



**PAKISTAN KUWAIT INVESTMENT
COMPANY (PRIVATE) LIMITED**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
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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 companies (together referred to as Group) as at 31 December 2010 and the related consolidated profit and loss account, consolidated statement of changes in equity, consolidated cash flow statement, and consolidated statement of comprehensive income together with the notes forming part thereof for the year then ended. We have also expressed separate opinion/review reports on the financial statements of the Holding Company and its subsidiary companies, First Choice Securities Limited and Pak Kuwait Financial Services 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 2010 and the results of its operations, its changes in equity, cash flows and comprehensive income 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

26 January 2011
Karachi


Pakistan Kuwait Investment Company (Private) Limited

Consolidated Statement of Financial Position


As at December 31, 2010

| | Note | 2010 | 2009 |
|--|------|-------------------|-------------------|
| (Rupees in '000) | | | |
| ASSETS | | | |
| Cash and balances with treasury banks | 6 | 51,424 | 92,512 |
| Balances with other banks | 7 | 1,409,688 | 1,842,834 |
| Lendings to financial institutions | 8 | 250,000 | 800,000 |
| Investments | 9 | 17,521,580 | 18,930,038 |
| Advances | 10 | 4,969,190 | 3,607,442 |
| Operating fixed assets | 11 | 260,736 | 151,366 |
| Deferred tax assets | 12 | 3,539 | 154,595 |
| Other assets | 13 | 556,774 | 323,993 |
| | | 25,022,931 | 25,902,780 |
| LIABILITIES | | | |
| Bills payable | | - | - |
| Borrowings | 14 | 9,807,369 | 10,377,872 |
| Deposits and other accounts | 15 | 3,138,512 | 4,075,951 |
| Subordinated loans | | - | - |
| Liabilities against assets subject to finance lease | | - | - |
| Deferred tax liabilities | | - | - |
| Other liabilities | 16 | 334,277 | 693,414 |
| | | 13,280,158 | 15,147,237 |
| NET ASSETS | | 11,742,773 | 10,755,543 |
| REPRESENTED BY | | | |
| Share capital | 17 | 6,000,000 | 6,000,000 |
| Reserves | 17 | 2,992,287 | 2,884,894 |
| Accumulated profit | | 2,510,618 | 1,649,279 |
| | | 11,502,905 | 10,534,173 |
| Surplus / (deficit) on revaluation of 'available-for-sale' securities - net of tax | 18 | 239,868 | 221,370 |
| | | 11,742,773 | 10,755,543 |
| CONTINGENCIES AND COMMITMENTS | 19 | | |

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


Deputy General Manager / Chief Financial Officer


Director


Chief Executive


Director

Pakistan Kuwait Investment Company (Private) Limited

Consolidated Profit and Loss Account

For the year ended December 31, 2010

| | Note | 2010 (Rupees in '000) | 2009 |
|--|------|--------------------------|------------------|
| Mark-up / return / interest earned | 20 | 2,111,019 | 1,803,730 |
| Mark-up / return / interest expensed | 21 | 1,452,508 | 1,189,263 |
| Net mark-up / interest income | | 658,511 | 614,467 |
| Provision against non-performing loans and advances - net | 10.4 | 24,959 | 527,226 |
| (Reversal of provision) against non-performing lending to financial institutions | 8.2 | (129,178) | - |
| Provision for diminution / impairment in the value of investments | 9.3 | 67,119 | 189,093 |
| Bad debts written off directly | | - | - |
| | | (37,100) | 716,319 |
| Net mark-up / interest income after provisions | | 695,611 | (101,852) |
| NON MARK-UP / INTEREST INCOME | | | |
| Fee, commission and brokerage income | | 7,857 | 6,129 |
| Dividend income | | 148,754 | 136,543 |
| Income from dealing in foreign currencies | | - | - |
| Gain on sale of securities | 22 | 297,159 | 817,777 |
| Unrealised (loss) / gain on revaluation of 'held-for-trading' securities | 9.4 | (880) | 938 |
| Share in results of associates - net | | 563,802 | 841,437 |
| Other income | 23 | 21,982 | 18,345 |
| Total non mark-up / interest income | | 1,038,674 | 1,821,169 |
| NON MARK-UP / INTEREST EXPENSES | | | |
| Administrative expenses | 24 | 411,259 | 314,860 |
| Other provisions / write offs | | - | - |
| Other charges | 25 | 1,149 | 203 |
| Total non mark-up / interest expenses | | 412,408 | 315,063 |
| Extra ordinary / unusual items | | - | - |
| PROFIT BEFORE TAXATION | | 1,321,877 | 1,404,254 |
| Taxation | | | |
| - Current | 26 | 176,089 | 318,763 |
| - Prior years | | - | - |
| - Deferred | 26 | 177,056 | (143,850) |
| | | 353,145 | 174,913 |
| PROFIT AFTER TAXATION | | 968,732 | 1,229,341 |
| Accumulated profit / (loss) brought forward | | 1,649,279 | (3,142,880) |
| Accumulated profit / (loss) carried forward | | 2,618,011 | (1,913,539) |
| Basic earnings per share | | | |
| (On share of Rs. 25,000 each) | 27 | 4,036 | 5,122 |
| Diluted earnings per share | | | |
| (On share of Rs. 25,000 each) | 28 | 4,036 | 5,122 |

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

Deputy General Manager / Chief Financial Officer

Director

Chief Executive

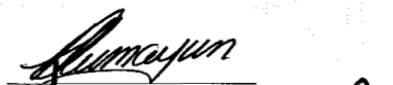
Director

Pakistan Kuwait Investment Company (Private) Limited
 Consolidated Statement of Changes in Equity
 For the year ended December 31, 2010

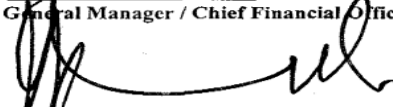
| | Share capital | Reserves | | Accumulated profit/ (loss) | Total |
|--|------------------|------------------|-------------|----------------------------|-------------------|
| | | Statutory | Revenue | | |
| ------(Rupees in '000)----- | | | | | |
| Balance as at December 31, 2008 | 6,000,000 | 3,288,822 | 3,158,890 | (3,142,880) | 9,304,832 |
| Profit for the year ended December 31, 2009 | - | - | - | 1,229,341 | 1,229,341 |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | 1,229,341 | 1,229,341 |
| Transfer from contingencies reserve to accumulated loss | - | - | (274,837) | 274,837 | - |
| Transfer from marketable and government securities reserve to accumulated loss | - | - | (2,884,053) | 2,884,053 | - |
| Transfer to statutory reserve | - | 103,273 | - | (103,273) | - |
| Transfer from statutory reserve to accumulated loss | - | (507,201) | - | 507,201 | - |
| Balance as at December 31, 2009 | 6,000,000 | 2,884,894 | - | 1,649,279 | 10,534,173 |
| Profit for the year ended December 31, 2010 | - | - | - | 968,732 | 968,732 |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | 968,732 | 968,732 |
| Transfer to statutory reserve | - | 107,393 | - | (107,393) | - |
| Balance as at December 31, 2010 | 6,000,000 | 2,992,287 | - | 2,510,618 | 11,502,905 |

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

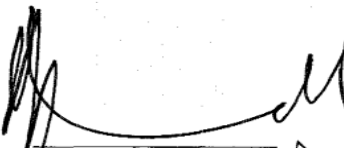
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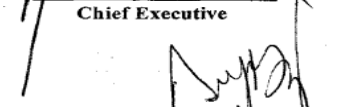
Deputy General Manager / Chief Financial Officer



Director



Chief Executive



Director


Pakistan Kuwait Investment Company (Private) Limited

Consolidated Cash Flow Statement

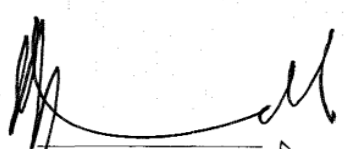
For the year ended December 31, 2010

| | Note | 2010 | 2009 |
|--|------|-------------|-------------|
| (Rupees in '000) | | | |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Profit before taxation | | 1,321,877 | 1,404,254 |
| Less: Dividend income | | (148,754) | (136,543) |
| | | 1,173,123 | 1,267,711 |
| Adjustments for: | | | |
| Depreciation | | 14,067 | 11,885 |
| Amortisation | | 513 | 40 |
| Provision against non-performing advances | | 24,959 | 527,226 |
| (Reversal of provision) against lending to financial institutions | | (129,178) | - |
| Provision for diminution / impairment in the value of investments | | 67,119 | 189,093 |
| Gain on sale of operating fixed assets | | (4,395) | (1,106) |
| Share in results of associates - net | | (563,802) | (841,437) |
| Unrealised loss / (gain) on revaluation of 'held-for-trading' securities | | 880 | (938) |
| | | (589,837) | (115,237) |
| | | 583,286 | 1,152,474 |
| Decrease / (increase) in operating assets | | | |
| Lendings to financial institutions | | 557,805 | (300,000) |
| 'Held-for-trading' securities | | 203,496 | (118,483) |
| Advances | | (1,386,707) | (775,733) |
| Others assets (excluding advance taxation) | | 71,763 | (147,877) |
| | | (553,643) | (1,342,093) |
| (Decrease) / increase in operating liabilities | | | |
| Borrowings | | (570,503) | 4,007,090 |
| Deposits | | (937,439) | 4,038,451 |
| Other liabilities (excluding current taxation) | | (113,902) | 164,808 |
| | | (1,621,844) | 8,210,349 |
| | | (1,592,201) | 8,020,730 |
| Income tax paid | | (744,620) | (542,510) |
| Net cash (outflow) / inflow from operating activities | | (2,336,821) | 7,478,220 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Net investment in 'available-for-sale' securities / subsidiaries | | 1,607,397 | (8,499,104) |
| Dividend income | | 253,372 | 152,896 |
| Investment in operating fixed assets | | (29,545) | (18,240) |
| Sale proceeds from sale of operating fixed assets | | 31,363 | 3,293 |
| Net cash inflow / (outflow) from investing activities | | 1,862,587 | (8,361,155) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Net cash used in financing activities | | - | - |
| Decrease in cash and cash equivalents | | (474,234) | (882,935) |
| Cash and cash equivalents at beginning of the year | | 1,935,346 | 2,818,281 |
| Cash and cash equivalents at end of the year | 29 | 1,461,112 | 1,935,346 |

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


Deputy General Manager / Chief Financial Officer


Director


Chief Executive


Director


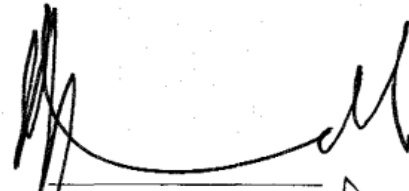
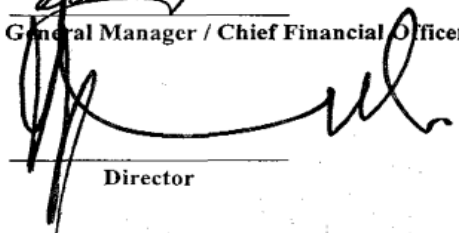
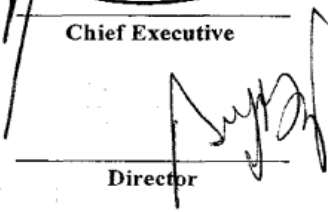
Pakistan Kuwait Investment Company (Private) Limited
Consolidated Statement of Comprehensive Income

For the year ended December 31, 2010

| | 2010 | 2009 |
|--|------------------------------|-----------|
| | ----- (Rupees in '000) ----- | |
| Profit for the year | 968,732 | 1,229,341 |
| Other comprehensive income | - | - |
| Comprehensive income transferred to equity | 968,732 | 1,229,341 |
| Component of comprehensive income not transferred to equity | | |
| Surplus on revaluation of 'available-for-sale' securities- net of tax | 18,498 | 280,227 |
| Total comprehensive income | 987,230 | 1,509,568 |

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

20/10/10

| | |
|---|---|
|  Deputy General Manager / Chief Financial Officer |  Chief Executive |
|  Director |  Director |

Pakistan Kuwait Investment Company (Private) Limited

Notes to and Forming Part of the Consolidated Financial Statements

For the year ended December 31, 2010

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 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 two 100% owned subsidiaries, First Choice Securities Limited (FCSL) and Pak Kuwait Financial Services Limited (PKFSL). FCSL principal business includes equity brokerage, money market and foreign exchange brokerage, equity research and corporate financial advisory services. The principal business of PKFSL was to provide assets management services. FCSL has not started its operations, while PKFSL has applied for liquidation by opting Easy Exit Scheme of Securities and Exchange Commission of Pakistan (SECP). The Company has its representative offices in Islamabad and Lahore.

The Group's associates are as follows:

| Entity / Fund | Nature of Business | Percentage holding | |
|---|---|--------------------|-------|
| | | 2010 | 2009 |
| 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)* | Closed end mutual fund. Formed under the Investment Companies and Investment Advisor Rules, 1971. | 12.28 | 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 holding company of Pakistan Limited (CDC) as the trustee | 9.21 | 9.21 |

| Entity / Fund | Nature of Business | Percentage holding | |
|---|--|--------------------|-------|
| | | | |
| National Clearing Company Limited (NCCL)* | Business of clearing and settlement of securities through the National Clearing and Settlement System (NCSS) | 17.65 | 17.65 |
| National Commodity Exchange Limited (NCEL)* | Operations of Commodity exchange and market place for commodities future contracts | 5.26 | 9.09 |

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 BSD Circular No. 4 dated February 17, 2006 and BSD Circular letter No. 07, dated 20 April 2010.

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 State Bank of Pakistan (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. Accordingly, the requirements of these International Accounting Standards (IASs) 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 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 subsidiaries are prepared, using consistent accounting policies, for the same reporting year except for PKFSL, the audited financials of which as at 28 October 2010 (i.e. the date of application of liquidation) have been considered for the purpose of consolidation. The financial statements of the subsidiaries 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 in 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 new and amended IFRS and IFRIC interpretations which became effective during the year:

IFRS 2 – Share-based Payments: Amendments relating to Group Cash-settled Share-based Payment Transactions

IFRS 3 – Business Combinations (Revised)

IAS 27 - Consolidated and Separate Financial Statements (Amendment)

IFRIC 17 - Distributions of Non-cash Assets to owners

The adoption of the above standards, amendments and interpretations did not have any 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 32 - Financial Instruments: Presentation - Classification of Rights Issues (Amendment) | 01 February 2010 |
| IAS 24 - Related Party Disclosures (Revised) | 01 January 2011 |
| IFRIC 14 - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendments) | 01 January 2011 |
| IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments | 01 July 2010 |

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 as a result of its annual improvement project. Such improvements are generally effective for accounting periods beginning on or after 01 January 2011. The Group expects that such improvements to the standards will not have any material impact on the Group's financial statements in the period of initial application.

5.4 Cash and cash equivalents

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

5.5 Repurchase/resale agreements

The holding company enters into securitised borrowing transactions of repurchase agreements (Repos) and reverse repurchase agreements (Reverse repos) at contracted rates for a specified period of time. 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 balance sheet 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 balance sheet. 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 repos agreement.

5.6 Investments

The Group classifies its investments other than those in associates as 'Available-for-sale', 'Held-for-trading' and 'Held-to-maturity', 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.

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 prices as at the balance sheet date respectively. Any surplus or deficit other than impairment 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 balance sheet, and shown below equity.

Furthermore, investments classified as 'held-to-maturity' are stated at their amortised cost.

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 recognised in income currently. Profit and loss on sale of investments during the year is included in income currently.

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

Companies where there are common directors but the Group does not have significant influence are classified as 'Investment in associated undertakings'. These are stated in accordance with their classification either as 'held-for-trading' or 'available-for-sale' securities.

5.7 Trade date accounting

All purchase and sale of investment 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 State Bank of Pakistan and 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 included in income currently.

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 by the holding company on a straight line basis over their estimated useful lives.

5.11 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 Group 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 fees and other income of FCSL are accrued as and when due. Interest income is recognised on a time proportion basis taking into account effective yield on the asset.

5.12 Taxation

Current

The charge for current taxation of the Group 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 using the tax rates enacted or substantively enacted at balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits will be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

5.13 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 actuarial liability or plan assets are recognised over the expected average working life of the employees.

