PAK BRUNEI
INVESTMENT COMPANY

pakbrunei
INVESTMENT COMPANY

Annual report 2012

2012

Design: Creative Unit

PAK BRUNEI
INVESTMENT
COMPANY

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INVESTMENT COMPANY

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Unconsolidated Financial Statements

Corporate Information

Board of Directors

Mr. Khairuddin Abdul Hamid	Chairman
Mr. Mohammad Younus Dagha	Director
Mr. Junaidi bin Haji Masri	Director
Ms. Ayesha Aziz	Managing Director

Audit Committee

Mr. Khairuddin Abdul Hamid	Chairman
Mr. Mohammad Younus Dagha	Member
Mr. Junaidi bin Haji Masri	Member

Human Resource Committee

Mr. Junaidi bin Haji Masri	Chairman
Mr. Mohammad Younus Dagha	Member
Ms. Ayesha Aziz	Member

Company Secretary

Mr. Abdul Hafeez

Statutory Auditors

Ernst & Young Ford Rhodes Sidat Hyder	Chartered Accountants

Tax Consultant

M. Yousuf Adil Saleem & Company	(A member firm of Deloitte Touche Tohmatsu Ltd.) Chartered Accountants

Legal Advisor

Liaquat Merchant & Associates	Advocate and Corporate Legal Consultants

Registered Head Office

Horizon Vista, Commercial 10,
Scheme No. 5, Block-4, Clifton, Karachi.
Tel: (+92-21) 35361215-19, (+92-21) 35839917
Fax: +9221-35361213

Website

www.pakbrunei.com.pk

vision

Pak Brunei will play a role in the economic progress and development of Pakistan by providing an entire range of advisory services as well as financial support to viable projects in high growth sectors of the economy.

mission

Pak Brunei aims to be at the vanguard of innovation in Merchant Banking, offering the best solutions to our clients, value to our shareholders and a challenging, equal-opportunity environment to our employers.

core values

Integrity

Be honest, professional and fair in all our dealings with all our stakeholders

Innovation

Look beyond conventional wisdom

Performance

Be result oriented and establish a competitive environment

Team work

Have shared goals and objectives

Customer Focus

Understand our customers' needs and try to exceed expectations

Advisory and Strategic Investment Group

ASIG

ASIG develops and maintains long-term strategic advisory relationships with target customers on an ongoing basis. Our relationships are based on shared goals and objectives and go far beyond conventional investment banking services.

Some of the Group's activities include:

Identifying opportunities and providing advice on strategic plans and capital structure. Wherever relevant, we co-invest in viable projects and companies.

Underwriting new debt and equity issues as appropriate and arranging syndicate financing where required.

Promoting higher corporate governance standards in target companies by ensuring control through board positions and third party monitoring.

Implementing new strategic initiatives including establishing subsidiaries and specialized vehicles.

Our advisory team has a multitude of skills and is able to provide assistance across each step of the transaction process, supporting existing, green-field or units in distress -- with the objective of capitalizing on hidden value. Pak Brunei is a financial solution provider for projects that are unable to access conventional sources of capital.

ASIG has a proven track record in management buyout, acquisition finance, project finance, divestment advisory and balance sheet re-profiling. The Group has also been involved in developing a strategic investment portfolio through targeting distressed assets which have turnaround potential.

Since inception in 2007, syndicated finance mandates in excess of Rs.35 billion have been successfully closed. These include both debt and equity arrangement, as lead and joint arranger.

Corporate and SME Group

CSG

CSG offers a range of products and services to meet the demands of our Corporate and SME customers through long and short-term finance facilities, lease financing, SBLC and repayment guarantees.

CSG follows a more cautious approach in building advances portfolio and also maximizes use of LTFF-EOP line from SBP for long-term financing to export-oriented projects. Some of the Group's activities include:

- Funding projects in preferred sectors by providing short and medium term financing.
- Building a high-quality long-term advances portfolio including loans, leases and marketable debt instruments to meet the requirements of target companies.

In 2012, new corporate clients in pharmaceutical, steel, textile, energy, sugar, food and engineering sectors were added to our growing portfolio. The SME division was added to the corporate banking group in 2012. Started to fill the void left by a shrinking leasing industry, the objective is to become a market leader in this segment. SME exposures already booked are in packaging, entertainment and transportation sectors. Projects in the pipeline include stone crushing, marble export, medical care and cotton ginning units.

Treasury Group

Treasury trades in fixed income securities and is responsible for maintaining optimal levels of liquidity. Strong distribution abilities help to sell down credit exposures to manage risk.

Our corporate trading desk is fully involved in developing debt capital markets. The Group invests in government and corporate debt instruments and makes use of arbitrage opportunities to turn our investment positions into meaningful gains.

Key activities include:

- Developing debt market through investment, distribution and market making for corporate bond / sukuk and commercial paper issues.
- Sourcing short and medium term funds to fulfill internal liquidity requirements.
- Supporting ASIG transactions.
- Managing liquidity and duration through sale / securitization of marketable debt instruments.

Treasury safeguards our balance sheet from adverse interest rate movements in addition to generating high returns by capitalizing on interest rate volatility.

The Company is the designated market marker for specific TFC issues, and also markets instruments structured by ASIG. In addition, Treasury generates activity in assets available at deep discounts or default category bonds that have revival / upside potential.

Capital Markets Group (CMG)

CMG follows a disciplined approach in trading/investment in equity markets within conservative portfolio limits; the Group has regularly outperformed benchmark returns while maintaining exposure to a limited universe of securities. The objective is to preserve capital, while earning adequate risk adjusted returns.

Key activities include:

- Managing long-term equity investment portfolio to earn high-risk adjusted dividend and capital gains.
- Identifying and timing the market to generate maximum returns.
- Supporting ASIG transactions in capital markets.

CMG's investment exposure remains well controlled with an emphasis on dividend yielding stocks. The portfolio is also diversified across sectors. Constant monitoring ensures risks are identified and highlighted. With a highly qualified team and a tilt towards technical trading strategies, reliance on outside sources of information is minimal.

Trustee / Agency Services

Trustee / Agency department improves vigilance over transactions that have achieved financial close. Thereafter, all transactions originated by ASIG are taken over by this department. This ensures that PBIC remains fully involved in monitoring operational and financial performance of the borrower whether it is for the Company's own exposure or on behalf of all financers in syndicated transactions.

All covenants, particularly cash collection mechanisms, are diligently monitored. This ensures that problems are identified and resolved. Over a very short period, the department has been assigned new mandates by other financial institutions due to its professional and transparent service delivery.

Our Cultural Framework

The cultural framework of any organization defines a company's vision and the guidelines it has established to achieve that vision. Our organizational culture is apparent through a number of indicators:

A Professional Well-Balanced Team

Pak Brunei has a highly qualified team of professionals from foreign and local banks, rating agencies, regulatory bodies, audit firms and brokerage houses. Our team consists of experienced and motivated professionals including MBAs, CAs, CFAs, FRMs, and civil and mechanical engineers. To ensure employee retention, engagement and satisfaction, the Company boasts of a performance oriented, merit based environment. To help employees achieve their career aspirations, appropriate training opportunities are provided in each area and supervisors are rated on the training hours their team members utilized during the year.

Strong Control Environment

PACRA and JCR VIS, our external rating agencies, have rated Pak Brunei higher than peer group companies that began operations at the same time. The Company attained this position due to its strong systems and controls; Risk, Compliance, Audit and IT, together with the strength of our management team.

Equal Opportunity Environment

Pak Brunei Investment Company is an equal opportunity organization and welcomes people from all backgrounds irrespective of class, gender and ethnicity. The Company prides itself on the cultural diversity and gender mix of its workforce. In an environment that encourages healthy competition and fair practices above all other considerations, the Company has consistently surpassed qualitative as well as quantitative performance targets since commencement of operations in 2007.

Code of Ethics and Business Practices

Pak Brunei seeks to maintain high standards of service and ethics enabling it to be perceived as impartial, ethical and independent. In addition to the general guidelines, the following are the salient features of the Company's code of ethics and business practices.

Integrity

Employees shall:

Perform our work with honestly, diligence and responsibility;

Not knowingly be a party to any illegal activity or engage in any acts that are discreditable to the Company;

Not participate in any activity or relationship that may impair or be presumed to impair our unbiased assessment. This participation includes those activities or relationships that may be in conflict with the Interests of the Company;

Not accept any gift or consideration that may impair or be presumed to impair our professional judgment;

Exercise maximum caution in making sure that information given to customers is free of errors, making it as truthful and honest as can be.

Objectivity

Employees shall:

Ensure that all operational activities and decision making processes focus on achievements of the Company's objectives and are in line with the mission statement of the Company;

Disclose all material facts known to us if not disclosed, may distort the reporting of business proposal under review.

Confidential and Proprietary Information

Employees shall:

Protect against the disclosure of sensitive and confidential information about our customers and employees unless disclosure is authorized and within law;

Safeguard against the disclosure of sensitive and confidential information about our fellow employee and the Company as a whole unless authorized to do so.

Improper Influence

Employees shall:

Strictly prohibit from giving, soliciting or accepting business courtesies or gifts intended to influence business decision;

Make all business decisions on the merit of the transaction and in compliance with any legal and regulatory requirements.

Unfair Business Practices

Employees shall:

Refrain from unfair and deceptive business practices e.g., unauthorized and counterproductive use of the Company's resources, the misuse of proprietary information or the misrepresentation and concealment of material facts.

Insider Trading

Employees shall:

Prohibit from disclosing "Inside Information" to others or use for our own benefits;

Abide by the "Insider trading" laws that prohibit from buying and selling stock with advance knowledge of important Company information that is unavailable to the general public. Such Information may include proposed mergers or acquisitions, new equity or debt offering.

Recording and Reporting of the Company

Employees shall:

Ensure that all business related information/transaction are recorded and reported accurately, honestly and in a timely manner. Accuracy of all Company records extends to financial statement, loan documents, regulatory bodies and other government agencies;

Ensure that no funds or accounts should be established for a purpose that is not fully reflected in the books and records of Pak Brunei whether pertaining to receipts or disbursements.

Compliance with Laws, Rules and Regulations

Employees shall:

Comply with all applicable laws, rules and regulations.

Protectoin and Proper use of Company Assets

Employees shall:

Ensure that all the Company's assets are used for authorized and legitimate business purposes;

Protect the Company's assets e.g., computer equipment and software, intellectual property, etc., and ensure that those assets are efficiently and properly used in respect of all Company related activities.

The Beginning

Formed in collaboration between Government of Pakistan and the Brunei Investment Agency, Pak Brunei Investment Company started operations in August 2007. The Company is a vibrant, market-oriented institution serving a variety of industrial sectors through a wide range of services.

Pak Brunei's objective is to be a leading commercial entity with a high-risk absorption capacity, offering innovative financial solutions. We specialize in project and structured finance, corporate finance and advisory services, strategic investments, trust services, capital market operations and fixed income trading, as well as distribution activities. We aspire to facilitate change in the economic and financial landscape of the country, particularly in segments with limited access to capital.

Through the years, the Company has been successful in establishing its credentials and developing a reputation for being a one-stop solution provider, particularly for projects in or near distress.

In addition to conventional financing, particularly for projects that are export-oriented or result in import substitution, Pak Brunei has successfully structured and financed transactions involving revival of sick units, managing buy-outs and financing green-field projects.

In 2011, Pak Brunei established its wholly-owned asset management subsidiary, Primus Investment Management Limited. In line with our long-term development goals, we set up a separate department for SME financing in 2012. We also plan on establishing specialized vehicles for private equity and venture capital.

Management Profiles

Khairuddin bin Abd Hamid

Mr. Khairuddin bin Abd Hamid, the acting Managing Director of Brunei Investment Agency, is the Chairman of the Board of Directors of Pak Brunei Investment Company.

Mr Khairuddin has served as head of department / deputy general manager for the Agency External Fund Management, and as the investment officer for BIA UK operations.

Mr. Hamid gained his BA (Hons) in management studies from the University Brunei Darussalam and a diploma in social sciences from the University of Canterbury (UK). He has also taken part in advance management programmes at the Henley Business School, University of Reading (UK).

Mohammad Younus Dagha

Mohammad Younus Dagha, member of the Board of Directors at Pak Brunei Investment Company, is the Additional Secretary External Finance, Ministry of Finance. Prior to that, Mr. Dagha was a Special Assistant to the Finance Minister, Government of Pakistan. His areas of expertise involve finance, investment, mining, energy and media management.

Mr. Dagha has also served as Secretary, Coal and Energy and Managing Director at the Thar Coal and Energy Board. His earlier roles, amongst others, involved working as Secretary, Sindh Board of Investment, Secretary Information, Project Director at the National Programme for Improvement of Watercourses, Director General at the Environmental Protection Agency and Deputy Commissioner in various districts in the country.

Mr. Dagha acquired his Masters degree in Economics and a Bachelors of Law from the University of Karachi. He also completed his MBA from the Institute of Business Administration in Karachi, and was doing his ACMA in the Institute of Cost and Management Accountants in Pakistan, before joining the Civil Services.

Junaidi bin Haji Masri

Junaidi bin Haji Masri serves as a director of the Pak Brunei Investment Company. Mr. Masri joined the Brunei Investment Agency in 1991. As senior assistant managing director, he heads the alternative investments -- managing the agency's investments across several countries.

He has a thorough understanding of international markets and asset classes. Serving on the board of directors of a number of companies, both in and outside Brunei Darussalam, Mr. Masri brings an international perspective to the company. Mr. Marsi holds a B.Sc degree in computer and management sciences from Keele University (UK).

Ayesha Aziz

Ms. Aziz was responsible for setting up Pak Brunei Investment Company and succeeded in positioning it at the forefront amongst its larger and more established peers, in terms of size and profitability.

Ms. Aziz has rich and diverse experience in investment banking including project finance, asset management, corporate finance advisory and treasury operations. She was associated with the ANZ Banking Group for over ten years where, amongst other assignments, she worked on the Financial Engineering desk in ANZ London. Subsequently, Ms. Aziz was involved in establishing and managing business operations and subsidiaries of Pak Oman Investment Company, including a microfinance bank and an asset management company, where she acted as a member on the board and CEO, respectively. She was also responsible for developing a regional investor base comprising private and public sector institutions, successfully raising equity for telecom, energy and financial sector transactions in Pakistan.

Ms. Aziz has an MBA degree from the Institute of Business Administration and is a CFA Charter holder.

Timeline of Cale ndar of Events

	2007	2008	2009	2010	2011	2012
Events	Company started operations in September 2007		Platform for turnaround financing established		1st subsidiary Primus Investment Management Limited (Primus) commences operations	Primus launches its first fund Platform for SME financing launched
Milestones Achieved	First Business Plan approved Core team inducted Operational Platform established	Team recruitment completed ASIG, Treasury, CBG and CMG turn in excellent first year performance Mandated transactions amounting to ~ PKR 9.0 bln completed	Systems & controls strengthened ASIG arranges financing of PKR 10.5 bln Treasury turnover in fixed income reaches PKR 13.2 bln Credit rating remains higher than peers	Platform for turnaround financing strengthened. Revival projects taken on Risk sold down through active distribution desk total fixed income turnover exceeding PKR 29.0 bln Window for default rated bonds opened Credit rating remains higher than peers	Successful closure of transactions involving revival of sick units, Management Buyout and green-field project finance total volume PKR 4 bln Turnover on Fixed income Treasury book exceeding PKR 127.0 bln. One of the most active market participant in corporate bond market.	Hybrid debt and equity deals completed including equity linked debt structures and preference issues. Private Equity arranged for companies in stress including an auto vendor and a poultry feed mill amongst others.
Key Financial Indicators						
ROE	4.49%	5.28%	7.72%	8.52%	7.91%	9.50%
EPS (PKR)	0.75	0.52	0.89	0.98	1.01	1.31
PBT (PKR '000)	186,541	373,465	667,174	881,658	919,579	1,075,842

Khairuddin bin
Abd Hamid
Chairman

Chairman's Review

I am pleased to present Pak Brunei Investment Company's results for 2012 that reflect our focus on sustainable corporate growth. The Company's strong performance record, since inception in 2007, is the result of a culture that promotes innovation, decision making and risk ownership. Equal importance is placed on accurate measurement of risk and regulatory compliance to ensure that financial performance is supported by strong controls. The Company enjoys a leadership position amongst its larger and older peers and has a clear road map for future positioning.

Despite some positive developments, 2012 remained a challenging year for Pakistan's economy. Pak Brunei remained pro-active in managing its credit portfolio, selling down exposures where appropriate to make full use of market arbitrages. Despite a strategy that leans towards higher risk taking through revival financing of distress units, the Company maintained its record of the highest recovery ratios, while recording a significant increase in profitability.

There were some set backs towards the end of the year relating to constitution of the Board of Directors. The issue was eventually resolved, and while there was a slowdown in business activity in the last two months of the year, strong momentum helped the Company surpass its annual targets with a comfortable margin. During this year, the Company broadened its corporate domain through its wholly owned subsidiary, Primus Investment Management Limited. Two open-end funds were successfully launched in 2012 by Primus while other innovative investment solutions are also planned to reach out to a broader investor base and complement the product offering of its parent. Another milestone achieved by Pak Brunei in 2012 was establishment of its SME financing division. This carefully planned initiative will help us reach out to a fund-starved sector of the economy, as part of the Company's commitment towards uplifting Pakistan's development profile.

On the economic front, Pakistan's fiscal position remained under stress due to lack of resource mobilization. In addition, tax to GDP ratio remains weak and a significant portion of the economy is still un-documented. Growing expenditure requirements forced the government to resort to increased borrowing resulting in fragile fiscal-monetary coordination. Pakistan posted an alarming deficit to GDP ratio of 8.5% compared to 6.6% in the previous fiscal year, whereas public investment to GDP ratio remained at 3% in both successive years indicating inadequate financing for infrastructure development in the country.

The external sector is another area that continues to face challenges. Pakistan's current account balance posted a surplus of 0.1% of GDP in FY11, turning into a deficit of 2.0% in FY12. The trade gap is continuously widening and stood close to 7% of GDP in FY12 compared to 5% in FY11. This led to 4% depreciation in exchange rates between the years under review, and 30% year-on-year decline in SBP's holding of foreign exchange reserves. Such a situation may eventually result in greater reliance on international funding, with a high probability that Pakistan will resort to another IMF Standby Arrangement (SBA) program in 2013.

As regards energy shortages, long term corrective measures remain elusive. Structural reforms are needed to end the continuing menace of circular debt that threatens the entire system.

On a more positive note, headline inflation declined from 13.7% in FY11 to 11% in FY12 and justified the decrease of 200 bps in policy rate during the year. For the first eight months of FY13, average inflation clocked in at 8% but remains vulnerable due to the dependence on raw material and food imports.

Another positive development relates to performance of capital markets. The uptick in KSE-100 index that began in January2012 carried the market up to 16,905 points, posting 49% return in 2012. Unlike 2008, absence of leveraged buying in the market also helped reduce downside risk.

Overriding all other factors, law and order situation in the country remains a serious concern and it is hoped a coherent strategy will be implemented to counter this threat.

We realize that maintaining momentum will be challenging, particularly as the Company remained inactive till resolution of shareholder issues in 2013. Nevertheless, we remain confident that its core strengths will help the Company achieve many new milestones. The Company's entry into asset management and SME / leasing should enhance its footprint in chosen markets. Future objectives include strengthening our role in the area of revival financing, where returns are also commensurate with higher risk.

We remain committed to Pakistan's long-term development. Pak Brunei's dynamic team is well positioned to meet that objective while identifying and making use of the many opportunities available in the market.

Khairuddin bin Abd Hamid
Chairman

May 9, 2013

Ayesha Aziz
Managing Director

Directors' Report

On behalf of the Board of Directors, I am pleased to present the audited financial results of Pak Brunei Investment Company Limited for the year ended December 31, 2012.

Entering its sixth year of operations, Pak Brunei has acquired a hard won reputation for being one of the most dynamic investment banking institutions in the country. Our success markers include sustained profitability, quality asset-holdings, vigorous risk controls and a highly qualified team of professionals. Under the guidance of the Board of Directors, the institution has achieved yet another year of strong performance from core activities.

Selected Financial Indicators

		2007*	2008	2009	2010	2011	2012
Total Assets	PKR million	4,362	5,529	12,131	14,369	32,544	14,046
Net Assets	PKR million	3,136	5,281	6,306	7,343	7,928	8,581
Mark up income	PKR million	178	672	971	1,698	2,395	2,912
Non mark up income	PKR million	67	86	254	212	284	406
Profit before tax	PKR million	187	373	667	882	920	1,076
Profit after tax	PKR million	141	222	447	581	604	784
Earning per share	PKR	0.75	0.52	0.89	0.98	1.01	1.31
Return on assets	-	3.2%	4.5%	5.1%	4.4%	2.6%	3.4%
Return on equity	-	4.5%	5.3%	7.7%	8.5%	7.9%	9.5%

* four months of operations

Financial Highlights

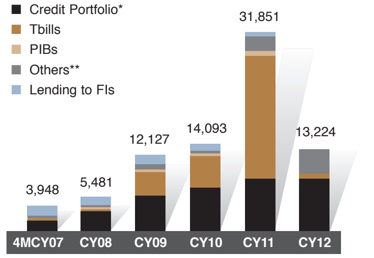
	2012 PKR in '000	2011 PKR in '000
Net Markup Income	871,187	838,596
Non-markup income	406,286	284,325
Fee, Commission and Brokerage Income	36,425	68,658
Dividend Income	178,196	95,903
Capital Gains	190,412	132,702
Other Income/unrealized loss	1,253	(12,938)
Profit before Taxation	**1,075,842**	**919,579**
Profit after Taxation	**783,758**	**604,107**
EPS	1.31	1.01

The primary focus in 2012 remained build-up of core credit portfolio in selected sectors and niches. Considering our basic objectives, we increasingly serve customers who are close to financial distress and provide advice along with financing to revive / expand operations. It was a source of great satisfaction to see customers inch closer to their true potential as was the fact that repayment history in this niche remained excellent. The model fits well with our higher risk appetite and strong structuring ability. Moreover, appropriate risk pricing continued to keep our spreads healthy.

During the year, we were able to time the market well and our opportunistic entry and exit from money markets provided us windfall gains. The trading and distribution desk has always been of key importance to the Company as it helps to generate additional buffer for external shocks. As in the past, the lion's share in total capital gains booked by the Company originated from our fixed income portfolio where we also remained an active market maker for corporate debt instruments. We closed the year with a 43% increase in non-markup income that eventually translated into a 30% increase in Pak Brunei's after tax profits.

Asset Mix

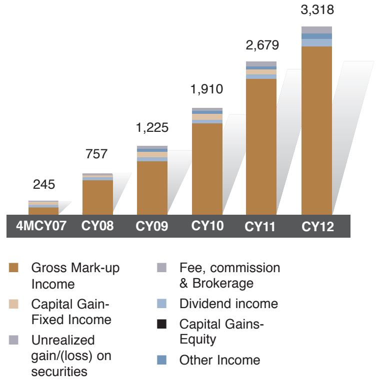
Figures in PKR million
Cumulative base given above each bar



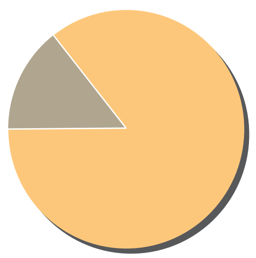
* Inculding Advances and Corporate Debt Instruments
** Inculding Investment in Shares, Mutual Funds and Balances with Other Banks

Income Mix

Figures in PKR million
Cumulative income given above each bar

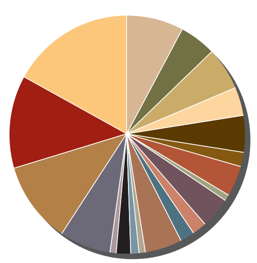


Transactions of Advisory & Strategic Investments Group
Since inception (PKR 34.9 billion)



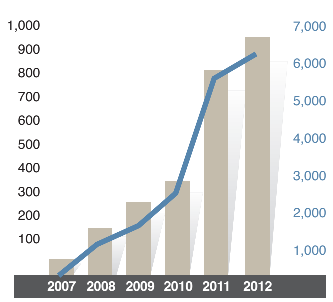
- Own participation - PKR 4.7 billion
- Finances arranged from other institutions - PKR 30.2 billion

Corporate Banking Group Portfolio
As on Dec, 31, 2012



Food	8%	Steel	2%
Electronics	5%	Telecom	5%
Pharma	6%	Engineering	1%
Chemicals	4%	Packaging	1%
Cement	5%	Oil & Gas	2%
Real Estate	2%	Hotel	1%
Transport	4%	Fertilizer	7%
Entertainment	1%	Energy	11%
Poultry Feed	4%	Sugar	13%
Paper & Board	2%	Textile	17%

CBG Portolio & Income
Figures in PKR million



CBG Porfolio (RHS) CBG Income (LHS)

ADVISORY AND STRATEGIC INVESTMENTS GROUP (ASIG)

ASIG's corporate philosophy is geared towards picking high risk-reward transactions that also have a development aspect. The role involves unlocking value in cases that are suffering from financial or administrative distress and requires going beyond conventional investment banking. The aim is to be a financial solution provider, particularly for companies that are relatively smaller in size and lack access to specialized skills. Spread across different sectors, ASIG has multiple turnaround stories to its credit that have involved capital injection, strategic advice as well as streamlining governance structure. This has helped us diversify our exposure beyond traditional and overleveraged sectors and we have almost completely missed the bus of large syndicated corporate loan defaults that hit the banking sector in 2012.

CORPORATE & SME GROUP (CSG)

CSG continued its practice of cautiously building its core asset portfolio of high-quality advances. These defensive assets provide an ultimate hedge against risk assets booked through ASIG.

Over the course of the year, we strengthened existing relationships that include a large range of companies encompassing a wide risk profile. In 2012, lease financing to the SME sector was also added to the Group's product offering and we hope this will be a major catalyst for future growth.

Pak Brunei is also a Participating Financing Institution (PFI) for financing export-oriented projects under the SBP scheme.

TREASURY AND FUND MANAGEMENT

Pak Brunei places a high priority on balance sheet management. During the year, Treasury played a pivotal role in liquidity management and helped us accumulate attractive investment returns through accurate forecasting and trading decisions. Treasury also worked hard to extend the tenor of borrowed funds, successfully narrowing asset-liability gaps. We remained active participants in debt and money markets, with cumulative trading turnover in fixed income instruments exceeding PKR 115 billion over the past two years. Another key area is corporate deposit mobilization, which also registered a significant increase during the year. We are confident that if approved by the State Bank, Pak Brunei can play an active and positive role as a Primary Dealer and plan to apply for the same in 2013.

CAPITAL MARKETS GROUP (CMG)

2012 was a highly profitable year for equity markets. After declining by 5.6% on year-on-year basis in 2011, KSE-100 index witnessed a return of 49% in 2012. Even in USD terms, KSE-100 (up 37%) outperformed most regional and global markets.

Our primary objective has never been to outperform the broader market index. CMG's investment strategy revolves around capital preservation, while making adequate risk adjusted returns on investment. Our universe of shares is tightly monitored on the basis of volatility/earnings at risk. Nonetheless, CMG took full advantage of a rising market, exploited opportunities wherever possible and posted an attractive return of 30% in 2012, the highest in the last three years. Simultaneously, CMG continued to keep its core exposure in defensive and high-dividend yielding stocks for a consistent stream of income. Average portfolio size remained modest at PKR 330 mln.

STRATEGIC INITIATIVES

Primus Investment Management Limited (PIML)

Established in 2011, our wholly-owned subsidiary, Primus Investment Management Limited (PIML), became fully functional in 2012. PIML launched its first fund in August followed closely by a second launch in December carrying a new benchmark for management fee in the market. A number of funds ranging from shariah compliant investment solutions to alternative asset classes are at approval stage.

In the fund management sphere, our advantage lies in a dynamic parent-subsidiary relationship. Instead of running in isolation, PIML makes full use of synergies that exist between a merchant banking outfit and an asset management company. Our future plans also include leveraging, on arms length basis, PIML's corporate and retail network to market securitized assets.

Small and Medium Enterprise (SME) Financing

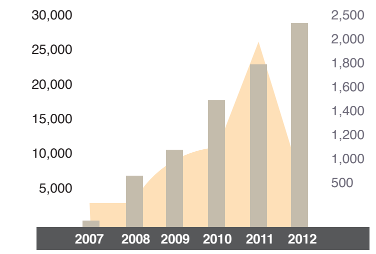
In an economy where SMEs constitute close to 30% of GDP and employ over 75% of the non-farm labor force, funding to the SME sector is critical. In 2012, we achieved yet another milestone in this area. In line with our long-term development goals, Pak Brunei successfully set up an SME financing department under the Corporate Banking Group.

We understand that success in this area requires going beyond a traditional banking mindset. CBG was therefore strengthened to include resources with adequate experience in SME financing. Our start is through provision of leasing services since this is an important and affordable alternative to traditional loans in a large, untapped market.

RISK MANAGEMENT

Risk management and controls have been substantially strengthened to safeguard the Company's interests in a volatile environment. We monitor credit, market and operational risks on a company-wide basis across all product classes. During the year, the Company went through two months of slow down in business activity while the Managing Director was out of office. However, strong operational risk framework in place ensured the Company suffered minimal financial or reputational loss during this period.

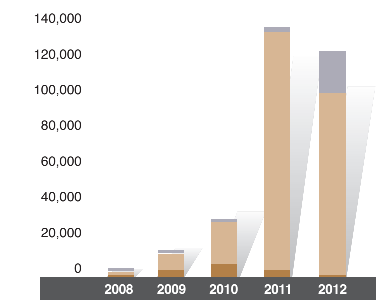
Treasury Portfolio & Income
Figures in PKR million



Treasury Portfolio (LHS)* Treasury Income (RHS)

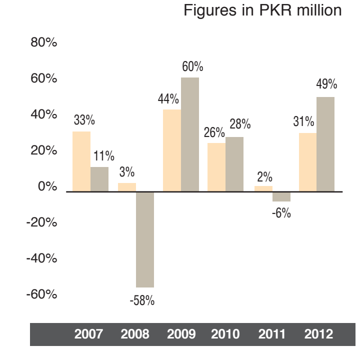
* Treasury Portfolio includes T-Bills, TFCs, PIBs, Bank Balance and Lending to FIs

Trading Turnover in Fixed Income
Figures in PKR million



TFCs T-Bills PIBs

Return on Equity Investment vs. Market Return
Figures in PKR million



CMG Return on Investments KSE-100 Return

We have also continued to improve our systems, focusing on refining internal risk assessment models and streamlining risk reporting. A major achievement involved developing the SME rating model to cater to the Company’s expansion plans in this sector.

ENTITY RATING

During a rating review process in 2012, PACRA assigned ‘AA’ long-term rating to Pak Brunei with a positive outlook. The AA rating signifies a very high credit quality and a very low expectation of credit risk, indicating a very strong capacity of timely payment of financial commitments. JCR-VIS assigned ‘AA+’ long-term rating to Pak Brunei. The AA+ rating signals high credit quality. Risk is modest but may vary slightly from time to time as a result of economic situations. Both ratings demonstrate the Company's strong financial health.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The Directors declare that:

- Financial statements prepared by Pak Brunei Investment Company's management present the state of affairs fairly. These include the results of its operations, cash flows and statement of changes in equity
- Proper books of accounts of Pak Brunei are maintained
- Appropriate accounting policies are consistently applied in preparing financial statements, and accounting estimates are based on reasonable and prudent judgment
- International Financial Reporting Standards, as applicable in Pakistan, are followed when preparing financial statements. Any deviations from these standards should be disclosed and explained
- The internal control system is sound in design and is effectively implemented and monitored
- There are no doubts about Pak Brunei’s ability to continue as a going concern
- There be no deviation from best practices highlighted in the Code of Corporate Governance except as disclosed in the Statement of Compliance with the Code of Corporate Governance
- No statutory payments on account of taxes, duties, levies, and charges are outstanding as of December 31, 2012 except as disclosed in the financial statements

The Board of Directors of the Company held three meetings during the year ended December 31, 2012.

The following directors attended the meetings:

Name	Meetings Attended
Hjh Hartini binti Haji Abdullah	3
Ms. Sumaira K. Aslam	3
Mr. Junaidi bin Haji Masri	3
Ms. Ayesha Aziz, CFA	3
Mr. Abdul Razak Su – Alternate Director	3

The Audit Committee of Board held two meetings during the year ended December 31, 2012.

Name	Meetings Attended
Hjh Hartini binti Haji Abdullah	2
Ms. Sumaira K. Aslam	2
Mr. Junaidi bin Haji Masri	2
Mr. Abdul Razak Su – Alternate Director	2

The HR Committee of Board held one meeting during the year ended December 31, 2012.

The following members attended the meetings:

Name	Meetings Attended
Mr. Junaidi bin Haji Masri	1
Ms. Sumaira K. Aslam	1
Ms. Ayesha Aziz, CFA	1

CHANGE IN DIRECTORS

There has been a change in the Board of Directors of the Company during the year ended December 31, 2012. Brunei Investment Agency (BIA) has nominated Mr. Khairuddin Abdul Hamid as the Chairman, replacing Hjh Hartini binti Haji Abdullah.

STATEMENT OF INVESTMENT OF PROVIDENT FUND

Investments of provident fund as of June 30, 2012 according to audited financial statements amounted to PKR 28.410 million (2011: PKR 19.245 million).

APPOINTMENT OF AUDITORS

The Board on the proposal of the Audit Committee recommends the appointment of M/s. Ernst & Young, Ford, Rhodes, Sidat Hyder, Chartered Accountants as statutory auditors for 2013.

PATTERN OF SHAREHOLDING

Shareholder	Shareholding (%)
Ministry of Finance – Govt. of Pakistan	49.99933%
Brunei Investment Agency	50.00000%
Secretary, Economic Affairs Division-Govt. of Pakistan	0.00067%

ACKNOWLEDGEMENTS

We are hopeful that the Company, with its sovereign shareholders, dynamic Board of Directors, professional Management team and a culture that fosters merit and fair play has a bright and exciting future in Pakistan. The support and encouragement of our shareholders and regulators will remain pivotal for achieving the objectives for which this Company was established.

Ayesha Aziz
Managing Director

May 9, 2013

6 Years Performance at a Glance

(Rupees in '000)

		2012	2011	2010	2009	2008	2007*
Balance Sheet							
Lendings to financial institutions		–	627,841	1,222,727	1,507,910	1,519,299	1,464,299
Investments		7,121,490	25,741,246	9,868,363	8,415,996	2,687,585	1,956,095
Advances		5,776,014	4,646,661	2,467,643	1,732,493	1,062,744	254,444
Borrowings		2,417,139	23,359,531	5,943,385	5,296,808	186,154	1,150,000
Deposits and other accounts		2,824,924	979,018	844,000	395,000	–	–
Total Assets		14,045,611	32,544,390	14,368,611	12,130,979	5,528,893	4,362,474
Net Assets		8,580,535	7,927,546	7,342,559	6,305,979	5,281,160	3,136,278
Paid up Capital		6,000,000	6,000,000	6,000,000	5,000,000	5,000,000	3,000,000
Profit & Loss							
Mark up income		2,911,983	2,394,747	1,698,132	971,221	672,254	177,507
Mark up expense		2,044,815	1,469,277	777,987	207,450	131,801	630
Non mark up income		406,286	284,325	211,963	254,064	85,608	67,299
Non mark up expense		201,163	203,342	165,145	132,740	118,675	57,635
Gross income		3,318,269	2,679,072	1,910,095	1,225,285	757,862	244,806
Profit before provision and tax		1,071,823	1,006,453	963,002	885,092	507,386	186,541
Provisions		(4,019)	86,874	81,344	217,918	133,921	–
Profit before tax		1,075,842	919,579	881,658	667,174	373,465	186,541
Profit after tax		783,758	604,107	581,090	447,453	222,266	140,743
Investors information							
Profit before tax ratio	%	32.42%	34.32%	46.16%	54.45%	49.28%	76.20%
Gross spread ratio	%	29.75%	38.65%	54.19%	78.64%	80.39%	99.65%
Return on assets	%	3.36%	2.58%	4.39%	5.07%	4.49%	3.23%
Return on equity	%	9.50%	7.91%	8.52%	7.72%	5.28%	4.49%
Earning asset to total asset ratio	%	94.14%	97.03%	95.27%	97.67%	95.58%	90.34%
EPS (Earning per share)	PKR	1.31	1.01	0.98	0.89	0.52	0.75
Capital Adequacy Ratio (CAR)	%	59.76%	58.47%	84.61%	81.00%	138.00%	114.00%
Summary of cash flow statement							
Cash flow from operating activities		(11,783,984)	9,315,187	1,076,382	5,487,232	(1,218,859)	(852,802)
Cash flow from investing activities		11,618,161	(8,740,067)	(1,615,121)	(5,786,148)	(1,025,606)	(1,879,809)
Cash flow from financing activities		(200,000)	–	483,727	495,563	1,995,881	3,000,332
Cash & cash equivalent at the beginning of the year		735,892	160,772	215,784	19,137	267,721	–
Cash & cash equivalent at the end of the year		370,069	735,892	160,772	215,784	19,137	267,721

*four months of operations

ERNST & YOUNG

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Review Report to the Members on the Statement of Compliance with the Best Practices of the Code of Corporate Governance

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

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

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

Further, the Code requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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

We draw attention to the clauses 8, 16 and 17 of the Statement which describe the non-compliances with the requirements of the Code of Corporate Governance.

Our conclusion is not qualified in respect of the above.

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants
Audit Engagement Partner: Shabbir Yunus
Date: 09 May 2013
Karachi

Statement of Compliance with the Code of Corporate Governance

For The Year Ended December 31, 2012

This Statement is being presented to comply with the revised Code of Corporate Governance 2012 (the CCG) framed by the Securities and Exchange Commission of Pakistan, which was made applicable to the Company through regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan.

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

1. As per the joint venture arrangement between Government of Pakistan (GoP) and Government of Brunei, the Company's board of directors comprises of four directors and all directors are nominated by both the Governments. The Company encourages representation of non-executive directors on its board of directors (the board). At present the Board includes:

Category	Name/(s)	Particulars
Executive Directors	Ms. Ayesha Aziz	Government of Pakistan
Non-Executive Directors	Mr. Khairuddin Abdul Hamid	Government of Brunei
	Mr. Junaidi bin Haji Masri	Government of Brunei
	Mr. Mohammad Younus Dagha	Government of Pakistan

On March 06, 2013 GOP nominated Mr. Mohammad Younus Dagha in place of Ms. Sumaira K. Aslam.

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

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

4. No casual vacancy occurred on the board during the year. However, the Brunei Investment Agency (BIA) nominated Mr. Khairuddin Abdul Hamid on August 01, 2012 in place of Hjh Hartini binti Haji Abdullah. The Ministry of Finance, Government of Pakistan had nominated Mr. Shahnawaz Mahmood on October 09, 2012 as Director/Managing Director. The Board of Directors did not approve this appointment. Subsequently on March 16, 2013, the Ministry of Finance, Government of Pakistan accepted the resignation of Mr. Shahnawaz Mahmood and on April 17, 2013 confirmed that Ms. Ayesha Aziz would continue to serve as Managing Director/ Director until March 28, 2014.

5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

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

7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, and non-executive directors, have been taken by the board/shareholders.

