

**FINANCIAL STATEMENTS
(UN - AUDITED)**

FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2009



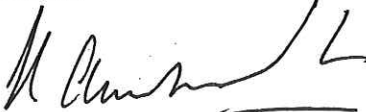
PAK-LIBYA HOLDING COMPANY (PVT.) LTD.

PAK-LIBYA HOLDING COMPANY (PRIVATE) LIMITED
 CONDENSED BALANCE SHEET
 AS AT SEPTEMBER 30, 2009 (UNAUDITED-NOTE 2)

| | Note | September 30, 2009 | December 31, 2008 Audited |
|--|------|-----------------------|---------------------------------|
| ---Rupees in '000--- | | | |
| ASSETS | | | |
| Cash and balances with treasury banks | | 52,926 | 42,624 |
| Balances with other banks | | 67,937 | 78,821 |
| Lendings to financial institutions | | 790,335 | 698,769 |
| Investments | 4 | 7,818,618 | 5,477,558 |
| Advances | 5 | 6,719,707 | 4,938,783 |
| Other assets | | 417,689 | 629,422 |
| Operating fixed assets | 6 | 49,500 | 52,281 |
| Deferred tax assets | | 218,278 | 254,093 |
| | | 16,134,990 | 12,172,351 |
| LIABILITIES | | | |
| Borrowings from financial institutions | | 3,069,491 | 4,858,821 |
| Deposits and other accounts | | 6,207,154 | 1,400,000 |
| Other liabilities | | 431,999 | 260,737 |
| | | 9,708,644 | 6,519,558 |
| NET ASSETS | | | |
| | | 6,426,346 | 5,652,793 |
| REPRESENTED BY | | | |
| Share capital | 7 | 6,141,780 | 6,141,780 |
| Reserves | | 1,110,589 | 1,020,589 |
| Unappropriated (loss)/profit | | (806,498) | 90,693 |
| | | 6,445,871 | 7,253,062 |
| Deficit on revaluation of investments | | (19,525) | (1,600,269) |
| | | 6,426,346 | 5,652,793 |
| CONTINGENCIES AND COMMITMENTS | | | |
| | 8 | | |

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.


 Chief Financial Officer


 Chief Executive

Chief Executive

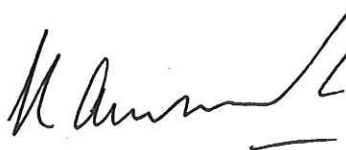
Director

PAK-LIBYA HOLDING COMPANY (PRIVATE) LIMITED
 CONDENSED PROFIT AND LOSS ACCOUNT (UNAUDITED)
 FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2009

| | Quarter ended Sept 30, | | Third Quarter ended Sept 30, | |
|---|--------------------------|---------|------------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| | -----Rupees in '000----- | | | |
| Mark-up/return/interest earned | 436,513 | 441,286 | 1,171,797 | 1,189,948 |
| Mark-up/return/interest expensed | 305,598 | 279,834 | 797,583 | 814,294 |
| Net mark-up/interest income | 130,915 | 161,452 | 374,214 | 375,654 |
| Provision against non-performing loans and advances | 67,505 | 59,280 | 262,258 | 182,503 |
| Provision/(reversal) for diminution in the value of investments | (374,585) | (2,957) | 82,455 | (18,743) |
| Reversal against lending to financial institution | - | - | (29,673) | - |
| | (307,080) | 56,323 | 315,040 | 163,760 |
| Net mark-up/interest (loss)/ income after provisions | 437,995 | 105,129 | 59,174 | 211,894 |
| NON MARK-UP/INTEREST INCOME | | | | |
| Fee, commission and brokerage income | 2,910 | 1,847 | 41,312 | 3,469 |
| Dividend income | 23,168 | 10,375 | 47,907 | 176,760 |
| Net (loss)/gain on sale of securities | (409,745) | 1,407 | (789,930) | 82,164 |
| Unrealised (loss)/gain on investment classified as held-for-trading | 27,670 | (848) | 2,576 | (848) |
| Other income | 352 | 357 | 1,067 | 2,487 |
| Total non-markup/interest (loss)/income | (355,645) | 13,138 | (697,068) | 264,032 |
| | 82,350 | 118,267 | (637,894) | 475,926 |
| NON MARK-UP/INTEREST EXPENSES | | | | |
| Administrative expenses | 49,923 | 48,457 | 144,962 | 142,179 |
| Other charges | 341 | 1,880 | 1,944 | 8,132 |
| Total non-markup/interest expenses | 50,264 | 50,337 | 146,906 | 150,311 |
| | 32,086 | 67,930 | (784,800) | 325,615 |
| Extraordinary/unusual items | - | - | - | - |
| (LOSS)/PROFIT BEFORE TAXATION | 32,086 | 67,930 | (784,800) | 325,615 |
| Taxation -current | 3,271 | 1,363 | 4,555 | 17,505 |
| -prior | - | - | - | - |
| -deferred | (9,622) | (5,821) | 17,836 | 304 |
| | (6,351) | (4,458) | 22,391 | 17,809 |
| (LOSS)/PROFIT AFTER TAXATION | 38,437 | 72,388 | (807,191) | 307,806 |
| Basic (loss)/earnings per share (rupees) - (refer note 9) | 63 | 118 | (1,314) | 501 |