The last actuarial valuation of the employees' defined benefit plan was conducted as of December 31, 2010.

Defined contribution plan

The holding 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 basic salary. Effective October 2010, monthly contributions are made on the basis of Salary.

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, 2010.

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 balance sheet 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 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 balance sheet date. Exchange gains and losses are included in income currently.

5.18 Off-setting of financial assets and financial liabilities

'Financial assets' and 'financial liabilities' are only offset and the net amount is reported in the balance sheet 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.

5.19 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 Group by weighted average number of ordinary shares outstanding during the year.

5.20 Segment information

A segment is 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.

5.21 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 39.

| 6 CASH AND BALANCES WITH TREASURY BANKS | <i>Note</i> | 2010 | 2009 |
|--|-------------|-------------------------|---------------|
| | | (Rupees in '000) | |
| Cash in hand in local currency | | 60 | 30 |
| With State Bank of Pakistan in local currency current account | <i>6.1</i> | 51,131 | 92,300 |
| With National Bank of Pakistan in local currency current account | | 233 | 182 |
| | | <u>51,424</u> | <u>92,512</u> |

6.1 This includes Rs.43 million (2009: Rs.80 million) held as minimum cash reserve required to be maintained with the SBP in accordance with its requirements issued from time to time. The balance amount is available to the holding company for its operation.

| 7 BALANCES WITH OTHER BANKS | <i>Note</i> | 2010 | 2009 |
|------------------------------------|-------------|-------------------------|------------------|
| | | (Rupees in '000) | |
| In Pakistan | | | |
| - current account | | 35,290 | 9,452 |
| - deposit account | <i>7.1</i> | <u>1,374,398</u> | 1,833,382 |
| | | <u>1,409,688</u> | <u>1,842,834</u> |

7.1 This includes placements of Rs. 1,350 million (2009: Rs. 1,700 million). The return on these placements ranges between 13.99 and 14.00 (2009: 11.50 and 13.0) percent per annum and the placements mature between 28 days and 88 days (2009: 15 days and 81 days).

8 LENDINGS TO FINANCIAL INSTITUTIONS

| | <i>Note</i> | 2010 | 2009 |
|---|-------------|-------------------------|----------------|
| | | (Rupees in '000) | |
| Certificates of investment (COIs) in local currency | <i>8.1</i> | 270,822 | 950,000 |
| Provision against COI | <i>8.2</i> | <u>(20,822)</u> | (150,000) |
| | | <u>250,000</u> | <u>800,000</u> |

8.1 The return on the COI is 14.25 (2009: 12.61 to 12.75) percent per annum and are due for maturity by March 24, 2011 (2009: March 11, 2010).

8.2 This represents provision against clean lending under COI to an investment bank. The lending was made on September 20, 2008 and matured on December 20, 2008. On maturity the investment bank was unable to repay and the holding company had initiated legal proceedings for recovery of the outstanding amount. Based on the principle of prudence the holding company had fully provided the amount.

During the year, the holding company recovered Rs. 129.178 million in the form of property valuing Rs. 121.373 million and the balance amount in cash. The balance amount will be received in fourteen monthly installments in 2011 and 2012.

8.3 The holding company does not hold any securities as collateral against lendings to financial institutions.

9 INVESTMENTS

9.1 Investments by type

| Note | 2010 | | | 2009 | | |
|---|----------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
| | Held by the Group | Given as collateral | Total | Held by the Group | Given as collateral | Total |
| ------(Rupees in '000)----- | | | | | | |
| Held-for-trading securities | | | | | | |
| Shares of listed companies | 36,592 | - | 36,592 | 189,068 | - | 189,068 |
| Pakistan investment bonds | - | - | - | 49,202 | - | 49,202 |
| Available-for-sale securities | | | | | | |
| Market treasury bills | 3,547,284 | 5,008,370 | 8,555,654 | 2,394,775 | 8,077,406 | 10,472,181 |
| Pakistan investment bonds | 449,199 | 1,175,573 | 1,624,772 | 1,670,908 | - | 1,670,908 |
| Shares of listed companies | 1,921,789 | - | 1,921,789 | 1,866,808 | - | 1,866,808 |
| Shares of unlisted companies | 125,122 | - | 125,122 | 119,968 | - | 119,968 |
| Listed preference shares | 93,399 | - | 93,399 | 93,489 | - | 93,489 |
| Listed term finance certificates | 153,687 | - | 153,687 | 364,765 | - | 364,765 |
| Unlisted term finance certificates | 458,598 | - | 458,598 | 136,111 | - | 136,111 |
| | 6,749,078 | 6,183,943 | 12,933,021 | 6,646,824 | 8,077,406 | 14,724,230 |
| Associates | 4,587,944 | - | 4,587,944 | 4,111,632 | - | 4,111,632 |
| Total investments - at cost | 11,373,614 | 6,183,943 | 17,557,557 | 10,996,726 | 8,077,406 | 19,074,132 |
| Provision for diminution / impairment in the value of investments | 9.3 & 39.3 (190,203) | - | (190,203) | (306,017) | - | (306,017) |
| Total investments - net of provisions | 11,183,411 | 6,183,943 | 17,367,354 | 10,690,709 | 8,077,406 | 18,768,115 |
| Surplus / (deficit) on revaluation of 'held-for-trading' securities | 9.4 (880) | - | (880) | 938 | - | 938 |
| Surplus / (deficit) on revaluation of 'available-for-sale' securities | 275,084 | (119,978) | 155,106 | 175,002 | (14,017) | 160,985 |
| Total investments at market value | 11,457,615 | 6,063,965 | 17,521,580 | 10,866,649 | 8,063,389 | 18,930,038 |

| 9.2 Investments by segments | Note | 2010 | 2009 |
|---|---------------|------------|------------|
| (Rupees in '000) | | | |
| Federal Government Securities | | | |
| - Market treasury bills | 9.2.1 | 8,555,654 | 10,472,181 |
| - Pakistan investment bonds | 9.2.2 | 1,624,772 | 1,720,110 |
| Fully paid up Ordinary Shares | | | |
| - Listed companies | | 1,958,381 | 2,055,876 |
| - Unlisted companies | 9.2.3 | 125,122 | 119,968 |
| | | 2,083,503 | 2,175,844 |
| Preference Shares | | | |
| - Listed companies | | 93,399 | 93,489 |
| Term Finance Certificates (TFCs) | | | |
| - Listed TFCs | | 153,687 | 364,765 |
| - Unlisted TFCs | | 458,598 | 136,111 |
| | | 612,285 | 500,876 |
| Investments in Associates | 9.2.3 & 9.2.4 | 4,587,944 | 4,111,632 |
| Total investments - at cost | | 17,557,557 | 19,074,132 |
| Provision for diminution / impairment in the value of investments | 9.3 & 39.3 | (190,203) | (306,017) |
| Total investments - net of provisions | | 17,367,354 | 18,768,115 |
| Surplus / (deficit) on revaluation of 'held-for-trading' securities | 9.4 | (880) | 938 |
| Surplus / (deficit) on revaluation of 'available-for-sale' securities | | 155,106 | 160,985 |
| | | 154,226 | 161,923 |
| Total investments | | 17,521,580 | 18,930,038 |

9.2.1 The investments in market treasury bills are maturing between 13 January 2011 and 16 June 2011 (2009: 28 January 2010 and 7 October 2010) and the effective interest ranges between 12.20 and 12.41 percent per annum (2009: 11.20 and 13.30 percent per annum).

9.2.2 The investments in Pakistan investment bonds are maturing between 30 August 2013 and 03 September 2019 (2009: 30 August 2013 and 03 September 2019) and the effective interest ranges between 11.45 and 13.18 percent per annum (2009: 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 associates includes shares of Meezan Bank Limited costing Rs. 1,520 million and market value of Rs. 3,540 million (2009: Cost Rs. 1,520 million, market value Rs.3,140 million) which 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 | 2010 | 2009 |
|---|-----------|-------------|
| (Rupees in '000) | | |
| Opening balance | 306,017 | 4,026,046 |
| Charge for the year | 67,119 | 189,093 |
| Reversals | (182,933) | (3,909,122) |
| | (115,814) | (3,720,029) |
| Closing balance | 190,203 | 306,017 |

9.3.1 Particulars of provision in respect of type and segment

| | | |
|---------------------------------|---------|---------|
| 'Available-for-sale' securities | 190,203 | 306,017 |
| | 190,203 | 306,017 |

9.4 Unrealized (loss) / gain on revaluation of 'held-for-trading' securities

| | | |
|-------------------------------|-------|-------|
| Federal government securities | - | (901) |
| Fully paid up ordinary shares | (880) | 1,839 |
| | (880) | 938 |

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)----- | | | | | | |
| 2010 | | | | | | |
| Meezan Bank Limited | 30-Sep-10 | 144,758,246 | 133,400,626 | 11,357,620 | 9,037,744 | 1,109,948 |
| Plexus (Private) Limited | 31-Dec-09 | 15,980 | 7,146 | 8,834 | 9,368 | (2,100) |
| Pak Kuwait Takaful Company Limited | 30-Sep-10 | 598,847 | 165,078 | 433,769 | 173,510 | 46,055 |
| Falcon Green Wood (Private) Limited | 30-Jun-08 | 706,750 | 38,006 | 668,744 | - | 8,044 |
| The General Tyre & Rubber Company of Pakistan Limited | 30-Sep-10 | 4,910,128 | 3,681,379 | 1,228,749 | 1,393,328 | 17,622 |
| Al Meezan Investment Management Limited | 30-Sep-10 | 1,226,945 | 318,756 | 908,189 | 68,291 | 40,143 |
| Al Meezan Mutual Fund Limited | 31-Dec-10 | 1,649,358 | 12,680 | 1,636,678 | 111,497 | 170,155 |
| Meezan Balanced Fund | 31-Dec-10 | 1,432,776 | 19,401 | 1,413,375 | 92,174 | 104,233 |
| National Clearing Company of Pakistan Limited | 30-Sep-10 | 753,253 | 388,291 | 364,962 | 21,402 | (4,042) |
| National Commodity Exchange Limited | 30-Sep-10 | 338,811 | 473,332 | (134,521) | 11,818 | (11,974) |

The above information is based on latest available financial statements.

2009

| | | | | | | |
|---|-----------|-------------|------------|-----------|-----------|-----------|
| Meezan Bank Limited | 30-Sep-09 | 109,406,789 | 99,467,933 | 9,938,856 | 8,557,909 | 1,350,173 |
| Plexus (Private) Limited | 31-Dec-09 | 15,980 | 7,146 | 8,834 | 9,368 | (2,100) |
| Pak Kuwait Takaful Company Limited | 30-Sep-09 | 400,564 | 168,560 | 232,004 | 243,708 | 44,112 |
| Falcon Green Wood (Private) Limited | 30-Jun-08 | 706,750 | 38,006 | 668,744 | - | 8,044 |
| The General Tyre & Rubber Company of Pakistan Limited | 30-Sep-09 | 4,020,773 | 2,841,284 | 1,179,489 | 1,335,278 | 67,145 |
| Al Meezan Investment Management Limited | 31-Dec-09 | 1,024,064 | 221,509 | 802,555 | 265,384 | 149,064 |
| Al Meezan Mutual Fund Limited | 31-Dec-09 | 1,420,456 | 24,235 | 1,396,221 | 386,280 | 369,113 |
| Meezan Balanced Fund | 31-Dec-09 | 1,278,539 | 38,057 | 1,240,482 | 247,130 | 226,138 |
| National Clearing Company of Pakistan Limited | 30-Sep-09 | 901,913 | 505,541 | 396,372 | 47,895 | 2,274 |
| National Commodity Exchange Limited | 30-Jun-09 | 176,126 | 312,399 | (136,273) | 25,186 | (120,702) |

Note **2010** 2009
(Rupees in '000)

10 ADVANCES

In Pakistan

| | | | | | | |
|---------------------------------------|--|--|--|------|--------------------|-------------|
| Advances | | | | | 4,735,906 | 3,744,176 |
| Net investment in finance leases | | | | 10.2 | 1,653,899 | 1,258,922 |
| | | | | | 6,389,805 | 5,003,098 |
| Provision for non-performing advances | | | | 10.4 | (1,420,615) | (1,395,656) |
| Advances net of provision | | | | | 4,969,190 | 3,607,442 |

10.1 Particulars of gross advances

| | | | | | | |
|--------------------------------|--|--|--|--|------------------|-----------|
| In local currency | | | | | 6,389,805 | 5,003,098 |
| Short term (for upto one year) | | | | | 2,145,421 | 1,377,787 |
| Long term (for over one year) | | | | | 4,244,384 | 3,625,311 |
| | | | | | 6,389,805 | 5,003,098 |

10.2 Net investment in finance leases

| | 2010 | | | | 2009 | | | |
|---|-------------------------|---|-----------------|-----------|-------------------------|---|-----------------|-----------|
| | 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 | 907,442 | 1,006,845 | 47,850 | 1,962,137 | 822,024 | 535,759 | 34,428 | 1,392,211 |
| Residual value | 56,888 | 63,747 | 1,878 | 122,513 | 58,223 | 51,289 | - | 109,512 |
| Minimum lease payments | 964,330 | 1,070,592 | 49,728 | 2,084,650 | 880,247 | 587,048 | 34,428 | 1,501,723 |
| Financial charges for future periods | 216,208 | 213,801 | 742 | 430,751 | 145,566 | 90,443 | 6,792 | 242,801 |
| Present value of minimum lease payments | 748,122 | 856,791 | 48,986 | 1,653,899 | 734,681 | 496,605 | 27,636 | 1,258,922 |

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 by the year 2020 and are subject to finance income at rates ranging between 7.0 and 21.83 (2009: 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. 100.154 million (2009: Rs. 99.735 million) as security deposits on behalf of the lessees which are included under other liabilities (note 16).

10.3 Advances include Rs. 1,648.540 million (2009: Rs 1,693.697 million) which have been placed under non-performing status as detailed below:

| Category of classification | 2010 | | | 2009 | | |
|------------------------------|---------------------|--------------------|------------------|---------------------|--------------------|------------------|
| | Classified Advances | Provision Required | Provision Held | Classified Advances | Provision Required | Provision Held |
| ----- (Rupees in '000) ----- | | | | | | |
| Substandard | 121,725 | 30,431 | 30,431 | 235,389 | 58,847 | 58,847 |
| Doubtful | 273,263 | 136,631 | 136,631 | 242,999 | 121,500 | 121,500 |
| Loss | 1,253,552 | 1,253,553 | 1,253,553 | 1,215,309 | 1,215,309 | 1,215,309 |
| | 1,648,540 | 1,420,615 | 1,420,615 | 1,693,697 | 1,395,656 | 1,395,656 |

10.4 Particulars of provision against non-performing advances - specific

| | 2010 | 2009 |
|---------------------|------------------|------------------|
| | (Rupees in '000) | |
| Opening balance | 1,395,656 | 910,181 |
| Charge for the year | 87,089 | 598,945 |
| Reversals | (62,130) | (71,719) |
| | 24,959 | 527,226 |
| Amounts written off | - | (41,751) |
| Closing balance | 1,420,615 | 1,395,656 |

| | | |
|----------------------------|------------------|------------------|
| 10.5 Local currency | 1,420,615 | 1,395,656 |
| Foreign currency | - | - |
| | 1,420,615 | 1,395,656 |

10.6 Particulars of write offs

| | | |
|--|---|--------|
| 10.6.1 Against provisions | - | 41,751 |
| 10.6.2 Write offs of Rs. 500,000 and above | - | 39,079 |
| Write offs of below Rs. 500,000 | - | 2,672 |
| | - | 41,751 |

10.7 The statement in respect of written off loans or any financial relief of five hundred thousand rupees or above allowed to persons during the year ended 31 December 2010 is given in Annexure III.

