net assets (ROA) %	13.73	11.55	-	26.23	1.14	-
Segment cost of funds (%)	10.68	11.04	-	-	-	-

	2011					
	Corporate Finance	Treasury	Investment Banking	Capital Markets	Others	Total
	(Rupee in '000)					
Total income - gross	953,979	1,282,873	860	729,495	20,324	2,987,531
Total mark-up / return / interest expense	(70,459)	(1,374,843)	-	-	-	(1,445,302)
Segment provision / impairment / unrealised gains	(139,638)	18,000	-	(86,445)	-	(208,083)
	(210,097)	(1,356,843)	-	(86,445)	-	(1,653,385)
Net operating income	743,882	(73,970)	860	643,050	20,324	1,334,146
Administrative expenses and other charges						(462,230)
Profit before taxation						871,916
Segment assets - net	7,212,202	9,005,931	-	3,218,906	1,369,500	20,806,539
Segment non-performing loans/financings	1,723,232	-	-	-	-	1,723,232
Segment provision required and held	1,577,790	-	-	-	-	1,577,790
Segment liabilities	2,218,139	8,751,839	-	-	252,248	11,222,226
Segment return on net assets (ROA) %	14.68	12.54	-	21.02	1.48	-
Segment cost of funds (%)	11.48	12.67	-	-	-	-

35.1 Under the Company policy, capital market department assets are financed through equity funds.

36. RELATED PARTY TRANSACTIONS

The Company has related party relationship with its associates, associated undertakings, subsidiary company , employee benefit plans, key management personnel and its directors.

The Company enters into transactions with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates.

	2012	2011
	(Rupees in '000)	
Expenses charged to a related party	16,863	15,736
Expenses charged by		
- associates	896	1,652
- other related party	16,494	17,026
Dividend income from		
- associates	492,480	340,200
Gain on disposal of shares of associate	19,279	-
Mark-up earned on bank deposit with an associate	502	818
Mark-up earned on loans and advances		
- key management personnel	757	1,063
Loans and advances to key management personnel		
Balance as at January 1,	43,918	47,223
Disbursement during the year	12,716	2,175
Recovery during the year	(18,572)	(5,480)
	(5,856)	(3,305)
Balance as at December 31,	38,062	43,918
Mark-up expense on COI		
- associates	5,506	10,437
- other related party	929	1,063
Deposits / COIs		
- associates	35,000	50,000
- other related party	2,500	12,500
Bank balances with an associate	8,474	2,194
Mark-up receivable on bank deposit with an associate	40	44
Mark-up payable to related party		
- associates	1,274	2,650
- other related party	852	1,302
Investments in		
- quoted, at market values		
- associates	8,933,309	4,810,857
- unquoted, at cost		
- subsidiary company	60,000	60,000
- associates	199,000	199,000
- other related party	500	500
Contribution made to provident fund	15,625	14,832
Contribution made to gratuity fund	14,313	73,052

Key management personnel

Key management personnel include the Managing Director, Deputy General Manager / Chief Financial Officer, Head of Corporate Finance & Investment Banking, Head of Risk Management, Head of Capital Markets & Treasury, Head of Compliance, Head of Internal Audit and Head of Human Resources. Their salaries and other benefits amount to Rs. 60.814 million (2011: Rs. 65.793 million) and staff retirement benefits amount to Rs. 9.064 million (2011: Rs. 17.419 million).

37. ASSOCIATES

The investments in associates are valued as stated in note 5.5 above. The Company's associates are those companies in which it holds more than 20% of the equity or has significant influence and have common directorship. These include Al-Meezan Mutual Fund Limited (11.98%), Al-Meezan Investment Management Limited (30%), Meezan Bank Limited (30%), The General Tyre and Rubber Company of Pakistan Limited (28%), Plexus (Private) Limited (50%), Falcon Greenwood (Private) Limited (25%), Pak Kuwait Takaful Company Limited (30%), National Clearing Company of Pakistan Limited (17.65%) and Meezan Balanced Fund (9.21%).

38. CAPITAL ADEQUACY

38.1 State Bank of Pakistan (SBP) sets and monitors capital requirements for the Company as a whole. In implementing current capital requirements, SBP requires Banks/DFIs to maintain a total capital to total risk-weighted assets ratio of 10% on standalone as well as on consolidated basis. Standardized Approach of Basel – II is used for calculating risk weighted assets for Credit and Market Risk, whereas, Basic Indicator Approach (BIA) is used for calculating Operational Risk weighted assets.

Objectives of Capital Management

The capital management objectives of the Company are as follows:

- To maintain sufficient capital to support overall business strategy, expansion and growth;
- To integrate capital allocation decisions with the strategic and financial planning process;
- To meet the regulatory capital adequacy ratios as defined by SBP;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide adequate return to shareholders; and
- To have a prudent buffer to protect the Company under different economic and stress scenarios caused by unexpected and unforeseeable events.

Capital Management

The Company maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company has complied with all externally imposed capital requirements throughout the year.

The Company's regulatory capital is analyzed in following tiers:

- Tier 1 Capital which includes fully paid up capital (including the bonus shares), balances in share premium account, general reserves and net un-appropriated profits etc. after deduction for deficit on revaluation of available for sale investments and 50% deduction for investment in the subsidiary companies and significant minority investments in entities engaged in banking and financial activities.

- Tier 2 Capital, which includes general provisions for loan losses (up to a maximum of 1.25% of risk weighted assets), reserves on revaluation of fixed assets and equity investments up to a maximum of 45% balance, foreign exchange translation reserves etc. after 50% deduction for investment in the equity of subsidiary companies and significant minority investments in entities engaged in banking and financial activities.

Statutory Capital Requirement

The capital of Company is managed keeping in the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 30 dated November 25, 2008. The adequacy of the capital is tested with reference to risk weighted assets of the Company. The total risk-weighted exposures comprise the credit, market and operational risks.

The calculation of capital adequacy enables the Company to assess the long-term soundness. It is crucial to continuously monitor the exposure across entire organization and aggregate risk so as to take an integrated approach/view. Maximization of the return on risk adjusted capital is the principal basis to be used in determining how capital is allocated within the Company to particular operations or activities.

The Company also stress tests its capital adequacy to various risks as per SBP stress testing guidelines.

38.2 Capital adequacy ratio

		2012	2011
		(Rupees in '000)	
CAP 1			
Tier 1 Capital			
Fully paid-up share capital		6,000,000	6,000,000
General Reserves as disclosed in the statement of financial position		3,285,976	3,114,865
Unappropriated profit		884,331	559,890
Sub-Total		10,170,307	9,674,755
Deductions:			
Book value of Intangibles		40,015	12,693
Deficit on account of revaluation of investments held AFS category		-	110,309
Other deductions (50% of the amount as calculated on CAP 2)		863,827	863,827
Sub-Total		903,842	986,829
Total eligible Tier 1 Capital		9,266,465	8,687,926
Supplementary Capital			
Tier 2 Capital		124,653	-
Deductions			
Other deductions (50% of the amount as calculated on CAP 2)		863,827	863,827
Total deductions		863,827	863,827
Total supplementary capital eligible for capital adequacy ratio (Maximum upto 100% of Total eligible Tier 1 capital)		(739,174)	(863,827)
Total eligible capital	(A)	8,527,291	7,824,099

Risk weighted exposures	Capital Requirements		Risk Weighted Assets	
	2012	2011	2012	2011
	(Rupees in '000)			
Credit risk				
PSE's	3,066	29,038	30,662	290,377
Banks	14,422	8,471	144,215	84,711
Corporates	300,662	326,712	3,006,617	3,267,117
Retail portfolio	2,813	3,124	28,132	31,240
Secured by residential property	3,026	3,573	30,258	35,727
Past due loans	15,662	14,544	156,623	145,442
Listed equity investments	102,141	118,754	1,021,406	1,187,537
Unlisted equity investments	13,405	14,155	134,045	141,547
Investments in fixed assets	17,132	22,933	171,318	229,332
Other assets	30,581	33,319	305,807	333,186
	502,910	574,623	5,029,083	5,746,216
Credit risk on off balance sheet				
Non market related	261,287	163,250	2,612,867	1,632,500
Market Risk				
Equity position risk	393,680	230,791	3,936,795	2,307,912
Operational risk	226,440	188,236	2,264,401	1,882,359
(B)	1,384,317	1,156,900	13,843,146	11,568,987

Capital adequacy ratios		2012	2011
Total eligible regulatory capital	(A)	8,527,291	7,824,099
Total risk weighted assets	(B)	13,843,146	11,568,987
TOTAL CAPITAL ADEQUACY RATIO	(A)/(B) * 100	61.60%	67.63%

38.3 Types of exposures and ECAI's used

Exposures	JCR-VIS	PACRA
PSE's	✓	-
Banks	✓	✓
Corporates	✓	✓
Sovereigns and GOP other than PKR	-	-

38.4 Credit exposures subject to standardised approach

Exposures	Rating Category	Amount Outstanding	Deduction CRM	Net amount
		--------------(Rupees in '000)--------------		
Banks				
	1	721,074	-	721,074
Corporates				
	1	1,391,501	-	1,391,501
	2	1,653,290	-	1,653,290
	Unrated	1,901,672	-	1,901,672
		5,667,537	-	5,667,537

39. RISK MANAGEMENT

Risk is an integral part of business and the Company aims at delivering superior shareholder value by achieving an appropriate trade-off between risk and returns. Risk Management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The risks that the Company takes are reasonable, controlled within its financial resources and credit competence. The primary objective of this risk management is to ensure that the process of achieving an appropriate balance between risks the Company wishes to accept (at a price that is commensurate to that risk) and risks the Company wishes to mitigate, or whenever capital is put at risk, is done in an objective, documented and transparent fashion and also to ensure that these risks are taken within predefined and pre-approved tolerance limits / levels.

The ultimate responsibility for risk management and setting of the risk management policy rests with the Board of Directors. The Board of Directors approves a policy framework and oversees Risk Management function of the Company through Risk Management Committee (RMC). RMC of the Board has been constituted to facilitate focused oversight of various risks and is updated on quarterly basis by an independent Risk Management Function on the risk exposures, trends and benchmarks for each risk type covered within the scope of policy. The main goals of Risk Management are to oversee the enterprise-wide risk policies and guidelines under the guidance of the Board of Directors and RMC, to establish and monitor limits, to set and manage decision processes and to implement risk assessment methods. Functional level committees oversee the implementation of risk management practices and exposure levels. Market and Liquidity Risks are managed by a well-represented Asset Liability Committee (ALCO) and the Credit Committee oversees Credit Risk.

The Head of Risk Management and the Risk Management Function works with the Senior Management, ALCO and Credit Committee on a day to day basis to address issues directly related to the policy as well as improve and refine the policy based on experiences and market conditions.

The risk management framework is based on prudent risk identification, measurement, monitoring and management process which are closely aligned with all activities of the Company so as to ensure that risks are kept within an acceptable level.

The Company has developed Internal Capital Adequacy Assessment Process (ICAAP) document as per the SBP guidelines. In the ICAAP document, the company recognized risks other than the pillar 1 risks e.g. Strategic risk, Liquidity Risk, Reputational Risk and Interest Rate Risk in Banking Book.

The Company is in the process of implementing Risk Management System ORACLE REVELEUS. The system will cater all the major risk areas which include Credit, Market, Operational and Liquidity Risks. The system once implemented will facilitate in achieving requirements of developing advance risk models, improving risk reporting frequency, improving the overall control environment by developing system in-built controls, towards implementation of advance approaches of Basel – II.

39.1 Credit risk

Credit risk is the potential for financial loss arising from borrower's or counterparty's inability to meet its obligations under a contract.

Credit Risk is the predominant risk type faced by the Company in its lending activities. All credit risk related aspects are governed by a credit policy approved by the Board of Directors. The policy outlines the type of products that can be offered, targeted customer profile and the credit approval process and limits. In order to assess the credit risk associated with any corporate financing proposal, variety of risks relating to the borrower and relevant industry are assessed. A structured and standardized credit approval process is followed which includes a well established procedure of comprehensive credit appraisal and credit rating. The credit evaluation system comprises of well-designed credit appraisal, review and approval procedures for the purpose of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio. Each credit proposal is evaluated on standalone basis as well as its implication on the Company’s portfolio in terms of portfolio pricing and rating is also assessed. The internal credit rating methodologies have been developed for rating obligors. The rating serves as the key input in the approval as well as post approval credit process. All the credit applications and reviews are thoroughly analyzed by Risk Management Function. The application approval process is further supplemented by regular review of the existing credit limits, overall credit portfolio and the monitoring of early warning indicators that can trigger a tightening of lending standards and an increase in the frequency and depth of credit portfolio review.

Internal Credit Risk Rating System developed by the Company is capable of quantifying credit risk pertinent to specific counterparty as well as the risk inherent in the facility structure. It takes into consideration various qualitative and quantitative factors and generates an internal rating. The rating models have been internally tested, validated and checked for compliance with SBP guidelines for Internal Credit Rating System. The Risk Rating Models, both Obligor Risk Rating (ORR) and Facility Risk Rating (FRR), are regularly reviewed based on day to day working experience and changes in market dynamics.

Credit risk management process adopted various concentration limits, counterparty and group level limits. Sectoral concentration limits are set for extending credit to a specific industry sector. The Company monitors the concentration to any given sector to ensure that the loan portfolio is well diversified. ORR is also used on aggregate group level to determine the amount of credit exposure the Company is willing to take on a particular group.

Various analysis and reports are also performed on periodic basis and are reported to the Risk Management Committee of the Board. These analysis mainly include past due analysis, transition matrix & migration analysis, risk premium analysis, sector-wise and rating-wise portfolio distribution analysis etc. The Company performs stress testing on its credit portfolio as per SBP stress testing guidelines.

The disbursement and administration of credit facilities is managed by Credit Administration Department (CAD).

To manage non-performing customers Special Asset Management (SAM) Department is functional and is responsible to recover overdue exposures.

The Company is using Basel-II standardized approach to calculate risk weighted assets against credit risk.

39.1.1 Segment Information

39.1.1.1 Segment by class of business

	2012					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Textile	2,130,675	30.98	-	-	-	-
Chemical and pharmaceutical	1,041,240	15.14	-	-	64,000	13.50
Cement	93,333	1.36	-	-	-	-
Sugar	390,202	5.67	-	-	3,208	0.68
Footwear and leather garments	13,238	0.19	-	-	-	-
Automobile and transportation equipment	-	-	-	-	-	-
Electronics and electrical appliances	11,111	0.16	-	-	-	-
Construction	322,819	4.69	-	-	-	-
Transport, storage and communication	250,000	3.63	-	-	-	-
Financial and Insurance	-	-	450,000	44.32	-	-
Power	1,746,074	25.39	-	-	-	-
Trusts	-	-	362,929	35.74	-	-
Services	309,053	4.49	202,500	19.94	6,718	1.42
Individuals	123,961	1.80	-	-	-	-
Education	-	-	-	-	200,000	42.20
Others	447,437	6.50	-	-	200,000	42.20
	6,879,143	100.00	1,015,429	100.00	473,926	100.00

	2011					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Textile	2,397,285	29.48	-	-	417,000	97.55
Chemical and pharmaceutical	1,302,790	16.01	-	-	-	-
Cement	93,333	1.15	-	-	-	-
Sugar	420,346	5.17	-	-	-	-
Footwear and leather garments	22,933	0.28	-	-	-	-
Automobile and transportation equipment	9,837	0.12	-	-	-	-
Electronics and electrical appliances	11,111	0.14	-	-	-	-
Construction	383,851	4.72	-	-	-	-
Transport, storage and communication	722,580	8.89	-	-	-	-
Financial and Insurance	-	-	-	-	-	-
Power	1,693,170	20.82	-	-	-	-
Trusts	-	-	1,264,411	73.23	-	-
Services	350,586	4.31	162,190	9.39	10,452	2.45
Individuals	143,730	1.77	-	-	-	-
Education	-	-	-	-	-	-
Others	580,273	7.14	300,000	17.38	-	-
	8,131,825	100.00	1,726,601	100.00	427,452	100.00

39.1.1.2 Segment by sector

	2012					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	59,127	0.86	-	-	-	-
Private	6,820,016	99.14	1,015,429	100.00	473,926	100.00
	6,879,143	100.00	1,015,429	100.00	473,926	100.00

	2011					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	555,137	6.83	300,000	17.38	-	-
Private	7,576,688	93.17	1,426,601	82.62	427,452	100.00
	8,131,825	100.00	1,726,601	100.00	427,452	100.00

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

	2012		2011	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	------------------------(Rupees in '000)------------------------			
Textile	1,034,621	1,026,170	1,022,718	1,022,718
Construction	171,289	170,200	186,297	176,662
Cement	93,333	93,333	93,333	93,333
Others	472,040	347,039	420,884	285,077
	1,771,283	1,636,742	1,723,232	1,577,790

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

	2012		2011	
	Classified advances	Specific provision held	Classified advances	Specific provision held
	----------------------(Rupees in '000)----------------------			
Public / government	-	-	-	-
Private	1,771,283	1,636,742	1,723,232	1,577,790
	1,771,283	1,636,742	1,723,232	1,577,790

39.2 Liquidity risk

Liquidity Risk is the risk that the Company is unable to fund its current obligations and operations in the most cost effective manner.

This risk arises from mismatches in the timing of cashflows. The objective of the Company's liquidity management is to ensure that all foreseeable funding commitments can be met when due. The Company's Asset and Liability Committee is primarily responsible for the formulation of the overall strategy and oversight of the liquidity management. To limit this risk the Company maintains statutory deposits with the central bank. The Company's key funding source is the inter-bank money market. Comprehensive gap analysis is done on monthly basis to evaluate match/mismatch between assets and liabilities. ALCO reviews gap analysis and devise the liquidity management strategy. For effective monitoring of liquidity position gap limits for each maturity bucket are in place, monitored by Risk Management Department and reviewed by ALCO on monthly basis. Major findings of liquidity ratios & Gaps reports are also reported to the Risk Management Committee of the Board on quarterly basis. Moreover, Company also has a Contingency Funding Plan in place to address liquidity issues in times of crisis situations.

The maturity profile of assets and liabilities has been prepared based on their contractual maturity, except for assets and liabilities that do not have contractual maturity. In this regard, assumptions for the Company's maturity profile in respect of allocation of non-contractual items based on their expected maturities were deliberated and approved by the ALCO. The ALCO agreed upon various assumptions for such allocation including the Company's historical trend and past experience, expected utilization of assets, expected useful lives of fixed assets, statutory requirements and variance approach.