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.


 Chief Financial Officer


 Chief Executive

Chief Executive

Director

PAK-LIBYA HOLDING COMPANY (PRIVATE) LIMITED
 CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
 FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2009

| | Reserves | | | | | Total |
|---|-----------------------------------|-----------------------------------|---------------------------|--------------------------------|---------------------------|-------|
| | Capital reserves | Revenue reserves | Unappropriated profit | Statutory (compulsory) reserve | Reserve for contingencies | |
| Issued, subscribed and paid up capital | Reserve for issue of bonus shares | Reserve for issue of bonus shares | Reserve for contingencies | Reserve for contingencies | Unappropriated profit | |
| Rupees in '000 | | | | | | |
| Balance as at January 1, 2008 | 5,841,780 | 422,113 | 476,000 | 400,789 | 7,140,682 | |
| Profit for the third quarter ended Sept 30, 2008 | - | - | - | 307,806 | 307,806 | |
| Reserve for issue of bonus shares | 300,000 | 300,000 | - | (300,000) | - | |
| Issue of bonus shares | - | (300,000) | - | - | - | |
| Right shares issued | - | - | - | - | - | |
| Transfer to statutory (compulsory) reserve | - | 61,561 | - | (61,561) | - | |
| Transfer to reserve for contingencies | - | - | 100,000 | (100,000) | - | |
| Balance as at Sept 30, 2008 | 6,141,780 | 483,674 | 576,000 | 247,034 | 7,448,488 | |
| Loss for the fourth quarter ended December 31, 2008 | - | - | - | (195,426) | (195,426) | |
| Transfer to statutory (compulsory) reserve | - | (39,085) | - | 39,085 | - | |
| Right shares issued | - | - | - | - | - | |
| Balance as at December 31, 2008 | 6,141,780 | 444,589 | 576,000 | 90,693 | 7,253,062 | |
| Loss for the third quarter ended Sept 30, 2009 | - | - | - | (807,191) | (807,191) | |
| Reserve for issue of bonus shares | - | - | - | - | - | |
| Issue of bonus shares | - | - | - | - | - | |
| Transfer to statutory (compulsory) reserve | - | - | - | - | - | |
| Transfer to reserve for contingencies | - | - | 90,000 | (90,000) | - | |
| Balance as at Sept 30, 2009 | 6,141,780 | 444,589 | 666,000 | (806,498) | 6,445,871 | |

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.


 Chief Financial Officer


 Chief Executive

Chief Executive


Director

PAK-LIBYA HOLDING COMPANY (PRIVATE) LIMITED
 CASH FLOW STATEMENT
 FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2009 (UNAUDITED-NOTE 2)

| | Sept 30, 2009 | Sept 30, 2008 |
|--|--------------------------|------------------|
| | -----Rupees in '000----- | |
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| (Loss)/Profit before taxation | (784,800) | 325,615 |
| Less: Dividend income | <u>(47,907)</u> | <u>(176,760)</u> |
| | (832,707) | 148,855 |
| Adjustments for non-cash charges | | |
| Depreciation | 14,920 | 12,715 |
| Provision against non-performing loans and advances | 262,258 | 182,503 |
| Unrealised deficit on revaluation of held-for-trading securities | (2,576) | - |
| Provision/(Reversal) of provision for diminution in the value of investments | 82,455 | (17,895) |
| Reversal against lending to financial institution | (29,673) | - |
| Gain on sale of operating fixed assets | <u>(159)</u> | <u>(722)</u> |
| | 327,225 | 176,601 |
| | (505,482) | 325,456 |
| (Increase)/Decrease in operating assets | | |
| Lendings to financial institutions | (101,893) | 3,963,866 |
| Held-for-trading securities | (143,576) | (22,606) |
| Advances | (2,043,181) | (88,074) |
| Other assets (excluding advance taxation) | 232,536 | 38,589 |
| | (2,056,114) | 3,891,775 |
| Increase/(Decrease) in operating liabilities | | |
| Borrowings from financial institutions | (1,789,330) | (2,778,407) |
| Deposits and others accounts | 4,807,154 | (2,685,000) |
| Other liabilities (excluding current taxation) | 171,262 | 29,995 |
| | 3,189,086 | (5,433,412) |
| | 627,490 | (1,216,181) |
| Income tax paid | <u>(15,569)</u> | <u>(31,289)</u> |
| Net cash inflow/(outflow) from operating activities | 611,921 | (1,247,470) |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Net investments | (678,640) | 1,540,629 |
| Dividends received | 38,117 | 175,046 |
| Investments in operating fixed assets | (18,355) | (8,322) |
| Sale proceeds of property and equipment disposed-off | 6,375 | 3,566 |
| Net cash (outflow)/inflow from investing activities | (652,503) | 1,710,919 |
| (Decrease)/Increase in cash and cash equivalents | (40,582) | 463,449 |
| Cash and cash equivalents at beginning of the period | 161,445 | 248,413 |
| Cash and cash equivalents at end of the period | <u>120,863</u> | <u>711,862</u> |

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.


 Chief Financial Officer


 Chief Executive

Chief Executive

Director

PAK-LIBYA HOLDING COMPANY (PRIVATE) LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR
THE THIRD QUARTER ENDED SEPTEMBER 30, 2009 (UNAUDITED-NOTE 2)

1 STATUS AND NATURE OF BUSINESS

The company was incorporated in Pakistan as a private limited company on October 14, 1978. It is a joint venture between the Government of Pakistan and Libya. The tenure of the company was thirty years from the date of its establishment. The two contracting parties (i.e. both the governments) extended the tenure for further similar period. The objective of the company interalia includes the promotion of economic growth of Pakistan through industrial development, to undertake other feasible business and to establish and acquire companies to conduct various businesses as may be decided from time to time. The company 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. The registered office of the company is located at 5th Floor, Tower C, Finance and Trade Centre, Shahrah-e-Faisal, Karachi, Pakistan.

2 BASIS OF PRESENTATION

These condensed interim financial information has been prepared in condensed form in accordance with the requirements of International Accounting Standard 34, 'Interim Financial Reporting' paragraph 3 of BSD Circular Letter No. 15 dated June 13, 2002 and requirements of BSD Circular Letter No. 2 dated May 12, 2004 of the State Bank of Pakistan (SBP).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 The accounting policies and methods of computation adopted in the preparation of these condensed interim financial information are same as those applied in preparation of the financial statements of the company for the year ended December 31, 2008.

3.2 Critical accounting estimates and judgments

The preparation of condensed interim financial information 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 company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the condensed interim financial information are as follows:

- a) Critical judgment in classification of investments in accordance with the company's policy.
- b) Assumptions and estimations in recognition of deferred taxation.

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.

PAK-LIBYA HOLDING COMPANY (PRIVATE) LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR
 THE THIRD QUARTER ENDED SEPTEMBER 30, 2009 (UNAUDITED-NOTE 2)