10.8 Particulars of loans and advances to directors and associated companies

| | 2010 | 2009 |
|---|------------------|----------|
| | (Rupees in '000) | |
| Debts due by directors, executives and officers of the holding company or any of them severally or jointly with any other persons | | |
| Balance at beginning of the year | - | 12,500 |
| Repayments | - | (12,500) |
| Balance at end of the year | - | - |

| | Note | 2010 (Rupees in '000) | 2009 |
|----------------------------------|------|--------------------------|----------------|
| 11 OPERATING FIXED ASSETS | | | |
| Property and equipment | 11.1 | 215,811 | 110,906 |
| Capital work in progress | 11.2 | 2,350 | 2,350 |
| Intangible assets | 11.3 | 42,575 | 38,110 |
| | | <u>260,736</u> | <u>151,366</u> |

11.1 Property and equipment

| | 2010 | | | | | | | Net book value as at December 31, 2010 | Rate of depreciation % |
|-----------------------------|------------------------------|------------------------------------|-------------------------|-----------------------|----------------------|-----------|-------------------------|--|------------------------|
| | Cost | | | Depreciation | | | | | |
| | As at January 1, 2010 | Additions / transfers/ (disposals) | As at December 31, 2010 | As at January 1, 2010 | Charge / (disposals) | Transfers | As at December 31, 2010 | | |
| | ----- (Rupees in '000) ----- | | | | | | | | |
| Leasehold land | 100 | - | 100 | - | - | - | - | 100 | |
| Building on lease hold land | 112,149 | 121,373 | 233,522 | 30,992 | 3,348 | - | 34,340 | 199,182 | 2.50 |
| Furniture and fixtures | 23,318 | - | 10,184 | 22,977 | 145 | - | 9,988 | 196 | 20.00 |
| Motor vehicles | 67,333 | (13,134) | 20,281 | 40,526 | (13,134) | - | 12,854 | 7,427 | 20.00 |
| | | 14,752 | | | 7,164 | | | | |
| | | (61,804) | | | (34,836) | | | | |
| Office equipment | 34,806 | 9,761 | 38,746 | 32,402 | 3,338 | - | 29,919 | 8,827 | 33.33 |
| | | (5,821) | | | (5,821) | | | | |
| Electrical appliances | 3,051 | 54 | 1,972 | 2,954 | 72 | - | 1,893 | 79 | 20.00 |
| | | (1,133) | | | (1,133) | | | | |
| | 240,757 | 145,940 | 304,805 | 129,851 | 14,067 | - | 88,994 | 215,811 | |
| | | (81,892) | | | (54,924) | | | | |

| | 2009 | | | | | | | Net book value as at December 31, 2009 | Rate of depreciation % |
|-----------------------------|------------------------------|------------------------------------|-------------------------|-----------------------|----------------------|-----------|-------------------------|--|------------------------|
| | Cost | | | Depreciation | | | | | |
| | As at January 1, 2009 | Additions / transfers/ (disposals) | As at December 31, 2009 | As at January 1, 2009 | Charge / (disposals) | Transfers | As at December 31, 2009 | | |
| | ----- (Rupees in '000) ----- | | | | | | | | |
| Leasehold land | 100 | - | 100 | - | - | - | - | 100 | |
| Building on lease hold land | 112,149 | - | 112,149 | 28,186 | 2,806 | - | 30,992 | 81,157 | 2.50 |
| Furniture and fixtures | 31,254 | 171 | 23,318 | 29,643 | 339 | (356) | 22,977 | 341 | 20.00 |
| Motor vehicles | 65,808 | (8,107) | 67,333 | 46,755 | (6,649) | - | 40,526 | 26,807 | 20.00 |
| | | 15,846 | | | 7,219 | | | | |
| | | (14,321) | | | (13,448) | | | | |
| Office equipment | 32,833 | 2,160 | 34,806 | 31,001 | 1,316 | 270 | 32,402 | 2,404 | 33.33 |
| | | (187) | | | (185) | | | | |
| Electrical appliances | 4,931 | 109 | 3,051 | 4,352 | 205 | 86 | 2,954 | 97 | 20.00 |
| | | (1,989) | | | (1,689) | | | | |
| | 247,075 | 18,286 | 240,757 | 139,937 | 11,885 | - | 129,851 | 110,906 | |
| | | (24,604) | | | (21,971) | | | | |

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

| | 2010 (Rupees in '000) |
|-----------------------|--------------------------|
| Furniture and fixture | 9,828 |
| Motor vehicles | 9,148 |
| Office equipment | 26,882 |
| Electrical appliances | 1,746 |

11.1.2 Details of disposals of fixed assets whose original cost or the book value exceeds Rs. 1 million or Rs. 250,000 which ever is less and assets disposed off to the chief executive or to a director or to executives or to any related party, irrespective of the value, are as follows:

| Description | Cost | Accumulated depreciation | Net book value | Sale proceeds | Mode of disposal | Particular of purchaser |
|-----------------------------|-------|--------------------------|----------------|---------------|------------------|---|
| ------(Rupees in '000)----- | | | | | | |
| Motor vehicles | | | | | | |
| Honda Civic | 1,245 | 1,245 | - | 748 | Auction | Mr. Zahid Qadri |
| Kia Sportage | 1,549 | 1,549 | - | 600 | Auction | Mr. Zeeshan Tariq |
| Honda Accord | 1,861 | 1,861 | - | - | Surrendered | Custom Authority |
| Honda Accord | 2,221 | 2,221 | - | - | Surrendered | Custom Authority |
| Toyota Crown | 1,574 | 1,574 | - | - | Surrendered | Custom Authority |
| Toyota Corolla | 1,209 | 1,190 | 19 | - | Company Policy | Mr. Tasnimul Haq Farooqui (Former Employee) |
| Honda Civic | 1,564 | 885 | 679 | - | Company Policy | Mr. Mujahid Hussain Naqvi (Former Employee) |
| Suzuki Cultus | 560 | 560 | - | 56 | Company policy | Syed Sharique Farid (Employee) |
| Suzuki Cultus | 560 | 560 | - | 56 | Company policy | Mr. Naeem Abdul Sattar (Employee) |
| Suzuki Cultus | 560 | 560 | - | 56 | Company policy | Syed Ehtesham Mukhtar (Employee) |
| Toyota Corolla | 879 | 879 | - | - | Company policy | Mr. Muhammad Inam (Employee) |
| Honda City | 846 | 730 | 116 | 116 | Company policy | Ms. Ishret Ispahany (Employee) |
| Suzuki Cultus | 560 | 483 | 77 | 77 | Company policy | Mr. Malik Mansoor (Employee) |
| Toyota Corolla | 879 | 745 | 134 | 134 | Company policy | Mr. Aamir Ali Zaidi (Employee) |
| Suzuki Cultus | 560 | 474 | 86 | 86 | Company policy | Mr. Shamim Ahmed (Employee) |
| Suzuki Cultus | 560 | 474 | 86 | 86 | Company policy | Mr. Muhammad Jawed (Employee) |
| Suzuki Cultus | 560 | 474 | 86 | 86 | Company policy | Syed Hussain Ali (Employee) |
| Suzuki Cultus | 560 | 410 | 150 | 150 | Company policy | Mr. Umar Farooq (Employee) |
| Suzuki Cultus | 560 | 400 | 160 | 160 | Company policy | Mr. Mustafa Zaheer (Employee) |
| Toyota Corolla | 969 | 685 | 284 | 284 | Company policy | Ms. Ruksana Moghal (Former Employee) |
| Toyota Corolla | 969 | 685 | 284 | 284 | Company policy | Mr. Atif Anwer (Employee) |
| Honda Civic | 1,390 | 963 | 427 | 427 | Company policy | Mr. Rana Ahmed Humayun (Employee) |
| Honda Civic | 1,390 | 963 | 427 | 427 | Company policy | Ms. Sadia Muzaffar (Employee) |
| Toyota Corolla | 969 | 672 | 297 | 297 | Company policy | Mr. Zubair Mumtaz (Former Employee) |
| Toyota Corolla | 1,005 | 690 | 315 | 315 | Company policy | Syed Khurshid Anwar (Employee) |
| Honda Civic | 1,390 | 954 | 436 | 436 | Company policy | Mr. Imran Amin (Employee) |
| Honda Civic | 1,429 | 971 | 457 | 457 | Company policy | Mr. Mazhar Sharif (Employee) |
| Suzuki Cultus | 590 | 398 | 192 | 192 | Company policy | Mr. Ali Akbar (Employee) |
| Honda Civic | 1,429 | 954 | 474 | 474 | Company policy | Syed Ehsan Ahmed (Employee) |
| Suzuki Cultus | 576 | 313 | 263 | 263 | Company policy | Mr. Inam-ur-Rahman (Employee) |
| Toyota Corolla | 1,014 | 530 | 484 | 484 | Company policy | Ms. Farah Akber (Employee) |
| Toyota Corolla | 1,014 | 530 | 484 | 484 | Company policy | Mr. Sarfaraz Salik (Employee) |
| Suzuki Cultus | 606 | 310 | 296 | 296 | Company policy | Mr. Omer Azim (Employee) |
| Suzuki Cultus | 606 | 310 | 296 | 296 | Company policy | Syed Zafar Gardezi (Employee) |
| Honda Civic | 1,775 | 860 | 915 | 915 | Company policy | Mr. Nabil Daud ur Rahman (Employee) |
| Toyota Corolla | 1,389 | 417 | 972 | 972 | Company policy | Mr. Samiullah Tariq (Employee) |
| Honda Civic | 1,850 | 555 | 1,295 | 1,295 | Company policy | Mr. Faisal Khan (Employee) |
| Honda Civic | 1,744 | 523 | 1,221 | 1,221 | Company policy | Ms. Shabnam Ansari (Employee) |
| Suzuki Cultus | 755 | 189 | 566 | 566 | Company policy | Syed Aqulb Hashmi (Employee) |
| Suzuki Cultus | 755 | 189 | 566 | 566 | Company policy | Mr. Mohammad Rais (Employee) |
| Suzuki Cultus | 755 | 189 | 566 | 566 | Company policy | Mr. Salman Khan (Employee) |
| Toyota Corolla | 1,354 | 293 | 1,061 | 1,061 | Company policy | Mr. Muhammad Haris (Employee) |
| Toyota Corolla | 1,354 | 293 | 1,061 | 1,061 | Company policy | Mr. Ahmed Abdullah (Employee) |
| Suzuki Cultus | 755 | 151 | 604 | 604 | Company policy | Mr. Fahad Adil (Employee) |
| Suzuki Cultus | 750 | 150 | 600 | 600 | Company policy | Mr. Zafar Ahmad (Employee) |
| Toyota Corolla | 1,354 | 226 | 1,128 | 1,128 | Company policy | Mr. Aurangzeb Amin (Employee) |
| Suzuki Cultus | 795 | 106 | 689 | 689 | Company policy | Syed Ali Abid (Employee) |
| Suzuki Cultus | 810 | 54 | 756 | 756 | Company policy | Mr. Mohammad Farooq (Employee) |
| Suzuki Cultus | 810 | 54 | 756 | 756 | Company policy | Syed Sharique Farid (Employee) |
| Toyota Corolla | 1,784 | 119 | 1,665 | 1,665 | Company policy | Mr. Tauseef Ansari (Employee) |
| Toyota Corolla | 1,414 | 71 | 1,343 | 1,343 | Company policy | Mr. Naeem Abdul Sattar (Employee) |
| Toyota Corolla | 1,414 | 71 | 1,343 | 1,343 | Company policy | Syed Ehtesham Mukhtar (Employee) |
| Toyota Corolla | 1,426 | - | 1,426 | 1,426 | Company policy | Mr. Muhammad Inam (Employee) |
| Toyota Corolla | 1,426 | - | 1,426 | 1,426 | Company policy | Mr. Umer Rasool (Employee) |

During the year, due to monetization of the employee benefits by the holding company, motor vehicles were disposed off at book values to the respective employees.

11.2 Capital work-in-progress

2010 **2009**
(Rupees in '000)

Advance for purchase of room

2,350 **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 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

| | 2010 | | | | | | Net book value as at December 31, 2010 | Rate of amortization % |
|---------------------------------|-----------------------------|----------------------------|-------------------------------|-----------------------------|-------------------------|-------------------------------|---|------------------------------|
| | Cost | | | Amortization | | | | |
| | As at January 1, 2010 | Additions / (disposals) | As at December 31, 2010 | As at January 1, 2010 | Charge / (disposals) | As at December 31, 2010 | | |
| ----- (Rupees in '000)----- | | | | | | | | |
| Software | 400 | 4,978 | 5,378 | 40 | 513 | 553 | 4,825 | 20 |
| KSE (Guarantee) Limited Card | 34,750 | | 34,750 | - | - | - | 34,750 | - |
| NCEL Card | 3,000 | | 3,000 | - | - | - | 3,000 | - |
| | 38,150 | 4,978 | 43,128 | 40 | 513 | 553 | 42,575 | |
| ----- (Rupees in '000)----- | | | | | | | | |
| | 2009 | | | | | | Net book value as at December 31, 2009 | Rate of amortization % |
| | Cost | | | Amortization | | | | |
| | As at January 1, 2009 | Additions / (disposals) | As at December 31, 2009 | As at January 1, 2009 | Charge / (disposals) | As at December 31, 2009 | | |

12 DEFERRED TAX ASSETS

| | Balance January 01, 2010 | Recognised in profit and loss | Recognised in equity | Balance December 31, 2010 |
|--|--------------------------------|----------------------------------|-------------------------|---------------------------------|
| ----- (Rupees in '000)----- | | | | |
| Debit / (credit) balances arising on account of | | | | |
| Accelerated tax depreciation allowance | 885 | (12,715) | - | (11,830) |
| Provision for staff retirement gratuity and compensated absences | 6,579 | 1,220 | - | 7,799 |
| Other staff benefits | 4,970 | (4,970) | - | - |
| Finance lease arrangements | (194,032) | (76,111) | - | (270,143) |
| Share of profits from associates | (227,588) | (48,091) | (415) | (276,094) |
| Provision against non-performing advances | 548,898 | (36,477) | - | 512,421 |
| Surplus / (deficit) on revaluation of 'held-for-trading' securities | - | 88 | - | 88 |
| Surplus / (deficit) on revaluation of 'available-for-sale' securities | 14,883 | - | 26,415 | 41,298 |
| | 154,595 | (177,056) | 26,000 | 3,539 |
| ----- (Rupees in '000)----- | | | | |
| | Balance January 01, 2009 | Recognised in profit and loss | Recognised in equity | Balance December 31, 2009 |
| ----- (Rupees in '000)----- | | | | |
| Debit / (credit) balances arising on account of | | | | |
| Accelerated tax depreciation allowance | 4,236 | (3,351) | - | 885 |
| Provision for staff retirement gratuity and compensated absences | 5,229 | 1,350 | - | 6,579 |
| Other staff benefits | 4,970 | - | - | 4,970 |
| Finance lease arrangements | (252,088) | 58,056 | - | (194,032) |
| Share of profits from associates | (124,410) | (96,734) | (6,444) | (227,588) |
| Provision against non-performing advances | 364,369 | 184,529 | - | 548,898 |
| Surplus / (deficit) on revaluation of 'available-for-sale' securities | (486) | - | 15,369 | 14,883 |
| | 1,820 | 143,850 | 8,925 | 154,595 |

| 13 | OTHER ASSETS | <i>Note</i> | 2010 | 2009 |
|-------------|--|---------------|------------------|-------------------|
| | | | (Rupees in '000) | |
| | Income / mark-up accrued in local currency | | 167,966 | 232,742 |
| | Advances, deposits, prepayments and other receivables | | 64,847 | 91,251 |
| | Advance Tax | | 323,961 | - |
| | | | <u>556,774</u> | <u>323,993</u> |
| 14 | BORROWINGS | | | |
| | In Pakistan | | <u>9,807,369</u> | <u>10,377,872</u> |
| 14.1 | Particulars of borrowings with respect to currencies | | | |
| | In local currency | | <u>9,807,369</u> | <u>10,377,872</u> |
| 14.2 | Details of borrowings secured / unsecured | | | |
| | Secured | | | |
| | Repurchase agreement borrowings | <i>14.2.1</i> | 6,067,160 | 8,067,577 |
| | TFCs | <i>14.2.2</i> | 1,250,000 | 1,450,000 |
| | Borrowings from SBP | | | |
| | Under Long Term Facility - Export Oriented Project (LTF-EOP) | <i>14.2.3</i> | 188,757 | 300,412 |
| | Under Long Term Finance Facility (LTFF) | <i>14.2.4</i> | 301,452 | 59,883 |
| | Unsecured | | | |
| | Murabaha | <i>14.2.5</i> | <u>2,000,000</u> | <u>500,000</u> |
| | | | <u>9,807,369</u> | <u>10,377,872</u> |

14.2.1 Repurchase agreement borrowings

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 12.60 and 13.90 (2009: 12.00 and 12.35) percent per annum with maturity ranging from three days to sixty days (2009: four days to sixty three days).