Pak Kuwait

39.2.1 Maturities of assets and liabilities

2012

	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years
	---(Rupees in '000)---									
Assets										
Cash and balances with treasury banks	32,650	32,650	-	-	-	-	-	-	-	-
Balances with other banks	712,522	12,522	700,000	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	19,793,097	5,468,127	4,940,693	2,901,439	2,349,995	329,788	1,551,468	651,235	1,600,352	-
Advances	5,242,401	145,752	105,194	287,115	1,267,697	1,059,999	959,640	1,031,301	346,758	38,945
Operating fixed assets	211,333	1,440	2,883	4,325	8,652	17,304	17,304	27,274	18,879	113,272
Deferred tax assets	272,346	56,146	39,332	4,930	20,052	-	-	-	151,886	-
Other assets	361,204	19,604	111,835	41,753	3,873	180,339	-	3,800	-	-
	26,625,553	5,736,241	5,899,937	3,239,562	3,650,269	1,587,430	2,528,412	1,713,610	2,117,875	152,217
Liabilities										
Borrowings	14,839,975	10,699,482	22,284	23,458	52,407	854,816	3,072,305	80,437	34,786	-
Deposits and other accounts	1,015,429	256,751	514,910	230,770	10,498	-	2,500	-	-	-
Other liabilities	363,758	191,055	83,793	48,817	3,750	19,737	5,621	10,985	-	-
	16,219,162	11,147,288	620,987	303,045	66,655	874,553	3,080,426	91,422	34,786	-
Net assets	10,406,391	(5,411,047)	5,278,950	2,936,517	3,583,614	712,877	(552,014)	1,622,188	2,083,089	152,217
Share capital	6,000,000									
Reserves	3,285,976									
Accumulated profit	884,331									
Surplus on revaluation of 'available-for-sale' securities – net of tax	236,084									
	10,406,391									

2011

	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years
	---(Rupees in '000)---									
Assets										
Cash and balances with treasury banks	442,766	442,766	-	-	-	-	-	-	-	-
Balances with other banks	23,035	23,035	-	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	12,609,173	-	-	115	8,155,648	763,342	1,563,039	212,436	1,914,593	-
Advances	6,554,035	124,367	93,581	716,316	1,265,513	960,136	1,065,972	1,597,102	695,237	35,811
Operating fixed assets	242,025	1,375	2,751	4,126	8,256	16,513	16,513	19,926	24,652	147,913
Deferred tax assets	275,407	99,552	5,305	8,804	31,347	-	-	-	130,399	-
Other assets	660,098	37,080	147,713	83,633	4,801	383,038	-	3,833	-	-
	20,806,539	728,175	249,350	812,994	9,465,565	2,123,029	2,645,524	1,833,297	2,764,881	183,724
Liabilities										
Borrowings	9,161,654	6,118,058	935,551	18,523	55,127	80,552	829,976	1,071,589	52,278	-
Deposits and other accounts	1,726,601	412,245	265,000	678,856	368,000	-	-	2,500	-	-
Other liabilities	333,971	173,168	39,432	61,509	8,448	7,223	28,187	15,287	717	-
	11,222,226	6,703,471	1,239,983	758,888	431,575	87,775	858,163	1,089,376	52,995	-
Net assets	9,584,313	(5,975,296)	(990,633)	54,106	9,033,990	2,035,254	1,787,361	743,921	2,711,886	183,724
Share capital	6,000,000									
Reserves	3,114,865									
Accumulated profit	559,890									
Surplus on revaluation of 'available-for-sale' securities – net of tax	(90,442)									
	9,584,313									

39.3 Market risk

Market risk is the risk of losses due to on and off-balance sheet positions arising out of changes in market variables, such as interest rates, foreign exchange rates, equity prices and credit spreads.

The Company is exposed to interest rate risk and equity price risk. To manage and control market risk a well defined limits structure is in place. Market Risk is managed by the Risk Management Function which makes sure that exposure in Money Market and Equity Market adheres with the risk tolerance levels and matches with overall business goals set by Board of Directors (BOD), Risk Management Committee of the Board (RMC) and ALCO.

Market Risk is pertinent to the Trading Book which consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. The trading book includes equity and money market securities classified as 'Held for Trading'. These positions are actively managed by the capital market and money market desks.

All investments excluding trading book are considered as part of banking book. Banking book includes:

- Available-for-sale Securities
- Held-to-maturity Securities
- Other Strategic Investments

Due to diversified nature of investments in banking book, it is subject to interest rate risk and equity price risk.

A well-defined limits structure is in place to effectively manage market risk. These limits are reviewed, adjusted and approved periodically by ALCO. Middle Office monitors these limits on daily basis.

The Company is using Basel-II Standardized approach to calculate risk weighted assets against market risk exposures.

To manage market risk, the Company carries out stress testing of its statement of financial position by varying sources of market risk as per SBP guidelines.

39.3.1 Interest rate risk

Interest Rate Risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specific period. The Company manages its interest rate risk by entering into floating rate agreements with its customers. The interest rate risk strategy is discussed in ALCO meetings on periodic basis. The risk management function carries out stress testing to ascertain the interest rate risk on the statement of financial position and also prepares the interest rate risk profile on monthly basis.

The proceedings of ALCO are reported to the Risk Management Committee of the Board on quarterly basis.

2012

	Effective yield / interest rate	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years	Not exposed to yield /interest rate risk
	%	(Rupees in '000)										
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks	-	32,650	-	-	-	-	-	-	-	-	-	32,650
Balances with other banks	9.57	712,522	12,438	700,000	-	-	-	-	-	-	-	84
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	10.37	19,793,097	5,468,127	4,934,308	3,376,512	253,481	-	-	164,118	1,450,242	-	4,146,309
Advances	11.94	5,242,401	871,487	827,698	2,897,761	231,495	111,993	77,787	78,640	46,027	30,904	68,609
Other assets	-	147,559	-	-	-	-	-	-	-	-	-	147,559
		25,928,229	6,352,052	6,462,006	6,274,273	484,976	111,993	77,787	242,758	1,496,269	30,904	4,395,211
Financial Liabilities												
Borrowings	9.28	14,839,975	12,699,482	1,772,284	23,458	52,407	104,816	72,305	80,437	34,786	-	-
Deposits and other accounts	10.35	1,015,429	256,751	514,910	230,770	10,498	-	2,500	-	-	-	-
Other liabilities	-	358,770	-	-	-	-	-	-	-	-	-	358,770
		16,214,174	12,956,233	2,287,194	254,228	62,905	104,816	74,805	80,437	34,786	-	358,770
On balance sheet gap		9,714,055	(6,604,181)	4,174,812	6,020,045	422,071	7,177	2,982	162,321	1,461,483	30,904	4,036,441

2011

	Effective yield / interest rate	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years	Not exposed to yield /interest rate risk
	%	(Rupees in '000)										
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks	12.75	442,766	400,000	-	-	-	-	-	-	-	-	42,766
Balances with other banks	5.00	23,035	22,864	-	-	-	-	-	-	-	-	171
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	12.34	12,609,173	-	36,932	659,127	6,850,426	246,915	-	13,265	1,340,483	-	3,462,025
Advances	14.47	6,554,035	894,844	1,271,165	2,959,102	1,002,781	95,428	93,389	72,454	65,319	14,659	84,894
Other assets	-	219,656	-	-	-	-	-	-	-	-	-	219,656
		19,848,665	1,317,708	1,308,097	3,618,229	7,853,207	342,343	93,389	85,719	1,405,802	14,659	3,809,512
Financial Liabilities												
Borrowings	11.75	9,161,654	6,118,058	2,685,551	18,523	55,127	80,552	79,976	71,589	52,278	-	-
Deposits and other accounts	12.61	1,726,601	412,245	265,000	678,856	368,000	-	-	2,500	-	-	-
Other liabilities	-	330,103	-	-	-	-	-	-	-	-	-	330,103
		11,218,358	6,530,303	2,950,551	697,379	423,127	80,552	79,976	74,089	52,278	-	330,103
On balance sheet gap		8,630,307	(5,212,595)	(1,642,454)	2,920,850	7,430,080	261,791	13,413	11,630	1,353,524	14,659	3,479,409

39.3.2 Currency risk

Foreign exchange risk arises in case of an on balance sheet / off balance sheet asset or liability position when there is adverse exchange rate movement. The Company's exposure to this category of market risk is negligible.

	2012			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	(Rupees in '000)			
Pakistan Rupees	26,624,668	16,219,162	473,926	9,931,580
United States Dollars	885	-	-	885
	26,625,553	16,219,162	473,926	9,932,465

	2011			
	Assets	Liabilities	Off-balance sheet items	Net currency exposure
	(Rupees in '000)			
Pakistan Rupees	20,805,452	11,222,226	427,452	9,155,774
United States Dollars	1,087	-	-	1,087
	20,806,539	11,222,226	427,452	9,156,861

39.3.3 Equity price risk

It is the risk to earnings or capital that results from adverse changes in the value / price of equity related portfolios.

ALCO is responsible for making investment decisions in the capital market and setting limits that are a component of the risk management framework. Equity Price Risk is monitored and controlled through various regulatory and internal limits. Portfolio, sector and scrip-wise limits are assigned by the ALCO such as overall exposure limits in capital market HFT and AFS portfolio, mark-to-market limit on trading portfolio, sector-wise Investment limits in various sectors to guard against concentration risk. These limits are monitored on daily basis and are reviewed and revised periodically by ALCO. The ALCO approves exposure limits applicable to investments and meets on regular basis to discuss equity investments related strategy. The Company calculates Value at Risk (VaR) on a daily basis using Historical Method and Variance Covariance Approach taking into consideration the data of over 3 years. The findings of VaR are reported to Risk Management Committee of the Board on quarterly basis.

39.4 Operational risk

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and system failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets etc.

Risk Management Policy sets out the guidelines to identify, assess, monitor, control and report operational risk. Risk Management Department is in the process of implementing operational risk assessment tools, risk controls and reporting framework. Operational Risk Loss Data including Loss Events, Near Misses and Transactions in Difficulty are being collected, throughout the year, from all the respective departments / units on monthly basis. These operational losses occurring across the Company are reported to Risk Management Department where they are aggregated into an internally developed Operational Loss Database. For the purpose of monitoring of the occurrences of key operational risks, Key Risk Indicators (KRIs) have been identified during the year and KRI reporting has also been initiated on monthly basis.

To facilitate the overall Operational Risk Management process, the Company has successfully implemented the top of the line Operational Risk Management System namely Oracle Reveleus. The system went Live during the year.

The Company is currently using Basic Indicator Approach to calculate Operational risk weighted assets as per Basel II requirements for capital adequacy calculation.

40. ACCOUNTING ESTIMATES AND JUDGEMENTS

40.1 Provision against non-performing advances

The management reviews the loan and lease portfolio to assess non-performing accounts and expected recovery on a monthly basis. In determining the non-performing accounts and provision requirements, the relevant Prudential Regulations issued by the State Bank of Pakistan, payment status of mark-up and principal, expected future cash flows of the business, security position and personal wealth of the directors and owners are taken into account.

40.2 Classification of investments

In classifying investments as 'held-for-trading' the Company has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.

In classifying investments as 'held-to-maturity' the Company follows the guidance provided in SBP circulars on classifying non derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgement, the Company evaluates its intention and ability to hold such investment to maturity.

The investments which are not classified as 'held-for-trading' or 'held-to-maturity' are classified as 'available-for-sale'.

40.3 Impairment of 'available-for-sale' equity instruments

The management determines that 'available-for-sale' equity investments are impaired when there has been a significant or prolonged decline in market value / fair value below its cost. In making this judgement, the management considers among other factors, the decline in market price below cost by 30% as significant and if the decline in market price persists for nine months as prolonged.

40.4 Income taxes

In making the estimates for income taxes currently payable by the Company, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues as described in note 19 and the appeals of the department pending at various levels of authorities.

40.5 Gratuity

The Company has adopted certain actuarial assumptions as disclosed in note 31.1.2 to the financial statements for determining present value of defined benefit obligations and fair value of plan assets, based on actuarial advice. Any change in the assumptions from actual results would change the amount of unrecognised gains and losses.

40.6 Useful life and residual value of property and equipment

Estimates of useful life and residual value of property and equipment are based on the management's best estimate.

41. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue in the Board of Directors meeting held on February 04, 2013.

42. GENERAL AND NON-ADJUSTING EVENT

42.1 The JCR-VIS Credit Rating Company Limited has reaffirmed long term credit ratings of AAA (Triple A) and the short term rating of A1+(A one plus) for the Company. The Pakistan Credit Rating Agency (PACRA) has also maintained the long-term entity rating to AAA (Triple A) and the short term rating at A1+(A one plus), the highest level.

42.2 The Board of Directors of the Company has proposed cash dividend of Rs. 450 million (2011: Rs. 360 million) for the year ended December 31, 2012 in their meeting held on February 04, 2013. These financial statements do not include the effect of this appropriation which will be accounted for subsequent to the year end.

42.3 Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

Chairman | Chief Executive | Director

Annexure - I

QUALITY OF AVAILABLE FOR SALE SECURITIES

As Referred to in Note 9.5 to the financial statements

Sr. No.	Name of Company	2012 Market Value	2012 Rating	2011 Market Value	2011 Rating
		(Rupees in '000)		(Rupees in '000)	
	AVAILABLE FOR SALE PORTFOLIO				
	STRATEGIC PORTFOLIO				
1	MEEZAN BANK LIMITED	8,143,858	AA-/A-1+	4,186,807	AA-/A-1+
2	THE HUB POWER COMPANY LIMITED	31,333	AA+/A1+	-	-
	TOTAL	8,175,191		4,186,807	
	GENERAL PORTFOLIO				
	OIL AND GAS				
3	OIL AND GAS DEVELOPMENT CO.LTD	13,630	AAA-/A-1+	-	-
4	PAKISTAN STATE OIL COMPANY LIMITED	-	-	194,492	AA+/A1+
5	PAKISTAN OILFIELDS LIMITED	87,508	Unrated	-	-
6	PAKISTAN PETROLEUM LIMITED	289,723	Unrated	-	-
	TOTAL	390,861		194,492	
	CHEMICALS				
7	ENGRO CORPORATION PAKISTAN	138,060	A/A1	-	-
8	FAUJI FERTILIZER BIN QASIM LIMITED	204,723	Unrated	156,991	Unrated
9	FAUJI FERTILIZER COMPANY LIMITED	175,710	Unrated	155,979	Unrated
	TOTAL	518,493		312,970	
	CONSTRUCTION AND MATERIALS				
10	CHERAT CEMENT COMPANY LIMITED	-	-	196	Unrated
11	LUCKY CEMENT LIMITED	30,308	Unrated	-	-
	TOTAL	30,308		196	
	AUTOMOBILE AND PARTS				
12	THE GENERAL TYRE & RUBBER CO. OF PAKISTAN LTD.	445,190	Unrated	350,750	Unrated
	TOTAL	445,190		350,750	
	PERSONAL GOODS				
13	NISHAT (CHUNIAN) LIMITED	3,105	A-/A-2	31,558	Unrated
14	NISHAT MILLS LIMITED	-	-	18,202	AA-/A1+
	TOTAL	3,105		49,760	
	TELECOMMUNICATION				
15	PAKISTAN TELECOMMUNICATION COMPANY LIMITED (A)	-	-	44,266	Unrated
	TOTAL	-		44,266	
	ELECTRICITY				
16	THE HUB POWER COMPANY LIMITED	203,580	AA+/A1+	116,315	AA+/A1+
17	KOT ADDU POWER CO. LTD.	176,312	AA+/A-1+	85,524	AA+/A1+
18	NISHAT CHUNIAN POWER LTD	321,817	A/A-2	147,483	AA-/A1+
19	NISHAT POWER LIMITED	-	-	77,700	AA-/A1+
	TOTAL	701,709		427,022	

Sr. No.	Name of Company	2012 Market Value	2012 Rating	2011 Market Value	2011 Rating
		(Rupees in '000)		(Rupees in '000)	
	BANKS				
20	ALLIED BANK LIMITED	44,912	AA+/A1+	-	-
21	BANK AL-HABIB LIMITED	13,037	AA+/A1+	5,126	AA+/A1+
22	MCB BANK LIMITED	40,777	AA+/A1+	-	-
23	UNITED BANK LIMITED	100,404	AA+/A-1+	119,336	AA+/A-1+
	TOTAL	199,130		124,462	
	FINANCIAL SERVICES				
24	SME LEASING LIMITED	1,687	BBB-/A-3	787	BBB+/A-3
	TOTAL	1,687		787	
	MUTUAL FUNDS				
25	AL MEEZAN MUTUAL FUND LIMITED	216,434	Unrated	172,674	Unrated
26	MEEZAN BALANCED FUND	127,828	Unrated	100,626	Unrated
27	NAMCO BALANCED FUND	20,611	MFR - 3 Star	21,462	MFR - 1 Star
28	PAK OMAN ADVANTAGE FUND	46,108	A+(f)	45,509	AA-(f)
	TOTAL	410,981		340,271	
	PREFERENCE SHARES				
29	MASOOD TEXTILE MILLS LIMITED (CUMULATIVE PREFERENCE SHARES) 12.1%	50,000	Unrated	50,000	Unrated
30	PAKISTAN INTERNATIONAL CONTAINER TERMINAL LIMITED (PREFERENCE SHARES) 10%	-	-	22,475	Unrated
31	CHENAB LIMITED - NON VOTING CUMULATIVE PREFERENCE SHARES 9.25%	-	-	2,533	Unrated
32	SECURITY LEASING CORPORATION LIMITED (PREFERENCE SHARES) 9.1%	-	-	-	Unrated
	PREFERENCE SHARES TOTAL	50,000		75,008	
	GRAND TOTAL	10,926,655		6,106,791	

Annexure - I

As Referred to in Note 9.5 to the financial statements

QUALITY OF AVAILABLE FOR SALE SECURITIES

Sr. No.	Particulars	2012 Market Value	2012 Rating	2011 Market Value	2011 Rating
		(Rupees in '000)		(Rupees in '000)	
	Government Securities				
1	MARKET TREASURY BILLS				
	- Six months	10,786,339	GOVERNMENT	-	GOVERNMENT
	- Twelve months	2,485,513	SECURITIES	6,850,426	SECURITIES
2	PAKISTAN INVESTMENT BONDS				
	- Five years	267,689	GOVERNMENT	260,182	GOVERNMENT
	- Ten years	1,450,242	SECURITIES	1,340,481	SECURITIES
	Sub Total	14,989,783		8,451,089	
	Listed Term Finance Certificates				
1	FAYSAL BANK LIMITED -TFCs (10-02-2005) Certificate of Rs. 5,000 each Mark up : 13.60% (6-Months Kibor Ask Rate + 1. 90%) Redemption : Half yearly from Feb -2005 Maturity : Feb, 2013	5,000	AA-	10,022	AA-
2	BANK AL FALAH LIMITED - TFC-2 (23-11-2004) Certificate of Rs. 5,000 each Mark up : 13.43% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2011 Maturity : Nov, 2012	-	-	9,170	AA-
3	BANK AL FALAH LIMITED - TFC-3 (25-11-2005) Certificate of Rs. 5,000 each Mark up : 11.04% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2012 Maturity : Nov, 2013	50,571	AA-	75,197	AA-
4	ASKARI COMMERCIAL BANK LIMITED -TFCs (04-02-2005) Certificate of Rs. 5,000 each Mark up : 13.24% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Feb-2013 Maturity : Feb, 2013	26,906	AA-	26,908	AA-
	Sub Total	82,477		121,297	

Annexure - I

As Referred to in Note 9.5 to the financial statements

QUALITY OF AVAILABLE FOR SALE SECURITIES

Sr. No.	Name of Securities	2012 Cost	2012 Rating	2011 Cost	2011 Rating
		(Rupees in '000)		(Rupees in '000)	
	Unlisted Term Finance Certificates				
1	BANK AL FALAH LIMITED Certificate of Rs. 5,000 each Mark up : 12.04% (6-Months KIBOR Ask Rate + 2.50%) Redemption : Half yearly from Dec - 2016 Maturity : Dec, 2017 CEO of the company : Mr. Atif Bajwa	99,880	AA-	99,920	AA-
2	NEW ALLIED ELECTRONICS INDUSTRIES (PRIVATE) LIMITED Certificate of Rs. 5,000 each Mark up : 16.37% (KIBOR 3-Months Ask Rate + 2.75%) Redemption : Quarterly from Aug - 2007 Maturity : May, 2011 CEO of the company : Mr. Mian Pervez Akhtar	21,138	Unrated	21,138	Unrated
3	DEWAN FAROOQUE SPINNING MILLS LIMITED Certificate of Rs. 5,000 each Mark up : 16.66% (KIBOR 6-Months Ask Rate + 3.75%) Redemption : Half yearly from Dec - 2004 Maturity : Dec , 2009 CEO of the company : Mr. Dewan Abdul Baqi Farooqui	12,500	Unrated	12,500	Unrated
4	FAYSAL BANK LIMITED Certificate of Rs. 5,000 each Mark up : 11.70% (KIBOR 6-Month (s) Ask Rate + 2.25%) Redemption : Half yearly from June - 2011 Maturity : Dec, 2017 CEO of the company : Mr. Naveed A. Khan	324,740	AA-	324,870	AA-
5	BANK AL HABIB LIMITED Certificate of Rs. 5,000 each Mark up : 15.00% - 15.50% Redemption : Half yearly from December - 2011 Maturity : June, 2021 CEO of the company : Mr. Abbas D. Habib	149,910	AA	149,970	AA
	Sub Total	608,168		608,398	