8. The meetings of the board were presided over by the Chairperson and the board met three times during the year. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated. To approve the financial statements for the half year ended June 30, 2012, for period ended September 30, 2012 and for the year ended December 31, 2012, the Board meeting is held on May 09, 2013. Extension for the submission of the said financial statements has been approved by the SBP vide its letter No. OSED/FRDU/563/2013/5372 dated April 12, 2013.

9. Directors are conversant with the relevant laws applicable to the Company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities. The Directors have also discussed the revised Code of Corporate Governance 2012 requirements in the Board meeting. Pakistani directors completed Corporate Governance Leadership Skills (CGLS) program offered by the Pakistan Institute of Corporate Governance (PICG) in 2011.

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

11. In terms of the revised Code of Corporate Governance 2012, the Board is yet to ratify the remuneration and terms and conditions of employment of CFO, the Company Secretary and Head of Internal Audit which will be done in its upcoming meeting to approve the financial statements of the Company as referred to in 8 above.

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

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

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

15. The Board has formed an audit committee consisting of three non-executive directors, including the Chairman.

16. Two meetings of the audit committee were held for approval of December 31, 2011 and quarterly accounts for the period ended March 31, 2012. The terms of reference of the committee have been formed and advised to the committee for compliance. To review the financial statements for the half year ended June 30, 2012, period ended September 30, 2012 and for the year ended December 31, 2012, the Audit Committee meeting is held on May 09, 2013.

17. The board has formed an HR and Compensation Committee. It comprises of three members, of whom two are non-executive directors. The Chairman of the committee is a non-executive director. The Committee was formed in 2009 and has been performing its functions under the terms of reference approved by the Board. The amendments to the terms of reference including the responsibilities of HR and Compensation Committee as suggested by the revised Code will be approved by the Board in its upcoming meeting.

18. The board has set up an effective internal audit function who is considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

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

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

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

Ayesha Aziz
Managing Director

09 May 2013

Statement of Internal Control

For The Year Ended December 31, 2012

It is the responsibility of Company's management to:

- Establish and maintain an adequate and effective system of internal controls and procedures for an efficient working environment for obtaining desired objectives.

- Evaluate the effectiveness of the Company's internal control system that encompasses material matters by identifying control objective, reviewing significant policies and procedures and establishing relevant control procedures.

The control activities are being closely monitored across the Company through Audit Department, working independent of line management. In addition, Compliance Department is also in place to monitor control activities related to regulatory compliance. Internal Audit Department covers all activities in general and key risks areas in particular. The Audit Committee of the Board regularly reviews audit reports both internal and external where significant violations to the local regulations, prescribed policies and procedures have occurred. Regular follow up reporting upon the audit reports is done by Compliance Department to the Audit Committee which ensures timely implementations of audit/inspection reports to mitigate identified risks to safeguard the interest of the Company.

The Company's internal control system has been designed to provide reasonable assurance to the Company's management and Board of Directors. All internal control systems, no matter how well designed, have inherent limitations that they may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. However, control activities are ongoing process that includes identification, evaluation and management of significant risks faced by the Company.

In an effort to implement the Internal Control Guidelines as spelled out by the State Bank of Pakistan in BSD Circular No. 7 of 2004, "particularly with reference to Internal Control Over Financial Reporting (ICFR)" the Company is in the process of carrying out a detailed exercise through a well established firm of Chartered Accountants including documentation and benchmarking of existing processes and controls relating to financial reporting on internationally accepted standards. This project will help in further improving the quality of internal controls across the Company and in ensuring compliance with the SBP requirement for external auditors' attestation on Internal Control over Financial Reporting.

The Board of Directors is ultimately responsible for the internal control system and the Board endorses the above management evaluation.

For and on behalf of the Board

Ayesha Aziz
Managing Director

09 May 2013

ERNST & YOUNG

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Auditors' Report to the Members

We have audited the annexed unconsolidated statement of financial position of **Pak Brunei Investment Company Limited** (the Company) as at **31 December 2012** and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion:

  (i) the unconsolidated statement of financial position and unconsolidated profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 4.1 with which we concur;

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

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

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

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

The financial statements of the Company for the year ended 31 December 2011 were audited by another firm of Chartered Accountants whose report dated 28 March 2012 expressed an unqualified opinion thereon.

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants
Audit Engagement Partner: Shabbir Yunus
Date: 09 May 2013
Karachi

Unconsolidated

Statement of Financial Position

As at December 31, 2012

2012 (US $ in '000)	2011 (US $ in '000)		Note	2012 (Rupees in '000)	2011 (Rupees in '000)
		ASSETS			
565	1,804	Cash and balances with treasury banks	5	**54,755**	174,790
3,254	5,791	Balances with other banks	6	**315,314**	561,102
–	6,479	Lendings to financial institutions		**–**	627,841
73,495	265,646	Investments	7	**7,121,490**	25,741,246
59,608	47,953	Advances	8	**5,776,014**	4,646,661
562	352	Operating fixed assets	9	**54,476**	34,067
137	–	Deferred tax assets	10	**13,302**	–
7,330	7,830	Other assets	11	**710,260**	758,683
144,951	335,855			**14,045,611**	32,544,390
		LIABILITIES			
–	–	Bills payable		**–**	–
24,945	241,068	Borrowings	12	**2,417,139**	23,359,531
29,153	10,103	Deposits and other accounts	13	**2,824,924**	979,018
–	–	Sub-ordinated loans		**–**	–
–	–	Liabilities against assets subject to finance lease		**–**	–
–	2	Deferred tax liabilities	10	**–**	190
2,301	2,870	Other liabilities	14	**223,013**	278,105
56,399	254,043			**5,465,076**	24,616,844
88,552	81,812	**NET ASSETS**		**8,580,535**	7,927,546
		REPRESENTED BY			
61,920	61,920	Share capital	15	**6,000,000**	6,000,000
5,737	4,119	Reserves		**555,884**	399,132
20,883	16,476	Unappropriated profit		**2,023,533**	1,596,527
88,540	82,515			**8,579,417**	7,995,659
12	(703)	Surplus / (deficit) on revaluation of assets - net of tax	16	**1,118**	(68,113)
88,552	81,812			**8,580,535**	7,927,546
		CONTINGENCIES AND COMMITMENTS	17		

The annexed notes from 1 to 39 form an integral part of these unconsolidated financial statements.

Chief Executive **Director** **Director** **Chairman**

Unconsolidated

Profit and Loss Account

For the Year ended December 31, 2012

2012 (US $ in '000)	2011 (US $ in '000)		Note	2012 (Rupees in '000)	2011 (Rupees in '000)
30,051	24,714	Mark-up / return / interest earned	19	**2,911,983**	2,394,747
21,102	15,163	Mark-up / return / interest expensed	20	**2,044,815**	1,469,277
8,949	9,551	**Net mark-up / interest Income**		**867,168**	925,470
(187)	136	(Reversal) / provision against non-performing loans and advances	8.4	**(18,074)**	13,183
145	760	Provision for diminution in the value of investments	7.3	**14,055**	73,691
–	–	Bad debts written off directly		**–**	–
(42)	896			**(4,019)**	86,874
8,991	8,655	Net mark-up / interest income after provisions		**871,187**	838,596
		NON MARK-UP / INTEREST INCOME			
376	709	Fee, commission and brokerage income		**36,425**	68,658
1,839	990	Dividend income		**178,196**	95,903
–	–	Income from dealing in foreign currencies		**–**	–
1,965	1,369	Gain on sale of securities - net	21	**190,412**	132,702
–	(136)	Unrealised loss on revaluation of investments classified as held-for-trading		**–**	(13,200)
13	3	Other income	22	**1,253**	262
4,193	2,935	Total non mark-up / interest income		**406,286**	284,325
13,184	11,590			**1,277,473**	1,122,921
		NON MARK-UP / INTEREST EXPENSES			
2,037	2,096	Administrative expenses	23	**197,409**	203,103
39	–	Other provisions / write off	9.2.2	**3,754**	–
5	2	Other charges	24	**468**	239
2,081	2,098	Total non-mark-up / interest expenses		**201,631**	203,342
11,103	9,492			**1,075,842**	919,579
–	–	Extra ordinary / unusual items		**–**	–
11,103	9,492	**PROFIT BEFORE TAXATION**		**1,075,842**	919,579
3,342	3,669	Taxation - Current		**323,802**	355,528
(24)	85	- Prior years		**(2,283)**	8,193
(304)	(498)	- Deferred		**(29,435)**	(48,249)
3,014	3,256		25	**292,084**	315,472
8,089	6,236	**PROFIT AFTER TAXATION**		**783,758**	604,107
16,476	11,489	Unappropriated profit brought forward		**1,596,527**	1,113,241
24,565	17,725	Profit available for appropriation		**2,380,285**	1,717,348
US $				Rupees	
0.01	0.01	**Earnings per share - basic and diluted**	26	**1.31**	1.01

The annexed notes from 1 to 39 form an integral part of these unconsolidated financial statements.

Chief Executive **Director** **Director** **Chairman**

Unconsolidated

Statement Of Comprehensive Income

For the Year ended December 31, 2012

2012	2011		2012	2011
(US $ in '000)			(Rupees in '000)	
8,089	6,236	Profit after taxation for the year	**783,758**	604,107
–	–	Other comprehensive income	**–**	–
8,089	6,236	**Total comprehensive income for the year**	**783,758**	604,107

Surplus / (deficit) arising on revaluation of assets has been reported in accordance with the directives of the State Bank of Pakistan in a separate account below equity.

The annexed notes from 1 to 39 form an integral part of these unconsolidated financial statements.

Chief Executive **Director** **Director** **Chairman**

Unconsolidated

Cash Flow Statement

For the Year ended December 31, 2012

2012	2011		Note	2012	2011
(US $ in '000)				(Rupees in '000)	
		CASH FLOWS FROM OPERATING ACTIVITIES			
11,103	9,492	Profit before taxation		**1,075,842**	919,579
1,839	990	Less: Dividend income		**178,196**	95,903
9,264	8,502			**897,646**	823,676
		Adjustments for non-cash charges and other items			
146	78	Depreciation	23	**14,115**	7,544
11	17	Amortisation	23	**1,043**	1,633
(187)	136	(Reversal) / provision against non-performing loans and advances		**(18,074)**	13,183
145	760	Provision for diminution in the value of investments	7.3	**14,055**	73,691
39	–	Other provisions / write off	9.2.2	**3,754**	–
–	(1)	Gain on sale of property and equipment	22	**(5)**	(69)
–	136	Unrealised loss on revaluation of investments classified as held-for-trading		**–**	13,200
–	2	Unrealised loss on revaluation of interest rate swap contracts		**–**	239
154	1,128			**14,888**	109,421
9,418	9,630			**912,534**	933,097
		Decrease / (increase) in operating assets			
6,479	6,139	Lendings to financial institutions		**627,841**	594,886
74,055	(74,190)	Held-for-trading securities		**7,175,900**	(7,189,100)
(11,468)	(22,623)	Advances		**(1,111,279)**	(2,192,201)
1,222	(970)	Others assets (excluding current taxation)		**118,406**	(93,947)
70,288	(91,644)			**6,810,868**	(8,880,362)
		(Decrease) / increase in operating liabilities			
(216,124)	179,733	Borrowings		**(20,942,392)**	17,416,146
19,050	1,393	Deposits and other accounts		**1,845,906**	135,018
(569)	920	Other liabilities (excluding current taxation)		**(55,092)**	89,105
(197,643)	182,046			**(19,151,578)**	17,640,269
(117,937)	100,032			**(11,428,176)**	9,693,004
(3,668)	(3,899)	Income tax paid		**(355,407)**	(377,817)
(121,605)	96,133	Net cash (used in) / generated from operating activities		**(11,783,583)**	9,315,187
		CASH FLOWS FROM INVESTING ACTIVITIES			
149,710	(88,136)	Net investment in available-for-sale securities		**14,506,932**	(8,540,366)
(9)	(7)	Net investment in held-to-maturity securities		**(824)**	(654)
–	(2,580)	Investment in subsidiary		**–**	(250,000)
(30,868)	–	Investment in associates		**(2,991,134)**	–
1,466	755	Dividend income received		**142,102**	73,116
(406)	(245)	Investments in operating fixed assets		**(39,387)**	(23,744)
1	16	Sale proceeds from disposal of property and equipment		**71**	1,581
119,894	(90,197)	Net cash generated from / (used in) investing activities		**11,617,760**	(8,740,067)
		CASH FLOWS FROM FINANCING ACTIVITIES			
(2,064)	–	Dividend paid		**(200,000)**	–
(2,064)	–	Net cash used in financing activities		**(200,000)**	–
(3,775)	5,936	**(Decrease) / increase in cash and cash equivalents**		**(365,823)**	575,120
7,594	1,659	Cash and cash equivalents at the beginning of the year		**735,892**	160,772
3,819	7,595	Cash and cash equivalents at the end of the year	27	**370,069**	735,892

The annexed notes from 1 to 39 form an integral part of these unconsolidated financial statements.

Chief Executive **Director** **Director** **Chairman**

Statement of Changes in Equity

	Share capital	Statutory reserve	Unappropriated profit	Total
		(Rupees in '000)		
Balance as at January 01, 2011	6,000,000	278,311	1,113,241	7,391,552
Total comprehensive income for the year				
Profit after tax for the year ended December 31, 2011	–	–	604,107	604,107
Other comprehensive income	–	–	–	–
Total comprehensive income for the year ended December 31, 2011	–	–	604,107	604,107
Transfers				
Transfer to statutory reserve	–	120,821	(120,821)	–
Balance as at December 31, 2011	6,000,000	399,132	1,596,527	7,995,659
Total comprehensive income for the year				
Profit after tax for the year ended December 31, 2012	–	–	783,758	783,758
Other comprehensive income	–	–	–	–
Total comprehensive income for the year ended December 31, 2012	–	–	783,758	783,758
Transfers				
Transfer to statutory reserve	–	156,752	(156,752)	–
Transaction with owners recorded directly in equity during the year ended December 31, 2012				
Final cash dividend - December 31, 2011 declared subsequent to year end @ Re. 0.33 per share	–	–	(200,000)	(200,000)
Balance as at December 31, 2012	**6,000,000**	**555,884**	**2,023,533**	**8,579,417**

The annexed notes from 1 to 39 form an integral part of these unconsolidated financial statements.

Chief Executive	**Director**	**Director**	**Chairman**

Notes to the Financial Statements

1. STATUS AND NATURE OF BUSINESS

Pak Brunei Investment Company Limited (the Company) is incorporated as an un-listed public limited company under the Companies Ordinance, 1984. The State Bank of Pakistan (the SBP) granted the approval for commencement of business with effect from August 20, 2007. The Company is a joint venture between the Government of Pakistan and the Brunei Investment Agency. The Company's objective interalia includes making investments in the industrial and agro based industrial fields in Pakistan on commercial basis through carrying out of industrial and agro based industrial projects and making of their products in Pakistan and abroad and to undertake other feasible business and to establish and acquire companies to conduct various businesses. The registered office of the Company is situated at Horizon Vista, Plot No. Comm-10, Block No. 4, Scheme No. 5, Clifton, Karachi, Pakistan.

2. BASIS OF PRESENTATION

2.1 Basis of Measurement

These unconsolidated financial statements have been prepared under the historical cost convention except that certain investments have been stated at revalued amounts in accordance with the directives of the State Bank of Pakistan (SBP).

2.2 US Dollar equivalent

The US dollar amounts shown in the unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income and unconsolidated cash flow statement are stated as additional information solely for the convenience of readers. For this purpose of conversion to US Dollars, the rate of Rs. 96.90 to US Dollars has been used for both 2012 and 2011, as it was the prevalent rate as on December 31, 2012.

2.3 Separate financial statements

These unconsolidated financial statements represent the separate financial statements of the Company. The consolidated financial statements of the Company and its subsidiary company are presented separately.

3. STATEMENT OF COMPLIANCE

3.1 These unconsolidated 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 (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the provisions of and directives issued under the Companies Ordinance, 1984 and the directives issued by the State Bank of Pakistan. Wherever the requirements of the Companies Ordinance, 1984 or directives issued under the Companies Ordinance, 1984 and the State Bank of Pakistan differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives shall prevail.

3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for DFIs through BSD Circular Letter No. 11 dated September 11, 2002 till further instructions. Further, according to the notification of the SECP dated April 28, 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable to DFIs. Accordingly, the requirements of these standards have not been considered in the preparation of these unconsolidated financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

3.3 **Standards, interpretations and amendments to approved accounting standards that are not yet effective**

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

Standards or Interpretation	Effective date (annual periods beginning on or after)
IAS 1 - Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income	July 01, 2012
IAS 19 - Employee Benefits (Revised)	January 01, 2013
IAS 32 - Offsetting Financial Assets and Financial Liabilities - (Amendment)	January 01, 2014

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

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

The following new standards have been issued by the IASB, but have not yet been notified by the SECP for application in Pakistan.

Standards or Interpretation	IASB Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2015
IFRS 10 – Consolidated Financial Statements	January 01, 2013
IFRS 11 – Joint Arrangements	January 01, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13 – Fair Value Measurement	January 01, 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 New and amended standards and interpretations

The Company has adopted the following amendements to IFRSs which became effective during the current year:

IAS 12- Income Taxes-Recovery of Underlying Assets (Amendement)

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

4.2 Cash and cash equivalents

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

4.3 Revenue recognition

Mark-up / return / interest income on advances and investments is recognised on time proportion basis taking into account effective yield on the instrument except in case of advances and investments classified under the SBP's Prudential Regulations on which mark-up / return / interest is recognised on receipt basis.

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

Fee, commission and brokerage income and remuneration for trustee and advisory services are recognised at the time of performance of services.

Premium or discount on debt securities classified as "available-for-sale" and "held-to-maturity" securities is amortised using the effective interest method and taken to unconsolidated profit and loss account.

Gains and losses on disposal of investments are dealt with through profit and loss account in the year in which they arise.

Return on bank deposits is recognised on time proportion basis using the effective interest rates.

4.4 Advances

Advances are stated net of specific and general provisions. Specific provisions are made in accordance with the requirements of the Prudential Regulations issued by SBP and charged to the unconsolidated profit and loss account. These regulations prescribe an age based criteria (as supplemented by subjective evaluation of advances) for classification of non-performing loans and advances and computing provision / allowance thereagainst. Advances are written off where there are no realistic prospects of recovery.

Leases are classified as finance leases, when the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessee. A receivable is recognised at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. Finance lease receivables are included in advances to customers.

4.5 Investments

Investments other than those categorised as held-for-trading are initially recognised at fair value which includes transaction costs associated with the acquisition of investments. Investments classified as held-for-trading are initially recognised at fair value, and transaction costs are expensed in the unconsolidated profit and loss account. The Company has classified its investment portfolio into 'held-for-trading', 'held-to-maturity' and 'available-for-sale' portfolios as follows:

Held-for-trading
These are investments, which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealer's margin or are securities included in a portfolio in which a pattern of short-term profit taking exists and are to be sold within 90 days of acquisition. These are carried at market value, with the related surplus / deficit being taken to unconsolidated profit and loss account.

Held-to-maturity
These are securities with fixed or determinable payments and fixed maturity in respect of which the Company has the positive intent and ability to hold till maturity. These are carried at amortised cost using the effective interest rate method.

Available-for-sale
These are investments that do not fall under the 'held-for-trading' or 'held-to-maturity' categories. These are carried at market value with the 'surplus / deficit taken to surplus / deficit on revaluation of assets' account below equity. Provision for diminution in the value of investments in respect of unquoted shares is calculated with reference to break-up value. Provision for unquoted debt securities is calculated with reference to the time-based criteria as per the SBP's Prudential Regulations.

On derecognition or impairment in quoted available-for-sale investments, the cumulative gain or loss previously reported as 'surplus / (deficit) on revaluation of assets' below equity is included in the unconsolidated profit and loss account for the year.

Held-for-trading and quoted available-for-sale securities are marked to market with reference to ready quotes on Reuters page (PKRV) or the Stock Exchanges.

Unquoted equity securities are valued at the lower of cost and break-up value. The break-up value of these securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. A decline in the carrying value is charged to the unconsolidated profit and loss account. A subsequent increase in the carrying value, upto the cost of the investment, is credited to unconsolidated profit and loss account. Investments in other unquoted securities are valued at cost less impairment, if any.

The carrying values of investments are reviewed for impairment at each reporting date. Where any such indications exist that the carrying values exceed the estimated recoverable amounts, provision for impairment is made through the unconsolidated profit and loss account.

Investment in subsidiaries and associates
Investment in subsidiaries and associates are valued at cost less impairment, if any. A reversal of an impairment loss on subsidiaries and associates is recognised as it arises provided the increased carrying value does not exceed cost.

Gain or losses on disposal of investments in subsidiaries and associates is included in the profit and loss account.

4.6 Repurchase and resale agreements

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the unconsolidated financial statements and are measured in accordance with accounting policies for investment securities. The counterparty liability for amounts received under these agreements is included in borrowings. The difference between sale and repurchase price is treated as mark-up / return / interest expense and accrued over the life of the repo agreement using effective interest rate method.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the unconsolidated financial statements, as the Company does not obtain control over the securities. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up / return / interest income and accrued over the life of the reverse repo agreement using effective interest rate method.

4.7 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value using appropriate valuation techniques. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value of derivative instruments is taken to the unconsolidated profit and loss account.

4.8 Trade date accounting

All regular way purchases / sales of investment are recognised on the trade date, i.e. the date the Company commits to purchase / sell the investments. Regular way purchases or sales of investment require delivery of securities within time frame generally established by regulations or convention in market place.

4.9 Financial instruments

Financial assets and liabilities are recognised at the time when the Company becomes party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognised when obligation specific in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognised in the unconsolidated profit and loss account of the current period. The particular recognition and subsequent measurement method for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

4.10 Taxation

4.10.1 Current

The charge for current taxation is based on taxable income at the current rates of taxation after taking into account the tax credits and tax rebates available, if any. The charge for current tax also includes adjustments whenever considered necessary relating to prior year, arising from assessments framed during the year.

4.10.2 Deferred

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

The carrying amount of deferred income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

4.11 Operating fixed assets

4.11.1 Property and equipment

4.11.1.1 Owned assets

Operating fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to the unconsolidated profit and loss account using the straight line method at the rates stated in note 9.2. Depreciation is charged from the date when the asset is available for use and no depreciation is charged from the date when the asset is disposed off.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the unconsolidated profit and loss account during the financial period in which they are incurred.

Residual values and useful lives are reviewed at each reporting date and adjusted if the impact on depreciation is considered significant.

Gain / loss on sale or disposal of fixed assets is recognised in the unconsolidated profit and loss account.

4.11.1.2 Leased assets

Assets held under finance lease are accounted for by recording the assets and the related liability. These are recorded at lower of fair value and the present value of minimum lease payments at the inception of lease and are subsequently stated net of accumulated depreciation.

Financial charges are allocated over the period of lease term so as to provide a constant periodic rate of financial charge on the outstanding finance lease liability.

Depreciation is charged on leased assets on a basis similar to that of owned assets.

4.11.2 Intangibles

Intangible assets are stated at cost less accumulated amortisation and impairment losses, if any. Intangible assets are amortised using the straight line method at the rate stated in note 9.3. The residual values and useful life are reviewed and adjusted, if appropriate at each reporting date.

Amortisation on addition and deletion of intangible assets during the year is charged in proportion to the period of use.

4.11.3 Capital work-in-progress

Capital work-in-progress is stated at cost. These are transferred to specific assets as and when assets are available for use.

4.11.4 Impairment

The carrying values of operating fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, fixed assets are written down to their recoverable amounts.

The resulting impairment loss is taken to unconsolidated profit and loss account. Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the amount which would have been determined had there been no impairment. Reversal of impairment loss is recognised as income.

4.12 Provisions

Provision is made when the Company has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of amount can be made. Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimates.

4.13 Borrowings / deposits

a) Borrowings / deposits are recorded at the proceeds received.

b) The cost of borrowings / deposits is recognised as an expense in the period in which it is incurred. Any difference between the proceeds and the redemption value is recognised in the unconsolidated profit and loss account over the period of the borrowings / deposits using the effective interest method.

4.14 Offsetting

Financial assets and financial liabilities are only set off and the net amount is reported in the unconsolidated financial statements when there is a legally enforceable right to set off and the Company intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

4.15 Assets acquired in satisfaction of claims

The Company occasionally acquires assets in settlement of certain advances. These are stated at lower of the net realizable value of the related advances or the fair value of such assets.

4.16 Staff retirement benefits

4.16.1 Defined contribution plan

4.16.1.1 Staff provident fund

The Company operates a 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 basic salary.

4.16.1.2 Compensated absences

Compensated absences of employees are accounted for in the period in which these absences are earned. During the year, the Company has terminated its compensated absences policy. Accordingly, no provision in respect of compensated absences have been made in the current year financial statements.

4.17 Foreign currency translation

Foreign currency transactions are converted into Rupees by applying the exchange rate at the date of the respective transactions. Monetary assets and liabilities in foreign currencies are translated into Rupees at the rates of exchange prevailing at the reporting date. Exchange gains and losses are included in income.

The Company's unconsolidated financial statements are presented in Pak Rupees (Rs.) which is the Company's functional and presentation currency.

4.18 Dividend distribution

Dividend is recognised as a liability in the year in which it is approved by shareholders / directors as appropriate.

4.19 Distributions of bonus shares and other appropriations to reserves

The Company recognises all appropriations, other than statutory appropriations, to reserves including those in respect of bonus shares, in the year in which such appropriations are approved by shareholders / directors as appropriate.

4.20 Earnings per share

The Company presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no convertible dilutive potential ordinary shares in issue at December 31, 2012.

4.21 Segment Reporting

A segment is a distinguishable component of the Company that is engaged either in providing product 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.

4.21.1 Business Segments

Corporate finance
Corporate finance includes services provided in connection with mergers and acquisitions, underwriting, privatization, securitization, research, debts (government, high yield), equity, syndication, IPO and secondary private placements.

Trading and sales
It includes fixed income, equity, foreign exchange, commodities, credit, funding, lending and repos, brokerage activities.

Commercial Banking
Commercial banking includes project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bill of exchange and deposits.

4.21.2 Geographical segments

The Company operates in Pakistan only.

4.22 Accounting estimates and judgments

The preparation of unconsolidated financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where various assumptions and estimates are significant to the Company's unconsolidated financial statements or where judgment was exercised in application of accounting policies are as follows:

4.22.1 Classification of investments

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

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

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

4.22.2 Provision against non-performing loans and advances

The Company reviews its loan portfolio to assess amount of non-performing loans and advances and determine provision required there against. While assessing this requirement various factors including the past dues, delinquency in the account, financial position of the borrower and requirements of Prudential Regulations are considered.

4.22.3 Impairment of available-for-sale equity investments

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

4.22.4 Taxation

In making the estimates for income taxes currently payable by the Company, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past.

4.22.5 Fair value of derivatives

The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates and exchange rates over the term of contract.

4.22.6 Fixed assets, depreciation and amortization

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Company. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern.

5. CASH AND BALANCES WITH TREASURY BANKS

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
With State Bank of Pakistan in			
Local currency current account	5.1	**54,739**	174,784
With National Bank of Pakistan in			
Local currency current account		**16**	6
		54,755	174,790

5.1 This represents the minimum cash reserve required to be maintained with the SBP in accordance with the requirement of BSD Circular No. 04 dated May 22, 2004.

6. BALANCES WITH OTHER BANKS

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
In Pakistan			
On current accounts		**–**	–
On deposit accounts	6.1	**315,314**	561,102
		315,314	561,102

6.1 These carry mark-up at rates ranging from 5.00% to 10.30% per annum (2011: 5.00% to 10.00% per annum).

7. INVESTMENTS

7.1 Investment by types

(Rupees in '000)

	Note	December 31, 2012 Held by company	December 31, 2012 Given as collateral	December 31, 2012 Total	December 31, 2011 Held by company	December 31, 2011 Given as collateral	December 31, 2011 Total
Held-for-trading securities							
Market Treasury Bills		–	–	–	9,314	6,977,094	6,986,408
Pakistan Investment Bonds		–	–	–	194,855	–	194,855
Ordinary shares of listed companies		–	–	–	7,837	–	7,837
		–	–	–	212,006	6,977,094	7,189,100
Available-for-sale securities	7.4						
Market Treasury Bills	7.5.1	**880,117**	–	**880,117**	255,771	12,985,868	13,241,639
Pakistan Investment Bonds		–	–	–	340,549	–	340,549
Ordinary shares of listed companies	7.6	**319,707**	–	**319,707**	620,040	–	620,040
Ordinary shares of unlisted companies	7.7	**121,375**	–	**121,375**	100,000	–	100,000
Units of mutual funds	7.8	**28,835**	–	**28,835**	978,890	–	978,890
Term Finance Certificates and Sukuks	7.12	**2,511,797**	–	**2,511,797**	3,312,763	–	3,312,763
Preference shares	7.9	**85,625**	–	**85,625**	21,500	–	21,500
		3,947,456	–	**3,947,456**	5,629,513	12,985,868	18,615,381
Held-to-maturity securities							
Term Finance Certificates and Sukuks	7.12	**191,230**	–	**191,230**	190,406	–	190,406
Investment in associates	7.11	**2,991,134**	–	**2,991,134**	–	–	–
Investment in subsidiary	7.10	**250,000**	–	**250,000**	250,000	–	250,000
Investments at cost		**7,379,820**	–	**7,379,820**	6,281,925	19,962,962	26,244,887
Less: Provision for diminution in value of Investments	7.3	**(262,815)**	–	**(262,815)**	(409,752)	–	(409,752)
Investments (net of provisions)		**7,117,005**	–	**7,117,005**	5,872,173	19,962,962	25,835,135
Deficit on revaluation of held-for-trading securities - net		–	–	–	(3,371)	(9,829)	(13,200)
Surplus / (deficit) on revaluation of available-for-sale securities - net	16.1	**4,485**	–	**4,485**	(68,090)	(12,599)	(80,689)
Total investments at market value		**7,121,490**	–	**7,121,490**	5,800,712	19,940,534	25,741,246

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	

7.2 Investments by Segments

	Note	2012	2011
Federal Government Securities:			
Market Treasury Bills	7.5	**880,117**	20,228,047
Pakistan Investment Bonds		**–**	535,404
Fully Paid up Ordinary Shares:			
Listed Companies	7.6	**319,707**	627,877
Unlisted Companies (including subsidiary company)	7.7 & 7.10	**371,375**	350,000
Term Finance Certificates and Sukuks:			
Listed	7.12	**801,742**	1,179,472
Unlisted	7.12	**1,901,285**	2,323,697
Units of mutual funds (including associates)	7.8 & 7.11	**3,019,969**	978,890
Preference shares	7.9	**85,625**	21,500
Total investments at cost		**7,379,820**	26,244,887
Less: Provision for diminution in value of investments	7.3	**(262,815)**	(409,752)
Investments (net of provisions)		**7,117,005**	25,835,135
Deficit on revaluation of held-for-trading securities - net		**–**	(13,200)
Surplus / (deficit) on revaluation of available-for-sale securities - net	16.1	**4,485**	(80,689)
Total investments at market value		**7,121,490**	25,741,246

7.3 Particulars of Provision

	Note	2012	2011
Opening balance		**409,752**	336,061
Charge for the year		**50,899**	73,691
Reversal during the year		**(36,844)**	–
		14,055	73,691
Impairment on equity securities transferred to profit and loss account on disposal		**(160,992)**	–
Closing balance	7.3.1	**262,815**	409,752

7.3.1 Particulars of Provision in respect of Type and Segment

	2012	2011
Available-for-sale securities		
Ordinary shares of listed companies	**29,578**	184,965
Units of mutual funds	**3,576**	3,576
Preference shares	**6,500**	5,081
Term finance certificates and sukuks	**223,161**	216,130
	262,815	409,752

7.3.2 Investments include certain government securities which are kept with the SBP to meet Statutory Liquidity Requirements determined on the basis of Company's demand and time liabilities.

7.4 Quality of Available-for-Sale Securities

(Rupees in '000)

	December 31, 2012 Market value / Carrying value for unlisted investments	December 31, 2012 Rating	December 31, 2011 Market value / Carrying value for unlisted investments	December 31, 2011 Rating
Market Treasury Bills (T - bills)				
1 Year T-bills	**881,769**	**Government**	13,127,672	Government
6 month T-bills	**–**	**Securities**	101,262	Securities
	881,769		13,228,934	
Pakistan Investment Bonds (PIBs)				
10 year PIBs	**–**	**Government**	47,291	Government
5 year PIBs	**–**	**Securities**	192,618	Securities
3 year PIBs	**–**		98,568	
	–		338,477	
Ordinary shares of listed companies				
Oil & Gas marketing / exploration companies				
Pakistan State Oil Company Limited	**32,293**	**AA+**	20,651	AA+
Pakistan Petroleum Limited	**3,430**	**Unrated**	–	–
Commercial banks				
JS Bank Limited	**–**	**–**	3,524	A
United Bank Limited	**44,387**	**AA+**	–	–
NBFCs				
KASB Securities Limited	**–**	**–**	6,720	A
Communication				
Pakistan Telecommunication Company Limited	**11,304**	**Unrated**	–	–
Power generation and distribution				
Kot Addu Power Company Limited	**10,298**	**AA+**	38,059	AA+
Nishat Chunian Power Limited	**–**	**–**	8,925	AA-
Nishat Power Limited	**–**	**–**	1,583	AA-
The Hub Power Company Limited	**20,856**	**AA+**	133,860	AA+
Cement				
D.G Khan Cement Company Limited	**–**	**–**	39,376	Unrated
Gharibwal Cement Limited	**71,440**	**Unrated**	45,400	D
Chemicals				
Engro Corporation Limited	**24,207**	**A**	33,372	AA
Nimir Industrial Chemicals Limited, a related party	**14,050**	**Unrated**	11,683	Unrated
Fertilizers				
Fauji Fertilizers Company Limited	**40,999**	**Unrated**	–	–
Agritech Limited	**14,695**	**D**	–	–
Personal goods				
Nishat Mills Limited	**–**	**–**	30,094	AA-
	287,959		373,247	
Ordinary shares of unlisted companies				
Faruki Pulp Mills Limited	**100,000**	**Unrated**	100,000	Unrated
Omer Jibran Engineering Industries Limited	**21,375**	**Unrated**	–	–
	121,375		100,000	
Preference shares				
Pakistan Mercantile Exchange Limited	**15,000**	**BBB**	15,000	BBB
Omer Jibran Engineering Industries Limited	**64,125**	**Unrated**	–	–
Trust Investment Bank Limited	**–**	**Unrated**	1,419	Unrated
	79,125		16,419	

(Rupees in '000)

	December 31, 2012		December 31, 2011	
	Market value / Carrying value for unlisted investments	Rating	Market value / Carrying value for unlisted investments	Rating
Units of mutual funds				
ABL Cash Fund	–	–	243,535	AA+ (f)
Askari Sovereign Cash Fund	–	–	243,247	AA+ (f)
UBL Government Securities Fund	–	–	145,421	AA- (f)
UBL Liquidity Plus Fund	–	–	243,908	AA+ (f)
BMA Empress Cash Fund	–	–	50,111	AA+ (f)
Pak Oman Advantage Fund	**26,643**	**AA- (f)**	26,356	AA- (f)
	26,643		952,578	
Term Finance Certificates (TFCs) and Sukuks				
Listed TFCs				
Commercial banks				
Allied Bank Limited - 1st Issue	**50,435**	**AA**	50,455	AA-
Allied Bank Limited - 2nd Issue	**25,195**	**AA**	25,054	AA-
Askari Bank Limited - 1st Issue	**581**	**AA-**	575	AA-
Askari Bank Limited - 2nd Issue	**30,335**	**AA-**	30,018	AA-
Askari Bank Limited - 4th Issue	**104,410**	**AA-**	108,392	AA-
Bank Al Falah Limited - 2nd Issue	–	–	9,338	AA-
Bank Al Falah Limited - 3rd Issue	**6,715**	**AA-**	10,007	AA-
Bank Al Habib Limited - 1st Issue	–	–	26,399	AA-
Bank Al Habib Limited - 2nd Issue	–	–	15,566	AA
Faysal Bank Limited - 1st Issue	**5,209**	**AA-**	4,852	AA-
Faysal Bank Limited - 3rd Issue	**4,940**	**AA-**	10,170	AA-
NIB Bank Limited	**131,095**	**A+**	321,372	A+
Soneri Bank Limited	**2,500**	**A+**	7,494	A+
Standard Chartered Bank (Pakistan) Limited - 3rd Issue	**2,552**	**AAA**	7,158	AAA
Summit Bank Limited	**89,366**	**A(SO)**	200,000	A(SO)
United Bank Limited - 1st Issue	–	–	87,650	AA
United Bank Limited - 2nd Issue	**69,744**	**AA**	70,784	AA
United Bank Limited - 3rd Issue	**3,375**	**AA**	5,063	AA
United Bank Limited - 4th Issue	**83,559**	**AA**	81,635	AA
Fertilizer				
Engro Chemical Limited	**2,342**	**A+**	2,382	AA
Engro Fertilizer Limited - 3rd Issue	**164**	**A+**	185	AA
Pak Arab Fertilizer Limited	–	–	37,566	AA
Real estate developers				
Pace Pakistan Limited	–	–	433	D
NBFCs				
Saudi Pak Leasing Company Limited	–	–	25,508	D
Telecommunication				
World Call Telecom Limited	**21,630**	**D**	28,562	A
Pakistan Mobile Communication Limited	**141,499**	**AA-**	–	–
	775,646		1,166,618	
Unlisted TFCs and Sukuks				
Commercial banks				
Askari Bank Limited - 4th Issue	–	–	150,000	AA-
Bank Al Habib Limited - PPTFC 2	–	–	261,188	AA
Fertilizer				
Agritech Limited - 1st Issue	**2,242**	**D**	3,293	D
Agritech Limited - 4th Issue	**26,361**	**D**	42,127	D
Agritech Limited - 5th Issue	**5,584**	**D**	–	–
Engro Fertilizer Limited - 1st Issue	**453,180**	**A+**	275,773	A
Engro Fertilizer Limited - 2nd Issue	**63,902**	**A+**	63,888	A

(Rupees in '000)

	December 31, 2012		December 31, 2011	
	Market value / Carrying value for unlisted investments	Rating	Market value / Carrying value for unlisted investments	Rating
Sugar				
Al Abbas Sugar Mills Limited - 2nd Issue	**43,718**	**A+**	87,046	A+
JDW Sugar Mills Limited - 2nd Issue	**40,769**	**A+**	66,593	A+
Pharmaceutical				
Martin Dow Pharmaceutical Pakistan Limited	**267,060**	**A**	331,700	A
Cement				
Kohat Cement Company Limited	**5,738**	**D**	17,650	Unrated
Maple Leaf Cement Factory Limited - 1st Issue	**337,643**	**D**	304,133	D
Maple Leaf Cement Factory Limited - 2nd Issue	**2,825**	**D**	7,628	D
NBFCs				
Jahangir Siddiqui & Co. Limited	**92,212**	**AA+**	91,715	AA
Personal goods				
Azgard Nine Limited I	**7,793**	**D**	–	–
Azgard Nine Limited II	**4,370**	**D**	24,980	D
Azgard Nine Limited III	**11,079**	**D**	–	–
Real estate developers				
Eden Housing (Private) Limited	**143,363**	**D**	208,759	D
Consumer electronics				
New Allied Electronics (Private) Limited	–	**D**	–	D
Pak Elektron Limited - 3rd Issue	**200,000**	**D**	200,000	A
Oil and gas				
Sui Southern Gas Company Limited	–	–	2,600	AA
	2,483,485		3,305,691	
	3,880,356		18,315,346	

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
7.5 Particulars of investments in Federal Government Securities			
7.5.1 Available-for-sale			
Market Treasury Bills		**880,117**	13,241,639
Pakistan Investment Bonds		**–**	340,549
Carrying value (before revaluation) of investments in federal government securities		**880,117**	13,582,188
Surplus / (deficit) on revaluation of securities		**1,652**	(14,777)
Market value as at December 31, 2012		**881,769**	13,567,411

7.6 Particulars of investments in ordinary shares of listed companies - available-for-sale

Name of investee company	December 31, 2012	December 31, 2011	Cost as at December 31 2012	Cost as at December 31, 2011
	No. of shares held		(Rupees in 000)	
Oil and gas marketing / exploration companies				
Pakistan State Oil Company Limited	**139,069**	90,891	**33,141**	26,547
Pakistan Petroleum Limited	**19,400**	–	**3,474**	–
Commercial banks				
JS Bank Limited	–	2,136,000	–	48,242
United Bank Limited	**530,500**	–	**47,165**	–
NBFCs				
KASB Securities Limited	–	2,921,617	–	122,968
Communication				
Pakistan Telecommunication Company Limited	**651,500**	–	**13,002**	–
Power generation and distribution				
Kot Addu Power Company Limited	**208,500**	921,079	**10,324**	39,665
Nishat Chunian Power Limited	–	700,000	–	10,764
Nishat Power Limited	–	122,204	–	1,911
The Hub Power Company Limited	**461,000**	3,914,022	**21,076**	149,254
Cement				
D.G. Khan Cement Company Limited	–	2,069,142	–	53,329
Gharibwal Cement Limited	**8,000,000**	8,136,192	**66,640**	67,360
Chemicals				
Engro Corporation Limited	**263,001**	360,000	**30,056**	45,794
Nimir Industrial Chemicals Limited, a related party	**3,678,008**	5,014,100	**9,494**	12,937
Fertilizers				
Fauji Fertilizers Company Limited	**350,000**	–	**41,258**	–
Agritech Limited (see note 7.6.1)	**1,259,337**	–	**44,077**	–
Personal goods				
Nishat Mills Limited	–	743,976	–	41,269
Carrying value (before revaluation and provision) of listed shares 'available-for-sale'			**319,707**	620,040
Provision for diminution in value of investments			**(29,578)**	(184,965)
Deficit on revaluation of securities - net			**(2,170)**	(61,828)
Market value as at December 31, 2012			**287,959**	373,247

7.6.1 The SBP, vide Letter No. BPRD / BRD-(Policy) / 2013-1857 dated February 15, 2013, has permitted banks / DFIs to maintain provision equal to 10% of the deficit on revaluation of Ordinary shares of Agritech Limited. Accordingly, provision for diminution in value of investment includes Rs.2.938 million (2011: Rs.Nil) against Ordinary shares of Agritech Limited. The required provision against exposure amounting to Rs.26.442 million on Ordinary shares of Agritech Limited has not been recorded in these financial statements based upon the above relaxation from SBP.