14.2.2 TFCs (non-participatory)

This represents finance obtained through issue of privately placed TFC's of five years maturity. The mark-up is payable on quarterly basis and the principal is repayable in five equal semi annual installments commencing 36 months from the date of disbursement. The facility is secured by first hypothecation charge ranking pari passu, on existing and future assets of the holding company. The rate of profit is 3 months KIBOR ask rate plus 65 (2009: 65) basis points. As at December 31, 2010 the effective rate ranges between 13.47 and 13.63 (2009: 13.02 and 13.24) percent per annum.

14.2.3 LTF-EOP facility from SBP

This represent 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. The outstanding balance under swap arrangement amounts to Rs. 188.757 million as at December 31, 2010 (2009: Rs. 300.412 million).

14.2.4 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 two years. SBP allocates an overall yearly limit under the facility to individual PFI. The sanctioned limit was Rs. 500 million. The outstanding balance under the arrangement amounts to Rs. 301.452 million as at December 31, 2010 (2009: 59.833).

14.2.5 Murabaha

This represents finance obtained from an Islamic bank. The profit rate on the finance range between 12.75 and 13.00 (2009: 11.65) percent per annum with maturity between 03 January 2011 to 14 January 2011 (2009: 15 January 2010).

| 15 | DEPOSITS AND OTHER ACCOUNTS | | 2010 | 2009 |
|---------------|---|---------------|--------------------|-------------------|
| | | | (Rupees in '000) | |
| | Certificates of investment (COI) / deposits | | <u>3,138,512</u> | <u>4,075,951</u> |
| 15.1 | Particulars of deposits | | | |
| | In local currency | | <u>3,138,512</u> | <u>4,075,951</u> |
| | The profit rates on these COIs / deposits ranges between 11.50 and 13.75 (2009: 11.40 and 14.00) percent per annum. The COIs / deposits are due for maturity between January 11, 2011 and March 22, 2015 (2009: January 2, 2010 and May 5, 2012). Included in COIs / deposits is an amount of Rs. 3,106.012 million (2009: Rs. 4,045.951 million) payable within twelve months. | | | |
| 16 | OTHER LIABILITIES | <i>Note</i> | 2010 | 2009 |
| | | | (Rupees in '000) | |
| | Mark-up / return / interest payable in local currency | | 135,584 | 134,295 |
| | Accrued liabilities | | 71,702 | 73,446 |
| | Retention money payable | | 22 | 22 |
| | Taxation | | - | 247,154 |
| | Staff retirement gratuity | <i>31.1.4</i> | 12,415 | 10,471 |
| | Security deposits against finance lease | <i>10.2.2</i> | 100,154 | 99,735 |
| | Employees' compensated absences | | 9,611 | 8,070 |
| | Payable on account of purchase of marketable securities | | - | 116,443 |
| | Other liabilities | | 4,789 | 3,778 |
| | | | <u>334,277</u> | <u>693,414</u> |
| 17 | SHARE CAPITAL | | | |
| 17.1 | Authorised Share Capital | | | |
| | | | 2010 | 2009 |
| | | | (Number of shares) | |
| | | | <u>400,000</u> | <u>400,000</u> |
| | Ordinary shares of Rs. 25,000 each | | <u>10,000,000</u> | <u>10,000,000</u> |
| 17.2 | Issued, Subscribed and Paid-up Share Capital | | | |
| | | | 2010 | 2009 |
| | | | (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 |
| | | | <u>240,000</u> | <u>240,000</u> |
| | | | <u>6,000,000</u> | <u>6,000,000</u> |
| | 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 (2009 : 120,000) ordinary shares of the holding company as at December 31, 2010. | | | |
| 17.3 | Reserves | <i>Note</i> | 2010 | 2009 |
| | | | (Rupees in '000) | |
| | Statutory reserve | <i>17.3.1</i> | <u>2,992,287</u> | <u>2,884,894</u> |
| 17.3.1 | Statutory reserve - compulsory reserve | | | |
| | At beginning of the year | | 2,884,894 | 3,288,822 |
| | Add: Transfer during the year | | 107,393 | 103,273 |
| | Less: Transfer to accumulated loss | | - | (507,201) |
| | | | <u>2,992,287</u> | <u>2,884,894</u> |
| | 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. 107.393 million (2009: 103.273 million). | | | |
| 18 | SURPLUS / (DEFICIT) ON REVALUATION OF 'AVAILABLE-FOR-SALE' SECURITIES-NET OF TAX | | 2010 | 2009 |
| | | | (Rupees in '000) | |
| | Federal and provincial government securities | | (167,798) | (42,525) |
| | Quoted shares | | 323,967 | 213,037 |
| | Quoted TFCs | | (1,065) | (9,527) |
| | Share of surplus on revaluation held by associates | | 50,325 | 51,946 |
| | | | 205,429 | 212,931 |
| | Deferred tax | | 34,439 | 8,439 |
| | | | <u>239,868</u> | <u>221,370</u> |

19 CONTINGENCIES AND COMMITMENTS

| 19.1 Direct Credit Substitute | 2010 | 2009 |
|---|-------------------------|-------------|
| | (Rupees in '000) | |
| Direct credit substitute – guarantee issued | - | 1,550 |

19.2 Other Contingencies

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.

The tax department has not accepted the holding company's contention on the matter of allocation of expenses on exempt capital gains and dividend income for the tax years 2004 to 2010. 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 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.

An appeal has been filed with the Commissioner of Inland Revenue (Appeal) for the tax years 2004 to 2009 and appeal for tax year 2010 will be filed within due date. 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.

| 19.3 Other Commitments | 2010 | 2009 |
|--|-------------------------|----------------|
| | (Rupees in '000) | |
| Commitment - acquisition of software | 15,634 | 48,817 |
| Undisbursed sanctions for financial assistance in the form of: | | |
| - equity participation | 16,220 | 166,220 |
| - loans and advances | 161,287 | 317,945 |
| | <u>193,141</u> | <u>532,982</u> |

20 MARK - UP / RETURN / INTEREST EARNED

| | | |
|---|------------------|------------------|
| On loans and advances to customers | 601,966 | 400,372 |
| On investments in: | | |
| - 'Available-for-sale' securities | 1,353,346 | 1,028,277 |
| - 'Held-for-trading' securities | 498 | 13,989 |
| On lendings to financial institutions | 142,223 | 338,131 |
| On securities purchased under resale agreements | 12,986 | 22,961 |
| | <u>2,111,019</u> | <u>1,803,730</u> |

21 MARK-UP / RETURN / INTEREST EXPENSED

| | | |
|--|------------------|------------------|
| Deposits / borrowings | 730,528 | 569,211 |
| Securities sold under repurchase agreement | 721,980 | 619,187 |
| Other short term borrowings | - | 865 |
| | <u>1,452,508</u> | <u>1,189,263</u> |

| | <i>Note</i> | 2010 | 2009 |
|--|---------------|-------------------------|---------|
| | | (Rupees in '000) | |
| 22 | | | |
| GAIN ON SALE OF SECURITIES | | | |
| Federal government securities | | | |
| - Market treasury bills | | 501 | 1,143 |
| - Pakistan investment bonds | | 1,024 | 8,258 |
| Shares - listed securities - net | | 295,634 | 808,376 |
| | | 297,159 | 817,777 |
| 23 | | | |
| OTHER INCOME | | | |
| Profit on sale of operating fixed assets | | 4,395 | 1,106 |
| Others | | 17,587 | 17,239 |
| | | 21,982 | 18,345 |
| 24 | | | |
| ADMINISTRATIVE EXPENSES | | | |
| Salaries, allowances and employees' benefits | | 188,864 | 158,726 |
| Directors' remuneration (including remuneration of Chief Executive) | | 26,969 | 28,035 |
| Provision for gratuity | <i>31.1.5</i> | 12,414 | 10,929 |
| Employer's contribution to the provident fund | | 8,414 | 5,477 |
| Travelling and conveyance | | 4,530 | 4,971 |
| Rent and rates | | 6,976 | 7,981 |
| Utilities | | 2,317 | 2,248 |
| Communication | | 7,246 | 7,360 |
| Professional training and staff welfare | | 1,072 | 1,420 |
| Advertisements, periodicals and membership dues | | 2,520 | 1,838 |
| Printing and stationery | | 2,911 | 2,638 |
| Depreciation | <i>11.1</i> | 14,067 | 11,885 |
| Amortization | <i>11.3</i> | 513 | 40 |
| Auditors' remuneration | <i>24.1</i> | 3,005 | 3,782 |
| Legal, consultancy and other professional services | | 33,228 | 20,910 |
| Repairs and maintenance | | 13,308 | 14,686 |
| Motor vehicle expenses | | 6,493 | 6,627 |
| Insurance | | 2,494 | 2,162 |
| Donations | <i>24.2</i> | 25,000 | 200 |
| Workers' Welfare Fund | | 41,258 | 11,899 |
| Entertainment | | 274 | 408 |
| Bank charges | | 138 | 184 |
| Miscellaneous | | 7,248 | 10,454 |
| | | 411,259 | 314,860 |
| 24.1 | | | |
| Auditor's remuneration | | | |
| Audit fee | | 1,210 | 1,090 |
| Fee for half yearly review | | 446 | 365 |
| Special certifications and sundry advisory services | | 1,214 | 2,150 |
| Out of pocket expenses | | 135 | 177 |
| | | 3,005 | 3,782 |
| 24.2 | | | |
| During the year, the holding company made a donation of Rs. 25 million to the 'Prime Minister's Flood Relief Fund'. None of the directors or their spouse had any interest in the donation made. | | | |
| 25 | | | |
| OTHER CHARGES | | | |
| Penalties imposed by the SBP | | 1,149 | 203 |

| | | 2010 | 2009 |
|-------------|--|------------------|------------------|
| | | (Rupees in '000) | |
| 26 | TAXATION | | |
| | For the year | | |
| | - Current | 176,089 | 318,763 |
| | - Deferred | 177,056 | (143,850) |
| | | <u>353,145</u> | <u>174,913</u> |
| 26.1 | Relationship between tax expense and accounting profit | | |
| | Profit before taxation | <u>1,321,877</u> | <u>1,404,254</u> |
| | Tax at the applicable rate of 35% (2009: 35%) | 462,657 | 491,489 |
| | Net tax effect on income taxed at reduced rates | (177,841) | (226,407) |
| | Net tax effect of expenses not subject to tax | 21,740 | (66,182) |
| | Others | 46,589 | (23,987) |
| | | <u>353,145</u> | <u>174,913</u> |
| 27 | BASIC EARNINGS PER SHARE | | |
| | Profit for the year | <u>968,732</u> | <u>1,229,341</u> |
| | | (Number in '000) | |
| | Weighted average number of ordinary shares | <u>240</u> | <u>240</u> |
| | | (Rupees) | |
| | Basic earnings per share | <u>4,036</u> | <u>5,122</u> |
| 28 | DILUTED EARNINGS PER SHARE | | |
| | Profit for the year | <u>968,732</u> | <u>1,229,341</u> |
| | | (Number in '000) | |
| | Weighted average number of ordinary shares | <u>240</u> | <u>240</u> |
| | | (Rupees) | |
| | Diluted earnings per share | <u>4,036</u> | <u>5,122</u> |
| 28.1 | There were no convertible diluted potential ordinary shares outstanding as on December 31, 2010 and December 31, 2009. | | |
| | | <i>Note</i> | |
| 29 | CASH AND CASH EQUIVALENTS | 2010 | 2009 |
| | | (Rupees in '000) | |
| | Cash and balances with treasury banks | 6 | 51,424 |
| | Balances with other banks | 7 | 1,409,688 |
| | | <u>1,461,112</u> | <u>1,935,346</u> |
| 30 | STAFF STRENGTH | | |
| | | (Number) | |
| | Permanent | 79 | 78 |
| | Temporary / on contractual basis | 5 | 6 |
| | Own staff strength at the end of the year | <u>84</u> | <u>84</u> |
| | Outsourced | <u>31</u> | <u>33</u> |
| | Total staff strength | <u>115</u> | <u>117</u> |

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 and contractual employees. 'Projected unit credit method' has been used for actuarial valuation.

| | <i>Note</i> | 2010 | 2009 |
|---|---------------|-------------------------|-----------------|
| 31.1.2 Principal actuarial assumptions | | (% per annum) | |
| Discount rate | | <u>14.50</u> | <u>12.75</u> |
| Expected rate of increase in salaries | | <u>14.50</u> | <u>12.75</u> |
| Expected rate of return on investments | | <u>12.00</u> | <u>12.75</u> |
| Normal retirement age | | <u>60 years</u> | <u>60 years</u> |
| 31.1.3 Reconciliation of payable to defined benefit plan | | 2010 | 2009 |
| | | (Rupees in '000) | |
| Present value of defined benefit obligations | <i>31.1.6</i> | 43,568 | 42,248 |
| Fair value of plan assets | <i>31.1.7</i> | <u>(17,517)</u> | <u>(14,111)</u> |
| | | 26,051 | 28,137 |
| Unrecognised actuarial losses | | <u>(13,636)</u> | <u>(17,666)</u> |
| | | <u>12,415</u> | <u>10,471</u> |
| 31.1.4 Movement in payable to defined benefit plan | | | |
| Opening balance | | 10,471 | 5,393 |
| Expense charged in the current year | <i>31.1.5</i> | 12,414 | 10,929 |
| Company's contribution to gratuity fund | | <u>(10,470)</u> | <u>(5,851)</u> |
| Closing balance | | <u>12,415</u> | <u>10,471</u> |
| 31.1.5 Charge for defined benefit plan | | | |
| Current service cost | | 7,501 | 4,884 |
| Interest cost | | 5,752 | 6,278 |
| Expected return on plan assets | | (1,799) | (1,741) |
| Actuarial loss amortised | | 960 | 1,508 |
| | | <u>12,414</u> | <u>10,929</u> |
| 31.1.6 Reconciliation of present value of defined benefit obligation | | | |
| Opening balance of defined benefit obligation | | 42,248 | 40,136 |
| Current service cost | | 7,501 | 4,884 |
| Interest cost | | 5,752 | 6,278 |
| Actuarial benefits paid during the year | | (8,626) | (2,628) |
| Actuarial gain on obligation | | (3,307) | (6,422) |
| Closing balance of defined benefit obligation | | <u>43,568</u> | <u>42,248</u> |
| 31.1.7 Reconciliation of fair value of plan assets | | | |
| Opening fair value of plan assets | | 14,111 | 9,620 |
| Expected return on plan assets during the year | | 1,800 | 1,741 |
| Actual contributions made by the employer | | 10,470 | 5,851 |
| Actual benefits paid during the year | | (8,626) | (2,628) |
| Actuarial (loss) / gain on plan assets | | (238) | (473) |
| Closing fair value of plan assets | | <u>17,517</u> | <u>14,111</u> |

Actual return on plan assets is 12.20 % as at December 31, 2010 (11.50% as at December 31, 2009).

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)----- | | | | | |
| 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) |
| 2006 | 44,720 | 6,243 | (38,477) | (3,461) | (221) |
| 2005 | 35,320 | 2,427 | (32,893) | (4,351) | (593) |

31.1.9 Break up of investments

| | 2010 | 2009 |
|--------------------|------------|------------|
| | % | |
| Bank balances | 1 | 40 |
| Musharika deposits | - | 60 |
| COI deposits | 99 | - |
| | <u>100</u> | <u>100</u> |

31.1.10 The expected gratuity expense for the year ending December 31, 2011 works out to be Rs.16.018 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 basic salary), and by the employees (at the rate of 10 % - 30 % of basic salary. Effective October 2010, monthly contributions are made on the basis of Salary.