Pak Kuwait

Annexure - II

PARTICULARS OF INVESTMENT HELD IN SHARES OF LISTED COMPANIES

Sr. No.	Name of Company	Total Shares 2012	Total Shares 2011	2012 Cost	2012 Impairment	2012 Cost after Impairment	2011 Cost	2011 Impairment	2011 Cost after Impairment
				(Rupees in '000)					
	AVAILABLE FOR SALE PORTFOLIO								
	STRATEGIC PORTFOLIO								
1	MEEZAN BANK LIMITED	271,010,239	240,897,991	1,519,905	-	1,519,905	1,519,905	-	1,519,905
2	THE HUB POWER COMPANY LIMITED	692,602	-	23,850	-	23,850	-	-	-
	TOTAL	271,702,841	240,897,991	1,543,755	-	1,543,755	1,519,905	-	1,519,905
	GENERAL PORTFOLIO								
	OIL AND GAS								
3	OIL AND GAS DEVELOPMENT CO.LTD	70,766	-	12,084	-	12,084	-	-	-
4	PAKISTAN STATE OIL COMPANY LIMITED	-	856,000	-	-	-	245,182	-	245,182
5	PAKISTAN OILFIELDS LIMITED	200,000	-	75,782	-	75,782	-	-	-
6	PAKISTAN PETROLEUM LIMITED	1,638,800	-	289,118	-	289,118	-	-	-
	TOTAL	1,909,566	856,000	376,984	-	376,984	245,182	-	245,182
	CHEMICALS								
7	ENGRO CORPORATION LIMITED	1,500,000	-	152,496	-	152,496	-	-	-
8	FAUJI FERTILIZER BIN QASIM LIMITED	5,305,080	3,700,000	222,352	-	222,352	160,833	-	160,833
9	FAUJI FERTILIZER COMPANY LIMITED	1,500,000	1,043,057	173,104	-	173,104	174,627	-	174,627
	TOTAL	8,305,080	4,743,057	547,952	-	547,952	335,460	-	335,460
	CONSTRUCTION AND MATERIALS								
10	CHERAT CEMENT COMPANY LIMITED	-	27,217	-	-	-	1,116	920	196
11	LUCKY CEMENT LIMITED	200,000	-	29,930	-	29,930	-	-	-
	TOTAL	200,000	27,217	29,930	-	29,930	1,116	920	196
	AUTOMOBILE AND PARTS								
12	THE GENERAL TYRE & RUBBER CO. OF PAKISTAN LTD.	16,774,292	16,774,292	173,480	-	173,480	173,480	-	173,480
	TOTAL	16,774,292	16,774,292	173,480	-	173,480	173,480	-	173,480
	PERSONAL GOODS								
13	NISHAT (CHUNIAN) LIMITED	88,614	1,766,957	2,086	685	1,401	45,758	14,200	31,558
14	NISHAT MILLS LIMITED	-	449,999	-	-	-	26,230	8,028	18,202
	TOTAL	88,614	2,216,956	2,086	685	1,401	71,988	22,228	49,760
	TELECOMMUNICATION								
15	PAKISTAN TELECOMMUNICATION COMPANY LIMITED (A)	-	4,260,430	-	-	-	88,046	43,781	44,265
	TOTAL	-	4,260,430	-	-	-	88,046	43,781	44,265
	ELECTRICITY								
16	THE HUB POWER COMPANY LIMITED	4,500,000	3,401,028	205,828	-	205,828	106,981	-	106,981
17	KOT ADDU POWER CO. LTD.	3,569,801	2,069,801	157,518	-	157,518	89,166	-	89,166
18	NISHAT CHUNIAN POWER LTD	15,317,302	11,567,302	192,401	-	192,401	123,780	-	123,780
19	NISHAT POWER LIMITED	-	5,999,999	-	-	-	96,561	-	96,561
	TOTAL	23,387,103	23,038,130	555,747	-	555,747	416,488	-	416,488

Sr. No.	Name of Company	Total Shares 2012	Total Shares 2011	2012 Cost	2012 Impairment	2012 Cost after Impairment	2011 Cost	2011 Impairment	2011 Cost after Impairment
				------------------------------------(Rupees in '000)----------------------------------					
	BANKS								
20	ALLIED BANK LIMITED	611,131	-	37,594	-	37,594	-	-	-
21	BANK ALFALAH LIMITED	-	-	-	-	-	-	-	-
22	BANK AL-HABIB LIMITED	410,855	179,653	10,907	-	10,907	5,267	2,768	2,499
23	MCB BANK LIMITED	194,400	-	34,503	-	34,503	-	-	-
24	UNITED BANK LIMITED	1,200,000	2,277,841	89,918	-	89,918	137,338	-	137,338
	TOTAL	2,416,386	2,457,494	172,922	-	172,922	142,605	2,768	139,837
	FINANCIAL SERVICES								
25	SME LEASING LIMITED	225,000	225,000	2,475	1,688	787	2,475	1,687	788
26	DADABHOY LEASING COMPANY LIMITED	10,750	10,750	13	13	-	13	13	-
	TOTAL	235,750	235,750	2,488	1,701	787	2,488	1,700	788
	MUTUAL FUNDS								
27	AL MEEZAN MUTUAL FUND LIMITED	16,895,690	16,895,690	92,279	14,711	77,568	109,543	17,463	92,080
28	MEEZAN BALANCED FUND	11,057,791	11,057,791	110,578	32,068	78,510	110,578	32,068	78,510
29	NAMCO BALANCED FUND	4,339,131	4,249,884	39,351	26,365	12,986	39,357	26,369	12,988
30	PAK OMAN ADVANTAGE FUND	4,990,000	4,990,000	49,900	17,465	32,435	49,900	17,465	32,435
	TOTAL	37,282,612	37,193,365	292,108	90,609	201,499	309,378	93,365	216,013
	PREFERENCE SHARES								
31	MASOOD TEXTILE MILLS LIMITED (CUMULATIVE PREFERENCE SHARES) 12.1%	5,000,000	5,000,000	50,000	-	50,000	50,000	-	50,000
32	PAKISTAN INTERNATIONAL CONTAINER TERMINAL LIMITED (PREFERENCE SHARES) 10%	-	2,500,000	-	-	-	25,000	-	25,000
33	CHENAB LIMITED - NON VOTING CUMULATIVE PREFERENCE SHARES 9.25%	-	1,490,000	-	-	-	13,370	10,837	2,533
34	SECURITY LEASING CORPORATION LIMITED (PREFERENCE SHARES) 9.1%	500,000	500,000	5,029	5,029	-	5,029	5,029	-
	PREFERENCE SHARES TOTAL	5,500,000	9,490,000	55,029	5,029	50,000	93,399	15,866	77,533
	GRAND TOTAL	367,802,244	342,190,682	3,752,481	98,024	3,654,457	3,399,535	180,628	3,218,907

Sr. No.	Name of Company	Total Shares 2012	Total Shares 2011	2012 Cost	2012 Impairment	2012 Cost after Impairment	2011 Cost	2011 Impairment	2011 Cost after Impairment
				------------------------------------(Rupees in '000)----------------------------------					
	HELD FOR TRADING PORTFOLIO								
	TEXTILE COMPOSITE								
1	NISHAT MILLS LIMITED	100,000	-	6,410	-	6,410	-	-	-
	TOTAL	100,000	-	6,410	-	6,410	-	-	-
	TOTAL - HELD FOR TRADING PORTFOLIO	100,000	-	6,410	-	6,410	-	-	-

Pak Kuwait

Annexure - II

As Referred to in Note 9.5 to the financial statements

PARTICULARS OF INVESTMENT IN TERM FINANCE CERTIFICATES

Sr. No	Name of TFCs	2012	2011	2012	2011
		NUMBER OF TFCs		COST (Rupees in '000)	
	Particulars of investments held in listed term finance certificates (TFCs)				
1	FAYSAL BANK LIMITED -TFCs (10-02-2005) Certificate of Rs. 5,000 each Mark up : 13.60% (6-Months Kibor Ask Rate + 1. 90%) Redemption : Half yearly from Feb -2005 Maturity : Feb, 2013	998	3,000	4,992	9,980
2	BANK AL FALAH LIMITED - TFCs (23-11-2004) Certificate of Rs. 5,000 each Mark up : 13.43% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2011 Maturity : Nov, 2012	-	2,760	-	9,123
3	BANK AL FALAH LIMITED - TFCs (25-11-2005) Certificate of Rs. 5,000 each Mark up : 11.04% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2012 Maturity : Nov, 2013	10,058	15,127	50,133	75,133
4	ASKARI COMMERCIAL BANK LIMITED -TFCs (04-02-2005) Certificate of Rs. 5,000 each Mark up : 13.24% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Feb-2013 Maturity : Feb, 2013	5,384	5,400	26,912	26,870
	TOTAL	16,440	26,287	82,037	121,106

Annexure - II

As Referred to in Note 9.5 to the financial statements

PARTICULARS OF INVESTMENT IN TERM FINANCE CERTIFICATES

Sr. No	Name of TFCs	2012 NUMBER OF TFCs	2011 NUMBER OF TFCs	2012 COST (Rupees in '000)	2011 COST (Rupees in '000)
	Particulars of investments held in unlisted term finance certificates (TFCs)				
1	BANK AL FALAH LIMITED Certificate of Rs. 5,000 each Mark up : 12.04% (6-Months KIBOR + 2.50%) Redemption : Half yearly from Dec - 2016 Maturity : Dec - 2017	19,976	19,984	99,880	99,920
2	NEW ALLIED ELECTRONICS INDUSTRIES (PRIVATE) LIMITED Certificate of Rs. 5,000 each Mark up : 16.37% (3-Months KIBOR Ask Rate + 2.75%) Redemption : Quarterly from Aug - 2007 Maturity : May , 2011	4,228	4,228	21,138	21,138
3	DEWAN FAROOQUE SPINNING MILLS LIMITED Certificate of Rs. 5,000 each Mark up : 16.66% (6-Months KIBOR Ask Rate + 3.75%) Redemption : Half yearly from Dec - 2004 Maturity : Dec , 2009	2,500	2,500	12,500	12,500
4	FAYSAL BANK LIMITED Certificate of Rs. 5,000 each Mark up : 11.70% (6-Months KIBOR Ask Rate + 2.25%) Redemption : Half yearly from June - 2011 Maturity : Dec, 2017	64,948	64,974	324,740	324,870
5	BANK AL HABIB Certificate of Rs. 5,000 each Mark up : 15.00% - 15.50% Redemption : Half yearly from December - 2011 Maturity : June, 2021	29,982	29,994	149,910	149,970
	TOTAL	121,634	121,680	608,168	608,398

Pak Kuwait

Consolidated Financial Statements
For the year ended December 31, 2012

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of Pakistan Kuwait Investment Company (Private) Limited (the Holding Company) and its subsidiary company (together referred to as Group) as at 31 December 2012 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement together with the notes forming part thereof for the year then ended. We have also expressed separate audit opinion/review conclusion on the financial statements of the Holding Company and its subsidiary company, First Choice Securities Limited.

These consolidated financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 consolidated financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012 and the results of its operations, its comprehensive income, its changes in equity and its cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants

Audit Engagement Partner: Omer Chughtai

February 04, 2013
Karachi

Consolidated Statement of Financial Position

As at December 31, 2012

2012	2011		Note	2012	2011
(USD in '000)				(Rupees in '000)	
		ASSETS			
336	4,558	Cash and balances with treasury banks	6	32,650	442,766
7,339	254	Balances with other banks	7	712,976	24,653
-	-	Lendings to financial institutions	8	-	-
249,134	164,353	Investments	9	24,203,303	15,966,871
53,962	67,463	Advances	10	5,242,401	6,554,035
2,596	2,904	Operating fixed assets	11	252,233	282,125
-	-	Deferred tax assets	12	-	-
3,721	6,795	Other assets	13	361,485	660,108
317,088	246,327			30,805,048	23,930,558
		LIABILITIES			
-	-	Bills payable		-	-
152,753	94,304	Borrowings	14	14,839,975	9,161,654
10,452	17,773	Deposits and other accounts	15	1,015,429	1,726,601
-	-	Subordinated loans		-	-
-	-	Liabilities against assets subject to finance lease		-	-
2,433	1,235	Deferred tax liabilities	12	236,413	119,981
3,750	3,440	Other liabilities	16	364,285	334,203
169,388	116,752			16,456,102	11,342,439
147,700	129,575	NET ASSETS		14,348,946	12,588,119
		REPRESENTED BY			
61,760	61,760	Share capital	17	6,000,000	6,000,000
33,824	32,063	Reserves	17.3	3,285,976	3,114,865
46,304	34,880	Unappropriated profit		4,498,373	3,388,567
141,888	128,703			13,784,349	12,503,432
		Surplus on revaluation of			
5,812	872	'available-for-sale' securities - net of tax	18	564,597	84,687
147,700	129,575			14,348,946	12,588,119
		CONTINGENCIES AND COMMITMENTS	19		

The annexed notes 1 to 41 and annexure I and II form an integral part of these financial statements.

Chairman Chief Executive Director

Pak Kuwait

Consolidated Profit and Loss Account

For the year ended December 31, 2012

2012	2011		Note	2012	2011
(USD in '000)				(Rupees in '000)	
24,343	22,687	Mark-up / return / interest earned	20	2,364,815	2,204,036
16,528	14,877	Mark-up / return / interest expensed	21	1,605,660	1,445,302
7,815	7,810	Net mark-up / interest income		759,155	758,734
607	1,618	Provision against non-performing loans and advances - net	10.4	58,952	157,175
-	(233)	Recovery against written off advances		-	(22,594)
(29)	(185)	Reversal of provision against non-performing lending to financial institutions		(2,822)	(18,000)
435	942	Provision for diminution / impairment in the value of investments	9.3	42,248	91,502
-	-	Bad debts written off directly		-	-
1,013	2,142			98,378	208,083
6,802	5,668	Net mark-up / interest income after provisions		660,777	550,651
		NON MARK-UP / INTEREST INCOME			
2	36	Fee, commission and brokerage income		228	3,535
1,908	1,777	Dividend income		185,254	172,623
-	-	Income from dealing in foreign currencies		-	-
2,901	2,463	Gain on sale of securities	22	281,804	239,304
-	-	Unrealised loss on revaluation of 'held-for-trading' securities		(25)	-
14,346	12,321	Share in results of associates - Net		1,393,729	1,196,967
223	267	Other income	23	21,708	25,894
19,380	16,864	Total non mark-up / interest income		1,882,698	1,638,323
		NON MARK-UP / INTEREST EXPENSES			
4,524	4,763	Administrative expenses	24	439,516	462,723
471	-	Provision for impairment on operating fixed assets	11.1.3	45,724	-
-	-	Other provisions / write offs		-	-
5	-	Other charges	25	452	-
5,000	4,763	Total non mark-up / interest expenses		485,692	462,723
-	-	Extra ordinary / unusual items		-	-
21,182	17,769	PROFIT BEFORE TAXATION		2,057,783	1,726,251
		Taxation			
3,877	2,848	- Current	26	376,637	276,665
-	-	- Prior years		-	-
414	917	- Deferred	26	40,229	89,059
4,291	3,765			416,866	365,724
16,891	14,004	PROFIT AFTER TAXATION		1,640,917	1,360,527
34,880	25,843	Unappropriated profit brought forward		3,388,567	2,510,618
51,771	39,847	Unappropriated profit carried forward		5,029,484	3,871,145
(USD)		Basic earnings per share		(Rupees)	
70	58	(On share of Rs. 25,000 each)	27	6,837	5,669
(USD)		Diluted earnings per share		(Rupees)	
70	58	(On share of Rs. 25,000 each)	28	6,837	5,669

The annexed notes 1 to 41 and annexure I and II form an integral part of these financial statements.

Chairman | Chief Executive | Director

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2012

2012	2011		2012	2011
(USD in '000)			(Rupees in '000)	
16,891	14,004	Profit for the year	1,640,917	1,360,527
-	-	Other comprehensive income	-	-
16,891	14,004	Comprehensive income transferred to equity	1,640,917	1,360,527
		Component of comprehensive income not transferred to equity		
5,741	(1,243)	Surplus / (deficit) on revaluation of 'available-for-sale' securities	557,726	(120,721)
(784)	(355)	Deferred tax on revaluation of 'available-for-sale' securities	(76,203)	(34,461)
21,848	12,406	Total comprehensive income	2,122,440	1,205,345

The annexed notes 1 to 41 and annexure I and II form an integral part of these financial statements.

Chairman Chief Executive Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2012

	Share capital	Reserves Statutory	Unappropriated profit	Total
	------------------------------(Rupees in '000)------------------------------			
Balance as at January 1, 2011	6,000,000	2,992,287	2,510,618	11,502,905
Profit for the year ended December 31, 2011	-	-	1,360,527	1,360,527
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	1,360,527	1,360,527
Final dividend for the year ended December 31, 2010 @ Rs.1,500 per share approved subsequent to year end	-	-	(360,000)	(360,000)
Transfer to statutory reserve	-	122,578	(122,578)	-
Balance as at December 31, 2011	6,000,000	3,114,865	3,388,567	12,503,432
Profit for the year ended December 31, 2012	-	-	1,640,917	1,640,917
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	1,640,917	1,640,917
Final dividend for the year ended December 31, 2011 @ Rs.1,500 per share approved subsequent to year end	-	-	(360,000)	(360,000)
Transfer to statutory reserve	-	171,111	(171,111)	-
Balance as at December 31, 2012	6,000,000	3,285,976	4,498,373	13,784,349

The annexed notes 1 to 41 and annexure I and II form an integral part of these financial statements.

Chairman | Chief Executive | Director

Consolidated Cash Flow Statement

For the year ended December 31, 2012

2012	2011		Note	2012	2011
(USD in '000)				(Rupees in '000)	
		CASH FLOW FROM OPERATING ACTIVITIES			
21,182	17,769	Profit before taxation		2,057,783	1,726,251
(1,907)	(1,777)	Less: Dividend income		(185,254)	(172,623)
19,275	15,992			1,872,529	1,553,628
		Adjustments for:			
138	157	Depreciation		13,359	15,228
59	18	Amortisation		5,726	1,783
471	-	Provision for impairment on operating fixed assets		45,724	-
607	1,618	Provision against non-performing loans and advances - net		58,952	157,175
-	(233)	Recovery against written off advances		-	(22,594)
(29)	(185)	Reversal of provision against non performing lending to financial institutions		(2,822)	(18,000)
435	942	Provision for diminution / impairment in the value of investments		42,248	91,502
(15)	(12)	Gain on disposal of operating fixed assets		(1,434)	(1,151)
(14,346)	(12,321)	Share in results of associates - net		(1,393,729)	(1,196,967)
-	-	Unrealised loss on revaluation of 'held-for-trading' securities		25	-
(12,680)	(10,016)			(1,231,951)	(973,024)
6,595	5,976			640,578	580,604
		Decrease / (increase) in operating assets			
29	2,759	Lendings to financial institutions		2,822	268,000
(66)	(368)	'Held-for-trading' securities		(6,385)	(35,712)
12,894	(17,699)	Advances		1,252,682	(1,719,426)
992	(442)	Others assets (excluding advance taxation)		96,368	(42,957)
13,849	(15,750)			1,345,487	(1,530,095)
		Increase / (decrease) in operating liabilities			
58,449	(6,647)	Borrowings		5,678,321	(645,715)
(7,320)	(14,533)	Deposits and other accounts		(711,172)	(1,411,911)
313	2	Other liabilities (excluding current taxation)		30,392	196
51,442	(21,178)			4,997,541	(2,057,430)
71,886	(30,952)			6,983,606	(3,006,921)
(1,795)	(3,448)	Income tax paid		(174,386)	(334,931)
70,091	(34,400)	*Net cash inflow / (outflow) in operating activities*		6,809,220	(3,341,852)
		CASH FLOW FROM INVESTING ACTIVITIES			
(70,150)	22,981	Net investment in 'available-for-sale' securities / subsidiaries		(6,815,041)	2,232,585
6,974	5,279	Dividend income received		677,511	512,823
(360)	(416)	Investments in operating fixed assets		(34,937)	(40,416)
15	33	Sale proceeds of operating fixed assets		1,454	3,167
(63,521)	27,877	*Net cash (outflow) / inflow from investing activities*		(6,171,013)	2,708,159
		CASH FLOW FROM FINANCING ACTIVITIES			
(3,706)	(3,706)	Dividend paid		(360,000)	(360,000)
(3,706)	(3,706)	*Net cash used in financing activities*		(360,000)	(360,000)
2,864	(10,229)	Increase / (decrease) in cash and cash equivalents		278,207	(993,693)
4,811	15,040	Cash and cash equivalents at beginning of the year		467,419	1,461,112
7,675	4,811	Cash and cash equivalents at end of the year	29	745,626	467,419

The annexed notes 1 to 41 and annexure I and II form an integral part of these financial statements.