7.7 Particulars of investments in ordinary shares of unlisted companies - available-for-sale

(Rupees in '000)

Name of investee company	Name of Chief Executive	December 31, 2012	December 31, 2011	Cost as at December 31, 2012	Cost as at December 31, 2011
		Number of shares held			
Faruki Pulp Mills Limited	Mr. Shahid Saleem	6,666,667	6,666,667	**100,000**	100,000
Omer Jibran Engineering Industries Limited	Mr. Feroz Khan	2,137,500	–	**21,375**	–
				121,375	100,000

7.8 Particulars of investment in units of mutual funds - available-for-sale

Name of investee company	December 31, 2012	December 31, 2011	Cost as at December 31 2012	Cost as at December 31, 2011
	No. of units held		(Rupees in 000)	
Closed-end mutual fund				
Pak Oman Advantage Fund	**2,883,499**	2,889,899	**28,835**	28,890
Open-end mutual funds				
Askari Sovereign Cash Fund	–	2,420,464	–	250,000
ABL Cash Fund	–	24,307,680	–	250,000
BMA Express Cash Fund	–	4,834,702	–	50,000
UBL Government Securities Fund	–	1,448,945	–	150,000
UBL Liquidity Plus Fund	–	2,427,321	–	250,000
Carrying value (before revaluation and provision) of mutual funds units 'available-for-sale'			**28,835**	978,890
Provision for diminution in value of investments			**(3,576)**	(3,576)
Surplus / (deficit) on revaluation of securities - net			**1,384**	(22,736)
Market value as at December 31, 2012			**26,643**	952,578

7.9 Particulars of investment in unlisted preference shares - available-for-sale

Name of investee company	Note	December 31, 2012	December 31, 2011	Cost as at December 31 2012	Cost as at December 31, 2011
		No. of shares held		(Rupees in 000)	
Pakistan Mercantile Exchange Limited	7.9.1	1,500,000	1,500,000	**15,000**	15,000
Omer Jibran Engineering Industries Limited	7.9.2	6,412,500	–	**64,125**	–
Trust Investment Bank Limited	7.9.3	650,000	650,000	**6,500**	6,500
Carrying value (before revaluation and provision) of preference shares 'available-for-sale'				**85,625**	21,500
Provision for diminution in value of investments				**(6,500)**	(5,081)
Market value as at December 31, 2012				**79,125**	16,419

7.9.1 These are cumulative, convertible, redeemable and non-participatory preference shares, carrying dividend at the rate of one year Kibor + 250 basis points per annum, of the face value of Rs.10 each. These carry call option exercisable at any time between the period of two years commencing from subscription date i.e. June 30, 2011.

7.9.2 These are cumulative, convertible, redeemable and non-participatory preference shares, carrying dividend at the rate of 10% per annum applicable after two years from the date of investment i.e. July 06, 2012, of the face value of Rs.10 each.These shares carry call option exercisable at any time after subscription date till termination of this agreement.

7.9.3 These are cumulative, convertible, redeemable and non-participatory preference shares, carrying dividend at the rate of 1 year Kibor + 1% per annum, of the face value of Rs.10 each. These shares carry call option exercisable by the issuer between 3 to 5 years from the date of allotment i.e. May 05, 2010.

7.10 Investment in subsidiary - strategic investment

Name of investee company	Percentage of holding %	Name of Chief Executive	Breakup Value per share (Rupees)	Number of shares held	**Cost as at December 31, 2012** (Rupees in '000)	Cost as at December 31, 2011 (Rupees in '000)
Primus Investment Management Limited	100	Mr. Ahmed Ateeq	10	24,999,997	**250,000**	250,000

7.11 Investment in associates

Name of investee company	Percentage of holding %	Number of units held	**Cost as at December 31, 2012** (Rupees in '000)	Cost as at December 31, 2011 (Rupees in '000)
Primus Cash Fund	96.25	29,640,508	**2,991,134**	–

7.12 Particulars of investments in Term Finance Certificates (TFCs) and Sukuks

Name of the investee	Rate of interest	Profit payment	Maturity	Number of certificates held	Paid-up value per certificate (Rupees)	Total Paid up value (before redemption) (Rupees in '000)	**Balance as at December 31, 2012**	Name of Chief Executive
Listed TFCs								
Commercial banks								
Allied Bank Limited - 1st Issue	6 Months KIBOR+1.90%	Half Yearly	6-Dec-14	10,000	5,000	50,000	**49,907**	Mr. Khalid Ahmed Sherwani
Allied Bank Limited - 2nd Issue	6 Months KIBOR+0.85%	Half Yearly	28-Aug-19	5,000	5,000	25,000	**24,298**	Mr. Khalid Ahmed Sherwani
Askari Bank Limited - 4th Issue	6 Months KIBOR+2.50%	Half Yearly	18-Nov-19	20,700	5,000	103,500	**104,076**	Mr. M.R Mehkari
Askari Bank Limited - 1st issue	6 Months KIBOR+1.50%	Half Yearly	4-Feb-13	115	5,000	575	**593**	Mr. M.R Mehkari
Askari Bank Limited - 2nd Issue	6 Months KIBOR+1.50%	Half Yearly	31-Oct-13	6,000	5,000	30,000	**29,893**	Mr. M.R Mehkari
Bank Alfalah Limited - 3rd Issue	6 Months KIBOR+1.50%	Half Yearly	25-Nov-13	2,000	5,000	10,000	**6,627**	Mr. Atif Bajwa
Faysal Bank Limited	6 Months KIBOR+1.40%	Half Yearly	12-Nov-14	1,031	5,000	5,153	**5,137**	Mr. Naved A. Khan
Faysal Bank Limited - 3rd issue	6 Months KIBOR+1.90%	Half Yearly	10-Feb-13	3,946	5,000	19,730	**4,928**	Mr. Naved A. Khan
Summit Bank Limited	6 Months KIBOR+3.25%	Half Yearly	27-Oct-18	18,200	5,000	90,975	**90,958**	Mr. Hussain Lawai
NIB Bank Limited	6 Months KIBOR+1.15%	Half Yearly	5-Mar-16	26,410	5,000	132,050	**131,016**	Mr. Badar Kazmi
Standard Chartered Bank - 3rd Issue	6 Months KIBOR+2.00%	Half Yearly	1-Feb-13	2,000	5,000	10,000	**2,506**	Mr. Mohsin Ali Nathani
Soneri Bank Limited	6 Months KIBOR+1.60%	Half Yearly	5-May-13	2,000	5,000	10,000	**2,499**	Mr. Aftab Manzoor
United Bank Limited - 2nd Issue	9.49% Fixed	Half Yearly	15-Mar-13	14,023	5,000	70,115	**69,456**	Mr. Atif R. Bokhari
United Bank Limited - 3rd issue	6 Months KIBOR+1.70%	Half Yearly	8-Sep-14	1,000	5,000	5,000	**3,332**	Mr. Atif R. Bokhari
United Bank Limited - 4th issue	6 Months KIBOR+0.85%	Half Yearly	14-Feb-18	16,400	5,000	82,000	**81,800**	Mr. Atif R. Bokhari
Fertilizer								
Engro Fertilizer Limited - 3rd issue	6 Months KIBOR+2.40%	Half Yearly	17-Dec-16	37	5,000	185	**170**	Mr. Muhammad Ali Uddin Ansari
Engro Fertilizer Limited - 2nd issue	6 Months KIBOR+1.55%	Half Yearly	30-Nov-15	481	5,000	2,405	**2,389**	Mr. Muhammad Ali Uddin Ansari
Real estate developers								
Pace Pakistan Limited *	6 Months KIBOR+1.50%	Half Yearly	15-Feb-17	115	5,000	575	**574**	Ms. Aamna Ali Taseer
NBFCs								
Saudi Pak Leasing Company Limited - 3rd Issue	6.00% Fixed	Monthly	13-Mar-17	9,099	5,000	45,495	**29,142**	Mr. Nayyar Alam Ilyas
Telecommunication								
World Call Telecom Limited	6 Months KIBOR+1.60%	Half Yearly	7-Oct-13	10,000	5,000	50,000	**19,941**	Mr. Babar Ali Syed
Pakistan Mobile Communication Limited	3 Months KIBOR+2.65%	Quarterly	18-Apr-16	1,500	100,000	150,000	**142,500**	Mr. Rashid Khan
							801,742	
Unlisted TFCs								
Fertilizer								
Agritech Limited - 1st Issue *	6 Months KIBOR+1.75%	Half Yearly	29-Nov-17	1,000	5,000	5,000	**3,637**	Mr. Ahmed Jaudet Bilal
Agritech Limited - 4th Issue *	3 Months KIBOR+3.25%	Quarterly	1-Dec-17	9,000	5,000	45,000	**42,766**	Mr. Ahmed Jaudet Bilal
Agritech Limited - 5th Issue *	0% Coupon	Half Yearly	1-Jan-15	1,672	5,000	8,360	**8,360**	Mr. Ahmed Jaudet Bilal
Engro Fertilizer Limited - 1st Issue	6 Months KIBOR+1.70%	Half Yearly	18-Mar-18	93,450	5,000	467,250	**453,180**	Mr. Muhammad Ali Uddin Ansari
Engro Fertilizer Limited - 2nd Issue	6 Months KIBOR+1.25%	Half Yearly	18-Mar-18	13,000	5,000	65,000	**63,902**	Mr. Muhammad Ali Uddin Ansari
Sugar								
Al-Abbas Sugar Mills Limited - 2nd Issue	6 Months KIBOR+1.75%	Half Yearly	21-Nov-13	44,000	5,000	220,000	**43,718**	Mr. Shunaid Qureshi
JDW Sugar Mills Limited	3 Months KIBOR+1.25%	Quarterly	23-Jun-14	24,754	5,000	123,770	**40,769**	Mr. Jahangir Khan Tareen
Pharmaceuticals								
Martin Dow Pharmaceutical (Pak) Limited - PPTFC	3 Months KIBOR+3%	Monthly	31-May-15	100,000	5,000	500,000	**267,060**	Mr. Muhammad Javaid Akhai
NBFCs								
Jahangir Siddiqui & Company Limited	6 Months KIBOR+1.70%	Half Yearly	4-Jul-13	18,500	5,000	92,500	**92,212**	Mr. Sueman Lalani
Textiles								
Azgard Nine Limited - 1st Issue *	3 Months KIBOR+1.25%	Quarterly	18-Nov-15	15,000	5,000	75,000,000	**7,793**	Mr. Ahmed H Shaikh
Azgard Nine Limited - 2nd Issue *	6 Months KIBOR+2.20%	Half Yearly	4-Dec-17	5,000	5,000	25,000,000	**10,838**	Mr. Ahmed H Shaikh
Azgard Nine Limited - 3rd Issue *	0% Coupon	Quarterly	28-Jun-17	5,496	5,000	27,480,000	**27,480**	Mr. Ahmed H Shaikh
							1,061,715	
Unlisted sukuks								
Cement								
Maple Leaf Cement Factory - 1st issue	3 Months KIBOR+1.00%	Quarterly	3-Dec-18	100,200	5000	501,000,000	**337,643**	Mr. Sayeed Tariq Saigol
Maple Leaf Cement Factory - 2nd issue	3 Months KIBOR+1.00%	Quarterly	31-Mar-12	1,695	5,000	8,475,000	**2,825**	Mr. Sayeed Tariq Saigol
Kohat Cement Limited - Sukkuk	6 Months KIBOR+2.50%	Half Yearly	20-Dec-15	5,000	5,000	25,000,000	**5,738**	Mr. Aizaz Mansoor Sheikh
Consumer electronics								
New Allied Electronics (Private) Limited *	3 Months KIBOR+2.20%	Quarterly	3-Dec-12	30,000	5,000	150,000	**150,000**	Mr. Mian Parvaiz Akhtar
Pak Elektron Limited	3 Months KIBOR+1.00%	Quarterly	31-Mar-15	40,000	5,000	200,000	**200,000**	Mr. Naseem Saigol
Real estate developers								
Eden Housing (Private) Limited	3 Months KIBOR+2.50%	Half Yearly	29-Jun-14	66,526	5,000	332,630	**143,364**	Dr. Muhammad Amjad
							839,570	
Carrying value (before revaluation and provision) of TFCs and Sukuks 'available-for-sale'							**2,703,027**	
Provision for diminution in value of investments							**(223,161)**	
Surplus on revaluation of securities - net							**3,619**	
Market value as at December 31, 2012							**2,483,485**	

* This represents non-performing term finance certificates and provision thereagainst as per the Prudential Regulations and the directives issued by the SBP.

Particulars of investments in Term Finance Certificates (TFCs) and Sukuks

Name of the investee	Rate of interest	Profit payment	Maturity	Number of certificates held	Paid-up value per certificate (Rupees)	Total Paid up value (before redemption) (Rupees in '000)	Balance as at December 31, 2011 (Rupees in '000)	Name of Chief Executive
Listed TFCs								
Commercial banks								
Allied Bank Limited - 1st Issue	6 Months KIBOR+1.90%	Half Yearly	6-Dec-14	10,000	5,000	50,000	49,938	Mr. Khalid Ahmed Sherwani
Allied Bank Limited - 2nd Issue	6 Months KIBOR+0.85%	Half Yearly	28-Aug-19	5,000	5,000	25,000	24,995	Mr. Khalid Ahmed Sherwani
Askari bank Limited - 1st Issue	6 Months KIBOR+1.50%	Half Yearly	4-Feb-13	115	5,000	575	592	Mr. M.R Mehkari
Askari Bank Limited - 2nd Issue	6 Months KIBOR+1.50%	Half Yearly	31-Oct-13	6,000	5,000	30,000	29,974	Mr. M.R Mehkari
Askari Bank Limited - 4th Issue	6 Months KIBOR+2.50%	Half Yearly	18-Nov-19	20,700	5,000	103,500	104,183	Mr. M.R Mehkari
Bank Al Habib Limited - 1st Issue	6 Months KIBOR+1.50%	Half Yearly	15-Jul-12	8,747	5,000	43,735	28,732	Mr. Abbas D. Habib
Bank Al Habib Limited - 2nd Issue	6 Months KIBOR+1.95%	Half Yearly	7-Feb-15	3,000	5,000	15,000	15,347	Mr. Abbas D. Habib
Bank Alfalah Limited - 2nd Issue	6 Months KIBOR+1.50%	Half Yearly	23-Nov-12	2,800	5,000	14,000	9,315	Mr. Atif Bajwa
Bank Alfalah Limited - 3rd Issue	6 Months KIBOR+1.50%	Half Yearly	25-Nov-13	2,000	5,000	10,000	9,892	Mr. Atif Bajwa
Faysal Bank Limited - 1st Issue	6 Months KIBOR+1.40%	Half Yearly	12-Nov-14	1,031	5,000	5,154	5,134	Mr. Naved A. Khan
Faysal Bank Limited - 3rd Issue	6 Months KIBOR+1.90%	Half Yearly	10-Feb-13	3,946	5,000	19,730	9,869	Mr. Naved A. Khan
NIB Bank Limited	6 Months KIBOR+1.15%	Half Yearly	5-Mar-16	65,510	5,000	327,550	326,139	Mr. Badar Kazmi
Soneri Bank Limited	6 Months KIBOR+1.60%	Half Yearly	5-May-13	2,000	5,000	10,000	7,487	Mr. Aftab Manzoor
Standard Chartered Bank - 3rd Issue	6 Months KIBOR+2.00%	Half Yearly	1-Feb-12	2,000	5,000	10,000	7,022	Mr. Mohsin Ali Nathani
Summit Bank Limited	6 Months KIBOR+3.25%	Half Yearly	27-Oct-18	40,000	5,000	200,000	200,000	Mr. Hussain Lawai
United Bank Limited - 2nd Issue	9.49.% Fixed	Half Yearly	15-Mar-13	14,898	5,000	74,490	70,632	Mr. Atif R. Bokhari
United Bank Limited - 3rd Issue	6 Months KIBOR+1.70%	Half Yearly	8-Sep-14	1,000	5,000	5,000	5,000	Mr. Atif R. Bokhari
United Bank Limited - 4th Issue	6 Months KIBOR+0.85%	Half Yearly	14-Feb-18	16,400	5,000	82,000	81,810	Mr. Atif R. Bokhari
United Bank Limited - 1st Issue	8.45% Fixed	Half Yearly	10-Aug-12	28,968	5,000	144,840	94,745	Mr. Atif R. Bokhari
Fertilizer								
Engro Chemical Pakistan Limited - 2nd Issue	6 Months KIBOR+1.55%	Half Yearly	30-Nov-15	481	5,000	2,405	2,380	Mr. Asad Umar
Engro Chemical Pakistan Limited - 3rd Issue	6 Months KIBOR+2.40%	Half Yearly	17-Dec-16	37	5,000	185	185	Mr. Asad Umar
Pak Arab Fertilizer Limited - 1st Issue	6 Months KIBOR+1.50%	Half Yearly	28-Feb-13	10,153	5,000	50,775	37,480	Mr. Fawad Ahmed Mukhtar
Real estate developers								
Pace Pakistan Limited	6 Months KIBOR+1.50%	Half Yearly	15-Feb-17	115	5,000	575	575	Ms. Aamna Ali Taseer
NBFCs								
Saudi Pak Leasing Company Limited	6.00% Fixed	Monthly	13-Mar-17	9,099	5,000	45,495	31,362	Mr. Nayyar Alam Ilyas
Telecommunication								
World Call Telecom Limited	6 Months KIBOR+1.60%	Half Yearly	7-Oct-13	10,000	5,000	50,000	26,684	Mr. Babar Ali Syed
							1,179,472	
Unlisted TFCs								
Commercial banks								
Askari Bank Limited - 4th Issue	6 Months KIBOR+1.75%	Half Yearly	23-Dec-21	Units Awaited	1,000,000	150,000	150,000	Mr. M.R Mehkari
Bank Al Habib Limited - PPTFC	15.00% Fixed	Half Yearly	30-Jun-21	50,000	5,000	250,000	261,188	Mr. Abbas D. Habib
Fertilizer								
Agritech Limited - 2nd Issue	6 Months KIBOR+3.25%	Quarterly	1-Dec-17	9,000	5,000	45,000	42,127	Mr. Ahmed Jaudet Bilal
Agritech Limited - 1st Issue	6 Months KIBOR+1.75%	Half Yearly	29-Nov-17	1,000	5,000	5,000	3,293	Mr. Ahmed Jaudet Bilal
Engro Fertilizer Limited - 1st Issue	6 Months KIBOR+1.70%	Half Yearly	18-Mar-18	56,940	5,000	284,700	275,773	Mr. Asad Umar
Engro Fertilizer Limited - 2nd Issue	6 Months KIBOR+1.25%	Half Yearly	18-Mar-18	13,000	5,000	65,000	63,888	Mr. Asad Umar
Sugar								
Al Abbas Sugar Mills Limited - 2nd Issue	6 Months KIBOR+1.75%	Half Yearly	21-Nov-13	44,000	5,000	220,000	87,046	Mr. Shunaid Qureshi
JDW Sugar Mills Limited	3 Months KIBOR+1.25%	Quarterly	23-Jun-14	24,754	5,000	123,770	66,593	Mr. Jahangir Khan Tareen
Pharmaceuticals								
Martin Dow Pharmaceutical Pakistan Limited - PPTFC	3 Months KIBOR+3%	Monthly	31-May-15	100,000	5,000	500,000	331,700	Mr. Muhammad Javaid Akhai
NBFCs								
Jahangir Siddiqui & Company Limited	6 Months KIBOR+1.70%	Half Yearly	4-Jul-13	18,500	5,000	92,500	91,715	Mr. Munaf Ibrahim
Textiles								
Azgard Nine Limited	6 Months KIBOR+2.20%	Half Yearly	4-Dec-14	5,000	5,000	25,000	24,980	Mr. Ahmed H Shaikh
							1,398,303	

Name of the investee	Rate of interest	Profit payment	Maturity	Number of certificates held	Paid-up value per certificate (Rupees)	Total Paid up value (before redemption) (Rupees in '000)	Balance as at December 31, 2011 (Rupees in '000)	Name of Chief Executive
Unlisted Sukuks								
Cement								
Maple Leaf Cement Factory Limited	3 Months KIBOR+1.00%	Quarterly	3-Dec-18	100,200	5,000	501,000	337,910	Mr. Sayeed Tariq Saigol
Maple Leaf Cement Factory Limited - 2nd Issue	3 Months KIBOR+1.00%	Quarterly	31-Mar-12	1,695	5,000	8,475	8,475	Mr. Sayeed Tariq Saigol
Kohat Cement Limited Sukuk	6 Months KIBOR+2.50%	Half Yearly	20-Dec-15	5,000	5,000	25,000	17,650	Mr. Aizaz Mansoor Sheikh
Consumer electronics								
New Allied Electronics (Private) Limited	3 Months KIBOR+2.20%	Quarterly	3-Dec-12	30,000	5,000	150,000	150,000	Mr. Zeeshan Parvaiz Akhtar
Pak Electron Limited	3 Months KIBOR+1.00%	Quarterly	31-Mar-15	40,000	5,000	200,000	200,000	Mr. Naseem Saigol
Real estate developers								
Eden Housing (Private) Limited	3 Months KIBOR+2.50%	Half Yearly	29-Jun-14	66,526	5,000	332,630	208,759	Dr. Muhammad Amjad
Oil and gas								
Sui Southern Gas Company Limited	3 Months KIBOR+0.20%	Quarterly	31-Dec-12	1,300	5,000	6,500	2,600	Mr. Azim Iqbal Siddiqui
							925,394	
Carrying value (before revaluation and provision) of TFCs and Sukuks 'available-for-sale'							3,503,169	
Provision for diminution in value of investments							(216,130)	
Surplus on revaluation of securities - net							18,652	
Market value as at December 31, 2011							3,305,691	

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	

8. ADVANCES

	Note	2012	2011
Loans, cash credits, running finances, etc.			
In Pakistan		**4,292,836**	3,337,302
LTFF scheme under State Bank of Pakistan		**936,165**	767,211
Margin financing			
In Pakistan		**–**	88,000
Net investment in finance lease			
In Pakistan	8.2	**549,651**	474,860
Advances - gross		**5,778,652**	4,667,373
Provision for non-performing advances - Specific	8.3	**(2,638)**	(1,723)
Provision for non-performing advances - General		**–**	(18,989)
	8.4	**(2,638)**	(20,712)
Advances - net of provision		**5,776,014**	4,646,661

8.1 Particulars of advances - gross

		2012	2011
8.1.1	In local currency	**5,778,652**	4,667,373
	In foreign currencies	**–**	–
		5,778,652	4,667,373
8.1.2	Short-term (for upto one year)	**2,289,895**	1,603,915
	Long-term (for over one year)	**3,488,757**	3,063,458
		5,778,652	4,667,373

8.2 Net Investment in Finance Lease

(Rupees in '000)

	2012			2011		
	Not later than one year	**Later than one year and less than five years**	**Total**	Not later than one year	Later than one yea and less than five years	Total
Lease rentals receivable	**210,581**	**334,411**	**544,992**	180,713	315,038	495,751
Residual value	**12,264**	**81,423**	**93,687**	–	72,874	72,874
Minimum lease payments	**222,845**	**415,834**	**638,679**	180,713	387,912	568,625
Financial charges for future periods	**(49,437)**	**(39,591)**	**(89,028)**	(56,490)	(37,275)	(93,765)
Present value of minimum lease payments	**173,408**	**376,243**	**549,651**	124,223	350,637	474,860

8.2.1 These leases are executed for a term of 3 to 5 years. Security deposit has been obtained within a range of 10% to 20% of the cost of investment at the time of disbursement and has been recorded in other liabilities. The rate of return ranges from 12.40% to 20.16% per annum (2011: 14.68% to 21.18% per annum). Lease rentals are receivable in monthly / quarterly installments. The assets are insured in favour of the Company.

8.3 Advances include Rs.2.638 million (2011: Rs.2.992 million) which have been placed under non-performing status as detailed below:

(Rupees in '000)

	2012								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Category of Classification									
Other assets especially mentioned	–	–	–	–	–	–	–	–	–
Substandard	–	–	–	–	–	–	–	–	–
Doubtful	–	–	–	–	–	–	–	–	–
Loss	**2,638**	**–**	**2,638**	**2,638**	**–**	**2,638**	**2,638**	**–**	**2,638**
	2,638	**–**	**2,638**	**2,638**	**–**	**2,638**	**2,638**	**–**	**2,638**

	2011								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Category of Classification									
Other assets especially mentioned	–	–	–	–	–	–	–	–	–
Substandard	–	–	–	–	–	–	–	–	–
Doubtful	2,537	–	2,537	1,268	–	1,268	1,268	–	1,268
Loss	455	–	455	455	–	455	455	–	455
	2,992	–	2,992	1,723	–	1,723	1,723	–	1,723

8.4 Particulars of provision against non-performing advances

(Rupees in '000)

	2012			2011		
	Specific	**General**	**Total**	Specific	General	Total
Opening balance	**1,723**	**18,989**	**20,712**	1,684	5,845	7,529
Charge for the year	**1,268**	**–**	**1,268**	1,089	13,144	14,233
Reversal	**(353)**	**(18,989)**	**(19,342)**	(1,050)	–	(1,050)
	915	**(18,989)**	**(18,074)**	39	13,144	13,183
Closing balance	**2,638**	**–**	**2,638**	1,723	18,989	20,712

8.4.1 Particulars of provisions against non-performing advances

(Rupees in '000)

	2012			2011		
	Specific	**General**	**Total**	Specific	General	Total
In local currency	**2,638**	**–**	**2,638**	1,723	18,989	20,712
In foreign currencies	**–**	**–**	**–**	–	–	–
	2,638	**–**	**2,638**	1,723	18,989	20,712

	Note	**December 31 2012**	December 31 2011
		(Rupees in '000)	
8.5 Particulars of Loans and Advances to Directors, Associated Companies, etc.			
Debts due by directors, executives or officers of the Company or any of them either severally or jointly with any other persons:			
Balance at beginning of the year		**44,416**	38,429
Loans granted during the year		**13,761**	18,224
Repayments		**(13,763)**	(12,237)
Balance at end of the year		**44,414**	44,416

8.6 Details of loans written offs of Rs.500,000 and above

The detail is given in Annexure-I.

9. OPERATING FIXED ASSETS

	Note	December 31 2012	December 31 2011
Capital work-in-progress	9.1	**–**	14,049
Property and equipment	9.2	**52,520**	18,727
Intangible assets	9.3	**1,956**	1,291
		54,476	34,067

9.1 Capital work-in-progress

Advance to supplier	**–**	14,049

9.2 Property and equipment

(Rupees in '000)

	December 31, 2012									
	COST				DEPRECIATION				Book value	
	As at January 01, 2012	Additions / (Disposals)	Written off	As at December 31, 2012	As at January 01, 2012	Charge for the year	Written off	As at December 31, 2012	as at December 31, 2012	Rate of depreciation
Owned										
Furniture and fixture	**8,066**	**5,453** **–**	**–**	**13,519**	**4,678**	**2,472** **–**	**–**	**7,150**	**6,369**	**20%**
Leasehold improvement	**10,446**	**42,321** **–**	**(10,446)**	**42,321**	**6,246**	**7,119** **–**	**(6,692)**	**6,673**	**35,648**	**20%**
Office equipment	**2,735**	**1,106** **–**	**–**	**3,841**	**1,753**	**694** **–**	**–**	**2,447**	**1,394**	**20%**
Computers	**9,355**	**2,739** **(57)**	**–**	**12,037**	**7,582**	**1,748** **(15)**	**–**	**9,315**	**2,722**	**33.33%**
Vehicles	**10,276**	**42** **–**	**–**	**10,318**	**2,025**	**1,986** **–**	**–**	**4,011**	**6,307**	**25%**
Mobile sets	**241**	**67** **(52)**	**–**	**256**	**108**	**96** **(28)**	**–**	**176**	**80**	**50%**
	41,119	**51,728** **(109)**	**(10,446)**	**82,292**	**22,392**	**14,115** **(43)**	**(6,692)**	**29,772**	**52,520**	

	December 31, 2011									
	COST				DEPRECIATION				Book value	
	As at January 01, 2011	Additions / (Disposals)	Transfers	As at December 31, 2011	As at January 01, 2011	Charge for the year	Transfers	As at December 31, 2011	as at December 31, 2011	Rate of depreciation
Owned										
Furniture and fixture	8,047	19 –	–	8,066	3,066	1,612 –	–	4,678	3,388	20%
Leasehold improvement	10,661	– (215)	–	10,446	4,257	2,122 (133)	–	6,246	4,200	20%
Office equipment	2,706	42 –	(13)	2,735	1,220	536 –	(3)	1,753	982	20%
Computers	8,528	919 (105)	13	9,355	6,092	1,592 (105)	3	7,582	1,773	33.33%
Vehicles	6,901	7,875 (4,500)	–	10,276	3,489	1,605 (3,069)	–	2,025	8,251	25%
Mobile sets	187	167 (113)	–	241	144	77 (113)	–	108	133	50%
	37,030	9,022 (4,933)	–	41,119	18,268	7,544 (3,420)	–	22,392	18,727	

9.2.1 Assets having cost of Rs.15.221 million (2011: Rs.12.834 million) are fully depreciated.

9.2.2 Details of disposal of fixed assets

Details of assets whose original cost or the book value exceeds rupees one million or two hundred and fifty thousand, whichever is lower are given below:

Rupees in '000)

Particulars	Cost	Net Book Value	Sale proceeds	Gain	Mode of Disposal	Particulars of Purchaser
Property and equipment						
(having book value of less than Rs.250,000 or cost of less than Rs.1,000,000)	**109**	**66**	**71**	**5**	Various	Employees / Insurance Company
2012	**109**	**66**	**71**	**5**		
2011	4,932	1,512	1,581	(69)		
Details of write offs						
Leasehold improvement	10,446	3,754	–	(3,754)		

9.3 Intangible assets

(Rupees in '000)

	December 31, 2012							
	COST			AMORTIZATION			Book value	
	As at January 01, 2012	Additions	As at December 31, 2012	As at January 01, 2012	Charge for the year	As at December 31, 2012	as at December 31, 2012	Rate of Amortization
Computer software	**8,772**	**1,708**	**10,480**	**7,481**	**1,043**	**8,524**	**1,956**	**33.33%**

	December 31, 2011							
	COST			AMORTIZATION			Book value	
	As at January 01, 2011	Additions	As at December 31, 2011	As at January 01, 2011	Charge for the year	As at December 31, 2011	as at December 31, 2011	Rate of Amortization
Computer software	7,998	774	8,772	5,848	1,633	7,481	1,291	33.33%

10. DEFERRED TAX LIABILITIES - NET

	December 31 2012	December 31 2011
	(Rupees in '000)	
Deductible temporary differences		
Provision for compensated absences and bonus	**8,400**	8,003
Unrealised loss on revaluation of held-for-trading securities	**–**	4,340
Deficit on revaluation of securities - net	**–**	12,576
Provision for diminution in the value of investments	**69,981**	66,397
Provision against non-performing loans and advances	**923**	7,249
Provision against other assets	**17,500**	17,458
Taxable temporary differences		
Difference between accounting book value of fixed assets and tax base	**(7,247)**	(2,303)
Amortisation of discount on investments	**(27,196)**	(86,972)
Net investment in finance lease	**(45,692)**	(25,270)
Amortisation of transaction cost	**–**	(1,668)
Surplus on revaluation of securities - net	**(3,367)**	–
	13,302	(190)

10.1 Movement in temporary differences during the year

	Balance as at January 01, 2011	Recognised in profit and loss account	Recognised in (surplus)/deficit in revaluation of assets account	Balance as at December 31, 2011	Recognised in profit and loss account	Recognised in (surplus)/deficit in revaluation of assets account	Balance as at December 31, 2012
	(Rupees in '000)						
Deductible temporary differences							
Provision for compensated absences and bonus	5,030	2,973	–	8,003	397	–	8,400
Unrealised loss on revaluation of held-for-trading securities	–	4,340	–	4,340	(4,340)	–	–
(Surplus) / Deficit on revaluation of securities - net	11,348	–	1,228	12,576	–	(15,943)	(3,367)
Provision for diminution in the value of investments	60,030	6,367	–	66,397	3,584	–	69,981
Provision against non-performing loans and advances	2,635	4,614	–	7,249	(6,326)	–	923
Provision against other assets	17,625	(167)	–	17,458	42	–	17,500
Taxable temporary difference							
Difference between accounting book value of fixed assets and tax base	(1,649)	(654)	–	(2,303)	(4,944)	–	(7,247)
Amortisation of discount on investments	(136,221)	49,249	–	(86,972)	59,777	–	(27,196)
Net investment in finance lease	(8,465)	(16,805)	–	(25,270)	(20,422)	–	(45,692)
Amortisation of transaction cost	–	(1,668)	–	(1,668)	1,668	–	–
	(49,667)	**48,249**	**1,228**	**(190)**	**29,435**	**(15,943)**	**13,302**

11. OTHER ASSETS

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
Income / mark-up accrued in local currency		**278,490**	353,588
Assets acquired in satisfaction of claims - non-banking assets	11.1	**209,652**	209,652
Advances, deposits and other prepayments		**73,195**	86,315
Unrealised gain on interest rate swap contracts		**–**	119
Advance tax (payment less provision)		**139,007**	105,118
Dividend receivable		**59,281**	23,187
Receivable from Subsidiary - Primus Investment Management Limited		**635**	2,948
Receivable against sale of shares		**–**	27,756
		760,260	808,683
Less: Provision held against advances, deposits and other prepayments	11.2 & 11.3	**(50,000)**	(50,000)
Other assets (net of provisions)		**710,260**	758,683

11.1 This represents properties acquired in satisfaction of claims. The market value of properties as per the valuation report dated December 31, 2012 amounted to Rs.224 million (2011: Rs.220 million).

11.2 This represents Rs.50 million (2011: Rs.50 million) advance against Pre-IPO placement of Term Finance Certificates.

11.3 Provision against other assets

	December 31 2012	December 31 2011
	(Rupees in '000)	
Opening balance	**50,000**	50,000
Charge for the year	**–**	–
Closing balance	**50,000**	50,000

12. BORROWINGS

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
In Pakistan		**2,417,139**	23,359,531
Outside Pakistan		**–**	–
		2,417,139	23,359,531

12.1 Particulars of borrowings with respect to Currencies

In local currency		**2,417,139**	23,359,531
In foreign currencies		**–**	–
		2,417,139	23,359,531

12.2 Details of borrowings secured / unsecured

Secured			
Borrowing from SBP under LTFF Scheme	12.3	**937,139**	767,209
Repurchase agreement borrowings (Repo)		**–**	20,350,655
Borrowing from Banks	12.4	**1,100,000**	1,666,667
		2,037,139	22,784,531
Unsecured			
Letters of placement	12.5	**380,000**	575,000
		2,417,139	23,359,531

12.3 The Company has entered into agreements for financing with the SBP for Long Term Financing under Export Oriented Projects to customers. According to the terms of the respective agreements, the SBP has the right to receive the outstanding amount from the Company at the due date by directly debiting the current account maintained by the Company with SBP. The rate of return ranges from 7.25% to 9.70% per annum (2011: 7.25% to 9.70% per annum). This is repayable within 7 years (2011: 8 years).

12.4 These represent borrowings secured against hypothecation of receivables and floating charge over term finance certificates. These carry mark-up at rate ranging from 9.94% to 10.18% per annum (2011: 12.43% to 14.42% per annum) and are repayable within 2 years (2011: 3 years).

12.5 These carry mark-up at rate ranging from 9.40% to 12.00% per annum (2011: 11.65% to 12.00% per annum) and are repayable within 2 months (2011: 1 month).

13. DEPOSITS AND OTHER ACCOUNTS

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
Customers			
Certificates of investment- remunerative	13.1	**2,824,924**	979,018

13.1 These carry mark-up at rates ranging from 9.70% to 12.00% per annum (2011: 11.50% to 13.85% per annum) and are repayable within 1 month to 11 months (2011: 1 month to 10 months).