33. COMPENSATION OF DIRECTORS AND EXECUTIVES

| | Chief Executive | | Directors | | Executives | |
|---|-----------------|---------------|---------------|---------------|----------------|----------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| ------(Rupees in '000)----- | | | | | | |
| Fee | - | - | 11,210 | 12,809 | - | - |
| Managerial remuneration | 12,000 | 11,722 | - | - | 80,336 | 56,832 |
| Charge for defined benefit plan | - | - | - | - | 6,379 | 4,305 |
| Contribution to defined contribution plan | - | - | - | - | 7,655 | 5,167 |
| Rent and house maintenance | 1,800 | 1,758 | - | - | 22,849 | 25,574 |
| Utilities | 1,263 | 1,238 | - | - | 4,995 | 5,683 |
| Medical | 167 | 35 | - | - | 3,546 | 4,061 |
| Others | 529 | 474 | - | - | 5,161 | - |
| | <u>15,759</u> | <u>15,227</u> | <u>11,210</u> | <u>12,809</u> | <u>130,921</u> | <u>101,622</u> |
| No. of persons | <u>1</u> | <u>1</u> | <u>5</u> | <u>5</u> | <u>55</u> | <u>47</u> |

33.1 The Chief Executive and certain 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

| | 2010 | | 2009 | |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Book value | Fair value | Book value | Fair value |
| ------(Rupees in '000)----- | | | | |
| Financial Assets | | | | |
| - Cash balances with treasury banks | 51,424 | 51,424 | 92,512 | 92,512 |
| - Balances with other banks | 1,409,688 | 1,409,688 | 1,842,834 | 1,842,834 |
| - Lendings to financial institutions | 250,000 | 250,000 | 800,000 | 800,000 |
| - Investments | 17,521,580 | 17,681,508 | 18,930,038 | 19,167,289 |
| - Advances | 4,969,190 | 4,969,190 | 3,607,442 | 3,607,442 |
| - Other assets | 168,075 | 168,075 | 232,832 | 232,832 |
| | <u>24,369,957</u> | <u>24,529,885</u> | <u>25,505,658</u> | <u>25,742,909</u> |
| Financial Liabilities | | | | |
| - Borrowings | 9,807,369 | 9,807,369 | 10,377,872 | 10,377,872 |
| - Deposits and other accounts | 3,138,512 | 3,138,512 | 4,075,951 | 4,075,951 |
| - Other liabilities | 322,018 | 322,018 | 435,789 | 435,789 |
| | <u>13,267,899</u> | <u>13,267,899</u> | <u>14,889,612</u> | <u>14,889,612</u> |

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:

| | 2010 | | | | | Total |
|--|------------------------------|-------------|--------------------|-----------------|-----------|-------------|
| | Corporate Finance | Treasury | Investment Banking | Capital Markets | Others | |
| | ----- (Rupees in '000) ----- | | | | | |
| Total income - gross | 662,576 | 1,488,198 | 7,812 | 971,888 | 20,099 | 3,150,573 |
| Total mark-up / return / interest expense | (202,789) | (1,249,719) | - | - | - | (1,452,508) |
| Segment provision / impairment / unrealised losses | (30,517) | 129,179 | - | (62,441) | - | 36,221 |
| | (233,306) | (1,120,540) | - | (62,441) | - | (1,416,287) |
| Net operating income | 429,270 | 367,658 | 7,812 | 909,447 | 20,099 | 1,734,286 |
| Administrative expenses and other charges | | | | | | (412,408) |
| Profit before taxation | | | | | | 1,321,878 |
| Segment assets - net | 5,885,142 | 11,820,169 | - | 6,261,507 | 1,056,112 | 25,022,930 |
| Segment non-performing loans | 1,648,540 | - | - | - | - | 1,648,540 |
| Segment provision required and held | 1,420,615 | - | - | - | - | 1,420,615 |
| Segment liabilities | 1,852,024 | 11,329,595 | - | - | 98,539 | 13,280,158 |
| Segment return on net assets (ROA) % | 13.62 | 12.53 | - | 12.49 | 2.32 | - |
| Segment cost of funds (%) | 10.65 | 12.11 | - | - | - | - |
| | ----- (Rupee in '000) ----- | | | | | |
| | Corporate Finance | Treasury | Investment Banking | Capital Markets | Others | Total |
| | ----- (Rupee in '000) ----- | | | | | |
| Total income - gross | 538,230 | 1,389,282 | 5,009 | 1,674,705 | 16,735 | 3,623,961 |
| Total mark-up / return / interest expense | (252,290) | (936,973) | - | - | - | (1,189,263) |
| Segment provision / impairment / unrealised gains | (509,918) | (900) | - | (204,563) | - | (715,381) |
| | (762,208) | (937,873) | - | (204,563) | - | (1,904,644) |
| Net operating income | (223,978) | 451,409 | 5,009 | 1,470,142 | 16,735 | 1,719,317 |
| Administrative expenses and other charges | | | | | | (315,063) |
| Profit before taxation | | | | | | 1,404,254 |
| Segment assets - net | 4,584,710 | 14,972,506 | - | 5,678,006 | 667,558 | 25,902,780 |
| Segment non-performing loans/financings | 1,693,697 | - | - | - | - | 1,693,697 |
| Segment provision required and held | 1,395,656 | - | - | - | - | 1,395,656 |
| Segment liabilities | 1,931,927 | 12,757,835 | - | - | 457,475 | 15,147,237 |
| Segment return on net assets (ROA) % | 12.97 | 13.57 | - | 22.12 | 1.86 | - |
| Segment cost of funds (%) | 11.53 | 12.71 | - | - | - | - |

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, 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.

| | 2010 | 2009 |
|---|----------------------|----------------------|
| | (Rupees in '000) | |
| Expenses charged to a related party | 14,988 | 15,840 |
| Expenses charged by | | |
| - associates | 2,703 | 3,269 |
| - other related party | 13,089 | 17,368 |
| Dividend income from | | |
| - associates | 85,867 | 27,953 |
| Mark-up earned on bank deposit with an associate | 1,054 | 1,098 |
| Mark-up earned on loans and advances | | |
| - associates | - | 1,088 |
| Loans and advances to key management personnel | | |
| Balance as at January 1, | 22,523 | 6,704 |
| Disbursement during the year | 29,043 | 19,000 |
| Recovery during the year | (9,119) | (3,181) |
| | <u>19,924</u> | <u>15,819</u> |
| Balance as at December 31, | <u>42,447</u> | <u>22,523</u> |
| Mark-up expense on COI | | |
| - associates | 14,348 | 5,678 |
| - other related party | 1,215 | 1,201 |
| Deposits / COIs | | |
| - associates | 125,000 | 100,000 |
| - other related party | 2,500 | 2,500 |
| Bank balances with an associate | 11,611 | 57,089 |
| Mark-up receivable on bank deposit with an associate | 75 | 297 |
| Mark-up payable to related party | | |
| - associates | 5,041 | 4,072 |
| - other related party | 239 | 88 |
| Investments in | | |
| - associates | 4,587,944 | 4,111,632 |
| - other related parties | 500 | 500 |
| Commitments for investment in equity of / loan to associates | 16,220 | 166,220 |
| Contribution made to provident fund | 8,414 | 5,477 |
| Contribution made to gratuity fund | 10,470 | 5,851 |

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, Head of Wealth Management and Head of Human Resources. Their salaries and other benefits amount to Rs. 67.783 million (2009: Rs. 53.349 million) and staff retirement benefits amount to Rs. 5.313 million (2009: Rs. 2.896 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 to maintain a prescribed ratio of 10% total capital to total risk-weighted assets on standalone as well as on consolidated basis based upon the Standardized approach of Basel-II.

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 and its individually regulated operations have 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 as the financial statements 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), 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.

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 DFI. The total risk- weighted exposures comprise the credit, market and operational risk.

The calculation of capital adequacy enables the holding 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 Group to particular operations or activities.

The holding company also developed Internal Capital Adequacy Assessment Process (ICAAP) document. In the ICAAP document risks other than the pillar I risks were identified, measured and adjusted with the capital to arrive at CAR based on pillar I and pillar II risks. Considering ICAAP as an on going process, during the year the ICAAP document was updated based on the financial projections for next five years.

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

37.2 Capital adequacy ratio

2010 2009
(Rupees in '000)

CAP 1
Tier 1 Capital

| | | |
|--|-------------------|------------|
| Fully paid-up capital | 6,000,000 | 6,000,000 |
| General Reserves as disclosed on the balance sheet | 2,992,287 | 2,884,894 |
| Accumulated profit | 2,510,618 | 1,649,279 |
| Sub-Total | 11,502,905 | 10,534,173 |

Deductions:

| | | |
|--|------------------|-----------|
| Deficit on account of revaluation of investments held AFS category | - | - |
| Other deductions (50% of the amount as calculated on CAP 2) | 1,838,945 | 1,625,129 |
| Sub-Total | 1,838,945 | 1,625,129 |

Total eligible Tier 1 Capital

9,663,960 8,909,044

Supplementary Capital
Tier 2 Capital

107,941 72,443

Deductions

| | | |
|---|-----------|-----------|
| Other deductions (50% of the amount as calculated on CAP 2) | 1,838,945 | 1,625,129 |
| Total deductions | 1,838,945 | 1,625,129 |

Total supplementary capital eligible for capital adequacy ratio

(1,731,004) (1,552,686)

(Maximum upto 100% of Total eligible Tier 1 capital)

Total eligible capital

7,932,956 7,356,358

Risk weighted exposures

| | Capital Requirements | | Risk Weighted Assets | |
|---|-----------------------------|-----------|-----------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| | ------(Rupees in '000)----- | | ------(Rupees in '000)----- | |
| Credit risk | | | | |
| PSE's | 7,773 | 2,699 | 77,726 | 26,987 |
| Banks | 28,238 | 40,877 | 282,376 | 408,771 |
| Corporates | 293,353 | 267,903 | 2,933,531 | 2,679,033 |
| Retail portfolio | 2,571 | 228 | 25,713 | 2,281 |
| Secured by residential property | 3,430 | 2,449 | 34,299 | 24,490 |
| Past due loans | 22,793 | 30,101 | 227,925 | 301,014 |
| Listed equity investments | 141,072 | 98,637 | 1,410,719 | 986,366 |
| Unlisted equity investments | 44,771 | 46,697 | 447,714 | 466,967 |
| Investments in fixed assets | 26,074 | 15,137 | 260,736 | 151,366 |
| Other assets | 39,224 | 24,530 | 392,237 | 245,299 |
| | 609,299 | 529,258 | 6,092,976 | 5,292,574 |
| Credit risk on off balance sheet | | | | |
| Non market related | 133,204 | 46,890 | 1,332,042 | 468,898 |
| Equity position risk | 425,744 | 431,633 | 4,257,444 | 4,316,332 |
| Operational risk | 198,671 | 204,586 | 1,986,707 | 2,045,861 |
| | 1,366,918 | 1,212,367 | 13,669,169 | 12,123,665 |

Capital adequacy ratios

Total eligible regulatory capital 7,932,956 7,356,358

Total risk weighted assets 13,669,169 12,123,665

TOTAL CAPITAL ADEQUACY RATIO

58.04% 60.68%

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)----- | | | | |
| GOP | | | | |
| Banks | 1 | 1,398,124 | - | 1,398,124 |
| | 2,3 | 13,757 | - | 13,757 |
| | Unrated | | - | - |
| Corporates | | | | |
| | 1 | 1,530,888 | - | 1,530,888 |
| | 2 | 1,175,981 | - | 1,175,981 |
| | Unrated | 2,039,363 | - | 2,039,363 |
| | | 6,158,113 | - | 6,158,113 |

38. RISK MANAGEMENT

Risk taking is central to all financing activities. The holding company evaluated business opportunities in terms of the risk-reward relationship. 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 and when these tolerance limits / levels are breached, the exceptions are reported and addressed at the appropriate levels.

The ultimate responsibility for risk management and setting of the risk management policy rests with the Board of Directors. The Board manages this responsibility through its subcommittee known as the Risk Management Committee (RMC). The Risk Management Committee is updated on quarterly basis by the risk management function on the risk exposures, trends and benchmarks for each risk type covered within the scope of risk management policy. Various committees at functional level oversee the implementation of risk management practices and exposure levels. Market and Liquidity Risk 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 tackle and 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.

During the year the Board of Directors approved revised Risk Management Policy of the holding company developed by the consultants. The revised Risk Policy is supported by a new procedural manual. The holding company's risk management function is working rigorously towards implementation and compliance of recently approved revised risk policy.

The holding company is also in the process of implementing Risk Management System Oracle Reveleus. The system will cater all the major risk areas which include Credit Risk, Market Risk, Operational Risk and Liquidity Risk. The system once implemented will help in achieving transparency in processes, efficiency and accuracy in risk measurement techniques, facilitating requirements to develop advance risk models, improving risk reporting frequency, improving the overall control environment by developing system in-built controls, facilitate towards implementation of advance approaches of Basel – II and to achieve various revised policy requirements.

38.1 Credit risk

Credit risk is the risk of loss due to the failure of a counterparty to meet its credit obligations in accordance with agreed contract terms and conditions.

The holding company's credit risk management process takes place at pre and post-disbursement stages. The objective to manage credit risk is to reduce future credit losses by creating effective standards for assessing and processing new credit and credit renewal applications. All the credit applications and reviews are thoroughly analyzed by the 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.

Holding company's credit process is guided by centrally established credit policies, rules and guidelines continuing to close to the market approach with aim to maintain a well-diversified portfolio of credit risk which produces a reliable and consistent return. During the year revised Credit Policy of the holding company was approved by the Board of Directors.

The holding company has a system of checks and balances in place around the extension of credit that are:

- risk management function;
- multiple credit reviewers;
- independent audit function

An internal rating system for Obligor Risk Rating and Facility Risk Rating are in-place. The holding company also reviews its Obligor rating model periodically and makes necessary amendments in the model.

During the year revised sector concentration limits were put in place which were reviewed and implemented by the Credit Committee. 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, migration analysis, risk-based pricing, Sector-wise & Rating wise portfolio distribution analysis etc. The holding company performs stress testing on its credit portfolio as SBP stress testing guidelines.

The disbursement & administration of credit facilities is managed by Credit Administration Department (CAD) linked to various business units.

The holding company monitors its credit portfolio on continuous basis. Procedures are in place to identify at an early stage, credit exposure for which there may be a risk of loss.

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

38.1.1 Segment by class of business

| | 2010 | | | | | |
|--|------------------|---------------|------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and Commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Agriculture, forestry, hunting and fishing | - | - | - | - | - | - |
| Textile | 2,698,316 | 42.23 | - | - | 9,580 | 4.96 |
| Chemical and pharmaceutical | 889,468 | 13.92 | 75,000 | 2.39 | - | - |
| Cement | 93,333 | 1.46 | - | - | - | - |
| Sugar | 183,375 | 2.87 | - | - | - | - |
| Footwear and leather garments | 31,286 | 0.49 | - | - | - | - |
| Automobile and transportation equipment | - | - | - | - | - | - |
| Electronics and electrical appliances | 11,679 | 0.18 | - | - | - | - |
| Construction | 446,766 | 6.99 | - | - | 16,220 | 8.40 |
| Transport, storage and communication | 279,510 | 4.37 | - | - | - | - |
| Financial and Insurance | - | - | 400,000 | 12.74 | - | - |
| Power | 1,052,070 | 16.47 | - | - | 149,062 | 77.18 |
| Trusts | - | - | 1,786,012 | 56.91 | - | - |
| Services | 230,104 | 3.60 | 377,500 | 12.03 | 15,634 | 8.09 |
| Individuals | 132,280 | 2.07 | - | - | - | - |
| Others | 341,618 | 5.35 | 500,000 | 15.93 | 2,645 | 1.37 |
| | 6,389,805 | 100.00 | 3,138,512 | 100.00 | 193,141 | 100.00 |

2009

| | 2009 | | | | | |
|--|------------------|---------------|------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and Commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Agriculture, forestry, hunting and fishing | - | - | - | - | - | - |
| Textile | 1,773,401 | 35.45 | - | - | 11,220 | 2.10 |
| Chemical and pharmaceutical | 926,143 | 18.51 | 65,000 | 1.59 | 100,000 | 18.71 |
| Cement | 103,783 | 2.07 | 200,000 | 4.91 | - | - |
| Sugar | 216,875 | 4.33 | - | - | - | - |
| Footwear and leather garments | 38,620 | 0.77 | - | - | - | - |
| Automobile and transportation equipment | - | - | - | - | - | - |
| Electronics and electrical appliances | 11,679 | 0.23 | - | - | - | - |
| Construction | 315,796 | 6.31 | - | - | 16,220 | 3.03 |
| Transport, storage and communication | 585,080 | 11.69 | 1,400,000 | 34.36 | 149,062 | 27.89 |
| Financial and Insurance | - | - | 186,000 | 4.56 | 150,000 | 28.06 |
| Power | 327,659 | 6.56 | - | - | 1,550 | 0.29 |
| Trusts | - | - | 2,010,451 | 49.32 | - | - |
| Services | 207,492 | 4.15 | 202,500 | 4.97 | 106,480 | 19.92 |
| Individuals | 73,014 | 1.46 | - | - | - | - |
| Others | 423,556 | 8.47 | 12,000 | 0.29 | - | - |
| | 5,003,098 | 100.00 | 4,075,951 | 100.00 | 534,532 | 100.00 |

38.1.2 Segment by sector

| | 2010 | | | | | |
|---------------------|------------------|---------------|------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and Commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Public / government | 152,070 | 2.38 | - | - | 149,062 | 77.18 |
| Private | 6,237,735 | 97.62 | 3,138,512 | 100.00 | 44,079 | 22.82 |
| | 6,389,805 | 100.00 | 3,138,512 | 100.00 | 193,141 | 100.00 |

| | 2009 | | | | | |
|---------------------|------------------|---------------|------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and Commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Public / government | 102,659 | 2.05 | 1,300,000 | 31.89 | 1,550 | 0.29 |
| Private | 4,900,439 | 97.95 | 2,775,951 | 68.11 | 532,982 | 99.71 |
| | <u>5,003,098</u> | <u>100.00</u> | <u>4,075,951</u> | <u>100.00</u> | <u>534,532</u> | <u>100.00</u> |

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

| | 2010 | | 2009 | |
|--------------|-----------------------------|-------------------------|---------------------|-------------------------|
| | Classified advances | Specific provision held | Classified advances | Specific provision held |
| | ------(Rupees in '000)----- | | | |
| Textile | 1,163,045 | 971,370 | 1,080,412 | 911,091 |
| Construction | 214,944 | 180,569 | 252,027 | 189,840 |
| Cement | 93,333 | 93,333 | 93,333 | 93,333 |
| Others | 177,218 | 175,343 | 267,925 | 201,392 |
| | <u>1,648,540</u> | <u>1,420,615</u> | <u>1,693,697</u> | <u>1,395,656</u> |

38.1.4 Details of non-performing advances and specific provisions sector - wise

| | 2010 | | 2009 | |
|---------------------|-----------------------------|-------------------------|---------------------|-------------------------|
| | Classified advances | Specific provision held | Classified advances | Specific provision held |
| | ------(Rupees in '000)----- | | | |
| Public / government | - | - | - | - |
| Private | 1,648,540 | 1,420,615 | 1,693,697 | 1,395,656 |
| | <u>1,648,540</u> | <u>1,420,615</u> | <u>1,693,697</u> | <u>1,395,656</u> |

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.

To limit this risk the holding company maintains statutory deposits with the central bank. In addition, ALCO is the forum to oversee liquidity management. The holding company's key funding source is the inter-bank money market. Changes in government monetary policy and market expectations of interest rate are the factors that can affect the holding company's key funding source. Comprehensive gap analysis is done on monthly basis to evaluate match/mismatch of assets and liabilities. Based on the results, ALCO devise the liquidity management strategy to maintain sufficient liquidity.

Major liquidity ratios are also reported to the Risk Management Committee of the Board.

38.3 Market risk

It is the risk that the value of on and off – balance sheet positions of a financial institution will be adversely affected by movements 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. Market Risk at the holding company is managed by the risk management function which makes sure that exposure in Money Market and Equity Market adheres with the risk tolerance level and matches with overall business goals set by Board of Directors (BOD), Risk Management Committee (RMC) and Assets & Liability Committee (ALCO).

Market risk pertaining to the Trading Book 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.

To manage and control market risk the holding company has a well-defined limits structure in place. These limits are reviewed, adjusted and approved periodically by ALCO. Middle Office monitors these limits mostly on daily basis.

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

To manage various types of Market Risk, the holding company carries out stress testing of its balance sheet by varying sources of market risk as per SBP guidelines.

The holding company is also implementing new transactional system for recording capital market & money market system Oracle Treasury.

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 holding company manages its interest rate risk by entering into floating rate agreements with its customers. To discuss the interest rate risk strategy ALCO conducts a meeting on monthly basis. The risk management function carries out stress testing to ascertain the interest rate risk on the balance sheet and also prepares the interest rate risk profile on monthly basis.

The proceedings of ALCO are also reported to the Risk Management Committee of the Board.

| | | 2010 | | | | | | | | | | |
|---|---------------------------------------|--------------------------------|--------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|------------------------|---|------------------|
| Effective yield / interest rate % | | Exposed to yield / profit risk | | | | | | | | | Not exposed to yield / interest rate risk | |
| | | 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)----- | | | | | | | | | | | | |
| On balance sheet financial instruments | | | | | | | | | | | | |
| Financial Assets | | | | | | | | | | | | |
| | Cash and balances with treasury banks | 51,424 | - | - | - | - | - | - | - | - | - | 51,424 |
| 13.91 | Balances with other banks | 1,409,688 | 474,398 | 900,000 | - | - | - | - | - | - | - | 35,290 |
| | Lendings to financial institutions | 250,000 | - | 250,000 | - | - | - | - | - | - | - | - |
| 12.46 | Investments | 17,521,580 | 2,009,654 | 1,372,160 | 5,166,721 | 92 | 33,684 | 326,975 | 340 | 1,682,484 | - | 6,929,470 |
| 14.34 | Advances | 4,969,190 | 162,512 | 317,255 | 241,462 | 319,906 | 752,664 | 730,729 | 1,449,351 | 881,259 | 29,042 | 85,010 |
| | Other assets | 168,075 | - | - | - | - | - | - | - | - | - | 168,075 |
| | | 24,369,957 | 2,646,564 | 2,839,415 | 5,408,183 | 319,998 | 786,348 | 1,057,704 | 1,449,691 | 2,563,743 | 29,042 | 7,269,269 |
| Financial Liabilities | | | | | | | | | | | | |
| 12.63 | Borrowings | 9,807,369 | 6,987,157 | 2,370,030 | 39,830 | 51,207 | 93,108 | 76,993 | 120,843 | 68,201 | - | - |
| 12.66 | Deposits and other accounts | 3,138,512 | 142,354 | 603,558 | 497,000 | 1,863,100 | 30,000 | - | 2,500 | - | - | - |
| | Other liabilities | 322,018 | - | - | - | - | - | - | - | - | - | 322,018 |
| | | 13,267,899 | 7,129,511 | 2,973,588 | 536,830 | 1,914,307 | 123,108 | 76,993 | 123,343 | 68,201 | - | 322,018 |
| | On balance sheet gap | 11,102,058 | (4,482,947) | (134,173) | 4,871,353 | (1,594,309) | 663,240 | 980,711 | 1,326,348 | 2,495,542 | 29,042 | 6,947,251 |

| | | 2009 | | | | | | | | | | |
|---|---------------------------------------|--------------------------------|--------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|------------------------|---|------------------|
| Effective yield / interest rate % | | Exposed to yield / profit risk | | | | | | | | | Not exposed to yield / interest rate risk | |
| | | 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)----- | | | | | | | | | | | | |
| On balance sheet financial instruments | | | | | | | | | | | | |
| Financial Assets | | | | | | | | | | | | |
| | Cash and balances with treasury banks | 92,512 | - | - | - | - | - | - | - | - | - | 92,512 |
| 12.5 | Balances with other banks | 1,842,834 | 1,142,834 | 700,000 | - | - | - | - | - | - | - | - |
| | Lendings to financial institutions | 800,000 | - | 800,000 | - | - | - | - | - | - | - | - |
| 12.26 | Investments | 18,930,038 | - | 6,069,787 | 2,070,953 | 2,613,799 | 512,174 | 512,174 | 362,788 | 462,428 | - | 6,325,935 |
| 14.22 | Advances | 3,607,442 | 323,312 | 96,619 | 234,923 | 710,001 | 390,431 | 1,322,328 | 24,211 | 432,603 | - | 73,014 |
| | Other assets | 232,832 | - | - | - | - | - | - | - | - | - | 232,832 |
| | | 25,505,658 | 1,466,146 | 7,666,406 | 2,305,876 | 3,323,800 | 902,605 | 1,834,502 | 386,999 | 895,031 | - | 6,724,293 |
| Financial Liabilities | | | | | | | | | | | | |
| 12.03 | Borrowings | 10,377,872 | 5,605,142 | 3,067,253 | 28,958 | 168,133 | 1,413,532 | 52,153 | 24,522 | 18,179 | - | - |
| 12.33 | Deposits and other accounts | 4,075,951 | 2,045,470 | 723,981 | 21,500 | 1,255,000 | - | 30,000 | - | - | - | - |
| | Other liabilities | 435,789 | - | - | - | - | - | - | - | - | - | 435,789 |
| | | 14,889,612 | 7,650,612 | 3,791,234 | 50,458 | 1,423,133 | 1,413,532 | 82,153 | 24,522 | 18,179 | - | 435,789 |
| | On balance sheet gap | 10,616,046 | (6,184,466) | 3,875,172 | 2,255,418 | 1,900,667 | (510,927) | 1,752,349 | 362,477 | 876,852 | - | 6,288,504 |

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.

| | 2010 | | | |
|-----------------------|-----------------------------|-------------------|-------------------------|-----------------------|
| | Assets | Liabilities | Off balance sheet items | Net currency exposure |
| | ------(Rupees in '000)----- | | | |
| Pakistan Rupees | 25,021,520 | 13,280,158 | 193,141 | 11,548,221 |
| United States Dollars | 1,411 | - | - | 1,411 |
| | <u>25,022,931</u> | <u>13,280,158</u> | <u>193,141</u> | <u>11,549,632</u> |
| | 2009 | | | |
| | Assets | Liabilities | Off-balance sheet items | Net currency exposure |
| | ------(Rupees in '000)----- | | | |
| Pakistan Rupees | 25,900,999 | 15,147,237 | 534,532 | 10,219,230 |
| United States Dollars | 1,781 | - | - | 1,781 |
| | <u>25,902,780</u> | <u>15,147,237</u> | <u>534,532</u> | <u>10,221,011</u> |

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 investment portfolio is classified into 'held-for-trading' (HFT), 'available-for-sale' (AFS) and Strategic Portfolio. Equity Price Risk is monitored and control 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, market 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 Asset and Liability Committee (ALCO) approves exposure limits applicable to investments and meets on regular basis to discuss equity investments related strategy. Risk management function ensures compliance of portfolio, sector and scrip wise limits set by ALCO and regulatory authority. Value at Risk (VaR) is also calculated against the capital market exposure and the findings are reported to Risk Management Committee of the Board on quarterly basis.

38.4 Operational risk

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

Operational risks and losses originate from business/operational process failure, IT security failure, natural disasters, dependence on vendors, fraud, service quality compromised, regulatory non-compliance, loss of key staff and social & environmental impacts.

Operational Risk is one of the major risks identified under Basel II regime. Revised Risk Management Policy of the holding company gives special consideration and importance to Operational Risk Management.

During the year, Risk Management Department took the initiative for implementation of Enterprise-wide Operational Risk Management Framework and currently is in the process of implementing operational risk assessment tools, risk controls and reporting framework. Currently, Operational Risk Loss Data including Loss Events, Near Misses and Transactions in Difficulty are being collected from all the respective departments / units on monthly basis.

Operational Risk Management requires radical shift in risk perspective and approach towards routine processes and involvement of each and every individual in the holding company therefore Risk Management Department aims to achieve the desired Risk Management Culture by creating awareness.

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

38.5 Internal Capital Adequacy Assessment Process (ICAAP)

The holding company developed Internal Capital Adequacy Assessment Process (ICAAP) document as per the SBP guidelines. In the ICAAP document risks other than the pillar I risks were identified, measured and adjusted with the capital to arrive at CAR based on pillar I and pillar II risks. The holding company recognized following risks other than pillar I risks against which capital adequacy ratio is adjusted in its ICAAP model.

- 1) Strategic Risk
- 2) Liquidity Risk
- 3) Reputation Risk
- 4) Interest Rate Risk in Banking Book
- 5) Other Risks

Considering ICAAP as an on going process, during the year the ICAAP document was updated based on the financial projections for next five years.

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 quarterly 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 Group has determined securities which are acquired with the intention to trade by taking advantage of taking short term market / interest rate movements and are to be sold within 90 days.

In classifying investments as 'held-to-maturity' the Group 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 Group 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 9 months as prolonged.

39.4 Income taxes

In making the estimates for income taxes currently payable by the Group, 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 January 26, 2011.



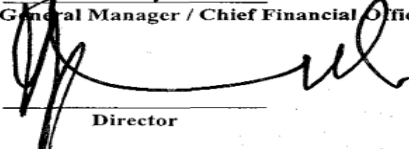
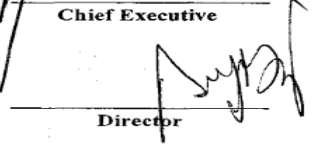
41. GENERAL AND NON-ADJUSTING EVENT

41.1 The JCR-VIS Credit Rating Company Limited has maintained 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 maintained the long-term entity rating of AA+ and the short term rating at A1+(A one plus).

41.2 The Board of Directors of the holding company has proposed cash dividend of Rs. 360 million (2009: Nil) for the year ended December 31, 2010 in their meeting held on January 26, 2011. 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.