Chairman | Chief Executive | Director

Pak Kuwait

Notes to and Forming Part of the Consolidated Financial Statements

For the year ended December 31, 2012

1. STATUS AND NATURE OF BUSINESS

Pakistan Kuwait Investment Company (Private) Limited ("the holding company") was incorporated in Pakistan as a Private Limited Company on March 17, 1979. The registered office is situated at 4th Floor, Block ‘C’, Finance and Trade Centre, Shahrah-e-Faisal, Karachi. The holding company has it's representative office in Lahore. The holding company is a 50:50 joint venture between the Governments of Pakistan and Kuwait. The objective of the holding company is to profitably promote industrial investments in Pakistan.

The Group has a 100% owned subsidiary, First Choice Securities Limited (FCSL). FCSL’s principal business includes equity brokerage, commodity brokerage, equity research and corporate advisory services. FCSL has not started its operations.

The Group's associates are as follows:

Entity / Fund	Nature of Business	Percentage holding	
		2012	2011
Meezan Bank Limited (MBL)	Scheduled Islamic Commercial Bank engaged in commercial, consumer and investment banking activities	30.00	30.00
Plexus (Private) Limited	Business of development and export of IT enabled services and internet solution	50.00	50.00
Pak Kuwait Takaful Company Limited (PKTCL)	To undertake Takaful (insurance) business	30.00	30.00
Falcon Greenwood (Private) Limited (FGL)	Engaged in business of real estate	25.45	25.45
The General Tyre and Rubber Company of Pakistan Limited (GTR)	Manufacturing of tyres and tubes for automobiles	28.06	28.06
Al Meezan Investment Management Limited (AMIML)	Investment advisory, portfolio management, equity research, under-writing and corporate finance	30.00	30.00
Al Meezan Mutual Fund Limited (AMMFL)*	Open end mutual fund. Formed under the Investment Companies and Investment Advisor Rules, 1971.	11.98	12.28
Meezan Balanced Fund (MBF)*	Closed-end scheme established under a trust deed executed between AMIML as the investment advisor and the Central Depository Company of Pakistan Limited (CDC) as the trustee	9.21	9.21
National Clearing Company Limited (NCCL)*	Business of clearing and settlement of securities through the National Clearing and Settlement System (NCSS)	17.65	17.65

All of the associates are incorporated in Pakistan.

*These have been treated as associates due to Group's representation on their Board of Directors.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the requirements of the format prescribed by the State Bank of Pakistan's (SBP) BSD Circular No. 4 dated February 17, 2006 and BSD Circular letter No. 07 dated April 20, 2010.

The US Dollar amounts presented in the statement of financial position, profit and loss account, statement of comprehensive income and cash flow statement are converted at the rate of Rs. 97.15, prevalent at December 31, 2012, for 2012 and 2011. This information is presented only for the convenience of users of the financial statements as additional information.

3. STATEMENT OF COMPLIANCE

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

The SBP through its BSD Circular letter No. 11 dated September 11, 2002 has deferred the implementation of IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 40 'Investment Property' for Non-Banking Financial Institutions (NBFIs) in Pakistan. Further, SECP has deferred the implementation of IFRS 7 'Financial Instruments: Disclosures' through SRO 411(1)/ 2008. Accordingly, the requirements of these International Financial Reporting Standards (IFRSs) and their respective interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), have not been considered in preparation of these financial statements.

4. 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.

These financial statements are presented in Pakistan Rupees which is the Group's functional currency.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of Consolidation

5.1.1 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. This in general is evidenced when the company directly or indirectly controls, beneficially owns or holds more than 50 percent of the voting securities or otherwise has power to elect and appoint more than 50 percent of its directors. The financial statements of the subsidiary are prepared, using consistent accounting policies, for the same reporting year. These financial statements are included in the consolidated financial statements from the date the control commences until the date the control ceases.

5.1.2 Associates

Associates are those entities on which the Group has significant influence, but does not have control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounting basis, from the date significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligation.

5.1.3 Transactions eliminated on consolidation

Intra group balances and any unrealized gains and losses or income and expenses arising from intra group transactions are eliminated in preparing consolidated financial statements.

5.2 Standards, interpretations and amendments effective in current year

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as follows:

The Group has adopted the following amended IFRS which became effective during the year:

IAS 12 – Income Taxes - Recovery of Underlying Assets (Amendment)

The adoption of the above amendments did not have any material effect on the financial statements.

5.3 Accounting standards not yet effective

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards or interpretations.

Standard or interpretation	Effective date (accounting periods) beginning
IAS 1 – Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	01 July 2012
IAS 19 – Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	01 January 2013
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	01 January 2013

The Group expects that the adoption of the above revisions, amendments and interpretations of the standards will not materially affect the Group's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2013. The Group expects that such improvements will not have any material impact on the Group's financial statements in the period of initial application which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

	Effective date (accounting periods) beginning
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2015
IFRS 10 - Consolidated Financial Statements	01 January 2013
IFRS 11 - Joint Arrangements	01 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 - Fair Value Measurement	01 January 2013

5.4 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury and other banks in current and deposit accounts.

5.5 Lendings to / borrowings from financial institutions

The holding company enters into secured and unsecured lending and borrowing transactions with financial institutions. These are recorded as under:

Sale under repurchase agreement

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repo agreement.

Purchase under resale agreement

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. Amounts paid under these agreements are included in reverse repurchase agreement lendings. The difference between purchase and resale price is accrued as income over the term of the reverse repo agreement.

Other borrowings

Other borrowings including borrowings from SBP are recorded at the proceeds received. Mark-up on such borrowings is charged to the profit and loss account on a time proportion basis.

Other lendings

Lendings are stated net of provision. Mark-up on such lending is charged to the profit and loss account on a time proportion basis except mark-up on impaired / delinquent lendings, which is recognized on receipt basis.

5.6 Investments

Classification

The Group classifies its investments other than those in associates based on the criteria set out in BSD Circular Nos. 10, 11 and 14 dated July 13, 2004, August 04, 2004 and September 24, 2004 respectively. The investments are classified in the following categories as per SBP guidelines:

- Held for trading investments, investments which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and shall be sold within 90 days.

- Held-to-maturity investments, the Group classifies non derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Group evaluates its intention and ability to hold such investment to maturity.

- Available-for-sale investments, investments which are not eligible to be classified as 'held for trading' or 'held to maturity' are classified as 'available-for-sale'.

- Strategic investments, investments that meet the threshold as specified in the Prudential Regulations issued by SBP shall be classified as strategic investments.

Initial Recognition

Investments that are held for trading are measured at their fair values in accordance with requirements of SBP. An investment (other than investment that is held for trading) is measured at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the investment.

Subsequent Recognition

Investments in government securities and quoted investments, categorised as ‘held-for-trading’ and ‘available-for-sale’ are valued at rates quoted on PKRV (Reuters Page) and market values as at the date of statement of financial position respectively. Any surplus or deficit arising as a result of revaluation of securities categorised as ‘held-for-trading’ is taken to profit and loss account and that of ‘available-for-sale’ is taken to the statement of financial position, and shown below equity.

Furthermore, investments classified as ‘held-to-maturity’ are stated at their amortised cost less impairment in value, if any.

Unquoted investments are stated at lower of cost and break-up value based on latest available financial statements.

Impairment loss is recognised whenever the carrying amount of an investment exceeds its recoverable amount. An impairment loss is taken to profit and loss account. Gain / loss on sale of investments during the year is included in profit and loss account.

Premium or discount on acquisition of government securities and listed term finance certificates is amortised over the period to maturity under effective interest method.

5.7 Trade date accounting

All purchase and sale of investments that require delivery within the time frame established by regulations or market convention are recognized at trade date. Trade date is a date on which the Group commits to purchase and sell the investments.

5.8 Advances including net investment in finance leases

Advances are stated net of provision for doubtful debts. Provision for doubtful debts is determined on the basis of ‘Prudential Regulations’ issued by the SBP and the Credit Policy of the holding company. The provision is charged to the profit and loss account.

Advances are written off when there are no realistic prospects of recovery.

Leases, where substantially all risks and rewards incidental to ownership of an asset are transferred to the lessee, are classified as finance lease. A receivable is recognised at an amount equal to the present value of the lease payments. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

5.9 Operating fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment loss (if any) except leasehold land which is stated at cost.

Depreciation is charged to profit and loss account applying the straight line method whereby the cost of an asset is written off over its estimated useful life. Depreciation is charged in the month of purchase and no depreciation is charged in the month of disposal. Depreciation is charged at the rates stated in note 11.1.

Maintenance and normal repairs are charged to income as and when incurred.

Profit or loss on the sale or retirement of fixed assets is taken to profit and loss account.

5.10 Intangible assets

Intangible assets with definite useful lives are stated at cost less accumulated amortization and accumulated impairment loss (if any). Amortization is charged on a straight line basis over their estimated useful lives. Amortization is charged at the rates stated in note 11.3.

5.11 Certificates of investment (COI) / deposits

COI / deposits are initially recorded at the amount of proceeds received. Mark-up accrued is recognized separately as part of other liabilities and is charged to the profit and loss account on a time proportion basis.

5.12 Revenue recognition

i) Dividend income is recognised when the Group's right to receive payment is established.

ii) Income from loans, term finance certificates, debentures, bank deposits, government securities and reverse repo transactions is recognised under effective interest method, except where recovery is considered doubtful, the income is recognised on receipt basis.

iii) The holding company follows the finance method in recognising income on lease contracts. Under this method the unearned income i.e. the excess of aggregate lease rentals and the estimated residual value over the cost of the leased asset is deferred and then amortised over the term of the lease, so as to produce a constant rate of return on net investment in the lease.

iv) Gain on sale of securities is recognised at the time of sale of relevant securities.

v) Advisory income is recognised as the services are rendered.

vi) Brokerage, commission, advisory fee and other income of FCSL are accrued as and when due.

5.13 Taxation

Current

The charge for current taxation is based on taxable income at the current rates of taxation after taking into account the tax credits and tax rebates available, if any and any adjustments to any tax payable relating to prior years.

Deferred

The Group accounts for deferred taxation using the balance sheet liability method providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Deferred tax assets and liabilitites are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and any unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, carry forward of unused tax assets and unused tax losses can be utilised.

Deferred tax relating to gain / (loss) recognised in surplus / (deficit) on revaluation of investments is charged / (credited) to such account.

5.14 Staff retirement benefits

Defined benefit plan

The holding company operates a funded gratuity scheme for all its eligible permanent employees. 'Projected unit credit method' has been used for actuarial valuation. Actuarial gains or losses in excess of 10% of the present value of defined benefit obligation and fair value of plan assets, whichever is higher, are recognised over the expected average remaining working life of the employees.

The last actuarial valuation of the employees' defined benefit plan was conducted as of December 31, 2012.

Defined contribution plan

The holding company also operates a recognised provident fund scheme for its employees. Equal monthly contributions are made, both by the holding company and the employees, to the fund at the rate of 10% of the salary. Contributions from the holding company are charged to profit and loss account for the year.

5.15 Employees' compensated absences

Liability in respect of employees' compensated absences is recognised on the basis of actuarial valuation and is accounted for in the period in which these are earned. The actuarial valuation is carried out using 'Projected unit credit method'.

The last actuarial valuation of the employees' compensated absences was conducted as of December 31, 2012.

5.16 Derivative financial instruments

Derivative financial instruments are initially measured at fair value and subsequently remeasured at fair value. The gain or loss on remeasurement to fair value is recognised in profit and loss account.

5.17 Impairment

The carrying amount of the assets, other than deferred tax asset and investments, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are reversed when there is an indication that impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

5.18 Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

5.19 Foreign currency

Foreign currency transactions are recorded at the rates prevailing on the date of transactions. Monetary assets and liabilities in foreign currency are reported in Pakistan Rupees at the rates of exchange prevailing on the date of statement of financial position. Exchange gains and losses are included in income currently.

5.20 Off-setting of financial assets and financial liabilities

‘Financial assets’ and ‘financial liabilities’ are only offset and the net amount is reported in the statement of financial position if the Group has a legal right to set-off the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

5.21 Earnings per share

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

5.22 Dividend distribution

Dividends (including bonus dividend) are recognized in the period in which these are approved.

5.23 Segment information

A segment is a distinguishable component of the Group 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 Group's primary format of reporting is based on business segments.

Business segments

Following are the main segments of the Group:

Corporate Finance	Includes loans, advances, leases and other transactions with corporate customers.
Treasury	Undertakes holding 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 holding company.
Capital Market	Includes trading in listed securities with a view to trade and earn the benefit of market fluctuations and to hold securities for dividend income and capital gain.
Investment Banking	Undertakes advisory services including mergers and acquisitions, listed debt syndication, trustee activities and other investment banking activities.

Geographical segments

All the Group’s business segments operate in Pakistan only

5.24 Accounting estimates and judgement

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form basis of making the judgements about carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision 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 its revision and future periods if the revision affects both current and future periods.

Judgements made by the management in the application of approved accounting standards that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 39.

6. CASH AND BALANCES WITH TREASURY BANKS

	Note	2012	2011
		(Rupees in '000)	
Cash in hand in local currency		50	60
With State Bank of Pakistan in			
- local currency current account		32,588	42,593
With National Bank of Pakistan in			
- local currency current account		12	113
- local currency deposit account		-	400,000
		32,650	442,766

7. BALANCES WITH OTHER BANKS

	Note	2012	2011
In Pakistan			
- current account		88	171
- deposit account	7.1	712,888	24,482
		712,976	24,653

7.1 This includes placements amounting to Rs. 700 million (2011: nil). The return on these placements ranges between 9.50 and 9.95 (2011: nil) percent per annum and the maturity is between 32 days and 59 days after the statement of financial position date.

8. LENDINGS TO FINANCIAL INSTITUTIONS

	2012	2011
	(Rupees in '000)	
Certificates of investment (COIs) in local currency	-	2,822
Provision against COI	-	(2,822)
	-	-

9. INVESTMENTS

9.1 Investments by type

	Note	2012 Held by the Group	2012 Given as collateral	2012 Total	2011 Held by the Group	2011 Given as collateral	2011 Total
		(Rupees in '000)					
Held-for-trading securities							
Shares of listed companies		6,410	-	6,410	-	-	-
Available-for-sale securities							
Market treasury bills		2,596,379	10,684,921	13,281,300	852,049	6,031,097	6,883,146
Pakistan investment bonds		1,642,868	-	1,642,868	1,640,304	-	1,640,304
Shares of listed companies		1,801,711	-	1,801,711	1,393,125	-	1,393,125
Shares of unlisted companies		127,686	-	127,686	125,155	-	125,155
Listed preference shares		55,029	-	55,029	93,399	-	93,399
Listed term finance certificates		82,037	-	82,037	121,109	-	121,109
Unlisted term finance certificates		608,168	-	608,168	608,398	-	608,398
		6,913,878	10,684,921	17,598,799	4,833,539	6,031,097	10,864,636
Associates		6,479,283	-	6,479,283	5,443,111	-	5,443,111
Total investments - at cost		13,399,571	10,684,921	24,084,492	10,276,650	6,031,097	16,307,747
Provision for diminution / impairment in the value of investments	9.3 & 39.3	(158,273)	-	(158,273)	(230,587)	-	(230,587)
Total investments - net of provisions		13,241,298	10,684,921	23,926,219	10,046,063	6,031,097	16,077,160
Deficit on revaluation of 'held -for-trading' securities	9.4	(25)	-	(25)	-	-	-
Surplus / (deficit) on revaluation of 'available-for-sale' securities		267,436	9,673	277,109	(96,986)	(13,303)	(110,289)
Total investments at market value		13,508,709	10,694,594	24,203,303	9,949,077	6,017,794	15,966,871

9.2 Investments by segments

	Note	2012	2011
		(Rupees in '000)	
Federal Government Securities			
- Market treasury bills	9.2.1	13,281,300	6,883,146
- Pakistan investment bonds	9.2.2	1,642,868	1,640,304
Fully paid up Ordinary Shares			
- Listed companies		1,808,121	1,393,125
- Unlisted companies	9.2.3	127,686	125,155
		1,935,807	1,518,280
Preference Shares			
- Listed companies		55,029	93,399
Term Finance Certificates (TFCs)			
- Listed		82,037	121,109
- Unlisted		608,168	608,398
		690,205	729,507
Investments in Associates			
Ordinary shares-listed companies			
- Meezan Bank Limited	9.2.4	5,093,010	4,210,596
- The General Tyre & Rubber Co. of Pakistan Ltd.		394,582	360,441
Mutual Funds			
- Al Meezan Mutual Fund		216,107	173,172
- Meezan Balanced Fund		138,945	122,290
Ordinary shares-unlisted companies			
- Al Meezan Investment Management Limited	9.2.3	388,548	342,498
- Plexus (Private) Limited		-	-
- Pak Kuwait Takaful Company Limited		156,478	144,517
- National Clearing Company of Pakistan Limited		67,799	65,783
- Falcon Greenwood (Private) Limited		23,814	23,814
		6,479,283	5,443,111
Total investments - at cost		24,084,492	16,307,747
Provision for diminution / impairment in the value of investments	9.3 & 39.3	(158,273)	(230,587)
Total investments - net of provisions		23,926,219	16,077,160
Deficit on revaluation of 'held-for-trading' securities	9.4	(25)	-
Surplus / (deficit) on revaluation of 'available-for-sale' securities		277,109	(110,289)
		277,084	(110,289)
Total investments		24,203,303	15,966,871

9.2.1 The investments in market treasury bills are maturing between January 24, 2013 and May 16, 2013 (2011: September 20, 2012 and November 1, 2012) and the effective interest ranges between 9.27 and 11.87 (2011: 11.80 and 12.80) percent per annum.

9.2.2 The investments in Pakistan investment bonds are maturing between August 30, 2013 and September 3, 2019 (2011: August 30, 2013 and September 3, 2019) and the effective interest ranges between 11.45 and 13.18 (2011: 11.45 and 13.18) percent per annum.

9.2.3 The investments also include Faysal Management Services (Private) Limited and Al-Meezan Investment Management Limited which can be sold only with prior permission of SECP.

9.2.4 Investments in shares of Meezan Bank Limited costing Rs. 1,520 million and market value of Rs. 8,144 million (2011: Cost Rs. 1,520 million, market value Rs.4,187 million) are held as strategic investment in terms of Prudential Regulation applicable to Corporate / Commercial Banking which can be sold only with prior permission of SBP.

9.3 Particulars for impairment / diminution in the value of investments	2012	2011
	(Rupees in '000)	
Opening balance	230,587	190,203
Charge for the year	42,248	91,502
Reversals due to sale of impaired securities	(114,562)	(51,118)
	(72,314)	40,384
Closing balance	158,273	230,587

9.3.1 Particulars of provision in respect of type and segment		
'Available-for-sale' securities	158,273	230,587
	158,273	230,587

9.4 Deficit on revaluation of 'held-for-trading' securities		
Fully paid up ordinary shares	(25)	-
	(25)	-

9.5 Information relating to quality of 'available-for-sale' securities and investments in shares of listed and unlisted companies, redeemable capital required to be disclosed as part of the financial statements under the SBP's BSD Circular No. 4 dated February 17, 2006, are given in Annexure "I" and "II", which are an integral part of these financial statements.

9.6 Summary of financial information of associates

Associates	Accounting date	Assets	Liabilities	Equity	Revenue	Profit / (loss)
	----------(Rupees in '000)----------					
2012						
Meezan Bank Limited	30-Sep-12	240,829,984	223,304,244	17,525,740	16,056,281	4,893,788
Plexus (Private) Limited	31-Dec-09	15,980	7,146	8,834	9,368	(2,100)
Pak Kuwait Takaful Company Limited	30-Jun-12	718,498	196,905	521,593	296,752	35,874
Falcon Green Wood (Private) Limited	30-Jun-10	706,750	38,364	668,386	-	(107)
The General Tyre & Rubber Company of Pakistan Limited	30-Sep-12	5,525,542	4,119,539	1,406,003	1,550,672	6,513
Al Meezan Investment Management Limited	30-Jun-12	1,824,728	429,568	1,395,160	726,177	380,954
Al Meezan Mutual Fund Limited	31-Dec-12	1,820,818	16,790	1,804,028	227,291	208,020
Meezan Balanced Fund	31-Dec-12	1,547,695	39,856	1,507,839	166,810	141,590
National Clearing Company of Pakistan Limited	30-Jun-12	1,066,706	674,545	392,161	126,280	14,237

The above information is based on latest available financial statements.

Associates

	Accounting date	Assets	Liabilities	Equity	Revenue	Profit / (loss)
	-----------------	(Rupees in '000)	-----------------			
2011						
Meezan Bank Limited	30-Sep-11	181,372,514	166,875,178	14,497,336	13,238,119	3,633,567
Plexus (Private) Limited	31-Dec-09	15,980	7,146	8,834	9,368	(2,100)
Pak Kuwait Takaful Company Limited	30-Sep-11	668,543	186,820	481,723	185,164	15,022
Falcon Green Wood (Private) Limited	30-Jun-10	706,750	38,364	668,386	-	(107)
The General Tyre & Rubber Company of Pakistan Limited	30-Sep-11	5,604,358	4,320,011	1,284,347	1,288,509	(55,310)
Al Meezan Investment Management Limited	30-Jun-11	1,542,569	400,908	1,141,661	722,500	436,766
Al Meezan Mutual Fund Limited	31-Dec-11	1,424,470	14,754	1,409,716	89,111	47,647
Meezan Balanced Fund	31-Dec-11	1,351,119	24,020	1,327,099	107,791	72,712
National Clearing Company of Pakistan Limited	30-Jun-11	911,588	538,819	372,769	101,636	(3,381)

The above information is based on latest available financial statements.

10. ADVANCES

	Note	2012	2011
		(Rupees in '000)	
In Pakistan			
Advances		5,567,283	6,622,329
Net investment in finance leases	10.2	1,311,860	1,509,496
		6,879,143	8,131,825
Provision for non-performing advances	10.4	(1,636,742)	(1,577,790)
Advances net of provision		5,242,401	6,554,035

10.1 Particulars of gross advances

	2012	2011
In local currency	6,879,143	8,131,825
Short term (for upto one year)	3,379,965	2,261,669
Long term (for over one year)	3,499,178	5,870,156
	6,879,143	8,131,825

10.2 Net investment in finance leases

	2012				2011			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	-----------------			(Rupees in '000)	-----------------			
Lease rentals receivable	910,945	512,939	38,709	1,462,593	897,871	834,580	58,449	1,790,900
Residual value	52,405	50,344	-	102,749	48,215	32,967	717	81,899
Minimum lease payments	963,350	563,283	38,709	1,565,342	946,086	867,547	59,166	1,872,799
Financial charges for future periods	162,022	86,197	5,263	253,482	194,322	158,980	10,001	363,303
Present value of minimum lease payments	801,328	477,086	33,446	1,311,860	751,764	708,567	49,165	1,509,496

10.2.1 The holding company has entered into lease agreements with various companies for lease of vehicles and plant and machinery. The amount recoverable under these arrangements are receivable latest by the year 2020 and are subject to finance income at rates ranging between 7.0 and 21.83 (2011: 7.0 and 21.83) percent per annum.

10.2.2 In respect of the aforementioned finance leases the holding company holds an aggregate sum of Rs.80.535 million (2011:Rs.81.723million) as security deposits on behalf of the lessees which are included under other liabilities (note 16).

10.3 Advances include Rs. 1,771.283 million (2011: Rs. 1,723.232 million) which have been placed under non-performing status as detailed below:

	2012			2011		
Category of classification	Classified Advances	Provision Required	Provision Held	Classified Advances	Provision Required	Provision Held
	(Rupees in '000)					
Substandard	-	-	-	4,167	1,042	1,042
Doubtful	269,081	134,540	134,540	284,633	142,316	142,316
Loss	1,502,202	1,502,202	1,502,202	1,434,432	1,434,432	1,434,432
	1,771,283	1,636,742	1,636,742	1,723,232	1,577,790	1,577,790

10.4 Particulars of provision against non-performing advances - specific

	2012	2011
	(Rupees in '000)	
Opening balance	1,577,790	1,420,615
Charge for the year	83,074	270,662
Reversals	(24,122)	(113,487)
	58,952	157,175
Amounts written off	-	-
Closing balance	1,636,742	1,577,790

10.4.1 Local currency	1,636,742	1,577,790
Foreign currency	-	-
	1,636,742	1,577,790

10.5 Particulars of write offs

The Group has not written off any loans and advances or allowed any financial relief during the year.

10.6 Particulars of loans and advances to holding company's staff included in advances

Opening balance	143,730	132,280
Disbursements during the year	37,251	35,761
Repayments during the year	(57,020)	(24,311)
	(19,769)	11,450
Balance at end of the year	123,961	143,730

11. OPERATING FIXED ASSETS

	Note	2012	2011
		(Rupees in '000)	
Property and equipment	11.1	171,318	229,332
Capital work in progress	11.2	3,150	2,350
Intangible assets	11.3	77,765	50,443
		252,233	282,125

11.1 Property and equipment

2012

	Cost			Depreciation			Impairment	Net book	Rate of
	As at January 1, 2012	Additions / transfers/ (disposals)	As at December 31, 2012	As at January 1, 2012	Charge / (disposals)	As at December 31, 2012	(Note11.1.3)	value as at December 31, 2012	depreciation
	(Rupees in '000)								%
Leasehold land	100	-	100	-	-	-	-	100	-
Building on lease hold land	237,503	-	237,503	40,386	463	40,849	45,724	150,930	2.50 - 20.00
Furniture and fixtures	17,367	-	14,262	10,303	1,489	8,707	-	5,555	20.00
		(3,105)			(3,085)				
Motor vehicles	12,998	-	12,016	7,711	1,741	8,470	-	3,546	20.00
		(982)			(982)				
Office equipment	50,121	956	50,435	30,474	9,605	39,437	-	10,998	33.33
		(642)			(642)				
Electrical appliances	2,072	133	1,684	1,955	61	1,495	-	189	20.00
		(521)			(521)				
	320,161	1,089	316,000	90,829	13,359	98,958	45,724	171,318	
		(5,250)			(5,230)				

2011

	Cost			Depreciation			Impairment	Net book	Rate of
	As at January 1, 2011	Additions / transfers/ (disposals)	As at December 31, 2011	As at January 1, 2011	Charge / (disposals)	As at December 31, 2011		value as at December 31, 2011	depreciation
	(Rupees in '000)								%
Leasehold land	100	-	100	-	-	-	-	100	-
Building on lease hold land	233,522	3,981	237,503	34,340	6,046	40,386	-	197,117	2.50 - 20.00
Furniture and fixtures	10,184	7,183	17,367	9,988	315	10,303	-	7,064	20.00
Motor vehicles	20,281	1,810	12,998	12,854	1,934	7,711	-	5,287	20.00
		(9,093)			(7,077)				
Office equipment	38,746	17,691	50,121	29,919	6,871	30,474	-	19,647	33.33
		(6,316)			(6,316)				
Electrical appliances	1,972	100	2,072	1,893	62	1,955	-	117	20.00
	304,805	30,765	320,161	88,994	15,228	90,829	-	229,332	
		(15,409)			(13,393)				

11.1.1 Included in cost of property and equipment are fully depreciated items still in use having cost of:

	2012
	(Rupees in '000)
Furniture and fixtures	6,793
Motor vehicles	2,980
Office equipment	22,375
Electrical appliances	1,382

11.2 Capital work-in-progress

	2012	2011
	(Rupees in '000)	
Advance for purchase of room	3,150	2,350

The above comprise of advance in respect of a room at National Commodity Exchange Limited and the possession of the room has not yet been given in the name of the subsidiary company. The subsidiary company is pursuing the transfer of room in its name and considers that the fair value of advance is higher than the carrying value.

11.3 Intangible assets

	2012							
	Cost			Amortization			Net book value	Rate of
	As at January 1, 2012	Additions / (disposals)	As at December 31, 2012	As at January 1, 2012	Charge / (disposals)	As at December 31, 2012	as at December 31, 2012	amortization
	(Rupees in '000)							%
Software	15,029	33,048	48,077	2,336	5,726	8,062	40,015	20.00
KSE (Guarantee) Limited Card (Note 11.3.1)	34,750	-	34,750	-	-	-	34,750	-
NCEL Card	3,000	-	3,000	-	-	-	3,000	-
	52,779	33,048	85,827	2,336	5,726	8,062	77,765	

	2011							
	Cost			Amortization			Net book value	Rate of
	As at January 1, 2011	Additions / (disposals)	As at December 31, 2011	As at January 1, 2011	Charge / (disposals)	As at December 31, 2011	as at December 31, 2011	amortization
	(Rupees in '000)							%
Software	5,378	9,651	15,029	553	1,783	2,336	12,693	20.00
KSE (Guarantee) Limited Card	34,750	-	34,750	-	-	-	34,750	-
NCEL Card	3,000	-	3,000	-	-	-	3,000	-
	43,128	9,651	52,779	553	1,783	2,336	50,443	

11.3.1 In accordance with the requirements of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 (The Act), the subsidiary company was entitled to receive equity shares of the Karachi Stock Exchange Limited (KSE) and a Trading Right Entitlement in lieu of its membership cards of KSE.

The said process of demutualization was finalized during the year and the subsidiary company has been alloted 4,007,383 shares of KSE of Rs. 10/- each based on the valuation of their assets and liabilities as approved by the SECP. The subsidiary company has received 40% equity shares i.e. 1,602,953 shares of KSE. The remaining 60% shares are transferred to blocked CDC account maintained by KSE. The valuation of Trading Right Entitlement and the accounting treatment of shares received from KSE are under discussion with the Technical Committee of the Institute of Chartered Accountants of Pakistan (ICAP) and will be finalized in due course.

Pak Kuwait

12. DEFERRED TAX ASSETS / (LIABILITIES)

	Balance January 01, 2012	Recognised in profit and loss	Recognised in equity	Balance December 31, 2012
	--------(Rupees in '000)--------			
Debit / (credit) balances arising on account of				
Accelerated tax depreciation allowance	(38,193)	14,975	-	(23,218)
Provision for staff retirement gratuity and compensated absences	8,074	(121)	-	7,953
Finance lease arrangements	(275,474)	23,226	-	(252,248)
Share of profits from Associates	(395,388)	(97,956)	(15,415)	(508,759)
Provision against non-performing advances	561,133	19,645	-	580,778
Surplus / (deficit) on revaluation of 'held-for-trading' securities	-	2	-	2
Surplus / (deficit) on revaluation of 'available-for-sale' securities	19,867	-	(60,788)	(40,921)
	(119,981)	(40,229)	(76,203)	(236,413)

	Balance January 01 2011	Recognised in profit and loss	Recognised in equity	Balance December 31, 2011
	--------(Rupees in '000)--------			
Debit / (credit) balances arising on account of				
Accelerated tax depreciation allowance	(11,830)	(26,363)	-	(38,193)
Provision for staff retirement gratuity and compensated absences	7,799	275	-	8,074
Finance lease arrangements	(270,143)	(5,331)	-	(275,474)
Share of profits from Associates	(276,094)	(106,264)	(13,030)	(395,388)
Provision against non-performing advances	512,421	48,712	-	561,133
Surplus / (deficit) on revaluation of 'held-for-trading' securities	88	(88)	-	-
Surplus / (deficit) on revaluation of 'available-for-sale' securities	41,298	-	(21,431)	19,867
	3,539	(89,059)	(34,461)	(119,981)

13. OTHER ASSETS

	2012	2011
	(Rupees in '000)	
Income / mark-up accrued in local currency	147,559	219,666
Advances, deposits, prepayments and other receivables	33,742	57,779
Advance Tax	180,184	382,663
	361,485	660,108

		Note	2012	2011
			(Rupees in '000)	
14.	BORROWINGS			
	In Pakistan		14,839,975	9,161,654
14.1	Particulars of borrowings with respect to currencies			
	In local currency		14,839,975	9,161,654
14.2	Details of borrowings secured / unsecured			
	Secured			
	Repurchase agreement borrowings - Government securities	14.2.1	10,694,704	6,025,238
	Borrowings from SBP			
	Under Long Term Facility - Export Oriented Project (LTF-EOP)	14.2.2	71,899	116,044
	Under Long Term Finance Facility (LTFF)	14.2.3	305,285	248,997
	Under Finance Facility for Storage of Agricultural Produce (FFSAP)	14.2.4	18,087	21,375
	Term Finance Facility	14.2.5	3,750,000	1,750,000
	Unsecured			
	Murabaha		-	1,000,000
			14,839,975	9,161,654

14.2.1 Repurchase agreement borrowings - Government Securities

The holding company has arranged borrowings from various financial institutions against sale and repurchase of government securities. The mark-up on these finances range between 8.25 and 9.25 (2011:11.65 and 11.93) percent per annum with maturity ranging from two days to four days (2011: three days to thirty eight days).

14.2.2 LTF-EOP facility from SBP

This represents a one time swap facility option under the scheme LTF- EOP allowed by the SBP through their SMED Circular No.19 of 2006. The loan is repayable over a maximum period of 7.5 years from the date of first disbursement with mark-up payable at maximum of 5 percent per annum. The sanctioned limit was Rs.1,000 million.

14.2.3 Borrowings from SBP under LTFF

This represents Long Term Finance Facility on concessional rates to promote industrial growth leading to exports. The loans availed under the facility shall be repayable within a maximum period of ten years including maximum grace period of one and a half years with mark-up payable at maximum of 10.10 percent per annum. SBP allocates an overall yearly limit under the facility to individual PFI. The sanctioned limit was Rs. 500 million.

14.2.4 Borrowings from SBP under FFSAP

This represents Financing Facility for Storage of Agricultural Produce (FFSAP) on concessional rates to develop the agricultural produce marketing and enhance storage capacity. The loans availed under the facility shall be repayable within a maximum period of seven years including a maximum grace period of six months with mark-up payable at maximum of 6.50 percent per annum. SBP allocates an overall yearly limit to individual PFI. The sanction limit was Rs. 500 million.

14.2.5 Term Finance Facility

The holding company has availed long term finance facilities from two banks. The interest rate on these facilities ranges between 9.96 and 10.70 percent per annum (2011: 12.35 and 12.47) and are due for maturity between November 29, 2014 and October 1, 2015 (2011: November 29, 2014 and January 1, 2015).

		2012	2011
15.	DEPOSITS AND OTHER ACCOUNTS		
		(Rupees in '000)	
	Certificates of investment (COI) / deposits	1,015,429	1,726,601
15.1	Particulars of deposits		
	In local currency	1,015,429	1,726,601

The profit rates on these COIs / deposits ranges between 9.20 and 12.25 (2011: 11.40 and 13.90) percent per annum. The COIs / deposits are due for maturity between January 4, 2013 and March 22, 2015 (2011: January 13, 2012 and March 22, 2015). Included in COIs / deposits is an amount of Rs. 1,012.929 million (2011: Rs. 1,724.101 million) payable within twelve months.

16. OTHER LIABILITIES

	Note	2012	2011
		(Rupees in '000)	
Mark-up / return / interest payable in local currency		96,874	126,859
Accrued liabilities		131,285	85,399
Staff retirement gratuity	31.1.4	4,988	3,868
Security deposits against finance lease	10.2.2	80,535	81,723
Employees' compensated absences		9,898	11,362
Payable on account of purchase of marketable securities		36,337	23,292
Other liabilities		4,368	1,700
		364,285	334,203

17. SHARE CAPITAL

17.1 Authorised Share Capital

2012	2011		2012	2011
(Number of shares)				
400,000	400,000	Ordinary shares of Rs. 25,000 each	10,000,000	10,000,000

17.2 Issued, Subscribed and Paid-up Share Capital

2012	2011		2012	2011
(Number of shares)				
25,950	25,950	Ordinary shares of Rs. 25,000 each issued for cash	648,750	648,750
214,050	214,050	Ordinary shares of Rs. 25,000 each issued as bonus shares	5,351,250	5,351,250
240,000	240,000		6,000,000	6,000,000

The SBP on behalf of the Government of Pakistan (GOP) and Kuwait Investment Authority (KIA) on behalf of Government of Kuwait each hold 120,000 (2011 : 120,000) ordinary shares of the holding company as at December 31, 2012.

17.3 Reserves

	2012	2011
	(Rupees in '000)	
Statutory reserve	3,285,976	3,114,865
At beginning of the year	3,114,865	2,992,287
Add: Transfer during the year	171,111	122,578
	3,285,976	3,114,865

According to BPD Circular No. 15 dated May 31, 2004 issued by the 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. The holding company has transferred 20% of its after tax profit for the year to this reserve amounting to Rs. 171.111 million (2011: Rs.122.578 million).

18. SURPLUS ON REVALUATION OF 'AVAILABLE-FOR-SALE' SECURITIES-NET OF TAX

	2012	2011
	(Rupees in '000)	
Federal government securities	88,245	(51,504)
Shares of listed companies	188,422	(58,976)
Listed term finance certificates	441	191
Share of surplus on revaluation held by associates	365,326	194,997
	642,434	84,708
Deferred tax	(77,837)	(21)
	564,597	84,687

19. CONTINGENCIES AND COMMITMENTS

19.1 Other Contingencies

19.1.1 The Income Tax Department has amended the deemed assessment orders of the holding company for the tax years from 2004 to 2010, raising a tax demand of Rs. 1,856 million, mainly due to additions in respect of allocation of expenses against exempt capital gains and dividend income subject to tax at reduced rate.

In such orders, the Additional Commissioner Inland Revenue (ACIR) has not accepted the holding company's contention on the matter of allocation of expenses on exempt capital gains and dividend income. The total additions made in tax years 2004 to 2010 under this head amounts to Rs. 3,612 million.

In tax year 2003, the same issue has been set aside by the Appellate Tribunal Inland Revenue (ATIR), with direction to the tax authorities that the allocation of financial cost has to be made taking into account the 'cost of investment' rather than 'gross turnover'. Further, the holding company has made representation before Federal Board of Revenue (FBR) for necessary clarification and has also referred the above matter to Alternate Dispute Resolution Committee (ADRC) a mechanism available to provide an opportunity to tax payers for an easy and efficient resolution of disputes.

Relying on the above decision of ATIR, the Commissioner Inland Revenue (Appeals) (CIR(A)) through his orders dated September 23, 2011 and November 30,2012 for tax years 2004 to 2007 and tax year 2010 has set aside the issue for re-examination. The action was however maintained by the CIR(A) in the tax years 2008 and 2009 and appeals are currently pending before the ATIR.

The holding company has already made provision of Rs. 723 million against the demand for the above-mentioned years based on cost of investment. The management is confident that the ultimate outcome of the appeal would be in favor of the holding company inter alia on the basis of the advice of the tax consultants and the relevant law and the facts.

19.1.2 Letter of Comfort

	2012	2011
	(Rupees in '000)	
Letter of comfort issued	64,000	-

19.3 Other Commitments

	2012	2011
Commitment - acquisition of software	6,718	10,452
Undisbursed sanctions for financial assistance in the form of:		
- loans and advances	403,208	417,000
	409,926	427,452

20. MARK - UP / RETURN / INTEREST EARNED

	2012	2011
On loans and advances	788,341	855,832
On investments in:		
- 'Available-for-sale' securities	1,551,388	1,305,565
On lendings to financial institutions	24,086	39,840
On securities purchased under resale agreements - government securities	1,000	2,799
	2,364,815	2,204,036

21. MARK-UP / RETURN / INTEREST EXPENSED

	Note	2012	2011
		(Rupees in '000)	
Deposits / COIs		231,431	430,202
Borrowings		391,790	237,182
Securities sold under repurchase agreements - government securities		982,439	777,918
		1,605,660	1,445,302

22. GAIN ON SALE OF SECURITIES

	Note	2012	2011
Federal government securities			
- Market treasury bills		(7,497)	-
- Pakistan investment bonds		-	-
Shares - listed securities - net	22.1	289,401	239,339
Shares - unlisted securities - net		(100)	(35)
		281,804	239,304

22.1 It includes reversal of impairment on sale of impaired securities as disclosed in note 9.3.

23. OTHER INCOME

	Note	2012	2011
Profit on sale of operating fixed assets		1,434	1,151
Space / arrangement income		16,486	15,737
Late payment charges		1,329	3,888
Prepayment charges		1,683	2,720
Unrealised exchange gain on investment		760	380
Others		16	2,018
		21,708	25,894

24. ADMINISTRATIVE EXPENSES

	Note	2012	2011
Salaries, allowances and employees' benefits		254,033	221,339
Directors' remuneration (including remuneration of Chief Executive)		13,764	27,819
Provision for gratuity	31.1.5	15,433	64,505
Employer's contribution to the provident fund		15,625	14,832
Travelling and conveyance		6,365	4,543
Rent and rates		7,646	9,479
Utilities		3,047	3,061
Communication		6,960	6,984
Professional training and staff welfare		1,952	1,454
Advertisements, periodicals and membership dues		1,663	2,090
Printing and stationery		2,477	3,014
Depreciation	11.1	13,359	15,228
Amortization	11.2	5,726	1,783
Auditor's remuneration	24.1	3,516	3,187
Legal, consultancy and other professional services		40,007	36,688
Repairs and maintenance		13,370	21,336
Motor vehicle expenses		863	1,644
Insurance		939	1,158
Donations	24.2	5,100	-
Workers' Welfare Fund		23,474	17,438
Entertainment		154	270
Bank charges		287	139
Miscellaneous		3,756	4,732
		439,516	462,723

Pak Kuwait

24.1 Auditor's remuneration

	2012	2011
	(Rupees in '000)	
Audit fee	1,310	1,243
Fee for half yearly review	500	468
Special certifications and sundry advisory services	1,360	1,257
Out of pocket expenses	346	219
	3,516	3,187

24.2 During the year, the holding company donated to the following recognized institutions:

Donee		
The Citizens Foundation	3,000	
The Kidney Centre	1,000	
Shaukat Khanum Memorial Trust	500	
Layton Rehmatullah Benevolent Trust	500	
Pakistan Bait-ul-Mal	100	
	5,100	

None of the directors or their spouse had any interest in the donations made.

25. OTHER CHARGES

Penalties imposed by the SBP	442	-
Penalties imposed by the FBR	10	-
	452	-

26. TAXATION

For the year		
- Current	376,637	276,665
- Deferred	40,229	89,059
	416,866	365,724

26.1 Relationship between tax expense and accounting profit

Profit before taxation	2,057,783	1,726,251
Tax at the applicable rate of 35% (2011: 35%)	720,224	604,188
Net tax effect on income taxed at reduced rates	(171,597)	(129,684)
Net tax effect of expenses not subject to tax	61,791	32,026
Others	(193,552)	(140,806)
	416,866	365,724

27. BASIC EARNINGS PER SHARE

Profit for the year	1,640,917	1,360,527
	(Number in '000)	
Weighted average number of ordinary shares	240	240
	(Rupees)	
Basic earnings per share	6,837	5,669

28. DILUTED EARNINGS PER SHARE

	(Rupees in '000)	
Profit for the year	1,640,917	1,360,527
	(Number in '000)	
Weighted average number of ordinary shares	240	240
	(Rupees)	
Diluted earnings per share	6,837	5,669

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

29. CASH AND CASH EQUIVALENTS

	Note	2012	2011
		(Rupees in '000)	
Cash and balances with treasury banks	6	32,650	442,766
Balances with other banks	7	712,976	24,653
		745,626	467,419

30. STAFF STRENGTH

	2012	2011
	(Number)	
Permanent	67	83
Temporary / on contractual basis	4	3
Own staff strength at the end of the year	71	86
Outsourced	28	31
Total staff strength	99	117

31. DEFINED BENEFIT PLAN

31.1 Staff retirement gratuity

31.1.1 The holding company operates a funded gratuity scheme for all its eligible permanent employees. 'Projected unit credit method' has been used for actuarial valuation.

31.1.2 Principal actuarial assumptions

	Note	2012	2011
		(% per annum)	
Discount rate		12.00	13.00
Expected rate of increase in salaries		12.00	13.00
Expected rate of return on investments		12.00	11.50
Normal retirement age		60 years	60 years

31.1.3 Reconciliation of payable to defined benefit plan

	Note	2012	2011
		(Rupees in '000)	
Present value of defined benefit obligations	31.1.6	124,031	106,149
Fair value of plan assets	31.1.7	(107,125)	(92,594)
		16,906	13,555
Unrecognised actuarial losses		(11,918)	(9,687)
		4,988	3,868

31.1.4 Movement in payable to defined benefit plan

	Note	2012	2011
Opening balance		3,868	12,415
Expense charged in the current year	31.1.5	15,433	64,505
Holding company's contribution to gratuity fund		(14,313)	(73,052)
Closing balance		4,988	3,868

31.1.5 Charge for defined benefit plan

	2012	2011
Current service cost	12,259	11,229
Interest cost	14,212	11,159
Expected return on plan assets	(11,038)	(2,809)
Recognized prior service cost	-	44,083
Actuarial loss amortised	-	843
	15,433	64,505

31.1.6 Reconciliation of present value of defined benefit obligation

	2012	2011
	(Rupees in '000)	
Opening balance of defined benefit obligation	106,149	43,568
Current service cost	12,259	11,229
Interest cost	14,212	11,159
Benefits paid during the year	(9,895)	(1,698)
Recognized prior service cost	-	44,083
Actuarial gain on obligation	1,306	(2,192)
Closing balance of defined benefit obligation	124,031	106,149

31.1.7 Reconciliation of fair value of plan assets

	2012	2011
Opening fair value of plan assets	92,594	17,517
Expected return on plan assets during the year	11,038	2,809
Actual contributions made by the employer	14,313	73,052
Actual benefits paid during the year	(9,895)	(1,698)
Actuarial loss on plan assets	(925)	914
Closing fair value of plan assets	107,125	92,594

Actual return on plan assets is 10.36 % as at December 31, 2012 (12.70% as at December 31, 2011).

31.1.8 Historical information of defined benefit plan

	Present value of the defined benefit plan	Fair value of the plan assets	Deficit in the plan	Gain / (loss) on plan liabilities due to experience	Gain / (loss) on plan assets due to experience
	(Rupees in '000)				
2012	124,031	107,125	(16,906)	1,306	(925)
2011	106,149	92,594	(13,555)	1,490	914
2010	43,568	17,517	(26,051)	3,307	(238)
2009	42,248	14,111	(28,137)	3,655	(473)
2008	40,136	9,620	(30,516)	(10,335)	126
2007	27,370	7,198	(20,172)	(2,247)	(53)

31.1.9 Break up of investments

	2012	2011
	%	
Market treasury bills	100	100
	100	100

31.1.10 The expected gratuity expense for the year ending December 31, 2013 of the holding company works out to be Rs. 14.287 million.

32. DEFINED CONTRIBUTION PLAN

The holding company operates an approved funded contributory provident fund for all its permanent employees to which monthly contributions are made both by the holding company (at 10 % of Salary), and by the employees (at the rate of 10 % - 30 %) of Salary.

33. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2012	2011	2012	2011	2012	2011
	---(Rupees in '000)---					
Fee	-	-	11,081	10,991	-	-
Managerial remuneration	2,400	9,360	-	-	183,607	128,153
Charge for defined benefit plan	-	-	-	-	12,347	41,591
Contribution to defined contribution plan	-	-	-	-	14,975	14,292
Rent and house maintenance	-	1,404	-	-	-	-
Utilities	19	1,174	-	-	-	-
Medical	-	46	-	-	-	1,724
Bonus paid	-	9,786	-	-	34,611	28,509
Others	264	808	-	-	-	-
	2,683	22,578	11,081	10,991	245,540	214,269
No. of persons	1	1	5	5	66	49

33.1 The remuneration of Chief Executive of the holding company is on estimate basis, since the terms of employment have not been finalized as on December 31, 2012.

33.2 The Chief Executive and two executives of the holding company are also provided with other facilities, including the free use of Company maintained car.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

34.1 On balance sheet financial instruments

	2012		2011	
	Book value	Fair value	Book value	Fair value
	--- (Rupees in '000)---			
Financial Assets				
- Cash balances with treasury banks	32,650	32,650	442,766	442,766
- Balances with other banks	712,976	712,976	24,653	24,653
- Lendings to financial institutions	-	-	-	-
- Investments	24,203,303	26,876,943	15,966,871	16,022,513
- Advances	5,242,401	5,242,401	6,554,035	6,554,035
- Other assets	147,559	147,559	219,666	219,666
	30,338,889	33,012,529	23,207,991	23,263,633
Financial Liabilities				
- Borrowings	14,839,975	14,839,975	9,161,654	9,161,654
- Deposits and other accounts	1,015,429	1,015,429	1,726,601	1,726,601
- Other liabilities	359,297	359,297	330,335	330,335
	16,214,701	16,214,701	11,218,590	11,218,590

The fair value of investments in listed securities is based on market rates of the Karachi Stock Exchange. Fair value of unquoted equity investments is determined on the basis of break-up value based on the latest available financial statements.

Fair value of fixed term loans and advances, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments.

35. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2012					
	Corporate Finance	Treasury	Investment Banking	Capital Markets	Others	Total
	----------(Rupees in '000)----------					
Total income - gross	952,742	1,497,612	228	1,776,916	20,040	4,247,538
Total mark-up / return / interest expense	(293,746)	(1,311,914)	-	-	-	(1,605,660)
Segment provision / impairment / unrealised losses	(54,714)	2,822	-	(46,511)	-	(98,403)
	(348,460)	(1,309,092)	-	(46,511)	-	(1,704,063)
Net operating income	604,282	188,520	228	1,730,405	20,040	2,543,475
Administrative expenses and other charges						(485,692)
Profit before taxation						2,057,783
Segment assets - net	6,327,172	15,246,503	-	7,661,506	1,569,867	30,805,048
Segment non-performing loans	1,771,283	-	-	-	-	1,771,283
Segment provision required and held	1,636,742	-	-	-	-	1,636,742
Segment liabilities	4,225,806	11,710,134	-	-	520,162	16,456,102
Segment return on net assets (ROA) %	13.73	11.55	-	26.23	1.14	-
Segment cost of funds (%)	10.68	11.04	-	-	-	-

	2011					
	Corporate Finance	Treasury	Investment Banking	Capital Markets	Others	Total
	----------(Rupees in '000)----------					
Total income - gross	1,078,488	1,282,873	860	1,459,814	20,324	3,842,359
Total mark-up / return / interest expense	(70,459)	(1,374,843)	-	-	-	(1,445,302)
Segment provision / impairment / unrealised gains	(139,638)	18,000	-	(86,445)	-	(208,083)
	(210,097)	(1,356,843)	-	(86,445)	-	(1,653,385)
Net operating income	868,391	(73,970)	860	1,373,369	20,324	2,188,974
Administrative expenses and other charges						(462,723)
Profit before taxation						1,726,251
Segment assets - net	7,567,378	9,005,931	-	6,221,428	1,135,821	23,930,558
Segment non-performing loans	1,723,232	-	-	-	-	1,723,232
Segment provision required and held	1,577,790	-	-	-	-	1,577,790
Segment liabilities	2,218,139	8,751,839	-	-	372,461	11,342,439
Segment return on net assets (ROA) %	14.68	12.54	-	21.02	1.48	-
Segment cost of funds (%)	11.48	12.67	-	-	-	-

35.1 Under the holding company policy, capital market department assets are financed through equity funds.

36. RELATED PARTY TRANSACTIONS

The Group has related party relationship with its associates, associated undertakings, subsidiary company , employee benefit plans, key management personnel and its directors.

The Group enters into transactions with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates.

	2012	2011
	(Rupees in '000)	
Expenses charged to a related party	16,863	15,736
Expenses charged by		
- associates	896	1,652
- other related party	16,494	17,026
Dividend income from		
- associates	492,480	340,200
Mark-up earned on bank deposit with an associate	502	818
Mark-up earned on loans and advances		
- key management personnel	757	1,063
Loans and advances to key management personnel		
Balance as at January 1,	43,918	47,223
Disbursement during the year	12,716	2,175
Recovery during the year	(18,572)	(5,480)
	(5,856)	(3,305)
Balance as at December 31,	38,062	43,918
Mark-up expense on COI		
- associates	5,506	10,437
- other related party	929	1,063
Deposits / COIs		
- associates	35,000	50,000
- other related party	2,500	12,500
Bank balances with an associate	8,474	2,194
Mark-up receivable on bank deposit with an associate	40	44
Mark-up payable to related party		
- associates	1,274	2,650
- other related party	852	1,302
Investments in		
- associates	6,479,283	5,443,111
- other related party	500	500
Contribution made to provident fund	15,625	14,832
Contribution made to gratuity fund	14,313	73,052

Key management personnel

Key management personnel include the Managing Director, Deputy General Manager / Chief Financial Officer, Head of Corporate Finance & Investment Banking, Head of Risk Management, Head of Capital Markets & Treasury, Head of Compliance, Head of Internal Audit and Head of Human Resources. Their salaries and other benefits amount to Rs. 60.814 million (2011: Rs. 65.793 million) and staff retirement benefits amount to Rs. 9.064 million (2011: Rs. 17.419 million).

37. CAPITAL ADEQUACY

37.1 State Bank of Pakistan (SBP) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements, SBP requires Banks/DFIs to maintain a total capital to total risk-weighted assets ratio of 10% on standalone as well as on consolidated basis. Standardized Approach of Basel – II is used for calculating risk weighted assets for Credit and Market Risk, whereas, Basic Indicator Approach (BIA) is used for calculating Operational Risk weighted assets.

Objectives of Capital Management

The capital management objectives of the Group are as follows:

- To maintain sufficient capital to support overall business strategy, expansion and growth;
- To integrate capital allocation decisions with the strategic and financial planning process;
- To meet the regulatory capital adequacy ratios as defined by SBP;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide adequate return to shareholders; and
- To have a prudent buffer to protect the Group under different economic and stress scenarios caused by unexpected and unforeseeable events.

Capital Management

The Group maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group has complied with all externally imposed capital requirements throughout the year.

The Group's regulatory capital is analyzed in following tiers:

- Tier 1 Capital which includes fully paid up capital (including the bonus shares), balances in share premium account, general reserves and net un-appropriated profits etc. after deduction for deficit on revaluation of available for sale investments and 50% deduction for investment in the subsidiary companies and significant minority investments in entities engaged in banking and financial activities.

- Tier 2 Capital, which includes general provisions for loan losses (up to a maximum of 1.25% of risk weighted assets), reserves on revaluation of fixed assets and equity investments up to a maximum of 45% balance, foreign exchange translation reserves etc. after 50 % deduction for investment in the equity of subsidiary companies and significant minority investments in entities engaged in banking and financial activities.

Statutory Capital Requirement

The capital of the Group is managed keeping in the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 30 dated November 25, 2008. The adequacy of the capital is tested with reference to risk weighted assets of the Group. The total risk-weighted exposures comprise the credit, market and operational risk.

The calculation of capital adequacy enables the Group to assess the long-term soundness. It is crucial to continuously monitor the exposure across entire Group and aggregate risk so as to take an integrated approach / view. Maximization of the return on risk adjusted capital is the principal basis to be used in determining how capital is allocated within the Group to particular operations or activities.

The holding company also stress tests its capital adequacy to various risks as per SBP stress testing guidelines.

37.2 Capital adequacy ratio

	2012	2011
	(Rupees in '000)	
CAP 1		
Tier 1 Capital		
Fully paid-up share capital	6,000,000	6,000,000
General Reserves as disclosed in the statement of financial position	3,285,976	3,114,865
Unappropriated profit	4,498,373	3,388,567
Sub-Total	13,784,349	12,503,432
Deductions:		
Book value of Intangibles	77,765	50,443
Deficit on account of revaluation of investments held AFS category	-	-
Other deductions (50% of the amount as calculated on CAP 2)	2,819,018	2,348,805
Sub-Total	2,896,783	2,399,248
Total eligible Tier 1 Capital	10,887,566	10,104,184
Supplementary Capital		
Tier 2 Capital	289,096	38,119
Deductions		
Other deductions (50% of the amount as calculated on CAP 2)	2,819,018	2,348,805
Total deductions	2,819,018	2,348,805
Total supplementary capital eligible for capital adequacy ratio (Maximum upto 100% of Total eligible Tier 1 capital)	(2,529,922)	(2,310,686)
Total eligible capital (A)	8,357,644	7,793,498

Risk weighted exposures	Capital Requirements		Risk Weighted Assets	
	2012	2011	2012	2011
	(Rupees in '000)			
Credit risk				
PSE's	3,066	29,038	30,662	290,377
Banks	14,431	8,504	144,311	85,036
Corporates	301,034	326,947	3,010,338	3,269,468
Retail portfolio	2,813	3,124	28,132	31,240
Secured by residential property	3,026	3,573	30,258	35,727
Past due loans	15,662	14,544	156,623	145,442
Listed equity investments	144,149	149,989	1,441,482	1,499,890
Unlisted equity investments	21,887	22,335	218,869	223,346
Investments in fixed assets	17,132	22,933	171,318	229,332
Other assets	3,346	5,778	33,461	57,779
	526,546	586,765	5,265,454	5,867,637
Credit risk on off balance sheet				
Non market related	261,287	163,250	2,612,867	1,632,500
Market Risk				
Equity position risk	393,680	230,791	3,936,795	2,307,912
Operational risk	367,132	322,785	3,671,323	3,227,851
(B)	1,548,645	1,303,591	15,486,439	13,035,900

Capital adequacy ratios		2012	2011
Total eligible regulatory capital	(A)	8,357,644	7,793,498
Total risk weighted assets	(B)	15,486,439	13,035,900
TOTAL CAPITAL ADEQUACY RATIO	(A)/(B) * 100	53.97%	59.78%

37.3 Types of exposures and ECAI's used

Exposures	JCR-VIS	PACRA
PSE's	✓	-
Banks	✓	✓
Corporates	✓	✓
Sovereigns and GOP other than PKR	-	-

37.4 Credit exposures subject to standardised approach

Exposures	Rating Category	Amount Outstanding	Deduction CRM	Net amount
		-------------------(Rupees in '000)-------------------		
Banks				
	1	721,553	-	721,553
Corporates				
	1	1,391,501	-	1,391,501
	2	1,653,290	-	1,653,290
	Unrated	1,905,393	-	1,905,393
		5,671,737	-	5,671,737

38. RISK MANAGEMENT

Risk is an integral part of business and the holding company aims at delivering superior shareholder value by achieving an appropriate trade-off between risk and returns. Risk Management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The risks that the holding company takes are reasonable, controlled within its financial resources and credit competence. The primary objective of this risk management is to ensure that the process of achieving an appropriate balance between risks the holding company wishes to accept (at a price that is commensurate to that risk) and risks the holding company wishes to mitigate, or whenever capital is put at risk, is done in an objective, documented and transparent fashion and also to ensure that these risks are taken within predefined and pre-approved tolerance limits/levels.

The ultimate responsibility for risk management and setting of the risk management policy rests with the Board of Directors of the holding company. The Board of Directors approves a policy framework and oversees Risk Management function of the holding company through Risk Management Committee (RMC). RMC of the Board has been constituted to facilitate focused oversight of various risks and is updated on quarterly basis by an independent Risk Management Function on the risk exposures, trends and benchmarks for each risk type covered within the scope of policy. The main goals of Risk Management are to oversee the enterprise-wide risk policies and guidelines under the guidance of the Board of Directors and RMC, to establish and monitor limits, to set and manage decision processes and to implement risk assessment methods. Functional level committees oversee the implementation of risk management practices and exposure levels. Market and Liquidity Risks are managed by a well-represented Asset Liability Committee (ALCO) and the Credit Committee oversees Credit Risk.

The Head of Risk Management and the Risk Management Function works with the Senior Management, ALCO and Credit Committee on a day to day basis to address issues directly related to the policy as well as improve and refine the policy based on experiences and market conditions.