13.2 Particulars of deposits

In local currency	**2,824,924**	979,018
In foreign currencies	**–**	–
	2,824,924	979,018

	December 31 2012	December 31 2011
	(Rupees in '000)	

14. OTHER LIABILITIES

	2012	2011
Mark-up / return / interest payable in local currency	**67,096**	96,793
Accrued expenses	**26,833**	32,491
Advance against Certificates of Investment	**–**	26,971
Payable against purchase of shares	**–**	5,862
Brokerage commission payable	**63**	1,609
Unearned commission	**4,786**	2,904
Security deposit against lease	**93,688**	72,874
Others	**30,547**	38,601
	223,013	278,105

15. SHARE CAPITAL

15.1 Authorised Capital

2012	2011		2012	2011
Number of shares			(Rupees in '000)	
600,000,000	600,000,000	Ordinary shares of Rs. 10/- each.	**6,000,000**	6,000,000

15.2 Issued, subscribed and paid up capital

600,000,000	600,000,000	Ordinary shares fully paid in cash	**6,000,000**	6,000,000

15.3 The Ministry of Finance and Secretary Economic Affairs Division holds 299,995,999 and 4,001 shares (2011: 299,995,999 and 4,001 shares) respectively on behalf of the Government of Pakistan and remaining 300,000,000 shares (2011: 300,000,000 shares) are held by the Brunei Investment Agency.

	December 31 2012	December 31 2011
	(Rupees in '000)	

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

16.1 Surplus / (deficit) on revaluation of available-for-sale securities - net of tax

	2012	2011
Market Treasury Bills	**1,652**	(12,705)
Pakistan Investment Bonds	**–**	(2,072)
Listed securities		
- Term finance certificates	**3,619**	18,652
- Units of open-ended mutual funds	**–**	(23,779)
- Units of closed-end mutual funds	**1,384**	1,043
- Ordinary shares of listed companies	**(2,170)**	(61,828)
	4,485	(80,689)
Deferred tax (liability) / asset recognised	**(3,367)**	12,576
	1,118	(68,113)

	December 31 2012	December 31 2011
	(Rupees in '000)	

17. CONTINGENCIES AND COMMITMENTS

17.1 Transaction related contingent liability

	2012	2011
Letters of credit	**152,293**	158,884

17.2 In the year 2009, Burj Bank Limited (formerly Dawood Islamic Bank Limited) filed a legal suit amounting to Rs.200 million for damages against the Company for alleged non performance of underwriting commitment to issue shares at a premium. Legal advisors of the Company are of the opinion that the possibility of the Company being subject to any liability in relation to the suit is negligible.

17.3 Tax contingencies have been discussed in note 25.2 to these unconsolidated financial statements.

	December 31 2012	December 31 2011
	(Rupees in '000)	
17.4 Commitments in respect of capital expenditure	**–**	28,134
17.5 Commitments to extend credit	**716,013**	392,750

17.6 Commitments in respect of government securities

	2012	2011
Purchase (reverse repo)	**–**	464,944
Sale	**–**	20,502,275

18. DERIVATIVE INSTRUMENTS

The Company is involved in derivative transactions comprising of Interest Rate Swaps with a commercial bank. Accounting policies in respect of derivative financial instruments are mentioned in note 4.7.

18.1 Product Analysis

(Rupees in '000)

	December 31, 2012 Interest Rate Swaps		December 31, 2011 Interest Rate Swaps	
Counter parties with banks for	No. of contracts	Notional Principal	No. of contracts	Notional Principal
Hedging	–	–	–	–
Market Making	–	–	2	200,000
	–	–	2	200,000

18.2 Maturity analysis

	(Rupees in '000)				
	December 31, 2012				
				Mark to Market	
Remaining maturity	No. of contracts	Notional Principal	Negative	Positive	Net
Within 1 year	–	–	–	–	–

	(Rupees in '000)				
	December 31, 2011				
				Mark to Market	
Remaining maturity	No. of contracts	Notional Principal	Negative	Positive	Net
1 to 2 years	2	200,000	(5,984)	6,103	119

19. MARK-UP / RETURN / INTEREST EARNED

	December 31 2012	December 31 2011
	(Rupees in '000)	
On Loans and advances to:		
Customers	**685,225**	511,800
Financial institutions	**32,619**	19,232
On Investments in:		
Available-for-sale securities	**2,015,636**	1,764,451
Held-to-maturity securities	**26,442**	29,577
Held-for-trading securities	**120,700**	2,328
On Deposits with financial institutions	**12,725**	17,833
On Securities purchased under resale agreements	**18,636**	49,517
On Interest rate swap contracts	**–**	9
	2,911,983	2,394,747

20. MARK-UP / RETURN / INTEREST EXPENSED

	2012	2011
Deposits	**310,203**	234,292
Short-term borrowings	**103,108**	111,994
Long-term borrowings	**209,945**	72,268
Securities sold under repurchase agreements	**1,421,559**	1,050,723
	2,044,815	1,469,277

21. GAIN ON SALE OF SECURITIES - NET

	2012	2011
Federal Government Securities		
- Market Treasury Bills	**62,368**	90,374
- Pakistan Investment Bonds	**41,354**	(684)
Ordinary shares of listed companies	**67,733**	2,079
Term finance certificates	**6,469**	35,802
Units of mutual funds	**12,488**	5,131
	190,412	132,702

22. OTHER INCOME

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
Profit on sale of property and equipment		**5**	69
Rent income		**750**	–
Income from sale of scrap items		**468**	–
Others		**30**	193
		1,253	262

23. ADMINISTRATIVE EXPENSES

	Note	2012	2011
Salaries and allowances		**96,796**	106,710
Contribution to defined contribution plan	29	**4,423**	4,512
Non-executive directors' fees, allowances and other expenses		**1,607**	3,234
Rent, taxes, insurance, electricity, etc.		**19,554**	16,362
Legal and professional charges		**9,365**	5,879
Travelling and accommodation		**1,975**	3,574
Communications		**2,147**	2,050
Repairs and maintenance		**5,392**	3,544
Brokerage commission		**13,620**	12,759
Stationery and printing		**1,619**	1,899
Advertisement and publicity		**574**	641
Donation	23.1 & 23.2	**1,100**	4,120
Auditors' remuneration	23.3	**767**	2,500
Depreciation	9.2	**14,115**	7,544
Amortisation	9.3	**1,043**	1,633
Vehicle maintenance and fuel expense		**17,794**	16,002
Medical expense		**2,056**	2,625
Fee and subscription		**792**	4,915
Bank charges		**391**	236
Others		**2,279**	2,364
		197,409	203,103

23.1 Donations were not made to any donee in which a director or his / her spouse had any interest at any time during the year.

23.2 Donations made in excess of Rs. 100,000 to a single donee are as follows:

	2012	2011
Institute of Business Administration	**1,000**	1,000
Prime Minister's Flood Relief Fund	**–**	3,000
Citizen's Foundation	**–**	120
Donations not exceeding Rs.100,000 - others	**100**	–
	1,100	4,120

	December 31 2012	December 31 2011
	(Rupees in '000)	

23.3 Auditors' remuneration

Audit fee	**400**	400
Half yearly review fee	**175**	175
Fee for the audit of provident fund	**–**	25
Special certifications	**100**	150
Tax services	**–**	100
Other services	**–**	1,600
Out-of-pocket expenses	**92**	50
	767	2,500

24. OTHER CHARGES

Penalties imposed by the SBP	**349**	–
Unrealised loss on Interest Rate Swap contracts	**119**	239
	468	239

25. TAXATION

For the year		
Current	**323,802**	355,528
Prior years	**(2,283)**	8,193
Deferred	**(29,435)**	(48,249)
	292,084	315,472

25.1 Relationship between tax expense and accounting profit

Accounting profit before tax	**1,075,842**	919,579
Tax rate	**35%**	35%
Tax on accounting profit	**376,545**	321,853
Tax effect of:		
Income chargeable to tax at special rate	**(40,417)**	(31,833)
Income exempt from tax	**(37,110)**	(3,877)
Expenses that are inadmissible in determining taxable profit	**(8,376)**	1,735
Permanent differences	**3,725**	19,401
Prior year charge	**(2,283)**	8,193
	292,084	315,472

25.2 Income tax returns for the tax years 2007 to 2012 have been filed by the Company on due dates that are deemed to be assessed by the Commissioner Inland Revenue under the provisions of section 120 of the Income Tax Ordinance, 2001.

Assessments for the tax years 2008 and 2009 were amended by the Additional Commissioner Inland Revenue (ACIR) vide orders dated July 27, 2010 passed under Section 122 (5A) of the Income Tax Ordinance, 2001 whereby tax demands of Rs. 9.74 million and Rs. 28.34 million respectively were created. In the amended assessment orders, besides making other additions to income, the ACIR taxed the amount of amortisation of discount on securities as against the gain on disposal of securities as offered by the Company.

The Company went into appeal where the Commissioner Inland Revenue (Appeals) set aside most of the issues including the issue of amortisation of discount on securities with specific directions. The tax department has issued a show cause notice for the purpose of giving effect to matters set-aside by the CIR(A). The Company is in the process of filing the relevant explanation and details requested by the department.

An appeal filed with the CIR(A) against the rectified order levying Workers' Welfare Fund in the tax year 2009 was decided in favour of the Company. However, the tax department has filed an appeal with the Appellate Tribunal Inland Revenue against the aforesaid decision of CIR(A).

Assessment order for tax year 2010 has been amended through order under section 122(5A) passed by the ACIR creating a tax demand of Rs.106.50 million. The company filed appeal before the CIR(A) and an application for stay of demand against the tax demand. The said order was rectified by CIR(A) under section 221 of the Ordinance vide order dated January 27, 2012 with a revised tax demand of Rs.51.26 million. An amount of Rs.15.80 million has been paid against the said tax demand and an appeal was filed against the order passed under section 122(5A) of the Ordinance. An appeal has been filed by the Company before the CIR(A) against the rectification order. Both the Company and the Commissioner Inland Revenue have filed appeals before the Appellate Tribunal Inland Revenue.

During the period, assessment for tax year 2011 was also amended and a tax demand of Rs.55.547 million created which was reduced to Rs.52.091 million after issuance of rectified order under section 221 of the Income Tax Ordinance, 2001. The Company has already paid for Rs.33.381 million out of the said reduce tax demand. An appeal has been filed before the CIRA against the amended order and appellate order to this effect is yet to be issued.

The unrecognised amount relating to WWF pertaining to above tax years amounted to Rs. 44.551 million. Based on the opinion of the legal advisor, the Company is confident that WWF is not applicable to the Company as it does not fall into the definition of industrial establishment. Consequently, no provision has been made in the current year's financial statements relating to WWF.

26. EARNINGS PER SHARE

		December 31 2012	December 31 2011
Profit for the year	Rupees in '000	**783,758**	604,107
Weighted average number of ordinary shares	Numbers in '000	**600,000**	600,000
Basic earnings per share	Rupees	**1.31**	1.01

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

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	

27. CASH AND CASH EQUIVALENTS

Cash and balances with treasury banks	**54,755**	174,790
Balances with other banks	**315,314**	561,102
	370,069	735,892

28. STAFF STRENGTH

	(Numbers)	
Permanent	**43**	42
Temporary / on contractual basis	**26**	17
Total staff strength	**69**	59

29. DEFINED CONTRIBUTION PLAN

The Company operates a provident fund scheme for all its permanent employees. Equal monthly contribution at the rate of 10.00% per annum (2011: 10.00% per annum) is made both by the Company (employer) and employees. Contributions made to the provident fund during the year are as follows:

Contribution made by the Company	**4,423**	4,512
Contribution made by employees	**4,423**	4,512
	8,846	9,024

30. COMPENSATION OF DIRECTORS AND EXECUTIVES

(Rupees in '000)

	Chief Executive		Directors		Executives	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Managerial remuneration	**21,571**	21,200	–	–	**75,673**	67,406
Contribution to defined contribution plan	**1,020**	1,055	–	–	**3,270**	3,430
Utilities	**503**	303	–	–	**4,639**	14,460
Medical	**325**	341	–	–	**1,951**	2,153
Travelling allowance	**210**	228	**1,608**	3,234	**130**	302
	23,629	23,127	**1,608**	3,234	**85,663**	87,751
Number of persons	1	1	3	3	**34**	36

30.1 The Chief executive is provided with Company maintained car. Executive means employees other than the managing director and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

All quoted investments have been stated at their market values as disclosed in note 7. All un-quoted investments have been stated at lower of cost or break up value, being their estimated fair values.

Fair value of loans and advances, other assets (excluding properties acquired in satisfaction of claims as disclosed in note 11.1) and other liabilities cannot be determined with reasonable accuracy due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. Loans and advances are repriced frequently on market rates and are reduced for any impairment against non-performing advances determined in accordance with Prudential Regulations as stated in note 4.4.

The maturity and re-pricing profile and effective rates are stated in notes 36.3.1 and 36.2.4 respectively.

Fair value of these assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of deposits, they are frequently repriced.

32. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

(Rupees in '000)

	Corporate Finance	Trading and Sales	Commercial Banking
2012			
Total income	**36,353**	**2,656,656**	**625,260**
Total expenses	**24,611**	**1,794,519**	**423,297**
Net income	**11,742**	**862,137**	**201,963**
Segment assets (gross)	**–**	**8,685,422**	**5,625,642**
Segment non performing loans	**–**	**2,638**	**–**
Investment provided for	**–**	**428,291**	**–**
Segment provision required *	**–**	**265,453**	**–**
Segment liabilities	**–**	**3,316,769**	**2,148,307**
Segment return on assets (ROA) (%)	**–**	**4.66%**	**3.93%**
Segment return on net assets (ROA) (%)	**–**	**17.21%**	**6.22%**
Segment cost of funds (%)	**–**	**13.83%**	**13.83%**
2011			
Total income	68,659	2,129,242	481,171
Total expenses	42,866	1,416,219	300,408
Net income	25,793	713,023	180,763
Segment assets (gross)	–	28,326,376	4,648,478
Segment non performing loans	–	102,992	89,856
Investment provided for	–	802,084	–
Segment provision required *	–	421,475	8,989
Segment liabilities	–	21,146,598	3,470,246
Segment return on assets (ROA) (%)	–	3.51%	5.09%
Segment return on net assets (ROA) (%)	–	10.87%	16.79%
Segment cost of funds (%)	–	9.44%	9.44%

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

33. TRUST ACTIVITIES

The Company has assumed the role of Trustee to certain issues of Term Finance Certificates (TFCs) / Sukuks and is holding the trust properties in fiduciary capacity on behalf of the relevant beneficiaries. In this behalf, the Company is fulfilling all its obligations and duties in accordance with the provisions of the respective trust documents. During the year, the Company has been registered as Debt Securities Trustee (DST) under the Debt Securities Trustee Regulations 2012 issued by the SECP.

The Company is acting as trustee to Term Finance Certificates issued by Agritech Limited, Al Abbas Sugar Mills Limited, Askari Bank Limited–IV, Azgard Nine Limited, Bank Alfalah Limited–IV, Bank Alfalah Limited–V, Bank Al-Habib Limited–IV, Faysal Bank Limited, Martin Dow Pharmaceuticals Limited, Soneri Bank Limited, United Bank Limited–IV, and Sukuk Issue of Agritech Limited, Aisha Steel Mills Limited and Maple Leaf Cement Factory Limited. The combined value of these TFCs as at December 31, 2012 amounted to PKR 45,050 million (2011: PKR 28,442 million).

34. RELATED PARTY TRANSACTIONS

The Company has related party relationship with:

- subsidiary company (Primus Investment Management Limited)
- associated company (collective investment schemes of Primus Investment Management Limited)
- its employee defined contribution plan;
- its key management personnel;
- other related parties include OK Feed Mills (Pvt) Limited, Omer Jibran Engineering Industries Limited, Nimir Industrial Chemicals Limited and Haq Bahu Sugar Mills (Pvt) Limited due to common directorship.

Details of loans and advances to the executives are given in note 8.5 to these unconsolidated financial statements. There are no transactions with key management personnel other than under their terms of employment. Contribution to approved defined contribution plan are disclosed in note 29 to these unconsolidated financial statements. Remuneration to the executives is disclosed in note 30 to the unconsolidated financial statements. Transactions with owners have been disclosed in 'Unconsolidated Statement of Changes in Equity'. All other transactions between the Company and its related parties are carried out under normal course of business except employee staff loans that are as per terms of employment.

Details of transactions with related parties during the year, other than those which have been disclosed elsewhere in these unconsolidated financial statements, are as follows:

(Rupees in '000)

		2012				2011			
	Notes	Key management personnel	Other related parties	Subsidiary	Associates	Key management personnel	Other related parties	Subsidiary	Associates
Advances									
As at beginning of the year		23,286	474,000	–	–	20,063	–	–	–
Given during the period		8,634	300,000	–	–	8,263	479,000	–	–
Transfer *		(8,106)	8,106	–	–	–	–	–	–
Repaid during the period		(8,294)	(80,435)	–	–	(5,040)	(5,000)	–	–
As at end of the year		15,520	701,671	–	–	23,286	474,000	–	–
Borrowings									
As at beginning of the year		–	–	–	–	–	–	–	–
Given during the period		–	500,000	–	–	–	–	–	–
Repaid during the period		–	(500,000)	–	–	–	–	–	–
As at end of the year		–	–	–	–	–	–	–	–
Placements									
As at beginning of the year		–	–	–	–	–	–	–	–
Placements made during the year		–	–	–	–	–	–	–	–
Placements matured during the year		–	–	–	–	–	–	–	–
As at end of the year		–	–	–	–	–	–	–	–
Investments									
As at beginning of the year		–	15,000	250,000	–	–	–	–	–
Investments made during the year		–	98,437	–	3,975,000	–	15,000	250,000	–
Transfer		–	(15,000)	–	–	–	–	–	–
Redemption during the year		–	(3,462)	–	(983,866)	–	–	–	–
As at end of the year		–	94,975	250,000	2,991,134	–	15,000	250,000	–
Mark-up / return / interest earned		681	83,205	–	–	642	36,966	–	–
Mark-up / return / interest expensed		–	1,342	–	–	–	–	–	–
Gain on sale of securities - net		–	1,862	–	16,133	–	–	–	–
Fee income		–	20,250	–	–	–	–	–	–
Dividend income		–	–	–	99,522	–	–	–	–
Salaries and other benefits		66,032	–	–	–	64,880	–	–	–
Reimbursement of expenses		4,036	–	–	–	10,013	–	–	–
Expenses charged to the subsidiary company	34.1 & 34.2	–	–	1,526	–	–	–	–	–

* This represents advance given to key management person of the Company. During the year, the said key management person was appointed as a Chief Executive Officer of the Subsidiary Company.

34.1 The transactions with related parties during the year include costs (administrative expenses) charged by the Company under the cost sharing agreement entered into between the Company and its Subsidiary.

34.2 During the year, the Company has provided certain administrative and management services to its Subsidiary free of charge.

35. CAPITAL - ASSESSMENT AND ADEQUACY

35.1 Scope of Application and Capital Structure

The Basel II Framework is applicable to the Company for determining Capital Adequacy both at consolidated level (comprising of fully owned subsidiary - Primus Investment Management Limited) and also on stand alone basis. The purpose of this legislation is to provide a modern prudential framework for credit institutions and investment firms across the globe, improving on the previous Basel I Framework through greater risk sensitivity and reflecting more modern approaches and improvements in the risk management practices of credit institutions and investment firms. The different tiers of regulatory capital recognised by SBP are as follows:

Tier I capital, includes fully paid-up capital, balance in share premium account, general reserves as per the financial statements and net un-appropriated profits after deduction of book value of goodwill / intangibles, deficit on revaluation of available-for-sale investments and 50% of investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position as per the guidelines laid under the Basel II Framework.

Tier II capital includes general provisions for loan losses, reserves on the revaluation of fixed assets and equity investments, foreign exchange translation reserves and subordinated debts (upto maximum of 50% of total eligible tier I capital) after deduction of 50% of investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position as per the guidelines laid under the Basel II Framework.

Tier III capital has also been prescribed by the SBP for managing market risk. However the Company does not have any Tier III capital.

The required capital adequacy is achieved by the Company through:

a) enhancement in the risk profile of asset mix at the existing volume level;
b) ensuring better recovery management; and
c) maintaining acceptable profit margins.

35.2 Capital Adequacy

The risk weighted assets to capital ratio is calculated in accordance with the State Bank's guidelines on capital adequacy. Details of Company's eligible capital on an unconsolidated basis is as follows:

	December 31 2012	December 31 2011
	(Rupees in '000)	
Regulatory Capital Base		
Tier I Capital		
Shareholders equity / assigned capital	**6,000,000**	6,000,000
Reserves	**555,884**	399,132
Unappropriated profits	**2,023,533**	1,596,527
	8,579,417	7,995,659
Less: Goodwill, other intangible assets and deficit on account of revaluation of available-for-sale portfolio etc.	**1,956**	1,291
Shortfall in provisions required against classified assets irrespective of any relaxation allowed	**–**	–
Deficit on account of revaluation of investments held in AFS category	**–**	80,689
Other deductions (50% of investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position)	**125,000**	125,000
	126,956	206,980
Total Tier I Capital	**8,452,461**	7,788,679

	December 31 2012	December 31 2011
	(Rupees in '000)	
Tier II Capital		
General Provisions subject to 1.25% of Total Risk Weighted Assets	**–**	–
	–	–
Less: Other deductions (50% of investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position)	**125,000**	125,000
Total Tier II Capital	**(125,000)**	(125,000)
Eligible Tier III Capital	**–**	–
Total Regulatory Capital Base	**8,327,461**	7,663,679

35.3 Risk Weighted Exposures

	Capital Requirements		Risk Weighted Assets	
	(Rupees in '000)			
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011
Credit risk				
Portfolios subject to standardised approach				
On balance sheet exposures				
Claims				
On Public sector entities in Pakistan	**3,107**	12,514	**31,067**	125,142
On Banks	**6,307**	14,533	**63,066**	145,333
On Corporates	**901,250**	592,157	**9,012,505**	5,921,570
Categorised as retail portfolio	**1,168**	943	**11,684**	9,428
Fully secured by residential property	**1,009**	1,115	**10,092**	11,146
Unlisted equity investments	**30,075**	15,000	**300,750**	150,000
On Listed equity investments and regulatory capital instruments	**64,155**	152,234	**641,553**	1,522,340
Past due loans	**–**	127	**–**	1,268
On investments in fixed assets	**5,252**	3,278	**52,520**	32,775
On all other assets	**45,676**	27,577	**456,756**	275,765
	1,057,999	819,478	**10,579,993**	8,194,767
Off balance sheet exposures				
Non-market related	**74,124**	43,323	**741,243**	433,230
Market related	**–**	2	**–**	24
	74,124	43,325	**741,243**	433,254
	1,132,123	862,803	**11,321,236**	8,628,021
Market risk				
Capital requirement for portfolios subject to standardised approach				
Interest rate risk	**1,764**	146,145	**22,050**	1,826,813
Equity position risk	**47,984**	65,010	**599,800**	812,625
Foreign exchange risk	**–**	–	**–**	–
	49,748	211,155	**621,850**	2,639,438
Operational risk				
Capital requirement for operational risks	**159,375**	147,124	**1,992,188**	1,839,050
Total	**1,341,246**	1,221,082	**13,935,274**	13,106,509

		December 31, 2012	December 31, 2011
Capital adequacy ratio			
Total eligible regulatory capital held (note: 36.2)	(a)	**8,327,461**	7,663,679
Total risk weighted assets	(b)	**13,935,274**	13,106,509
Capital adequacy ratio	(a) / (b)	**59.76%**	58.47%

35.3.1 Credit risk approach

The Company is following standardised approach for all its Credit Risk Exposures. Under standardised approach, the capital requirement is based on the credit rating assigned to the counter parties by the External Credit Assessment Institutions (ECAIs) duly recognised by SBP for capital adequacy purposes. In this connection, the Company utilises the credit ratings assigned by ECAIs and has recognised agencies such as PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company – Vital Information Systems), Fitch, Moody's and Standard & Poors which are also recognised by the SBP.

The Standardised Approach to credit risk sets out fixed risk weights corresponding, where appropriate, to external credit assessment levels or for unrated claims.

35.3.1.1 Selection of ECAIs

The Company selects particular ECAI(s) for each type of claim. Amongst the ECAIs that have been recognised as eligible by SBP, the following are being used against each respective claim type.

Exposures to Public Sector Entities (PSEs): For PSE exposures, ratings of PACRA and JCR-VIS are used to arrive at risk weights.

Bank Exposures: For foreign banks (i.e., incorporated outside Pakistan), ratings of Moody's, S&P and Fitch is being used to arrive at risk weights. However, for local banks (i.e., incorporated in Pakistan) ratings of PACRA and JCR-VIS are used.

Corporate Exposures: Ratings assigned by PACRA and JCR-VIS are used for claims on Corporates (excluding equity exposures).

35.3.1.2 Use of ECAI Ratings

The Company prefers solicited ratings over unsolicited ratings at all times, owing to the greater degree of accuracy (in general) associated with solicited ratings as compared to unsolicited ratings. Unsolicited ratings may only be used in cases where a solicited rating is not available.

35.3.1.3 Mapping to SBP Rating Grades

The selected final ratings (after application of the principles stated above) for all exposures need to be translated to the standard rating grades given by the SBP.

35.3.1.4 Types of exposures and ECAI's used

Exposures	JCR-VIS	PACRA	MOODY's	FITCH	S & P
Corporate	√	√	-	-	-
Banks	√	√	-	-	-
SME's	N/A	N/A	N/A	N/A	N/A
Sovereigns	N/A	N/A	N/A	N/A	N/A
Securitisation	N/A	N/A	N/A	N/A	N/A
Others	N/A	N/A	N/A	N/A	N/A

35.3.1.5 Credit exposures subject to Standardized Approach

(Rupees in '000)

			December 31, 2012			
Exposures	Rating category No.	Rating risk weighted	Amount outstanding	Deduction CRM*	Net amount	Risk weighted asset
Cash and Cash Equivalents		0%	–	–	–	–
Corporate	0	0%	–	–	–	–
	1	20%	1,305,591	–	1,305,591	261,118
	2	50%	2,427,106	–	2,427,106	1,213,553
	3,4	100%	204,376	–	204,376	204,376
	5,6	150%	1,159,391	–	1,159,391	1,739,087
	Unrated	100%	5,594,371	–	5,594,371	5,594,371
			10,690,835	–	**10,690,835**	**9,012,505**
Retail		0%	–	–	–	–
		20%	–	–	–	–
		50%	–	–	–	–
		75%	**15,579**	–	**15,579**	**11,684**
			15,579	–	**15,579**	**11,684**
Banks						
- Over 3 Months		0%	–	–	–	–
	1	20%	–	–	–	–
	2,3	50%	–	–	–	–
	4,5	100%	–	–	–	–
	6	150%	–	–	–	–
	Unrated	50%	–	–	–	–
			–	–	–	–
- Maturity upto and under 3 Months in FCY		0%	–	–	–	–
	1,2,3	20%	–	–	–	–
	4,5	50%	–	–	–	–
	6	150%	–	–	–	–
	Unrated	20%	–	–	–	–
			–	–	–	–
- Maturity upto and under 3 Months in PKR		0%	–	–	–	–
		20%	**315,330**	–	**315,330**	**63,066**
			315,330	–	**315,330**	**63,066**
Residential mortgage finance		35%	**28,835**	–	**28,835**	**10,092**
Public Sector Entity		0%	–	–	–	–
	1	20%	**155,335**	–	**155,335**	**31,067**
	2,3	50%	–	–	–	–
	4,5	100%	–	–	–	–
	6	150%	–	–	–	–
	Unrated	50%	–	–	–	–
			155,335	–	**155,335**	**31,067**
Sovereigns (SBP / GoP)		0%	**54,739**	–	**54,739**	–
Equity Investments - Listed		100%	**641,553**	–	**641,553**	**641,553**
- Unlisted		150%	**200,500**	–	**200,500**	**300,750**
			842,053	–	**842,053**	**942,303**
Past Due Loans						
(Not Secured by Residential Mortgages)	S.P less than 20%	150%	–	–	–	–
	S.P upto 20%	100%	–	–	–	–
	S.P greater than 50%	50%	–	–	–	–
			–	–	–	–
Investment in fixed assets		100%	**52,520**	–	**52,520**	**52,520**
Other assets		100%	**456,756**	–	**456,756**	**456,756**
Total			**12,611,982**	–	**12,611,982**	**10,579,993**

* Credit Risk Mitigation (CRM)

Credit exposures and comparative figures subject to the standardised approach

Exposures	Rating category No.	Rating risk weighted	Amount outstanding	Deduction CRM*	Net amount	Risk weighted asset
			(Rupees in '000)			
			December 31, 2011			
Cash and Cash Equivalents		0%	–	–	–	–
Corporate	0	0%	–	–	–	–
	1	20%	1,500,436	–	1,500,436	300,087
	2	50%	1,614,216	–	1,614,216	807,108
	3,4	100%	238,216	–	238,216	238,216
	5,6	150%	814,474	–	814,474	1,221,711
	Unrated	100%	3,354,448	–	3,354,448	3,354,448
			7,521,790	–	7,521,790	5,921,570
Retail		0%	–	–	–	–
		20%	–	–	–	–
		50%	–	–	–	–
		75%	12,571	–	12,571	9,428
			12,571	–	12,571	9,428
Banks						
- Over 3 Months		0%	–	–	–	–
	1	20%	–	–	–	–
	2,3	50%	–	–	–	–
	4,5	100%	–	–	–	–
	6	150%	–	–	–	–
	Unrated	50%	–	–	–	–
			–	–	–	–
- Maturity upto and under 3 Months in FCY		0%	–	–	–	–
	1,2,3	20%	–	–	–	–
	4,5	50%	–	–	–	–
	6	150%	–	–	–	–
	Unrated	20%	–	–	–	–
			–	–	–	–
- Maturity upto and under 3 Months in PKR		0%	–	–	–	–
		20%	726,667	–	726,667	145,333
			726,667	–	726,667	145,333
Residential Mortgage Finance		35%	31,845	–	31,845	11,146
Public Sector Entity		0%	–	–	–	–
	1	20%	613,163	–	613,163	122,633
	2,3	50%	–	–	–	–
	4,5	100%	–	–	–	–
	6	150%	–	–	–	–
	Unrated	50%	5,018	–	5,018	2,509
			618,181	–	618,181	125,142
Sovereigns (SBP / GoP)		0%	306,859	–	306,859	–
Equity Investments - Listed		100%	1,522,340	–	1,522,340	1,522,340
- Unlisted		150%	100,000	–	100,000	150,000
			1,622,340	–	1,622,340	1,672,340
Past Due Loans						
(Not Secured by Residential Mortgages)	S.P less than 20%	150%	–	–	–	–
	S.P upto 20%	100%	1,268	–	1,268	1,268
	S.P greater than 50%	50%	–	–	–	–
			1,268	–	1,268	1,268
Investment in fixed assets		100%	32,775	–	32,775	32,775
Other assets		100%	275,765	–	275,765	275,765
Total			11,150,061	–	11,150,061	8,194,767

* Credit Risk Mitigation (CRM)

35.4 Capital management

Objectives of managing capital

Capital Management aims to ensure that there is sufficient capital to meet the capital requirements of the Company as determined by the underlying business strategy and the minimum requirements of the SBP. The Capital Management process is governed by the Company's Asset and Liability Committee (ALCO). ALCO is responsible for managing the Company's capital position vis-à-vis internal as well as regulatory requirements. ALCO also reviews the volume and mix of the Company's assets, liabilities and funding sources in light of liquidity, capital, risk and profitability considerations.

Company's capital management seeks:

- to comply with the capital requirements set by the regulators and the capital is comparable to the peers;
- to increase strategic and tactical flexibility in the deployment of capital to allow for the timely reallocation of capital;
- to improve the liquidity of the Company's assets to allow for an optimal deployment of the Company's resources;
- to protect the Company against unexpected events and maintain strong ratings;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide adequate return to shareholders;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Company to expand; and
- to achieve overall low cost of capital with appropriate mix of capital elements.

Externally Imposed Capital Requirements

The paid-up capital and CAR of the Company stands at Rs.6 billion and 59.76% of its risk weighted exposure as at December 31, 2012 respectively.

36. RISK MANAGEMENT

The Risk Management Framework (the Framework) provides principles for identifying, assessing, and monitoring risk within the Company. The Framework specifies the key elements of the risk management process in order to maximise opportunities, to minimise adversity and to achieve improved outcomes and outputs based on informed decision making.

Categories of Risk

The Company generates most of its revenues by accepting Credit, Liquidity and Market Risk. Effective management of these risks is the decisive factor in our profitability. In addition, the Company is subject to certain consequential risks that are common to all business undertakings. These risks are grouped under two headings: Operational and Reputational Risk. The Framework is organized with reference to these five risk categories, as detailed below:

Credit Risk — This risk is defined as the possibility of loss due to unexpected default or a deterioration of credit worthiness of a counter party.

Market Risk — The risk of loss generated by adverse changes in the price of assets or contracts currently held by the Company (this risk is also known as price risk).

Liquidity Risk — The risk that the Company is unable to meet its payment obligations or fund increases in assets when they fall due without incurring an unacceptable cost; the consequences of which may be the failure to meet obligations to repay investors and fulfill commitments to lend.

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

Reputational Risk The risk of failing to meet the standards of performance or behavior required or expected by stakeholders in commercial activities or the way in which business is conducted.

Risk responsibilities

The Board of Directors (the Board) is accountable for overall supervision of the risk management process. The Board is responsible for approval of all risk policies and ensuring that these are properly implemented. Further, the Board appoints the senior management personnel who are capable of managing the risk activities conducted by the Company.

A separate unit has been set up for credit risk management. Risk Management comprises of two areas; Credit Risk Management (CRM) and Middle Office and Operational Risk (MOOR). CRM oversees credit risk taken by the Company while MOOR function overviews market, interest rate, liquidity and operational risks of the Company. The functions of both of these units are subject to the policies and manuals approved by the Board, Prudential Regulations and additional regulatory directives issued from time to time. These units are independent of business generation and risk taking. CRM monitors the credit portfolio of the Company on a regular basis to ensure prudent lending. Moreover, this department will also set parameters for various risks including i) sectoral concentration, ii) exposure limits for single and group clients, and iii) monitoring watch list accounts and the entire portfolio. The risk management philosophy is to identify and monitor risk on portfolio basis and assess the risk taking capacity of the balance sheet as a whole.

Different Management Committees have been set up to review different kinds of risks; mainly being the Assets and Liabilities Committee (ALCO), Credit Committee (CC) and Risk Management Committee (RMC). Comprehensive risk management manuals have been designed which cover all significant risks including credit, liquidity, market and operational risks and provides guidance to management on risk controls, limits, risk measurement tools and a reporting framework.

36.1 Credit risk

Credit risk, the potential default of one or more debtors, is the largest source of risk for the Company. The Company is exposed to credit risk through its lending and investment activities. The credit risk arising from exposure to corporates is governed by the Credit Risk Management Policy and Credit Administration Frameworks. The counter party credit risk arising from interbank lines are addressed in the Treasury policy framework.

The Company manages 3 principal sources of credit risk:

i) Sovereign credit risk on its public sector advances.
ii) Non-sovereign credit risk on its private sector advances.
iii) Counterparty credit risk on interbank limits.

Sovereign credit risk

When the Company lends to public sector borrowers, it prefers obtaining a full sovereign guarantee or the equivalent from the Government of Pakistan (GoP). However, certain public sector enterprises have a well defined cash flow stream and appropriate business model, based on which the lending is secured through collaterals other than GoP guarantee.

Non-Sovereign Credit Risk

When the Company lends to private sector borrowers it does not benefit from sovereign guarantees or the equivalent. Consequently, each borrower's credit worthiness is analyzed on a stand alone basis. A new internal rating model to rate corporate and commercial customers has been designed and its framework has been approved by the Board in July, 2011. The new model has been running under parallel testing with the old model in December, 2012.

Counter Party Credit Risk on Interbank Limits

In the normal course of its business, the Company's Treasury utilizes products such as Reverse Repo and call lending to meet the needs of the borrowers and manage its exposure to fluctuations in market interest rates and to temporarily invest its liquidity prior to disbursement. All of these financial instruments involve, to varying degrees, the risk that the counterparty in the transaction may be unable to meet its obligation to the Company.

Reflecting a preference for minimizing exposure to counterparty credit risk, the Company maintains eligibility criteria that link the exposure limits to counterparty credit ratings by external rating agencies. For example, the minimum rating for counterparties to be eligible for a financing relationship with the Company is BBB.

Credit administration

Credit Administration Department is involved in minimizing losses that could arise due to security and documentation deficiencies.

Risk analytics

To ensure a prudent distribution of asset portfolio, the Company manages its lending and investment activities within a framework of Borrower, Group, Product, Geographical and Sector exposure limits and risk profile benchmarks.

Stress testing

The Company also conducts stress testing of its existing portfolio, which includes all assets, i.e., advances as well as investments. This exercise is conducted on a semi-annual basis through assigning shocks to distressed / non performing assets of the Company and assessing its resulting affect on capital adequacy.

Regular monitoring

Regular monitoring of the advances portfolio is carried out which focuses on early problem recognition and influences the front office to carry out an assessment of the borrower's ability to rectify the identified problem / weakness within a reasonable time-frame, consider tighter structuring of facilities, confirm that there are no critical deficiencies in the existing security position and, if possible, arrange for strengthening of the same through obtaining additional collateral. It should however, be noted that these actions are taken prior to incurring overdues on the facility.

Portfolio diversification

While expanding the advances and the investment (TFCs) portfolio, efficient portfolio diversification has been a key consideration despite the relatively small size of operations.

36.1.1 Segmental Information

36.1.1.1 Segments by class of business

	December 31, 2012					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Cement	**87,570**	**1.52**	–	–	–	–
Textile	**1,168,055**	**20.21**	–	–	**403,595**	**46.48**
Sugar	**874,671**	**15.14**	–	–	**252,293**	**29.06**
Chemicals and pharmaceuticals	**478,189**	**8.28**	–	–	–	–
Production and transmission of energy	**916,601**	**15.86**	–	–	–	–
Financial	**219,304**	**3.80**	**2,630,000**	**93.10**	–	–
Individuals	**44,414**	**0.77**	–	–	–	–
Hotel	**40,000**	**0.69**	–	–	–	–
Telecommunication	**116,667**	**2.02**	–	–	–	–
Paper and board	**177,778**	**3.08**	–	–	–	–
Food and confectionary	**348,732**	**6.03**	–	–	–	–
Oil, gas, petroleum and energy	**31,986**	**0.55**	–	–	–	–
Entertainment	**194,854**	**3.37**	–	–	–	–
Transportation	**245,706**	**4.25**	–	–	**5,914**	**0.68**
Packaging	**71,740**	**1.24**	–	–	**26,967**	**3.11**
Services	–	–	**100,000**	**3.54**	**30,000**	**3.46**
Electronics and electrical appliances	**203,592**	**3.52**	–	–	**15,606**	**1.80**
Engineering	**85,094**	**1.47**	–	–	**14,501**	**1.67**
Others	**473,699**	**8.20**	**94,924**	**3.36**	**119,430**	**13.75**
	5,778,652	**100.00**	**2,824,924**	**100.00**	**868,306**	**100.00**

	December 31, 2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Cement	89,856	1.93	–	–	–	–
Textile	576,718	12.36	–	–	213,905	0.99
Sugar	511,116	10.95	–	–	158,884	0.74
Chemicals and pharmaceuticals	561,869	12.04	2,260	0.23	1,482	0.01
Production and transmission of energy	935,588	20.05	–	–	–	–
Financial	190,992	4.09	800,000	81.71	20,967,219	97.31
Individuals	44,416	0.95	–	–	–	–
Hotel	57,187	1.23	–	–	–	–
Telecommunication	150,000	3.21	–	–	–	–
Paper and board	200,000	4.29	–	–	–	–
Food and confectionary	428,270	9.18	2,000	0.20	19,461	0.09
Oil, gas, petroleum and energy	70,093	1.50	–	–	100,000	0.46
Transportation	203,726	4.36	–	–	34,694	0.16
Packaging	74,109	1.59	–	–	408	–
Services	–	–	174,758	17.85	22,800	0.11
Electronics and electrical appliances	230,000	4.93	–	–	–	–
Engineering	117,505	2.52	–	–	–	–
Others	225,928	4.84	–	–	28,134	0.13
	4,667,373	100.00	979,018	100.00	21,546,987	100.00

36.1.1.2 Segment by sector

(Rupees in '000)

	December 31, 2012					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	**153,423**	**3**	**1,100,000**	**39**	–	–
Private	**5,625,229**	**97**	**1,724,924**	**61**	**868,306**	**100**
	5,778,652	**100**	**2,824,924**	**100**	**868,306**	**100**

	December 31, 2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	146,764	3.14	–	–	–	–
Private	4,520,609	96.86	979,018	100	21,546,987	100
	4,667,373	100	979,018	100	21,546,987	100

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

(Rupees in '000)

	2012		2011	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Financial	**2,638**	**2,638**	2,992	1,723
	2,638	**2,638**	2,992	1,723

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

(Rupees in '000)

	2012		2011	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Public / Government	–	–	–	–
Private	**2,638**	**2,638**	2,992	1,723
	2,638	**2,638**	2,992	1,723

36.1.1.5 Geographical Segment Analysis

(Rupees in '000)

	December 31, 2012			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Pakistan	**1,075,842**	**14,045,611**	**8,580,535**	**868,306**

	December 31, 2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Pakistan	919,579	32,544,390	7,927,546	21,546,987

36.2 Market Risk

The market risk is the risk of reductions in earnings, value and / or reserves arising from changes in market rates (such as interest rates, exchange rates, credit spreads) and market prices (such as commodities, equities, property etc) as well as their correlations and volatilities. The Company is exposed to market risk primarily through its trading activities, which are centered in the Treasury and Capital market groups.