Signature

| | |
|---|--|
|  Deputy General Manager / Chief Financial Officer |  Chief Executive |
|  Director |  Director |

PAKISTAN KUWAIT INVESTMENT COMPANY (PRIVATE) LIMITED

Annexure - I

QUALITY OF AVAILABLE FOR SALE SECURITIES

As Referred to in Notes 9.5 to the financial statements

| Sr. No. | Name of Company | 2010 | | 2009 | |
|-------------------------------------|---|-------------------------|-----------|-------------------------|---------|
| | | Market Value | Rating | Market Value | Rating |
| | | (Rupees in '000') | | (Rupees in '000') | |
| AVAILABLE FOR SALE PORTFOLIO | | | | | |
| PKIC STRATEGIC PORTFOLIO | | | | | |
| 1 | MEEZAN BANK LIMITED | <u>3,540,153</u> | AA-/A-1 | <u>3,140,153</u> | A+/A-1 |
| | TOTAL | <u>3,540,153</u> | | <u>3,140,153</u> | |
| PKIC GENERAL PORTFOLIO | | | | | |
| OIL AND GAS | | | | | |
| 2 | ATTOCK PETROLEUM LIMITED | <u>70,107</u> | Unrated | 19,119 | Unrated |
| 3 | NATIONAL REFINERY LIMITED | <u>9,993</u> | AAA / A1+ | - | - |
| 4 | PAKISTAN STATE OIL COMPANY LIMITED | <u>182,968</u> | AA+/A1+ | 118,381 | AA+/A1+ |
| 5 | PAKISTAN OILFIELDS LIMITED | <u>267,844</u> | Unrated | 253,847 | Unrated |
| 6 | PAKISTAN PETROLEUM LIMITED | <u>96,054</u> | Unrated | 113,754 | Unrated |
| | TOTAL | <u>626,966</u> | | <u>505,101</u> | |
| CHEMICALS | | | | | |
| 7 | ENGRO CORPORATION LIMITED FORMERLY ENGRO CHEMICAL PAKISTAN | <u>62,019</u> | AA/A1+ | 49,437 | AA/A1+ |
| 8 | FAUJI FERTILIZER BIN QASIM LIMITED | - | - | 235,170 | Unrated |
| 9 | FAUJI FERTILIZER COMPANY LIMITED | <u>203,335</u> | Unrated | <u>112,205</u> | Unrated |
| | TOTAL | <u>265,354</u> | | <u>396,812</u> | |
| CONSTRUCTION AND MATERIALS | | | | | |
| 10 | CHERAT CEMENT COMPANY LIMITED | <u>293</u> | Unrated | 2,854 | Unrated |
| 11 | D.G.KHAN CEMENT COMPANY | <u>16,595</u> | Unrated | - | - |
| 12 | LUCKY CEMENT LIMITED | <u>67,002</u> | Unrated | <u>49,680</u> | Unrated |
| | TOTAL | <u>83,890</u> | | <u>52,534</u> | |
| GENERAL INDUSTRIALS | | | | | |
| 13 | PACKAGES LIMITED | <u>38,583</u> | AA/A1+ | 43,200 | AA/A1+ |
| 14 | DADABHOY PADUBE LIMITED | - | - | 200 | Unrated |
| | TOTAL | <u>38,583</u> | | <u>43,400</u> | |
| AUTOMOBILE AND PARTS | | | | | |
| 15 | THE GENERAL TYRE & RUBBER CO. OF PAKISTAN LTD. | <u>379,099</u> | Unrated | <u>401,912</u> | Unrated |
| | TOTAL | <u>379,099</u> | | <u>401,912</u> | |
| PERSONAL GOODS | | | | | |
| 16 | NISHAT (CHUNIAN) LIMITED | <u>17,968</u> | A / A-2 | - | - |
| 17 | NISHAT MILLS LIMITED | <u>64,170</u> | A+/A1 | <u>24,465</u> | A+/A1 |
| | TOTAL | <u>82,138</u> | | <u>24,465</u> | |
| FIXED LINE TELECOMMUNICATION | | | | | |
| 18 | PAKISTAN TELECOMMUNICATION COMPANY LIMITED (A) | <u>107,736</u> | Unrated | 70,600 | Unrated |
| 19 | EYE TELEVISION NETWORK | - | - | 14,148 | A/A1 |
| | TOTAL | <u>107,736</u> | | <u>84,748</u> | |
| ELECTRICITY | | | | | |
| 20 | THE HUB POWER COMPANY LIMITED | <u>214,453</u> | AA+/A1+ | 217,560 | Unrated |
| 21 | KOT ADDU POWER CO. LTD. | <u>64,912</u> | Unrated | 70,900 | Unrated |
| 22 | NISHAT CHUNIAN POWER LTD | <u>271,878</u> | AA-/A1+ | 103,000 | AA/A1+ |
| 23 | NISHAT POWER LIMITED | <u>64,059</u> | AA-/A1+ | - | - |
| | TOTAL | <u>615,302</u> | | <u>391,460</u> | |

| Sr. No. | Name of Company | 2010 | | 2009 | |
|--------------------------------------|--|------------------|----------|------------------|----------|
| | | Market Value | Rating | Market Value | Rating |
| GAS AND WATER MULTIUTILITIES | | | | | |
| 24 | SUI NORTHERN GAS PIPELINES LIMITED | 6,430 | AA/A1+ | - | - |
| | TOTAL | 6,430 | | - | |
| BANKS | | | | | |
| 25 | BANK ALFALAH LIMITED | 17,546 | AA/A1+ | - | - |
| 26 | BANK AL-HABIB LIMITED | 21,756 | AA+/A1+ | 20,541 | AA+/A1+ |
| 27 | BANKISLAMI PAKISTAN LIMITED | 998 | A/A1 | 22,519 | A/A1 |
| 28 | NATIONAL BANK OF PAKISTAN | 120,927 | AAA/A-1+ | 130,147 | AAA/A-1+ |
| 29 | UNITED BANK LIMITED | 102,345 | AA+/A-1+ | 102,287 | AA+/A-1+ |
| | TOTAL | 263,572 | | 275,494 | |
| FINANCIAL SERVICES | | | | | |
| 30 | AMZ VENTURES LIMITED - CLASS 'A' | - | | 1,063 | Unrated |
| 31 | SME LEASING LIMITED | 3,026 | BBB+/A-3 | 2,363 | A-/A-2 |
| 32 | ORIX LEASING LIMITED | - | - | 968 | AA+/A1+ |
| 33 | DADABHOY LEASING COMPANY LIMITED | 13 | Unrated | 13 | Unrated |
| 34 | CRESCENT STANDARD INVESTMENT BANK LTD | - | - | 3,959 | Unrated |
| 35 | JAHANGIR SIDDIQUI & COMPANY | - | - | 3,618 | AA+/A1+ |
| | TOTAL | 3,039 | | 11,984 | |
| EQUITY INVESTMENT INSTRUMENTS | | | | | |
| | AL MEEZAN MUTUAL FUND LIMITED | 140,403 | Unrated | 111,512 | Unrated |
| 36 | MEEZAN BALANCED FUND | 82,933 | Unrated | 67,452 | Unrated |
| 37 | NAMCO BALANCED FUND | 16,254 | Unrated | 18,576 | Unrated |
| 38 | PAK OMAN ADVANTAGE FUND | 51,647 | AA-(f) | 52,500 | AA-(f) |
| 39 | PUNJAB MODARABA 1ST | - | - | 114 | A-/A2 |
| | TOTAL | 291,237 | | 250,154 | |
| PREFERENCE SHARES | | | | | |
| 40 | MASOOD TEXTILE MILLS LIMITED (CUMULATIVE PREFERENCE SHARES) 12.1% | 50,000 | Unrated | 50,000 | Unrated |
| 41 | PAKISTAN INTERNATIONAL CONTAINER TERMINAL LIMITED (PREFERENCE) 10% | 25,000 | Unrated | 34,750 | Unrated |
| 42 | CHENAB LIMITED - NON VOTING CUMULATIVE PREFERENCE SHARES 9.25% | 3,725 | Unrated | 10,500 | Unrated |
| 43 | SECURITY LEASING CORPORATION LIMITED (PREF.SHARES) 9.1% | 3,500 | Unrated | 3,500 | Unrated |
| | PREFERENCE SHARES TOTAL | 82,225 | | 98,750 | |
| | GRAND TOTAL | 6,385,724 | | 5,676,967 | |

PAKISTAN KUWAIT INVESTMENT COMPANY (PRIVATE) LIMITED

ANNEXURE I

As Referred to in Notes 9.5 to the financial statements

QUALITY OF AVAILABLE FOR SALE SECURITIES

| Sr.No. | Name of TFCs | 2010 | | 2009 | |
|--------|---|------------------|--------|------------------|--------|
| | | Market Value | Rating | Market Value | Rating |
| | | (Rupees in '000) | | (Rupees in '000) | |
| | Listed Term Finance Certificates | | | | |
| 1 | STANDARD CHARTERED BANK (PAKISTAN) LIMITED (20-01-2004) Certificate of Rs. 5,000 each Mark up : 10.6416% (PIB 5 Years rate +0.75% with Floor 5.00 % , Cap 10.75%,) Redemption : Half Yearly Installments commencing from Jan - 2004 Maturity : Jan , 2011 | 23,201 | AAA | 63,644 | AAA |
| 2 | THE ROYAL BANK OF SCOTLAND LIMITED (ABN AMRO) -TFCs (10-02-2005) Certificate of Rs. 5,000 each Mark up : 14% (6-Months KIBOR Ask Rate + 1.90%) Redemption : Half yearly Installments commencing from Feb -2005 Maturity : Dec , 2012 | 14,897 | AA- | 19,753 | AA- |
| 3 | BANK AL FALAH - TFC-2 (23-11-2004) Certificate of Rs. 5,000 each Mark up : 14.16% (6-Months Kibor + 1.5) Redemption : Half Yearly from Nov-2011 Maturity : 23-Nov-2012 | 13,608 | AA- | 13,467 | AA- |
| 4 | BANK AL FALAH - TFC-3 (25-11-2005) Certificate of Rs. 5,000 each Mark up : 14.15% (6-Months Kibor + 1.5) Redemption : Half Yearly from Nov-2012 Maturity : 25-Nov-2013 | 74,132 | AA- | 72,797 | AA- |
| 5 | FAYSAL BANK LIMITED - TFCs (12-11-2007) Certificate of Rs. 5,000 each Mark up : 14.15% (6-Months Kibor + 1.4) Redemption : Half Yearly from May-2013 Maturity : 12-Nov-2014 | - | - | 38,201 | AA- |
| 6 | ASKARI COMMERCIAL BANK LIMITED -TFCs (04-02-2005) Certificate of Rs. 5,000 each Mark up : 13.50% (6-Months Kibor + 1.5) Redemption : Half Yearly from Feb-2013 Maturity : 04-Feb-2013 | 26,790 | AA- | 30,837 | AA- |
| 7 | NIB BANK LIMITED - TFCs (05-03-2008) Certificate of Rs. 5,000 each Mark up : 13.71% (6-Months Kibor + 1.15) Redemption : Half Yearly from Sep-2013 Maturity : 05-Mar-2016 | - | - | 50,448 | A+ |
| 8 | UNITED BANK LIMITED - TFCs (14-02-2008) Certificate of Rs. 5,000 each Mark up : 13.05% (6-Months Kibor + 0.85) Redemption : Half Yearly from Feb-2018 Maturity : 14-Feb-2018 | - | - | 66,091 | AA |
| | Sub Total | 152,628 | | 355,238 | |

PAKISTAN KUWAIT INVESTMENT COMPANY (PRIVATE) LIMITED

ANNEXURE I

AS REFERRED TO IN NOTES 9.5 TO THE FINANCIAL STATEMENTS

QUALITY OF AVAILABLE FOR SALE SECURITIES

| Sr. No | Name of Securities | 2010 | | 2009 | |
|--------|---|------------------|---------|------------------|---------|
| | | Cost | Rating | Cost | Rating |
| | | (Rupees in '000) | | (Rupees in '000) | |
| | Unlisted Term Finance Certificates | | | | |
| 1 | BANK AL FALAH LIMITED (02-12-2009) Certificate of Rs. 5,000 each Mark up : 15.25% (6-Months KIBOR Ask Rate + 2.50%) Redemption : Half yearly from Dec - 2016 Maturity : Dec - 2017 CEO of the company : Mr. Sirajuddin Aziz | 99,960 | AA- | 100,000 | AA- |
| 2 | NEW ALLIED ELECTRONICS INDUSTRIES (PRIVATE) LIMITED Certificate of Rs. 5,000 each Mark up : 14.95% (KIBOR 3-Months Ask Rate + 2.75%) Redemption : Quarterly Installments commencing from Aug - 2007 Maturity : May, 2011 CEO of the company : Mr. Mian Pervez Akhtar | 21,138 | Unrated | 23,611 | D |
| 3 | DEWAN FAROQUE SPINNING MILLS LIMITED Certificate of Rs. 5,000 each Mark up : 19.43% (KIBOR 6-Months Ask Rate + 3.75%) Redemption : Half yearly Installments commencing from Dec - 2004 Maturity : Dec , 2009 CEO of the company : Mr. Dewan M. Yousuf Farooqui | 12,500 | Unrated | 12,500 | Unrated |
| 4 | FAYSAL BANK LIMITED Certificate of Rs. 5,000 each Mark up : 15.86% (KIBOR 6-Month (s) Ask Rate + 2.25%) Redemption : Half yearly Installments commencing from June - 2011 Maturity : Dec, 2017 CEO of the company : Mr. Naveed A. Khan | 325,000 | AA- | - | - |
| | Sub Total | 458,598 | | 136,111 | |

PAKISTAN KUWAIT INVESTMENT COMPANY (PRIVATE) LIMITED

Annexure II

PARTICULARS OF INVESTMENT HELD IN SHARES OF LISTED COMPANIES

| Sr. No. | Name of Company | 2010 | | 2010 | | | 2009 | | |
|-------------------------------------|---|--------------------|--------------------|------------------|---------------|-----------------------|------------------|---------------|-----------------------|
| | | Total Shares | | Cost | Impairment | Cost after Impairment | Cost | Impairment | Cost after Impairment |
| AVAILABLE FOR SALE PORTFOLIO | | | | | | | | | |
| PKIC STRATEGIC PORTFOLIO | | | | | | | | | |
| 1 | MEEZAN BANK LIMITED | 209,476,514 | 199,501,442 | 3,306,503 | - | 3,306,503 | 2,894,890 | - | 2,894,890 |
| | TOTAL | 209,476,514 | 199,501,442 | 3,306,503 | - | 3,306,503 | 2,894,890 | - | 2,894,890 |
| PKIC GENERAL PORTFOLIO | | | | | | | | | |
| OIL AND GAS | | | | | | | | | |
| 2 | ATTOCK PETROLEUM LIMITED | 209,574 | 55,000 | 64,232 | - | 64,232 | 18,414 | - | 18,414 |
| 3 | NATIONAL REFINERY LIMITED | 36,499 | - | 9,839 | - | 9,839 | - | - | - |
| 4 | PAKISTAN STATE OIL COMPANY LIMITED | 619,853 | 398,000 | 174,745 | - | 174,745 | 108,117 | - | 108,117 |
| 5 | PAKISTAN OILFIELDS LIMITED | 905,000 | 1,100,000 | 211,546 | - | 211,546 | 224,869 | - | 224,869 |
| 6 | PAKISTAN PETROLEUM LIMITED | 442,338 | 600,000 | 91,803 | - | 91,803 | 97,207 | 11,851 | 85,356 |
| | TOTAL | 2,213,264 | 2,153,000 | 552,165 | - | 552,165 | 448,607 | 11,851 | 436,756 |
| CHEMICALS | | | | | | | | | |
| 7 | ENGRO CORPORATION LIMITED FORMERLY ENGRO CHEMICAL PAKISTAN | 320,000 | 269,750 | 58,572 | - | 58,572 | 50,123 | - | 50,123 |
| 8 | FAUJI FERTILIZER BIN QASIM LIMITED | - | 9,000,000 | - | - | - | 182,392 | - | 182,392 |
| 9 | FAUJI FERTILIZER COMPANY LIMITED | 1,615,563 | 1,090,107 | 170,375 | - | 170,375 | 87,627 | - | 87,627 |
| | TOTAL | 1,935,563 | 10,359,857 | 228,947 | - | 228,947 | 320,142 | - | 320,142 |
| CONSTRUCTION AND MATERIALS | | | | | | | | | |
| 10 | CHERAT CEMENT COMPANY LIMITED | 27,217 | 227,386 | 1,116 | 865 | 251 | 9,323 | 6,729 | 2,594 |
| 11 | D.G.KHAN CEMENT COMPANY | 550,052 | - | 16,708 | - | 16,708 | - | - | - |
| 12 | LUCKY CEMENT LIMITED | 884,054 | 750,000 | 64,878 | - | 64,878 | 52,168 | - | 52,168 |
| | TOTAL | 1,461,323 | 977,386 | 82,702 | 865 | 81,837 | 61,491 | 6,729 | 54,762 |
| GENERAL INDUSTRIALS | | | | | | | | | |
| 13 | PACKAGES LIMITED | 300,000 | 300,000 | 47,780 | 17,480 | 30,300 | 47,780 | - | 47,780 |
| 14 | DADABHOY PADUBE LIMITED | - | 100,000 | - | - | - | 201 | - | 201 |
| | TOTAL | 300,000 | 400,000 | 47,780 | 17,480 | 30,300 | 47,981 | - | 47,981 |
| AUTOMOBILE AND PARTS | | | | | | | | | |
| 15 | THE GENERAL TYRE & RUBBER CO. | 16,774,292 | 16,774,292 | 344,838 | - | 344,838 | 331,013 | - | 331,013 |
| | TOTAL | 16,774,292 | 16,774,292 | 344,838 | - | 344,838 | 331,013 | - | 331,013 |
| PERSONAL GOODS | | | | | | | | | |
| 16 | NISHAT (CHUNIAN) LIMITED | 790,849 | - | 18,108 | - | 18,108 | - | - | - |
| 17 | NISHAT MILLS LIMITED | 1,000,000 | 350,000 | 59,138 | - | 59,138 | 24,567 | - | 24,567 |
| | TOTAL | 1,790,849 | 350,000 | 77,246 | - | 77,246 | 24,567 | - | 24,567 |
| FIXED LINE TELECOMMUNICATION | | | | | | | | | |
| 18 | PAKISTAN TELECOMMUNICATION COMPANY LIMITED (A) | 5,547,705 | 4,000,000 | 114,649 | - | 114,649 | 84,838 | - | 84,838 |
| 19 | EYE TELEVISION NETWORK | - | 486,025 | - | - | - | 35,375 | 21,402 | 13,973 |
| | TOTAL | 5,547,705 | 4,486,025 | 114,649 | - | 114,649 | 120,213 | 21,402 | 98,811 |
| ELECTRICITY | | | | | | | | | |
| 20 | THE HUB POWER COMPANY LIMITED | 5,732,512 | 7,000,000 | 170,749 | - | 170,749 | 168,488 | - | 168,488 |
| 21 | KOT ADDU POWER CO. LTD. | 1,595,662 | 1,545,662 | 67,407 | - | 67,407 | 65,153 | - | 65,153 |
| 22 | NISHAT CHUNIAN POWER LTD | 16,897,319 | 10,000,000 | 177,746 | - | 177,746 | 100,000 | - | 100,000 |
| 23 | NISHAT POWER LIMITED | 3,946,935 | - | 60,259 | - | 60,259 | - | - | - |
| | TOTAL | 28,172,428 | 18,545,662 | 476,161 | - | 476,161 | 333,641 | - | 333,641 |

