Consolidated Financial Statements

Anjum Asim Shahid Rahman
Chartered Accountants

Grant Thornton

Independent AUDITORS' REPORT
to the members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Pak Oman Investment Company Limited (the holding company) and its subsidiary company (together 'the Group') as at December 31, 2008 the related consolidated profit and loss account, 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. The interim financial statements of the subsidiary company covering period from January 1, 2008 to December 31, 2008 have been reviewed by us and our opinion in so far as it relates to amounts included for the subsidiary company, is based on our review of those interim financial statements.

These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these 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 Oman Investment Company Limited and its subsidiary company as at December 31, 2008 and the results of their operations for the year then ended.

Anjum Asim Shahid Rahman
Chartered Accountants

Karachi: March 30, 2009

Consolidated
Balance SHEET

As at December 31, 2008

(US $ in '000)				(Rupees in '000)	
2008	2007 Restated		Note	2008	2007 Restated
		ASSETS			
619	318	Cash and balances with treasury banks	6	**48,710**	25,062
7,141	23,805	Balances with other banks	7	**561,986**	1,873,434
40,447	47,091	Lendings to financial institutions	8	**3,183,180**	3,706,071
85,161	113,101	Investments	9	**6,702,149**	8,901,021
72,843	87,345	Advances	10	**5,732,748**	6,874,015
1,218	1,224	Operating fixed assets	11	**95,824**	96,322
2,254	85	Deferred tax assets	12	**177,403**	6,681
9,584	6,414	Other assets	13	**754,322**	504,825
219,267	279,383			**17,256,322**	21,987,431
		LIABILITIES			
–	–	Bills payable		**–**	–
95,191	149,634	Borrowings from financial institutions	14	**7,491,561**	11,776,222
38,413	27,552	Deposits and other accounts	15	**3,023,121**	2,168,358
–	–	Sub-ordinated loans		**–**	–
208	258	Liabilities against assets subject to finance lease	16	**16,333**	20,301
–	–	Deferred tax liabilities		**–**	–
7,506	6,614	Other liabilities	17	**590,742**	520,523
141,318	184,058			**11,121,757**	14,485,404
77,949	95,325	**NET ASSETS**		**6,134,565**	7,502,027
		REPRESENTED BY			
78,145	78,145	Share capital	18	**6,150,000**	6,150,000
12,926	11,752	Reserves	19	**1,017,251**	924,863
(2,920)	4,668	Unappropriated (loss) / profit		**(229,835)**	367,338
88,151	94,565			**6,937,416**	7,442,201
1,229	2,052	Minority Interest	20	**96,739**	161,529
89,379	96,617			**7,034,155**	7,603,730
(11,431)	(1,292)	Deficit (net) on revaluation of securities	21	**(899,590)**	(101,703)
77,949	95,325			**6,134,565**	7,502,027
		Contingencies and commitments	22		

The annexed notes from 1 to 44 form an integral part of these consolidated financial statements. The details of valuation of investments, impairment and impact on profit and loss account are given in note 9.15.

Managing Director and Chief Executive **Chairman**

Consolidated
Profit and Loss ACCOUNT

For the year ended
December 31, 2008

(US $ in '000)				(Rupees in '000)	
2008	2007		Note	2008	2007
26,150	20,115	Mark-up/Return/Interest earned	23	**2,057,978**	1,583,047
16,752	13,515	Mark-up/Return/Interest expensed	24	**1,318,404**	1,063,595
9,398	6,600	Net mark-up/interest income		**739,574**	519,452
2,558	1,110	Provision against non-performing loans and advances	10.5	**201,345**	87,319
663	151	Provision for diminution in the value of investments	9.3	**52,151**	11,847
–	–	Bad debts written off directly		**–**	–
3,221	1,261			**253,496**	99,166
6,177	5,339	Net mark-up/interest income after provisions		**486,078**	420,286
		NON MARK-UP/INTEREST INCOME			
1,234	864	Fee, commission and brokerage income		**97,135**	68,001
730	263	Dividend income		**57,412**	20,733
–	–	Income from dealing in foreign currencies		**–**	–
3,115	5,620	Gain on sale of investments	25	**245,155**	442,324
(7,200)	(95)	Unrealised loss on revaluation / re-classification of investments classified as held-for-trading		**(566,627)**	(7,513)
(1,155)	(369)	Share of loss from associates before taxation		**(90,884)**	(29,018)
16	1	Other income	26	**1,289**	41
(3,260)	6,284	Total non markup/interest income		**(256,520)**	494,568
2,917	11,623			**229,558**	914,854
		NON MARK-UP/INTEREST EXPENSES			
4,420	2,966	Administrative expenses	27	**347,826**	233,413
–	–	Other provisions/write offs		**–**	–
358	447	Other charges	28	**28,166**	35,181
4,778	3,413	Total non markup/interest expenses		**375,992**	268,594
(1,861)	8,210			**(146,434)**	646,260
–	–	Extra ordinary/unusual items		**–**	–
(1,861)	8,210	**(LOSS)/PROFIT BEFORE TAXATION**		**(146,434)**	646,260
		Taxation	29		
3,460	1,726	current		**272,501**	135,846
(1)	–	prior years		**(98)**	–
(1,992)	167	deferred		**(156,762)**	13,149
1,470	1,893			**115,641**	148,995
(3,331)	6,317	**(LOSS)/PROFIT AFTER TAXATION**		**(262,075)**	497,265
		(Profit)/Loss attributable to minority interest		**64,790**	(1,859)
		(Loss)/Profit attributble to shareholders of the holding company		**(197,285)**	495,406
4,668	2,826	Unappropriated profit brought forward		**367,338**	222,427
1,337	9,143	Profit available for appropriation		**170,053**	717,833
US $				Rupees	
(0.0041)	0.0147	(Loss)/Earnings per share for (loss)/profit for the year attributable to the shareholders of the holding company - basic and diluted	30	**(0.32)**	1.16

The annexed notes from 1 to 44 form an integral part of these consolidated financial statements. The details of valuation of investments, impairment and impact on profit and loss account are given in note 9.15.

Managing Director and Chief Executive **Chairman**

Consolidated
Cash Flow STATEMENT
For the year ended December 31, 2008

(US $ in '000) 2008	2007		Note	(Rupees in '000) 2008	2007
		CASH FLOW FROM OPERATING ACTIVITIES			
(1,861)	8,210	(Loss)/Profit before taxation		(146,434)	646,260
730	263	Less: Dividend income		57,412	20,733
(2,591)	7,947			(203,846)	625,527
		Adjustments for non-cash charges			
278	224	Depreciation	11.1	21,792	17,613
48	25	Amortization of intangible assets	11.2	3,670	1,971
7,200	95	Unrealised loss on revaluation / re-classification of investments classified as 'held-for-trading'		566,627	7,513
(16)	(1)	Gain on sale of operating fixed assets	26	(1,289)	(41)
(1,155)	369	Share of loss from associates before taxation		(90,884)	29,018
2,558	1,110	Provision against non-performing loans and advances	10.5	201,345	87,319
663	151	Provision for diminution in the value of investments	9.3	52,151	11,847
34	32	Finance charges on leased assets	27	2,710	2,494
9,610	2,005			756,122	157,734
7,019	9,952			552,276	783,261
		(Increase)/Decrease in operating assets			
5,083	(1,271)	Balances with other banks		400,000	(100,000)
4,090	(12,498)	Lendings to financial institutions		321,891	(983,589)
22,233	(19,892)	Investment classified as 'held-for-trading'		1,749,755	(1,565,469)
11,943	(10,042)	Advances		939,922	(790,282)
(3,379)	(1,215)	Other assets		(265,891)	(95,725)
39,970	(44,918)			3,145,677	(3,535,065)
		Increase/(Decrease) in operating liabilities			
–	–	Bills payable		–	–
(54,443)	50,160	Borrowings from financial institutions		(4,284,661)	3,947,582
10,861	(10,689)	Deposits and other accounts		854,763	(841,225)
404	(1,003)	Other liabilities		31,907	(78,957)
(43,178)	38,468			(3,397,991)	3,027,400
3,811	3,502			299,962	275,596
(34)	(32)	Finance charges paid on leased assets		(2,659)	(2,522)
(2,978)	(230)	Income tax paid		(234,338)	(18,122)
799	3,240	Net cash from operating activities		62,965	254,952
		CASH FLOW FROM INVESTING ACTIVITIES			
(13,514)	(35,646)	Net investments in 'available-for-sale' securities		(1,063,560)	(2,805,376)
2,658	197	Net investments in 'held-to-maturity' securities		209,164	15,537
(248)	(6,208)	Investments in associates		(19,479)	(488,583)
727	308	Dividend received		57,253	24,229
(261)	(353)	Investments in operating fixed assets		(20,548)	(27,777)
97	83	Sale proceeds of operating fixed assets disposed off		7,603	6,523
(10,541)	(41,619)	Net cash used-in investing activities		(829,567)	(3,275,447)
		CASH FLOW FROM FINANCING ACTIVITIES			
(187)	(174)	Payments of lease obligations		(14,698)	(13,689)
–	38,119	Issue of share capital		–	3,000,000
–	1,432	Share of net assets acquired by minority interest		–	112,700
(3,907)	(1,906)	Dividend paid		(307,500)	(150,000)
(4,094)	37,471	Net cash (used-in)/from financing activities		(322,198)	2,949,011
(13,836)	(908)	**Decrease in cash and cash equivalents**		(1,088,800)	(71,484)
23,450	24,358	Cash and cash equivalents at beginning of the year		1,845,496	1,916,980
9,614	23,450	Cash and cash equivalents at end of the year	31	756,696	1,845,496

The annexed notes from 1 to 44 form an integral part of these consolidated financial statements. The details of valuation of investments, impairment and impact on profit and loss account are given in note 9.15.

Managing Director and Chief Executive **Chairman**

Consolidated
Statement of Changes in EQUITY
For the year ended December 31, 2008

(Rupees in '000)

	Issued, subscribed and paid up capital	Attributable to shareholders of the holding company — RESERVES — Capital: Statutory reserve	Capital: Reserve for issue of bonus shares	Revenue: General reserve	Revenue: Reserve for contin-gencies	Unappro-priated profit	Sub total	Minority Interest	Total
Balance as at January 1, 2007	3,000,000	242,531	–	572,752	59,085	222,427	4,096,795	46,970	4,143,765
Dividend paid	–	–	–	–	–	(150,000)	(150,000)	–	(150,000)
Transfer from general reserve	–	–	–	(81,372)	–	81,372	–	–	–
Transfer to contingencies reserve relating to quarter ended December 31, 2006	–	–	–	–	7,159	(7,159)	–	–	–
Issue of right shares	3,000,000	–	–	–	–	–	3,000,000	–	3,000,000
Share of net assets acquired by minority interest	–	–	–	–	–	–	–	112,700	112,700
Reserve for issue of bonus shares	–	–	150,000	–	–	(150,000)	–	–	–
Issue of bonus shares	150,000	–	(150,000)	–	–	–	–	–	–
Profit for the year ended December 31, 2007	–	–	–	–	–	497,265	497,265	–	497,265
Transfer to contingencies reserve	–	–	–	–	20,047	(20,047)	–	–	–
Share of profit attributable to minority interest	–	–	–	–	–	(1,859)	(1,859)	1,859	–
Transfer to statutory reserve	–	104,661	–	–	–	(104,661)	–	–	–
Balance as at December 31, 2007	6,150,000	347,192	–	491,380	86,291	367,338	7,442,201	161,529	7,603,730
Dividend for the year	–	–	–	–	–	(307,500)	(307,500)	–	(307,500)
Transfer to general reserve	–	–	–	84,375	–	(84,375)	–	–	–
Transfer to contingencies reserve relating to quarter ended December 31, 2007	–	–	–	–	6,722	(6,722)	–	–	–
Loss for the year ended December 31, 2008	–	–	–	–	–	(262,075)	(262,075)	–	(262,075)
Share of profit attributable to minority interest	–	–	–	–	–	64,790	64,790	(64,790)	–
Transfer to statutory reserve	–	1,291	–	–	–	(1,291)	–	–	–
Balance as at December 31, 2008	6,150,000	348,483	–	575,755	93,013	(229,835)	6,937,416	96,739	7,034,155

The annexed notes from 1 to 44 form an integral part of these consolidated financial statements. The details of valuation of investments, impairment and impact on profit and loss account are given in note 9.15.

Managing Director and Chief Executive **Chairman**

1 LEGAL STATUS AND NATURE OF BUSINESS

The Group comprises of Pak Oman Investment Company Limited - POICL (the holding company) and a subsidiary, Pak Oman Asset Management Company Limited (POAMCL). POAMCL is involved in investment advisory, portfolio management, equity research and corporate finance. POICL holds 51% of the share capital of POAMCL.

The Group's associates are as follows:

Entity	Country of incorporation	Nature of business	Holding percentage 2008	2007
Japan Power Generation Limited (JPGL)	Pakistan	Incorporated under the Companies Ordinance, 1984 and is engaged in generation of power and its supply to WAPDA.	**19.59**	17.33
Pak Oman Microfinance Bank Limited (POMFBL)	Pakistan	Incorporated under the Companies Ordinance, 1984 and is engaged in providing micro finance services to the poor and underserved segment of the society.	**33.4**	33.4
Pak Oman Advantage Plus Fund	Pakistan	Established as an open-end scheme under the Non-Banking Finance Companies (NBFC) Rules 2003 and NBFC Regulations 2007.	**12**	18.86
Pak Oman Bank of Punjab Advantage Fund	Pakistan	Established as a closed-end scheme under the NBFC Rules 2003 and NBFC Regulations 2007.	**27**	12.53
Pak Oman Advantage Islamic Income Fund	Pakistan	Established as an open-end scheme under the NBFC Rules 2003 and NBFC Regulations 2007.	**50**	–
Pak Oman Advantage Islamic Fund	Pakistan	Established as an open-end scheme under the NBFC Rules 2003 and NBFC Regulations 2007.	**69**	–
Pak Oman Advantage Stock Fund	Pakistan	Established as an open-end scheme under the NBFC Rules 2003 and NBFC Regulations 2007.	**70**	–

The holding company was incorporated as a private limited company on July 23, 2001. Subsequently, on March 17, 2004 the company was converted into a public limited company. It is a joint venture between the Government of Pakistan and the Government of the Sultanate of Oman. POICL's objectives interalia include promotion of the economic growth of Pakistan and Oman through industrial development and agro-based industries on commercial basis and to carry on the business of finance and/or investment bank. Its registered office is situated at 1st Floor, Block A, Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan. POICL operates a branch at Lahore and other representative offices at Islamabad, Gawadar and Muscat. POICL is designated as a development financial institution (DFI) under the BPD circular No. 35 dated October 28, 2003 issued by the State Bank of Pakistan.

POAMCL was incorporated in Pakistan under the Companies Ordinance, 1984 on July 28, 2006 as an unlisted public limited company having its registered office at 1st Floor, Tower A, Finance and Trade Center, Shahrah-e-Faisal, Karachi, Sindh. The company obtained certificate of commencement of business on October 31, 2006. The principal activities of the company include investment advisory and corporate finance.

2 BASIS OF PRESENTATION AND CONSOLIDATION

2.1 Basis of presentation

2.1.1 These consolidated financial statements have been prepared from the information available in the audited financial statements of the holding company for the year ended December 31, 2008 and the condensed interim financial statements of subsidiary POAMCL as on and for the half year ended December 31, 2008 which have only been subjected to a review but are not audited. Certain disclosures relating to POAMCL as incorporated in these consolidated financial statements were not included in its reviewed financial statements as of December 31, 2008. The accounting policies used by POAMCL and associates in preparation of their respective financial statements are consistent with that of the holding company except for the accounting policy for investments.

2.1.2 The associates have been accounted for in these consolidated financial statements under the equity method of accounting on the respective basis as follows:

Entity	Source of information
Japan Power Generation Limited (JPGL)	Audited financial statements for the year ended June 30, 2008 and condensed interim financial statements as on and for the half year ended December 31, 2008.
Pak Oman Microfinance Bank Limited (POMFBL)	Audited financial statements for the year ended December 31, 2008.
Pak Oman Bank of Punjab Advantage Plus Fund	Condensed interim financial statements as on and for the half year ended December 31, 2008.
Pak Oman Advantage Fund	Condensed interim financial statements as on and for the half year ended December 31, 2008.
Pak Oman Advantage Islamic Income Fund	Condensed interim financial statements as on and for the period October 30, 2008 to December 31, 2008.
Pak Oman Advantage Islamic Fund	Condensed interim financial statements as on and for the period October 30, 2008 to December 31, 2008.
Pak Oman Advantage stock fund	Condensed interim financial statements as on and for the period October 30, 2008 to December 31, 2008.