The Company classifies its assets in banking and trading books as per instructions from SBP. Company's trading book comprises positions in financial instruments held with trading intent or in order to hedge other elements of the trading book and free of any restrictive covenants on their tradability. In addition, positions need to be frequently and accurately valued and the portfolio should be actively managed. The positions which do not fulfill the criteria of trading book falls under the banking Book and are treated as per SBP requirements.

The Company actively measures, controls and manages market risk on day-to-day basis. Controls are applied to all investment portfolios by setting limits to the exposures taken. This includes stop loss limits on shares in 'Held-for-Trading' portfolio, individual and sectoral concentration limits, volatility and value-at-risk limits etc.

The Company measures market risk using various techniques like duration analysis for interest rate sensitivity, Value-at-Risk for adverse price movement and stress testing etc. The results are communicated to ALCO and Risk Management Committee on monthly and quarterly basis respectively. Market risk is effectively managed at portfolio level.

Policies, valuation and accounting of equity investments

In accordance with the requirements of the SBP, valuation and accounting of equity investments is done as per the accounting policy of investment mentioned in note 4.5 to these financial statements. Further, composition of equity investments is available in note 7 of these financial statements.

36.2.1 Interest rate risk

Interest rate risk is the uncertainty resulting from changes in interest rates, including changes in the shape of yield curves. Interest rate risk arises from factors such as mismatches between contractual maturities or re-pricing of on and off balance sheet assets and liabilities. The objective of yield / interest rate risk management is to minimize adverse variances in the Company's profitability.

Government securities (PIBs and T-Bills), investment in TFCs and Sukuks, loans and advances and other money market investments are subject to interest rate risk classified under 'Held-for-Trading' as well as 'Available-for-Sale' category if they meet the SBP criteria. Duration analysis is carried out to capture the risk associated with these securities. Stress testing is also in place to capture the sensitivity of the portfolio to adverse movement in interest rates. For prudent risk management, all money market investments are marked to market to assess changes in the market value of investments due to interest rate movements.

36.2.2 Foreign exchange risk

Foreign Exchange Risk is the risk of loss arising from fluctuations of exchange rates. The Company is not exposed to any significant funded or non-funded foreign exchange exposure.

(Rupees in '000)

	December 31, 2012			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Pakistani Rupee	**14,045,607**	**5,465,076**	**–**	**8,580,531**
United States Dollar	**4**	**–**	**–**	**4**
	14,045,611	**5,465,076**	**–**	**8,580,535**

	December 31, 2011			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Pakistani Rupee	32,544,386	24,616,844	–	7,927,542
United States Dollar	4	–	–	4
	32,544,390	24,616,844	–	7,927,546

36.2.3 Equity position risk

The Company is exposed to equity position risk on its investments in equity capital markets. The Board with the recommendations of ALCO approves exposure limits applicable to investments in trading book.

Equity investments in Company's trading book are subject to limits and controls imposed by risk management policy to reduce the risk. The risk is managed by applying trading limit, scrip–wise and portfolio wise nominal limits, stop-loss limits and volatility limits. Stress test and value-at-risk figures are also reported to the management for timely decisions.

The Equity Investment Committee is responsible for making investment decisions in the capital market.

36.2.4 Mismatch of Interest Rate Sensitive Assets and Liabilities

Interest rate risk can arise on account of rising interest rates causing a fall in the value of assets or falling interest rates causing an increase in the value of liabilities. While the Company is largely engaged in transactions on a floating rate basis in both borrowings and lendings, rate reset frequency, ceilings and floors and choice of base rate can translate into interest rate risk.

Interest rate risk is monitored through regular reports on interest rate matching and duration estimates. Furthermore stress techniques are also used to estimate maximum losses in case of adverse movements in interest rates.

(Rupees in '000)

	December 31, 2012											
	Effective yield/ interest rate	Total	Exposed to yield/interest risk									Non-interest Bearing Financial Instruments
			Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
On-balance sheet financial instruments												
Asset												
Cash and balances with treasury banks	–	54,755	–	–	–	–	–	–	–	–	–	54,755
Balances with other banks	10.30%	315,314	78,828	236,482	–	4	–	–	–	–	–	–
Investments	13.00%	7,121,490	253,288	2,729,758	372,024	2,787	2,786	–	4,612	–	–	3,756,235
Advances	13.91%	5,776,014	2,368,515	1,657,771	545,077	130,974	441,314	191,385	330,707	82,613	12,079	15,579
Other assets	–	288,813	–	–	–	–	–	–	–	–	–	288,813
		13,556,386	2,700,631	4,624,011	917,101	133,765	444,100	191,385	335,319	82,613	12,079	4,115,382
Liabilities												
Borrowings	11.38%	2,417,139	40,354	390,787	26,049	79,336	1,289,894	189,894	327,491	73,334	–	–
Deposits and other accounts	12.22%	2,824,924	25,000	2,307,400	192,524	300,000	–	–	–	–	–	–
Other liabilities	–	218,227	–	–	–	–	–	–	–	–	–	218,227
		5,460,290	65,354	2,698,187	218,573	379,336	1,289,894	189,894	327,491	73,334	–	218,227
On-balance sheet gap		8,096,096	2,635,277	1,925,824	698,528	(245,571)	(845,794)	1,491	7,828	9,279	12,079	3,897,155
Off–balance sheet financial instruments												
Forward purchase of Government Securities		–	–	–	–	–	–	–	–	–	–	–
Forward Sale of Government Securities		–	–	–	–	–	–	–	–	–	–	–
Interest Rate Derivatives – Short position		–	–	–	–	–	–	–	–	–	–	–
Interest Rate Derivatives – Long position		–	–	–	–	–	–	–	–	–	–	–
Off–balance sheet gap		–	–	–	–	–	–	–	–	–	–	–
Total Yield / Interest Risk Sensitivity Gap		8,096,096	2,635,277	1,925,824	698,528	(245,571)	(845,794)	1,491	7,828	9,279	12,079	3,897,155
Cumulative Yield / Interest Risk Sensitivity Gap			2,635,277	4,561,101	5,259,629	5,014,058	4,168,264	4,169,755	4,177,583	4,186,862	4,198,941	8,096,096

(Rupees in '000)

	December 31, 2011											
	Effective yield/ interest rate	Total	Exposed to yield/interest risk									Non-interest Bearing Financial Instruments
			Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	–	174,790	–	–	–	–	–	–	–	–	–	174,790
Balances with other banks	7.37%	561,102	561,102	–	–	–	–	–	–	–	–	–
Lendings to financial institutions	12.66%	627,841	627,841	–	–	–	–	–	–	–	–	–
Investments	14.38%	25,741,246	339,439	10,424,120	811,785	12,696,777	169,352	–	192,618	360,403	–	746,752
Advances	15.14%	4,646,661	1,468,118	1,413,809	902,672	165,713	119,077	133,941	268,094	149,564	13,101	12,572
Other assets	–	407,479	–	–	–	–	–	–	–	–	–	407,479
		32,159,119	2,996,500	11,837,929	1,714,457	12,862,490	288,429	133,941	460,712	509,967	13,101	1,341,593
Liabilities												
Borrowings	12.06%	23,359,531	19,168,992	2,276,265	45,831	51,144	674,543	704,139	274,944	163,673	–	–
Deposits and other accounts	12.74%	979,018	325,000	2,000	149,758	502,260	–	–	–	–	–	–
Other liabilities	–	275,201	–	–	–	–	–	–	–	–	–	275,201
		24,613,750	19,493,992	2,278,265	195,589	553,404	674,543	704,139	274,944	163,673	–	275,201
On-balance sheet gap		7,545,369	(16,497,492)	9,559,664	1,518,868	12,309,086	(386,114)	(570,198)	185,768	346,294	13,101	1,066,392
Off–balance sheet financial instruments												
Forward purchase of Government Securities		(464,944)	(464,944)	–	–	–	–	–	–	–	–	–
Forward Sale of Government Securities		20,502,275	19,573,343	457,252	471,680	–	–	–	–	–	–	–
Interest Rate Derivatives – Short position		(5,984)	–	(5,984)	–	–	–	–	–	–	–	–
Interest Rate Derivatives – Long position		6,103	–	6,103	–	–	–	–	–	–	–	–
Off–balance sheet gap		20,037,450	19,108,399	457,371	471,680	–	–	–	–	–	–	–
Total Yield / Interest Risk Sensitivity Gap		27,582,819	2,610,907	10,017,035	1,990,548	12,309,086	(386,114)	(570,198)	185,768	346,294	13,101	1,066,392
Cumulative Yield / Interest Risk Sensitivity Gap			2,610,907	12,627,942	14,618,490	26,927,576	26,541,462	25,971,264	26,157,032	26,503,326	26,516,427	27,582,819

36.3 Liquidity Risk

Liquidity risk is the risk that the Company is unable to fund its current obligations and operations in the most cost efficient manner. ALCO is the forum to oversee liquidity management.

Liquidity risk can arise from the Company's activities and can be grouped into three categories:

- Inflows / outflows from on-balance sheet items (other than marketable securities and wholesale borrowings) and off-balance sheet items;
- Marketability of trading securities; and
- Capacity to borrow from the wholesale markets for funding as well as trading activities.

The Company's main funding source is the inter-bank money market. Change in the Government monetary policy and market expectations of interest rate are all important factors that can adversely affect our key funding source. Efficient and accurate planning plays a critical role in liquidity management. Company's MIS provides information on expected cash inflows / out flows which allow the Company to take timely decisions based on the future requirements. Company monitors all the possible sources from which liquidity risk can emanate including market reputation, borrowing terms, deterioration in quality of credit portfolio etc. Other sources are also identified for which early warning indicators have been created and being monitored for early intervention of management sensing a potential liquidity crunch.

Gap analysis and stress testing is done on periodic basis to capture any adverse effect of market movements on liquidity position. Based on the results produced, ALCO devises the liquidity management strategy to maintain sufficient liquidity to deal with any related catastrophe.

36.3.1 Maturities of assets and liabilities - on the basis approved by the Assets and Liabilities Management Committee (ALCO) of the Company

(Rupees in '000)

	Total	December 31, 2012 Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	54,755	6,800	47,955	–	–	–	–	–	–	–
Balances with other banks	315,314	78,828	236,482	–	4	–	–	–	–	–
Investments	7,121,490	236,475	1,018,242	389,426	1,823,563	1,959,547	275,834	228,859	939,544	250,000
Advances	5,776,014	341,640	488,031	816,917	599,757	1,004,865	900,564	1,163,427	448,734	12,079
Operating fixed assets	54,476	1,996	3,992	5,988	9,102	16,177	13,232	3,989	–	–
Deferred tax assets	13,302	(2,624)	(2,092)	7,111	(7,314)	(21,531)	51,831	(12,079)	–	–
Other assets	710,260	101,094	296,417	87,482	4,265	4,349	216,653	–	–	–
	14,045,611	764,209	2,089,027	1,306,924	2,429,377	2,963,407	1,458,114	1,384,196	1,388,278	262,079
Liabilities										
Borrowings	2,417,139	25,390	392,057	307,661	346,081	723,555	190,222	334,726	97,446	–
Deposits and other accounts	2,824,924	25,000	2,307,400	192,524	300,000	–	–	–	–	–
Other liabilities	223,013	28,380	66,156	15,660	30,427	16,734	42,720	22,936	–	–
	5,465,076	78,770	2,765,613	515,845	676,508	740,289	232,942	357,662	97,446	–
Net assets	8,580,535	685,439	(676,586)	791,079	1,752,869	2,223,118	1,225,172	1,026,534	1,290,832	262,079
Share capital	6,000,000									
Reserves	555,884									
Unappropriated profit	2,023,533									
Surplus on revaluation of assets - net of tax	1,118									
	8,580,535									

	Total	December 31, 2011 Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	174,790	174,790	–	–	–	–	–	–	–	–
Balances with other banks	561,102	561,102	–	–	–	–	–	–	–	–
Lendings to financial institutions	627,841	627,841	–	–	–	–	–	–	–	–
Investments	25,741,246	257,876	8,552,335	461,097	12,887,649	755,997	406,326	635,139	1,534,827	250,000
Advances	4,646,661	150,004	362,452	642,763	447,609	793,096	699,683	909,062	628,891	13,101
Operating fixed assets	34,067	1,058	2,116	17,051	3,540	6,435	2,468	1,399	–	–
Other assets	758,683	301,200	199,178	22,053	7,603	224,371	4,278	–	–	–
	32,544,390	2,073,871	9,116,081	1,142,964	13,346,401	1,779,899	1,112,755	1,545,600	2,163,718	263,101
Liabilities										
Borrowings	23,359,531	19,168,991	2,276,265	45,831	51,144	674,543	704,139	274,944	163,674	–
Deposits and other accounts	979,018	325,000	2,000	149,758	502,260	–	–	–	–	–
Deferred tax liabilities	190	4	37	50	9	18	21	51	–	–
Other liabilities	278,105	127,183	68,471	3,134	6,444	12,264	16,735	43,874	–	–
	24,616,844	19,621,178	2,346,773	198,773	559,857	686,825	720,895	318,869	163,674	–
Net assets	7,927,546	(17,547,307)	6,769,308	944,191	12,786,544	1,093,074	391,860	1,226,731	2,000,044	263,101
Share capital	6,000,000									
Reserves	399,132									
Unappropriated profit	1,596,527									
Deficit on revaluation of assets - net	(68,113)									
	7,927,546									

36.3.2 Maturities of assets and liabilities - based on contractual maturity of the assets and liabilities of the Company

(Rupees in '000)

	Total	December 31, 2012 Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	54,755	6,800	47,955	–	–	–	–	–	–	–
Balances with other banks	315,314	78,828	236,482	–	4	–	–	–	–	–
Investments	7,121,490	236,475	1,018,242	389,426	1,823,563	1,959,547	275,834	228,859	939,544	250,000
Advances	5,776,014	341,640	488,031	816,917	599,757	1,004,865	900,564	1,163,427	448,734	12,079
Operating fixed assets	54,476	1,996	3,992	5,988	9,102	16,177	13,232	3,989	–	–
Deferred tax assets	13,302	(2,624)	(2,092)	7,111	(7,314)	(21,531)	51,831	(12,079)	–	–
Other assets	710,260	101,094	296,417	87,482	4,265	4,349	216,653	–	–	–
	14,045,611	764,209	2,089,027	1,306,924	2,429,377	2,963,407	1,458,114	1,384,196	1,388,278	262,079
Liabilities										
Borrowings	2,417,139	25,390	392,057	307,661	346,081	723,555	190,222	334,726	97,446	–
Deposits and other accounts	2,824,924	25,000	2,307,400	192,524	300,000	–	–	–	–	–
Other liabilities	223,013	28,380	66,156	15,660	30,427	16,734	42,720	22,936	–	–
	5,465,076	78,770	2,765,613	515,845	676,508	740,289	232,942	357,662	97,446	–
Net assets	8,580,535	685,439	(676,586)	791,079	1,752,869	2,223,118	1,225,172	1,026,534	1,290,832	262,079
Share capital	6,000,000									
Reserves	555,884									
Unappropriated profit	2,023,533									
Surplus on revaluation of assets - net of tax	1,118									
	8,580,535									

	Total	December 31, 2011 Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	174,790	174,790	–	–	–	–	–	–	–	–
Balances with other banks	561,102	561,102	–	–	–	–	–	–	–	–
Lendings to financial institutions	627,841	627,841	–	–	–	–	–	–	–	–
Investments	25,741,246	257,876	8,552,335	461,097	12,887,649	755,997	406,326	635,139	1,534,827	250,000
Advances	4,646,661	150,004	362,452	642,763	447,609	793,096	699,683	909,062	628,891	13,101
Operating fixed assets	34,067	1,058	2,116	17,051	3,540	6,435	2,468	1,399	–	–
Other assets	758,683	301,200	199,178	22,053	7,603	224,371	4,278	–	–	–
	32,544,390	2,073,871	9,116,081	1,142,964	13,346,401	1,779,899	1,112,755	1,545,600	2,163,718	263,101
Liabilities										
Borrowings	23,359,531	19,168,991	2,276,265	45,831	51,144	674,543	704,139	274,944	163,674	–
Deposits and other accounts	979,018	325,000	2,000	149,758	502,260	–	–	–	–	–
Deferred tax liabilities	190	4	37	50	9	18	21	51	–	–
Other liabilities	278,105	127,183	68,471	3,134	6,444	12,264	16,735	43,874	–	–
	24,616,844	19,621,178	2,346,773	198,773	559,857	686,825	720,895	318,869	163,674	–
Net assets	7,927,546	(17,547,307)	6,769,308	944,191	12,786,544	1,093,074	391,860	1,226,731	2,000,044	263,101
Share capital	6,000,000									
Reserves	399,132									
Unappropriated profit	1,596,527									
Deficit on revaluation of assets - net	(68,113)									
	7,927,546									

36.4 Operational risk

The Company, like all financial institutions, is exposed to many types of operational risks, including the potential losses arising from internal activities or external events caused by breakdowns in information, communication, physical safeguards, business continuity, supervision, transaction processing, settlement systems and procedures and the execution of legal, fiduciary and agency responsibilities.

The Company maintains a system of internal controls designed to keep operational risk at appropriate levels, in view of the Company's financial strength and the characteristics of the activities and market in which it operates. These internal controls are periodically updated to conform to industry best practice. The Company has developed a Business Continuity Plan applicable to all its functional areas. Currently the Company uses the Basic Indicator Approach for assessing its operational risk capital charge.

37. NON ADJUSTING EVENT AFTER THE REPORTING DATE

The Board of Directors have proposed a final dividend for the year ended December 31, 2012 of Rs. **1.67** per share (2011: Re.0.33 per share), amounting to Rs. **1,000** million (2011: Rs.200 million) at their meeting held on **May 09, 2013**, for approval of the members at the annual general meeting to be held on **May 30, 2013**. The unconsolidated financial statements for the year ended December 31, 2012 do not include the effect of these appropriations which will be accounted for in the unconsolidated financial statements for the year ending December 31, 2013.

38. GENERAL

38.1 Credit rating

The Company has been assigned credit rating of 'AA+' (Double A plus) in the medium to long term and A1+ (A One Plus) in the short-term by JCR-VIS Credit Rating Agency Limited, SBP approved rating agency. Outlook on the assigned rating is "Stable".

38.2 Figures have been rounded off to the nearest thousand rupees.

39. DATE OF AUTHORISATION FOR ISSUE

These unconsolidated financial statements were authorised for issue on **May 09, 2013** by the Board of Directors of the Company.

Chief Executive **Director** **Director** **Chairman**

Annexure - I

As referred in note 9.6 of the unconsolidated financial statements

Statement showing written-off loans on any other financial relief of Rs. 500,000 or above provided during the year ended December 31, 2012

S. No.	Name and address of the borrowers	Name of individual/ partner/director and CNIC No.	Father's /Husband's name	Outstanding Liabilities at the beginning of the year				Amount written-off			
				Principal	Mark-up	Others	Total	Principal	Mark-up	Others	Total
	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Consolidated Financial Statements

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
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Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of **Pak Brunei Investment Company Limited** (the Holding Company) and its subsidiary company (Primus Investment Management Limited), here-in-after referred to as the Group, as at **31 December 2012** and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of the Holding Company and its subsidiary company. 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.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of Pak Brunei Investment Company Limited and its subsidiary company as at 31 December 2012 and the results of their operations for the year then ended.

The consolidated financial statements of the Group for the year ended 31 December 2011 were audited by another firm of Chartered Accountants, whose report dated 28 March 2012 expressed an unqualified opinion thereon.

Chartered Accountants
Audit Engagement Partner: Shabbir Yunus
Date: 09 May 2013
Karachi

Consolidated
Statement of Financial Position
As at December 31, 2012

2012	2011		Note	2012	2011
(US $ in '000)				(Rupees in '000)	
		ASSETS			
565	1,804	Cash and balances with treasury banks	5	**54,763**	174,790
3,274	5,801	Balances with other banks	6	**317,222**	562,085
–	6,479	Lendings to financial institutions		**–**	627,841
73,280	265,659	Investments	7	**7,100,816**	25,742,364
59,643	47,953	Advances	8	**5,779,397**	4,646,661
623	352	Operating fixed assets	9	**60,329**	34,067
138	–	Deferred tax assets	10	**13,403**	–
7,436	7,814	Other assets	11	**720,507**	757,208
144,959	335,862			**14,046,437**	32,545,016
		LIABILITIES			
–	–	Bills payable		**–**	–
24,945	241,068	Borrowings	12	**2,417,139**	23,359,531
29,153	10,103	Deposits and other accounts	13	**2,824,924**	979,018
–	–	Sub-ordinated loans		**–**	–
–	–	Liabilities against assets subject to finance lease		**–**	–
–	4	Deferred tax liabilities	10	**–**	383
2,320	2,871	Other liabilities	14	**224,841**	278,181
56,418	254,046			**5,466,904**	24,617,113
88,541	81,816	**NET ASSETS**		**8,579,533**	7,927,903
		REPRESENTED BY			
61,920	61,920	Share capital	15	**6,000,000**	6,000,000
5,737	4,120	Reserves		**555,884**	399,204
20,872	16,479	Unappropriated profit		**2,022,531**	1,596,812
88,529	82,519			**8,578,415**	7,996,016
12	(703)	Surplus / (deficit) on revaluation of assets - net of tax	16	**1,118**	(68,113)
88,541	81,816			**8,579,533**	7,927,903
		CONTINGENCIES AND COMMITMENTS	**17**		

The annexed notes from 1 to 39 form an integral part of these consolidated financial statements.

Chief Executive **Director** **Director** **Chairman**

Consolidated
Profit and Loss Account
For the Year ended December 31, 2012

2012	2011		Note	2012	2011
(US $ in '000)				(Rupees in '000)	
30,240	24,739	Mark-up / return / interest earned	19	**2,930,250**	2,397,223
21,102	15,163	Mark-up / return / interest expensed	20	**2,044,815**	1,469,277
9,138	9,576	**Net mark-up / interest Income**		**885,435**	927,946
(187)	136	(Reversal) / provision against non-performing loans and advances	8.4	**(18,074)**	13,183
145	760	Provision for diminution in the value of investments	7.3	**14,055**	73,691
–	–	Bad debts written off directly		**–**	–
(42)	896			**(4,019)**	86,874
9,180	8,680	Net mark-up / interest income after provisions		**889,454**	841,072
		NON MARK-UP / INTEREST INCOME			
527	709	Fee, commission and brokerage income		**51,073**	68,658
1,839	990	Dividend income		**178,196**	95,903
–	–	Income from dealing in foreign currencies		**–**	–
2,049	1,369	Gain on sale of securities - net	21	**198,550**	132,702
–	(140)	Unrealised loss on revaluation of investments classified as held-for-trading		**–**	(13,560)
13	3	Other income	22	**1,273**	262
4,428	2,931	Total non mark-up / interest income		**429,092**	283,965
13,608	11,611			**1,318,546**	1,125,037
		NON MARK-UP / INTEREST EXPENSES			
2,190	2,112	Administrative expenses	23	**212,181**	204,669
39	–	Other provisions / write off	9.2.2	**3,754**	–
10	2	Other charges	24	**983**	239
2,239	2,114	Total non-mark-up / interest expenses		**216,918**	204,908
11,369	9,497			**1,101,628**	920,129
–	–	Share of loss of associates	7.10.1	**(20,684)**	–
11,369	9,497	**PROFIT BEFORE TAXATION**		**1,080,944**	920,129
3,411	3,669	Taxation - Current		**330,556**	355,528
(24)	85	- Prior years		**(2,283)**	8,193
(307)	(496)	- Deferred		**(29,728)**	(48,056)
3,080	3,258		25	**298,545**	315,665
8,289	6,239	**PROFIT AFTER TAXATION**		**782,399**	604,464
		Attributable to:			
8,289	6,239	Equity shareholders of the Company		**782,399**	604,464
–	–	Non-controlling interest		**–**	–
8,289	6,239			**782,399**	604,464
US $				Rupees	
0.01	0.01	**Earnings per share - basic and diluted**	26	**1.30**	1.01

The annexed notes from 1 to 39 form an integral part of these consolidated financial statements.

Chief Executive **Director** **Director** **Chairman**

Consolidated

Statement Of Comprehensive Income

For the Year ended December 31, 2012

2012	2011		2012	2011
(US $ in '000)			(Rupees in '000)	
8,289	6,239	Profit after taxation for the year	**782,399**	604,464
–	–	Other comprehensive income	**–**	–
8,289	6,239	**Total comprehensive income for the year**	**782,399**	604,464
		Attributable to:		
8,289	6,239	Equity shareholders of the Company	**782,399**	604,464
–	–	Non-controlling interest	**–**	–
8,289	6,239		**782,399**	604,464

Surplus / (deficit) arising on revaluation of assets has been reported in accordance with the directives of the State Bank of Pakistan in a separate account below equity.

The annexed notes from 1 to 39 form an integral part of these consolidated financial statements.

Chief Executive **Director** **Director** **Chairman**

Consolidated

Cash Flow Statement

For the Year ended December 31, 2012

2012	2011		Note	2012	2011
(US $ in '000)				(Rupees in '000)	
		CASH FLOWS FROM OPERATING ACTIVITIES			
11,369	9,497	Profit before taxation		**1,080,944**	920,129
1,839	990	Less: Dividend income		**178,196**	95,903
9,530	8,507			**902,748**	824,226
		Adjustments for non-cash charges and other items			
150	78	Depreciation	23	**14,491**	7,544
20	17	Amortisation	23	**1,919**	1,633
(187)	136	(Reversal) / provision against non-performing loans and advances		**(18,074)**	13,183
145	760	Provision for diminution in the value of investments	7.3	**14,055**	73,691
39	–	Other provisions / write off	9.2.2	**3,754**	–
–	(1)	Gain on sale of property and equipment	22	**(5)**	(69)
–	140	Unrealised loss on revaluation of investments classified as held-for-trading		**–**	13,560
–	2	Unrealised loss on revaluation of interest rate swap contracts		**–**	239
213	–	Share of loss of associates		**20,684**	–
380	1,130			**36,824**	109,781
9,910	9,637			**939,572**	934,007
		Decrease / (increase) in operating assets			
6,479	6,139	Lendings to financial institutions		**627,841**	594,886
74,055	(76,785)	Held-for-trading securities		**7,175,900**	(7,440,578)
(11,503)	(22,623)	Advances		**(1,114,662)**	(2,192,201)
1,125	(954)	Others assets (excluding current taxation)		**109,008**	(92,472)
70,156	(94,223)			**6,798,087**	(9,130,365)
		(Decrease) / increase in operating liabilities			
(216,124)	179,733	Borrowings		**(20,942,392)**	17,416,146
19,050	1,393	Deposits and other accounts		**1,845,906**	135,018
(563)	920	Other liabilities (excluding current taxation)		**(54,561)**	89,181
(197,637)	182,046			**(19,151,047)**	17,640,345
(117,571)	97,460			**(11,413,388)**	9,443,987
(3,749)	(3,898)	Income tax paid		**(363,266)**	(377,817)
(121,320)	93,562	Net cash (used in) / generated from operating activities		**(11,776,654)**	9,066,170
		CASH FLOWS FROM INVESTING ACTIVITIES			
149,722	(88,136)	Net investment in available-for-sale securities		**14,508,040**	(8,540,366)
(9)	(7)	Net investment in held-to-maturity securities		**(824)**	(654)
(30,868)	–	Investment in associates		**(2,991,134)**	–
1,466	755	Dividend income received		**142,102**	73,116
(480)	(245)	Investments in operating fixed assets		**(46,491)**	(23,744)
1	17	Sale proceeds from disposal of property and equipment		**71**	1,581
119,832	(87,616)	Net cash generated from / (used in) investing activities		**11,611,764**	(8,490,067)
		CASH FLOWS FROM FINANCING ACTIVITIES			
(2,064)	–	Dividend paid		**(200,000)**	–
(2,064)	–	Net cash used in financing activities		**(200,000)**	–
(3,552)	5,946	(Decrease) / increase in cash and cash equivalents		**(364,890)**	576,103
7,604	1,659	Cash and cash equivalents at the beginning of the year		**736,875**	160,772
4,052	7,605	Cash and cash equivalents at the end of the year	27	**371,985**	736,875

The annexed notes from 1 to 39 form an integral part of these consolidated financial statements.

Chief Executive **Director** **Director** **Chairman**

Statement of Changes in Equity

	Share capital	Statutory reserve	Unappropriated profit	Total
	(Rupees in '000)			
Balance as at January 01, 2011	6,000,000	278,311	1,113,241	7,391,552
Total comprehensive income for the year				
Profit after tax for the year ended December 31, 2011	–	–	604,464	604,464
Other comprehensive income	–	–	–	–
Total comprehensive income for the year ended December 31, 2011	–	–	604,464	604,464
Transfers				
Transfer to statutory reserve	–	120,893	(120,893)	–
Balance as at December 31, 2011	6,000,000	399,204	1,596,812	7,996,016
Total comprehensive income for the year				
Profit after tax for the year ended December 31, 2012	–	–	782,399	782,399
Other comprehensive income	–	–	–	–
Total comprehensive income for the year ended December 31, 2012	–	–	782,399	782,399
Transfers				
Transfer to statutory reserve	–	156,752	(156,752)	–
Transfers to unappropriated profit	–	(72)	72	–
Transaction with owners recorded directly in equity during the year ended December 31, 2012				
Final cash dividend - December 31, 2011 declared subsequent to year end @ Re. 0.33 per share	–	–	(200,000)	(200,000)
Balance as at December 31, 2012	**6,000,000**	**555,884**	**2,022,531**	**8,578,415**

The annexed notes from 1 to 39 form an integral part of these consolidated financial statements.

Chief Executive	**Director**	**Director**	**Chairman**

Notes to the Financial Statements

1. STATUS AND NATURE OF BUSINESS

The Group comprises of Pak Brunei Investment Company Limited (the “Holding Company” or “parent”) and a subsidiary, Primus Investment Management Limited. Brief profile of the Holding Company and its subsidiary is as follows:

1.1 Holding Company

Pak Brunei Investment Company Limited (the “Holding Company” or “parent”) is incorporated as an un-listed public limited company under the Companies Ordinance, 1984. The State Bank of Pakistan (the SBP) granted the approval for commencement of business with effect from August 20, 2007. The Holding Company is a joint venture between the Government of Pakistan and the Brunei Investment Agency. The Holding Company's objective interalia includes making investments in the industrial and agro based industrial fields in Pakistan on commercial basis through carrying out of industrial and agro based industrial projects and making of their products in Pakistan and abroad and to undertake other feasible business and to establish and acquire companies to conduct various businesses. The registered office of the Company is situated at Horizon Vista, Plot No. Comm-10, Block No. 4, Scheme No. 5, Clifton, Karachi, Pakistan.

1.2 Subsidiary Company

Primus Investment Management Limited is a public unlisted company incorporated in Pakistan on August 10, 2011 under the Companies Ordinance, 1984. The registered office of the Company is situated at 4th Floor, Horizon Vista, Plot No. Comm-10, Block No. 4, Scheme No. 5, Clifton, Karachi, Pakistan. The Company has obtained the license of an “Investment Advisor” and “Asset Management Company” (AMC) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations).

2. BASIS OF PRESENTATION

2.1 Basis of Measurement

These consolidated financial statements have been prepared under the historical cost convention except that certain investments have been stated at revalued amounts in accordance with the directives of the State Bank of Pakistan (SBP).

2.2 US Dollar equivalent

The US dollar amounts shown in the consolidated statement of financial position, consolidated profit and loss account, consolidated statement of comprehensive income and consolidated cash flow statement are stated as additional information solely for the convenience of readers. For this purpose of conversion to US Dollars, the rate of Rs.96.90 to US Dollars has been used for both 2012 and 2011, as it was the prevalent rate as on December 31, 2012.

3. STATEMENT OF COMPLIANCE

3.1 These consolidated 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 (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the provisions of and directives issued under the Companies Ordinance, 1984 and the directives issued by the State Bank of Pakistan. Wherever the requirements of the Companies Ordinance, 1984 or directives issued under the Companies Ordinance, 1984 and the State Bank of Pakistan differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives shall prevail.

3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for DFIs through BSD Circular Letter No. 11 dated September 11, 2002 till further instructions. Further, according to the notification of the SECP dated April 28, 2008, the IFRS - 7 “Financial Instruments: Disclosures” has not been made applicable to Banks / DFIs. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

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

During the year, the following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standards or Interpretation	Effective date (annual periods beginning on or after)
IAS 1 - Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income	July 01, 2012
IAS 19 - Employee Benefits (Revised)	January 01, 2013
IAS 32 - Offsetting Financial Assets and Financial Liabilities - (Amendment)	January 01, 2014

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

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

The following new standards have been issued by the IASB, but have not yet been notified by the SECP for application in Pakistan.

Standards or Interpretation	IASB Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2015
IFRS 10 – Consolidated Financial Statements	January 01, 2013
IFRS 11 – Joint Arrangements	January 01, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13 – Fair Value Measurement	January 01, 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 New and amended standards and interpretations

The Group has adopted the following amendments to IFRSs which became effective during the current year:

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

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

4.2 Basis of consolidation

Subsidiary is the enterprise in which the Group directly or indirectly controls, beneficially owns or holds more than 50 percent of its voting securities or otherwise has power to elect and appoint more than 50 percent of its directors.

Subsidiary company is consolidated from the date on which more than 50 percent of voting rights are transferred to the Group or power to control the Company is established and excluded from consolidation from the date of disposal or when the control is lost.

The financial statements of the subsidiary are prepared for the same reporting year as the Group for the purpose of consolidation, using consistent accounting policies except, as disclosed in note 4.6.

The assets, liabilities, income and expenses of subsidiary have been consolidated on a line by line basis and the carrying value of investment in subsidiary held by the Group is eliminated against the shareholders' equity in the consolidated financial statements.

Non-Controlling Interest in equity of the Subsidiary Company is measured at proportionate share of net assets of the acquiree.

Material intra-group balances and transactions have been eliminated.

4.3 Cash and cash equivalents

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

4.4 Revenue recognition

Mark-up / return / interest income on advances and investments is recognised on time proportionate basis taking into account effective yield on the instrument except in case of advances and investments classified under the SBP's Prudential Regulations on which mark-up / return / interest is recognised on receipt basis.

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

Fee, commission and brokerage income, management fee and remuneration for trustee and advisory services are recognised at the time of performance of services.

Premium or discount on debt securities classified as “available-for-sale” and “held-to-maturity” securities is amortised using the effective interest method and taken to consolidated profit and loss account.

Gains and losses on disposal of investments are dealt with through profit and loss account in the year in which they arise.

Return on bank deposits is recognised on time proportionate basis using the effective interest rates.

4.5 Advances

Advances are stated net of specific and general provisions. Specific provisions are made in accordance with the requirements of the Prudential Regulations issued by SBP and charged to the consolidated profit and loss account. These regulations prescribe an age based criteria (as supplemented by subjective evaluation of advances) for classification of non-performing loans and advances and computing provision / allowance thereagainst. Advances are written off where there are no realistic prospects of recovery.

Leases are classified as finance leases, when the Group transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessee. A receivable is recognised at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. Finance lease receivables are included in advances to customers.

4.6 Investments

Investments other than those categorised as held-for-trading are initially recognised at fair value which includes transaction costs associated with the acquisition of investments. Investments classified as held-for-trading are initially recognised at fair value, and transaction costs are expensed in the consolidated profit and loss account. The Group has classified its investment portfolio into ‘held-for-trading’, ‘held-to-maturity’ and ‘available-for-sale’ portfolios as follows:

Held-for-trading
These are investments, which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealer's margin or are securities included in a portfolio in which a

pattern of short-term profit taking exists and are to be sold within 90 days of acquisition. These are carried at market value, with the related surplus / deficit being taken to consolidated profit and loss account.

Held-to-maturity
These are securities with fixed or determinable payments and fixed maturity in respect of which the Group has the positive intent and ability to hold till maturity. These are carried at amortised cost using the effective interest rate method.

Available-for-sale
These are investments that do not fall under the 'held-for-trading' or 'held-to-maturity' categories. These are carried at market value with the surplus / deficit taken to 'surplus / deficit on revaluation of assets' account below equity. Provision for diminution in the value of investments in respect of unquoted shares is calculated with reference to break-up value. Provision for unquoted debt securities is calculated with reference to the time-based criteria as per the SBP's Prudential Regulations.

On derecognition or impairment in quoted available-for-sale investments, the cumulative gain or loss previously reported as 'surplus / (deficit) on revaluation of assets' below equity is included in the consolidated profit and loss account for the year.

Held-for-trading and quoted available-for-sale securities are marked to market with reference to ready quotes on Reuters page (PKRV) or the Stock Exchanges.

Unquoted equity securities are valued at the lower of cost and break-up value. The break-up value of these securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. A decline in the carrying value is charged to the consolidated profit and loss account. A subsequent increase in the carrying value, upto the cost of the investment, is credited to consolidated profit and loss account. Investments in other unquoted securities are valued at cost less impairment, if any.

The carrying values of investments are reviewed for impairment at each reporting date. Where any such indications exist that the carrying values exceed the estimated recoverable amounts, provision for impairment is made through the consolidated profit and loss account.

Investments in associates
Associates are entities over which the Group has a significant influence, but control does not exist.

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment in the associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee subsequent to the date of acquisition. The increase / decrease in the share of profit or loss of associates is accounted for in the consolidated profit and loss account. The Group applies equity accounting for its own investment in mutual funds managed by its Subsidiary Company.