4 INVESTMENTS

| | Held by company | Given as collateral | Total |
|---|--------------------------|------------------------|-----------|
| | -----Rupees in '000----- | | |
| Balance as at Sept 30, 2009 | 6,875,374 | 943,244 | 7,818,618 |
| Balance as at December 31, 2008 | 3,721,655 | 1,755,903 | 5,477,558 |
| Balance as at Sept 30, 2008 | 4,043,636 | 1,856,099 | 5,899,735 |
| 4.1 Investment by types: | | | |
| Held-for-trading securities | 244,361 | - | 244,361 |
| Available-for sale securities | 6,153,028 | 949,388 | 7,102,416 |
| Held-to maturity securities | 293,006 | - | 293,006 |
| Associates | 375,000 | - | 375,000 |
| | 4.1.1 | | |
| | 7,065,395 | 949,388 | 8,014,783 |
| Less: Provision for diminution in value of investments | 150,457 | - | 150,457 |
| Investments (net of provisions) | 6,914,938 | 949,388 | 7,864,326 |
| Less: Deficit on revaluation of investments classified as | | | |
| -Held-for-trading | (2,295) | - | (2,295) |
| -Available for sale | 41,859 | 6,144 | 48,003 |
| Balance as at Sept 30, 2009 | 6,875,374 | 943,244 | 7,818,618 |
| Balance as at December 31, 2008 | 3,721,655 | 1,755,903 | 5,477,558 |

4.1.1 This comprise strategic investment of 37.500 million shares in Kamoki Energy Limited.

| | Sept 30 2009 | December 31, 2008 |
|---|----------------------------|----------------------|
| | ----- Rupees in '000 ----- | |
| 4.2 Investments by segments | | |
| <i>Federal government securities</i> | | |
| Market treasury bills | 949,388 | 1,924,520 |
| Pakistan investment bonds | 389,373 | 396,507 |
| <i>Fully paid up ordinary shares/certificates</i> | | |
| Listed companies | 2,936,338 | 1,924,003 |
| Unlisted companies | 176,685 | 126,191 |
| <i>Fully paid up preference shares</i> | | |
| Listed companies | 53,300 | 50,000 |
| <i>Term finance certificates (TFCs)</i> | | |
| Listed TFCs | 452,472 | 464,034 |
| Unlisted TFCs | 1,142,990 | 1,060,702 |
| <i>Participation term certificates</i> | 7,913 | 8,214 |
| <i>Other investments</i> | | |
| Mutual fund units | 1,121,093 | 313,801 |
| Commercial paper | 189,941 | 421,526 |
| National Investment Trust units | - | 295,000 |
| Sukuk issue | 220,290 | 209,162 |
| Strategic investment | 375,000 | - |
| Total investment at cost | 8,014,783 | 7,193,660 |
| Less: Provision for diminution in value of investments | 150,457 | 69,094 |
| Investments (net of provisions) | 7,864,326 | 7,124,566 |
| Less: Deficit on revaluation of investments classified as | | |
| -Held-for-trading | 2,295 | (282) |
| -Available for sale | (48,003) | (1,646,726) |
| Total investments at market value | 7,818,618 | 5,477,558 |

PAK-LIBYA HOLDING COMPANY (PRIVATE) LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR
 THE THIRD QUARTER ENDED SEPTEMBER 30, 2009 (UNAUDITED-NOTE 2)

| | | Sept 30 2009 | December 31, 2008 |
|--|-------|------------------|----------------------|
| ----- Rupees in '000 ----- | | | |
| 5 ADVANCES | | | |
| Loans, cash credits, running finance, etc. in Pakistan | | 6,916,210 | 4,769,631 |
| Net investment in finance lease in Pakistan | | 610,818 | 714,216 |
| | | <u>7,527,028</u> | <u>5,483,847</u> |
| Less: Provision for non-performing advances - specific | 5.1.1 | 795,154 | 529,012 |
| | | <u>6,731,874</u> | <u>4,954,835</u> |
| Less: Provision for consumer finance - general | 5.1.1 | 12,167 | 16,052 |
| | | <u>6,719,707</u> | <u>4,938,783</u> |

5.1 Advances include amounts aggregating Rs.994,666 million (December 31, 2008: Rs. 1,012.965 million) which have been placed under non-performing status as detailed below:

| Category of classification | Domestic | Overseas | Total | Provision required | Provision held |
|----------------------------|----------------|----------|----------------|-----------------------|-------------------|
| | | | | | |
| Substandard | 5,543 | - | 5,543 | 1,386 | 1,386 |
| Doubtful | 292,740 | - | 292,740 | 147,385 | 147,385 |
| Loss | 696,383 | - | 696,383 | 646,383 | 646,383 |
| | <u>994,666</u> | <u>-</u> | <u>994,666</u> | <u>795,154</u> | <u>795,154</u> |

5.1.1 Particulars of provision against non-performing advances:

| | Sept 30, 2009 | | | December 31, 2008 | | |
|--------------------------|----------------|---------------|----------------|-------------------|---------------|----------------|
| | Specific | General | Total | Specific | General | Total |
| -----Rupees in'000----- | | | | | | |
| Opening balance | 529,012 | 16,052 | 545,064 | 128,229 | 17,789 | 146,018 |
| Charge for the period | 276,365 | - | 276,365 | 419,521 | - | 419,521 |
| Less: Reversals | (10,223) | (3,885) | (14,108) | (18,416) | (1,737) | (20,153) |
| Net (reversals)/charge | 266,142 | (3,885) | 262,257 | 401,105 | (1,737) | 399,368 |
| Less: Amount written off | - | - | - | (322) | - | (322) |
| Closing balance | <u>795,154</u> | <u>12,167</u> | <u>807,321</u> | <u>529,012</u> | <u>16,052</u> | <u>545,064</u> |

6 OPERATING FIXED ASSETS

Sept 30
2009

December 31,
2008

----- Rupees in '000 -----

| | | |
|------------------|---------------|---------------|
| Additions – cost | 20,819 | 28,957 |
| Disposals – cost | 9,678 | 10,479 |
| Net book value | <u>49,500</u> | <u>52,281</u> |

7 SHARE CAPITAL

7.1 Authorized share capital

| Sept 30 2009 | December 31, 2008 | | Sept 30 2009 | December 31, 2008 |
|----------------------------|----------------------|------------------------------------|------------------|----------------------|
| ----- Rupees in '000 ----- | | | | |
| 800,000 | 800,000 | Ordinary shares of Rs. 10,000 each | 8,000,000 | 8,000,000 |
| <u>800,000</u> | <u>800,000</u> | | <u>8,000,000</u> | <u>8,000,000</u> |

PAK-LIBYA HOLDING COMPANY (PRIVATE) LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR
 THE THIRD QUARTER ENDED SEPTEMBER 30, 2009 (UNAUDITED-NOTE 2)

7.2 Issued, subscribed and paid-up capital

| | Sept 30, 2009 | | | December 31, 2008 | | | Sept 30, 2009 | December 31, 2008 |
|--|------------------------------------|---------------------------|----------------|--------------------|---------------------------|----------------|--------------------------|----------------------|
| | -----Number of shares in '000----- | | | | | | -----Rupees in '000----- | |
| | Issued for cash | Issued as bonus shares | Total | Issued for cash | Issued as bonus shares | Total | | |
| Opening Shares | 471,836 | 142,342 | 614,178 | 471,836 | 112,342 | 584,178 | 6,141,780 | 5,841,780 |
| Shares issued during the period / year | - | - | - | - | 30,000 | 30,000 | - | 300,000 |
| | <u>471,836</u> | <u>142,342</u> | <u>614,178</u> | <u>471,836</u> | <u>142,342</u> | <u>614,178</u> | <u>6,141,780</u> | <u>6,141,780</u> |

8 CONTINGENCIES AND COMMITMENTS

8.1 Direct credit substitutes

214,784 200,000

8.1.1 Out of this amount the company has utilized under this guarantee in favour of the Government of Pakistan as at Sept 30, 2009 was Rs. 200 million (December 31, 2008: Rs. 200 million).

Undisbursed sanctions for financial assistance in the form of loans and advances, term finance certificates and leases

1,245,570 2,518,650

Underwriting agreement

100,000 550,000

Forward purchase of shares

- -

Forward sale of shares

- -

Letter of credit (LC's)

170,576 300,000

9 BASIC EARNINGS PER SHARE

Nine months ended Sept 30,
2009 2008
----- Rupees in '000 -----

(Loss)/Profit after taxation

(807,191) 307,806

Quarter ended Sept 30,
2009 2008
----- Rupees in '000 -----

Profit after taxation

38,437 72,388

Nine months ended Sept 30,
2009 2008
----- Number of shares in '000 -----

Weighted average number of ordinary shares

614,178 614,178

(Loss)/Earnings per share for the Nine month ended Sept 30, 2009/08

(1,314) 501

Earnings per share for the quarter ended Sept 30, 2009/08

63 118

PAK-LIBYA HOLDING COMPANY (PRIVATE) LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR
THE THIRD QUARTER ENDED SEPTEMBER 30, 2009 (UNAUDITED-NOTE 2)

10 SEGMENT DETAIL WITH RESPECT TO BUSINESS ACTIVITY

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

| | Corporate Finance | Trading and sales | Retail banking | Commercial banking | Payment and settlement | Agency services | Commercial banking | Payment and settlement | Agency services | |
|-------------------------------------|-------------------|-------------------|----------------|--------------------|------------------------|-----------------|--------------------|------------------------|-----------------|--|
| Total (loss)/income | 56,159 | - | 103,530 | - | - | - | - | - | - | |
| Total expenses | 887,539 | - | 56,950 | - | - | - | - | - | - | |
| Net (loss)/income | (831,380) | - | 46,580 | - | - | - | - | - | - | |
| Segment assets (gross) | 16,523,169 | - | 757,525 | - | - | - | - | - | - | |
| Segment non performing loans | 916,030 | - | 78,636 | - | - | - | - | - | - | |
| Segment provision required | 1,074,985 | - | 70,699 | - | - | - | - | - | - | |
| Segment liabilities | 9,080,585 | - | 628,059 | - | - | - | - | - | - | |
| Net assets | 7,442,584 | - | 129,446 | - | - | - | - | - | - | |
| Segment return on net assets (ROA)% | (14.89)% | - | 47.98% | - | - | - | - | - | - | |
| Segment cost of funds (%) | 13.71% | - | 7.41% | - | - | - | - | - | - | |
| 2008 | | | | | | | | | | |
| Total income | 1,215,374 | - | 74,846 | - | - | - | - | - | - | |
| Total expenses | 905,294 | - | 59,311 | - | - | - | - | - | - | |
| Net income/(loss) | 310,080 | - | 15,535 | - | - | - | - | - | - | |
| Segment assets (gross) | 14,145,307 | - | 924,174 | - | - | - | - | - | - | |
| Segment non performing loans | 432,313 | - | 74,609 | - | - | - | - | - | - | |
| Segment provision required | 1,532,758 | - | 61,202 | - | - | - | - | - | - | |
| Segment liabilities | 6,298,852 | - | 830,268 | - | - | - | - | - | - | |
| Net assets | 7,846,455 | - | 93,906 | - | - | - | - | - | - | |
| Segment return on net assets (ROA)% | 5.27% | - | 22.06% | - | - | - | - | - | - | |
| Segment cost of funds (%) | 10.96% | - | 7.11% | - | - | - | - | - | - | |

11 RISK MANAGEMENT

The company has set up objectives and policies to manage risks that arise in connection with financial instruments. The risk management framework and policies of the company are guided by specific objectives to ensure that comprehensive and adequate risk management policies are established to mitigate salient risk elements in operations of the company. The establishment of 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 takes cognizance of the risk elements that the company is confronted with in its operations. In view of the multi-faceted risks inherent in the financial sector, the company places great emphasis on 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.

11.1 Credit risk

Credit risk refers to the risk of financial loss arising from defaults by counter parties in meeting their obligations. Exposure to credit risks for the company arises primarily from lending activities.

The management of credit risk is governed by credit management policies and procedures set and approved by the Board. The procedures spell out relevant approval authorities, limits, risks, credit ratings and other matters involved in order to ensure sound credit granting standards.

The company is following a prudent and cautious policy. The Credit and Operations divisions are responsible for developing credit policies as well as for monitoring and managing the overall risk. The department responsible for credit processing evaluates the credit worthiness of each borrower and assigns a credit limit. The credit policy of the company takes into account product and sector risk concentrations in order to evaluate degree of diversification in the portfolio. The company concentrates on short-term / long-term financing on a secured self-liquidating basis. The company is also focusing on consumer financing. The company's Risk Management Division regularly reviews and actively manages risk at the portfolio level to ensure that risk characteristics and degree of diversification in terms of credit conform with the company policies.

Out of the total assets of Rs. 16.135 billion, financial assets which were subject to credit risk amounted to Rs. 6.720 billion. The major credit risk in respect of advances is concentrated in sectors such as manufacturing, services and trading. To manage credit risk the company entered into 'Master Repurchase Agreements' with counter parties whereby in case of default all balances are settled on a net basis.

The company has recently devised an internal rating methodology for rating corporate and retail customers. The accounting policies and methods used by the company are in accordance with requirements of Prudential Regulations of the State Bank of Pakistan. A reconciliation of provision against non performing advances has been disclosed in note 5.1.1 of these financial information. The company does not enter into any securitisation activities.

11.2 Market risk

Market risk refers to the impact on the company's financial conditions resulting from future adverse price or volatility movements of the assets contained in its portfolio. The principal market risk in respect of the company's assets and liabilities management is primarily associated with the maturity and re-pricing mismatches of its assets and liabilities. The Board is responsible for reviewing and recommending all market risk policies and ensuring that sound market risk and effective risk management systems are established and complied with.

The market risk management framework of the company comprises a series of cut-loss and potential loss limits approved by Asset Liability Committee (ALCO) of the company to ensure that risk-takers do not exceed parameters set by management. Limit management is a control mechanism to ensure that all business activities are conducted in compliance with the limits in the risk management guidelines and policies. Gap analysis on regular basis is conducted as part of mechanism to minimize effect of market risk. These limits are set and reviewed regularly according to number of factors, including market trading liquidity of the instruments and the company's business strategy.

11.3 Equity position risk

Equity position risk refers to the risk arising from taking long or short positions, in the trading book, in the equities and all instruments that exhibit market behavior similar to equities. Trading in equities is managed within the statutory limits and as defined by ALCO. Counter parties limits, as also fixed by the State Bank of Pakistan, are considered to limit risk concentration.

11.4 Liquidity risk

Liquidity risk refers to the risk arising due to failure to access funds at reasonable cost to finance the company's operations and meet its liabilities when these fall due.

The management is responsible for company's liquidity performance although strategic management of liquidity has been delegated to ALCO. The ALCO of the company executes liquidity strategy including ensuring that appropriate policies and procedures are established to control and limit liquidity risk. It is also responsible for ensuring that company has adequate information systems for measuring, monitoring, controlling and reporting liquidity risk.

The company seeks to ensure that it has access to funds at reasonable cost even under adverse conditions, by managing its liquidity risk across all class of assets and liabilities in accordance with regulatory guidelines and to take advantage of any lending and investment opportunities as they arise.

11.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. As such, operational risk is inherent in the company's business and operational activities. Such risk can potentially result in financial loss to the company.

The monitoring and control of such a risk is done through implementing policies and procedures at operational activities level which serve as a reference guide for operations of all key businesses. These financial policies procedures were designed taking into consideration the individual business activities, the market in which it is operating and any regulatory requirement in force. The management of the company is responsible for formulating an operational risk management framework to ensure that operational risks within the company are properly identified, monitored, managed and reported .

The internal audit function of the company performs regular audits on various operations of the company and monitors key risk exposure areas to ensure that internal control procedures are in place and those procedures are able to mitigate risks associated with operational activities. The company is currently in the process of implementing internal control system (COSO framework) which will additionally aid in strengthening the operational risk management of the company.

12 RELATED PARTY TRANSACTIONS

12.1 Key management personnel:

Mr. Kamaluddin Khan (Director and Managing Director)
 Dr. Saleh Jomaa M. Abdalla (Director and Deputy Managing Director)

Associate
 Kamoki Energy Limited

Remuneration to the directors and key management

| Nine months ended Sept 30, | |
|----------------------------|--------|
| 2009 | 2008 |
| Rupees in '000 | |
| 28,061 | 14,123 |

PAK-LIBYA HOLDING COMPANY (PRIVATE) LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR
 THE THIRD QUARTER ENDED SEPTEMBER 30, 2009 (UNAUDITED-NOTE 2)

Nine months ended Sept 30,
 2009 2008
 Rupees in '000

13 CASH AND CASH EQUIVALENTS

| | | |
|---------------------------------------|----------------|----------------|
| Cash and balances with treasury banks | 52,926 | 24,460 |
| Balances with other banks | 67,937 | 22,402 |
| Placements | - | 665,000 |
| | <u>120,863</u> | <u>711,862</u> |

14 CREDIT RATING

The Pakistan Credit Rating Agency Limited has maintained the company's rating of AA-(Double A Minus) in the long term and A1+(A One Plus) in the short term.

15 GENERAL


Figures have been rounded off to the nearest thousand.

16 DATE OF AUTHORISATION

These financial information were authorized for issue on _____ by the board of directors of the company.


 Chief Financial Officer

Chief Executive


 Chief Executive

Director