The Group exercise significant influence on the financial and operational policies of JPGL due to representation of four directors out of thirteen directors. Accordingly, investment in JPGL is accounted for as an investment in associate in these consolidated financial statements. Effective holding of the Group has been considered as 19.59 percent for the purpose of determining share in net assets acquired and share in loss of the associate.

US Dollar equivalent

The US dollar amounts shown in the balance sheet, profit and loss account and cash flow statement are stated as additional information solely for the convenience of the reader. For this purpose the amounts in Pakistan rupees have been converted at a rate of Rs. 78.7 = US dollar 1 for the years ended December 31, 2008 and December 31, 2007.

2.2 Basis of consolidation

Subsidiary

The consolidated financial statements include the financial statements of the holding company and its subsidiary.

Subsidiaries are those enterprises in which the holding company 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. The financial statements of the subsidiary company have been consolidated on a line-by-line basis and the carring value of investment held by the company is eliminated against the subsidiary shareholder's equity. The Group applies uniform accounting policies for like transactions and events in similar circumstances except where specified otherwise.

Associates
The Group's share of its associates' post-acquisition profits/losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

All material inter-group balances, transactions and resulting unrealised profits/losses have been eliminated.

3 STATEMENT OF COMPLIANCE

3.1 These consolidated financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan, requirements of the Companies Ordinance, 1984 (the Ordinance) and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP) including BSD circular No. 04 dated February 17, 2006. The approved accounting standards comprise such International Financial Reporting Standards as are notified under the provisions of the Companies Ordinance, 1984. However, wherever the requirements of the Ordinance or directives issued by SECP and the SBP differ with the requirements of approved standards, the requirements of the Ordinance or the directives of the SECP or SBP shall prevail.

3.2 The SBP through its BSD circular No. 11 dated September 11, 2002 has deferred implementation of IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 40 'Investment Property' for Non-Bank Financial Institutions (NBFIs) in Pakistan. Accordingly, the requirements of those IASs have not been considered in preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

4 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 SBP and obligations in respect of certain staff retirement benefits are carried at present value.

These consolidated financial statements have been prepared following the accrual basis of accounting except cash flow information.

Critical accounting estimates and judgments
The preparation of consolidated financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are as follows:

(a) Critical judgments in classification of investments in accordance with the group's policy (notes 5.3 and 9).

(b) Assumption and estimation in recognition of taxation and deferred taxation (notes 5.9 and 29).

(c) Actuarial assumptions and estimations in recognition of defined benefit obligation and calculation of charge for defined benefit plan (note 5.11 and 33).

(d) Useful life of operating fixed assets (note 11 and 5.7).

(e) Provision against investments (note 5.15 and 9.15).

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

4.1 Restatement of Financial Statements
In previous years certain POICL's investments restated as investment in associates and in accordance with the requirements of International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates", the financial statements for the year ended December 31, 2007 have been restated to correct the error with respect to the accounting for investment.

The effect of restatement is net increase in investment by an amount of Rs. 11.1 million, a consequent decrease in deficit on revaluation of investments and increase in net assets by the same amount. The effect on opening retained earning amounting to Rs. 12,125 has not been adjusted as the amount is considered as immaterial.

4.2 Following is the summary of the restatement in the prior year.

(Rupees in '000)

Mutual funds units/certificates	Type of mutual fund	December 31, 2007 Cost	Market value	Surplus / (Deficit)
Pak Oman Bank of Punjab Advantage fund	Open-end	300,000	304,380	4,380
Pak Oman Advantage fund	Closed-end	188,583	173,103	(15,480)
		488,583	477,483	(11,100)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents
Cash and cash equivalents comprise cash and balances with treasury banks, balances with other banks and placements with financial institutions having maturities of three (3) months or less.

5.2 Revenue recognition
(i) Gain on sale of securities and income from bank deposits and government securities are recognised on an accrual basis.

Income from loans and term finance certificates are recognised on an accrual basis.

Profit required to be suspended in compliance with the prudential regulations issued by the SBP is recorded on receipt basis.

(ii) Fees and commission are recognised on receipt basis.

(iii) The group follows finance method in recognising income on lease financing. Under this method the unearned income i.e. the excess of aggregate lease rentals over the cost of the asset under lease facility is deferred and then amortised over the term of the lease, so as to produce a constant rate of return on net investment in the lease.

(iv) Dividend income is recognised when the group's right to receive is established.

(v) Advisory fee and commission income are recognised as and when services are provided. Performance fee related to advisory services are recorded on confirmation.

5.3 **Investments**

5.3.1 **Holding company classifies its investments as follows:**

Held-for-trading
These are investments acquired principally for the purpose of generating profit from short-term fluctuation in prices or dealers' margins, or are securities included in a portfolio in which a pattern of short-term profit taking exists.

Held-to-maturity
These are securities acquired by the company with the intention and ability to hold them upto maturity.

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

Holding company values its investments as follows:
Quoted securities, excluding investments categorised as 'held-to-maturity' securities and investments in an associates, are stated at revalued amounts.

Investment in quoted associate is stated at cost.

Investments in unquoted associate and subsidiary are stated at cost less provision for impairment, if any. Unquoted equity securities other than investments in an associate and a subsidiary are stated at lower of cost or break-up value.

Investments in securities categorised as 'held-to-maturity' are carried at amortised cost.

5.3.2 **Subsidiary classifies its financial instruments in the following categories:**
Investments 'at fair value through profit or loss':
Financial instruments 'held-for-trading'

These include financial instruments acquired principally for the purpose of generating profit from short-term fluctuations in prices or dealers' margins or are securities included in a portfolio in which a pattern of short-term profit taking exists.

Financial instruments designated 'at fair value through profit or loss upon initial recognition'.

These include investments that are designated as investments at fair value through 'profit and loss'.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the company as fair value through profit or loss or available-for-sale.

Held-to-maturity
These are securities acquired by the company with the intention and ability to hold them upto maturity.

Available-for-sale
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Subsidiary company values its investments as follows:
Financial instruments are measured initially at fair value (transaction price) plus, in case of a 'financial asset or financial liability not at fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on 'financial assets and financial liabilities at fair value through profit or loss' are expensed immediately.

Subsequent to initial recognition, instruments classified as 'financial assets at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' are recognised in the income statement. Changes in the fair value of instruments classified as 'available for sale' are recognised in equity until derecognised or impaired when the accumulated fair value adjustments recognised in equity are included in the income statement.

Financial assets classified as 'loans and receivables' and 'held to maturity' are carried at amortised cost using the effective interest method, less impairment losses, if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest method.

5.3.3 Any surplus/deficit arising as a result of revaluation of quoted and government securities categorised as 'available-far-sale' is presented below shareholders' equity in balance sheet while any surplus/deficit arising as a result of revaluation of 'held-far-trading' securities is credited/charged to the profit and loss account. POAMCL accounts for investments in accordance with the requirements of IAS 39 whereby marketable investments are valued on a basis consistent with that of the Group except that surplus/(deficit) arising on revaluation of 'available-for-sale' investments is recognised in equity through statement of changes in equity. Any surplus/(deficit) arising on revaluation of 'held-for-trading' securities is credited/charged to the profit and loss account.

5.3.4 The cost of acquisition of 'dealing securities' (i.e. quoted securities purchased and sold on the same day) is not considered for calculating the 'moving average cost' of other quoted securities (i.e. quoted securities sold after the date of purchase).

5.3.5 Premium paid/discount on acquisition of securities are amortised on a straight line basis over the term of respective securities.

5.3.6 Unquoted debt securities where active market does not exist are stated at cost.

5.3.7 The Group follows trade date accounting for investments.

5.3.8 Gains and losses arising on sale of investments are recognised in profit and loss account.

5.4 **Derivatives**
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

5.5 **Derecognition**
Subsidiary company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

5.6 **Advances**

5.6.1 Advances by holding company are stated net of specific and general provisions against non-performing advances, if any, which are charged to profit and loss account.

5.6.2 **Provision against non-performing advances**
Holding company determines provision against advances on a prudent basis in accordance with the prudential regulations issued by the SBP.

Advances are written off when it is considered that there is no realistic prospect of recovery.

5.7 Operating fixed assets

5.7.1 Owned

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life. Depreciation is charged at rates stated in note 11.1. Capital work-in-progress is stated at cost less impairment losses, if any. These are transferred to specific assets when the assets are available for use.

Residual values and useful lives are reviewed at each balance sheet date, and adjusted if impact on depreciation is considered significant.

Depreciation on additions and deletions of operating fixed assets during a year is charged in proportion to the period of use.

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

Profit or loss on sale or retirement of operating fixed assets is recognised in the consolidated profit and loss account.

5.7.2 Leased

Assets held under finance lease are accounted for by recording the assets and related liabilities at the amounts determined on the basis of the lower of fair value of assets and the present value of minimum lease payments. Finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged on leased assets on a basis similar to that of owned assets.

5.7.3 Intangible assets

Expenditure incurred to acquire software licences is capitalised as intangible assets and stated at cost less accumulated amortization and impairment losses, if any.

Intangible assets having a finite life are amortised using the straight line method over their estimated useful lives. Amortization is charged at the rate stated in note 11.2.

Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use.

5.8 Securities under repurchase/resale agreements

Securities sold subject to repurchase agreements (repo) are retained in the financial statements as investments and a counterparty liability is included in borrowings. Securities purchased under agreement to resell (reverse repo) are included in lendings. The difference between the sale and repurchase price is treated as mark-up or return expensed and earned respectively and is recognised on accrual basis.

5.9 Taxation

5.9.1 Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any.

5.9.2 Deferred

Deferred income tax is provided using the balance sheet liability method on all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the applicable tax rates. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits will be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

5.10 Borrowings

Borrowings are recognised initially at the value of consideration received. Difference between the consideration received and the redemption value is recognised in profit and loss account over the period of the borrowings.

5.11 Staff retirement benefits

5.11.1 Defined benefit plan

Holding company operates a funded-gratuity scheme for all its permanent employees. Contribution to the fund is made every year based on actuarial valuation. The scheme was established on November 1, 2002 and approved by the Commissioner of Income Tax with effect from January 31, 2003. The actuarial valuation was conducted as at December 31, 2008.

5.11.2 Defined contribution plan

Holding company also operates a provident fund scheme for its permanent employees. Equal monthly contributions at the rate of 8.33 percent per annum of basic salary are made by the company and its employees. The scheme was established on November 1, 2002 and approved by the Commissioner of Income Tax with effect from January 31, 2003.

5.12 Compensated absences

Holding company accounts for compensated absences (leave) of employees in the period in which these absences are earned.

5.13 Foreign currencies

Monetary assets and liabilities in foreign currencies are reported in Pakistan rupees at the rates of exchange prevailing on the balance sheet date. Foreign currency transactions during the year are recorded at the rates prevailing on the date of transaction. Exchange gains and losses are included in the consolidated profit and loss account.

5.14 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

5.15 Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists the assets' recoverable amount is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

5.16 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

5.17 Minority interest

Minority interest is calculated on the basis of the minority's proportion of pre-acquisition carrying amounts of the identifiable assets and liabilities and share in post-acquisition profit/loss of the subsidiary.

5.18 Dividend and reserves

Dividend declared and appropriations, except for transfer to statutory reserve, made subsequent to the consolidated balance sheet date are recognised as liability and recorded as changes in reserves respectively in the period in which these are approved by the directors/shareholders as appropriate.

5.19 Following standards and interpretations have been issued but are not effective. Consequently respective requirements have not been followed while preparing these financial statements.

Standard or Interpretation		Effective date
Share-based Payments	IFRS 2	January 01, 2009
Business Combinations	IFRS 3	July 01, 2009
Operating Segments	IFRS 8	January 01, 2009
Non-current Assets Held for Sale and Discontinued Operations	IFRS 5	July 01, 2009
Property, Plant and Equipment	IAS 16	January 01, 2009
Accounting for Government Grants and Disclosure of Government Assistance	IAS 20	January 01, 2009
Borrowing Costs	IAS 23	January 01, 2009
Consolidated and Separate Financial Statements	IAS 27	January 01, 2009
Interests in Joint Ventures	IAS 31	January 01, 2009
Financial Instruments: Presentation	IAS 32	January 01, 2009
Service Concession Arrangements	IFRIC 12	January 01, 2008
Customer Loyalty Programmes	IFRIC 13	July 01, 2008
IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	IFRIC 14	January 01, 2008
Agreements for the Construction of Real Estate	IFRIC 15	January 01, 2009
Distributions of Non-cash Assets to Owners	IFRIC 17	July 01, 2009

Above standards and interpretations are not expected to materially affect the financial statements.

5.20 Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of primary economic environment in which the Group operates. These consolidated financial statements are presented in Pakistani rupees, which is the Group's functional and presentation currency.

5.21 General

5.21.1 Figures

Amounts in these consolidated financial statements have been rounded off to the nearest thousand rupee except stated otherwise.

5.21.2 Corresponding Figures

For the purpose of better presentation, following reclassification has been made in the current year. Comparative figures have also been reclassified. These reclassification affect relevant line items of profit and loss account and statement of cash flows. The reclassifications have no other effects.

Particulars	From	To	Note	Reason
Amortization of premium on investments have been net-off from return on investments.	Amortization of premium on investments	Return on investment	23	For better presentation under IAS 1 'Presentation of Financial Statements.'

6 CASH AND BALANCES WITH TREASURY BANKS

(Rupees in '000)

	Note	2008	2007
Cash in hand			
local currency		**234**	81
foreign currency		**94**	–
Balances with State Bank of Pakistan (SBP) in local currency			
current accounts		**382**	7,981
cash reserve	6.1	**48,000**	17,000
		48,710	25,062

6.1 This represent the amount required to be maintained by the holding company in accordance with the SBP's regulations.

7 BALANCES WITH OTHER BANKS

	Note	2008	2007
In Pakistan			
current account		**746**	2,031
deposit accounts	7.1	**559,945**	1,871,125
		560,691	1,873,156
Outside Pakistan			
current accounts		**1,295**	278
		561,986	1,873,434

7.1 These include term deposit receipts (TDRs) aggregating Rs. 460 million (2007: Rs. 1,500 million). The rate of return on these TDRs maturing in January 2009 (2007: January 2008 to March 2008) ranging from 16.50 to 22 percent per annum (2007: 10.35 to 10.95 percent per annum).

8 LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2008	2007
Placements		**146,000**	347,000
Reverse repurchase agreement lendings	8.1	**3,023,887**	2,943,448
Certificate of investments (COIs)	8.4	**13,293**	415,623
		3,183,180	3,706,071

8.1 These are short-term lending to different financial institutions secured against government and other securities as disclosed in note 8.3 which are purchased under resale obligations.

8.2 Particulars of lending

	2008	2007
In local currency	**3,183,180**	3,706,071
In foreign currency	**–**	–
	3,183,180	3,706,071

8.3 Securities held as collateral against lendings to financial institutions

(Rupees in '000)

		2008			2007		
		Held by the company	Further given as collateral	Total	Held by the company	Further given as collateral	Total
T-bills		**259,121**	**989,690**	**1,248,811**	100,654	1,795,294	1,895,948
PIBs		**225,000**	**1,442,076**	**1,667,076**	15,000	580,500	595,500
Others	8.3.1	**108,000**	**–**	**108,000**	452,000	–	452,000
		592,121	**2,431,766**	**3,023,887**	567,654	2,375,794	2,943,448

8.3.1 Others represent term finance certificates (TFCs)/shares/bonds held as collateral against finance provided in respect of reverse repo lendings.