4.7 Repurchase and resale agreements

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated financial statements and are measured in accordance with accounting policies for investment securities. The counterparty liability for amounts received under these agreements is included in borrowings. The difference between sale and repurchase price is treated as mark-up / return / interest expense and accrued over the life of the repo agreement using effective interest rate method.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated financial statements, as the Group does not obtain control over the securities. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up / return / interest income and accrued over the life of the reverse repo agreement using effective interest rate method.

4.8 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value using appropriate

valuation techniques. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value of derivative instruments is taken to the consolidated profit and loss account.

4.9 Trade date accounting

All regular way purchases / sales of investment are recognised on the trade date, i.e. the date the Group commits to purchase / sell the investments. Regular way purchases or sales of investment require delivery of securities within time frame generally established by regulations or convention in market place.

4.10 Financial instruments

Financial assets and liabilities are recognised at the time when the Group becomes party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognised when obligation specific in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognised in the consolidated profit and loss account of the current period. The particular recognition and subsequent measurement method for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

4.11 Taxation

4.11.1 Current
The charge for current taxation is based on taxable income at the current rates of taxation after taking into account the tax credits and tax rebates available, if any. The charge for current tax also includes adjustments whenever considered necessary relating to prior year, arising from assessments framed during the year.

4.11.2 Deferred
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

The carrying amount of deferred income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

4.12 Operating fixed assets

4.12.1 Property and equipment

4.12.1.1 Owned assets
Operating fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to the consolidated profit and loss account using the straight line method at the rates stated in note 9.2. Depreciation is charged from the date when the asset is available for use and no depreciation is charged from the date when the asset is disposed off.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated profit and loss account during the financial period in which they are incurred.

Residual values and useful lives are reviewed at each reporting date and adjusted if the impact on depreciation is considered significant.

Gain / loss on sale or disposal of fixed assets is recognised in the consolidated profit and loss account.

4.12.1.2 Leased assets

Assets held under finance lease are accounted for by recording the assets and the related liability. These are recorded at lower of fair value and the present value of minimum lease payments at the inception of lease and are subsequently stated net of accumulated depreciation.

Financial charges are allocated over the period of lease term so as to provide a constant periodic rate of financial charge on the outstanding finance lease liability.

Depreciation is charged on leased assets on a basis similar to that of owned assets.

4.12.2 Intangibles

Intangible assets are stated at cost less accumulated amortisation and impairment losses, if any. Intangible assets are amortised using the straight line method at the rate stated in note 9.3. The residual values and useful life are reviewed and adjusted, if appropriate at each reporting date.

Amortisation on addition and deletion of intangible assets during the year is charged in proportion to the period of use.

4.12.3 Capital work-in-progress

Capital work-in-progress is stated at cost. These are transferred to specific assets as and when assets are available for use.

4.12.4 Impairment

The carrying values of operating fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, fixed assets are written down to their recoverable amounts.

The resulting impairment loss is taken to consolidated profit and loss account. Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the amount which would have been determined had there been no impairment. Reversal of impairment loss is recognised as income.

4.13 Provisions

Provision is made when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of amount can be made. Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimates.

4.14 Borrowings / deposits

a) Borrowings / deposits are recorded when the proceeds are received.

b) The cost of borrowings / deposits is recognised as an expense in the period in which it is incurred. Any difference between the proceeds and the redemption value is recognised in the consolidated profit and loss account over the period of the borrowings / deposits using the effective interest method.

4.15 Offsetting

Financial assets and financial liabilities are only set off and the net amount is reported in the consolidated financial statements when there is a legally enforceable right to set off and the Group intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

4.16 Assets acquired in satisfaction of claims

The Group occasionally acquires assets in settlement of certain advances. These are stated at lower of the net realizable value of the related advances or the fair value of such assets.

4.17 Staff retirement benefits

4.17.1 Defined contribution plan

4.17.1.1 Staff provident fund

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

4.17.1.2 Compensated absences

Compensated absences of employees are accounted for in the period in which these absences are earned. During the year, the Group has terminated its compensated absences policy. Accordingly, no provision in respect of compensated absences have been made in the current year financial statements.

4.18 Foreign currency translation

Foreign currency transactions are converted into Rupees by applying the exchange rate at the date of the respective transactions. Monetary assets and liabilities in foreign currencies are translated into Rupees at the rates of exchange prevailing at the reporting date. Exchange gains and losses are included in income.

The Group's consolidated financial statements are presented in Pak Rupees (Rs.) which is the Group's functional and presentation currency.

4.19 Dividend distribution

Dividend is recognised as a liability in the year in which it is approved by shareholders / directors as appropriate.

4.20 Distributions of bonus shares and other appropriations to reserves

The Group recognises all appropriations, other than statutory appropriations, to reserves including those in respect of bonus shares, in the year in which such appropriations are approved by shareholders / directors as appropriate.

4.21 Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no convertible dilutive potential ordinary shares in issue at December 31, 2012.

4.22 Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing product 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.

4.22.1 Business Segments

Corporate finance

Corporate finance includes services provided in connection with mergers and acquisitions, underwriting, privatization, securitization, research, debts (government, high yield), equity, syndication, IPO and secondary private placements.

Trading and sales
It includes fixed income, equity, foreign exchange, commodities, credit, funding, lending and repos, brokerage debt and prime brokerage.

Commercial Banking
Commercial banking includes project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bill of exchange and deposits.

4.22.2 Geographical segments
The Group operates in Pakistan only.

4.23 Accounting estimates and judgments

The preparation of consolidated financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where various assumptions and estimates are significant to the Group's consolidated financial statements or where judgment was exercised in application of accounting policies are as follows:

4.23.1 Classification of investments

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

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

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

4.23.2 Provision against non-performing loans and advances
The Group reviews its loan portfolio to assess amount of non-performing loans and advances and determine provision required there against. While assessing this requirement various factors including the past dues, delinquency in the account, financial position of the borrower and requirements of Prudential Regulations are considered.

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

4.23.4 Taxation
In making the estimates for income taxes currently payable by the Group, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past.

4.23.5 Fair value of derivatives
The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates and exchange rates over the term of contract.

4.23.6 Fixed assets, depreciation and amortization
In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Group. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern.

5. CASH AND BALANCES WITH TREASURY BANKS

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
In hand		**8**	–
With State Bank of Pakistan in Local currency current account	5.1	**54,739**	174,784
With National Bank of Pakistan in Local currency current account		**16**	6
		54,763	174,790

5.1 This represents the minimum cash reserve required to be maintained with the SBP in accordance with the requirement of BSD Circular No. 04 dated May 22, 2004.

6. BALANCES WITH OTHER BANKS

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
In Pakistan			
On current accounts		**–**	–
On deposit accounts	6.1	**317,222**	562,085
		317,222	562,085

6.1 These carry mark-up at rates ranging from 5.00% to 10.30% per annum (2011: 5.00% to 10.00% per annum).

7. INVESTMENTS

7.1 Investment by types

	Note	December 31, 2012 Held by Group	December 31, 2012 Given as collateral	December 31, 2012 Total	December 31, 2011 Held by Group	December 31, 2011 Given as collateral	December 31, 2011 Total
		(Rupees in '000)					
Held-for-trading securities							
Market Treasury Bills		–	–	–	260,792	6,977,094	7,237,886
Pakistan Investment Bonds		–	–	–	194,855	–	194,855
Ordinary shares of listed companies		–	–	–	7,837	–	7,837
		–	–	–	463,484	6,977,094	7,440,578
Available-for-sale securities	7.4						
Market Treasury Bills	7.5.1	**880,117**	–	**880,117**	255,771	12,985,868	13,241,639
Pakistan Investment Bonds		–	–	–	340,549	–	340,549
Ordinary shares of listed companies	7.6	**319,707**	–	**319,707**	620,040	–	620,040
Ordinary shares of unlisted companies	7.7	**121,375**	–	**121,375**	100,000	–	100,000
Units of mutual funds	7.8	**28,835**	–	**28,835**	978,890	–	978,890
Term Finance Certificates and Sukuks	7.11	**2,511,797**	–	**2,511,797**	3,312,763	–	3,312,763
Preference shares	7.9	**85,625**	–	**85,625**	21,500	–	21,500
		3,947,456	–	**3,947,456**	5,629,513	12,985,868	18,615,381
Held-to-maturity securities							
Term Finance Certificates and Sukuks	7.11	**191,230**	–	191,230	190,406	–	190,406
Investment in associates	7.10	**3,220,460**	–	**3,220,460**	–	–	–
Investments at cost		**7,359,146**	–	**7,359,146**	6,283,403	19,962,962	26,246,365
Less: Provision for diminution in value of Investments	7.3	**(262,815)**	–	**(262,815)**	(409,752)	–	(409,752)
Investments (net of provisions)		**7,096,331**	–	**7,096,331**	5,873,651	19,962,962	25,836,613
Deficit on revaluation of held-for-trading securities - net		–	–	–	(3,731)	(9,829)	(13,560)
Surplus / (deficit) on revaluation of available-for-sale securities - net	16.1	**4,485**	–	**4,485**	(68,090)	(12,599)	(80,689)
Total investments at market value		**7,100,816**	**–**	**7,100,816**	**5,801,830**	**19,940,534**	**25,742,364**

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	

7.2 Investments by Segments

	Note	2012	2011
Federal Government Securities:			
Market Treasury Bills	7.5	**880,117**	20,479,525
Pakistan Investment Bonds		**–**	535,404
Fully Paid up Ordinary Shares:			
Listed Companies	7.6	**319,707**	627,877
Unlisted Companies	7.7	**121,375**	100,000
Term Finance Certificates and Sukuks:			
Listed	7.11	**801,742**	1,179,472
Unlisted	7.11	**1,901,285**	2,323,697
Units of mutual funds (including associates)	7.8 & 7.10	**3,249,295**	978,890
Preference shares	7.9	**85,625**	21,500
Total investments at cost		**7,359,146**	26,246,365
Less: Provision for diminution in value of investments	7.3	**(262,815)**	(409,752)
Investments (net of provisions)		**7,096,331**	25,836,613
Deficit on revaluation of held-for-trading securities - net		**–**	(13,560)
Surplus / (deficit) on revaluation of available-for-sale securities - net	16.1	**4,485**	(80,689)
Total investments at market value		**7,100,816**	25,742,364

7.3 Particulars of Provision

	Note	2012	2011
Opening balance		**409,752**	336,061
Charge for the year		**50,899**	73,691
Reversal during the year		**(36,844)**	–
		14,055	73,691
Impairment on equity securities transferred to profit and loss account on disposal		**(160,992)**	–
Closing balance	7.3.1	**262,815**	409,752

7.3.1 Particulars of Provision in respect of Type and Segment

	2012	2011
Available-for-sale securities		
Ordinary shares of listed companies	**29,578**	184,965
Units of mutual funds	**3,576**	3,576
Preference shares	**6,500**	5,081
Term finance certificates and sukuks	**223,161**	216,130
	262,815	409,752

7.3.2 Investments include certain government securities which are kept with the SBP to meet Statutory Liquidity Requirements determined on the basis of Holding Company's demand and time liabilities.

7.4 Quality of Available-for-Sale Securities

(Rupees in '000)

	December 31, 2012 Market value / Carrying value for unlisted investments	December 31, 2012 Rating	December 31, 2011 Market value / Carrying value for unlisted investments	December 31, 2011 Rating
Market Treasury Bills (T - bills)				
1 Year T-bills	**881,769**	**Government**	13,127,672	Government
6 month T-bills	**–**	**Securities**	101,262	Securities
	881,769		13,228,934	
Pakistan Investment Bonds (PIBs)				
10 year PIBs	**–**	**Government**	47,291	Government
5 year PIBs	**–**	**Securities**	192,618	Securities
3 year PIBs	**–**		98,568	
	–		338,477	
Ordinary shares of listed companies				
Oil & Gas marketing / exploration companies				
Pakistan State Oil Company Limited	**32,293**	**AA+**	20,651	AA+
Pakistan Petroleum Limited	**3,430**	**Unrated**	–	–
Commercial banks				
JS Bank Limited	**–**	**–**	3,524	A
United Bank Limited	**44,387**	**AA+**	–	–
NBFCs				
KASB Securities Limited	**–**	**–**	6,720	A
Communication				
Pakistan Telecommunication Company Limited	**11,304**	**Unrated**	–	–
Power generation and distribution				
Kot Addu Power Company Limited	**10,298**	**AA+**	38,059	AA+
Nishat Chunian Power Limited	**–**	**–**	8,925	AA-
Nishat Power Limited	**–**	**–**	1,583	AA-
The Hub Power Company Limited	**20,856**	**AA+**	133,860	AA+
Cement				
D.G Khan Cement Company Limited	**–**	**–**	39,376	Unrated
Gharibwal Cement Limited	**71,440**	**Unrated**	45,400	D
Chemicals				
Engro Corporation Limited	**24,207**	**A**	33,372	AA
Nimir Industrial Chemicals Limited, a related party	**14,050**	**Unrated**	11,683	Unrated
Fertilizers				
Fauji Fertilizers Company Limited	**40,999**	**Unrated**	–	–
Agritech Limited	**14,695**	**D**	–	–
Personal goods				
Nishat Mills Limited	**–**	**–**	30,094	AA-
	287,959		373,247	
Ordinary shares of unlisted companies				
Faruki Pulp Mills Limited	**100,000**	**Unrated**	100,000	Unrated
Omer Jibran Engineering Industries Limited	**21,375**	**Unrated**	–	–
	121,375		100,000	
Preference shares				
Pakistan Mercantile Exchange Limited	**15,000**	**BBB**	15,000	BBB
Omer Jibran Engineering Industries Limited	**64,125**	**Unrated**	–	–
Trust Investment Bank Limited	**–**	**Unrated**	1,419	Unrated
	79,125		16,419	

(Rupees in '000)

	December 31, 2012		December 31, 2011	
	Market value / Carrying value for unlisted investments	Rating	Market value / Carrying value for unlisted investments	Rating
Units of mutual funds				
ABL Cash Fund	–	–	243,535	AA+ (f)
Askari Sovereign Cash Fund	–	–	243,247	AA+ (f)
UBL Government Securities Fund	–	–	145,421	AA- (f)
UBL Liquidity Plus Fund	–	–	243,908	AA+ (f)
BMA Empress Cash Fund	–	–	50,111	AA+ (f)
Pak Oman Advantage Fund	26,643	AA- (f)	26,356	AA- (f)
	26,643		952,578	
Term Finance Certificates (TFCs) and Sukuks				
Listed TFCs				
Commercial banks				
Allied Bank Limited - 1st Issue	50,435	AA	50,455	AA-
Allied Bank Limited - 2nd Issue	25,195	AA	25,054	AA-
Askari Bank Limited - 1st Issue	581	AA-	575	AA-
Askari Bank Limited - 2nd Issue	30,335	AA-	30,018	AA-
Askari Bank Limited - 4th Issue	104,410	AA-	108,392	AA-
Bank Al Falah Limited - 2nd Issue	–	–	9,338	AA-
Bank Al Falah Limited - 3rd Issue	6,715	AA-	10,007	AA-
Bank Al Habib Limited - 1st Issue	–	–	26,399	AA-
Bank Al Habib Limited - 2nd Issue	–	–	15,566	AA
Faysal Bank Limited - 1st Issue	5,209	AA-	4,852	AA-
Faysal Bank Limited - 3rd Issue	4,940	AA-	10,170	AA-
NIB Bank Limited	131,095	A+	321,372	A+
Soneri Bank Limited	2,500	A+	7,494	A+
Standard Chartered Bank (Pakistan) Limited - 3rd Issue	2,552	AAA	7,158	AAA
Summit Bank Limited	89,366	A(SO)	200,000	A(SO)
United Bank Limited - 1st Issue	–	–	87,650	AA
United Bank Limited - 2nd Issue	69,744	AA	70,784	AA
United Bank Limited - 3rd Issue	3,375	AA	5,063	AA
United Bank Limited - 4th Issue	83,559	AA	81,635	AA
Fertilizer				
Engro Chemical Limited	2,342	A+	2,382	AA
Engro Fertilizer Limited - 3rd Issue	164	A+	185	AA
Pak Arab Fertilizer Limited	–	–	37,566	AA
Real estate developers				
Pace Pakistan Limited	–	–	433	D
NBFCs				
Saudi Pak Leasing Company Limited	–	–	25,508	D
Telecommunication				
World Call Telecom Limited	21,630	D	28,562	A
Pakistan Mobile Communication Limited	141,499	AA-	–	–
	775,646		1,166,618	
Unlisted TFCs and Sukuks				
Commercial banks				
Askari Bank Limited - 4th Issue	–	–	150,000	AA-
Bank Al Habib Limited - PPTFC 2	–	–	261,188	AA
Fertilizer				
Agritech Limited - 1st Issue	2,242	D	3,293	D
Agritech Limited - 4th Issue	26,361	D	42,127	D
Agritech Limited - 5th Issue	5,584	D	–	–
Engro Fertilizer Limited - 1st Issue	453,180	A+	275,773	A
Engro Fertilizer Limited - 2nd Issue	63,902	A+	63,888	A

(Rupees in '000)

	December 31, 2012		December 31, 2011	
	Market value / Carrying value for unlisted investments	Rating	Market value / Carrying value for unlisted investments	Rating
Sugar				
Al Abbas Sugar Mills Limited - 2nd Issue	43,718	A+	87,046	A+
JDW Sugar Mills Limited - 2nd Issue	40,769	A+	66,593	A+
Pharmaceutical				
Martin Dow Pharmaceutical Pakistan Limited	267,060	A	331,700	A
Cement				
Kohat Cement Company Limited	5,738	D	17,650	Unrated
Maple Leaf Cement Factory Limited - 1st Issue	337,643	D	304,133	D
Maple Leaf Cement Factory Limited - 2nd Issue	2,825	D	7,628	D
NBFCs				
Jahangir Siddiqui & Co. Limited	92,212	AA+	91,715	AA
Personal goods				
Azgard Nine Limited I	7,793	D	–	–
Azgard Nine Limited II	4,370	D	24,980	D
Azgard Nine Limited III	11,079	D	–	–
Real estate developers				
Eden Housing (Private) Limited	143,363	D	208,759	D
Consumer electronics				
New Allied Electronics (Private) Limited	–	D	–	D
Pak Elektron Limited - 3rd Issue	200,000	D	200,000	A
Oil and gas				
Sui Southern Gas Company Limited	–	–	2,600	AA
	2,483,485		3,305,691	
	3,880,356		18,315,346	

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
7.5 Particulars of investments in Federal Government Securities			
7.5.1 Available-for-sale			
Market Treasury Bills		**880,117**	13,241,639
Pakistan Investment Bonds		**–**	340,549
Carrying value (before revaluation) of investments in federal government securities		**880,117**	13,582,188
Surplus / (deficit) on revaluation of securities		**1,652**	(14,777)
Market value as at December 31, 2012		**881,769**	13,567,411

7.6 Particulars of investments in ordinary shares of listed companies - available-for-sale

Name of investee company	December 31, 2012	December 31, 2011	Cost as at December 31 2012	Cost as at December 31, 2011
	No. of shares held		(Rupees in 000)	
Oil and gas marketing / exploration companies				
Pakistan State Oil Company Limited	**139,069**	90,891	**33,141**	26,547
Pakistan Petroleum Limited	**19,400**	–	**3,474**	–
Commercial banks				
JS Bank Limited	**–**	2,136,000	**–**	48,242
United Bank Limited	**530,500**	–	**47,165**	–
NBFCs				
KASB Securities Limited	**–**	2,921,617	**–**	122,968
Communication				
Pakistan Telecommunication Company Limited	**651,500**	–	**13,002**	–
Power generation and distribution				
Kot Addu Power Company Limited	**208,500**	921,079	**10,324**	39,665
Nishat Chunian Power Limited	**–**	700,000	**–**	10,764
Nishat Power Limited	**–**	122,204	**–**	1,911
The Hub Power Company Limited	**461,000**	3,914,022	**21,076**	149,254
Cement				
D.G. Khan Cement Company Limited	**–**	2,069,142	**–**	53,329
Gharibwal Cement Limited	**8,000,000**	8,136,192	**66,640**	67,360
Chemicals				
Engro Corporation Limited	**263,001**	360,000	**30,056**	45,794
Nimir Industrial Chemicals Limited, a related party	**3,678,008**	5,014,100	**9,494**	12,937
Fertilizers				
Fauji Fertilizers Company Limited	**350,000**	–	**41,258**	–
Agritech Limited (see note 7.6.1)	**1,259,337**	–	**44,077**	–
Personal goods				
Nishat Mills Limited	**–**	743,976	**–**	41,269
Carrying value (before revaluation and provision) of listed shares 'available-for-sale'			**319,707**	620,040
Provision for diminution in value of investments			**(29,578)**	(184,965)
Deficit on revaluation of securities - net			**(2,170)**	(61,828)
Market value as at December 31, 2012			**287,959**	373,247

7.6.1 The SBP, vide Letter No. BPRD / BRD-(Policy) / 2013-1857 dated February 15, 2013, has permitted banks / DFIs to maintain provision equal to 10% of the deficit on revaluation of Ordinary shares of Agritech Limited. Accordingly, provision for diminution in value of investment includes Rs.2.938 million (2011: Rs.Nil) against Ordinary shares of Agritech Limited. The required provision against exposure amounting to Rs.26.442 million on Ordinary shares of Agritech Limited has not been recorded in these financial statements based upon the above relaxation from SBP.

7.7 Particulars of investments in ordinary shares of unlisted companies - available-for-sale

(Rupees in '000)

Name of investee company	Name of Chief Executive	December 31, 2012	December 31, 2011	Cost as at December 31, 2012	Cost as at December 31, 2011
		Number of shares held			
Faruki Pulp Mills Limited	Mr. Shahid Saleem	6,666,667	6,666,667	**100,000**	100,000
Omer Jibran Engineering Industries Limited	Mr. Feroz Khan	2,137,500	–	**21,375**	–
				121,375	100,000

7.8 Particulars of investment in units of mutual funds - available-for-sale

Name of investee company	December 31, 2012	December 31, 2011	Cost as at December 31 2012	Cost as at December 31, 2011
	No. of units held		(Rupees in 000)	
Closed-end mutual fund				
Pak Oman Advantage Fund	**2,883,499**	2,889,899	**28,835**	28,890
Open-end mutual funds				
Askari Sovereign Cash Fund	**–**	2,420,464	**–**	250,000
ABL Cash Fund	**–**	24,307,680	**–**	250,000
BMA Express Cash Fund	**–**	4,834,702	**–**	50,000
UBL Government Securities Fund	**–**	1,448,945	**–**	150,000
UBL Liquidity Plus Fund	**–**	2,427,321	**–**	250,000
Carrying value (before revaluation and provision) of mutual funds units 'available-for-sale'			**28,835**	978,890
Provision for diminution in value of investments			**(3,576)**	(3,576)
Surplus / (deficit) on revaluation of securities - net			**1,384**	(22,736)
Market value as at December 31, 2012			**26,643**	952,578

7.9 Particulars of investment in unlisted preference shares - available-for-sale

Name of investee company	Note	December 31, 2012	December 31, 2011	Cost as at December 31 2012	Cost as at December 31, 2011
		No. of shares held		(Rupees in 000)	
Pakistan Mercantile Exchange Limited	7.9.1	1,500,000	1,500,000	**15,000**	15,000
Omer Jibran Engineering Industries Limited	7.9.2	6,412,500	–	**64,125**	–
Trust Investment Bank Limited	7.9.3	650,000	650,000	**6,500**	6,500
Carrying value (before revaluation and provision) of preference shares 'available-for-sale'				**85,625**	21,500
Provision for diminution in value of investments				**(6,500)**	(5,081)
Market value as at December 31, 2012				**79,125**	16,419

7.9.1 These are cumulative, convertible, redeemable and non-participatory preference shares, carrying dividend at the rate of one year Kibor + 250 basis points per annum, of the face value of Rs.10 each. These carry call option exercisable at any time between the period of two years commencing from subscription date i.e. June 30, 2011.

7.9.2 These are cumulative, convertible, redeemable and non-participatory preference shares, carrying dividend at the rate of 10% per annum applicable after two years from the date of investment i.e. July 06, 2012, of the face value of Rs.10 each. These shares carry call option exercisable at any time after subscription date till termination of this agreement.

7.9.3 These are cumulative, convertible, redeemable and non-participatory preference shares, carrying dividend at the rate of 1 year Kibor + 1% per annum, of the face value of Rs.10 each. These shares carry call option exercisable by the issuer between 3 to 5 years from the date of allotment i.e. May 05, 2010.

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
7.10 Investment in associates			
Primus Cash Fund	7.10.1	**2,970,460**	–
Primus Daily Reserve Fund	7.10.2	**250,000**	–
		3,220,460	–

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	

7.10.1 Primus Cash Fund

Investment as at January 01, 2012	–	–
Investment made during the year	4,215,000	–
Redemption during the year	(1,223,856)	–
Share of loss for the year	(20,684)	–
Balance as at December 31, 2012	2,970,460	–
Percentage holding as at December 31, 2012	**96.25%**	–

7.10.1.1 Primus Cash Fund is an open ended mutual fund, listed on the Karachi Stock Exchange. Being an open ended mutual fund, the fund offers units for public subscription on a continuous basis.

7.10.1.2 The details of assets, liabilities, revenues and profits of the Fund as of December 31, 2012 based on unaudited financial statements are as follows:

(Rupees in '000)

		Assets	Liabilities	Revenue	Profit
Primus Cash Fund	2012	3,154,653	68,592	128,483	106,469
	2011	–	–	–	–

7.10.2 Primus Daily Reserve Fund

This represents amount paid on account of subscription money as part of the Initial Public Offering (IPO) of Primus Daily Reserve Fund - an open ended mutual fund under the management of the Group. The IPO subsequently closed on January 01, 2013 and units were made available for trading on January 02, 2013.

7.11 Particulars of investments in Term Finance Certificates (TFCs) and Sukuks

Name of the investee	Rate of interest	Profit payment	Maturity	Number of certificates held	Paid-up value per certificate (Rupees)	Total Paid up value (before redemption) (Rupees in '000)	Balance as at December 31, 2012 (Rupees in '000)	Name of Chief Executive
Listed TFCs								
Commercial banks								
Allied Bank Limited - 1st Issue	6 Months KIBOR+1.90%	Half Yearly	6-Dec-14	10,000	5,000	50,000	**49,907**	Mr. Khalid Ahmed Sherwani
Allied Bank Limited - 2nd Issue	6 Months KIBOR+0.85%	Half Yearly	28-Aug-19	5,000	5,000	25,000	**24,298**	Mr. Khalid Ahmed Sherwani
Askari Bank Limited - 4th Issue	6 Months KIBOR+2.50%	Half Yearly	18-Nov-19	20,700	5,000	103,500	**104,076**	Mr. M.R Mehkari
Askari Bank Limited - 1st issue	6 Months KIBOR+1.50%	Half Yearly	4-Feb-13	115	5,000	575	**593**	Mr. M.R Mehkari
Askari Bank Limited - 2nd Issue	6 Months KIBOR+1.50%	Half Yearly	31-Oct-13	6,000	5,000	30,000	**29,893**	Mr. M.R Mehkari
Bank Alfalah Limited - 3rd Issue	6 Months KIBOR+1.50%	Half Yearly	25-Nov-13	2,000	5,000	10,000	**6,627**	Mr. Atif Bajwa
Faysal Bank Limited	6 Months KIBOR+1.40%	Half Yearly	12-Nov-14	1,031	5,000	5,153	**5,137**	Mr. Naved A. Khan
Faysal Bank Limited - 3rd issue	6 Months KIBOR+1.90%	Half Yearly	10-Feb-13	3,946	5,000	19,730	**4,928**	Mr. Naved A. Khan
Summit Bank Limited	6 Months KIBOR+3.25%	Half Yearly	27-Oct-18	18,200	5,000	90,975	**90,958**	Mr. Hussain Lawai
NIB Bank Limited	6 Months KIBOR+1.15%	Half Yearly	5-Mar-16	26,410	5,000	132,050	**131,016**	Mr. Badar Kazmi
Standard Chartered Bank - 3rd Issue	6 Months KIBOR+2.00%	Half Yearly	1-Feb-13	2,000	5,000	10,000	**2,506**	Mr. Mohsin Ali Nathani
Soneri Bank Limited	6 Months KIBOR+1.60%	Half Yearly	5-May-13	2,000	5,000	10,000	**2,499**	Mr. Aftab Manzoor
United Bank Limited - 2nd Issue	9.49% Fixed	Half Yearly	15-Mar-13	14,023	5,000	70,115	**69,456**	Mr. Atif R. Bokhari
United Bank Limited - 3rd issue	6 Months KIBOR+1.70%	Half Yearly	8-Sep-14	1,000	5,000	5,000	**3,332**	Mr. Atif R. Bokhari
United Bank Limited - 4th issue	6 Months KIBOR+0.85%	Half Yearly	14-Feb-18	16,400	5,000	82,000	**81,800**	Mr. Atif R. Bokhari
Fertilizer								
Engro Fertilizer Limited - 3rd issue	6 Months KIBOR+2.40%	Half Yearly	17-Dec-16	37	5,000	185	**170**	Mr. Muhammad Ali Uddin Ansari
Engro Fertilizer Limited - 2nd issue	6 Months KIBOR+1.55%	Half Yearly	30-Nov-15	481	5,000	2,405	**2,389**	Mr. Muhammad Ali Uddin Ansari
Real estate developers								
Pace Pakistan Limited	6 Months KIBOR+1.50%	Half Yearly	15-Feb-17	115	5,000	575	**574**	Ms. Aamna Ali Taseer
NBFCs								
Saudi Pak Leasing Company Limited - 3rd Issue	6.00% Fixed	Monthly	13-Mar-17	9,099	5,000	45,495	**29,142**	Mr. Nayyar Alam Ilyas
Telecommunication								
World Call Telecom Limited	6 Months KIBOR+1.60%	Half Yearly	7-Oct-13	10,000	5,000	50,000	**19,941**	Mr. Babar Ali Syed
Pakistan Mobile Communication Limited	3 Months KIBOR+2.65%	Quarterly	18-Apr-16	1,500	100,000	150,000	**142,500**	Mr. Rashid Khan
							801,742	
Unlisted TFCs								
Fertilizer								
Agritech Limited - 1st Issue	6 Months KIBOR+1.75%	Half Yearly	29-Nov-17	1,000	5,000	5,000	**3,637**	Mr. Ahmed Jaudet Bilal
Agritech Limited - 4th Issue	3 Months KIBOR+3.25%	Quarterly	1-Dec-17	9,000	5,000	45,000	**42,766**	Mr. Ahmed Jaudet Bilal
Agritech Limited - 5th Issue	0% Coupon	Half Yearly	1-Jan-15	1,672	5,000	8,360	**8,360**	Mr. Ahmed Jaudet Bilal
Engro Fertilizer Limited - 1st Issue	6 Months KIBOR+1.70%	Half Yearly	18-Mar-18	93,450	5,000	467,250	**453,180**	Mr. Muhammad Ali Uddin Ansari
Engro Fertilizer Limited - 2nd Issue	6 Months KIBOR+1.25%	Half Yearly	18-Mar-18	13,000	5,000	65,000	**63,902**	Mr. Muhammad Ali Uddin Ansari
Sugar								
Al-Abbas Sugar Mills Limited - 2nd Issue	6 Months KIBOR+1.75%	Half Yearly	21-Nov-13	44,000	5,000	220,000	**43,718**	Mr. Shunaid Qureshi
JDW Sugar Mills Limited	3 Months KIBOR+1.25%	Quarterly	23-Jun-14	24,754	5,000	123,770	**40,769**	Mr. Jahangir Khan Tareen
Pharmaceuticals								
Martin Dow Pharmaceutical (Pak) Limited - PPTFC	3 Months KIBOR+3%	Monthly	31-May-15	100,000	5,000	500,000	**267,060**	Mr. Muhammad Javaid Akhai
NBFCs								
Jahangir Siddiqui & Company Limited	6 Months KIBOR+1.70%	Half Yearly	4-Jul-13	18,500	5,000	92,500	**92,212**	Mr. Sueman Lalani
Textiles								
Azgard Nine Limited - 1st Issue	3 Months KIBOR+1.25%	Quarterly	18-Nov-15	15,000	5,000	75,000,000	**7,793**	Mr. Ahmed H Shaikh
Azgard Nine Limited - 2nd Issue	6 Months KIBOR+2.20%	Half Yearly	4-Dec-17	5,000	5,000	25,000,000	**10,838**	Mr. Ahmed H Shaikh
Azgard Nine Limited - 3rd Issue	0% Coupon	Quarterly	28-Jun-17	5,496	5,000	27,480,000	**27,480**	Mr. Ahmed H Shaikh
							1,061,715	
Unlisted sukuks								
Cement								
Maple Leaf Cement Factory - 1st issue	3 Months KIBOR+1.00%	Quarterly	3-Dec-18	100,200	5000	501,000,000	**337,643**	Mr. Sayeed Tariq Saigol
Maple Leaf Cement Factory - 2nd issue	3 Months KIBOR+1.00%	Quarterly	31-Mar-12	1,695	5,000	8,475,000	**2,825**	Mr. Sayeed Tariq Saigol
Kohat Cement Limited - Sukkuk	6 Months KIBOR+2.50%	Half Yearly	20-Dec-15	5,000	5,000	25,000,000	**5,738**	Mr. Aizaz Mansoor Sheikh
Consumer electronics								
New Allied Electronics (Private) Limited	3 Months KIBOR+2.20%	Quarterly	3-Dec-12	30,000	5,000	150,000	**150,000**	Mr. Mian Parvaiz Akhtar
Pak Elektron Limited	3 Months KIBOR+1.00%	Quarterly	31-Mar-15	40,000	5,000	200,000	**200,000**	Mr. Naseem Saigol
Real estate developers								
Eden Housing (Private) Limited	3 Months KIBOR+2.50%	Half Yearly	29-Jun-14	66,526	5,000	332,630	**143,364**	Dr. Muhammad Amjad
							839,570	
Carrying value (before revaluation and provision) of TFCs and Sukuks 'available-for-sale'							**2,703,027**	
Provision for diminution in value of investments							**(223,161)**	
Surplus on revaluation of securities - net							**3,619**	
Market value as at December 31, 2012							**2,483,485**	

Particulars of investments in Term Finance Certificates (TFCs) and Sukuks

Name of the investee	Rate of interest	Profit payment	Maturity	Number of certificates held	Paid-up value per certificate (Rupees)	Total Paid up value (before redemption) (Rupees in '000)	Balance as at December 31, 2011 (Rupees in '000)	Name of Chief Executive
Listed TFCs								
Commercial banks								
Allied Bank Limited - 1st Issue	6 Months KIBOR+1.90%	Half Yearly	6-Dec-14	10,000	5,000	50,000	49,938	Mr. Khalid Ahmed Sherwani
Allied Bank Limited - 2nd Issue	6 Months KIBOR+0.85%	Half Yearly	28-Aug-19	5,000	5,000	25,000	24,995	Mr. Khalid Ahmed Sherwani
Askari bank Limited - 1st Issue	6 Months KIBOR+1.50%	Half Yearly	4-Feb-13	115	5,000	575	592	Mr. M.R Mehkari
Askari Bank Limited - 2nd Issue	6 Months KIBOR+1.50%	Half Yearly	31-Oct-13	6,000	5,000	30,000	29,974	Mr. M.R Mehkari
Askari Bank Limited - 4th Issue	6 Months KIBOR+2.50%	Half Yearly	18-Nov-19	20,700	5,000	103,500	104,183	Mr. M.R Mehkari
Bank Al Habib Limited - 1st Issue	6 Months KIBOR+1.50%	Half Yearly	15-Jul-12	8,747	5,000	43,735	28,732	Mr. Abbas D. Habib
Bank Al Habib Limited - 2nd Issue	6 Months KIBOR+1.95%	Half Yearly	7-Feb-15	3,000	5,000	15,000	15,347	Mr. Abbas D. Habib
Bank Alfalah Limited - 2nd Issue	6 Months KIBOR+1.50%	Half Yearly	23-Nov-12	2,800	5,000	14,000	9,315	Mr. Atif Bajwa
Bank Alfalah Limited - 3rd Issue	6 Months KIBOR+1.50%	Half Yearly	25-Nov-13	2,000	5,000	10,000	9,892	Mr. Atif Bajwa
Faysal Bank Limited - 1st Issue	6 Months KIBOR+1.40%	Half Yearly	12-Nov-14	1,031	5,000	5,154	5,134	Mr. Naved A. Khan
Faysal Bank Limited - 3rd Issue	6 Months KIBOR+1.90%	Half Yearly	10-Feb-13	3,946	5,000	19,730	9,869	Mr. Naved A. Khan
NIB Bank Limited	6 Months KIBOR+1.15%	Half Yearly	5-Mar-16	65,510	5,000	327,550	326,139	Mr. Badar Kazmi
Soneri Bank Limited	6 Months KIBOR+1.60%	Half Yearly	5-May-13	2,000	5,000	10,000	7,487	Mr. Aftab Manzoor
Standard Chartered Bank - 3rd Issue	6 Months KIBOR+2.00%	Half Yearly	1-Feb-12	2,000	5,000	10,000	7,022	Mr. Mohsin Ali Nathani
Summit Bank Limited	6 Months KIBOR+3.25%	Half Yearly	27-Oct-18	40,000	5,000	200,000	200,000	Mr. Hussain Lawai
United Bank Limited - 2nd Issue	9.49.% Fixed	Half Yearly	15-Mar-13	14,898	5,000	74,490	70,632	Mr. Atif R. Bokhari
United Bank Limited - 3rd Issue	6 Months KIBOR+1.70%	Half Yearly	8-Sep-14	1,000	5,000	5,000	5,000	Mr. Atif R. Bokhari
United Bank Limited - 4th Issue	6 Months KIBOR+0.85%	Half Yearly	14-Feb-18	16,400	5,000	82,000	81,810	Mr. Atif R. Bokhari
United Bank Limited - 1st Issue	8.45% Fixed	Half Yearly	10-Aug-12	28,968	5,000	144,840	94,745	Mr. Atif R. Bokhari
Fertilizer								
Engro Chemical Pakistan Limited - 2nd Issue	6 Months KIBOR+1.55%	Half Yearly	30-Nov-15	481	5,000	2,405	2,380	Mr. Asad Umar
Engro Chemical Pakistan Limited - 3rd Issue	6 Months KIBOR+2.40%	Half Yearly	17-Dec-16	37	5,000	185	185	Mr. Asad Umar
Pak Arab Fertilizer Limited - 1st Issue	6 Months KIBOR+1.50%	Half Yearly	28-Feb-13	10,153	5,000	50,775	37,480	Mr. Fawad Ahmed Mukhtar
Real estate developers								
Pace Pakistan Limited	6 Months KIBOR+1.50%	Half Yearly	15-Feb-17	115	5,000	575	575	Ms. Aamna Ali Taseer
NBFCs								
Saudi Pak Leasing Company Limited	6.00% Fixed	Monthly	13-Mar-17	9,099	5,000	45,495	31,362	Mr. Nayyar Alam Ilyas
Telecommunication								
World Call Telecom Limited	6 Months KIBOR+1.60%	Half Yearly	7-Oct-13	10,000	5,000	50,000	26,684	Mr. Babar Ali Syed
							1,179,472	
Unlisted TFCs								
Commercial banks								
Askari Bank Limited - 4th Issue	6 Months KIBOR+1.75%	Half Yearly	23-Dec-21	Units Awaited	1,000,000	150,000	150,000	Mr. M.R Mehkari
Bank Al Habib Limited - PPTFC	15.00% Fixed	Half Yearly	30-Jun-21	50,000	5,000	250,000	261,188	Mr. Abbas D. Habib
Fertilizer								
Agritech Limited - 2nd Issue	6 Months KIBOR+3.25%	Quarterly	1-Dec-17	9,000	5,000	45,000	42,127	Mr. Ahmed Jaudet Bilal
Agritech Limited - 1st Issue	6 Months KIBOR+1.75%	Half Yearly	29-Nov-17	1,000	5,000	5,000	3,293	Mr. Ahmed Jaudet Bilal
Engro Fertilizer Limited - 1st Issue	6 Months KIBOR+1.70%	Half Yearly	18-Mar-18	56,940	5,000	284,700	275,773	Mr. Asad Umar
Engro Fertilizer Limited - 2nd Issue	6 Months KIBOR+1.25%	Half Yearly	18-Mar-18	13,000	5,000	65,000	63,888	Mr. Asad Umar
Sugar								
Al Abbas Sugar Mills Limited - 2nd Issue	6 Months KIBOR+1.75%	Half Yearly	21-Nov-13	44,000	5,000	220,000	87,046	Mr. Shunaid Qureshi
JDW Sugar Mills Limited	3 Months KIBOR+1.25%	Quarterly	23-Jun-14	24,754	5,000	123,770	66,593	Mr. Jahangir Khan Tareen
Pharmaceuticals								
Martin Dow Pharmaceutical Pakistan Limited - PPTFC	3 Months KIBOR+3%	Monthly	31-May-15	100,000	5,000	500,000	331,700	Mr. Muhammad Javaid Akhai
NBFCs								
Jahangir Siddiqui & Company Limited	6 Months KIBOR+1.70%	Half Yearly	4-Jul-13	18,500	5,000	92,500	91,715	Mr. Munaf Ibrahim
Textiles								
Azgard Nine Limited	6 Months KIBOR+2.20%	Half Yearly	4-Dec-14	5,000	5,000	25,000	24,980	Mr. Ahmed H Shaikh
							1,398,303	