The risk management framework is based on prudent risk identification, measurement, monitoring and management process which are closely aligned with all activities of the holding company so as to ensure that risks are kept within an acceptable level.

The holding company has developed Internal Capital Adequacy Assessment Process (ICAAP) document as per the SBP guidelines. In the ICAAP document, the holding company recognized risks other than the pillar 1 risks e.g. Strategic Risk, Liquidity Risk, Reputational Risk and Interest Rate Risk in Banking Book.

The holding company is in the process of implementing Risk Management System ORACLE REVELEUS. The system will cater all the major risk areas which include Credit, Market, Operational and Liquidity Risks. The system once implemented will facilitate in achieving requirements of developing advance risk models, improving risk reporting frequency, improving the overall control environment by developing system in-built controls, towards implementation of advance approaches of Basel – II.

38.1 Credit risk

Credit risk is the potential for financial loss arising from borrower's or counterparty's inability to meet its obligations under a contract.

Credit Risk is the predominant risk type faced by the holding company in its lending activities. All credit risk related aspects are governed by a credit policy approved by the Board of Directors. The policy outlines the type of products that can be offered, targeted customer profile and the credit approval process and limits. In order to assess the credit risk associated with any corporate financing proposal, variety of risks relating to the borrower and relevant industry are assessed. A structured and standardized credit approval process is followed which includes a well established procedure of comprehensive credit appraisal and credit rating. The credit evaluation system comprises of well-designed credit appraisal, review and approval procedures for the purpose of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio. Each credit proposal is evaluated on standalone basis as well as its implication on the holding company’s portfolio in terms of portfolio pricing and rating is also assessed. The internal credit rating methodologies have been developed for rating obligors. The rating serves as the key input in the approval as well as post approval credit process. All the credit applications and reviews are thoroughly analyzed by Risk Management Function. The application approval process is further supplemented by regular review of the existing credit limits, overall credit portfolio and the monitoring of early warning indicators that can trigger a tightening of lending standards and an increase in the frequency and depth of credit portfolio review.

Internal Credit Risk Rating System developed by the holding company is capable of quantifying credit risk pertinent to specific counterparty as well as the risk inherent in the facility structure. It takes into consideration various qualitative and quantitative factors and generates an internal rating. The rating models have been internally tested, validated and checked for compliance with SBP guidelines for Internal Credit Rating System. The Risk Rating Models, both Obligor Risk Rating (ORR) and Facility Risk Rating (FRR), are regularly reviewed based on day to day working experience and changes in market dynamics.

Credit risk management process adopted various concentration limits, counterparty and group level limits. Sectoral concentration limits are set for extending credit to a specific industry sector. The holding company monitors the concentration to any given sector to ensure that the loan portfolio is well diversified. ORR is also used on aggregate group level to determine the amount of credit exposure the holding company is willing to take on a particular group.

Various analysis and reports are also performed on periodic basis and are reported to the Risk Management Committee of the Board. These analyses mainly include past due analysis, transition matrix & migration analysis, risk premium analysis, sector-wise and rating-wise portfolio distribution analysis etc. The holding company performs stress testing on its credit portfolio as per SBP stress testing guidelines.

The disbursement and administration of credit facilities is managed by Credit Administration Department (CAD).

To manage non-performing customers Special Asset Management (SAM) Department is functional and is responsible to recover overdue exposures.

The Group is using Basel-II standardized approach to calculate risk weighted assets against credit risk.

38.1.1 Segment Information

38.1.1.1 Segment by class of business

	2012					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Textile	2,130,675	30.98	-	-	-	-
Chemical and pharmaceutical	1,041,240	15.14	-	-	64,000	13.50
Cement	93,333	1.36	-	-	-	-
Sugar	390,202	5.67	-	-	3,208	0.68
Footwear and leather garments	13,238	0.19	-	-	-	-
Automobile and transportation equipment	-	-	-	-	-	-
Electronics and electrical appliances	11,111	0.16	-	-	-	-
Construction	322,819	4.69	-	-	-	-
Transport, storage and communication	250,000	3.63	-	-	-	-
Financial and Insurance	-	-	450,000	44.32	-	-
Power	1,746,074	25.39	-	-	-	-
Trusts	-	-	362,929	35.74	-	-
Services	309,053	4.49	202,500	19.94	6,718	1.42
Individuals	123,961	1.80	-	-	-	-
Education	-	-	-	-	200,000	42.20
Others	447,437	6.50	-	-	200,000	42.20
	6,879,143	100.00	1,015,429	100.00	473,926	100.00

	2011					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Textile	2,397,285	29.48	-	-	417,000	97.55
Chemical and pharmaceutical	1,302,790	16.01	-	-	-	-
Cement	93,333	1.15	-	-	-	-
Sugar	420,346	5.17	-	-	-	-
Footwear and leather garments	22,933	0.28	-	-	-	-
Automobile and transportation equipment	9,837	0.12	-	-	-	-
Electronics and electrical appliances	11,111	0.14	-	-	-	-
Construction	383,851	4.72	-	-	-	-
Transport, storage and communication	722,580	8.89	-	-	-	-
Financial and Insurance	-	-	-	-	-	-
Power	1,693,170	20.82	-	-	-	-
Trusts	-	-	1,264,411	73.23	-	-
Services	350,586	4.31	162,190	9.39	10,452	2.45
Individuals	143,730	1.77	-	-	-	-
Education	-	-	-	-	-	-
Others	580,273	7.14	300,000	17.38	-	-
	8,131,825	100.00	1,726,601	100.00	427,452	100.00

38.1.1.2 Segment by sector

	2012					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	59,127	0.86	-	-	-	-
Private	6,820,016	99.14	1,015,429	100.00	473,926	100.00
	6,879,143	100.00	1,015,429	100.00	473,926	100.00

	2011					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	555,137	6.83	300,000	17.38	-	-
Private	7,576,688	93.17	1,426,601	82.62	427,452	100.00
	8,131,825	100.00	1,726,601	100.00	427,452	100.00

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

	2012		2011	
	Classified advances	Specific provision held	Classfied advances	Specific provision held
	--------------------------------(Rupees in '000)----------------------			
Textile	1,034,621	1,026,170	1,022,718	1,022,718
Construction	171,289	170,200	186,297	176,662
Cement	93,333	93,333	93,333	93,333
Others	472,040	347,039	420,884	285,077
	1,771,283	1,636,742	1,723,232	1,577,790

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

	2012		2011	
	Classified advances	Specific provision held	Classfied advances	Specific provision held
	--------------------------------(Rupees in '000)----------------------			
Public / government	-	-	-	-
Private	1,771,283	1,636,742	1,723,232	1,577,790
	1,771,283	1,636,742	1,723,232	1,577,790

38.2 Liquidity risk

Liquidity Risk is the risk that the Group is unable to fund its current obligations and operations in the most cost effective manner.

This risk arises from mismatches in the timing of cashflows. The objective of the holding company's liquidity management is to ensure that all foreseeable funding commitments can be met when due. The holding company's Asset and Liability Committee is primarily responsible for the formulation of the overall strategy and oversight of the liquidity management. To limit this risk the holding company maintains statutory deposits with the central bank. The holding company’s key funding source is the inter-bank money market. Comprehensive gap analysis is done on monthly basis to evaluate match/mismatch between assets and liabilities. ALCO reviews gap analysis and devise the liquidity management strategy. For effective monitoring of liquidity position gap limits for each maturity bucket are in place, monitored by Risk Management Department and reviewed by ALCO on monthly basis. Major findings of liquidity ratios & Gaps reports are also reported to the Risk Management Committee of the Board on quarterly basis. Moreover, holding company also has a Contingency Funding Plan in place to address liquidity issues in times of crises situations.

The maturity profile of assets and liabilities has been prepared based on their contractual maturity, except for assets and liabilities that do not have contractual maturity. In this regard, assumptions for the holding company’s maturity profile in respect of allocation of non-contractual items based on their expected maturities were deliberated and approved by the ALCO. The ALCO agreed upon various assumptions for such allocation including the holding company’s historical trend and past experience, expected utilization of assets, expected useful lives of fixed assets, statutory requirements and variance approach.

38.2.1 Maturities of assets and liabilities

	2012									
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	32,650	32,650	-	-	-	-	-	-	-	-
Balances with other banks	712,976	12,976	700,000	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	24,203,303	5,468,127	4,963,322	2,901,439	2,290,566	749,864	5,124,573	1,105,060	1,600,352	-
Advances	5,242,401	145,752	105,194	287,115	1,267,697	1,059,999	959,640	1,031,301	346,758	38,945
Operating fixed assets	252,233	1,440	2,883	4,325	49,552	17,304	17,304	27,274	18,879	113,272
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	361,485	19,885	111,835	41,753	3,873	180,339	-	3,800	-	-
	30,805,048	5,680,830	5,883,234	3,234,632	3,611,688	2,007,506	6,101,517	2,167,435	1,965,989	152,217
Liabilities										
Borrowings	14,839,975	10,699,482	22,284	23,458	52,407	854,816	3,072,305	80,437	34,786	-
Deposits and other accounts	1,015,429	256,751	514,910	230,770	10,498	-	2,500	-	-	-
Deferred tax liabilities	236,413	(56,146)	(39,332)	(4,930)	(20,052)	-	508,759	-	(151,886)	-
Other liabilities	364,285	191,582	83,793	48,817	3,750	19,737	5,621	10,985	-	-
	16,456,102	11,091,669	581,655	298,115	46,603	874,553	3,589,185	91,422	(117,100)	-
Net assets	14,348,946	(5,410,839)	5,301,579	2,936,517	3,565,085	1,132,953	2,512,332	2,076,013	2,083,089	152,217

Share capital	6,000,000
Reserves	3,285,976
Accumulated profit	4,498,373
Surplus on revaluation of 'available-for-sale' securities – net of tax	564,597
	14,348,946

	2011									
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	442,766	442,766	-	-	-	-	-	-	-	-
Balances with other banks	24,653	24,653	-	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	15,966,871	-	21,377	115	8,155,648	1,015,174	4,253,730	606,234	1,914,593	-
Advances	6,554,035	124,367	93,581	716,316	1,265,513	960,136	1,065,972	1,597,102	695,237	35,811
Operating fixed assets	282,125	1,375	2,751	4,126	8,256	16,513	16,513	19,926	24,652	188,013
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	660,108	41,602	145,339	81,260	4,801	383,273	-	3,833	-	-
	23,930,558	634,763	263,048	801,817	9,434,218	2,375,096	5,336,215	2,227,095	2,634,482	223,824
Liabilities										
Borrowings	9,161,654	6,118,058	935,551	18,523	55,127	80,552	829,976	1,071,589	52,278	-
Deposits and other accounts	1,726,601	412,245	265,000	678,856	368,000	-	-	2,500	-	-
Deferred tax liabilities	119,981	(96,031)	(6,041)	(8,967)	(31,655)	-	395,388	-	(132,713)	-
Other liabilities	334,203	181,088	49,609	43,644	8,448	7,223	28,187	15,287	717	-
	11,342,439	6,615,360	1,244,119	732,056	399,920	87,775	1,253,551	1,089,376	(79,718)	-
Net assets	12,588,119	(5,980,597)	(981,071)	69,761	9,034,298	2,287,321	4,082,664	1,137,719	2,714,200	223,824

Share capital	6,000,000
Reserves	3,114,865
Accumulated profit	3,388,567
Surplus on revaluation of 'available-for-sale' securities – net of tax	84,687
	12,588,119

38.3 Market risk

Market risk is the risk of losses due to on and off-balance sheet positions arising out of changes in market variables, such as interest rates, foreign exchange rates, equity prices and credit spreads.

The Group is exposed to interest rate risk and equity price risk. To manage and control market risk a well defined limits structure is in place. Market Risk is managed by the Risk Management Function which makes sure that exposure in Money Market and Equity Market adheres with the risk tolerance levels and matches with overall business goals set by Board of Directors (BOD), Risk Management Committee of the Board (RMC) and ALCO.

Market Risk is pertinent to the Trading Book which consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. The trading book includes equity and money market securities classified as ‘Held for Trading’. These positions are actively managed by the capital market and money market desks.

All investments excluding trading book are considered as part of banking book. Banking book includes:

- Available-for-sale Securities
- Held-to-maturity Securities
- Other Strategic Investments

Due to diversified nature of investments in banking book, it is subject to interest rate risk and equity price risk.

A well-defined limits structure is in place to effectively manage market risk. These limits are reviewed, adjusted and approved periodically by ALCO. Middle Office of the holding company monitors these limits on daily basis.

The holding company is using Basel-II Standardized approach to calculate risk weighted assets against market risk exposures.

To manage market risk, the holding company carries out stress testing of its statement of financial position by varying sources of market risk as per SBP guidelines.

38.3.1 Interest rate risk

Interest Rate Risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specific period. The Company manages its interest rate risk by entering into floating rate agreements with its customers. The interest rate risk strategy is discussed in ALCO meetings on periodic basis. The risk management function carries out stress testing to ascertain the interest rate risk on the statement of financial position and also prepares the interest rate risk profile on monthly basis.

The proceedings of ALCO are reported to the Risk Management Committee of the Board on quarterly basis.

38.2.1

	Effective yield / interest rate	Exposed to yield / profit risk										Not exposed to yield /interest rate risk
2012		Total	Upto one month	Over one to three months	Over three to six months	Over six months to years	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years	
	%	(Rupees in '000)										
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks	-	32,650	-	-	-	-	-	-	-	-	-	32,650
Balances with other banks	9.57	712,976	12,892	700,000	-	-	-	-	-	-	-	84
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	10.37	24,203,303	5,468,127	4,956,937	3,376,512	253,481	-	-	164,118	1,450,242	-	8,533,886
Advances	11.94	5,242,401	871,487	827,698	2,647,761	481,495	111,993	77,787	78,640	46,027	30,904	68,609
Other assets	-	147,559	-	-	-	-	-	-	-	-	-	147,559
		30,338,889	6,352,506	6,484,635	6,024,273	734,976	111,993	77,787	242,758	1,496,269	30,904	8,782,788
Financial Liabilities												
Borrowings	9.28	14,839,975	10,699,482	1,772,284	2,023,458	52,407	104,816	72,305	80,437	34,786	-	-
Deposits and other accounts	10.35	1,015,429	(298,927)	265,000	678,856	368,000	-	-	2,500	-	-	-
Other liabilities	-	359,297	-	-	-	-	-	-	-	-	-	359,297
		16,214,701	10,400,555	2,037,284	2,702,314	420,407	104,816	72,305	82,937	34,786	-	359,297
On balance sheet gap		14,124,188	(4,048,049)	4,447,351	3,321,959	314,569	7,177	5,482	159,821	1,461,483	30,904	8,423,491

	Effective yield / interest rate	Exposed to yield / profit risk										Not exposed to yield /interest rate risk
2011		Total	Upto one month	Over one to three months	Over three to six months	Over six months to years	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years	
	%	(Rupees in '000)										
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks	12.75	442,766	400,000	-	-	-	-	-	-	-	-	42,766
Balances with other banks	5.00	24,653	22,864	-	-	-	-	-	-	-	-	1,789
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	12.34	15,966,871	-	36,932	659,127	6,850,426	246,915	-	13,265	1,340,483	-	6,819,723
Advances	14.47	6,554,035	894,844	1,271,165	2,959,102	1,002,781	95,428	93,389	72,454	65,319	14,659	84,894
Other assets	-	219,666	-	-	-	-	-	-	-	-	-	219,666
		23,207,991	1,317,708	1,308,097	3,618,229	7,853,207	342,343	93,389	85,719	1,405,802	14,659	7,168,838
Financial Liabilities												
Borrowings	11.75	9,161,654	6,118,058	2,685,551	18,523	55,127	80,552	79,976	71,589	52,278	-	-
Deposits and other accounts	12.61	1,726,601	412,245	265,000	678,856	368,000	-	-	2,500	-	-	-
Other liabilities	-	330,335	-	-	-	-	-	-	-	-	-	330,335
		11,218,590	6,530,303	2,950,551	697,379	423,127	80,552	79,976	74,089	52,278	-	330,335
On balance sheet gap		11,989,401	(5,212,595)	(1,642,454)	2,920,850	7,430,080	261,791	13,413	11,630	1,353,524	14,659	6,838,503

38.3.2 Currency risk

Foreign exchange risk arises in case of an on balance sheet / off balance sheet asset or liability position when there is adverse exchange rate movement. The Group's exposure to this category of market risk is negligible.

	2012			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	---------------------------------(Rupees in '000)---------------------------------			
Pakistan Rupees	30,804,163	16,456,102	473,926	13,874,135
United States Dollars	885	-	-	885
	30,805,048	16,456,102	473,926	13,875,020

	2011			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	------------------------------(Rupees in '000)--------------------------------------			
Pakistan Rupees	23,929,471	11,342,439	427,452	12,159,580
United States Dollars	1,087	-	-	1,087
	23,930,558	11,342,439	427,452	12,160,667

38.3.3 Equity price risk

It is the risk to earnings or capital that results from adverse changes in the value / price of equity related portfolios.

ALCO is responsible for making investment decisions in the capital market and setting limits that are a component of the risk management framework. Equity Price Risk is monitored and controlled through various regulatory and internal limits. Portfolio, sector and scrip-wise limits are assigned by the ALCO such as overall exposure limits in capital market HFT and AFS portfolio, mark-to-market limit on trading portfolio, sector-wise investment limits in various sectors to guard against concentration risk. These limits are monitored on daily basis and are reviewed and revised periodically by ALCO. The ALCO approves exposure limits applicable to investments and meets on regular basis to discuss equity investments related strategy. The holding company calculates Value at Risk (VaR) on a daily basis using Historical Method and Variance Covariance Approach taking into consideration the data of over 3 years. The findings of VaR are reported to Risk Management Committee of the Board on quarterly basis.

38.4 Operational risk

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and system failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets etc.

Risk Management Policy sets out the guidelines to identify, assess, monitor, control and report operational risk. Risk Management Department of the holding company is in the process of implementing operational risk assessment tools, risk controls and reporting framework. Operational Risk Loss Data including Loss Events, Near Misses and Transactions in Difficulty are being collected, throughout the year, from all the respective departments / units on monthly basis. These operational losses occurring across the holding company are reported to Risk Management Department where they are aggregated into an internally developed Operational Loss Database. For the purpose of monitoring of the occurrences of key operational risks, Key Risk Indicators (KRIs) have been identified during the year and KRI reporting has also been initiated on monthly basis.

To facilitate the overall Operational Risk Management process, the holding company has successfully implemented the top of the line Operational Risk Management System namely Oracle Reveleus. The system went Live during the year.

The holding company is currently using Basic Indicator Approach to calculate Operational risk weighted assets as per Basel II requirements for capital adequacy calculation.

39. ACCOUNTING ESTIMATES AND JUDGEMENTS

39.1 Provision against non-performing advances

The management reviews the loan and lease portfolio to assess non-performing accounts and expected recovery on a monthly basis. In determining the non-performing accounts and provision requirements, the relevant Prudential Regulations issued by the State Bank of Pakistan, payment status of mark-up and principal, expected future cash flows of the business, security position and personal wealth of the directors and owners are taken into account.

39.2 Classification of investments

In classifying investments as 'held-for-trading' the holding company has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.

In classifying investments as 'held-to-maturity' the holding company follows the guidance provided in SBP circulars on classifying non derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgement, the holding company evaluates its intention and ability to hold such investment to maturity.

The investments which are not classified as 'held-for-trading' or 'held-to-maturity' are classified as 'available-for-sale'.

39.3 Impairment of 'available-for-sale' equity instruments

The management determines that 'available-for-sale' equity investments are impaired when there has been a significant or prolonged decline in market value / fair value below its cost. In making this judgement, the management considers among other factors, the decline in market price below cost by 30% as significant and if the decline in market price persists for nine months as prolonged.

39.4 Income taxes

In making the estimates for income taxes currently payable by the holding company, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues as described in note 19 and the appeals of the department pending at various levels of authorities.

39.5 Gratuity

The holding company has adopted certain actuarial assumptions as disclosed in note 31.1.2 to the financial statements for determining present value of defined benefit obligations and fair value of plan assets, based on actuarial advice. Any change in the assumptions from actual results would change the amount of unrecognised gains and losses.