8.4 COIs aggregating Rs. 8.086 million (2007: Rs. 407.656 million) are due for maturity within a year.

9 INVESTMENTS

9.1 Investments by types

(Rupees in '000)

	Note	2008			2007		
		Held by the company	Further given as collateral	Total	Held by the company	Further given as collateral	Total
Held-for-trading securities							
Pakistan investment bonds		**–**	**–**	**–**	27,840	883,686	911,526
Market treasury bills		**–**	**–**	**–**	18,401	322,015	340,416
Listed shares	9.8.2	**363,191**	**–**	**363,191**	954,514	–	954,514
Term finance certificates (TFCs)		**93,510**	**–**	**93,510**	–	–	–
		456,701	**–**	**456,701**	1,000,755	1,205,701	2,206,456
Available-for-sale securities							
Pakistan investment bonds		**5,326**	**499,157**	**504,483**	–	621,625	621,625
Market treasury bills		**93,622**	**413,907**	**507,529**	99,223	160,329	259,552
Listed shares	9.8.1.2	**1,306,587**	**–**	**1,306,587**	844,866	–	844,866
Unlisted shares	9.6	**208,333**	**–**	**208,333**	208,333	–	208,333
Mutual funds Units / Certificates	9.8.1.1	**245,644**	**–**	**245,644**	125,565	–	125,565
Commercial paper	9.13	**56,261**	**–**	**56,261**	488,742	–	488,742
Sukuk certificates	9.14	**1,119,004**	**–**	**1,119,004**	1,056,678	–	1,056,678
Term finance certificates (TFCs)		**2,461,065**	**46,339**	**2,507,404**	1,816,320	294,227	2,110,547
		5,495,842	**959,403**	**6,455,245**	4,639,727	1,076,181	5,715,908
Held-to-maturity securities							
Pakistan investment bonds		**275,256**	**–**	**275,256**	484,420	–	484,420
Associates	9.12						
Japan Power Generation Limited	9.12.2	**–**	**–**	**–**	29,146	64,604	93,750
Pak Oman Bank of Punjab Advantage Plus Fund		**137,492**	**–**	**137,492**	300,000	–	300,000
Pak Oman Advantage Fund		**262,099**	**–**	**262,099**	191,108	–	191,108
Pak Oman Advantage Islamic Income Fund		**100,811**	**–**	**100,811**	–	–	–
Pak Oman Advantage Islamic Fund		**99,500**	**–**	**99,500**	–	–	–
Pak Oman Advantage Stock Fund		**102,920**	**–**	**102,920**	–	–	–
Pak Oman Microfinance Bank Limited		**144,021**	**–**	**144,021**	151,622	–	151,622
		846,843	**–**	**846,843**	671,876	64,604	736,480
Investment at cost		**7,074,642**	**959,403**	**8,034,045**	6,796,778	2,346,486	9,143,264
Less: Provision for diminution in the value of investment	9.3	**125,226**	**–**	**125,226**	73,075	–	73,075
Investment - net of provisions		**6,949,416**	**959,403**	**7,908,819**	6,723,703	2,346,486	9,070,189
(Deficit) on revaluation of held-for-trading securities	9.7	**(275,642)**	**–**	**(275,642)**	(49,843)	(596)	(50,439)
(Deficit) on revaluation of available-for-sale securities	21	**(841,622)**	**(89,406)**	**(931,028)**	(86,999)	(31,730)	(118,729)
Total investments at market value		**5,832,152**	**869,997**	**6,702,149**	**6,586,861**	**2,314,160**	**8,901,021**

9.2 Investments by segments

(Rupees in '000)

	Note	2008	2007 Restated
Federal government securities			
Pakistan investment bonds (PIBs)	9.4	**779,739**	2,017,571
Market treasury bills	9.5	**507,529**	599,968
		1,287,268	2,617,539
Fully paid up ordinary shares/certificate/units			
Listed	9.8	**1,915,422**	1,924,945
Unlisted	9.9	**208,333**	208,333
		2,123,755	2,133,278
Term finance certificates (TFCs)			
Listed	9.10	**2,319,615**	1,867,714
Unlisted	9.11	**281,299**	242,833
		2,600,914	2,110,547
Commercial papers	9.13	**56,261**	488,742
Sukuk certificates	9.14	**1,119,004**	1,056,678
Associates		**846,843**	736,480
Total investments at cost		**8,034,045**	9,143,264
Less: Provision for diminution in the value of investments	9.3	**125,226**	73,075
Investments (net of provisions)		**7,908,819**	9,070,189
(Deficit) on revaluation of 'held-for-trading' securities		**(275,642)**	(50,439)
(Deficit) on revaluation of 'available- for-sale' securities		**(931,028)**	(118,729)
Total investments at market-value		**6,702,149**	8,901,021

9.3 Particulars of provision for diminution in the value of investments

Opening balance		**73,075**	61,228
Charge for the year - net		**52,151**	11,847
Closing balance	9.3.1	**125,226**	73,075

9.3.1 Particulars of provision in respect of types and segments

Available-for-sale securities		
Fully paid-up ordinary shares - unlisted companies	**125,226**	73,075

9.4 The rate of return on these PIBs maturing between December 2010 (2007: March 2008) to October 2013 (2007: October 2021), range from 8 (2007: 7) to 14 (2007: 14) percent per annum. The market value of these PIBs as at December 31, 2008 aggregates Rs. 624.979 million (2007: Rs. 1,931.350 million).

9.5 The rates of return on these market treasury bills maturing in Febraury 2009 (2007: January 2008 to December 2008) is 10.10 (2007: 9.31) percent per annum. The market value of these T -bills as at December 31, 2008 aggregated Rs. 504.602 million (2007: Rs. 599.793 million).

9.6 Quality of available-for-sale-securities/entities

	2008		2007	
	Market value	Rating	Market value	Rating
	(Rupees in '000)	Securities	(Rupees in '000)	Securities
Pakistan investment bonds (PIBs)				
10 Year PIBs	417,587	Unrated	472,586	Unrated
5 Year PIBs	–	–	100,373	Unrated
	417,587		572,959	
Market treasury bills				
12-months T-bills	504,602	Unrated	259,573	Unrated
		Entity		Entity
Mutual funds units/certificates				
Open-end mutual funds				
National Investment Unit Trust	135,358	5-Star	–	–
KASB Balanced Fund	–	–	100,000	AM3+
Closed-end mutual funds				
NAMCO Balanced Fund	22,998	AM3-	20,321	AM3-
JS Value Fund	16	5-Star	–	–
Pakistan Premier Fund	5	4-Star	–	–
PICIC Growth Fund	8	AM3-	–	–
Certificates				
First Habib Modarba	410	AA-/A1+	1,228	AA-/A1+
		Entity Long term/short term		Entity Long term/short term
Quoted shares				
Investment Banks/Companies/Securities				
First National Equities Limited	3	Unrated	–	–
Arif Habib Limited	74	A+/A-1	–	–
Arif Habib Securities Limited	360	A+/A-1	–	–
Dawood Equities Limited	2	AM4+	–	–
Jahangir Siddiqui Company Limited	36,725	AA+/A1+	–	–
Javed Omer Vohra Company Limited	2,779	BB+/B	–	–
JS Investment Limited	41	AA-/A1+	–	–
Pervaiz Ahmed Securities Limited	189	Unrated	–	–
Textile Composite				
Nishat Mills Limited	1,180	A+/A1	51,748	A+/A1
Azgard Nine Limited	5	A+/A1	–	–
Dawood Lawrencepur Limited	14	Unrated	–	–
Nishat Chunia Limited	18	Unrated	–	–
Textile Spinning				
D.S Industries Limited	8	Unrated	–	–
Synthetic and Rayon				
Dewan Salman Fibers Limited	25	Unrated	–	–
Cement				
D.G.Khan Cement Company Limited	318	Unrated	52,085	Unrated
Lucky Cement Limited	1,410	Unrated	–	–
Maple Leaf Cement Limited	39	BBB+/A2	–	–
Al-Abbas Cement Industries Limited	5	Unrated	–	–
Dewan Cement Limited	5	BB/B	–	–
Fauji Cement Company Limited	62,119	Unrated	–	–
Pakistan Cement Company Limited	53	Unrated	–	–
Pioneer Cement Limited	50	BBB/A3	–	–

	2008		2007	
	Market value	Rating	Market value	Rating
	(Rupees in '000)	Entity Long term/short term	(Rupees in '000)	Entity Long term/short term
Engineering				
Crescent Steel & Allied Products Limited	57	A+/A-1	–	–
Dost Steel Limited	23	Unrated	–	–
Oil and Gas Marketing /Exploration Companies				
Pakistan State Oil Company Limited	1,260	AAA/A1+	–	–
Attock Petroleum Limited	38,291	Unrated	–	–
Mari Gas Company Limited	1	Unrated	–	–
Oil & Gas Development Company Limited	8,381	AAA/A-1+	–	–
Pakistan Oil Fields Limited	3,012	Unrated	–	–
Pakistan Petroleum Limited	2,040	Unrated	–	–
Sui Northern Gas Company Limited	45	AA/A1+	–	–
Sui Southern Gas Company Limited	22	AA-/A1+	–	–
Fertilizer				
Fauji Fertilizer Bin Qasim Limited	29,751	Unrated	4,205	Unrated
Fauji Fertilizer Company Limited	943	Unrated	–	–
Automobile Assembler				
Al-Ghazi Tractor Limited	45,710	A/A2	61,327	A/A2
Honda Atlas Car Limited	81	Unrated	–	–
Indus Motors Company Limited	10	Unrated	–	–
Chemical				
ICI Pakistan Limited	14	Unrated	–	–
Nimir Resins Limited	–	–	5,400	Unrated
BOC Pakistan Limited	6	Unrated	–	–
Engro Chemical Pakistan Limited	13,514	AA/A1+	–	–
Pakistan PTA Limited	22	Unrated	–	–
Sitara Peroxide Limited	63	Unrated	–	–
Glass and Ceramics				
Ghani Glass Limited	–	–	4,015	Unrated
Commercial Banks				
National Bank of Pakistan	30,771	AAA/A-1+	206,614	AAA
Saudi Pak Commercial Bank Limited	107,506	A-/A-3	140,806	BBB+
Habib Bank Limited	1,611	AA+/A-1+	71,970	AA+
NIB Bank Limited	13,677	AA-/A1+	710	A+/A1
United Bank Limited	2,032	AA+/A-1+	89,182	AA+
Arif Habib Bank Limited	107	A/A-2	173	A/A-2
Allied Bank Limited	22,690	AA/A1+	–	–
Askari Bank Limited	80	AA/A1+	–	–
Bank Al-Habib Limited	109	AA/A1+	–	–
Bank Al-Falah Limited	183	AA/A1+	–	–
Bank Islami Pakistan Limited	7,567	A-/A2	–	–
The Bank of Punjab	130	AA-/A1+	–	–
Faysal Bank Limited	12	AA/A1+	–	–
JS Bank Limited	68	A-/A2	–	–
Meezan Bank Limited	6	A+/A-1	–	–
MCB Bank Limited	16,319	AA+/A1+	–	–
Soneri Bank Limited	27	AA-/A1+	–	–
Insurance				
Adamjee Insurance Company Limited	2,297	AA	–	–
EFU General Insurance Limited	8,974	AA	–	–
EFU Life Assurance Limited	16,411	AA-	–	–
Pakistan Reinsurance Limited	2,425	Unrated	–	–

	2008		2007	
	Market value	Rating	Market value	Rating
	(Rupees in '000)	Entity Long term/short term	(Rupees in '000)	Entity Long term/short term
Technology & Communication				
Eye Television Network Limited	**7**	**Unrated**	–	–
Netsol Technologies Limited	**28,912**	**Unrated**	–	–
Pakistan Telecommunication Limited	**138**	**Unrated**	–	–
Telecard Limited	**19**	**Unrated**	–	–
TRG Pakistan Limited	**43**	**BBB+/A2**	–	–
Worldcall Telecom Limited	**57**	**A+/A1**	–	–
Transport				
Pakistan International Container Terminal	**14**	**A-/A2**	–	–
Power Generation & Distribution				
HUB Power Company Limited	**98**	**Unrated**	–	–
Kot Addu Power Company Limited	**4**	**Unrated**	–	–
Refinery				
National Refinery Limited	**22,056**	**AAA/A1+**	63,030	AAA/A1+
Bosicor Pakistan Limited	**125**	**Unrated**	–	–
Attock Refinery Limited	**32,900**	**AA/A1+**	–	–
Pakistan Refinery Limited	**218**	**Unrated**	–	–
Cable & Electrical Goods				
Pak Elektron Limited	**49**	**A/A1+**	–	–
Paper & Board				
Packages Limited	**31**	**AA/A1+**	–	–
Pharmaceuticals				
Searle Pakistan Limited	**6**	**BBB/A-3**	–	–
Miscellaneous				
PACE (Pakistan) Limited	**521**	**A+/A1**	–	–
Tri-Pack Films Limited	**86**	**A+/A1**	–	–
	725,749		872,814	
Unlisted shares stated at cost				
Al-Hamra Avenue (Private) Limited	**50,000**	**Unrated**	50,000	Unrated
Systems Limited	**10,000**	**Unrated**	10,000	Unrated
Vision Network Television Limited	**77,000**	**Unrated**	77,000	Unrated
Pakistan Textile City Limited	**50,000**	**Unrated**	50,000	Unrated
Techlogix International Limited	**21,333**	**Unrated**	21,333	Unrated
	208,333		208,333	
Listed TFCs				
Modarbas				
Al Zamin Leasing Modarba	**29,147**	**A-**	44,510	A
Investment Bank/Companies/Securities				
Jahangir Siddiqui and Company Limited	**97,421**	**AA+/A1+**	99,442	AA+
Escort Investment Bank Limited	**20,763**	**A+**	20,151	A+
Commercial Banks				
Allied Bank Limited II	**120,654**	**AA-**	136,934	A+
Askari Commercial Bank Limited II	**–**	**–**	1,799	AA-
Bank Al-Falah Limited III	**4,883**	**AA-**	–	–
Standard Chartered Bank (Pakistan) Limited (originally issued by Union Bank Limited II)	**81,566**	**AAA**	86,837	AAA
Standard Chartered Bank (Pakistan) Limited (originally issued by Union Bank Limited III)	**122,387**	**AAA**	127,976	AAA
Faysal Bank Limited	**89,854**	**AA-**	68,937	AA-
NIB Bank Limited	**106,009**	**AA/A1+**	100,000	A(R W)
Bank Al Habib Limited	**52,127**	**AA/A1+**	54,435	AA-

	2008		2007	
	Market value	Rating	Market value	Rating
	(Rupees in '000)	Entity Long term/short term	(Rupees in '000)	Entity Long term/short term
Technology and Communication				
Telecard Limited	**133,584**	**BBB**	195,284	BBB
Pakistan Mobile Communication Limited	**165,622**	**AA-**	154,907	AA-
Worldcall Telecom Limited	**550,825**	**AA-**	–	–
Chemical				
Ittehad Chemicals Limited	**–**	**-**	11,658	A
Engro Chemical Pakistan Limited	**163,466**	**AA**	107,015	AA
Azgard Nine Limited	**70,782**	**AA-**	110,092	AA-
Azgard Nine Limited (unlisted stated at cost)	**9,996**	**AA-**	50,000	AA-
Textile composite				
Kunjah Textile Mills Limited (unlisted stated at cost)	**15,000**	**BBB**	15,000	BBB
Fertillzer				
Pak American Fertilizer Limited (unlisted stated at cost)	**99,960**	**A+/A1**	100,000	Unrated
Pak Arab Fertilizer Limited	**47,605**	**AA**	–	–
Leasing Companies				
Saudi Pak Leasing Company Limited	**143,555**	**A-**	195,000	A
Security Leasing Corporation Limited (unlisted stated at cost)	**37,500**	**BBB+/A-3**	52,500	A-
Miscellaneous				
Pakistan Services Limited	**–**	**–**	30,270	A
Pace Pakistan Limited	**304,642**	**A+/A1**	350,000	AA-
Avari Hotels Limited (unlisted stated at cost)	**25,333**	**A-**	25,333	A-
	2,492,681		2,138,080	
Sukuk Certificates- unlisted stated at cost				
Amtex Limited	**72,638**	**A-/A-2**	–	–
Karachi Shipyard & Engineering Works Limited-II	**29,000**	**Unrated**	–	–
Security Leasing Corporation Limited	**43,750**	**BBB/A-3**	100,366	A-
Security Leasing Corporation Limited II	**50,288**	**BBB/A-3**	–	–
Orix Leasing Pakistan Limited	**75,000**	**AA(p)**	125,366	AA(p)
Sitara Energy Limited	**159,235**	**Unrated**	140,262	Unrated
Sui Southern Gas Company Limited	**604,093**	**AA-/A1+**	605,268	Unrated
New Allied Electronic Industries (Private) Limited	**85,000**	**D**	85,416	A+
	1,119,004		1,056,678	
Commercial Papers - unlisted stated at cost				
Dewan Farooque Motors Limited	**–**	**–**	28,437	A/A2
Pak American Fertilizer Company Limited	**56,261**	**A/A1**	115,727	A/A1
Azgard Nine Limited	**–**	**–**	202,136	A+/A1
Worldcall Telecom Limited	**–**	**–**	142,442	A+/A1
	56,261		488,742	
	5,524,217		5,597,179	

9.7 Unrealised (loss) on revaluation of investments classified as 'held-for-trading' securities

	Note	2008	2007
		(Rupees in '000)	
Pakistan investment bonds		–	(393)
Market treasury bills		–	(196)
Quoted shares/units		(275,642)	(49,850)
	9.1	(275,642)	(50,439)

9.8 The company holds investments in shares/certificates/units of Rs 10 each, unless stated otherwise, of listed companies/funds:

9.8.1 Available For Sale

Investee	2008	2007	2008	2007
	Number of units		Cost (Rupees in '000)	
9.8.1.1 Mutual Funds Units				
Open-end mutual funds				
National Investment Trust	4,058,709	–	220,874	–
KASB Balanced Fund	–	2,000,000	–	100,000
Close-end mutual funds				
NAMCO Balanced Fund	2,433,667	2,433,667	24,337	24,337
JS Value Fund	3,499	–	10	–
Pakistan Premier Fund	2,707	–	4	–
PICIC Growth Fund	1,348	–	9	–
Certificates				
First Habib Modarba	2	6	410	1,228
			245,644	125,565
	Number of shares			
9.8.1.2 Shares				
Investment Bank/Companies/Securities				
Arif Habib Securities Limited	8,555	–	386	–
Javed Omer Vohra and Company Limited	306,418	–	39,780	–
First National Equities Limited	54	–	3	–
Arif Habib Limited	863	–	64	–
Dawood Equities Limited	200	–	2	–
Invest & Finance Securities Limited	62	–	–	–
Jahangir Siddique Company Limited	702,458	–	67,482	–
JS Investment Limited	936	–	37	–
Pervaiz Ahmed Securities Limited	52,318	–	348	–
Commercial Banks				
Arif Habib Bank Limited	19,301	5,000	67	–
NIB Bank Limited	2,928,652	32,500	24,677	822
United Bank Limited	55,043	515,800	2,182	94,861
Habib Bank Limited	21,516	300,000	1,730	89,610
The Bank of Punjab	9,811	–	148	–
MCB Bank Limited	129,708	–	28,415	–
National Bank of Pakistan	611,515	890,000	109,854	238,546
Saudi Pak Commercial Bank Limited	21,458,252	5,489,500	272,326	146,103
Allied Bank Limited	724,450	–	42,228	–
Askari Bank Limited	5,442	–	88	–

Investee	2008	2007	2008	2007
	Number of shares		Cost (Rupees in '000)	
Bank Al-Habib Limited	4,401	–	107	–
Bank Al-Falah Limited	10,925	–	198	–
Bank Islami Pakistan Limited	1,043,770	–	11,177	–
Faysal Bank Limited	1,025	–	14	–
JS Bank Limited	11,853	–	42	–
Meezan Bank Limited	301	–	7	–
Soneri Bank Limited	2,445	–	21	–
Insurance				
Adamjee Insurance Company Limited	22,554	–	2,467	–
EFU General Insurance Limited	67,470	–	7,674	–
EFU Life Assurance Limited	46,000	–	11,394	–
Pakistan Reinsurance Limited	102,358	–	4,024	–
Textile Composite				
Nishat Mills Limited	52,201	491,900	1,146	62,333
Azgard Nine Limited	289	–	5	–
Dawood Lawrencepur Limited	283	–	12	–
Nishat Chunia Limited	1,896	–	14	–
Textile Spinning				
D.S. Industries Limited	510	–	7	–
Synthetic and Rayon				
Dewan Salman Fibre Limited	17,686	–	16	–
Engineering				
Crescent Steel & Allied Products Limited	3,358	–	58	–
Dost Steel Limited	2,893	–	24	–
Cable & Electrical Goods				
Pak Eleckton Limited	2,147	–	52	–
Paper & Board				
Packages Limited	382	–	31	–
Cement				
D.G. Khan Cement Company Limited	14,971	550,000	342	63,171
Maple Leaf Cement Limited	9,551	–	26	–
Lucky Cement Limited	45,100	–	1,514	–
Al-Abbas Cement Industries Limited	1,255	–	4	–
Dewan Cement Limited	1,807	–	6	–
Fauji Cement Company Limited	13,216,911	–	211,312	–
Pakistan Cement Company Limited	16,643	–	33	–
Pioneer Cement Limited	2,091	–	44	–
Thatta Cement Limited	24	–	–	–
Refinery				
National Refinery Limited	231,804	174,600	91,138	71,851
Pakistan Refinery Limited	2,218	–	191	–
Bosicor Pakistan Limited	26,857	–	89	–
Attock Refinery Limited	549,355	–	61,286	–
Power Generation and Distribution				
HUB Power Company Limited	6,954	–	81	–
Kot Addu Power Company Limited	135	–	3	–
Oil and Gas Marketing/Exploration Companies				
Pakistan State Oil Company Limited	8,717	–	1,354	–

Investee	2008 Number of shares	2007	2008 Cost (Rupees in '000)	2007
Pakistan Oilfield Limited	29,389	–	3,235	–
Pakistan Petroleum Limited	20,278	–	2,191	–
Oil and Gas Development Company Limited	167,656	–	9,000	–
Attock Petroleum limited	265,263	–	124,733	–
Mari Gas Company Limited	7	–	1	–
Sui Northern Gas Compamy Limited	2,074	–	34	–
Sui Southern Gas Compamy Limited	2,056	–	24	–
Technology and Communication				
Callmate Telips Telecom Limited	–	202,000	–	–
Eye Television Network Limited	190	–	5	–
Netsol Technologies Limited	1,144,173	–	36,164	–
Pakistan Telecommunication Limited	8,147	–	149	–
Telecard Limited	9,743	–	13	–
TRG Pakistan Limited	24,245	–	30	–
Worldcall Telecom Limited	19,226	–	54	–
Transport				
Pakistan International Container Terminal	303	–	13	–
Fertilizer				
Fauji Fertilizer Company Limited	16,060	–	895	–
Fauji Fertilizer Bin Qasim Limited	2,306,257	100,000	52,474	4,622
Automobile Assembler				
Al-Ghazi Tractors Limited	209,200	222,200	58,799	62,453
Honda Atlas Car Limited	7,032	–	95	–
Indus Motors Company Limited	79	–	9	–
Chemical				
ICI Pakistan Limited	208	–	15	–
BOC Pakistan Limited	56	–	7	–
Engro Chemical Pakistan Limited	140,101	–	22,106	–
Pakistan PTA Limited	13,610	–	16	–
Sitara Peroxide Limited	3,456	–	56	–
NIMIR Resins Limited	–	400,000	–	6,174
Pharmaceuticals				
Searle Pakistan Limited	88	–	5	–
Glass & Ceramics				
Ghani Glass Mills Limited	–	50,000	–	4,320
Miscellaneous				
PACE (Pakistan) Limited	60,285	–	646	–
Tri-Pack Films Limited	693	–	88	–
			1,306,587	844,866
Total investment classified as available for sale			1,552,231	970,431

9.8.2 Held for trading

Investee	2008 Number of units	2007	2008 Cost (Rupees in '000)	2007
9.8.2.1 Units				
Open-end mutual funds				
AMZ Plus Income Fund	–	500,000	–	52,650
Faysal Income and Growth Fund	–	1,893,401	–	200,000
			–	252,650
	Number of shares			
9.8.2.2 Shares				
Investment Bank/Companies/Securities				
Jahangir Siddiqui Company Limited	257,832	–	53,366	–
Arif Habib Securities Limited	12,500	575,000	1,954	103,678
Javed Omer Vohra and Company Limited	–	200,000	–	34,732
Commercial Banks				
Arif Habib Bank Limited	277,775	57,500	6,927	–
Bank Islami Pakistan Limited	9,218	–	167	87
United Bank Limited	30,000	–	4,694	–
National Bank of Pakistan	350,000	–	80,464	–
Saudi Pak Commercial Bank Limited	1,521,948	–	30,682	–
Bank Al-Falah Limited	100,000	–	5,462	–
NIB Bank Limited	–	330,500	–	7,469
Textile Composite				
Nishat Mills Limited	275,000	–	33,454	–
Azgard Nine Limited	210,000	–	16,054	–
Cement				
Lucky Cement Limited	300,000	–	40,507	–
D.G. Khan Cement Company Limited	–	1,500,000	–	153,000
Refinery				
National Refinery Limited	14,200	–	5,222	–
Attock Refinery Limited	121,200	10,000	28,526	2,723
Pakistan Refinery Limited	–	100,000	–	30,351
Oil and Gas Marketing/Exploration Companies				
Pakistan Oilfield Limited	60,000	75,000	21,560	27,244
Mari Gas Company Limited	22,800	–	8,143	–
Pakistan Petroleum Limited	–	660,000	–	170,732
Oil & Gas Development Company Limited	–	30,000	–	3,815
Pakistan State Oil Company Limited	–	66,800	–	29,186
Fertilizer				
Engro Chemical Pakistan Limited	29,900	–	9,230	–
Fauji Fertilizer Company Limited	25,000	–	3,707	–
Fauji Fertilizer Bin Qasim Limited	–	2,700,000	–	128,655
Chemical				
Pakistan PTA Limited	2,000,000	–	11,593	–
ICI Pakistan Limited	–	41,300	–	8,713
Glass & Ceramics				
Tariq Glass	53,000	53,000	1,479	1,479
Total investment classified as held for trading			363,191	954,514
Total investments			1,915,422	1,924,945

9.8.3 The market value of these shares/certificates/units aggregated Rs. 813.298 million (2007: Rs. 1,766.378 million).

9.9 Particulars of investments held in shares of unlisted companies

Investee		Number of shares held 2008	2007	Cost (Rupees in '000) 2008	2007	Percentage of holding %	Break-up value per share (Rupees)	Latest available financial statements	Name of the chief executive
Ordinary shares									
Al Hamra Avenue (Private) Limited		**5,000,000**	5,000,000	**50,000**	50,000	3.12	9.76	June 30, 2008*	Mr. Habib Ahmed
Systems Limited		**518,918**	324,324	**10,000**	10,000	2.46	19.78	December 31 2007*	Mr. Ashraf Kapadia
Vision Network Television Limited		**4,400,000**	4,400,000	**77,000**	77,000	6.69	2.43	June 30 2008*	Mr. Khalid Siddiqui
Pakistan Textile City Limited	9.9.1	**5,000,000**	5,000,000	**50,000**	50,000	4.55	9.82	June 30 2008*	Mr. Zaheer A. Hussain
Techlogix International Limited		**1,872,197**	1,872,197	**21,333**	21,333	1.84	2.33	December 31, 2007**	Mr. Kewan Qadre Khawaja
				208,333	208,333				

* Audited financial statement
** Audited consolidated financial statements

9.9.1 These investments form part of strategic investment of company and cannot be sold for a period of five (5) years from the last date of purchase of such securities.

9.10 Particulars of investments held in listed TFCs

Investee	Number of certificates 2008	2007	Cost (Rupees in '000) 2008	2007
Modarabas				
Al-Zamin Leasing Modaraba II	**8,902**	8,902	**29,544**	43,321
Investment Banks/Companies/Securities				
Escort Investment Bank Limited	**4,031**	4,031	**20,143**	20,151
Jehangir Siddiqui and Company Limited	**19,397**	21,397	**96,907**	99,443
Commercial Banks				
Askari Commercial Bank Limited II	**–**	360	**–**	1,799
NIB Bank Limited	**23,000**	20,000	**114,977**	100,000
Faysal Bank Limited	**17,681**	50,000	**88,327**	68,935
Bank Al-Habib Limited	**10,900**	10,900	**51,512**	50,576
Allied Bank Limited II	**25,078**	25,108	**126,913**	127,387
Bank Al-Falah Limited III	**1,000**	–	**5,003**	–
Standard Chartered Bank (Pakistan) Limited (originally issued by Union Bank Limited II)	**17,392**	17,392	**80,843**	84,426
Standard Chartered Bank (Pakistan) Limited (originally issued by Union Bank Limited III)	**23,240**	23,240	**117,400**	117,770
Leasing Companies				
Saudi Pak Leasing Company Limited	**28,469**	39,000	**142,317**	195,000
Technology and Communication				
Telecard Limited	**56,716**	56,716	**164,108**	206,649
Pakistan Mobile Communication Limited -I	**31,000**	31,000	**154,845**	154,907
Worldcall Telecom Limited	**108,623**	–	**543,113**	–
Chemicals				
Engro Chemical Pakistan Limited	**33,970**	21,403	**163,884**	107,015
Azgard Nine Limited	**15,000**	20,000	**68,700**	99,920
Ittehad Chemical Limited	**–**	7,000	**–**	11,658
Fertilizer				
Pak Arab Fertilizer Limited	**10,000**	–	**49,990**	–
Miscellaneous				
Pace Pakistan Limited	**60,230**	70,000	**301,089**	350,000
Pakistan Services Limited	**–**	20,387	**–**	28,757
			2,319,615	1,867,714

9.10.1 The face value of each certificate held in listed TFCs is Rs. 5,000 (2007: Rs. 5,000) per certificate as at December 31, 2008.

9.10.2 The market value of these TFCs aggregated Rs. 2,304.892 million (2007: Rs. 1,895.247 million).

9.10.3 The rate of return on these TFCs maturing between May 2010 (2007: February 2008) to November 2015 (2007: December 2015) ranges from 9.5 (2007: 9.5) to 19.4 (2007: 13.72) percent per annum.

9.11 Particulars of investments held in unlisted TFCs

Investee	Number of certificates 2008	2007	Cost (Rupees in '000) 2008	2007	Name of the chief executive
Avari Hotels Limited	**5,067**	5,067	**25,333**	25,333	Mr. Byram Avari
Security Leasing Corporation Limited	**12,000**	12,000	**37,500**	52,500	Mr. Muhammad Khalid Ali
Pak American Fertilizer Limited	**20,000**	20,000	**99,960**	100,000	Mr. Ahmed Jaudet Bilal
Kunjah Textile Mills Limited	**3,000**	3,000	**15,000**	15,000	Mr. Shafay Hussain
Azgard Nine Limited	**2,000**	10,000	**9,996**	50,000	Mr. Ahmed H. Shaikh
Pakistan Mobile Communication Limited	**20,000**	–	**93,510**	–	Mr. Rashid Khan
			281,299	242,833	

9.11.1 The rate of return on these TFCs maturing between October 2010 (2007: March 2011) to November 2014 (2007: November 2014) ranges from 15.82 (2007: 11.71) to 18.35 (2007: 13.19) percent per annum.

9.12 Associates

The company holds investment in ordinary shares of Rs. 10 each in the following entities:

Name of the Investee company	Number of shares 2008	2007	Cost (Rupees in '000) 2008	2007	Percentage of holding %	Break-up value per share (Rupees)	Latest available financial statements	Name of the chief executive
Quoted								
Japan Power Generation Limited (JPGL)	**30,560,189**	25,576,171	**–**	93,750	19.59	(2.78)	December 31, 2008*	Mr. Khan Ahmed Saleem
Pak Oman Advantage Fund	**27,359,000**	19,109,500	**262,099**	191,108	27.11	9.58	December 31, 2008*	Ms. Hina Ghazanfar
Pak Oman Bank of Punjab Advantage Fund	**3,003,542**	6,000,000	**137,492**	300,000	12.46	45.78	December 31, 2008*	Ms. Hina Ghazanfar
Pak Oman Advantage Islamic Income Fund	**2,000,000**	–	**100,811**	–	49.95	50.41	December 31, 2008*	Ms. Hina Ghazanfar
Pak Oman Advantage Islamic Fund	**2,000,000**	–	**99,500**	–	68.97	49.75	December 31, 2008*	Ms. Hina Ghazanfar
Pak Oman Advantage Stock Fund	**2,000,000**	–	**102,920**	–	69.69	51.46	December 31, 2008*	Ms. Hina Ghazanfar
Unquoted								
Pak Oman Microfinance Bank Limited	**16,700,000**	16,700,000	**144,021**	151,622	33.40	8.62	December 31, 2008**	Mr. Munawar Suleman
			846,843	736,480				

* Unaudited financial statements
** Audited financial statements.

9.12.1 The above associates are incorporated in Pakistan.

9.12.2 The Company exercises significant influence on the financial and operational policies of JPGL due to representation of three directors out of thirteen directors. Accordingly, investment in JPGL is accounted for as investment in associate in these financia

9.13 The rate of return on these commercial papers maturing between March 2009 (2007: January 2008) to May 2009 (2007: July 2008) range from 16.05 (2007: 10.76) to 16.55 (2007: 13.36) percent per annum.

9.14 The rate of return on these sukuk certificates maturing between May 2012 (2007: May 2012) to Febraury 2013 (2007: September 2012) range from 15.98 (2007: 10.31) to 17.65 (2007: 12.29) percent per annum.

9.15 Impairment on available for sale listed equity instruments

Due to the sudden down turn in the economy and the sharp decline in equity prices, Karachi Stock Exchange (KSE) placed a floor mechanism on individual security prices whereby they could vary within the normal circuit breaker limit but not below the floor price. This mechanism remained in place from August 28, 2008 to December 15, 2008. Consequent to the removal of floor mechanism the KSE 100-Index fell to the level of 6,037 points against its all time high level of above 15,676 points. This resulted into significant diminution in the POICL's investment in equity shares held under "Available for Sale" (AFS) category. Keeping in view this deteriorated situation, SBP & SECP issued instructions whereby they gave the option to companies to charge the diminution directly to equity without routing it through profit & loss account and then while adjusting the future prices, amortize the same on quarterly basis during 2009. Total impairment loss based on market values as at December 31, 2008 has been determined at Rs. 826 million. In view of the floor mechanism as explained and current economic conditions in the country, the management believes that these are rare circumstances and the plunge in equity market cannot be considered to be a fair reflection of equity values. Since full recognition of impairment based on market values as at December 31, 2008, for AFS equity securities through profit & loss account will not reflect the correct financial results of the company, therefore management availed the option to charge the diminution directly to equity without routing it through profit & loss account and then while adjusting the future prices, amortize the same on quarterly basis during 2009. The recognition of entire impairment loss based on the market values as at December 31, 2008 would have had the following effect on these consolidated financial statements.

(Rupees)

	2008
Increase in 'impairment loss' in profit and loss account	826,482,107
Decrease in profit for the year - after tax	826,482,107
Decrease in earnings per share - after tax	1.34
Decrease in deficit on revaluation of available for sale securities	826,482,107
Decrease in un-appropriated profit	826,482,107

10 ADVANCES

(Rupees in '000)

	Note	2008	2007
In Pakistan			
Loans		4,353,495	3,691,874
Net investment in finance leases	10.2	997,559	1,378,052
Long term finance under State Bank of Pakistan's scheme for export oriented projects	14.3	459,210	403,856
Advance against leases		–	8,115
Financing in respect of continuous funding system		149,462	1,477,976
Staff loans	10.3	106,993	47,030
		6,066,719	7,006,903
Less: Provision for non-performing loans and advances		333,971	132,888
		5,732,748	6,874,015

10.1 Particulars of advances - gross

(Rupees in '000)

	Note	2008	2007
10.1.1 In local currency		6,066,719	7,006,903
10.1.2 Short term (for upto one year)		2,780,605	3,549,742
Long term (for over one year)		3,286,114	3,457,161
		6,066,719	7,006,903

10.1.3 Included in advances are amounts aggregating Rs. 684.862 million (2007: Rs. 365.434 million) which are outstanding for a period exceeding three years.

	2008	2007
10.1.4 Considered good	5,451,556	6,850,038
Considered doubtful	615,163	156,865
	6,066,719	7,006,903
Less: Provision for non-performing loans and advances	333,971	132,888
	5,732,748	6,874,015

10.2 The periodic break-up of minimum lease payments due is as follows

(Rupees in '000)

	2008				2007			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
Lease rentals receivable	543,244	432,007	–	975,251	707,417	660,280	–	1,367,697
Residual value	85,387	105,540	–	190,927	70,498	142,065	–	212,563
Minimum lease payments	628,631	537,547	–	1,166,178	777,915	802,345	–	1,580,260
Financial charges for future periods	(93,713)	(74,906)	–	(168,619)	(113,966)	(88,242)	–	(202,208)
Present value of minimum lease payments	534,918	462,641	–	997,559	663,949	714,103	–	1,378,052

10.2.1 The above lease receivables are under hypothecation to the extent as stated in note 14.5.

10.2.2 In respect of the aforementioned finance leases the group holds an aggregate sum of Rs. 180.117 million (2007: Rs. 199.302 million) as security deposits on behalf of the lessees which are included under 'other liabilities' (note 17).

10.3 Staff loans include personal loans and house loans advanced to employees in accordance with their terms of appointment. House loans carry mark-up at a rate of 5 (2007: 5) percent per annum, while No mark-up is charged on personal loans.

10.3.1 Staff loans include an amount of Rs.7.345 million (2007: Rs.7.911 million) advanced to the holding company's chief executive.

10.4 Particulars of classification

Advances include Rs. 615.163 million (2007: Rs. 156.865 million), which have been placed under the non-performing status as detailed below:

(Rupees in '000)

	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Substandard	50,000	–	50,000	12,500	–	12,500	12,500	–	12,500
Doubtful	435,663	–	435,663	212,590	–	212,590	212,590	–	212,590
Loss	129,500	–	129,500	108,881	–	108,881	108,881	–	108,881
	615,163	**–**	**615,163**	**333,971**	**–**	**333,971**	**333,971**	**–**	**333,971**

10.5 Particulars of provision against non-performing advances

(Rupees in '000)

		2008			2007		
		Specific	General	Total	Specific	General	Total
Opening balance		**132,888**	**–**	**132,888**	45,569	–	45,569
Charge during the year		**225,090**	**–**	**225,090**	108,285	–	108,285
Reversal during the year		**(23,745)**	**–**	**(23,745)**	(20,966)	–	(20,966)
Net charge		**201,345**	**–**	**201,345**	87,319	–	87,319
Less: Amounts written off	10.6	**(262)**	**–**	**(262)**	–	–	–
Closing balance		**333,971**	**–**	**333,971**	132,888	–	132,888

10.5.1 Particulars of provisions against non-performing advances

(Rupees in '000)

	2008			2007		
	Specific	General	Total	Specific	General	Total
In local currency	**333,971**	**–**	**333,971**	132,888	–	132,888
In foreign currencies	**–**	**–**	**–**	–	–	–
	333,971	**–**	**333,971**	132,888	–	132,888

10.6 Particulars of write offs

(Rupees in '000)

	2008	2007
Against provisions	**262**	–
Directly charged to profit and loss account	**–**	–
	262	–
10.6.1 Write offs of Rs. 500,000 and above	**–**	–
Write offs of below Rs 500,000	**262**	–
	262	–

10.6.2 Statement showing written-off loans or any other financial relief of five hundred thousand rupees or above provided during the year ended December 31, 2008.

(Rupees in '000)

S. No.	Name and address of the borrower	Name of individuals/partners/ directors		Father's/Husband's name	Outstanding liabilities at beginning of year: Principal	Interest/ mark-up	Others	Total	Principal written-off	Interest/ mark-up written-off	Other financial relief provided	Total (9+10+11)
1	2	3		4	5	6	7	8	9	10	11	12
1	**Commodities & Textiles (Private) Limited** Plot # 67 Sector 28 Korangi Industrial Area Karachi	Mr. Shohail Iqbal Siddiqui	42201-1406164-5	Mr. Masood Nabi	4,889	376	–	5,265	262	478	–	740
		Mr. Zafar Muhammad Shaikh	42201-2707099-1	Mr. Saghir Muhammad								
		Mr. Pervaiz Naeem	42301-1194215-1	Mr. Abdul Naeem								
		Mr. Ali Asghar Dossa	42301-0940756-1	Mr. Iqbal Dossa								
		Mr. Iqbal Dossa	42201-0364551-7	Mr. Jaffar Ali Dossa								
		Mr. Tajamul Hassain Rizvi	35202-0483376-9	Syed Mujtaba Hussain								
2	**Globe Textile Mills Limited** HX-2, Scheme No. 4 Landhi Industrial Area Karachi	Mr. Ahmed Habib	42301-1265108-5	Mr. Haji Habib								
		Mr. Arif Haji Habib	42301-0946950-1	Mr. Haji Habib	–	3,368	–	3,368	–	668	–	668
					4,889	3,744	–	8,633	262	1,146	–	1,408

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

(Rupees in '000)

	2008	2007
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	**47,030**	33,669
Loans granted during the year	**94,120**	21,777
Repayments	**(34,157)**	(8,416)
Balance at end of the year	**106,993**	47,030
Debts due by companies or firms in which the directors of the company are interested as directors, partners or in the case of private companies as members.		
Balance at beginning of the year	**–**	–
Loans granted during the year	**–**	–
Repayments	**–**	–
Balance at end of the year	**–**	–
Debts due by subsidiary companies, controlled firms and other related parties		
Balance at beginning of the year	**–**	54,533
Loans granted during the year	**79,414**	–
Repayments	**(1,760)**	(54,533)
Balance at end of the year	**77,654**	–
	184,647	47,030

10.8 Maximum total amount of advances including temporary advances granted during the year amounts to Rs. 206.89 (2007: Rs. 93.848) million. The maximum amount has been calculated by reference to month end balance.

11 OPERATING FIXED ASSETS

(Rupees in '000)

		2008	2007
Property and equipment	11.1	90,140	89,740
Intangible	11.2	5,684	5,652
Capital work-in-progress	11.3	–	930
		95,824	96,322

11.1 Property and equipment

(Rupees in '000)

	Cost			Depreciation			Net book value	
	As at January 1, 2008	Addition (deletion) during the year	As at December 31, 2008	As at January 1, 2008	During the year / (on disposals)	As at December 31, 2008	As at December 31, 2008	Rate %
Owned								
Office premises on leasehold land *	42,126	–	42,126	7,021	2,106	9,127	32,999	5
Improvement	12,546	4,701 (398)	16,849	4,301	2,696 (119)	6,878	9,971	20
Office equipment	7,926	2,544 (128)	10,342	2,999	1,743 (28)	4,714	5,628	20
Computer equipment	14,811	2,752 (373)	17,190	8,598	3,583 (373)	11,808	5,382	33.33
Furniture and fixtures	12,492	3,979 (817)	15,654	5,728	2,337 (387)	7,678	7,976	20
Vehicles	7,438	3,800 (58)	11,180	1,635	1,950 (58)	3,527	7,653	20
Assets subject to finance lease								
Vehicles	34,687	10,730 (9,636)	35,781	12,004	7,377 (4,131)	15,250	20,531	20
2008	**132,026**	**28,506 (11,410)**	**149,122**	**42,286**	**21,792 (5,096)**	**58,982**	**90,140**	
2007	108,990	33,027 (9,991)	132,026	28,182	17,613 (3,509)	42,286	89,740	

* The transfer of title of office premises in the company's name is in process.

11.1.1 Reconciliation of net book values

(Rupees in '000)

	Office premises on lease hold land	Improvement	Office equipment	Computer equipment	Furniture and fixtures	Vehicles	Assets subject to finance lease	Total
As at January 1, 2007								
Cost	42,126	9,602	5,942	9,391	10,241	2,364	29,324	108,990
Depreciation	(4,915)	(2,236)	(1,695)	(6,076)	(4,498)	(927)	(7,835)	(28,182)
Net book value	37,211	7,366	4,247	3,315	5,743	1,437	21,489	80,808
Year ended December 31, 2007								
Additions	–	2,944	2,428	5,420	3,018	5,395	13,822	33,027
Net book of value of disposals	–	–	(378)	–	(243)	(99)	(5,762)	(6,482)
Depreciation charge	(2,106)	(2,065)	(1,370)	(2,522)	(1,754)	(930)	(6,866)	(17,613)
Net book value	35,105	8,245	4,927	6,213	6,764	5,803	22,683	89,740
Year ended December 31, 2008								
Additions	–	4,701	2,544	2,752	3,979	3,800	10,730	28,506
Net book of value of disposals	–	(279)	(100)	–	(430)	–	(5,505)	(6,314)
Depreciation charge	(2,106)	(2,696)	(1,743)	(3,583)	(2,337)	(1,950)	(7,377)	(21,792)
Net book value as at December 31, 2008	**32,999**	**9,971**	**5,628**	**5,382**	**7,976**	**7,653**	**20,531**	**90,140**

11.1.2 Details of disposals of fixed assets to executives and other major disposals are as follows:

(Rupees in '000)

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
Furniture and fixtures	100	10	90	91	Company Policy	Mr. Adnan Khan (Former Executive)
- do-	100	22	78	78	Company Policy	Mr. Shahid Khan Niazi (Former Executive)
- do-	100	42	58	58	Company Policy	Mr. Amir Samad (Former Executive)
- do-	250	213	37	37	Company Policy	Ms. Sumbul Munir (Former Executive)
- do-	250	83	167	167	Company Policy	Mr. Shah Miftahul Azim Azmi (Former Executive)
	800	370	430	431		
Vehicles on finance lease						
Honda Civic	1,005	1,005	–	490	Negotiations	M/S. Auto One Automobile (Khalid bin Waleed Road, Karachi)
Honda City	700	350	350	408	Company policy	Mr. Shahid Khan Niazi (Formal Executive)
Toyota Corolla	800	133	667	750	Company policy	Mr. Amir Samad (Formal Executive)
Honda Civic	1,198	699	499	660	Company policy	Ms. Sumbul Munir (Formal Executive)
Suzuki Cultus	660	165	495	530	Negotiations	Mr. Asif Ibrahim
Suzuki Mehran	351	333	18	185	Negotiations	Mr. Arif Lakhani
Toyota Surf	1,200	480	720	937	Negotiations	Mr. Fayaz-ud-din
Suzuki Cultus	600	200	400	615	Negotiations	Mr. Mohammad Faraz Shamsi
Honda City	700	93	607	713	Company policy	Mr. Murtaza Kazmi (Former Executive)
Sukuki Liana	741	238	503	620	Negotiations	M/S. Auto One Automobile (Khalid bin Waleed Road, Karachi)
Honda Civic	854	228	626	700	Negotiations	Mr. Amir Aizaz, Employee
Honda Civic	827	207	620	515	Negotiations	Mr. Ghulam Raza, Sector 15 A-1, Buffer Zone, Karachi
	9,636	4,131	5,505	7,123		
Others	974	595	379	49	Negotiations	Various buyers
	11,410	5,096	6,314	7,603		

11.2 Intangible assets

(Rupees in '000)

	Cost			Amortization			Net book value	
	As at January 1, 2008	Addition (deletion) during the year	As at December 31, 2008	As at January 1, 2008	During the year	As at December 31, 2008	As at December 31, 2008	Rate %
Computer software	8,724	3,702	12,426	3,072	3,670	6,742	5,684	33.33
2007	2,708	6,016	8,724	1,101	1,971	3,072	5,652	

11.2.1 Reconciliation of net book value

(Rupees in '000)

	Year ended December 31, 2008				Year ended December 31, 2007			
	Net book value as at Jan 1, 2008	Addition	Amortization charge for the year	Net book value as at Dec 31, 2008	Net book value as at Jan 1, 2007	Addition	Amortization charge for the year	Net book value as at Dec 31, 2007
Computer software	5,652	3,702	3,670	5,684	1607	6,016	1971	5,652

11.3 Capital work in progress

(Rupees in '000)

	2008	2007
Advance for purchase of leased vehicles	–	930

12 DEFERRED TAX ASSETS

	Note	2008	2007
		(Rupees in '000)	
Deferred (credit)/debit arising from:			
Accelerated tax depreciation allowances		**(1,792)**	(6,056)
Assets subject to finance leases		**1,485**	3,416
Net investment in finance leases		**(73,699)**	(141,951)
Amortization of premium		**48,786**	54,635
Deficit on revaluation of available-for-sale government securities (net)	21	**31,438**	17,026
Provision for diminution in the value of investments		**43,830**	25,576
Provision against non-performing loans and advances		**116,890**	46,511
Unassessed tax losses		**10,481**	7,317
Others		**(16)**	207
		177,403	6,681

13 OTHER ASSETS

	2008	2007
Mark-up/Return/Interest receivable in local currency		
PLS accounts	**364**	23,239
PIBs	**8,397**	22,911
Listed TFCs	**82,505**	54,380
Unlisted TFCs	**8,081**	4,138
Sukuk certificates	**19,528**	19,686
Commercial paper	**4,268**	13,613
COIs	**1,914**	5,677
Placements	**1,199**	488
Reverse repo agreement lendings	**39,891**	10,007
Advances	**149,968**	93,299
Net investment in finance leases	**5,605**	6,239
Continuous Funding System	**9,492**	4,409
Certificate of Musharikas (COMs)	**112**	190
Dividend income	**159**	–
Mark-up/Profit receivable on purchase of securities	**2,122**	31,401
Security deposits	**8,149**	8,239
Prepayments	**6,168**	4,374
Receivable against sale of investments	**150,000**	30,504
Receivable from funds	**20,406**	19,880
Unrealised gain on 'held-for-trading' derivatives	**–**	16,553
Others	**235,994**	135,598
	754,322	504,825

13.1 The above balances include an aggregate amount of Rs. 746.173 million (2007: Rs. 496.586 million) due within a year.

14 BORROWINGS FROM FINANCIAL INSTITUTIONS

	Note	2008	2007
		(Rupees in '000)	
In Pakistan		**7,491,561**	11,776,222
Outside Pakistan		**–**	–
		7,491,561	11,776,222

14.1 Particulars of borrowings with respect to currencies

	Note	2008	2007
In local currency		**7,491,561**	11,776,222
In foreign currencies		**–**	–
		7,491,561	11,776,222

14.2 Particulars of borrowings

	Note	2008	2007
Secured			
Borrowings from the State Bank of Pakistan under long term financing of export oriented projects	14.3	**430,361**	397,809
Repurchase agreement borrowings	14.4	**3,329,958**	4,279,159
Long term borrowings	14.5	**1,525,000**	1,850,000
Short term borrowings	14.6	**480,000**	1,130,000
Short term running finance		**–**	51,003
Unsecured			
Placements	14.7	**1,726,242**	3,864,212
Bank Al-Falah Limited (Book overdraft)		**–**	204,039
		7,491,561	11,776,222

14.3 The holding company has entered into agreements for financing with the SBP for long term finance for 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 holding company at the date of maturity of the finances by directly debiting the current account maintained by the holding company with SBP. The rate of return ranges from 4 to 5 (2007: 4 to 5) percent per annum.

14.4 The rate of return on these repurchase agreement borrowings, maturing in January 2009 (2007: January to March 2008), ranging from 12 to 15 (2007: 9.3 to 10) percent per annum. Securities costing Rs 3.345 million (2007: Rs 4.364 million) have been pledged against these borrowings.

14.5 The rate of return on borrowings maturing from February 2009 (2007: November 2008 to December 2011) November 2012 range from 15.95 to 17.50 (2007: 6.5 to 11.12) percent per annum. These loans are secured by way of hypothecation on specific leased assets together with related lease rentals, loans receivable and TFCs amounting to Rs. 3.239 million (2007 : Rs. 3,157.913 million).

14.6 The rate of return on short term borrowings maturing in January 2009 (2007: January 2008 to April 2008). The rate of return is 14.90 (2007: 9.6 to 10.5) percent per annum.

14.7 The rates of return on these placements maturing from January 2009 to November 2009 (2007: four month) ranging from 14.90 to 20 (2007: 9.5 to 10.75) percent per annum.

15 DEPOSITS AND OTHER ACCOUNTS

	Note	2008	2007
		(Rupees in '000)	
Certificates of investment - remunerative (in local currency)			
Financial institutions		**652,352**	1,872,293
Others		**2,370,769**	296,065
		3,023,121	2,168,358

16 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2008			2007		
	Minimum lease Payments	Financial charges for future periods	Principal outstanding	Minimum lease Payments	Financial charges for future periods	Principal outstanding
Not later than one year	**9,839**	**1,030**	**8,809**	9,185	1,595	7,590
Later than one year but not later than five years	**7,849**	**325**	**7,524**	14,514	1,803	12,711
	17,688	**1,355**	**16,333**	23,699	3,398	20,301

16.1 The mark-up rate on these liabilities against assets subject to finance leases range from 7.5 to 13.5 (2007: 7.5 to 13.5) percent per annum.

17 OTHER LIABILITIES

	Note	2008	2007
		(Rupees in '000)	
Mark-up/Return/Interest payable in local currency on			
- repurchase agreement borrowings - secured		**21,748**	15,604
- long-term borrowing - secured		**20,008**	29,016
- clean borrowings - unsecured		**28,472**	20,306
- COIs - unsecured		**91,331**	46,384
- short-term borrowings - secured		**16,459**	20,578
Accrued expenses		**57,233**	48,389
Security deposits against investment in finance leases		**179,235**	199,302
Provision for staff gratuity	33.4	**8,658**	4,385
Payable against purchase of investments		**–**	44
Taxation		**154,550**	110,289
Others		**19,048**	26,226
		590,742	520,523

18 SHARE CAPITAL

Authorised, issued, subscribed and paid-up capital
A summary of the movement in ordinary share capital is given below:

	Ordinary shares			
	Number		Amount (Rupees in '000)	
	2008	2007	**2008**	2007
Authorised capital				
As at January 1,	**1,000,000,000**	300,000,000	**10,000,000**	3,000,000
Increase during the year	**–**	700,000,000	**–**	7,000,000
As at December 31,	**1,000,000,000**	1,000,000,000	**10,000,000**	10,000,000
Issued, subscribed and paid-up capital				
As at January 1,	**615,000,000**	300,000,000	**6,150,000**	3,000,000
Right issue at Rs. 10 each during the year	**–**	300,000,000	**–**	3,000,000
Bonus issue at Rs. 10 each during the year	**–**	15,000,000	**–**	150,000
As at December 31, - fully paid in cash	**615,000,000**	615,000,000	**6,150,000**	6,150,000

18.1 The Ministry of Finance on behalf of the Government of Pakistan and the Ministry of Finance on behalf of the Sultanate of Oman each held 307,495,900 (2007: 307,495,900) ordinary shares of the holding company. 4,100 (2007: 4,100) ordinary shares each are held by the Secretary, Economic Affairs Division, Government of Pakistan and Ministry of Commerce and Industry, Sultanate of Oman.

18.2 Capital management policies and procedures

Capital management policies and procedures

The holding company's objectives when managing capital are:

- to comply with the capital requirements set by the regulators of the holding company;
- to safeguard company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to acquire, develop and maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored frequently by the holding company's management, employing techniques based on the guidelines issued by State Bank of Pakistan (SBP).

SBP requires each development financial institution to: (a) hold the minimum level of the regulatory capital of Rs. 5 billion by December 31, 2008, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset as per the CAMELS Rating assigned to the institution or above the minimum prescribed level of 8%.

The holding company's regulatory capital is divided into two tiers:

Tier 1 or core capital: share capital, share premium, reserves for bonus shares, general reserves created out of the profits for the year and unappropriated profit.; and

Tier 2 supplementary capital: general provisions or general reserves for loans losses, revaluation reserves exchange translation reserves, undisclosed reserves and subordinated debt.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table refer to in note 39, summarizes the composition of regulatory capital and the ratios of the holding company for the year ended December 31, 2008.

19 RESERVES

	Note	2008	2007
		(Rupees in '000)	
Statutory reserve	19.1		
As at January 1		**347,192**	242,531
Add: Appropriation of profit		**1,291**	104,661
		348,483	347,192
General reserve			
As at January 1		**491,380**	572,752
Add: Appropriation of profit /(transfer to profit)		**84,375**	(81,372)
		575,755	491,380
Contingencies reserve	19.2		
As at January 1		**86,291**	59,085
Add: Appropriation of profit		**6,722**	27,206
		93,013	86,291
		1,017,251	924,863

19.1 This represents a reserve created at 20% of the profit for the year in compliance with the SBP's requirements.

19.2 The holding company has set up a separate 'contingencies reserve' in which an amount equal to 0.5% of the outstanding balance as at the year end of advances, excluding staff loans and financing in respect of CFS is appropriated from the profit. Contingency reserve for the year ended December 31, 2008 is not recognised in these financial statements as such appropriation has been approved subsequent to year end (note 43).

20 MINORITY INTEREST

	2008	2007
Opening balance	**161,529**	46,970
Share of net assets acquired by minority shareholders	**–**	112,700
Charge for the year	**(64,790)**	1,859
Closing balance	**96,739**	161,529

21 DEFICIT (NET) ON REVALUATION OF SECURITIES

	Note	2008	2007
Government securities - (deficit)		**(89,823)**	(48,645)
Less: Deferred tax asset	12	**31,438**	17,026
		(58,385)	(31,619)
Listed TFCs - (deficit)/surplus		**(14,723)**	27,533
Shares/units - (deficit)		**(826,482)**	(97,617)
		(899,590)	(101,703)

22 CONTINGENCIES AND COMMITMENTS

	Note	2008	2007
		(Rupees in '000)	
Transaction related contingent liability: - guarantees		**200,000**	200,000
Pledge of shares on behalf of associate company	22.1	**70,726**	75,426
Commitments for:			
- purchase of government securities		**300,201**	–
- sale of government securities		**290,850**	–
- purchase of commercial papers		**–**	118,540
- sale of shares (future)		**–**	241,832
Commitments for loans and advances and net investment in finance leases		**508,370**	1,233,520
Underwriting commitments		**70,000**	507,000
Financing in respect of CFS		**–**	246,588

22.1 Shares in Japan Power Generation Limited (JPGL) (an associate) aggregating 17,622,878 having a cost of Rs. 70.726 (2007: Rs.75.426) million are pledged as security on behalf of that associate company against a syndicate finance facility obtained by it (the associate company).

23 MARK-UP/RETURN/INTEREST EARNED

	2008	2007
On loans and advances to		
customers	**697,622**	616,992
financial institutions	**32,687**	25,866
On investments in		
available-for-sale-securities	**529,200**	334,775
held-to-maturity	**19,562**	25,463
held for trading	**–**	31,204
TFCs	**67,967**	2,648
Securities purchased under resale agreements	**403,107**	213,100
Deposit accounts	**120,241**	103,720
Placements	**38,080**	6,842
COIs	**39,783**	50,717
Financing in respect of CFS	**109,729**	171,720
	2,057,978	1,583,047

24 MARK-UP/RETURN/INTEREST EXPENSED

	Note	2008	2007
		(Rupees in '000)	
On secured borrowings			
Repurchase agreement borrowings		**369,172**	263,784
Long-term borrowings		**214,566**	160,177
Short-term borrowings		**54,990**	83,082
On un-secured borrowings			
Placements		**237,621**	294,721
COIs		**442,055**	261,831
		1,318,404	1,063,595

25 GAIN ON SALE OF INVESTMENTS

	2008	2007
PIBs	**20,328**	7,749
T-bills	**1,343**	2,886
Quoted shares/units/certificates	**215,493**	410,549
TFCs	**7,991**	21,140
	245,155	442,324

26 OTHER INCOME

	2008	2007
Gain on sale of operating fixed assets	**1,289**	41

27 ADMINISTRATIVE EXPENSES

	Note	2008	2007
Salaries, allowances and employees' benefits		**155,335**	91,386
Contribution to defined contribution plan		**6,248**	2,671
Charge for defined benefit plan	33.10	**12,409**	6,861
Non-executive directors' remuneration	35	**167**	152
Non-executive directors' remuneration of subsidiary company		**1,672**	1,096
Chief executive's remuneration	35	**33,990**	16,810
Board meeting expenses		**10,870**	9,192
Traveling and accommodation		**16,409**	12,970
Rent, rates and taxes		**12,296**	12,283
Utilities		**3,023**	1,592
Communication		**6,118**	4,740
Professional training		**869**	932
Advertisement and business promotion		**2,473**	3,670
Membership and subscriptions		**3,999**	1,847
Printing, stationery and periodicals		**5,325**	5,700
Depreciation	11.1	**21,792**	17,613
Amortization of intangible assets	11.2	**3,670**	1,971
Auditors' remuneration	27.1	**1,280**	1,078
Legal and professional charges		**8,747**	13,607
Repairs and maintenance		**5,277**	4,200
Transportation		**11,542**	6,811
Insurance		**4,101**	3,330
Finance charges on leased assets		**2,710**	2,494
Entertainment and canteen expenses		**1,809**	1,488
Donation	27.2	**455**	355
Transaction cost		**5,475**	2,542
Share of The Bank of Punjab		**7,841**	1,788
Others		**1,924**	4,234
		347,826	233,413

27.1 Auditors' remuneration

	2008	2007
	(Rupees in '000)	
Audit fee	**290**	264
Special certifications and others	**430**	457
Out of pocket expenses	**145**	39
	865	760
Subsidiary company		
Audit fee	**120**	120
Special certifications and others	**295**	198
	415	318
	1,280	1,078

27.2 No donations were made in excess of Rs. 0.100 million to a single donee. Donations were not made to any donee in which a director or his spouse had any interest at any time during the year.

28 OTHER CHARGES

	2008	2007
Amortization of premium on investments	**–**	–
Fees and commission	**27,687**	34,099
Penalty imposed by the SBP	**479**	1,082
	28,166	35,181

29 TAXATION

	2008	2007
Current for the year		
Group	**272,390**	135,679
Associates	**111**	167
	272,501	135,846
Prior years		
Group	**–**	–
Associates	**(98)**	–
	(98)	–
Deferred		
Group	**(156,310)**	12,499
Associates	**(452)**	650
	(156,762)	13,149
	115,641	148,995

29.1 **Relationship between tax expense and accounting profit**

	Note	2008	2007
		(Rupees in '000)	
(Loss)/Profit before taxation		**(146,434)**	646,260
Tax at the applicable rate of 35 %		**(51,252)**	226,191
Tax effect of income taxed at different rate		**(25,887)**	(10,400)
Tax effect of exempt capital gain		**110,236**	(89,545)
Net tax effect of income not subject to tax and expenses that are not allowable in determining taxable income tax charge		**82,544**	22,749
Tax charge for the year		**115,641**	148,995
Tax charge for the current year		**272,501**	135,846
Prior		**(98)**	–
Deferred tax		**(156,762)**	13,149
Total tax charge		**115,641**	148,995

30 (LOSS)/EARNINGS PER SHARE - BASIC AND DILUTED

	Note	2008	2007
(Loss)/Profit after taxation		**(197,285)**	495,406
Weighted average number of ordinary shares in issue (numbers in thousands)	30.1	**615,000**	427,192
(Loss)/Earnings per share (Rupees)		**(0.32)**	1.16

30.1 There were no convertible dilutive potential ordinary shares outstanding on December 31, 2008 and 2007.

31 CASH AND CASH EQUIVALENTS

	Note	2008	2007
Cash and balances with treasury banks	6	**48,710**	25,062
Balances with other banks	7	**561,986**	1,473,434
Placements	8	**146,000**	347,000
		756,696	1,845,496

32 STAFF STRENGTH

	2008	2007
	Number	
Permanent	**103**	91
Temporary/on contractual basis	**32**	32
Daily wagers	**–**	–
Group's own staff strength at the end of the year	**135**	123
Outsourced	**13**	19
Total staff strength	**148**	142

33 DEFINED BENEFIT PLAN

33.1 The group operates a funded staff retirement gratuity scheme for all its permanent employees.

Principal actuarial assumptions

The projected unit credit method, as allowed under IAS 19 'Employee Benefits', was used for actuarial valuation based on following significant assumptions:

	2008	2007
	Percent per annum	
Discount rate	**15**	10
Expected rate of increase in salary levels	**15**	10
Expected rate of return on plan assets	**15**	10

Actuarial gains and losses are recognised in accordance with actuarial recommendation.

The disclosures made in notes 33.1 to 33.14 are based on the information included in the actuarial valuation as of December 31, 2008.

33.2 Mortality rate

The rates assumed were based on the EFU 61-66 mortality table.

33.3 Expected return on plan assets

The expected return on plan assets is based on the market expectations and depends upon the asset portfolio of the group, at the beginning of the period, for returns over the entire life of the related obligation.

33.4 Reconciliation of amount payable to defined benefit plan

	Note	2008	2007
		(Rupees in '000)	
Present value of defined benefit obligation	33.5	**26,408**	14,220
Fair value of plan assets	33.7	**(16,139)**	(9,835)
		10,269	4,385
Net unrecognised actuarial (losses)/ gains	33.12	**–**	–
Non vested past service cost		**(1,611)**	–
Unrecognised transitional liability		**–**	–
Recognised liability/(asset)		**8,658**	4,385

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

	2008	2007
Present value of obligation as at January 1	**14,220**	9,641
Current service cost	**2,848**	1,921
Interest cost	**1,422**	964
Benefits paid	**(3,388)**	(261)
Vested past service cost	**4,280**	–
Non vested past service cost	**1,611**	–
Actuarial loss/(gain) on obligation	**5,415**	1,955
Present value of obligation as at December 31	**26,408**	14,220

33.6 Movement in payable to defined benefit plan

(Rupees in '000)

	Note	2008	2007
Opening liability		**4,385**	–
Expense for the year	33.10	**12,409**	6,861
Contributions to the fund		**(8,136)**	(2,476)
Closing liability		**8,658**	4,385

33.7 The movement in the fair value of plan assets is as follows:

	Note	2008	2007
Fair value of plan assets as at January 1		**9,835**	6,476
Expected return on plan assets		**984**	648
Contributions		**8,136**	2,476
Benefits paid		**(3,388)**	(261)
Actuarial loss on plan assets		**572**	496
Fair value of plan assets as at December 31	33.9	**16,139**	9,835

33.8 Actual return on plan assets during the year was Rs. 1.556 million (2007: Rs.1.144 million).

33.9 The plan assets are comprised as follows:

(Rupees in '000)

	2008		2007	
	Rupees in 000	%	Rupees in 000	%
Equity instruments	**823**	**5.10**	8,074	82.09
Debt instruments	**14,727**	**91.25**	1,692	17.20
Bank balances	**589**	**3.65**	69	0.71
	16,139	**100.00**	9,835	100.00

33.10 The amount recognised in the income statement is as follows:

(Rupees in '000)

	Note	2008	2007
Current service cost		**2,848**	1,921
Interest cost		**1,422**	964
Expected return on plan assets		**(984)**	(648)
Transitional liability recognised		**–**	21
Vested past service cost		**4,280**	–
Actuarial loss recognised	33.11	**4,843**	4,603
		12,409	6,861

	2008	2007
33.11 Actuarial loss to be recognised		
Actuarial loss to be recongnised	**(4,843)**	(4,603)
33.12 Net unrecognised actuarial (losses)/gains		
Net unrecognised actuarial losses as at January 1	**–**	(3,144)
Actuarial loss on obligation	**(5,415)**	(1,955)
Actuarial gain on plan assets	**572**	496
	(4,843)	(4,603)
Actuarial gain recognised for the year	**4,843**	4,603
Net unrecognised actuarial (losses)/gains as at December 31	**–**	–

33.13 The history of the plan for the current and prior four years are as follows:

(Rupees in '000)

		2008	2007	2006	2005	2004
Present value of defined benefit obligation	33.5	**26,408**	14,220	9,641	3,936	2,683
Fair value of plan assets	33.7	**(16,139)**	(9,835)	(6,476)	(4,348)	(2,556)
(Surplus)/deficit		**10,269**	4,385	3,165	(412)	127
Experience adjustments on defined benefit obligation	33.5	**5,415**	1,955	3,223	(302)	(218)
Experience adjustments on assets	33.7	**(572)**	(496)	375	(214)	118

33.14 Expected gratuity expense for the next year

The expected gratuity expense for the next year ending December 31, 2009 works out to Rs. 8.105 million.

34 DEFINED CONTRIBUTION PLAN

34.1 The group also operates a provident fund scheme for its permanent employees.

34.2 Contribution to the fund made during the year

(Rupees in '000)

	2008	2007
Contribution from the group	**7,248**	3,671
Contribution from the employees	**7,248**	3,671
	14,496	7,342

35 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2008	2007	2008	2007	2008	2007
Fees	**–**	–	**167**	152	**–**	–
Managerial remuneration	**32,200**	15,000	**–**	–	**60,387**	40,070
Charge for defined benefit plan	**1,109**	2,688	**–**	–	**10,257**	2,952
Contribution to defined contribution plan	**1,000**	1,000	**–**	–	**3,226**	1,700
Rent and house maintenance	**–**	–	**–**	–	**13,711**	12,600
Medical	**160**	341	**–**	–	**–**	–
Utilities	**599**	439	**–**	–	**4,121**	2,047
Membership fee	**31**	30	**–**	–	**–**	853
Others	**35,099**	19,498	**167**	152	**91,702**	60,222
Number of persons	**1**	1	**5**	5	32	34

The managing director and executives are provided with free use of company's maintained cars. Executive means employees other than managing director and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

36 FAIR VALUE OF FINANCIAL INSTRUMENTS

36.1 On-balance sheet financial instruments

(Rupees in '000)

	2008		2007	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and balances with treasury banks	**48,710**	**48,710**	25,062	25,062
Balances with other banks	**561,986**	**561,986**	1,873,434	1,873,434
Lendings to financial institutions	**3,183,180**	**3,183,180**	3,706,071	3,706,071
Investments	**6,702,149**	**6,485,132**	8,901,021	8,914,059
Advances	**5,732,748**	**5,732,748**	6,874,015	6,874,015
Other assets	**748,154**	**748,154**	501,789	501,789
	16,976,927	**16,759,910**	21,881,392	21,894,430
Liabilities				
Borrowings from financial institutions	**7,491,561**	**7,491,561**	11,776,222	11,776,222
Deposits and other accounts	**3,023,121**	**3,023,121**	2,168,358	2,168,358
Liabilities against assets subject to finance lease	**16,333**	**16,333**	20,301	20,301
Other liabilities	**442,192**	**442,192**	410,234	410,234
	10,973,207	**10,973,207**	14,375,115	14,375,115
	6,003,720	**5,786,703**	7,506,277	7,519,315

36.2 The carrying value of all financial assets and liabilities in the consolidated financial statements approximate to their fair values except for certain 'held-to-maturity' investments and an investment in an associate.

36.3 Off-balance sheet financial instruments

(Rupees in '000)

	2008		2007	
	Book value	Fair value	Book value	Fair value
Forward purchase of foreign exchange	**–**	**–**	–	–
Forward agreements for borrowing	**–**	**–**	–	–
Forward sale of foreign exchange	**–**	**–**	–	–
Forward agreements for lending	**–**	**–**	–	–

37 SEGMENT ANALYSIS WITH RESPECT TO BUSINESS ACTIVITIES

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

(Rupees in '000)

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services	Assets Management	Retail Brokerage	Others
2008									
Total income	**38,194**	**1,064,129**	**–**	**733,636**	**–**	**–**	**(34,501)**	**–**	**–**
Total expenses	**47,405**	**1,087,142**	**–**	**713,212**	**–**	**–**	**100,133**	**–**	**–**
Net income	**(9,211)**	**(23,013)**	**–**	**20,424**	**–**	**–**	**(134,634)**	**–**	**–**
Segment assets (Gross)	**–**	**11,230,242**	**–**	**6,278,457**	**–**	**–**	**206,820**	**–**	**–**
Segment non-performing loans	**–**	**–**	**–**	**615,163**	**–**	**–**	**–**	**–**	**–**
Investments provided for	**–**	**293,333**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Segment provision required *	**–**	**125,226**	**–**	**333,971**	**–**	**–**	**–**	**–**	**–**
Segment liabilities	**–**	**6,971,776**	**–**	**4,124,657**	**–**	**–**	**3,976**	**–**	**–**
Segment return on net assets (%)	**–**	**-0.56%**	**–**	**1.14%**	**–**	**–**	**-66.37%**	**–**	**–**
Segment return on assets (ROA) (%)	**–**	**-0.21%**	**–**	**0.34%**	**–**	**–**	**-65.10%**	**–**	**–**
Segment cost of funds (%)	**–**	**6.99%**	**–**	**6.84%**	**–**	**–**	**–**	**–**	**–**
2007									
Total income	39,947	1,390,513	–	648,656	–	–	43,337	–	–
Total expenses	34,182	865,758	–	532,042	–	–	44,211	–	–
Net income	5,765	524,755	–	116,614	–	–	(874)	–	–
Segment assets (gross)	–	16,291,170	–	5,562,584	–	–	339,640	–	–
Segment non-performing loans	–	–	–	156,865	–	–	–	–	–
Investments provided for	–	108,333	–	–	–	–	–	–	–
Segment provision required*	–	73,075	–	132,888	–	–	–	–	–
Segment liabilities	–	10,462,801	–	4,017,387	–	–	5,726	–	–
Segment return on net assets (%)	–	9.29%	–	8.25%	–	–	-0.26%	–	–
Segment return on assets (ROA) (%)	–	3.37%	–	2.15%	–	–	-0.26%	–	–
Segment cost of funds (%)	–	6.56%	–	6.38%	–	–	–	–	–

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

38 RELATED PARTY TRANSACTIONS

38.1 Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include a subsidiary company, associated companies with or without common directors, retirement benefit funds, directors, and key management personnel.

38.2 A number of transactions are entered into with related parties in the normal course of business. These include advances, deposits and other transactions. These transactions were carried out on commercial terms and at market rates.

38.3 Associates
Pak Oman Microfinance Bank Limited
Japan Power Generation Limited
Pak Oman Bank of Punjab Advantage Plus Fund
Pak Oman Advantage Fund
Pak Oman Advantage Islamic Income Fund
Pak Oman Advantage Islamic Fund
Pak Oman Advantage Stock Fund

38.4 Key management personnel
All heads of departments
Directors

38.5 Retirement benefit fund
Defined benefit plan
Defined contribution plan

38.6 The volumes of related party transactions, outstanding balances at the year end and related expense and income for the year are as follows:

(Rupees in '000)

	Total		Associates		Key management personnel		Other related parties	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Advances / Investments								
At January 01,	**789,499**	292,744	**765,037**	276,454	**24,462**	16,290	**–**	–
Disbursed during the year	**1,137,479**	501,519	**1,091,970**	488,583	**45,509**	12,936	**–**	–
Received during the year	**(781,935)**	(4,764)	**(769,658)**	–	**(12,277)**	(4,764)	**–**	–
At December 31,	**1,145,043**	789,499	**1,087,349**	765,037	**57,694**	24,462	**–**	–
Deposits								
At January 01,	**304,212**	345,000	**304,212**	345,000	**–**	–	**–**	–
Deposited during the year	**1,090,278**	860,305	**1,090,278**	860,305	**–**	–	**–**	–
Repaid during the year	**(1,181,479)**	(901,093)	**(1,181,479)**	(901,093)	**–**	–	**–**	–
At December 31,	**213,011**	304,212	**213,011**	304,212	**–**	–	**–**	–
Balances								
Other receivables	**150,000**	8	**150,000**	8	**–**	–	**–**	–
Transactions, income and expenses								
Markup income	**17,743**	863	**15,269**	–	**2,474**	863	**–**	–
Mark up expense	**28,372**	32,441	**28,372**	32,441	**–**	–	**–**	–
Dividend income	**42,452**	–	**42,452**	–	**–**	–	**–**	–
Capital gain	**460**	–	**460**	–	**–**	–	**–**	–
Outright sale of PIBs	**–**	4,739	**–**	4,739	**–**	–	**–**	–
Salaries and short term benefits paid	**78,429**	42,582	**–**	–	**78,429**	42,582	**–**	–
Staff retirement benefits	**6,917**	5,082	**–**	–	**6,917**	5,082	**–**	–

39 CAPITAL ADEQUACY

The State Bank of Pakistan through its BSD Circular No. 19 dated September 05, 2008 requires the minimum paid up capital (net of losses) for all DFIs to be raised to Rs 6 billion by the year ending on December 31, 2009. The raise is to be achieved in a phased manner requiring Rs 5 billion paid up capital (net of losses) by the end of financial year 2008. The paid up capital of the the holding Group for the year ended December 31, 2008 stands at Rs. 6.15 billion and its compliance with the SBP requirement for the said year, in addition the Group as per CAMELS rating assigned by State Bank of Pakistan, requires to maintain a minimum capital adequacy ratio (CAR) of 10% of the risk weighted exposure. The Group's CAR as at December 31, 2008 was 42.42% of its risk weighted exposure.

The calculation of capital adequacy enables the DFIs to assess the long term soundness. Pak Oman has successfully managed in the past and will in the future its Capital requirements/ needs. Based on the directives of the Board, the Group has built a healthy portfolio of assets and liabilities focusing on quality. CAR of 42.42% demonstrates that the Group is geared to absorb major risks / shocks in the present market scenario. The Group meets its capital needs through clean placements (LOP & COI) and short and long term lines from commercial institutions.

The risk weighted assets to capital ratio, calculated (as per standardized approach of Basel II) in accordance with SBP's guidelines on capital adequacy was as follows:

(Rupees in '000)

	2008	2007
Regulatory Capital Base		
Tier I Capital		
Share Capital	**6,150,000**	6,150,000
Reserves	**924,238**	838,572
Unappropriated Profit	**(229,835)**	367,338
Minority interest	**96,739**	161,529
	6,941,142	7,517,439
Deductions:		
Book value of intangibles	**5,684**	5,652
Shortfall in provisions required against classified assets irrespective of any relaxation allowed by SBP	**–**	–
Deficit on account of revaluation of available for sale investment (net of tax)	**899,590**	101,703
	905,274	107,355
Total eligible Tier I Capital	**6,035,868**	7,410,084
Supplementary Capital		
Tier II Capital		
Subordinated debt (up to 50% of total Tier 1 Capital)	**–**	–
General provision or general reserves for loan losses up to maximum of 1.25% of risk weighted assets.	**93,013**	86,291
Revaluation reserve (up to 45%)	**–**	–
Total Eligible Tier II Capital	**93,013**	86,291
Eligible Tier III Capital	**–**	–
Total Supplementary Capital eligible for capital adequacy ratio (Maximum upto 100% of Total eligible Tier I Capital)		
Total Eligible Capital	**6,128,881**	7,496,375
Risk Weighted Amounts		
Total Credit Risk Weighted Amount	**7,914,165**	10,049,430
Total Market Risk Weighted Amount	**5,563,096**	6,175,515
Total Operational Risk Weighted Amount	**1,358,498**	1,301,949
Total Risk Weighted Amount	**14,835,759**	17,526,894
Capital Adequacy Ratios		
Credit Risk Capital Adequacy Ratio	**77.44%**	74.60%
Tier 1 Capital to Total Risk Weighted Amount	**40.68%**	42.28%
Total Capital Adequacy Ratio	**41.31%**	42.77%

40 RISK MANAGEMENT

The holding Group has set up objectives and policies to manage the risks that arise in connection with financial instruments. The risk management framework and policies of the Group are guided by specific objectives to ensure that comprehensive and adequate risk management policies are established to mitigate the salient risk elements in operations of the holding Group. The establishment of the overall financial risk management objectives is consistent and in tandem with the strategy to create and enhance shareholders' value, whilst guided by a prudent and robust framework of risk management policies. In achieving the objective of maximizing returns to shareholders, the board of directors takes cognizance of the risk elements that the Group is confronted with in its operations. In view of the multi-faceted risks inherent in the financial sector, the Group places great emphasis on the importance of risk management and has put in place clear and comprehensive risk management mechanisms and strategies to identify, monitor, manage and control the relevant risk factors.

Risk management organisation

Risk Management Department ensures that risks remain within the boundaries as defined by the board, comply with the risk parameters and prudential limits, establish systems and procedures and work out remedial measures.

Credit Committee implements credit risk policy and monitors credit risk in light with credit policy and prudential regulations.

The Group's risk management, compliance and internal audit department support the risk management function. The compliance department ensures that all the directives and guidelines issued by SBP are being complied with. Internal audit department reviews the compliance of internal control procedures with internal and regulatory standards.

40.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Exposure to credit risks for the Group arises primarily from lending activities and investments in fixed income securities.

A multi-tiered approach is being followed in the management of credit risk with the organizational structure, roles and responsibilities clearly outlined in the Credit Policy Manual. The Board is responsible for final approval of overall risk tolerance, limits for sectors and pricing strategies. Various business units responsible for undertaking risks are expected to comply with the credit policy and adhere to the independent risk management function. This is ensured through the implementation of a credit approval and documentation process adopted by the Group.

Out of the total financial assets of Rs. 16,976.927 million (2007: Rs. 21,881.392 million), the financial assets which were subject to credit risk amounted to Rs. 15,722.537 million (2007: Rs. 19,265.134 million). The major credit risk in respect of advances is concentrated in sectors such as textile, transportation and communication and financial institutions. The Group manages its exposure to credit risk through portfolio diversification and adequate collateral, wherever, applicable. The emphasis is to provide short to medium term financing to a target customer base. The Group has developed systems to monitor problem accounts so that instant instructions based on early warning signals are passed on to the departments to deal with potential problem accounts.

The Group uses both external and internal ratings to evaluate risk. The Group obtains external ratings from PACRA and JCR-VIS whereas a comprehensive risk assessment matrix model is used for internal ratings.

Exposures	JCR-VIS	PACRA	OTHER
Corporate	Yes	Yes	x
Banks	Yes	Yes	x
Sovereigns	x	x	x
SME's	x	x	x
Securitizations	x	x	x
Others	x	x	x

Credit Exposures subject to Standardised approach

(Rupees in '000)

		2008			2007		
Exposures	Rating Category	Amount Outstanding	Deduction CRM*	Net amount	Amount Outstanding	Deduction CRM*	Net amount
Corporate	0	–	–	–	–	–	–
	1	**24,774**	**785,875**	**810,649**	44,127	525,328	569,455
	2	**395,261**	–	**395,261**	1,141,713	–	1,141,713
	3-4	**223,877**	–	**223,877**	1,744,914	(100,000)	1,644,914
	Unrated	**5,499,820**	**(785,875)**	**4,713,945**	5,013,205	(425,328)	4,587,877
		6,143,731	–	**6,143,731**	7,943,959	–	7,943,959
Banks	0	–	–	–	–	–	–
	1	**1,157,986**	**1,168,762**	**2,326,748**	3,160,604	594,493	3,755,097
	2-3	**893,937**	**(785,937)**	**108,000**	646,493	(194,493)	452,000
	Unrated	**382,825**	**(382,825)**	–	400,000	(400,000)	–
		2,434,748	–	**2,434,748**	4,207,097	–	4,207,097
Sovereigns etc							
Unrated							

*CRM= Credit Risk Mitigation

The accounting policies and methods used by the Group are in accordance with the requirements of the prudential regulations of the SBP. These policies are disclosed in note 5 to these financial statements. Reconciliation in the provision against non-performing advances has been disclosed in note 10.5 of these financial statements.

40.2 Segmental information

40.2.1 Segment by class of business

	2008					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Financial institution	349,304	5.76	652,352	21.58	661,051	45.90
Textile	1,250,877	20.62	13,500	0.45	–	–
Transportation and communication	480,985	7.93	222,532	7.36	–	–
Power (electricity), gas, water, sanitary wholesale and retail trade	978,372	16.11	313,000	10.35	463,876	32.21
Electronics	325,773	5.37	6,700	0.22	–	–
Food and beverage	289,094	4.77	500,000	16.54	–	–
Services	236,048	3.89	186,287	6.16	–	–
Engineering and allied products	316,550	5.22	148,231	4.90	17,900	1.24
Chemical and pharmaceuticals	257,456	4.24	66,052	2.18	–	–
Automobiles	116,364	1.92	113,000	3.74	200,000	13.89
Fuel and energy	228,172	3.76	–	–	97,320	6.76
Construction	166,698	2.75	367,457	12.15	–	–
Cement	143,995	2.37	–	–	–	–
Sugar	179,369	2.96	–	–	–	–
Paper and board /packaging	111,384	1.84	38,000	1.26	–	–
Healthcare	45,280	0.75	–	–	–	–
Individual	107,704	1.78	–	–	–	–
Others	483,294	7.97	396,010	13.10	–	–
	6,066,719	100.00	3,023,121	100.00	1,440,147	100.00

40.2.2 Segment by sector

	2008					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Public/Government	86,348	1.42	1,316,082	43.53	591,051	40.91
Private	5,980,371	98.58	1,707,039	56.47	853,796	59.09
	6,066,719	100.00	3,023,121	100.00	1,444,847	100.00

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

(Rupees in '000)

	2008		2007	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
Automobile	**115,833**	**57,917**	–	–
Cement	**70,000**	**35,000**	–	–
Textile	**131,612**	**88,242**	79,186	67,459
Chemical and pharmaceuticals	**135,278**	**71,947**	14,621	12,821
Construction	**73,493**	**27,293**	27,187	18,487
Engineering and allied products	**24,750**	**12,375**	–	–
Feul and energy	**45,000**	**22,500**	–	–
Food and beverages	**19,197**	**18,697**	19,197	18,697
Others	**–**	**–**	16,674	15,424
	615,163	**333,971**	156,865	132,888

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

	2008		2007	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
Public/Government	**–**	**–**	–	–
Private	**615,163**	**333,971**	156,865	132,888
	615,163	**333,971**	156,865	132,888

40.2.5 Geographical segment analysis

(Rupees in '000)

	Profit/(Loss) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Pakistan	(146,434)	17,253,466	6,134,565	1,440,147
Asia Pacific (including South Asia)	–	–	–	–
Europe	–	–	–	–
United States of America and Canada	–	–	–	–
Middle East	–	2,856	–	–
Africa	–	–	–	–
	(146,434)	17,256,322	6,134,565	1,440,147

40.3 Market risk

Market risk is the risk that the value of on and off-balance sheet positions of a financial institution will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates and equity prices. The board of directors is responsible for reviewing and recommending all market risk policies.

The market risk management framework of the Group comprises of business unit actually undertaking the risk, the Risk Management Department, Asset and Liability Committee and the Investment Committee.

40.3.1 Interest rate risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The lending, funding and investment activities of the Group are exposed to interest rate risk. The Group is using a 16band repricing model for measurement of interest rate risk. Furthermore, stress testing, technique is also used to evaluate the potential effects on the financial condition of a specific event and movements in a set of financial variables. The Group has also developed value-at-risk (VAR) model internally.

40.3.2 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to change in foreign currency rates. However, the Group is not exposed to major foreign currency risk as its assets and liabilities are primarily denominated in Pakistan rupees.

(Rupees in '000)

	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Pakistan rupees	17,254,896	11,121,757	–	6,133,139
United State dollar	197	–	–	197
Omani Riyal	1,229	–	–	1,229
	17,256,322	11,121,757	–	6,134,565

40.3.3 Equity position risk

Equity position risk refers to the risk arising from taking long or short positions, in the trading book, in equities and all instruments that exhibit market behavior similar to equities. The Group is exposed to such risk due to investment activities undertaken on a day-to-day basis. The Group has established a Capital Market Review Committee to monitor the equity portfolio and the future strategy pertaining thereto.

40.3.4 Liquidity risk

Liquidity risk is the potential for loss arising from either inability to meet obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses.

Large off-balance sheet exposures or heavy reliance on large corporate deposits gives rise to relatively high level of liquidity risk. Rapid growth in assets also increases the liquidity risk. Objectives of liquidity management in Pak Oman are that:

- A reasonable amount of liquid assets are maintained at all times.
- Measurement and projection of funding requirements during various scenarios.
- Excess funds are profitably deployed.

Beside the Board which will be responsible for formulation of over all policy, the following will be involved in Liquidity Risk Management Process with roles and responsibilities defined hereunder:

- Risk Management Department
- Finance Department
- Treasury Department
- Asset Liability Committee

The ALCO will be responsible for monitoring of the tolerance limits. The Finance Department will prepare a fortnightly variation report on concentration of assets and liabilities for review by RMD which will forward the same along with its observations to ALCO for its review. ALCO will issue necessary instructions to the relevant business unit/(s) if any corrective action is required.

40.3.5 Mismatch of interest rate sensitive assets and liabilities

(Rupees in '000)

	Effective yield/ interest rate	Total	2008									
			Exposed to yield/interest risk									Non-interest 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		48,710	–	–	–	–	–	–	–	–	–	48,710
Balances with other banks	7.36%	561,986	506,529	53,416	–	–	–	–	–	–	–	2,041
Lendings to financial institutions	12.66%	3,183,180	2,229,010	798,909	47,119	2,935	104,376	831	–	–	–	–
Investments	5.89%	6,702,149	68,596	545,408	50,083	246,219	863,091	1,238,687	1,504,352	421,625	–	1,764,088
Advances	13.79%	5,732,748	838,183	223,884	689,337	688,583	1,131,756	685,399	705,033	639,908	119,853	10,812
Other assets		748,154	–	–	–	–	–	–	–	–	–	748,154
		16,976,927	3,642,318	1,621,617	786,539	937,737	2,099,223	1,924,917	2,209,385	1,061,533	119,853	2,573,805
Liabilities												
Borrowings from financial institutions	11.02%	7,491,561	4,713,484	840,937	399,581	340,937	531,893	506,653	125,735	32,341	–	–
Deposits and other accounts	11.48%	3,023,121	888,710	1,277,444	745,706	104,261	7,000	–	–	–	–	–
Liabilities against assets subject to finance lease	11.68%	16,333	1,221	2,415	2,450	3,576	5,345	1,326	–	–	–	–
Other liabilities		442,192	–	–	–	–	–	–	–	–	–	442,192
		10,973,207	5,603,415	2,120,796	1,147,737	448,774	544,238	507,979	125,735	32,341	–	442,192
On-balance sheet gap		6,003,720	(1,961,097)	(499,179)	(361,198)	488,963	1,554,985	1,416,938	2,083,650	1,029,192	119,853	2,131,613
Non-financial assets		279,395										
Non-financial liabilities		148,550										
Total net asset		6,134,565										
Total yield/profit risk sensitivity gap			(1,961,097)	(499,179)	(361,198)	488,963	1,554,985	1,416,938	2,083,650	1,029,192	119,853	
Cumulative yield/profit risk sensitivity gap			(1,961,097)	(2,460,276)	(2,821,474)	(2,332,511)	(777,526)	639,412	2,723,062	3,752,254	3,872,107	

40.3.6 Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

40.3.7 Profit rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market profit rates. The Group is not exposed to any major profit rate risk as it mainly invests in equity securities.

40.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. Operational risk is inherent in the Group's business and operational activities.

The Group has instituted sound internal controls through policies, plans and processes effected by the board of directors for controlling and mitigating potential operational risk. The system of internal controls include financial, operational and compliance controls and is performed on continuous basis by the senior management and all levels of employees within the Group.

The objectives of internal controls include the safeguarding of assets from inappropriate use or from loss and fraud, ensuring that liabilities are identified and managed and that the quality of internal and external reporting is maintained.

The Group has also formulated a business continuity plan, a disaster recovery plan and guidelines for information security, employee conduct and for prevention of fraud and forgery to ensure smooth functioning of the Group's operations.

40.4.1 Maturities of assets and liabilities

Maturities of assets and liabilities as at December 31, 2008

(Rupees in '000)

	Total	Upto one 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	48,710	548	48,162	–	–	–	–	–	–	–
Balances with other banks	561,986	508,560	53,426	–	–	–	–	–	–	–
Lendings to financial institutions	3,183,180	2,229,010	798,909	47,119	2,935	104,376	831	–	–	–
Investments	6,702,149	68,596	634,837	50,083	1,672,501	863,091	1,238,687	1,752,729	421,625	–
Advances	5,732,748	838,962	225,013	691,001	691,658	1,135,921	685,399	705,033	639,908	119,853
Other assets	754,322	–	749,942	–	–	–	–	4,380	–	–
Operating fixed assets	95,824	1,629	31,973	4,741	7,577	14,626	8,598	4,212	10,532	11,936
Deferred tax assets	177,403	–	–	–	–	–	–	177,403	–	–
	17,256,322	3,647,305	2,542,262	792,944	2,374,671	2,118,014	1,933,515	2,643,757	1,072,065	131,789
Liabilities										
Borrowings from financial institutions	7,491,561	4,713,484	840,937	399,581	340,937	531,893	506,653	125,735	32,341	–
Deposits and other accounts	3,023,121	888,710	1,277,444	745,706	104,261	7,000	–	–	–	–
Liabilities against assets subject to finance lease	16,333	1,221	2,415	2,450	3,576	5,345	1,326	–	–	–
Other liabilities	590,742	34,611	422,326	18,181	16,612	51,699	29,276	18,037	–	–
Deferred tax liabilities	–	–	–	–	–	–	–	–	–	–
	11,121,757	5,638,026	2,543,122	1,165,918	465,386	595,937	537,255	143,772	32,341	–
Net assets	6,134,565	(1,990,721)	(860)	(372,974)	1,909,285	1,522,077	1,396,260	2,499,985	1,039,724	131,789
Share capital	6,150,000									
Reserves	1,017,251									
Loss	(229,835)									
	6,937,416									
Deficit (net) on revaluation of securities	(899,590)									
Minority interest	96,739									
	6,134,565									

Maturities of assets and liabilities as at December 31, 2007

(Rupees in '000)

	Total	Upto one 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	25,062	8,042	17,020	–	–	–	–	–	–	–
Balances with other banks	1,873,434	241,977	1,631,457	–	–	–	–	–	–	–
Lendings to financial institutions	3,706,071	2,649,380	743,877	1,542	303,305	5,887	1,730	350	–	–
Investments	8,901,021	233,649	1,331,953	346,757	1,849,088	969	48,456	3,133,844	1,257,742	698,563
Advances	6,874,015	1,661,959	361,188	656,761	736,946	1,273,413	941,588	743,819	392,483	105,858
Other assets	504,825	–	500,805	–	–	–	–	4,020	–	–
Operating fixed assets	96,322	1,537	25,520	4,612	8,505	14,191	12,107	5,276	10,532	14,042
Deferred tax assets	6,681	–	6,346	–	–	–	–	335	–	–
	21,987,431	4,796,544	4,618,166	1,009,672	2,897,844	1,294,460	1,003,881	3,887,644	1,660,757	818,463
Liabilities										
Borrowings from financial institutions	11,776,222	7,482,505	1,560,036	732,630	361,985	812,753	401,029	368,841	56,443	–
Deposits and other accounts	2,168,358	1,909,007	230,551	23,800	5,000	–	–	–	–	–
Liabilities against assets subject to finance lease	20,301	187	4,514	1,922	3,992	7,652	1,721	313	–	–
Other Liabilities	520,523	9,424	330,183	13,666	33,278	50,846	55,366	27,760	–	–
Deferred tax liabilities	–	–	–	–	–	–	–	–	–	–
	14,485,404	9,401,123	2,125,284	772,018	404,255	871,251	458,116	396,914	56,443	– -
Net assets	7,502,027	(4,604,579)	2,492,882	478,421	1,492,299	1,291,274	477,507	1,516,540	1,132,632	37,406
Share capital	6,150,000									
Reserves	924,863									
Unappropriated profit	367,338									
	7,442,201									
Deficit (net) on revaluation of securities	(101,703)									
Minority interest	161,529									
	7,502,027									

41 ASSOCIATES - KEY INFORMATION

(Rupees in '000)

	Pak Oman Bank of Punjab Plus Fund Advantage	Pak Oman Advantage Fund	Pak Oman Advantage Islamic Income Fund	Pak Oman Advantage Islamic Fund	Pak Oman Advantage Stock Fund	Japan Power Generation Limited	Pak Oman Microfinance Bank Limited	Total
Particulars								
Assets	1,261,060	964,885	227,759	146,326	174,972	6,759,068	459,374	7,218,442
Liabilities	157,748	7,118	25,948	2,041	27,268	6,701,086	34,465	6,735,551
Profit / (loss) before taxation	(9,235)	68,801	1,622	(715)	4,204	(545,820)	(24,508)	(570,328)
Profit / (loss) after taxation	(9,235)	68,801	1,622	(715)	4,204	(546,418)	(22,859)	(569,277)

42 GENERAL

The JCR-VIS Credit Rating Company Limited has maintained the company's rating of AA + (Double A Plus) in the long term and A-I + (A One Plus) for the short term.

43 POST BALANCE SHEET EVENTS

The Board of Directors of the company in their meeting held on March 30, 2009 have:

- approved a transfer to contingency reserve of Rs. 27.419 million for the year ended December 31, 2008;
- approved transfer of Rs 27.419 million from general reserve for the appropriation of contingency reserve and
- approved transfer of Rs 5.162 million to general reserve for the year ended December 31, 2008

These financial statements do not recognise the aforementioned appropriations as these have been proposed and approved subsequent to the balance sheet date.

44 DATE OF AUTHORISATION

These consolidated financial statements were authorised on March 30, 2009 by the board of directors of the holding company.

Managing Director and Chief Executive **Chairman**

Company INFORMATION

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Mandviwalla & Zafar
Mohsin Tayebaly & Co.
Ijaz Ahmed & Associates

Tax Consultants
A.F. Ferguson & Co.
Chartered Accountants
Member firm of PriceWaterhouseCoopers

Human Resource Consultant
KPMG/ Taseer Hadi Khalid & Co.

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