Name of the investee	Rate of interest	Profit payment	Maturity	Number of certificates held	Paid-up value per certificate (Rupees)	Total Paid up value (before redemption) (Rupees in '000)	Balance as at December 31, 2011 (Rupees in '000)	Name of Chief Executive
Unlisted Sukuks								
Cement								
Maple Leaf Cement Factory Limited	3 Months KIBOR+1.00%	Quarterly	3-Dec-18	100,200	5,000	501,000	337,910	Mr. Sayeed Tariq Saigol
Maple Leaf Cement Factory Limited - 2nd Issue	3 Months KIBOR+1.00%	Quarterly	31-Mar-12	1,695	5,000	8,475	8,475	Mr. Sayeed Tariq Saigol
Kohat Cement Limited Sukuk	6 Months KIBOR+2.50%	Half Yearly	20-Dec-15	5,000	5,000	25,000	17,650	Mr. Aizaz Mansoor Sheikh
Consumer electronics								
New Allied Electronics (Private) Limited	3 Months KIBOR+2.20%	Quarterly	3-Dec-12	30,000	5,000	150,000	150,000	Mr. Zeeshan Parvaiz Akhtar
Pak Electron Limited	3 Months KIBOR+1.00%	Quarterly	31-Mar-15	40,000	5,000	200,000	200,000	Mr. Naseem Saigol
Real estate developers								
Eden Housing (Private) Limited	3 Months KIBOR+2.50%	Half Yearly	29-Jun-14	66,526	5,000	332,630	208,759	Dr. Muhammad Amjad
Oil and gas								
Sui Southern Gas Company Limited	3 Months KIBOR+0.20%	Quarterly	31-Dec-12	1,300	5,000	6,500	2,600	Mr. Azim Iqbal Siddiqui
							925,394	
Carrying value (before revaluation and provision) of TFCs and Sukuks 'available-for-sale'							3,503,169	
Provision for diminution in value of investments							(216,130)	
Surplus on revaluation of securities - net							18,652	
Market value as at December 31, 2011							3,305,691	

8. ADVANCES

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
Loans, cash credits, running finances, etc.			
In Pakistan		4,296,219	3,337,302
LTFF scheme under State Bank of Pakistan		936,165	767,211
Margin financing			
In Pakistan		–	88,000
Net investment in finance lease			
In Pakistan	8.2	549,651	474,860
Advances - gross		5,782,035	4,667,373
Provision for non-performing advances - specific	8.3	(2,638)	(1,723)
Provision for non-performing advances - General		–	(18,989)
	8.4	(2,638)	(20,712)
Advances - net of provision		5,779,397	4,646,661

8.1 Particulars of advances - gross

		2012	2011
8.1.1	In local currency	5,782,035	4,667,373
	In foreign currencies	–	–
		5,782,035	4,667,373
8.1.2	Short-term (for upto one year)	2,292,588	1,603,915
	Long-term (for over one year)	3,489,447	3,063,458
		5,782,035	4,667,373

8.2 Net Investment in Finance Lease

(Rupees in '000)

	2012			2011		
	Not later than one year	**Later than one year and less than five years**	**Total**	Not later than one year	Later than one year and less than five years	Total
Lease rentals receivable	**210,581**	**334,411**	**544,992**	180,713	315,038	495,751
Residual value	**12,264**	**81,423**	**93,687**	–	72,874	72,874
Minimum lease payments	**222,845**	**415,834**	**638,679**	180,713	387,912	568,625
Financial charges for future periods	**(49,437)**	**(39,591)**	**(89,028)**	(56,490)	(37,275)	(93,765)
Present value of minimum lease payments	**173,408**	**376,243**	**549,651**	124,223	350,637	474,860

8.2.1 These leases are executed for a term of 3 to 5 years. Security deposit has been obtained within a range of 10% to 20% of the cost of investment at the time of disbursement and has been recorded in other liabilities. The rate of return ranges from 12.40% to 20.16% per annum (2011: 14.68% to 21.18% per annum). Lease rentals are receivable in monthly / quarterly installments. The assets are insured in favour of the Group.

8.3 Advances include Rs.2.638 million (2011: Rs.2.992 million) which have been placed under non-performing status as detailed below:

(Rupees in '000)

2012

	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Category of Classification									
Other assets especially mentioned	–	–	–	–	–	–	–	–	–
Substandard	–	–	–	–	–	–	–	–	–
Doubtful	–	–	–	–	–	–	–	–	–
Loss	**2,638**	**–**	**2,638**	**2,638**	**–**	**2,638**	**2,638**	**–**	**2,638**
	2,638	**–**	**2,638**	**2,638**	**–**	**2,638**	**2,638**	**–**	**2,638**

2011

	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Category of Classification									
Other assets especially mentioned	–	–	–	–	–	–	–	–	–
Substandard	–	–	–	–	–	–	–	–	–
Doubtful	2,537	–	2,537	1,268	–	1,268	1,268	–	1,268
Loss	455	–	455	455	–	455	455	–	455
	2,992	–	2,992	1,723	–	1,723	1,723	–	1,723

8.4 Particulars of provision against non-performing advances

(Rupees in '000)

	2012			2011		
	Specific	**General**	**Total**	Specific	General	Total
Opening balance	**1,723**	**18,989**	**20,712**	1,684	5,845	7,529
Charge for the year	**1,268**	**–**	**1,268**	1,089	13,144	14,233
Reversal	**(353)**	**(18,989)**	**(19,342)**	(1,050)	–	(1,050)
	915	**(18,989)**	**(18,074)**	39	13,144	13,183
Closing balance	**2,638**	**–**	**2,638**	1,723	18,989	20,712

8.4.1 Particulars of provisions against non-performing advances

(Rupees in '000)

	2012			2011		
	Specific	**General**	**Total**	Specific	General	Total
In local currency	**2,638**	**–**	**2,638**	1,723	18,989	20,712
In foreign currencies	**–**	**–**	**–**	–	–	–
	2,638	**–**	**2,638**	1,723	18,989	20,712

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
8.5 Particulars of Loans and Advances to Directors, Associated Companies, etc.			
Debts due by directors, executives or officers of the Company or any of them either severally or jointly with any other persons:			
Balance at beginning of the year		**44,416**	38,429
Loans granted during the year		**17,211**	18,224
Repayments		**(13,830)**	(12,237)
Balance at end of the year		**47,797**	44,416

8.6 Details of loans written offs of Rs.500,000 and above

The detail is given in Annexure-I.

9. OPERATING FIXED ASSETS

	Note	2012	2011
Capital work-in-progress	9.1	**18**	14,049
Property and equipment	9.2	**55,287**	18,727
Intangible assets	9.3	**5,024**	1,291
		60,329	34,067

9.1 Capital work-in-progress

	2012	2011
Advance to supplier for purchase of furniture and fixtures	**18**	14,049

9.2 Property and equipment

(Rupees in '000)

	December 31, 2012									
	COST				DEPRECIATION				Book value	
	As at January 01, 2012	Additions / (Disposals)	Written off	As at December 31, 2012	As at January 01, 2012	Charge for the year	Written off	As at December 31, 2012	as at December 31, 2012	Rate of depreciation
Owned										
Furniture and fixture	8,066	7,592 –	–	15,658	4,678	2,687 –	–	7,365	8,293	20%
Leasehold improvement	10,446	42,321 –	(10,446)	42,321	6,246	7,119 –	(6,692)	6,673	35,648	20%
Office equipment	2,735	1,557 –	–	4,292	1,753	748 –	–	2,501	1,791	20%
Computers	9,355	3,292 (57)	–	12,590	7,582	1,855 (15)	–	9,422	3,168	33.33%
Vehicles	10,276	42 –	–	10,318	2,025	1,986 –	–	4,011	6,307	25%
Mobile sets	241	67 (52)	–	256	108	96 (28)	–	176	80	50%
	41,119	54,871 (109)	(10,446)	85,435	22,392	14,491 (43)	(6,692)	30,148	55,287	

	December 31, 2011									
	COST				DEPRECIATION				Book value	
	As at January 01, 2011	Additions / (Disposals)	Transfers	As at December 31, 2011	As at January 01, 2011	Charge for the year	Transfers	As at December 31, 2011	as at December 31, 2011	Rate of depreciation
Owned										
Furniture and fixture	8,047	19 –	–	8,066	3,066	1,612 –	–	4,678	3,388	20%
Leasehold improvement	10,661	– (215)	–	10,446	4,257	2,122 (133)	–	6,246	4,200	20%
Office equipment	2,706	42 –	(13)	2,735	1,220	536 –	(3)	1,753	982	20%
Computers	8,528	919 (105)	13	9,355	6,092	1,592 (105)	3	7,582	1,773	33.33%
Vehicles	6,901	7,875 (4,500)	–	10,276	3,489	1,605 (3,069)	–	2,025	8,251	25%
Mobile sets	187	167 (113)	–	241	144	77 (113)	–	108	133	50%
	37,030	9,022 (4,933)	–	41,119	18,268	7,544 (3,420)	–	22,392	18,727	

9.2.1 Assets having cost of Rs.15.221 million (2011: Rs.12.834 million) are fully depreciated.

9.2.2 Details of disposal of fixed assets

Details of assets whose original cost or the book value exceeds rupees one million or two hundred and fifty thousand, whichever is lower are given below:

Rupees in '000)

Particulars	Cost	Net Book Value	Sale proceeds	Gain	Mode of Disposal	Particulars of Purchaser
Property and equipment (having book value of less than Rs.250,000 or cost of less than Rs.1,000,000)	109	66	71	5	Various	Employees / Insurance Company
2012	**109**	**66**	**71**	**5**		
2011	4,932	1,512	1,581	(69)		
Details of write offs						
Leasehold improvement	10,446	3,754	–	(3,754)		

9.3 Intangible assets

(Rupees in '000)

	December 31, 2012							
	COST			AMORTIZATION			Book value	
	As at January 01, 2012	Additions	As at December 31, 2012	As at January 01, 2012	Charge for the year	As at December 31, 2012	as at December 31, 2012	Rate of Amortization
Computer software	8,772	5,652	14,424	7,481	1,919	9,400	5,024	33.33%

	December 31, 2011							
	COST			AMORTIZATION			Book value	
	As at January 01, 2011	Additions	As at December 31, 2011	As at January 01, 2011	Charge for the year	As at December 31, 2011	as at December 31, 2011	Rate of Amortization
Computer software	7,998	774	8,772	5,848	1,633	7,481	1,291	33.33%

10. DEFERRED TAX LIABILITIES - NET

	December 31 2012	December 31 2011
	(Rupees in '000)	
Deductible temporary differences		
Provision for compensated absences and bonus	8,400	8,003
Unrealised loss on revaluation of held-for-trading securities	–	4,466
Deficit on revaluation of securities - net	–	12,576
Provision for diminution in the value of investments	69,981	66,397
Provision against non-performing loans and advances	923	7,249
Provision against other assets	17,500	17,458
Pre-incorporation expenses	301	401
Unused tax losses carried forward	–	90
Taxable temporary differences		
Difference between accounting book value of fixed assets and tax base	(7,448)	(2,303)
Amortisation of discount on investments	(27,195)	(87,782)
Net investment in finance lease	(45,692)	(25,270)
Amortisation of transaction cost	–	(1,668)
Surplus on revaluation of securities - net	(3,367)	–
	13,403	(383)

10.1 Movement in temporary differences during the year

	Balance as at January 01, 2011	Recognised in profit and loss account	Recognised in (surplus)/deficit in revaluation of assets account	Balance as at December 31, 2011	Recognised in profit and loss account	Recognised in (surplus)/deficit in revaluation of assets account	Balance as at December 31, 2012
	(Rupees in '000)						
Deductible temporary differences							
Provision for compensated absences and bonus	5,030	2,973	–	8,003	397	–	8,400
Unrealised loss on revaluation of held-for-trading securities	–	4,466	–	4,466	(4,466)	–	–
Provision for diminution in the value of investments	60,030	6,367	–	66,397	3,584	–	69,981
Provision against non-performing loans and advances	2,635	4,614	–	7,249	(6,326)	–	923
Provision against other assets	17,625	(167)	–	17,458	42	–	17,500
Pre-incorporation expenses	–	401	–	401	(100)	–	301
Unused tax losses carried forward	–	90	–	90	(90)	–	–
Taxable temporary difference							
Difference between accounting book value of fixed assets and tax base	(1,649)	(654)	–	(2,303)	(5,145)	–	(7,448)
Amortisation of discount on investments	(136,221)	48,439	–	(87,782)	60,587	–	(27,195)
Net investment in finance lease	(8,465)	(16,805)	–	(25,270)	(20,422)	–	(45,692)
Amortisation of transaction cost	–	(1,668)	–	(1,668)	1,668	–	–
(Surplus) / deficit on revaluation of securities - net	11,348	–	1,228	12,576	–	(15,943)	(3,367)
	(49,667)	**48,056**	**1,228**	**(383)**	**29,729**	**(15,943)**	**13,403**

11. OTHER ASSETS

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
Income / mark-up accrued in local currency	11.1	**279,491**	353,988
Assets acquired in satisfaction of claims - non-banking assets	11.2	**209,652**	209,652
Advances, deposits and other prepayments		**75,041**	87,773
Unrealised gain on interest rate swap contracts		**–**	119
Advance tax (payment less provision)		**140,125**	105,118
Dividend receivable		**59,281**	22,787
Receivable against sale of shares		**–**	27,756
Receivable from associates	11.3 & 11.4	**6,917**	–
Others		**–**	15
		770,507	807,208
Less: Provision held against advances, deposits and other prepayments	11.5 & 11.6	**(50,000)**	(50,000)
Other assets (net of provisions)		**720,507**	757,208

11.1 Included herein is a sum of Rs.0.77 million (2011: Rs.Nil) representing mark-up receivable on Pre-IPO investment in Primus Daily Reserve Fund (an associate).

11.2 This represents properties acquired in satisfaction of claims. The market value of properties as per the valuation report dated December 31, 2012 amounted to Rs.224 million (2011: Rs.220 million).

11.3 These include Rs.2.08 million (2011: Rs.Nil) representing legal, professional, marketing and advertisement expenses incurred for the purpose of incorporation and floatation of Funds by the Group in accordance with the NBFC Regulations. These expenses are recoverable from the Funds subject to the audit of the expenses.

11.4 This includes Rs.3.32 million (2011: Rs.Nil) management fee receivable from Primus Cash Management Fund.

11.5 This represents Rs.50 million (2011: Rs.50 million) advance against Pre-IPO placement of Term Finance Certificates.

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
11.6 Provision against other assets			
Opening balance		**50,000**	50,000
Charge for the year		**–**	–
Closing balance		**50,000**	50,000

12. BORROWINGS

	Note	December 31 2012	December 31 2011
In Pakistan		**2,417,139**	23,359,531
Outside Pakistan		**–**	–
		2,417,139	23,359,531
12.1 Particulars of borrowings with respect to Currencies			
In local currency		**2,417,139**	23,359,531
In foreign currencies		**–**	–
		2,417,139	23,359,531
12.2 Details of borrowings secured / unsecured			
Secured			
Borrowing from SBP under LTFF Scheme	12.3	**937,139**	767,209
Repurchase agreement borrowings (Repo)		**–**	20,350,655
Borrowing from Banks	12.4	**1,100,000**	1,666,667
		2,037,139	22,784,531
Unsecured			
Letters of placement	12.5	**380,000**	575,000
		2,417,139	23,359,531

12.3 The Group has entered into agreements for financing with the SBP for Long-Term Financing under Export Oriented Projects to customers. According to the terms of the respective agreements, the SBP has the right to receive the outstanding amount from the Group at the due date by directly debiting the current account maintained by the Group with SBP. The rate of return ranges from 7.25% to 9.70% per annum (2011: 7.25% to 9.70% per annum). This is repayable within 7 years (2011: 8 years).

12.4 These represent borrowings secured against hypothecation of receivables and floating charge over term finance certificates. These carry mark-up at rate ranging from 9.94% to 10.18% per annum (2011: 12.43% to 14.42% per annum) and are repayable within 2 years (2011: 3 years).

12.5 These carry mark-up at rate ranging from 9.40% to 12.00% per annum (2011: 11.65% to 12.00% per annum) and are repayable within 2 months (2011: 1 month).

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	

13. DEPOSITS AND OTHER ACCOUNTS

	Note	2012	2011
Customers			
Certificates of investment- remunerative	13.1	**2,824,924**	979,018

13.1 These carry mark-up at rates ranging from 9.70% to 12.00% per annum (2011: 11.50% to 13.85% per annum) and are repayable within 1 month to 11 months (2011: 1 month to 10 months).

13.2 Particulars of deposits

	2012	2011
In local currency	**2,824,924**	979,018
In foreign currencies	**–**	–
	2,824,924	979,018

14. OTHER LIABILITIES

	2012	2011
Mark-up / return / interest payable in local currency	**67,096**	96,793
Accrued expenses	**27,432**	32,566
Advance against Certificates of Investment	**–**	26,971
Payable against purchase of shares	**–**	5,862
Brokerage commission payable	**63**	1,609
Unearned commission	**4,786**	2,904
Security deposit against lease	**93,688**	72,874
Payable to tax authorities	**1,138**	–
Others	**30,638**	38,602
	224,841	278,181

15. SHARE CAPITAL

15.1 Authorised Capital

2012	2011		2012	2011
Number of shares			(Rupees in '000)	
600,000,000	600,000,000	Ordinary shares of Rs. 10/- each.	**6,000,000**	6,000,000

15.2 Issued, subscribed and paid up capital

600,000,000	600,000,000	Ordinary shares fully paid in cash	**6,000,000**	6,000,000

15.3 The Ministry of Finance and Secretary Economic Affairs Division holds 299,995,999 and 4,001 shares (2011: 299,995,999 and 4,001 shares) respectively on behalf of the Government of Pakistan and remaining 300,000,000 shares (2011: 300,000,000 shares) are held by the Brunei Investment Agency.

	December 31 2012	December 31 2011
	(Rupees in '000)	

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

16.1 Surplus / (deficit) on revaluation of available-for-sale securities - net of tax

	2012	2011
Market Treasury Bills	**1,652**	(12,705)
Pakistan Investment Bonds	**–**	(2,072)
Listed securities		
- Term finance certificates	**3,619**	18,652
- Units of open-ended mutual funds	**–**	(23,779)
- Units of closed-end mutual funds	**1,384**	1,043
- Ordinary shares of listed companies	**(2,170)**	(61,828)
	4,485	(80,689)
Deferred tax (liability) / asset recognised	**(3,367)**	12,576
	1,118	(68,113)

17. CONTINGENCIES AND COMMITMENTS

17.1 Transaction related contingent liability

	2012	2011
Letters of credit	**152,293**	158,884

17.2 In the year 2009, Burj Bank Limited (formerly Dawood Islamic Bank Limited) filed a legal suit amounting to Rs.200 million for damages against the Group for alleged non performance of underwriting commitment to issue shares at a premium. Legal advisors of the Group are of the opinion that the possibility of the Group being subject to any liability in relation to the suit is negligible.

17.3 Tax contingencies have been discussed in note 25.2 to these consolidated financial statements.

	December 31 2012	December 31 2011
	(Rupees in '000)	
17.4 Commitments in respect of capital expenditure	**–**	28,134
17.5 Commitments to extend credit	**716,013**	392,750
17.6 Commitments in respect of government securities		
Purchase (reverse repo)	**–**	464,944
Sale	**–**	20,502,275

18. DERIVATIVE INSTRUMENTS

The Group is involved in derivative transactions comprising of Interest Rate Swaps with a commercial bank. Accounting policies in respect of derivative financial instruments are mentioned in note 4.8.

18.1 Product Analysis

(Rupees in '000)

Counter parties with banks for	December 31, 2012 Interest Rate Swaps No. of contracts	Notional Principal	December 31, 2011 Interest Rate Swaps No. of contracts	Notional Principal
Hedging	–	–	–	–
Market Making	–	–	2	200,000
	–	–	2	200,000

18.2 Maturity analysis

(Rupees in '000)

December 31, 2012

Remaining maturity	No. of contracts	Notional Principal	Mark to Market Negative	Positive	Net
Within 1 year	–	–	–	–	–

(Rupees in '000)

December 31, 2011

Remaining maturity	No. of contracts	Notional Principal	Mark to Market Negative	Positive	Net
1 to 2 years	2	200,000	(5,984)	6,103	119

19. MARK-UP / RETURN / INTEREST EARNED

	December 31 2012	December 31 2011
	(Rupees in '000)	
On Loans and advances to:		
Customers	**684,792**	511,800
Financial institutions	**32,619**	19,232
On Investments in:		
Available-for-sale securities	**2,032,458**	1,764,451
Held-to-maturity securities	**26,442**	29,577
Held-for-trading securities	**120,700**	4,658
On Deposits with financial institutions	**14,603**	17,979
On Securities purchased under resale agreements	**18,636**	49,517
On Interest rate swap contracts	**–**	9
	2,930,250	2,397,223

20. MARK-UP / RETURN / INTEREST EXPENSED

	2012	2011
Deposits	**310,203**	234,292
Short-term borrowings	**103,108**	111,994
Long-term borrowings	**209,945**	72,268
Securities sold under repurchase agreements	**1,421,559**	1,050,723
	2,044,815	1,469,277

21. GAIN ON SALE OF SECURITIES - NET

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	
Federal Government Securities			
- Market Treasury Bills		**63,211**	90,374
- Pakistan Investment Bonds		**41,354**	(684)
Ordinary shares of listed companies		**67,733**	2,079
Term finance certificates		**6,469**	35,802
Units of mutual funds		**19,783**	5,131
		198,550	132,702

22. OTHER INCOME

	Note	2012	2011
Profit on sale of property and equipment		**5**	69
Rent income		**750**	–
Income from sale of scrap items		**468**	–
Others		**50**	193
		1,273	262

23. ADMINISTRATIVE EXPENSES

	Note	2012	2011
Salaries and allowances		**105,462**	106,710
Contribution to defined contribution plan	29	**4,423**	4,512
Non-executive directors' fees, allowances and other expenses		**1,797**	3,234
Rent, taxes, insurance, electricity, etc.		**19,606**	16,362
Legal and professional charges		**10,633**	7,360
Travelling and accommodation		**2,466**	3,574
Communications		**2,326**	2,050
Repairs and maintenance		**5,537**	3,544
Brokerage commission		**13,620**	12,759
Stationery and printing		**1,767**	1,908
Advertisement and publicity		**1,074**	641
Donation	23.1 & 23.2	**1,100**	4,120
Auditors' remuneration	23.3	**979**	2,575
Depreciation	9.2	**14,491**	7,544
Amortisation	9.3	**1,919**	1,633
Vehicle maintenance and fuel expense		**18,151**	16,002
Medical expense		**2,056**	2,625
Fee and subscription		**1,974**	4,915
Bank charges		**394**	236
Others		**2,406**	2,365
		212,181	204,669

23.1 Donations were not made to any donee in which a director or his / her spouse had any interest at any time during the year.

23.2 Donations made in excess of Rs. 100,000 to a single donee are as follows:

	2012	2011
Institute of Business Administration	**1,000**	1,000
Prime Minister's Flood Relief Fund	**–**	3,000
Citizen's Foundation	**–**	120
Donations not exceeding Rs.100,000 - others	**100**	–
	1,100	4,120

	December 31 2012	December 31 2011
	(Rupees in '000)	

23.3 Auditors' remuneration

Audit fee	**525**	470
Half yearly review fee	**225**	175
Fee for the audit of provident fund	**–**	25
Special certifications	**125**	150
Tax services	**–**	100
Other services	**–**	1,600
Out-of-pocket expenses	**104**	55
	979	2,575

24. OTHER CHARGES

Penalties imposed by the SBP	**349**	–
Unrealised loss on Interest Rate Swap contracts	**119**	239
Workers' Welfare Fund	**515**	–
	983	239

25. TAXATION

For the year		
Current	**330,556**	355,528
Prior years	**(2,283)**	8,193
Deferred	**(29,728)**	(48,056)
	298,545	315,665

25.1 Relationship between tax expense and accounting profit

Accounting profit before tax	**1,080,944**	920,129
Tax rate	**35%**	35%
Tax on accounting profit	**385,187**	322,045
Tax effect of:		
Income chargeable to tax at special rate including FTR	**(42,606)**	(31,858)
Income exempt from tax	**(37,110)**	(3,877)
Expenses that are inadmissible in determining taxable profit	**(8,368)**	1,735
Permanent differences	**3,725**	19,427
Prior year charge	**(2,283)**	8,193
	298,545	315,665

25.2 Income tax returns for the tax years 2007 to 2012 have been filed by the Holding Company on due dates that are deemed to be assessed by the Commissioner Inland Revenue under the provisions of section 120 of the Income Tax Ordinance, 2001.

Assessments for the tax years 2008 and 2009 were amended by the Additional Commissioner Inland Revenue (ACIR) vide orders dated July 27, 2010 passed under Section 122(5A) of the Income Tax Ordinance, 2001 whereby tax demands of Rs.9.74 million and Rs.28.34 million respectively were created. In the amended assessment orders, besides making other additions to income, the ACIR taxed the amount of amortisation of discount on securities as against the gain on disposal of securities as offered by the Holding Company.

The Holding Company went into appeal where the Commissioner Inland Revenue (Appeals) set aside most of the issues including the issue of amortisation of discount on securities with specific directions. The tax department has issued a notice for the purpose of giving effect to matters set-aside by the CIR(A). The Holding Company is in the process of filing the relevant explanation and details requested by the department.

An appeal filed with the CIR(A) against the rectified order levying Workers' Welfare Fund in the tax year 2009 was decided in favour of the Holding Company. However, the tax department has filed an appeal with the Appellate Tribunal Inland Revenue against the aforesaid decision of CIR(A).

Assessment order for tax year 2010 has been amended through order under section 122(5A) passed by the ACIR creating a tax demand of Rs.106.50 million. The Holding Company filed appeal before the CIR(A) and an application for stay of demand against the tax demand. The said order was rectified by CIR(A) under section 221 of the Ordinance vide order dated January 27, 2012 with a revised tax demand of Rs.51.26 million. An amount of Rs.15.80 million has been paid against the said tax demand and an appeal was filed against the order passed under section 122(5A) of the Ordinance. An appeal has been filed by the Holding Company before the CIR(A) against the rectification order. Both the Holding Company and the Commissioner Inland Revenue have filed appeals before the Appellate Tribunal Inland Revenue.

During the period, assessment for tax year 2011 was also amended and a tax demand of Rs.55.547 million created which was reduced to Rs.52.091 million after issuance of rectified order under section 221 of the Income Tax Ordinance, 2001. The Holding Company has already paid for Rs.33.381 million out of the said reduce tax demand. An appeal has been filed before the CIRA against the amended order and appellate order to this effect is yet to be issued.

The unrecognised amount relating to WWF pertaining to above tax years amounted to Rs.44.551 million. Based on the opinion of the legal advisor, the Holding Company is confident that WWF is not applicable to the Holding Company as it does not fall into the definition of industrial establishment. Consequently, no provision has been made in the current year's financial statements relating to WWF.

26. EARNINGS PER SHARE

		December 31 2012	December 31 2011
Profit for the year	Rupees in '000	**782,399**	604,464
Weighted average number of ordinary shares	Numbers in '000	**600,000**	600,000
Basic earnings per share	Rupees	**1.30**	1.01

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

	Note	December 31 2012	December 31 2011
		(Rupees in '000)	

27. CASH AND CASH EQUIVALENTS

Cash and balances with treasury banks	**54,763**	174,790
Balances with other banks	**317,222**	562,085
	371,985	736,875

28. STAFF STRENGTH

(Numbers)

Permanent	**54**	42
Temporary / on contractual basis	**27**	17
Total staff strength	**81**	59

29. DEFINED CONTRIBUTION PLAN

The Group operates a provident fund scheme for all its permanent employees. Equal monthly contribution at the rate of 10.00% per annum (2011: 10.00% per annum) is made both by the Group (employer) and employees. Contributions made to the provident fund during the year are as follows:

Contribution made by the Company	**4,423**	4,512
Contribution made by employees	**4,423**	4,512
	8,846	9,024

30. COMPENSATION OF DIRECTORS AND EXECUTIVES

(Rupees in '000)

	Chief Executive		Directors		Executives	
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011	**December 31, 2012**	December 31, 2011
Managerial remuneration	**24,739**	21,200	**–**	–	**77,904**	67,406
Contribution to defined contribution plan	**1,020**	1,055	**–**	–	**3,270**	3,430
Utilities	**503**	303	**–**	–	**4,639**	14,460
Medical	**465**	341	**–**	–	**1,986**	2,153
Travelling allowance	**210**	228	**1,608**	3,234	**130**	302
Fee for attending Board meetings	**–**	–	**190**	–	**–**	–
Other benefits	**303**	–	**–**	–	**691**	–
	27,240	23,127	**1,798**	3,234	**88,620**	87,751
Number of persons	2	1	6	3	**38**	36

30.1 The Chief executive is provided with Group maintained car. Executive means employees other than the managing director and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

All quoted investments have been stated at their market values as disclosed in note 7. All un-quoted investments have been stated at lower of cost or break up value, being their estimated fair values.

Fair value of loans and advances, other assets (excluding properties acquired in satisfaction of claims as disclosed in note 10.1) and other liabilities cannot be determined with reasonable accuracy due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. Loans and advances are repriced frequently on market rates and are reduced for any impairment against non-performing advances determined in accordance with Prudential Regulations as stated in note 4.5.

The maturity and re-pricing profile and effective rates are stated in notes 36.3.1 and 36.2.4 respectively.

Fair value of these assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of deposits, they are frequently repriced.

32. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

(Rupees in '000)

	Corporate Finance	Trading and Sales	Commercial Banking
2012			
Total income	**50,921**	**2,683,161**	**625,260**
Total expenses	**30,533**	**1,803,885**	**423,296**
Net income	**20,388**	**858,592**	**201,964**
Segment assets (gross)	**–**	**8,686,248**	**5,625,642**
Segment non performing loans	**–**	**2,638**	**–**
Investment provided for	**–**	**428,291**	**–**
Segment provision required *	**–**	**265,453**	**–**
Segment liabilities	**–**	**3,318,597**	**2,148,307**
Segment return on assets (ROA) (%)	**–**	**4.88%**	**3.93%**
Segment return on net assets (ROA) (%)	**–**	**17.21%**	**6.22%**
Segment cost of funds (%)	**–**	**13.83%**	**13.83%**
2011			
Total income	68,659	2,131,719	481,171
Total expenses	42,866	1,418,146	300,408
Net income	25,793	713,573	180,763
Segment assets (gross)	–	28,580,310	4,648,478
Segment non performing loans	–	102,992	89,856
Investment provided for	–	802,084	–
Segment provision required *	–	421,476	8,989
Segment liabilities	–	21,146,867	3,470,246
Segment return on assets (ROA) (%)	–	3.49%	5.09%
Segment return on net assets (ROA) (%)	–	11.09%	16.79%
Segment cost of funds (%)	–	9.44%	9.44%

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

33. TRUST ACTIVITIES

The Holding Company has assumed the role of Trustee to certain issues of Term Finance Certificates (TFCs) / Sukuks and is holding the trust properties in fiduciary capacity on behalf of the relevant beneficiaries. In this behalf, the Holding Company is fulfilling all its obligations and duties in accordance with the provisions of the respective trust documents. During the year, the Holding Company has been registered as Debt Securities Trustee (DST) under the Debt Securities Trustee Regulations 2012 issued by the SECP.

The Holding Company is acting as trustee to Term Finance Certificates issued by Agritech Limited, Al Abbas Sugar Mills Limited, Askari Bank Limited–IV, Azgard Nine Limited, Bank Alfalah Limited–IV, Bank Alfalah Limited–V, Bank Al-Habib Limited–IV, Faysal Bank Limited, Martin Dow Pharmaceuticals Limited, Soneri Bank Limited, United Bank Limited–IV, and Sukuk Issue of Agritech Limited, Aisha Steel Mills Limited and Maple Leaf Cement Factory Limited. The combined value of these TFCs as at December 31, 2012 amounted to PKR 45,050 million (2011: PKR 28,442 million).

34. RELATED PARTY TRANSACTIONS

The Group has related party relationship with:

- associated company (collective investment schemes of Primus Investment Management Limited)
- its employee defined contribution plan;
- its key management personnel;
- other related parties include OK Feed Mills (Pvt) Limited, Omer Jibran Engineering Industries Ltd., Nimir Industrial Chemicals Limited and Haq Bahu Sugar Mills (Pvt) Limited due to common directorship.

Details of loans and advances to the executives are given in note 8.5 to these unconsolidated financial statements. There are no transactions with key management personnel other than under their terms of employment. Contribution to approved defined contribution plan are disclosed in note 29 to these consolidated financial statements. Remuneration to the executives is disclosed in note 30 to the consolidated financial statements. Transactions with owners have been disclosed in 'Consolidated Statement of Changes in Equity'. All other transactions between the Group and its related parties are carried out under normal course of business except employee staff loans that are as per terms of employment.

Details of transactions with related parties during the year, other than those which have been disclosed elsewhere in these unconsolidated financial statements, are as follows:

(Rupees in '000)

	Notes	2012 Key management personnel	2012 Other related parties	2012 Associates	2011 Key management personnel	2011 Other related parties	2011 Associates
Advances							
As at beginning of the year		23,286	474,000	–	20,063	–	–
Given during the period		8,634	300,000	–	8,263	479,000	–
Repaid during the period		(8,294)	(80,435)	–	(5,040)	(5,000)	–
As at end of the year		23,626	693,565	–	23,286	474,000	–
Borrowings							
As at beginning of the year		–	–	–	–	–	–
Given during the period		–	500,000	–	–	–	–
Repaid during the period		–	(500,000)	–	–	–	–
As at end of the year		–	–	–	–	–	–
Placements							
As at beginning of the year		–	–	–	–	–	–
Placements made during the year		–	–	–	–	–	–
Placements matured during the year		–	–	–	–	–	–
As at end of the year		–	–	–	–	–	–
Investments							
As at beginning of the year		–	15,000	–	–	–	–
Investments made during the year		–	98,437	4,465,000	–	15,000	–
Transfer		–	(15,000)	–	–	–	–
Redemption during the year		–	236,528	(1,223,856)	–	–	–
As at end of the year		–	334,965	3,241,144	–	15,000	–
Mark-up / return / interest earned		681	83,205	848	642	36,966	–
Mark-up / return / interest expensed		–	1,342	–	–	–	–
Gain on sale of securities - net		–	1,862	23,428	–	–	–
Fee income		–	20,250	14,648	–	–	–
Dividend income		–	99,522	–	–	–	–
Salaries and other benefits		71,431	–	–	64,880	–	–
Reimbursement of expenses		4,036	–	–	10,013	–	–
Formation cost paid by the Group		–	–	2,086	–	–	–
Annual rating fee paid		–	–	400	–	–	–
Others		–	–	2,363	–	–	–

35. CAPITAL - ASSESSMENT AND ADEQUACY

35.1 Scope of Application and Capital Structure

The Basel II Framework is applicable to the Group for determining Capital Adequacy both at consolidated level (comprising of fully owned subsidiary - Primus Investment Management Limited) and also on stand alone basis. The purpose of this legislation is to provide a modern prudential framework for credit institutions and investment firms across the globe, improving on the previous Basel I Framework through greater risk sensitivity and reflecting more modern approaches and improvements in the risk management practices of credit institutions and investment firms. The different tiers of regulatory capital recognised by SBP are as follows:

Tier I capital, includes fully paid-up capital, balance in share premium account, general reserves as per the financial statements and net un-appropriated profits after deduction of book value of goodwill / intangibles, deficit on revaluation of available for sale investments and 50% of investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position as per the guidelines laid under the Basel II Framework.

Tier II capital includes general provisions for loan losses, reserves on the revaluation of fixed assets and equity investments, foreign exchange translation reserves and subordinated debts (upto maximum of 50% of total eligible tier I capital) after deduction of 50% of investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position as per the guidelines laid under the Basel II Framework.

Tier III capital has also been prescribed by the SBP for managing market risk. However the Group does not have any Tier III capital.

The required capital adequacy is achieved by the Group through:

a) enhancement in the risk profile of asset mix at the existing volume level;
b) ensuring better recovery management; and
c) maintaining acceptable profit margins.