39.6 Useful life and residual value of property and equipment

Estimates of useful life and residual value of property and equipment are based on the management’s best estimate.

40. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue in the Board of Directors meeting held on February 04, 2013.

41. GENERAL AND NON-ADJUSTING EVENT

41.1 The JCR-VIS Credit Rating Company Limited has reaffirmed long term credit ratings of AAA (Triple A) and the short term rating of A1+(A one plus) for the holding company. The Pakistan Credit Rating Agency (PACRA) has also maintained the long-term entity rating to AAA (Triple A) and the short term rating at A1+(A one plus), the highest level.

41.2 The Board of Directors of the holding company has proposed cash dividend of Rs.450 million (2011: Rs. 360 million) for the year ended December 31, 2012 in their meeting held on February 04, 2013. These financial statements do not include the effect of this appropriation which will be accounted for subsequent to the year end.

41.3 Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

Chairman | Chief Executive | Director

Annexure - I

QUALITY OF AVAILABLE FOR SALE SECURITIES

As Referred to in Note 9.5 to the financial statements

Sr. No.	Name of Company	2012 Market Value	2012 Rating	2011 Market Value	2011 Rating
		(Rupees in '000)		(Rupees in '000)	
	AVAILABLE FOR SALE PORTFOLIO				
	STRATEGIC PORTFOLIO				
1	MEEZAN BANK LIMITED	8,143,858	AA-/A-1+	4,186,807	AA-/A-1+
2	THE HUB POWER COMPANY LIMITED	31,333	AA+/A1+	-	-
	TOTAL	8,175,191		4,186,807	
	GENERAL PORTFOLIO				
	OIL AND GAS				
3	OIL AND GAS DEVELOPMENT CO.LTD	13,630	AAA-/A-1+	-	-
4	PAKISTAN STATE OIL COMPANY LIMITED	-	-	194,492	AA+/A1+
5	PAKISTAN OILFIELDS LIMITED	87,508	Unrated	-	-
6	PAKISTAN PETROLEUM LIMITED	289,723	Unrated	-	-
	TOTAL	390,861		194,492	
	CHEMICALS				
7	ENGRO CORPORATION PAKISTAN	138,060	A/A1	-	-
8	FAUJI FERTILIZER BIN QASIM LIMITED	204,723	Unrated	156,991	Unrated
9	FAUJI FERTILIZER COMPANY LIMITED	175,710	Unrated	155,979	Unrated
	TOTAL	518,493		312,970	
	CONSTRUCTION AND MATERIALS				
10	CHERAT CEMENT COMPANY LIMITED	-	-	196	Unrated
11	LUCKY CEMENT LIMITED	30,308	Unrated	-	-
	TOTAL	30,308		196	
	AUTOMOBILE AND PARTS				
12	THE GENERAL TYRE & RUBBER CO. OF PAKISTAN LTD.	445,190	Unrated	350,750	Unrated
	TOTAL	445,190		350,750	
	PERSONAL GOODS				
13	NISHAT (CHUNIAN) LIMITED	3,105	A-/A-2	31,558	Unrated
14	NISHAT MILLS LIMITED	-	-	18,202	AA-/A1+
	TOTAL	3,105		49,760	
	FIXED LINE TELECOMMUNICATION				
15	PAKISTAN TELECOMMUNICATION COMPANY LIMITED (A)	-	-	44,266	Unrated
	TOTAL	-		44,266	

Sr. No.	Name of Company	2012		2011	
		Market Value	Rating	Market Value	Rating
		(Rupees in '000)		(Rupees in '000)	
	ELECTRICITY				
16	THE HUB POWER COMPANY LIMITED	203,580	AA+/A1+	116,315	AA+/A1+
17	KOT ADDU POWER CO. LTD.	176,312	AA+/A-1+	85,524	AA+/A1+
18	NISHAT CHUNIAN POWER LTD	321,817	A/A-2	147,483	AA-/A1+
19	NISHAT POWER LIMITED	-	-	77,700	AA-/A1+
	TOTAL	701,709		427,022	
	BANKS				
20	ALLIED BANK LIMITED	44,912	AA+/A1+	-	-
21	BANK AL-HABIB LIMITED	13,037	AA+/A1+	5,126	AA+/A1+
22	MCB BANK LIMITED	40,777	AA+/A1+	-	-
23	UNITED BANK LIMITED	100,404	AA+/A-1+	119,336	AA+/A-1+
	TOTAL	199,130		124,462	
	FINANCIAL SERVICES				
24	SME LEASING LIMITED	1,687	BBB-/A-3	787	BBB+/A-3
	TOTAL	1,687		787	
	MUTUAL FUNDS				
25	AL MEEZAN MUTUAL FUND LIMITED	216,434	Unrated	172,674	Unrated
26	MEEZAN BALANCED FUND	127,828	Unrated	100,626	Unrated
27	UNITED GROWTH AND INCOME FUND	571	BBB -	521	-
28	NAMCO BALANCED FUND	20,611	MFR - 3 Star	21,462	MFR - 1 Star
29	PAK OMAN ADVANTAGE FUND	46,108	A+(f)	45,509	AA-(f)
	TOTAL	411,552		340,792	
	PREFERENCE SHARES				
30	MASOOD TEXTILE MILLS LIMITED (CUMULATIVE PREFERENCE SHARES) 12.1%	50,000	Unrated	50,000	Unrated
31	PAKISTAN INTERNATIONAL CONTAINER TERMINAL LIMITED (PREFERENCE SHARES) 10%	-	-	22,475	Unrated
32	CHENAB LIMITED - NON VOTING CUMULATIVE PREFERENCE SHARES 9.25%	-	-	2,533	Unrated
33	SECURITY LEASING CORPORATION LIMITED (PREFERENCE SHARES) 9.1%	-	-	-	Unrated
	PREFERENCE SHARES TOTAL	50,000		75,008	
	GRAND TOTAL	10,927,226		6,107,312	

Annexure - I

As Referred to in Note 9.5 to the financial statements

QUALITY OF AVAILABLE FOR SALE SECURITIES

Sr. No.	Particulars	2012 Market Value	2012 Rating	2011 Market Value	2011 Rating
		(Rupees in '000)		(Rupees in '000)	
	Government Securities				
1	MARKET TREASURY BILLS				
	- Six months	10,808,968	GOVERNMENT	20,858	GOVERNMENT
	- Twelve months	2,485,513	SECURITIES	6,850,426	SECURITIES
2	PAKISTAN INVESTMENT BONDS				
	- Five years	267,689	GOVERNMENT	260,182	GOVERNMENT
	- Ten years	1,450,242	SECURITIES	1,340,481	SECURITIES
	Sub Total	15,012,412		8,471,947	
	Listed Term Finance Certificates				
1	FAYSAL BANK LIMITED -TFCs (10-02-2005) Certificate of Rs. 5,000 each Mark up : 13.60% (6-Months Kibor Ask Rate + 1.90%) Redemption : Half yearly from Feb -2005 Maturity : Feb, 2013	5,000	AA-	10,022	AA-
2	BANK AL FALAH LIMITED - TFC-2 (23-11-2004) Certificate of Rs. 5,000 each Mark up : 13.43% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2011 Maturity : Nov, 2012	-	-	9,170	AA-
3	BANK AL FALAH LIMITED - TFC-3 (25-11-2005) Certificate of Rs. 5,000 each Mark up : 11.04% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2012 Maturity : Nov, 2013	50,571	AA-	75,197	AA-
4	ASKARI COMMERCIAL BANK LIMITED -TFCs (04-02-2005) Certificate of Rs. 5,000 each Mark up : 13.24% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Feb-2013 Maturity : Feb, 2013	26,906	AA-	26,908	AA-
	Sub Total	82,477		121,297	

Annexure - I

As Referred to in Note 9.5 to the financial statements

QUALITY OF AVAILABLE FOR SALE SECURITIES

Sr. No.	Particulars	2012 Cost	2012 Rating	2011 Cost	2011 Rating
		(Rupees in '000)		(Rupees in '000)	
	Unlisted Term Finance Certificates				
1	BANK AL FALAH LIMITED Certificate of Rs. 5,000 each Mark up : 12.04% (6-Months KIBOR Ask Rate + 2.50%) Redemption : Half yearly from Dec - 2016 Maturity : Dec, 2017 CEO of the company : Mr. Atif Bajwa	99,880	AA-	99,920	AA-
2	NEW ALLIED ELECTRONICS INDUSTRIES (PRIVATE) LIMITED Certificate of Rs. 5,000 each Mark up : 16.37% (KIBOR 3-Months Ask Rate + 2.75%) Redemption : Quarterly from Aug - 2007 Maturity : May, 2011 CEO of the company : Mr. Mian Pervez Akhtar	21,138	Unrated	21,138	Unrated
3	DEWAN FAROOQUE SPINNING MILLS LIMITED Certificate of Rs. 5,000 each Mark up : 16.66% (KIBOR 6-Months Ask Rate + 3.75%) Redemption : Half yearly from Dec - 2004 Maturity : Dec , 2009 CEO of the company : Mr. Dewan Abdul Baqi Farooqui	12,500	Unrated	12,500	Unrated
4	FAYSAL BANK LIMITED Certificate of Rs. 5,000 each Mark up : 11.70% (KIBOR 6-Month (s) Ask Rate + 2.25%) Redemption : Half yearly from June - 2011 Maturity : Dec, 2017 CEO of the company : Mr. Naveed A. Khan	324,740	AA-	324,870	AA-
5	BANK AL HABIB LIMITED Certificate of Rs. 5,000 each Mark up : 15.00% - 15.50% Redemption : Half yearly from December - 2011 Maturity : June, 2021 CEO of the company : Mr. Abbas D. Habib	149,910	AA	149,970	AA
	Sub Total	608,168		608,398	

Annexure - II

PARTICULARS OF INVESTMENT HELD IN SHARES OF LISTED COMPANIES

Sr. No.	Name of Company	Total Shares 2012	Total Shares 2011	2012 Cost	2012 Impairment	2012 Cost after Impairment	2011 Cost	2011 Impairment	2011 Cost after Impairment
				-----(Rupees in '000)-----					
	AVAILABLE FOR SALE PORTFOLIO								
	STRATEGIC PORTFOLIO								
1	MEEZAN BANK LIMITED	271,010,239	240,897,991	5,093,010	-	5,093,010	4,210,596	-	4,210,596
2	THE HUB POWER COMPANY LIMITED	692,602	-	23,850	-	23,850	-	-	-
	TOTAL	271,702,841	240,897,991	5,116,860	-	5,116,860	4,210,596	-	4,210,596
	GENERAL PORTFOLIO								
	OIL AND GAS								
3	OIL AND GAS DEVELOPMENT CO,LTD	70,766	-	12,084	-	12,084	-	-	-
4	PAKISTAN STATE OIL COMPANY LIMITED	-	856,000	-	-	-	245,182	-	245,182
5	PAKISTAN OILFIELDS LIMITED	200,000	-	75,782	-	75,782	-	-	-
6	PAKISTAN PETROLEUM LIMITED	1,638,800	-	289,118	-	289,118	-	-	-
	TOTAL	1,909,566	856,000	376,984	-	376,984	245,182	-	245,182
	CHEMICALS								
7	ENGRO CORPORATION LIMITED	1,500,000	-	152,496	-	152,496	-	-	-
8	FAUJI FERTILIZER BIN QASIM LIMITED	5,305,080	3,700,000	222,352	-	222,352	160,833	-	160,833
9	FAUJI FERTILIZER COMPANY LIMITED	1,500,000	1,043,057	173,104	-	173,104	174,627	-	174,627
	TOTAL	8,305,080	4,743,057	547,952	-	547,952	335,460	-	335,460
	CONSTRUCTION AND MATERIALS								
10	CHERAT CEMENT COMPANY LIMITED	-	27,217	-	-	-	1,116	920	196
11	LUCKY CEMENT LIMITED	200,000	-	29,930	-	29,930	-	-	-
	TOTAL	200,000	27,217	29,930	-	29,930	1,116	920	196
	AUTOMOBILE AND PARTS								
12	THE GENERAL TYRE & RUBBER CO. OF PAKISTAN LTD.	16,774,292	16,774,292	394,582	-	394,582	360,441	-	360,441
	TOTAL	16,774,292	16,774,292	394,582	-	394,582	360,441	-	360,441
	PERSONAL GOODS								
13	NISHAT (CHUNIAN) LIMITED	88,614	1,766,957	2,086	685	1,401	45,758	14,200	31,558
14	NISHAT MILLS LIMITED	-	449,999	-	-	-	26,230	8,028	18,202
	TOTAL	88,614	2,216,956	2,086	685	1,401	71,988	22,228	49,760
	TELECOMMUNICATION								
15	PAKISTAN TELECOMMUNICATION COMPANY LIMITED (A)	-	4,260,430	-	-	-	88,046	43,781	44,265
	TOTAL	-	4,260,430	-	-	-	88,046	43,781	44,265
	ELECTRICITY								
16	THE HUB POWER COMPANY LIMITED	4,500,000	3,401,028	205,828	-	205,828	106,981	-	106,981
17	KOT ADDU POWER CO. LTD.	3,569,801	2,069,801	157,518	-	157,518	89,166	-	89,166
18	NISHAT CHUNIAN POWER LTD	15,317,302	11,567,302	192,401	-	192,401	123,780	-	123,780
19	NISHAT POWER LIMITED	-	5,999,999	-	-	-	96,561	-	96,561
TOTAL		23,387,103	23,038,130	555,747	-	555,747	416,488	-	416,488

Sr. No.	Name of Company	Total Shares 2012	Total Shares 2011	2012 Cost	2012 Impairment	2012 Cost after Impairment	2011 Cost	2011 Impairment	2011 Cost after Impairment
				---(Rupees in '000)---					
	BANKS								
20	ALLIED BANK LIMITED	611,131	-	37,594	-	37,594	-	-	-
21	BANK ALFALAH LIMITED	-	-	-	-	-	-	-	-
22	BANK AL-HABIB LIMITED	410,855	179,653	10,907	-	10,907	5,267	2,768	2,499
23	MCB BANK LIMITED	194,400	-	34,503	-	34,503	-	-	-
24	UNITED BANK LIMITED	1,200,000	2,277,841	89,918	-	89,918	137,338	-	137,338
	TOTAL	2,416,386	2,457,494	172,922	-	172,922	142,605	2,768	139,837
	FINANCIAL SERVICES								
25	SME LEASING LIMITED	225,000	225,000	2,475	1,688	787	2,475	1,687	788
26	DADABHOY LEASING COMPANY LIMITED	10,750	10,750	13	13	-	13	13	-
	TOTAL	235,750	235,750	2,488	1,701	787	2,488	1,700	788
	MUTUAL FUNDS								
27	AL MEEZAN MUTUAL FUND LIMITED	16,895,690	16,895,690	216,107	-	216,107	173,172	-	173,172
28	MEEZAN BALANCED FUND	11,057,791	11,057,791	138,945	-	138,945	122,290	-	122,290
29	UNITED GROWTH AND INCOME FUND	7,137	6,508	500	-	500	500	-	500
30	NAMCO BALANCED FUND	4,339,131	4,249,884	39,351	26,365	12,986	39,357	26,369	12,988
31	PAK OMAN ADVANTAGE FUND	4,990,000	4,990,000	49,900	17,465	32,435	49,900	17,465	32,435
	TOTAL	37,289,749	37,199,873	444,803	43,830	400,973	385,219	43,834	341,385
	PREFERENCE SHARES								
32	MASOOD TEXTILE MILLS LIMITED (CUMULATIVE PREFERENCE SHARES) 12.1%	5,000,000	5,000,000	50,000	-	50,000	50,000	-	50,000
33	PAKISTAN INTERNATIONAL CONTAINER TERMINAL LIMITED (PREFERENCE SHARES) 10%	-	2,500,000	-	-	-	25,000	-	25,000
34	CHENAB LIMITED - NON VOTING CUMULATIVE PREFERENCE SHARES 9.25%	-	1,490,000	-	-	-	13,370	10,837	2,533
35	SECURITY LEASING CORPORATION LIMITED (PREFERENCE SHARES) 9.1%	500,000	500,000	5,029	5,029	-	5,029	5,029	-
	PREFERENCE SHARES TOTAL	5,500,000	9,490,000	55,029	5,029	50,000	93,399	15,866	77,533
	GRAND TOTAL	367,809,381	342,197,190	7,699,383	51,245	7,648,138	6,353,028	131,097	6,221,931

Sr. No.	Name of Company	Total Shares 2012	Total Shares 2011	2012 Cost	2012 Impairment	2012 Cost after Impairment	2011 Cost	2011 Impairment	2011 Cost after Impairment
				---(Rupees in '000)---					
	HELD FOR TRADING PORTFOLIO								
	TEXTILE COMPOSITE								
1	NISHAT MILLS LIMITED	100,000	-	6,410	-	6,410	-	-	-
	TOTAL	100,000	-	6,410	-	6,410	-	-	-
	TOTAL - HELD FOR TRADING PORTFOLIO	100,000	-	6,410	-	6,410	-	-	-

Annexure - II

As Referred to in Note 9.5 to the financial statements

PARTICULARS OF INVESTMENT IN TERM FINANCE CERTIFICATES

Sr. No	Name of TFCs	2012	2011	2012	2011
		NUMBER OF TFCs		COST (Rupees in '000)	
	Particulars of investments held in listed term finance certificates (TFCs)				
1	FAYSAL BANK LIMITED -TFCs (10-02-2005) Certificate of Rs. 5,000 each Mark up : 13.60% (6-Months Kibor Ask Rate + 1.90%) Redemption : Half yearly from Feb -2005 Maturity : Feb, 2013	998	3,000	4,992	9,980
2	BANK AL FALAH LIMITED - TFCs (23-11-2004) Certificate of Rs. 5,000 each Mark up : 13.43% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2011 Maturity : Nov, 2012	-	2,760	-	9,123
3	BANK AL FALAH LIMITED - TFCs (25-11-2005) Certificate of Rs. 5,000 each Mark up : 11.04% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Nov-2012 Maturity : Nov, 2013	10,058	15,127	50,133	75,133
4	ASKARI COMMERCIAL BANK LIMITED -TFCs (04-02-2005) Certificate of Rs. 5,000 each Mark up : 13.24% (6-Months Kibor + 1.5%) Redemption : Half Yearly from Feb-2013 Maturity : Feb, 2013	5,384	5,400	26,912	26,870
	TOTAL	16,440	26,287	82,037	121,106

As Referred to in Note 9.5 to the financial statements

PARTICULARS OF INVESTMENT IN TERM FINANCE CERTIFICATES

Sr. No	Name of TFCs	2012	2011	2012	2011
		NUMBER OF TFCs		COST (Rupees in '000)	
	Particulars of investments held in unlisted term finance certificates (TFCs)				
1	BANK AL FALAH LIMITED Certificate of Rs. 5,000 each Mark up : 12.04% (6-Months KIBOR + 2.50%) Redemption : Half yearly from Dec - 2016 Maturity : Dec - 2017	19,976	19,984	99,880	99,920
2	NEW ALLIED ELECTRONICS INDUSTRIES (PRIVATE) LIMITED Certificate of Rs. 5,000 each Mark up : 16.37% (3-Months KIBOR Ask Rate + 2.75%) Redemption : Quarterly from Aug - 2007 Maturity : May , 2011	4,228	4,228	21,138	21,138
3	DEWAN FAROOQUE SPINNING MILLS LIMITED Certificate of Rs. 5,000 each Mark up : 16.66% (6-Months KIBOR Ask Rate + 3.75%) Redemption : Half yearly from Dec - 2004 Maturity : Dec , 2009	2,500	2,500	12,500	12,500
4	FAYSAL BANK LIMITED Certificate of Rs. 5,000 each Mark up : 11.70% (6-Months KIBOR Ask Rate + 2.25%) Redemption : Half yearly from June - 2011 Maturity : Dec , 2017	64,948	64,974	324,740	324,870
5	BANK AL HABIB Certificate of Rs. 5,000 each Mark up : 15.00% - 15.50% Redemption : Half yearly from December - 2011 Maturity : June, 2021	29,982	29,994	149,910	149,970
	TOTAL	121,634	121,680	608,168	608,398

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