| Sr. No. | Name of Company | 2010 | | 2010 | | | 2009 | | |
|--------------------------------------|--|--------------------|--------------------|------------------|---------------|-----------------------|------------------|----------------|-----------------------|
| | | Total Shares | | Cost | Impairment | Cost after Impairment | Cost | Impairment | Cost after Impairment |
| GAS AND WATER MULTIUTILITIES | | | | | | | | | |
| 24 | SUI NORTHERN GAS PIPELINES LIMITED | 240,469 | - | 7,780 | - | 7,780 | - | - | - |
| | TOTAL | 240,469 | - | 7,780 | - | 7,780 | - | - | - |
| BANKS | | | | | | | | | |
| 25 | BANK ALFALAH LIMITED | 1,565,171 | - | 20,219 | 7,385 | 12,834 | - | - | - |
| 26 | BANK AL-HABIB LIMITED | 600,000 | 627,027 | 21,107 | 11,093 | 10,014 | 26,470 | 13,912 | 12,558 |
| 27 | BANKISLAMI PAKISTAN LIMITED | 275,000 | 3,836,206 | 4,398 | 3,515 | 883 | 61,342 | 38,823 | 22,519 |
| 28 | NATIONAL BANK OF PAKISTAN | 1,574,158 | 1,750,000 | 112,562 | - | 112,562 | 141,144 | - | 141,144 |
| 29 | UNITED BANK LIMITED | 1,500,000 | 1,750,000 | 83,828 | - | 83,828 | 98,665 | - | 98,665 |
| | TOTAL | 5,514,329 | 7,963,233 | 242,114 | 21,993 | 220,121 | 327,621 | 52,735 | 274,886 |
| FINANCIAL SERVICES | | | | | | | | | |
| 30 | AMZ VENTURES LIMITED - CLASS 'A' | - | 1,833,000 | - | - | - | 7,699 | 6,728 | 971 |
| 31 | SME LEASING LIMITED | 225,000 | 225,000 | 2,475 | - | 2,475 | 2,475 | - | 2,475 |
| 32 | ORIX LEASING LIMITED | - | 126,627 | - | - | - | 51,439 | 50,470 | 969 |
| 33 | DADABHOY LEASING COMPANY LIMITED | 10,750 | 10,750 | 13 | - | 13 | 13 | - | 13 |
| 34 | CRESCENT STANDARD INVESTMENT BANK LTD | - | 954,000 | - | - | - | 4,770 | - | 4,770 |
| 35 | JAHANGIR SIDDIQUI & COMPANY | - | 120,322 | - | - | - | 25,740 | 22,950 | 2,790 |
| | TOTAL | 235,750 | 3,269,699 | 2,488 | - | 2,488 | 92,136 | 80,148 | 11,988 |
| EQUITY INVESTMENT INSTRUMENTS | | | | | | | | | |
| 36 | AL MEEZAN MUTUAL FUND LIMITED | 16,895,690 | 16,895,690 | 201,059 | - | 201,059 | 171,491 | - | 171,491 |
| 37 | MEEZAN BALANCED FUND | 11,057,791 | 11,057,791 | 130,261 | - | 130,261 | 114,338 | - | 114,338 |
| 38 | NAMCO BALANCED FUND | 3,935,667 | 3,935,667 | 39,357 | 26,369 | 12,988 | 39,356 | 20,780 | 18,576 |
| 39 | PAK OMAN ADVANTAGE FUND | 4,990,000 | 5,000,000 | 49,900 | 17,465 | 32,435 | 50,000 | 12,400 | 37,600 |
| 40 | PUNJAB MODARABA 1ST | - | 64,896 | - | - | - | 551 | 441 | 110 |
| | TOTAL | 36,879,148 | 36,954,044 | 420,577 | 43,834 | 376,743 | 375,736 | 33,621 | 342,115 |
| PREFERENCE SHARES | | | | | | | | | |
| 41 | MASOOD TEXTILE MILLS LIMITED (CUMULATIVE PREFERENCE SHARES) 12.1% | 5,000,000 | 5,000,000 | 50,000 | - | 50,000 | 50,000 | - | 50,000 |
| 42 | PAKISTAN INTERNATIONAL CONTAINER TERMINAL LIMITED (PREFERENCE) 10% | 2,500,000 | 2,500,000 | 25,000 | - | 25,000 | 25,000 | - | 25,000 |
| 43 | CHENAB LIMITED - NON VOTING CUMULATIVE PREFERENCE SHARES 9.25% | 1,490,000 | 1,500,000 | 13,370 | 9,645 | 3,725 | 13,460 | 8,705 | 4,755 |
| 44 | SECURITY LEASING CORPORATION LIMITED (PREF.SHARES) 9.1% | 500,000 | 500,000 | 5,029 | 1,529 | 3,500 | 5,029 | 1,529 | 3,500 |
| | PREFERENCE SHARES TOTAL | 9,490,000 | 9,500,000 | 93,399 | 11,174 | 82,225 | 93,489 | 10,234 | 83,255 |
| | GRAND TOTAL | 320,031,634 | 311,234,640 | 5,997,349 | 95,346 | 5,902,003 | 5,471,527 | 216,720 | 5,254,807 |

| Sr. No. | Name of Company | 2010 | | 2010 | | | 2009 | | |
|-------------------------------------|---|--------------|------------|--------|------------|-----------------------|---------|------------|-----------------------|
| | | Total Shares | | Cost | Impairment | Cost after Impairment | Cost | Impairment | Cost after Impairment |
| HELD FOR TRADING PORTFOLIO | | | | | | | | | |
| OIL & GAS | | | | | | | | | |
| 1 | PAKISTAN STATE OIL COMPANY LIMITED | - | 75,000 | - | - | - | 22,409 | - | 22,409 |
| 2 | PAKISTAN OILFIELDS LTD | - | 824 | - | - | - | 174 | - | 174 |
| 3 | PAKISTAN PETROLEUM LIMITED | - | 75,000 | - | - | - | 14,270 | - | 14,270 |
| | TOTAL | - | 150,824 | - | - | - | 36,853 | - | 36,853 |
| CHEMICALS | | | | | | | | | |
| 4 | ENGRO CORPORATION LIMITED FORMERLY ENGRO CHEMICAL PAKISTAN | - | 175,000 | - | - | - | 32,791 | - | 32,791 |
| 5 | FAUJI FERTILIZER BIN QASIM LTD. | - | 350,000 | - | - | - | 9,180 | - | 9,180 |
| | TOTAL | - | 525,000 | - | - | - | 41,971 | - | 41,971 |
| CONSTRUCTION AND MATERIALS | | | | | | | | | |
| 6 | D.G.KHAN CEMENT COMPANY LIMITED | 250,000 | - | 8,012 | - | 8,012 | - | - | - |
| | TOTAL | 250,000 | - | 8,012 | - | 8,012 | - | - | - |
| FIXED LINE TELECOMMUNICATION | | | | | | | | | |
| 7 | PAKISTAN TELECOMMUNICATION LIMITED (A) | 1,000,000 | 500,000 | 19,691 | - | 19,691 | 8,954 | - | 8,954 |
| | TOTAL | 1,000,000 | 500,000 | 19,691 | - | 19,691 | 8,954 | - | 8,954 |
| ELECTRICITY | | | | | | | | | |
| 8 | NISHAT CHUNIAN POWER LTD. | - | 9,819,385 | - | - | - | 98,194 | - | 98,194 |
| | TOTAL | - | 9,819,385 | - | - | - | 98,194 | - | 98,194 |
| NON LIFE INSURANCE | | | | | | | | | |
| 9 | ADAMJEE INSURANCE COMPANY LIMITED | 100,000 | - | 8,889 | - | 8,889 | - | - | - |
| | TOTAL | 100,000 | - | 8,889 | - | 8,889 | - | - | - |
| FINANCIAL SERVICES | | | | | | | | | |
| 10 | JAHANGIR SIDDIQUI & COMPANY | - | 100,000 | - | - | - | 3,096 | - | 3,096 |
| | TOTAL | - | 100,000 | - | - | - | 3,096 | - | 3,096 |
| | TOTAL - HELD FOR TRADING PORTFOLIO | 1,350,000 | 11,095,209 | 36,592 | - | 36,592 | 189,068 | - | 189,068 |

PAKISTAN KUWAIT INVESTMENT COMPANY (PRIVATE) LIMITED

Annexure II

As Referred to in Notes 9.5 to the financial statements

PARTICULARS OF INVESTMENT IN TERM FINANCE CERTIFICATES

| Sr. No | Name of TFCs | 2010 | 2009 | 2010 | 2009 |
|--------|--|-------------------|---------------|--------------------------|----------------|
| | | NUMBER OF TFCs | | COST (Rupees in '000) | |
| | Particulars of investments held in listed term finance certificates (TFCs) | | | | |
| 1 | STANDARD CHARTERED BANK (PAKISTAN) LIMITED (20-01-2004) Certificate of Rs. 5,000 each Mark up : 10.6416% (PIB 5 Years rate +0.75% with Floor 5.00% , Cap 10.75%,) Redemption : Half Yearly Installments commencing from Jan - 2004 Maturity : Jan , 2011 | 18,587 | 18,587 | 23,234 | 64,980 |
| 2 | THE ROYAL BANK OF SCOTLAND LIMITED (ABN AMRO) -TFCs (10-02-2005) Certificate of Rs. 5,000 each Mark up : 14.00% (6-Months KIBOR Ask Rate + 1.90%) Redemption : Half Yearly Installments commencing from Feb -2005 Maturity : Dec , 2012 | 4,000 | 4,000 | 14,976 | 19,964 |
| 3 | BANK AL FALAH - TFCs (23-11-2004) Certificate of Rs. 5,000 each Mark up : 14.16% (6-Months Kibor + 1.5) Redemption : Half Yearly from Nov-2011 Maturity : 23-Nov-2012 | 2,760 | 2,760 | 13,659 | 13,613 |
| 4 | BANK AL FALAH - TFCs (25-11-2005) Certificate of Rs. 5,000 each Mark up : 14.15% (6-Months Kibor + 1.5) Redemption : Half Yearly from Nov-2012 Maturity : 25-Nov-2013 | 15,127 | 15,127 | 74,990 | 74,847 |
| 5 | FAYSAL BANK LIMITED - TFCs (12-11-2007) Certificate of Rs. 5,000 each Mark up : 14.15% (6-Months Kibor + 1.4) Redemption : Half Yearly from May-2013 Maturity : 12-Nov-2014 | - | 8,000 | - | 39,183 |
| 6 | ASKARI COMMERCIAL BANK LIMITED -TFCs (04-02-2005) Certificate of Rs. 5,000 each Mark up : 13.50% (6-Months Kibor + 1.5) Redemption : Half Yearly from Feb-2013 Maturity : 04-Feb-2013 | 5,400 | 6,400 | 26,828 | 31,705 |
| 7 | NIB BANK LIMITED - TFCs (05-03-2008) Certificate of Rs. 5,000 each Mark up : 13.71% (6-Months Kibor + 1.15) Redemption : Half Yearly from Sep - 2013 Maturity : 05-Mar-2016 | - | 11,000 | - | 50,271 |
| 8 | UNITED BANK LIMITED - TFCs (14-02-2008) Certificate of Rs. 5,000 each Mark up : 13.05% (6-Months Kibor + 0.85) Redemption : Half Yearly from Feb-2018 Maturity : 14-Feb-2018 | - | 15,000 | - | 70,202 |
| | TOTAL | 45,874 | 80,874 | 153,687 | 364,765 |

PAKISTAN KUWAIT INVESTMENT COMPANY (PRIVATE) LIMITED

Annexure II

AS REFERRED TO IN NOTES 9.5 TO THE FINANCIAL STATEMENTS

PARTICULARS OF INVESTMENT IN TERM FINANCE CERTIFICATES

| Sr. No | Name of TFCs | 2010 | 2009 | 2010 | 2009 |
|---|---|----------------|--------|-----------------------|---------|
| | | NUMBER OF TFCs | | COST (Rupees in '000) | |
| Particulars of investments held in unlisted term finance certificates (TFCs) | | | | | |
| 1 | BANK AL FALAH LIMITED (02-12-2009) Certificate of Rs. 5,000 each Mark up : 15.25% (6-Months KIBOR + 2.50%) Redemption : Half yearly from Dec - 2016 Maturity : Dec - 2017 | 20,000 | 20,000 | 99,960 | 100,000 |
| 2 | NEW ALLIED ELECTRONICS INDUSTRIES (PRIVATE) LIMITED Certificate of Rs. 5,000 each Mark up : 14.95% (3-Months KIBOR Ask Rate + 2.75%) Redemption : Quarterly Installments commencing from Aug - 2007 Maturity : May , 2011 | 10,000 | 10,000 | 21,138 | 23,611 |
| 3 | DEWAN FAROOQUE SPINNING MILLS LIMITED Certificate of Rs. 5,000 each Mark up : 19.43% (6-Months KIBOR Ask Rate + 3.75%) Redemption : Half yearly Installments commencing from Dec - 2004 Maturity : Dec , 2009 | 10,000 | 10,000 | 12,500 | 12,500 |
| 4 | FAYSAL BANK LIMITED Certificate of Rs. 5,000 each Mark up : 15.86% (6-Months KIBOR Ask Rate + 2.25%) Redemption : Half yearly Installments commencing from June - 2011 Maturity : Dec , 2017 | 65,000 | - | 325,000 | - |
| | TOTAL | 105,000 | 40,000 | 458,598 | 136,111 |

**STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF
OF FIVE HUNDRED THOUSAND RUPEES OR ABOVE PROVIDED
DURING THE YEAR ENDED 31 December 2010**

| S. No. | Name and address of the borrower | Name of individuals/ partners/ directors (with NIC No.) | NIC / CNIC Nos. | Father's/ Husband's name | Outstanding Liabilities at beginning of year | | | | Principal written-off | Interest/ Mark-up written-off | Other financial relief provided | Total (9+10+11) |
|-----------------------|----------------------------------|---|--|---|--|-------------------|----------|---------------|-----------------------|-------------------------------|---------------------------------|-----------------|
| | | | | | Principal | Interest/ Mark-up | Others | Total | | | | |
| 1 | 2 | 3 | | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| Rupees in '000 | | | | | | | | | | | | |
| 2010 | | | | | | | | | | | | |
| 1 | Swede Bus Pakistan (Pvt) Ltd. | Ahmed Shabir Khalid Rafi Mohammad Naseem Mrs. Tabasam Shabir | 42201-9528294-3 42301-0734542-9 42201-0804036-3 42201-1825384-8 | Fazal Hussain Malik Sheikh Muhammad Rafi Mohammad Ibrahim W/o Ahmed Shabir | 29,510 | 3,239 | - | 32,749 | - | 3,239 | - | 3,239 |
| | | | | Sub Total (2010): | 29,510 | 3,239 | - | 32,749 | - | 3,239 | - | 3,239 |