35.2 Capital Adequacy

The risk weighted assets to capital ratio is calculated in accordance with the State Bank's guidelines on capital adequacy. Details of Group's eligible capital on an consolidated basis is as follows:

	December 31 2012	December 31 2011
	(Rupees in '000)	
Regulatory Capital Base		
Tier I Capital		
Shareholders equity / assigned capital	6,000,000	6,000,000
Reserves	555,884	399,204
Unappropriated profits	2,022,531	1,596,812
	8,578,415	7,996,016
Less: Goodwill, other intangible assets and deficit on account of revaluation of available-for-sale portfolio etc.	5,024	1,291
Shortfall in provisions required against classified assets irrespective of any relaxation allowed	–	–
Deficit on account of revaluation of investments held in AFS category	–	80,689
Other deductions (50% of investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position)	–	–
	5,024	81,980
Total Tier I Capital	8,573,391	7,914,036

	December 31 2012	December 31 2011
	(Rupees in '000)	
Tier II Capital		
General Provisions subject to 1.25% of Total Risk Weighted Assets	–	–
	–	–
Less: Other deductions (50% of investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the statement of financial position)	–	–
Total Tier II Capital	–	–
Eligible Tier III Capital	–	–
Total Regulatory Capital Base	8,573,391	7,914,036

35.3 Risk Weighted Exposures

	Capital Requirements December 31, 2012	Capital Requirements December 31, 2011	Risk Weighted Assets December 31, 2012	Risk Weighted Assets December 31, 2011
	(Rupees in '000)			
Credit risk				
Portfolios subject to standardised approach				
On balance sheet exposures				
Claims				
On Public sector entities in Pakistan	3,107	12,514	31,067	125,142
On Banks	6,344	14,553	63,444	145,530
On Corporates	926,251	591,862	9,262,515	5,918,621
Categorised as retail portfolio	1,422	943	14,222	9,428
Fully secured by residential property	1,009	1,115	10,092	11,146
Unlisted equity investments	30,075	15,000	300,750	150,000
On Listed equity investments and regulatory capital instruments	64,155	152,234	641,553	1,522,340
Past due loans	–	127	–	1,268
On investments in fixed assets	5,531	3,278	55,305	32,775
On all other assets	46,764	27,724	467,638	277,239
	1,084,658	819,350	10,846,586	8,193,489
Off balance sheet exposures				
Non-market related	74,124	43,323	741,243	433,230
Market related	–	2	–	24
	74,124	43,325	741,243	433,254
	1,158,782	862,675	11,587,829	8,626,743
Market risk				
Capital requirement for portfolios subject to standardised approach				
Interest rate risk	1,764	147,759	22,050	1,846,988
Equity position risk	47,984	65,010	599,800	812,625
Foreign exchange risk	–	–	–	–
	49,748	212,769	621,850	2,659,613
Operational risk				
Capital requirement for operational risks	161,485	147,230	2,018,565	1,840,375
Total	1,370,015	1,222,674	14,228,243	13,126,731

		December 31, 2012	December 31, 2011
Capital adequacy ratio			
Total eligible regulatory capital held (note: 36.2)	(a)	8,573,391	7,914,036
Total risk weighted assets	(b)	14,228,243	13,126,731
Capital adequacy ratio	(a) / (b)	60.26%	60.29%

35.3.1 Credit risk approach

The Group is following standardised approach for all its Credit Risk Exposures. Under standardised approach, the capital requirement is based on the credit rating assigned to the counter parties by the External Credit Assessment Institutions (ECAIs) duly recognised by SBP for capital adequacy purposes. In this connection, the Group utilises the credit ratings assigned by ECAIs and has recognised agencies such as PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company – Vital Information Systems), Fitch, Moody's and Standard & Poors which are also recognised by the SBP.

The Standardised Approach to credit risk sets out fixed risk weights corresponding, where appropriate, to external credit assessment levels or for unrated claims.

35.3.1.1 Selection of ECAIs

The Group selects particular ECAI(s) for each type of claim. Amongst the ECAIs that have been recognised as eligible by SBP, the following are being used against each respective claim type.

Exposures to Public Sector Entities (PSEs): For PSE exposures, ratings of PACRA and JCR-VIS are used to arrive at risk weights.

Bank Exposures: For foreign banks (i.e., incorporated outside Pakistan), ratings of Moody's, S&P and Fitch is being used to arrive at risk weights. However, for local banks (i.e., incorporated in Pakistan) ratings of PACRA and JCR-VIS are used.

Corporate Exposures: Ratings assigned by PACRA and JCR-VIS are used for claims on Corporates (excluding equity exposures).

35.3.1.2 Use of ECAI Ratings

The Group prefers solicited ratings over unsolicited ratings at all times, owing to the greater degree of accuracy (in general) associated with solicited ratings as compared to unsolicited ratings. Unsolicited ratings may only be used in cases where a solicited rating is not available.

35.3.1.3 Mapping to SBP Rating Grades

The selected final ratings (after application of the principles stated above) for all exposures need to be translated to the standard rating grades given by the SBP.

35.3.1.4 Types of exposures and ECAI's used

Exposures	JCR-VIS	PACRA	MOODY's	FITCH	S & P
Corporate	√	√	-	-	-
Banks	√	√	-	-	-
SME's	N/A	N/A	N/A	N/A	N/A
Sovereigns	N/A	N/A	N/A	N/A	N/A
Securitisation	N/A	N/A	N/A	N/A	N/A
Others	N/A	N/A	N/A	N/A	N/A

35.3.1.5 Credit exposures subject to Standardized Approach

(Rupees in '000)

			December 31, 2012			
Exposures	Rating category No.	Rating risk weighted	Amount outstanding	Deduction CRM*	Net amount	Risk weighted asset
Cash and Cash Equivalents		0%	–	–	–	–
Corporate	0	0%	–	–	–	–
	1	20%	1,305,591	–	1,305,591	261,118
	2	50%	2,427,106	–	2,427,106	1,213,553
	3,4	100%	204,376	–	204,376	204,376
	5,6	150%	1,159,391	–	1,159,391	1,739,087
	Unrated	100%	5,844,381	–	5,844,381	5,844,381
			10,940,845	–	**10,940,845**	**9,262,515**
Retail		0%	–	–	–	–
		20%	–	–	–	–
		50%	–	–	–	–
		75%	**18,962**	–	**18,962**	**14,222**
			18,962	–	**18,962**	**14,222**
Banks						
- Over 3 Months		0%	–	–	–	–
	1	20%	–	–	–	–
	2,3	50%	–	–	–	–
	4,5	100%	–	–	–	–
	6	150%	–	–	–	–
	Unrated	50%	–	–	–	–
			–	–	–	–
- Maturity upto and under 3 Months in FCY		0%	–	–	–	–
	1,2,3	20%	–	–	–	–
	4,5	50%	–	–	–	–
	6	150%	–	–	–	–
	Unrated	20%	–	–	–	–
			–	–	–	–
- Maturity upto and under 3 Months in PKR		0%	–	–	–	–
		20%	**317,222**	–	**317,222**	**63,444**
			317,222	–	**317,222**	**63,444**
Residential mortgage finance		35%	**28,835**	–	**28,835**	**10,092**
Public Sector Entity		0%	–	–	–	–
	1	20%	**155,335**	–	**155,335**	**31,067**
	2,3	50%	–	–	–	–
	4,5	100%	–	–	–	–
	6	150%	–	–	–	–
	Unrated	50%	–	–	–	–
			155,335	–	**155,335**	**31,067**
Sovereigns (SBP / GoP)		0%	**54,747**	–	**54,747**	–
Equity Investments - Listed		100%	**641,553**	–	**641,553**	**641,553**
- Unlisted		150%	**200,500**	–	**200,500**	**300,750**
			842,053	–	**842,053**	**942,303**
Past Due Loans						
(Not Secured by Residential Mortgages)	S.P less than 20%	150%	–	–	–	–
	S.P upto 20%	100%	–	–	–	–
	S.P greater than 50%	50%	–	–	–	–
			–	–	–	–
Investment in fixed assets		100%	**55,305**	–	**55,305**	**55,305**
Other assets		100%	**467,638**	–	**467,638**	**467,638**
Total			**12,880,942**	–	**12,880,942**	**10,846,586**

* Credit Risk Mitigation (CRM)

Credit exposures and comparative figures subject to the standardised approach

(Rupees in '000)

Exposures	Rating category No.	Rating risk weighted	December 31, 2011 Amount outstanding	Deduction CRM*	Net amount	Risk weighted asset
Cash and Cash Equivalents		0%	–	–	–	–
Corporate	0	0%	–	–	–	–
	1	20%	1,500,437	–	1,500,437	300,087
	2	50%	1,614,216	–	1,614,216	807,108
	3,4	100%	238,216	–	238,216	238,216
	5,6	150%	814,474	–	814,474	1,221,711
	Unrated	100%	3,351,499	–	3,351,499	3,351,499
			7,518,842	–	7,518,842	5,918,621
Retail		0%	–	–	–	–
		20%	–	–	–	–
		50%	–	–	–	–
		75%	12,571	–	12,571	9,428
			12,571	–	12,571	9,428
Banks						
- Over 3 Months		0%	–	–	–	–
	1	20%	–	–	–	–
	2,3	50%	–	–	–	–
	4,5	100%	–	–	–	–
	6	150%	–	–	–	–
	Unrated	50%	–	–	–	–
			–	–	–	–
- Maturity upto and under 3 Months in FCY		0%	–	–	–	–
	1,2,3	20%	–	–	–	–
	4,5	50%	–	–	–	–
	6	150%	–	–	–	–
	Unrated	20%	–	–	–	–
			–	–	–	–
- Maturity upto and under 3 Months in PKR		0%	–	–	–	–
		20%	727,650	–	727,650	145,530
			727,650	–	727,650	145,530
Residential Mortgage Finance		35%	31,845	–	31,845	11,146
Public Sector Entity		0%	–	–	–	–
	1	20%	613,163	–	613,163	122,633
	2,3	50%	–	–	–	–
	4,5	100%	–	–	–	–
	6	150%	–	–	–	–
	Unrated	50%	5,018	–	5,018	2,509
			618,181	–	618,181	125,142
Sovereigns (SBP / GoP)		0%	306,859	–	306,859	–
Equity Investments - Listed		100%	1,522,340	–	1,522,340	1,522,340
- Unlisted		150%	100,000	–	100,000	150,000
			1,622,340	–	1,622,340	1,672,340
Past Due Loans						
(Not Secured by Residential Mortgages)	S.P less than 20%	150%	–	–	–	–
	S.P upto 20%	100%	1,268	–	1,268	1,268
	S.P greater than 50%	50%	–	–	–	–
			1,268	–	1,268	1,268
Investment in fixed assets		100%	32,775	–	32,775	32,775
Other assets		100%	277,239	–	277,239	277,239
Total			11,149,570	–	11,149,570	8,193,489

* Credit Risk Mitigation (CRM)

35.4 Capital management

Objectives of managing capital

Capital Management aims to ensure that there is sufficient capital to meet the capital requirements of the Group as determined by the underlying business strategy and the minimum requirements of the SBP. The Capital Management process is governed by the Group's Asset and Liability Committee (ALCO). ALCO is responsible for managing the Group's capital position vis-à-vis internal as well as regulatory requirements. ALCO also reviews the volume and mix of the Group's assets, liabilities and funding sources in light of liquidity, capital, risk and profitability considerations.

Group's capital management seeks:

- to comply with the capital requirements set by the regulators and the capital is comparable to the peers;
- to increase strategic and tactical flexibility in the deployment of capital to allow for the timely reallocation of capital;
- to improve the liquidity of the Group's assets to allow for an optimal deployment of the Group's resources;
- to protect the Group against unexpected events and maintain strong ratings;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide adequate return to shareholders;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Group to expand; and
- to achieve overall low cost of capital with appropriate mix of capital elements.

Externally Imposed Capital Requirements

The paid-up capital and CAR of the Group stands at Rs.6 billion and 60.26% of its risk weighted exposure as at December 31, 2012 respectively.

36. RISK MANAGEMENT

The Risk Management Framework (the Framework) provides principles for identifying, assessing, and monitoring risk within the Group. The Framework specifies the key elements of the risk management process in order to maximise opportunities, to minimise adversity and to achieve improved outcomes and outputs based on informed decision making.

Categories of Risk

The Group generates most of its revenues by accepting Credit, Liquidity and Market Risk. Effective management of these risks is the decisive factor in our profitability. In addition, the Group is subject to certain consequential risks that are common to all business undertakings. These risks are grouped under two headings: Operational and Reputational Risk. The Framework is organized with reference to these five risk categories, as detailed below:

Credit Risk — This risk is defined as the possibility of loss due to unexpected default or a deterioration of credit worthiness of a counter party.

Market Risk — The risk of loss generated by adverse changes in the price of assets or contracts currently held by the Group (this risk is also known as price risk).

Liquidity Risk — The risk that the Group is unable to meet its payment obligations or fund increases in assets when they fall due without incurring an unacceptable cost; the consequences of which may be the failure to meet obligations to repay investors and fulfil commitments to lend.

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

Reputational Risk The risk of failing to meet the standards of performance or behavior required or expected by stakeholders in commercial activities or the way in which business is conducted.

Risk responsibilities

The Board of Directors (the Board) is accountable for overall supervision of the risk management process. The Board is responsible for approval of all risk policies and ensuring that these are properly implemented. Further, the Board appoints the senior management personnel who are capable of managing the risk activities conducted by the Group.

A separate unit has been set up for credit risk management. Risk Management comprises of two areas; Credit Risk Management (CRM) and Middle Office and Operational Risk (MOOR). CRM oversees credit risk taken by the Group while MOOR function overviews market, interest rate, liquidity and operational risks of the Group. The functions of both of these units are subject to the policies and manuals approved by the Board, Prudential Regulations and additional regulatory directives issued from time to time. These units are independent of business generation and risk taking. CRM monitors the credit portfolio of the Group on a regular basis to ensure prudent lending. Moreover, this department will also set parameters for various risks including i) sectoral concentration, ii) exposure limits for single and group clients, and iii) monitoring watch list accounts and the entire portfolio. The risk management philosophy is to identify and monitor risk on portfolio basis and assess the risk taking capacity of the balance sheet as a whole.

Different Management Committees have been set up to review different kinds of risks; mainly being the Assets and Liabilities Committee (ALCO), Credit Committee (CC) and Risk Management Committee (RMC). Comprehensive risk management manuals have been designed which cover all significant risks including credit, liquidity, market and operational risks and provides guidance to management on risk controls, limits, risk measurement tools and a reporting framework.

36.1 Credit risk

Credit risk, the potential default of one or more debtors, is the largest source of risk for the Group. The Group is exposed to credit risk through its lending and investment activities. The credit risk arising from exposure to corporates is governed by the Credit Risk Management Policy and Credit Administration Frameworks. The counter party credit risk arising from interbank lines are addressed in the Treasury policy framework.

The Group manages 3 principal sources of credit risk:

i) Sovereign credit risk on its public sector advances.
ii) Non-sovereign credit risk on its private sector advances.
iii) Counterparty credit risk on interbank limits.

Sovereign credit risk

When the Group lends to public sector borrowers, it prefers obtaining a full sovereign guarantee or the equivalent from the Government of Pakistan (GoP). However, certain public sector enterprises have a well defined cash flow stream and appropriate business model, based on which the lending is secured through collaterals other than GoP guarantee.

Non-Sovereign Credit Risk

When the Group lends to private sector borrowers it does not benefit from sovereign guarantees or the equivalent. Consequently, each borrower's credit worthiness is analyzed on a stand alone basis. A new internal rating model to rate corporate and commercial customers has been designed and its framework has been approved by the Board in July, 2011. The new model has been running under parallel testing with the old model in December, 2012.

Counter Party Credit Risk on Interbank Limits

In the normal course of its business, the Group's Treasury utilizes products such as Reverse Repo and call lending to meet the needs of the borrowers and manage its exposure to fluctuations in market interest rates and to temporarily invest its liquidity prior to disbursement. All of these financial instruments involve, to varying degrees, the risk that the counterparty in the transaction may be unable to meet its obligation to the Group.

Reflecting a preference for minimizing exposure to counterparty credit risk, the Group maintains eligibility criteria that link the exposure limits to counterparty credit ratings by external rating agencies. For example, the minimum rating for counterparties to be eligible for a financing relationship with the Group is BBB.

Credit administration

Credit Administration Department is involved in minimizing losses that could arise due to security and documentation deficiencies.

Risk analytics

To ensure a prudent distribution of asset portfolio, the Group manages its lending and investment activities within a framework of Borrower, Group, Product, Geographical and Sector exposure limits and risk profile benchmarks.

Stress testing

The Group also conducts stress testing of its existing portfolio, which includes all assets, i.e., advances as well as investments. This exercise is conducted on a semi-annual basis through assigning shocks to distressed / non performing assets of the Group and assessing its resulting affect on capital adequacy.

Regular monitoring

Regular monitoring of the advances portfolio is carried out which focuses on early problem recognition and influences the front office to carry out an assessment of the borrower's ability to rectify the identified problem / weakness within a reasonable time-frame, consider tighter structuring of facilities, confirm that there are no critical deficiencies in the existing security position and, if possible, arrange for strengthening of the same through obtaining additional collateral. It should however, be noted that these actions are taken prior to incurring overdues on the facility.

Portfolio diversification

While expanding the advances and the investment (TFCs) portfolio, efficient portfolio diversification has been a key consideration despite the relatively small size of operations.

36.1.1 Segmental Information

36.1.1.1 Segments by class of business

	December 31, 2012					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Cement	**87,570**	**1.51**	**–**	**–**	**–**	**–**
Textile	**1,168,055**	**20.20**	**–**	**–**	**403,595**	**46.48**
Sugar	**874,671**	**15.13**	**–**	**–**	**252,293**	**29.06**
Chemicals and pharmaceuticals	**478,189**	**8.27**	**–**	**–**	**–**	**–**
Production and transmission of energy	**916,601**	**15.85**	**–**	**–**	**–**	**–**
Financial	**219,304**	**3.79**	**2,630,000**	**93.10**	**–**	**–**
Individuals	**44,414**	**0.77**	**–**	**–**	**–**	**–**
Hotel	**40,000**	**0.69**	**–**	**–**	**–**	**–**
Telecommunication	**116,667**	**2.02**	**–**	**–**	**–**	**–**
Paper and board	**177,778**	**3.07**	**–**	**–**	**–**	**–**
Food and confectionary	**348,732**	**6.03**	**–**	**–**	**–**	**–**
Oil, gas, petroleum and energy	**31,986**	**0.55**	**–**	**–**	**–**	**–**
Entertainment	**194,854**	**3.37**	**–**	**–**	**–**	**–**
Transportation	**245,706**	**4.25**	**–**	**–**	**5,914**	**0.68**
Packaging	**71,740**	**1.24**	**–**	**–**	**26,967**	**3.11**
Services	**–**	**–**	**100,000**	**3.54**	**30,000**	**3.46**
Electronics and electrical appliances	**203,592**	**3.52**	**–**	**–**	**15,606**	**1.80**
Engineering	**85,094**	**1.47**	**–**	**–**	**14,501**	**1.67**
Others	**477,082**	**8.25**	**94,924**	**3.36**	**119,430**	**13.75**
	5,782,035	**100.00**	**2,824,924**	**100.00**	**868,306**	**100.00**

	December 31, 2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Cement	89,856	1.93	–	–	–	–
Textile	576,718	12.36	–	–	213,905	0.99
Sugar	511,116	10.95	–	–	158,884	0.74
Chemicals and pharmaceuticals	561,869	12.04	2,260	0.23	1,482	0.01
Production and transmission of energy	935,588	20.05	–	–	–	–
Financial	190,992	4.09	800,000	81.71	20,967,219	97.31
Individuals	44,416	0.95	–	–	–	–
Hotel	57,187	1.23	–	–	–	–
Telecommunication	150,000	3.21	–	–	–	–
Paper and board	200,000	4.29	–	–	–	–
Food and confectionary	428,270	9.18	2,000	0.20	19,461	0.09
Oil, gas, petroleum and energy	70,093	1.50	–	–	100,000	0.46
Transportation	203,726	4.36	–	–	34,694	0.16
Packaging	74,109	1.59	–	–	408	–
Services	–	–	174,758	17.85	22,800	0.11
Electronics and electrical appliances	230,000	4.93	–	–	–	–
Engineering	117,505	2.52	–	–	–	–
Others	225,928	4.84	–	–	28,134	0.13
	4,667,373	100.00	979,018	100.00	21,546,987	100.00

36.1.1.2 Segment by sector

(Rupees in '000)

	December 31, 2012					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	**153,423**	**3**	**1,100,000**	**39**	**–**	**–**
Private	**5,628,612**	**97**	**1,724,924**	**61**	**868,306**	**100**
	5,782,035	**100**	**2,824,924**	**100**	**868,306**	**100**

	December 31, 2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	146,764	3.14	–	–	–	–
Private	4,520,609	96.86	979,018	100	21,546,987	100
	4,667,373	100	979,018	100	21,546,987	100

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

(Rupees in '000)

	2012		2011	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Financial	**2,638**	**2,638**	2,992	1,723
	2,638	**2,638**	2,992	1,723

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

(Rupees in '000)

	2012		2011	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Public / Government	**–**	**–**	–	–
Private	**2,638**	**2,638**	2,992	1,723
	2,638	**2,638**	2,992	1,723

36.1.1.5 Geographical Segment Analysis

(Rupees in '000)

	December 31, 2012			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Pakistan	**1,080,944**	**14,046,437**	**8,579,533**	**868,306**

	December 31, 2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Pakistan	920,129	32,545,016	7,927,903	21,546,987

36.2 Market Risk

The market risk is the risk of reductions in earnings, value and / or reserves arising from changes in market rates (such as interest rates, exchange rates, credit spreads) and market prices (such as commodities, equities, property etc.) as well as their correlations and volatilities. The Group is exposed to market risk primarily through its trading activities, which are centered in the Treasury and Capital market groups.

The Group classifies its assets in banking and trading books as per instructions from SBP. The Group's trading book comprises positions in financial instruments held with trading intent or in order to hedge other elements of the trading book and free of any restrictive covenants on their tradability. In addition, positions need to be frequently and accurately valued and the portfolio should be actively managed. The positions which do not fulfil the criteria of trading book falls under the banking Book and are treated as per SBP requirements.

The Group actively measures, controls and manages market risk on day-to-day basis. Controls are applied to all investment portfolios by setting limits to the exposures taken. This includes stop loss limits on shares in 'Held for Trading' portfolio, individual and sectoral concentration limits, volatility and value-at-risk limits etc.

The Group measures market risk using various techniques like duration analysis for interest rate sensitivity, Value-at-Risk for adverse price movement and stress testing etc. The results are communicated to ALCO and Risk Management Committee on monthly and quarterly basis respectively. Market risk is effectively managed at portfolio level.

Policies, valuation and accounting of equity investments

In accordance with the requirements of the SBP, valuation and accounting of equity investments is done as per the accounting policy of investment mentioned in note 4.6 to these financial statements. Further, composition of equity investments is available in note 7 of these financial statements.

36.2.1 Interest rate risk

Interest rate risk is the uncertainty resulting from changes in interest rates, including changes in the shape of yield curves. Interest rate risk arises from factors such as mismatches between contractual maturities or re-pricing of on and off balance sheet assets and liabilities. The objective of yield / interest rate risk management is to minimize adverse variances in the Group's profitability.

Government securities (PIBs and T-Bills), investment in TFCs and Sukuks, loans and advances and other money market investments are subject to interest rate risk classified under 'Held for Trading' as well as 'Available-for-Sale' category if they meet the SBP criteria. Duration analysis is carried out to capture the risk associated with these securities. Stress testing is also in place to capture the sensitivity of the portfolio to adverse movement in interest rates. For prudent risk management, all money market investments are marked to market to assess changes in the market value of investments due to interest rate movements.

36.2.2 Foreign exchange risk

Foreign Exchange Risk is the risk of loss arising from fluctuations of exchange rates. The Group is not exposed to any significant funded or non-funded foreign exchange exposure.

(Rupees in '000)

	December 31, 2012			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Pakistani Rupee	**14,046,433**	**5,466,904**	**–**	**8,579,529**
United States Dollar	**4**	**–**	**–**	**4**
	14,046,437	**5,466,904**	**–**	**8,579,533**

	December 31, 2011			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Pakistani Rupee	32,545,012	24,617,113	–	7,927,899
United States Dollar	4	–	–	4
	32,545,016	24,617,113	–	7,927,903

36.2.3 Equity position risk

The Group is exposed to equity position risk on its investments in equity capital markets. The Board with the recommendations of ALCO approves exposure limits applicable to investments in trading book.

Equity investments in Group's trading book are subject to limits and controls imposed by risk management policy to reduce the risk. The risk is managed by applying trading limit, scrip–wise and portfolio wise nominal limits, stop-loss limits and volatility limits. Stress test and value-at-risk figures are also reported to the management for timely decisions.

The Equity Investment Committee is responsible for making investment decisions in the capital market.

36.2.4 Mismatch of Interest Rate Sensitive Assets and Liabilities

Interest rate risk can arise on account of rising interest rates causing a fall in the value of assets or falling interest rates causing an increase in the value of liabilities. While the Company is largely engaged in transactions on a floating rate basis in both borrowings and lendings, rate reset frequency, ceilings and floors and choice of base rate can translate into interest rate risk.

Interest rate risk is monitored through regular reports on interest rate matching and duration estimates. Furthermore stress techniques are also used to estimate maximum losses in case of adverse movements in interest rates.

(Rupees in '000)

	December 31, 2012											
			Exposed to yield/interest risk									
	Effective yield/ interest rate	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest Bearing Financial Instruments
On-balance sheet financial instruments												
Asset												
Cash and balances with treasury banks	–	54,763	–	–	–	–	–	–	–	–	–	54,763
Balances with other banks	10.30%	317,222	78,828	238,390	–	4	–	–	–	–	–	–
Investments	13.00%	7,100,816	253,288	2,729,758	372,024	2,787	2,786	–	4,612	–	–	3,735,561
Advances	13.91%	5,779,397	2,368,572	1,657,885	545,248	131,316	441,998	192,069	332,038	82,613	12,079	15,579
Other assets	–	338,772	–	–	–	–	–	–	–	–	–	338,772
		13,590,970	2,700,688	4,626,033	917,272	134,107	444,784	192,069	336,650	82,613	12,079	4,144,675
Liabilities												
Borrowings	12.06%	2,417,139	40,354	390,787	26,049	79,336	1,289,894	189,894	327,491	73,334	–	–
Deposits and other accounts	12.74%	2,824,924	25,000	2,307,400	192,524	300,000	–	–	–	–	–	–
Other liabilities	–	220,055	–	–	–	–	–	–	–	–	–	220,055
		5,462,118	65,354	2,698,187	218,573	379,336	1,289,894	189,894	327,491	73,334	–	220,055
On-balance sheet gap		8,128,852	2,635,334	1,927,846	698,699	(245,229)	(845,110)	2,175	9,159	9,279	12,079	3,924,620
Off–balance sheet financial instruments												
Forward purchase of Government Securities		–	–	–	–	–	–	–	–	–	–	–
Forward Sale of Government Securities		–	–	–	–	–	–	–	–	–	–	–
Interest Rate Derivatives – Short position		–	–	–	–	–	–	–	–	–	–	–
Interest Rate Derivatives – Long position		–	–	–	–	–	–	–	–	–	–	–
Off–balance sheet gap		–	–	–	–	–	–	–	–	–	–	–
Total Yield / Interest Risk Sensitivity Gap		8,128,852	2,635,334	1,927,846	698,699	(245,229)	(845,110)	2,175	9,159	9,279	12,079	3,924,620
Cumulative Yield / Interest Risk Sensitivity Gap			2,635,334	4,563,180	5,261,879	5,016,650	4,171,540	4,173,715	4,182,874	4,192,153	4,204,232	8,128,852

(Rupees in '000)

	December 31, 2011											
			Exposed to yield/interest risk									
	Effective yield/ interest rate	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest Bearing Financial Instruments
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	–	174,790	–	–	–	–	–	–	–	–	–	174,790
Balances with other banks	7.37%	562,085	562,085	–	–	–	–	–	–	–	–	–
Lendings to financial institutions	12.66%	627,841	627,841	–	–	–	–	–	–	–	–	–
Investments	14.38%	25,742,364	339,439	10,424,120	811,785	12,696,777	169,352	–	192,618	360,403	–	747,870
Advances	15.14%	4,646,661	1,468,118	1,413,809	902,672	165,713	119,077	133,941	268,094	149,564	13,101	12,572
Other assets	–	376,790	–	–	–	–	–	–	–	–	–	376,790
		32,130,531	2,997,483	11,837,929	1,714,457	12,862,490	288,429	133,941	460,712	509,967	13,101	1,312,022
Liabilities												
Borrowings	12.06%	23,359,531	19,168,992	2,276,265	45,831	51,144	674,543	704,139	274,944	163,673	–	–
Deposits and other accounts	12.74%	979,018	325,000	2,000	149,758	502,260	–	–	–	–	–	–
Other liabilities	–	275,277	–	–	–	–	–	–	–	–	–	275,277
		24,613,826	19,493,992	2,278,265	195,589	553,404	674,543	704,139	274,944	163,673	–	275,277
On-balance sheet gap		7,516,705	(16,496,509)	9,559,664	1,518,868	12,309,086	(386,114)	(570,198)	185,768	346,294	13,101	1,036,745
Off–balance sheet financial instruments												
Forward purchase of Government Securities		(464,944)	(464,944)	–	–	–	–	–	–	–	–	–
Forward Sale of Government Securities		20,502,275	19,573,343	457,252	471,680	–	–	–	–	–	–	–
Interest Rate Derivatives – Short position		(5,984)	–	(5,984)	–	–	–	–	–	–	–	–
Interest Rate Derivatives – Long position		6,103	–	6,103	–	–	–	–	–	–	–	–
Off–balance sheet gap		20,037,450	19,108,399	457,371	471,680	–	–	–	–	–	–	–
Total Yield / Interest Risk Sensitivity Gap		27,554,155	2,611,890	10,017,035	1,990,548	12,309,086	(386,114)	(570,198)	185,768	346,294	13,101	1,036,745
Cumulative Yield / Interest Risk Sensitivity Gap			2,611,890	12,628,925	14,619,473	26,928,559	26,542,445	25,972,247	26,158,015	26,504,309	26,517,410	27,554,155

36.3 Liquidity Risk

Liquidity risk is the risk that the Group is unable to fund its current obligations and operations in the most cost efficient manner. ALCO is the forum to oversee liquidity management.

Liquidity risk can arise from the Group's activities and can be grouped into three categories:

- Inflows / outflows from on-balance sheet items (other than marketable securities and wholesale borrowings) and off-balance sheet items;
- Marketability of trading securities; and
- Capacity to borrow from the wholesale markets for funding as well as trading activities.

The Group's main funding source is the inter-bank money market. Change in the Government monetary policy and market expectations of interest rate are all important factors that can adversely affect our key funding source. Efficient and accurate planning plays a critical role in liquidity management. Group's MIS provides information on expected cash inflows / out flows which allow the Group to take timely decisions based on the future requirements. Group monitors all the possible sources from which liquidity risk can emanate including market reputation, borrowing terms, deterioration in quality of credit portfolio etc. Other sources are also identified for which early warning indicators have been created and being monitored for early intervention of management sensing a potential liquidity crunch.

Gap analysis and stress testing is done on periodic basis to capture any adverse effect of market movements on liquidity position. Based on the results produced, ALCO devises the liquidity management strategy to maintain sufficient liquidity to deal with any related catastrophe.

36.3.1 Maturities of assets and liabilities - on the basis approved by the Assets and Liabilities Management Committee (ALCO) of the Group

(Rupees in '000)

	Total	December 31, 2012								
		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	54,763	6,808	47,955	–	–	–	–	–	–	–
Balances with other banks	317,222	78,828	238,390	–	4	–	–	–	–	–
Investments	7,100,816	236,475	997,568	389,426	1,823,563	1,959,547	275,834	228,859	939,544	250,000
Advances	5,779,397	341,697	488,145	817,088	600,099	1,005,549	901,248	1,164,758	448,734	12,079
Operating fixed assets	60,329	2,132	4,265	6,397	9,920	17,813	14,868	4,934	–	–
Deferred tax assets	13,403	(2,624)	(2,092)	7,111	(7,314)	(21,531)	51,831	(12,079)	–	–
Other assets	720,507	108,519	296,501	87,608	6,423	4,803	216,653	–	–	–
	14,046,437	771,835	2,070,732	1,307,630	2,432,695	2,966,181	1,460,434	1,386,472	1,388,278	262,079
Liabilities										
Borrowings	2,417,139	25,390	392,057	307,661	346,081	723,555	190,222	334,726	97,446	–
Deposits and other accounts	2,824,924	25,000	2,307,400	192,524	300,000	–	–	–	–	–
Other liabilities	224,841	30,208	66,156	15,660	30,427	16,734	42,720	22,936	–	–
	5,466,904	80,598	2,765,613	515,845	676,508	740,289	232,942	357,662	97,446	–
Net assets	8,579,533	691,237	(694,881)	791,785	1,756,187	2,225,892	1,227,492	1,028,810	1,290,832	262,079
Share capital	6,000,000									
Reserves	555,884									
Unappropriated profit	2,022,531									
Surplus on revaluation of assets - net of tax	1,118									
	8,579,533									

	Total	December 31, 2011								
		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	174,790	174,790	–	–	–	–	–	–	–	–
Balances with other banks	562,085	562,085	–	–	–	–	–	–	–	–
Lendings to financial institutions	627,841	627,841	–	–	–	–	–	–	–	–
Investments	25,742,364	257,876	8,552,335	462,215	12,887,649	755,997	406,326	635,139	1,534,827	250,000
Advances	4,646,661	150,004	362,452	642,763	447,609	793,096	699,683	909,062	628,891	13,101
Operating fixed assets	34,067	1,058	2,116	17,051	3,540	6,435	2,468	1,399	–	–
Other assets	757,208	299,725	199,178	22,053	7,603	224,371	4,278	–	–	–
	32,545,016	2,073,379	9,116,081	1,144,082	13,346,401	1,779,899	1,112,755	1,545,600	2,163,718	263,101
Liabilities										
Borrowings	23,359,531	19,168,991	2,276,265	45,831	51,144	674,543	704,139	274,944	163,674	–
Deposits and other accounts	979,018	325,000	2,000	149,758	502,260	–	–	–	–	–
Deferred tax liabilities	383	8	75	100	17	36	43	72	32	–
Other liabilities	278,181	127,258	68,471	3,134	6,444	12,264	16,735	43,875	–	–
	24,617,113	19,621,257	2,346,811	198,823	559,865	686,843	720,917	318,891	163,706	–
Net assets	7,927,903	(17,547,878)	6,769,270	945,259	12,786,536	1,093,056	391,838	1,226,709	2,000,012	263,101
Share capital	6,000,000									
Reserves	399,204									
Unappropriated profit	1,596,812									
Deficit on revaluation of assets - net	(68,113)									
	7,927,903									

36.3.2 Maturities of assets and liabilities - based on contractual maturity of the assets and liabilities of the Group

(Rupees in '000)

	Total	December 31, 2012								
		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	54,763	6,808	47,955	–	–	–	–	–	–	–
Balances with other banks	317,222	78,828	238,390	–	4	–	–	–	–	–
Investments	7,100,816	236,475	997,568	389,426	1,823,563	1,959,547	275,834	228,859	939,544	250,000
Advances	5,779,397	341,697	488,145	817,088	600,099	1,005,549	901,248	1,164,758	448,734	12,079
Operating fixed assets	60,329	2,132	4,265	6,397	9,920	17,813	14,868	4,934	–	–
Deferred tax assets	13,403	(2,624)	(2,092)	7,111	(7,314)	(21,531)	51,831	(12,079)	–	–
Other assets	720,507	108,519	296,501	87,608	6,423	4,803	216,653	–	–	–
	14,046,437	771,835	2,070,732	1,307,630	2,432,695	2,966,181	1,460,434	1,386,472	1,388,278	262,079
Liabilities										
Borrowings	2,417,139	25,390	392,057	307,661	346,081	723,555	190,222	334,726	97,446	–
Deposits and other accounts	2,824,924	25,000	2,307,400	192,524	300,000	–	–	–	–	–
Other liabilities	224,841	30,208	66,156	15,660	30,427	16,734	42,720	22,936	–	–
	5,466,904	80,598	2,765,613	515,845	676,508	740,289	232,942	357,662	97,446	–
Net assets	8,579,533	691,237	(694,881)	791,785	1,756,187	2,225,892	1,227,492	1,028,810	1,290,832	262,079
Share capital	6,000,000									
Reserves	555,884									
Unappropriated profit	2,022,531									
Surplus on revaluation of assets - net of tax	1,118									
	8,579,533									

	Total	December 31, 2011								
		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	174,790	174,790	–	–	–	–	–	–	–	–
Balances with other banks	562,085	562,085	–	–	–	–	–	–	–	–
Lendings to financial institutions	627,841	627,841	–	–	–	–	–	–	–	–
Investments	25,742,364	257,876	8,552,335	462,215	12,887,649	755,997	406,326	635,139	1,534,827	250,000
Advances	4,646,661	150,004	362,452	642,763	447,609	793,096	699,683	909,062	628,891	13,101
Operating fixed assets	34,067	1,058	2,116	17,051	3,540	6,435	2,468	1,399	–	–
Other assets	757,208	299,725	199,178	22,053	7,603	224,371	4,278	–	–	–
	32,545,016	2,073,379	9,116,081	1,144,082	13,346,401	1,779,899	1,112,755	1,545,600	2,163,718	263,101
Liabilities										
Borrowings	23,359,531	19,168,991	2,276,265	45,831	51,144	674,543	704,139	274,944	163,674	–
Deposits and other accounts	979,018	325,000	2,000	149,758	502,260	–	–	–	–	–
Deferred tax liabilities	383	8	75	100	17	36	43	72	32	–
Other liabilities	278,181	127,258	68,471	3,134	6,444	12,264	16,735	43,875	–	–
	24,617,113	19,621,257	2,346,811	198,823	559,865	686,843	720,917	318,891	163,706	–
Net assets	7,927,903	(17,547,878)	6,769,270	945,259	12,786,536	1,093,056	391,838	1,226,709	2,000,012	263,101
Share capital	6,000,000									
Reserves	399,204									
Unappropriated profit	1,596,812									
Deficit on revaluation of assets - net	(68,113)									
	7,927,903									

36.4 Operational risk

The Group, like all financial institutions, is exposed to many types of operational risks, including the potential losses arising from internal activities or external events caused by breakdowns in information, communication, physical safeguards, business continuity, supervision, transaction processing, settlement systems and procedures and the execution of legal, fiduciary and agency responsibilities.

The Group maintains a system of internal controls designed to keep operational risk at appropriate levels, in view of the Group's financial strength and the characteristics of the activities and market in which it operates. These internal controls are periodically updated to conform to industry best practice. The Group has developed a Business Continuity Plan applicable to all its functional areas. Currently the Group uses the Basic Indicator Approach for assessing its operational risk capital charge.

37. NON ADJUSTING EVENT AFTER THE REPORTING DATE

The Board of Directors have proposed a final dividend for the year ended December 31, 2012 of Rs. **1.67** per share (2011: Re.0.33 per share), amounting to Rs. **1,000** million (2011: Rs.200 million) at their meeting held on **May 09, 2013** , for approval of the members at the annual general meeting to be held on **May 30, 2013** . The consolidated financial statements for the year ended December 31, 2012 do not include the effect of these appropriations which will be accounted for in the consolidated financial statements for the year ending December 31, 2013.

38. GENERAL

38.1 Credit rating

The Group has been assigned credit rating of 'AA+' (Double A plus) in the medium to long term and A1+ (A One Plus) in the short-term by JCR-VIS Credit Rating Agency Limited, SBP approved rating agency. Outlook on the assigned rating is "Stable".

38.2 Figures have been rounded off to the nearest thousand rupees.

39. DATE OF AUTHORISATION FOR ISSUE

These consolidated financial statements were authorised for issue on **May 09, 2013** by the Board of Directors of the Group.

Chief Executive **Director** **Director** **Chairman**

Annexure - I

As referred in note 9.6 of the unconsolidated financial statements

Statement showing written-off loans on any other financial relief of Rs. 500,000 or above provided during the year ended December 31, 2012

S. No.	Name and address of the borrowers	Name of individual/ partner/director and CNIC No.	Father's /Husband's name	Outstanding Liabilities at the beginning of the year				Amount written-off			
				Principal	Mark-up	Others	Total	Principal	Mark-up	Others	Total
	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil