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**Pak China Investment Company Limited**

**Financial Statements  
For the year ended 31 December 2013**

Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants  
Eagle Plaza 75-West, Fazlul-Haq Road  
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## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of Pak China Investment Company Limited (the Company) as at 31 December 2013 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
  - (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the changes in accounting policies as stated in note 4.1 to the accompanying financial statements, with which we concur;
  - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of the profit, total comprehensive income, cash flows and changes in equity for the year then ended; and
- (d) in our opinion no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

*Ernst & Young Ford Rhodes Sidat Hyder*

Chartered Accountants

Audit Engagement Partner: Khayyam Mushir

Date: 27 March 2014

Place: Islamabad



**PAK CHINA INVESTMENT COMPANY LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2013**

	Note	2013 -----Rupees-----	2012 Restated
<b>ASSETS</b>			
Cash and balances with treasury banks	5	41,539,691	92,588,077
Balances with other banks	6	1,883,525,361	1,686,035,087
Lendings to financial institutions	7	559,025,145	934,033,000
Investments	8	4,283,207,947	8,020,870,732
Advances	9	5,329,004,252	4,590,087,974
Operating fixed assets	10	218,912,459	219,538,864
Deferred tax assets	13	-	-
Other assets	11	415,293,990	429,686,708
		<u>12,730,508,845</u>	<u>15,972,840,442</u>
<b>LIABILITIES</b>			
Bills payable		-	-
Borrowings	12	326,089,523	4,139,032,168
Deposits and other accounts		-	-
Subordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	13	12,799,679	2,563,902
Other liabilities	14	78,669,783	65,580,281
		<u>417,558,985</u>	<u>4,207,176,351</u>
<b>NET ASSETS</b>		<u><u>12,312,949,860</u></u>	<u><u>11,765,664,091</u></u>
<b>REPRESENTED BY</b>			
Share capital	15	9,116,400,000	9,116,400,000
Reserves	16	635,212,571	523,051,091
Unappropriated profit		<u>2,538,559,412</u>	<u>2,089,913,493</u>
		<u>12,290,171,983</u>	<u>11,729,364,584</u>
Surplus on revaluation of available-for-sale securities - net of tax	17	<u>22,777,877</u>	<u>36,299,507</u>
		<u><u>12,312,949,860</u></u>	<u><u>11,765,664,091</u></u>
<b>CONTINGENCIES AND COMMITMENTS</b>	18		

The annexed notes, from 1 to 37, form an integral part of these financial statements.

EYFROH

CHAIRMAN

MANAGING DIRECTOR

DIRECTOR

DIRECTOR

**PAK CHINA INVESTMENT COMPANY LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	2013 -----Rupees-----	2012 Restated
Mark-up / return / interest earned	19	1,035,329,119	1,308,462,920
Mark-up / return / interest expensed	19.1	(101,875,298)	(98,390,861)
Net mark-up / interest income		<u>933,453,821</u>	<u>1,210,072,059</u>
Provision against non-performing loans and advances	9.3.1	37,707,313	17,945,300
Provision for diminution in the value of available-for-sale investments	8.3	86,812,305	75,864,000
Impairment loss on available-for-sale investments	8.2.2	4,141,492	79,660,047
Bad debts written-off directly		-	-
		<u>128,661,110</u>	<u>173,469,347</u>
Net mark-up / interest income after provisions		<u>804,792,711</u>	<u>1,036,602,712</u>
<b>NON MARK-UP / INTEREST INCOME</b>			
Fee, commission and brokerage income		13,761,659	12,936,730
Dividend income		-	-
Exchange gain		139,751,250	121,608,232
Gain on sale of available-for-sale securities		197,865,617	98,024,055
Unrealised gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	20	3,453,886	90,294
Total non mark-up / interest income		<u>354,832,412</u>	<u>232,659,311</u>
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	21	304,627,180	231,545,732
Other provisions / write offs		-	-
Other charges	22	20,000	32,100
Total non mark-up / interest expenses		<u>304,647,180</u>	<u>231,577,832</u>
Extra ordinary / unusual items		-	-
<b>PROFIT BEFORE TAXATION</b>		<u>854,977,943</u>	<u>1,037,684,191</u>
Taxation			
- Current		273,175,845	376,700,664
- Prior		-	-
- Deferred		17,516,656	(13,511,197)
	23	<u>290,692,501</u>	<u>363,189,467</u>
<b>PROFIT AFTER TAXATION</b>		<u>564,285,442</u>	<u>674,494,724</u>
Unappropriated profit brought forward		2,089,913,493	1,551,353,413
Profit available for appropriation		<u>2,654,198,935</u>	<u>2,225,848,137</u>
<b>Basic and diluted earnings per share</b>	24	<u>0.62</u>	<u>0.74</u>

The annexed notes, from 1 to 37, form an integral part of these financial statements.

CHAIRMAN

MANAGING DIRECTOR

DIRECTOR

DIRECTOR



PAK CHINA INVESTMENT COMPANY LIMITED  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 -----Rupees-----	2012 ----- Restated
Profit after taxation for the year		564,285,442	674,494,724
Other comprehensive income not to be reclassified to profit and loss in subsequent periods			
Re-measurement losses on defined benefit plan	4.1	(3,478,043)	(1,294,624)
<b>Total comprehensive income for the year</b>		<b><u>560,807,399</u></b>	<b><u>673,200,100</u></b>

The surplus arising on revaluation of available-for-sale securities is shown separately in the statement of financial position below equity, in accordance with the directives of the State Bank of Pakistan.

The annexed notes, from 1 to 37, form an integral part of these financial statements. *Encl. 37*

  
CHAIRMAN

  
MANAGING DIRECTOR

  
DIRECTOR

  
DIRECTOR

**PAK CHINA INVESTMENT COMPANY LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	2013	2012
		-----Rupees-----	Restated
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		854,977,943	1,037,684,191
Adjustments for:			
Depreciation		21,818,750	14,273,818
Amortization		497,518	1,117,267
Provision for gratuity		6,308,522	5,520,198
Provision against non-performing loans and advances		37,707,313	17,945,300
Provision for diminution in the value of available-for-sale investments		86,812,305	75,864,000
Impairment loss on available-for-sale investments		4,141,492	79,660,047
Actuarial expenses charged to other comprehensive income		(3,478,043)	(2,977,953)
Gain on sale of operating fixed assets		(178,886)	(90,294)
		<u>1,008,606,914</u>	<u>1,228,996,574</u>
(Increase) / decrease in operating assets			
Lendings to financial institutions		375,007,855	(350,078,745)
Advances		(776,623,591)	(170,373,062)
Others assets		8,084,196	(72,248,978)
		<u>(393,531,540)</u>	<u>(592,700,785)</u>
Increase/ (decrease) in operating liabilities			
Borrowings		(3,812,942,645)	4,032,158,413
Other liabilities		12,154,882	3,934,430
		<u>(3,800,787,763)</u>	<u>4,036,092,843</u>
Gratuity paid		-	(1,858,782)
Income tax paid		(272,241,204)	(304,003,602)
		<u>(272,241,204)</u>	<u>(305,862,384)</u>
Net cash generated from operating activities		<u>(3,457,953,593)</u>	<u>4,366,526,248</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investments realized / (made) during the year - net		3,625,906,458	(4,044,184,339)
Capital expenditure		(21,689,863)	(58,752,663)
Proceeds from sale of operating fixed assets		178,886	90,294
Net cash used in investing activities		<u>3,604,395,481</u>	<u>(4,102,846,708)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Advance received against issue of shares		-	-
Increase in cash and cash equivalents		<u>146,441,888</u>	<u>263,679,540</u>
Cash and cash equivalents at beginning of the year		<u>1,778,623,164</u>	<u>1,514,943,624</u>
Cash and cash equivalents at end of the year	25	<u><u>1,925,065,052</u></u>	<u><u>1,778,623,164</u></u>

The annexed notes, from 1 to 37, form an integral part of these financial statements.

EXTRACT

CHAIRMAN

MANAGING DIRECTOR

DIRECTOR

DIRECTOR



**PAK CHINA INVESTMENT COMPANY LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

	Share capital	Statutory reserve	Unappropriated profit	Total
	-----Rupees-----			
Balance as at 01 January 2012	9,116,400,000	388,411,071	1,553,644,283	11,058,455,354
Change in accounting policy (note 4.1)	-	-	(2,290,870)	(2,290,870)
Balance as at 01 January 2012 - Restated	9,116,400,000	388,411,071	1,551,353,413	11,056,164,484
Profit for the year	-	-	674,494,724	674,494,724
Other comprehensive income	-	-	(1,294,624)	(1,294,624)
Total comprehensive income for the year	-	-	673,200,100	673,200,100
Transfer to statutory reserve	-	134,640,020	(134,640,020)	-
Balance as at 31 December 2012	9,116,400,000	523,051,091	2,089,913,493	11,729,364,584
Profit for the year	-	-	564,285,442	564,285,442
Other comprehensive income	-	-	(3,478,043)	(3,478,043)
Total comprehensive income for the year	-	-	560,807,399	560,807,399
Transfer to statutory reserve	-	112,161,480	(112,161,480)	-
Balance as at 31 December 2013	9,116,400,000	635,212,571	2,538,559,412	12,290,171,983

The annexed notes, from 1 to 37, form an integral part of these financial statements.

RMF/2014

CHAIRMAN

MANAGING DIRECTOR

DIRECTOR

DIRECTOR

**PAK CHINA INVESTMENT COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**1 LEGAL STATUS AND NATURE OF BUSINESS**

Pak China Investment Company Limited (the Company) was incorporated in Pakistan as a public limited company on 27 July 2007. The registered office of the Company is situated at 13th Floor, Saudi Pak Tower, Blue Area, Islamabad. The Company is a 50:50 joint venture between the 'Government of China' and 'Government of Pakistan' through China Development Bank and Ministry of Finance respectively. The main objective of the Company is to invest in the financial sector and infrastructure projects.

The Company has commenced business after obtaining the Certificate of Commencement of Business, from the Securities and Exchange Commission of Pakistan (SECP), on 02 November 2007, and the permission to commence business from the State Bank of Pakistan (SBP), on 10 January 2008.

**2 BASIS OF PRESENTATION AND MEASUREMENT**

**2.1 Basis of presentation**

These financial statements have been presented in accordance with the format prescribed by SBP's BSD Circular No 4 dated 17 February 2006 and BSD Circular No 7 dated 20 April 2010.

**2.2 Basis of measurement**

These financial statements have been prepared under the historical cost convention, as modified for certain investments which are revalued to their fair values and the defined benefit plan, which is measured at present value.

**3 STATEMENT OF COMPLIANCE**

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

**3.2** The SBP, vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for banking companies/DFIs till further instructions. Further, according to the notification of the SECP, dated 28 April 2008, IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks/DFIs. Accordingly, the requirements of these IFRS and their respective interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), have not been considered in preparation of these financial statements.

**4 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous year, except as disclosed in note 4.1 to the financial statements.

*Engr. H*



#### 4.1 Changes in accounting policies and disclosures resulting from adoption of standards, amendments and interpretations during the year

##### New and amended standards and interpretations

The Company has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year:

IAS 19 – Employee Benefits – (Revised)

IAS 1 – Presentation of Financial Statements  
Presentation of items of other comprehensive income

In addition to the above, the following improvements to various accounting standards have also been issued by IASB, and are applicable for the current year:

IAS 1 – Presentation of Financial Statements  
Clarification of the requirements for comparative information Presentation of items of other comprehensive income

IAS 16 – Property, Plant and Equipment  
Clarification of Servicing Equipment

IAS 32 – Financial Instruments, Presentation  
Tax Effects of Distributions to Holders of Equity Instruments

IAS 34 – Interim Financial Reporting  
Interim Financial Reporting and Segment Information for Total Assets and Liabilities

The adoption of the above standards, amendments, interpretations and improvements did not have any material effect on the financial statements except for presentation of certain additional disclosures under IAS 19 Employee Benefits (Revised 2011), which are described as below:

The Company applied IAS 19 (Revised 2011) retrospectively in the current period, with the permitted exception of the non-disclosure of sensitivity disclosures relating to the defined benefit obligation for the comparative period (year ended 31 December 2012), in accordance with the transitional provisions set out in the revised standard. The comparative figures have been accordingly restated.

IAS 19 (Revised 2011) changes, amongst other things, the accounting for defined benefit plans. Significant change that impacted the Company is the recognition of actuarial gains and losses in other comprehensive income, when they occur, instead of the previous option of deferring the recognition of actuarial gains and losses (i.e., the corridor approach), which has been removed. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and interest expenses. All other changes in the defined benefit liability are recognized in other comprehensive income with no subsequent recycling to profit or loss. Previously, the Company had a balance of unrecognized actuarial gain of Rs. 13,302 thousand as at 01 January 2012. Upon transition to IAS 19 (Revised 2011), this balance was charged to equity (retained earnings) as at 01 January 2012.

IAS 19 (Revised 2011) also requires more extensive disclosures. These have been provided in Note 28.

##### Impact on other comprehensive income - increase/(decrease) in OCI:

	2013	2012
	-----Rupees-----	
Re-measurement loss on defined benefit plan	(3,478,043)	(1,294,624)

The transition did not have an impact on the statement of cash flows. There is no significant impact on the Company's basic and diluted EPS.

*By PISA*



## PAK CHINA INVESTMENT COMPANY LIMITED

## Impact on equity - increase/(decrease) in net equity:

	31 December 2013	31 December 2012	01 January 2012
	-----Rupees-----		
Re-measurement loss on defined benefit plan	(7,063,537)	(3,585,494)	(2,290,870)

The impact of the above is immaterial in respect of the Statement of Financial Position as at 31 December 2011.

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

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

Standard or interpretation	Effective date (Accounting period) beginning
IAS 19 – Defined Benefit Plans: Employee Contributions – (Amendment)	01 July 2014
IAS 36 – Impairment of Assets – (Amendments)	01 January 2014
Amendments relating to disclosure for recoverable amounts for non-financial assets	
IFRIC 21 – Levies	01 January 2014

The Company expects that the adoption of the above amendments and interpretation of the standards will have no material effect on the Company's financial statements, in the period of initial application.

Further, the following new standards have been issued by the IASB, which are yet to be notified by the Securities and Exchange Commission of Pakistan for the purpose of applicability in Pakistan:

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

The Company expects that the adoption of the above standards will have no material effect on the Company's financial statements in the period of initial application, except for the presentation of certain additional disclosures, under IFRS 12.

#### 4.3 Functional and presentation currencies

These financial statements are presented in Pak Rupees which is the Company's functional and presentation currency.

*E-11/11*



#### 4.4 Cash and cash equivalents

Cash and cash equivalents comprise of cash, balances with treasury banks and other banks, and a fixed term deposit with a maturity of less than 6 months.

#### 4.5 Lendings to / borrowings from financial institutions

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

##### Sale under repurchase agreement

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

##### Purchase under resale agreement

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

##### Other borrowings

These are recorded at the fair value of consideration received. Mark-up on such borrowings is charged to the profit and loss account on a time proportion basis.

##### Other lendings

These are stated net of related provisions. Mark-up on such lendings is recognized in the profit and loss account on a time apportioned basis, except for the mark-up on impaired / delinquent lendings, which is recognized on a receipts

#### 4.6 Investments

Investments are initially recognised at fair value, which includes transaction costs associated with the investments. The Company has classified its investments into 'held-to-maturity' and 'available-for-sale' portfolios as follows:

##### Held-to-maturity

These are securities with fixed or determinable payments and fixed maturities, and for which the Company has a positive intent and ability to hold till maturity. These are carried at amortised cost.

##### Available-for-sale

These are investments that do not fall under the held-for-trading or held-to-maturity categories. Investments are initially recognised at cost, which includes transaction costs associated with the investment. These are carried at market values except for unquoted securities, where market value is not available, which are carried at cost less provision for diminution in value, if any. Surplus / (deficit) on revaluation of quoted securities is taken to 'surplus / (deficit) on revaluation of assets' account and presented below equity in the Statement of Financial Position. Provision for diminution in value of investments in respect of unquoted shares is calculated with reference to the book values of the same. On derecognition of quoted available-for-sale investments, the cumulative gain or loss previously reported as a 'surplus / (deficit) on revaluation of investments' below equity, is included in the profit and loss account for the period.

*By PAK*



Unlisted securities for which an active market does not exist, are stated at the lower of cost and break-up value.

The Company amortises the premium on acquisition of government securities using the effective yield method.

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

Impairment losses in respect of investments classified as available-for-sale (except debt securities), is recognised based on management's assessment of objective evidence of impairment, as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in the fair values of marketable investments below their cost, is also considered an objective evidence of impairment.

#### 4.7 Advances

Advances are stated net of provisions for non-performing advances. The provision for non-performing advances is determined in accordance with the requirements of the Prudential Regulations and other directives issued by the SBP. In addition to specific provisions, the Company also maintains a general provision.

Provisions against non-performing advances and the general provision is charged to the profit and loss account.

Advances are written-off when there is no realistic prospect of recovery.

#### 4.8 Operating fixed assets

##### Property and equipment

These are stated at cost less accumulated depreciation and impairment, if any, except for freehold land, which is stated at cost.

Depreciation is calculated on the straight line method to write off the depreciable amount of each asset, over its estimated useful life, after taking into account residual values, if any. Depreciation on additions during the year is charged from the month of acquisition, or the date the asset is available for use, and on disposals, upto the month of disposal. The useful lives, residual values and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date.

The costs of day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Gains and losses on disposals items of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within "other income" in profit or loss.

##### Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. It consists of expenditure incurred and advances made in respect of operating fixed assets and intangible assets in the course of their acquisition, construction and installation.

##### Intangible assets

Intangible assets having finite useful lives, are stated at cost less accumulated amortization and impairment, if any. These are amortized using the straight line method over their estimated useful lives. The useful lives, residual values and amortization methods are reviewed and adjusted, if appropriate, at each reporting date.

*Enf-Roh*



**4.9 Impairment**

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

**4.10 Taxation****Current**

The charge 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, and any adjustments to any tax payable, relating to prior years.

**Deferred**

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

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

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

**4.11 Revenue recognition**

Mark-up / return / interest income from loans, term finance certificates, bank deposits, government securities and reverse repo transactions, is recognized under the Effective Interest Rate method, except where recovery is considered doubtful, in which case the income is recognized on a receipts basis.

Gain / (loss) on sale of securities is recognised in the profit and loss account at the time of sale of relevant securities.

Fee, commission and brokerage income is recognised as the services are rendered.

Rental income is recognized over the period of the rent agreement.

**4.12 Staff retirement benefits****Defined benefit plan**

The Company operates an approved funded gratuity scheme for all its regular employees.

The amounts of post-employment benefits are usually dependent on one or more factors such as age, years of service and salary.

The liability recognized in respect of the gratuity scheme is the present value of the defined benefit obligation under the scheme at the balance sheet date.

*BY/ASH*



## PAK CHINA INVESTMENT COMPANY LIMITED

The gratuity obligations are calculated annually by independent actuaries using the Projected Unit Credit Method. The most recent valuation in this regard was carried out as at 31 December 2013. The present value of the obligation is determined by discounting the estimated future cash outflows, using interest rates of high quality government securities that have terms to maturity approximating the terms of the related obligation.

Re-measurements, comprising of actuarial gains and losses, are recognized immediately in the balance sheet with a corresponding debit or credit to retained earnings, through OCI, in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Company recognises restructuring-related costs.

The Company recognises the following changes in the defined benefit obligation under 'administrative expenses' in the profit and loss account:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- Interest expense

#### Defined contribution plan

The Company also operates a recognised provident fund scheme for all its regular employees. Equal monthly contributions are made, both by the Company and by the employees, at the rate of 10% of the basic salary of the employee. Contributions made by the Company are charged to the profit and loss account.

#### 4.13 Foreign currency translation

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

#### 4.14 Provisions

Provisions for guarantee claims and other off balance sheet obligations are recognised when intimated, and when reasonable certainty exists for the Company to settle the obligation.

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

#### 4.15 Offsetting of financial assets and financial liabilities

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

*By Hand*



**4.16 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities, which are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of its revision and future periods, if the revision affects both current and future periods. Judgments made by the management in the application of approved accounting standards that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are discussed in note 35.

**4.17 Earnings per share**

The Company presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of Ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to Ordinary shareholders, and the weighted average number of Ordinary shares outstanding for the effects of all dilutive potential Ordinary shares, if any.

**4.18 Dividend and appropriations to reserves**

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

**4.19 Segment information**

A segment is a distinguishable component of the Company that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company's primary format of reporting is based on the following business segments;

**Business Segments**

Corporate Finance	Includes loans, advances and other transactions with corporate customers.
Trading and Sales	Undertakes the Company's fund management activities through leveraging and investing in liquid assets. It carries out spread based activities in the inter bank market, and manages the interest rate risk exposure of the Company.

**Geographical Segments**

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

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## PAK CHINA INVESTMENT COMPANY LIMITED

	Note	2013 -----Rupees-----	2012
<b>5 CASH AND BALANCES WITH TREASURY BANKS</b>			
Cash in hand in local currency		25,000	15,528
With SBP in local currency current accounts	5.1	40,018,269	91,448,008
With National Bank of Pakistan in local currency current account		1,496,422	1,124,541
		<u>41,539,691</u>	<u>92,588,077</u>

5.1 This represents the minimum cash reserve required to be maintained with SBP in accordance with the requirements of BSD Circular No 4 dated 22 May 2004.

	Note	2013 -----Rupees-----	2012
<b>6 BALANCES WITH OTHER BANKS</b>			
In Pakistan			
- local currency current accounts		25,888,766	16,000,414
- local currency deposit accounts	6.1	22,606,393	14,815,545
- foreign currency deposit account	6.2	1,835,030,202	1,655,219,128
		<u>1,883,525,361</u>	<u>1,686,035,087</u>

6.1 These carry interest at rates ranging from 5% to 7% (2012: 5% to 7%) per annum.

6.2 This represents a foreign currency term deposit of USD 17,476,478 (2012: USD 17,081,781) with Habib Bank Limited. It carries mark-up at a rate of 5.20% (2012: 2.75%) per annum and will mature on 22 June 2014.

## 7 LENDINGS TO FINANCIAL INSTITUTIONS

In local currency

- Repurchase agreement lending (Reverse Repo) 7.1 & 7.2 559,025,145 934,033,000

7.1 This carries mark-up at the rate of 10% (2012: 7%) per annum and has been repaid on 02 January 2014.

### 7.2 Security held as collateral against lendings to financial institutions

	2013			2012		
	Held by the Company	Further given as collateral	Total	Held by the Company	Further given as collateral	Total
	-----Rupees-----			-----Rupees-----		
Market Treasury Bills	<u>559,025,145</u>	-	<u>559,025,145</u>	934,033,000	-	934,033,000

7.2.1 As of 31 December 2013, the market value of the above securities amounted to Rs. 559.142 million (2012: Rs. 934.342 million).

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## 8 INVESTMENTS

8.1	Investments by type	Note	2013			2012		
			Held by the Company	Given as collateral	Total	Held by the Company	Given as collateral	Total
			Rupees			Rupees		
	Available-for-sale securities							
	Market Treasury Bills		2,485,338,500	-	2,485,338,500	2,308,279,604	3,115,983,996	5,424,263,600
	Pakistan Investment Bonds		-	-	-	430,204,678	-	430,204,678
	Ordinary shares of a listed company		133,947,704	-	133,947,704	138,089,196	-	138,089,196
	Listed Term Finance Certificates		245,286,912	-	245,286,912	245,385,184	-	245,385,184
	Unlisted Term Finance Certificates		1,010,873,072	-	1,010,873,072	1,049,328,872	-	1,049,328,872
	Sukuks - unlisted		461,976,000	-	461,976,000	502,117,056	-	502,117,056
			4,337,422,188	-	4,337,422,188	4,673,404,590	3,115,983,996	7,789,388,586
	Held-to-maturity securities							
	Unlisted Term Finance Certificates		134,348,177	-	134,348,177	312,429,750	-	312,429,750
	Total investments at cost		4,471,770,365	-	4,471,770,365	4,985,834,340	3,115,983,996	8,101,818,336
	Less: provision for diminution in the value of investments	8.3	223,605,305	-	223,605,305	136,793,000	-	136,793,000
	Total investments - net of provision		4,248,165,060	-	4,248,165,060	4,849,041,340	3,115,983,996	7,965,025,336
	Surplus on revaluation of available-for-sale securities	17	35,042,887	-	35,042,887	52,572,202	3,273,194	55,845,396
	Total investments after revaluation increase		4,283,207,947	-	4,283,207,947	4,901,613,542	3,119,257,190	8,020,870,732

## 8.2 Investment by segments

Note 2013 2012  
-----Rupees-----

## Federal Government Securities

Market Treasury Bills

Pakistan Investment Bonds

8.2.1	2,485,338,500	5,424,263,600
	-	430,204,678
	2,485,338,500	5,854,468,278

## Fully paid up ordinary shares of a listed company

## Term Finance Certificates

Listed

Unlisted

8.2.2	133,947,704	138,089,196
8.2.3	245,286,912	245,385,184
8.2.4	1,145,221,249	1,361,758,622
	1,390,508,161	1,607,143,806

## Other investments

Sukuks - unlisted

## Total investments - at cost

8.2.5	461,976,000	502,117,056
	4,471,770,365	8,101,818,336

Less: provision for diminution in the value of investments

8.3	223,605,305	136,793,000
-----	-------------	-------------

## Investments - net of provision

4,248,165,060	7,965,025,336
---------------	---------------

Surplus on revaluation of available-for-sale securities

35,042,887	55,845,396
------------	------------

## Total investments after revaluation increase

4,283,207,947	8,020,870,732
---------------	---------------

8.2.1 These carry interest at rates ranging between 9.35% to 9.41% (2012: 9.28% to 10.44%) per annum, with a redemption period of three months (2012: three to six months). These securities have an aggregate face value of Rs. 2,500 million (2012: Rs. 5,550 million).

8.2.2 This represents an investment in 11,832,836 ordinary shares (of Rs. 10 each) of Agritech Limited, costing Rs. 364.149 million with a market value of Rs. 149.922 million (2012: Rs. 138.089 million) at the year end. During the year, the Company has recognized an impairment loss of Rs. 4.14 million (2012: Rs. 79.66 million).

## 8.2.3 Listed Term Finance Certificates

8.2.3.1 This represents 49,136 (2012: 49,136) certificates of Rs. 5,000 each of Askari Bank Limited. The market value of these certificates is Rs. 248.943 million (2012: Rs. 270.9 million) as at 31 December, 2013, with a rating of AA- (2012: AA).

8.2.3.2 These carry interest at the rate of 6 months KIBOR plus 2.5% (2012: 6 months KIBOR plus 2.5%) per annum and have a redemption period of 6 years (2012: 7 years).

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## PAK CHINA INVESTMENT COMPANY LIMITED

## 8.2.4 Unlisted Term Finance Certificates

Unlisted Term Finance Certificates		No. of certificates of Rs. 5,000 each		Rating		Cost	
	Note	2013	2012	2013	2012	2013	2012
		-----Rupees-----					
Available-for-sale							
Bank Alfalah Limited		30,000	30,000	AA-	AA-	149,760,000	149,820,000
Agritech Limited	8.2.4.2	40,000	40,000	D	D	199,760,000	199,760,000
Agritech Limited	8.2.4.3	1,695	1,695	D	D	8,473,305	8,473,305
Pakistan National Shipping Corporation (PNSC)		-	-	AA-	AA-	191,779,010	230,134,810
Azgard Nine Limited	8.2.4.3	36,000	36,000	D	D	115,130,757	115,130,757
Azgard Nine Limited	8.2.4.3	9,214	9,214	D	D	46,070,000	46,070,000
Bank Al Habib Limited		20,000	20,000	AA	AA-	99,900,000	99,940,000
Standard Chartered Bank Limited		40,000	40,000	AAA	AAA	200,000,000	200,000,000
						1,010,873,072	1,049,328,872
Held-to-maturity							
Avari Hotels Limited		72,172	74,400	A-	A-	134,348,177	312,429,750
						1,145,221,249	1,361,758,622

8.2.4.1 These carry interest at rates of 3 months to 12 months KIBOR + 0.75% to 3.25% (2012: 3 months 6 months KIBOR + 0.75 to 3.25%) with a redemption period of 1-8 years (2012: 2-9 years).

8.2.4.2 These securities have been classified as non-performing (under the category of loss) in accordance with the requirements of the Prudential Regulations. However, in terms of SBP directives, the Company has availed a relaxation (at the rate of 50% of the provision) in respect of provisioning against these securities, to the extent of Rs. 95.699 million (2012: Rs. 136.793 million).

8.2.4.3 These securities have been classified as non-performing (under the category of loss) in accordance with the requirements of the Prudential Regulations.

\* As per the revised terms of agreement between the Company and PNSC, a total of 29 certificates will be issued against this investment in 2014.

8.2.5 These represent Sukuk Certificates of Liberty Power Technology Limited. These carry mark-up at the rate of 3 months KIBOR plus 3% (2012: 3 months KIBOR plus 3%) per annum, with a rating of A+ (2012: A+). The Sukuks have a redemption period of 8 years (2012: 9 years).

8.3 Particulars of the provision for diminution in the value of investments	2013	2012
	-----Rupees-----	
Opening balance	136,793,000	60,929,000
Charge for the year	86,812,305	75,864,000
Closing balance	223,605,305	136,793,000

## 8.3.1 Particulars of provision in respect of type and segment

## Available-for-sale securities

## Unlisted Term Finance Certificates

223,605,305 136,793,000

The above provision includes an impact of Forced Sale Value (FSV) benefit amounting to Rs. 41.767 million (2012: 42.792 million) in respect of Azgard Nine Limited and Rs. 8.358 million (2012: 62.661 million) in respect of Agritech Limited. The FSV benefits recognised under these Prudential Regulations are not available for the distribution of cash or stock dividend to the shareholders. Further, SBP in its letter no. OSED/SEU-05/041(01)-12/2218/2012 dated December 26, 2012 has also stipulated that no dividend, cash or kind, shall be paid out of the benefits realised through the relaxations allowed therein.

## 9 ADVANCES

	Note	2013	2012
		-----Rupees-----	
<b>In Pakistan</b>			
Advances		5,807,673,966	5,044,258,313
Staff loans		41,014,765	27,806,827
Advances - gross	9.1	5,848,688,731	5,072,065,140
<b>Provisions against non-performing advances</b>			
Specific provision	9.3 & 9.3.1	417,181,000	394,742,000
General provision	9.3.1	102,503,479	87,235,166
		519,684,479	481,977,166
Advances - net of provision		5,329,004,252	4,590,087,974
<b>9.1 Staff loans</b>			
Opening balance		27,806,827	17,898,803
Amounts disbursed during the year		27,230,000	10,845,000
Amounts recovered during the year		(14,022,062)	(936,976)
		41,014,765	27,806,827
<b>9.2 Particulars of advances - gross</b>			
In local currency		5,848,688,731	5,072,065,140
Short-term (for upto one year)		37,800,000	-
Long-term (for over one year)		5,810,888,731	5,072,065,140
		5,848,688,731	5,072,065,140

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## PAK CHINA INVESTMENT COMPANY LIMITED

10 OPERATING FIXED ASSETS	Note	2013	2012
		Rupees	
Capital Work-In-Progress	10.1	-	172,454,526
Property and equipment	10.2	218,912,454	46,586,815
Intangible assets	10.5	5	497,523
		<u>218,912,459</u>	<u>219,538,864</u>

## 10.1 Capital Work-In-Progress

Advances to suppliers	-	17,434,224
Civil works	-	155,020,302
	<u>10.1.1</u>	<u>172,454,526</u>

10.1.1 During the year, the Company's office building located at DHA Karachi, upon completion, has been transferred to property and equipment.

## 10.2 Property and equipment

Property and equipment							NET BOOK
	COST			DEPRECIATION		VALUE	Rate of depreciation per annum
	As at	Additions / (deletions)	As at	As at	Charge during	As at	
	01 January		31 December	01 January	the year	31 December	
2013	2013		2013	(On deletions)	2013	2013	
	-----Rupees-----						%
Freehold land	-	136,000,000	136,000,000	-	-	-	-
Building	-	40,341,662	40,341,662	-	2,689,444	2,689,444	10%
Leasehold improvements	12,354,940	-	12,354,940	9,118,571	2,171,634	11,290,205	20%
Electrical fittings	6,161,835	-	6,161,835	4,304,176	1,139,139	5,443,315	20%
Furniture and fixtures	13,021,242	1,840,834	14,596,305	10,152,706	2,389,379	12,276,314	20%
		(265,771)			(265,771)		
Computers and office equipment	22,681,841	15,961,893	37,781,662	17,939,203	5,723,554	22,800,685	33%
		(862,072)			(862,072)		
Vehicles	40,431,609	-	40,431,609	6,549,996	7,705,600	14,255,596	20%
	94,651,467	194,144,389	287,668,013	48,064,652	21,818,750	68,755,559	218,912,454
		(1,127,843)			(1,127,843)		

	COST			DEPRECIATION		NET BOOK VALUE		
	As at 01 January 2012	Additions / (deletions)	As at 31 December 2012	As at 01 January 2012	Charge during the year (On deletions)	As at 31 December 2012	As at 31 December 2012	Rate of depreciation per annum
	-----Rupees-----							%
Leasehold improvements	12,354,940	-	12,354,940	6,647,583	2,470,988	9,118,571	3,236,369	20%
Electrical fittings	6,161,835	-	6,161,835	3,071,809	1,232,367	4,304,176	1,857,659	20%
Furniture and fixtures	13,021,242	-	13,021,242	7,548,459	2,604,247	10,152,706	2,868,536	20%
Computers and office equipment	18,826,821	5,058,820	22,681,841	15,501,832	3,641,171	17,939,203	4,742,638	33%
		(1,203,800)			(1,203,800)			
Vehicles	3,073,716	37,357,893	40,431,609	2,224,951	4,325,045	6,549,996	33,881,613	20%
	53,438,554	42,416,713	94,651,467	34,994,634	14,273,818	48,064,652	46,586,815	
		(1,203,800)			(1,203,800)			

10.2.1 Included in the cost of property and equipment, are fully depreciated items still in use and having costs of:

	2013 Rupees
Leasehold improvements	5,987,075
Electrical fittings	1,864,575
Furniture and fixtures	8,249,886
Computers and office equipment	13,810,148
Vehicles	3,073,716
	<u>32,985,400</u>

10.3 During the year, computers, office equipment and furniture and fixtures having book values of Nil (2012: Nil) were sold for Rs. 178,886 (2012: Rs. 90,294 to employees of the Company, in accordance with the Company's policy).

10.4 The Company has not disposed off fixed assets whose original cost or book value exceeded Rs. 1 million or Rs. 250,000, which ever is less, and the Company also has not disposed off fixed assets to the chief executive or to a director or to executives or to any related party, irrespective of the value.

## 10.5 Intangible assets

Intangible assets	COST						AMORTISATION		NET BOOK VALUE	
	As at 01 January 2013	Additions / (deletions)	As at 31 December	As at 01 January 2013	Charge during the year (On deletions)	As at 31 December 2013	As at 31 December 2013	Rate of amortization per annum		
	-----Rupees-----							%		
Computer software	4,674,479	-	4,674,479	4,176,956	497,518	4,674,474	5	33%		

	COST			AMORTISATION			NET BOOK VALUE	
	As at 01 January 2012	Additions / (deletions)	As at 31 December	As at 01 January 2012	Charge during the year (On deletions)	As at 31 December 2012	As at 31 December 2012	Rate of amortization per annum
	-----Rupees-----							%
Computer software	4,674,479	-	4,674,479	3,059,689	1,117,267	4,176,956	497,523	33%

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## PAK CHINA INVESTMENT COMPANY LIMITED

11	OTHER ASSETS	Note	2013	2012
			-----Rupees-----	
	Income / mark-up accrued in local currency		391,678,577	389,474,325
	Income / mark-up accrued in foreign currency		3,180,719	1,870,624
	Advances, deposits and prepayments		19,253,498	38,276,675
	Others		1,181,196	65,084
			<u>415,293,990</u>	<u>429,686,708</u>
12	BORROWINGS			
	In Pakistan		<u>326,089,523</u>	<u>4,139,032,168</u>
12.1	Particulars of borrowings with respect to currencies			
	In local currency		<u>326,089,523</u>	<u>4,139,032,168</u>
12.2	Details of borrowings - secured / unsecured			
	Secured			
	Short-term			
	Repurchase agreement borrowings		-	3,116,600,529
	Long-term			
	Borrowing from SBP under FFSAP	12.2.1	73,989,523	90,431,639
	Borrowing from SBP under LTFF	12.2.2	252,100,000	-
			<u>326,089,523</u>	<u>3,207,032,168</u>
	Unsecured			
	Short-term			
	Call money borrowing from a financial institution		-	932,000,000
			<u>326,089,523</u>	<u>4,139,032,168</u>

12.2.1 This represents a Financing Facility for Storage of Agricultural Produce (FFSAP) on concessional rates, to develop the agricultural produce, marketing and to enhance storage capacity. The loan availed under the facility shall be repayable within a maximum period of seven years including a maximum grace period of six months and mark-up payable at 6.5% (2012: 6.5%) per annum.

12.2.2 This represents a Long Term Finance Facility for Imported and Locally Manufactured Plant and Machinery on concessional rates, to promote industrial growth leading to exports. The loan availed under the facility shall be repayable within a maximum period of ten years including a maximum grace period of one and a half years and mark-up payable at 8.4% (2012: Nil) per annum.

## 13 DEFERRED TAX LIABILITIES

Difference between accounting book value and tax base

	01 January 2013	Recognized in profit and loss account	Recognized in equity	31 December 2013
-----Rupees-----				
of operating fixed assets	(1,878,500)	3,345,461	-	1,466,961
Unrealized exchange gain	79,275,230	49,352,455	-	128,627,685
Provision for staff retirement gratuity	(1,120,151)	(3,347,430)	-	(4,467,581)
Provision against non-performing advances	(17,500,000)	-	-	(17,500,000)
Provision for diminution in the value of available-for-sale investments	(47,877,550)	(30,384,307)	-	(78,261,857)
Impairment loss on available-for-sale investments	(27,881,016)	(1,449,523)	-	(29,330,539)
Surplus on revaluation of available-for-sale securities	19,545,889	-	(7,280,879)	12,265,010
	<u>2,563,902</u>	<u>17,516,656</u>	<u>(7,280,879)</u>	<u>12,799,679</u>

Difference between accounting book value and tax base

	01 January 2012	Recognized in profit and loss account	Recognized in equity	31 December 2012
-----Rupees-----				
of operating fixed assets	(1,378,330)	(500,170)	-	(1,878,500)
Unrealized exchange gain	36,158,618	43,116,612	-	79,275,230
Provision for staff retirement gratuity	161,345	(1,281,496)	-	(1,120,151)
Provision against non-performing advances	(17,500,000)	-	-	(17,500,000)
Provision for diminution in the value of available-for-sale investments	(21,325,150)	(26,552,400)	-	(47,877,550)
Impairment loss on available-for-sale investments	-	(27,881,016)	-	(27,881,016)
Surplus on revaluation of available-for-sale securities	412,727	-	19,133,162	19,545,889
	<u>(3,470,790)</u>	<u>(13,098,470)</u>	<u>19,133,162</u>	<u>2,563,902</u>

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## PAK CHINA INVESTMENT COMPANY LIMITED

14	OTHER LIABILITIES	Note	2013	2012
			-----Rupees-----	
	Mark-up / return / interest payable in local currency		6,545,957	5,089,493
	Accrued liabilities		4,115,376	3,649,584
	Advance rent		4,725,000	-
	Provision for tax - net		50,360,331	49,425,711
	Payable to gratuity fund	27	12,764,518	6,785,923
	Others		158,601	629,570
			<u>78,669,783</u>	<u>65,580,281</u>
15	SHARE CAPITAL			
15.1	Authorised capital			
			2013	2012
			Number of shares	
			<u>1,214,000,000</u>	<u>1,214,000,000</u>
		Ordinary shares of Rs. 10 each	<u>12,140,000,000</u>	<u>12,140,000,000</u>
15.2	Issued, subscribed and paid-up share capital			
			2013	2012
			Number of shares	
		Ordinary shares of Rs. 10 each, issued for cash	<u>911,640,000</u>	<u>911,640,000</u>
			<u>9,116,400,000</u>	<u>9,116,400,000</u>
15.3	The Ministry of Finance, Government of Pakistan, and the China Development Bank on behalf of the Government of Pakistan and the Government of China, respectively, each hold 455,820,000 (2012: 455,820,000) Ordinary shares of the Company, at the year end.			
16	RESERVES		2013	2012
			-----Rupees-----	
	Statutory reserve		<u>635,212,571</u>	<u>523,051,091</u>
	At the beginning of the year		523,051,091	388,411,071
	Add: transfer during the year		<u>112,161,480</u>	<u>134,640,020</u>
			<u>635,212,571</u>	<u>523,051,091</u>
	According to BPD Circular No. 15 dated 31 May 2004, issued by the SBP, an amount not less than 20% of the after tax profits shall be transferred to create a reserve fund till such time the reserve fund equals the amount of the paid-up capital and after that a sum not less than 5% of the profit after tax shall be credited to the said reserve. During the year, the Company has transferred 20% of its after tax profit for the year to this reserve amounting to Rs. 111.396 million (2012: Rs. 134.64 million).			
17	SURPLUS ON REVALUATION OF AVAILABLE-FOR-SALE SECURITIES - NET OF TAX		2013	2012
			-----Rupees-----	
	Market Treasury Bills		(1,506,000)	6,174,700
	Pakistan Investment Bonds		-	24,067,451
	Shares of Agritech Limited, a listed company		15,974,328	-
	Term Finance Certificates			
	Askari Bank Ltd.		3,656,247	25,603,245
	Bank Al Falah Ltd.		8,483,904	-
	Bank Al Habib Ltd.		7,684,408	-
	Standard Chartered Bank Ltd.		<u>750,000</u>	<u>-</u>
			<u>35,042,887</u>	<u>55,845,396</u>
	Deferred tax		<u>(12,265,010)</u>	<u>(19,545,889)</u>
			<u>22,777,877</u>	<u>36,299,507</u>
18	CONTINGENCIES AND COMMITMENTS			
	Transaction related contingent liabilities			
	Letters of guarantee		-	-
	Trade related contingent liabilities			
	Letters of credit		-	-
	Commitments to extend credits			

The Company makes commitments to extend credit in the normal course of its business, but these being revocable commitments do not attract any significant penalty or expense, if the facility is unilaterally withdrawn, except for Rs. 362.200 million (2012: Rs. 34.898 million).

For tax related contingencies, please see note 23.2 to these financial statements.

(24/10/11)



## PAK CHINA INVESTMENT COMPANY LIMITED

		2013	2012
		-----Rupees-----	
19	<b>MARK - UP / RETURN / INTEREST EARNED</b>		
	On loans and advances	606,587,367	657,421,317
	On investments;		
	- Held-to-maturity	27,475,061	45,289,317
	- Available-for-sale	295,214,233	504,769,011
		322,689,294	550,058,328
	On deposits with banks	48,034,128	56,537,617
	On securities purchased under resale agreements	58,018,330	44,445,658
		1,035,329,119	1,308,462,920
19.1	<b>MARK - UP / RETURN / INTEREST EXPENSED</b>		
	On borrowings	34,130,732	42,611,313
	On securities sold under repurchase agreements	67,744,566	55,779,548
		101,875,298	98,390,861
20	<b>OTHER INCOME</b>		
	Rent income	3,250,000	-
	Gain on sale of operating fixed assets	178,886	90,294
	Miscellaneous income	25,000	-
		3,453,886	90,294
21	<b>ADMINISTRATIVE EXPENSES</b>		
	Salaries, allowances and other benefits	162,942,926	120,549,006
	Directors' fee	2,179,200	1,115,700
	Charge for the defined benefit plan - gratuity	6,308,522	5,520,198
	Contribution to the provident fund	5,556,827	4,318,608
	Traveling, conveyance, boarding and lodging	31,091,983	25,948,123
	Rent, rates and taxes	27,509,645	30,397,227
	Utilities	4,944,088	4,518,496
	Communication	4,541,586	3,147,619
	Office security charges	4,523,445	3,476,380
	Professional training and staff welfare	876,589	2,580,195
	Advertisements, periodicals and membership fees	1,030,944	1,728,261
	Printing and stationery	3,522,959	1,878,866
	Depreciation	10.2 21,818,750	14,273,818
	Amortization	10.5 497,518	1,117,267
	Auditors' remuneration	21.1 1,045,000	877,500
	Legal, consultancy and other professional services	11,684,413	2,103,843
	Repairs and maintenance	4,264,858	2,856,725
	Insurance	3,065,503	2,236,887
	Entertainment	1,165,019	1,068,825
	Bank charges	295,807	277,822
	Miscellaneous	5,761,598	1,554,366
		304,627,180	231,545,732
21.1	<b>Auditors' remuneration</b>		
	Statutory audit fee	600,000	475,000
	Half yearly review fee	200,000	150,000
	Special certifications and sundry services	175,000	230,000
	Out of pocket expenses	70,000	22,500
		1,045,000	877,500
22	<b>OTHER CHARGES</b>		
	Penalty imposed by the SBP	20,000	32,100
23	<b>TAXATION</b>		
	Current	273,175,845	376,700,664
	Prior	-	-
	Deferred	17,516,656	(13,511,197)
		290,692,501	363,189,467

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## PAK CHINA INVESTMENT COMPANY LIMITED

23.1	<b>Relationship between tax expense and accounting profit</b>	<div>2013</div> <div>-----Rupees-----</div> <div>2012</div> <div>Restated</div>
	Profit before taxation	<div>854,977,943</div> <div>1,037,684,191</div>
	Tax at applicable rate of 34%	<div>290,692,501</div> <div>363,189,467</div>
	Tax effects of - inadmissible expenses	<div>-</div> <div>-</div>
	- other prepayment differences	<div>-</div> <div>-</div>
		<div>290,692,501</div> <div>363,189,467</div>
23.2	The income tax returns of the Company have been filed and are deemed assessed up to and including the Tax Year 2013. However, for the Tax Year 2009, the assessment of the Company was amended by the Taxation Officer, disallowing the "provision against lending to financial institutions" amounting to Rs. 94.518 million. The Company has filed a second appeal before the Appellate Tribunal, which is pending fixation. Based on the advice of its tax advisor, is confident that the ultimate outcome of the above matter will be in the Company's favour. Accordingly, no provision is considered necessary in these financial statements in this respect.	
24	<b>EARNINGS PER SHARE</b>	<div>2013</div> <div>2012</div> <div>Restated</div>
	Net profit for the year (Rupees)	<div>564,285,442</div> <div>674,494,724</div>
	Weighted average number of ordinary shares (Number)	<div>911,640,000</div> <div>911,640,000</div>
	Basic earnings per share (Rupees)	<div>0.62</div> <div>0.74</div>
	There were no convertible dilutive potential Ordinary shares outstanding as on 31 December 2012 and 2011.	
25	<b>CASH AND CASH EQUIVALENTS</b>	<div>2013</div> <div>-----Rupees-----</div> <div>2012</div>
	Cash and balances with treasury banks	<div>41,539,691</div> <div>92,588,077</div>
	Balances with other banks	<div>1,883,525,361</div> <div>1,686,035,087</div>
		<div>1,925,065,052</div> <div>1,778,623,164</div>
26	<b>STAFF STRENGTH</b>	<div>Number</div> <div>of employees</div> <div>Number</div> <div>of employees</div>
	Company's own staff strength	
	Permanent	<div>40</div> <div>36</div>
	Temporary / on contractual basis	<div>-</div> <div>-</div>
		<div>40</div> <div>36</div>
	Outsourced	<div>10</div> <div>10</div>
		<div>50</div> <div>46</div>
27	<b>DEFINED BENEFIT PLAN</b>	
27.1	<b>General description</b>	
	The Company operates an approved funded gratuity scheme for all its regular employees. Contributions are made in accordance with the actuarial recommendation. The latest actuarial valuation was carried out as at 31 December 2013.	
	The benefits under the gratuity scheme are payable on retirement at the age of 60 years or upon earlier cessation of service, in lump sum. The benefit is equal to one month's last drawn basic salary for each year of eligible service or part thereof, subject to a minimum of one year of service.	
27.2	<b>Principal actuarial assumptions</b>	<div>2013</div> <div>2012</div>
	Discount rate used for charge to profit and loss	<div>11.00%</div> <div>12.50%</div>
	Discount rate used for year end obligation	<div>12.50%</div> <div>11.00%</div>
	Expected rate of increase in salary levels	<div>11.50%</div> <div>10.00%</div>
	Average remaining working lives of employees	<div>9 years</div> <div>12.7 years</div>
	Normal retirement age	<div>60 years</div> <div>60 years</div>
27.3	<b>Reconciliation of amount payable to defined benefit plan</b>	<div>2013</div> <div>-----Rupees-----</div> <div>2012</div> <div>Restated</div>
	Present value of defined benefit obligation	<div>24,751,685</div> <div>14,106,470</div>
	Fair value of plan assets	<div>(11,987,167)</div> <div>(7,320,547)</div>
		<div>12,764,518</div> <div>6,785,923</div>

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## PAK CHINA INVESTMENT COMPANY LIMITED

		2013	2012
		-----Rupees-----	
			Restated
27.4	<b>Movement in payable to defined benefit plan</b>		
	Opening balance	6,785,923	1,829,883
	Charged during the year	6,308,522	5,520,198
	Remeasurements chargeable to other comprehensive income	3,478,043	1,294,624
	Company's contributions for the year	(3,807,970)	(1,858,782)
	Closing balance	<u>12,764,518</u>	<u>6,785,923</u>
27.5	<b>The movement in the present value of the defined benefit obligation over the year is as follows:</b>		
	Opening balance of defined benefit obligation	14,106,470	8,322,034
	Current service cost	5,562,070	5,291,463
	Interest cost	1,551,712	1,040,254
	Benefits paid	-	(1,858,782)
	<b>Remeasurements</b>		
	Experience adjustments	3,531,433	1,311,501
	Closing balance of defined benefit obligation	<u>24,751,685</u>	<u>14,106,470</u>
27.6	<b>The movement in the fair value of plan assets for the year is as follows:</b>		
	Fair value of plan assets at 01 January	7,320,547	6,492,151
	Contributions	3,807,970	1,858,782
	Interest income on plan assets	805,260	811,519
	Benefits paid	-	(1,858,782)
	Return on plan assets, excluding interest income	53,390	16,877
		<u>11,987,167</u>	<u>7,320,547</u>
27.7	<b>The amounts recognized in the profit and loss are as follows:</b>		
	Current service cost	5,562,070	5,291,463
	Interest cost	1,551,712	1,040,254
	Interest income on plan assets	(805,260)	(811,519)
		<u>6,308,522</u>	<u>5,520,198</u>
27.8	<b>Total remeasurements chargeable to other comprehensive income</b>		
	<b>Remeasurement of plan obligation:</b>		
	Actuarial (gains)/losses from changes in demographic assumptions	-	-
	Actuarial (gains)/losses from changes in financial assumptions	-	-
	Experience adjustments	3,531,433	1,311,501
		<u>3,531,433</u>	<u>1,311,501</u>
	Return on plan assets, excluding interest income	(53,390)	(16,877)
		<u>3,478,043</u>	<u>1,294,624</u>
27.9	<b>Plan assets comprise the following:</b>	2013 -----%	2012 -----%
	National Saving Certificates	48.80%	79.91%
	Accrued interest	18.95%	19.08%
	Bank balances	32.25%	1.00%
		<u>11,987,167</u>	<u>7,320,547</u>
27.10	<b>Year end sensitivity analysis (+/- 100 bps) on the defined benefit obligation</b>		
	Discount rate +100 bps	22,674,918	
	Discount rate -100 bps	27,197,853	
	Average salary increase +100 bps	27,197,853	
	Average salary increase -100 bps	22,640,301	

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## 27.11 Historical information of defined benefit plan

	2013 Rupees	2012 Rupees	2011 Rupees	2010 Rupees	2009 Rupees
Present value of defined benefit obligation	24,751,685	14,106,470	8,322,034	8,085,333	6,648,481
Fair value of plan assets	(11,987,167)	(7,320,547)	(6,492,151)	(9,830,809)	(6,098,916)
Deficit/ (surplus) in the plan	12,764,518	6,785,923	1,829,883	(1,745,476)	549,565
Gain / (loss) due to experience					
- on obligation	(3,531,433)	(1,311,501)	(572,036)	41,949	(7,394)
- on plan assets	53,390	16,877	(576,663)	(75,862)	98,916

27.12 Based on actuarial advice, the management estimates that the gratuity charge for the next year would be Rs. 9.926 million.

## 28 DEFINED CONTRIBUTION PLAN

The Company also operates a recognised provident fund scheme for all its regular employees.

Contributions made to the provident fund during the year are as follows:

	2013 -----Rupees-----	2012 -----Rupees-----
Contribution from the Company	5,556,827	4,318,608
Contribution from the employees	5,556,827	4,318,608
	11,113,654	8,637,216

## 28.1 Provident fund trust

Size of the trust (Rupees)	37,116,749	26,003,095
Cost of investments made (Rupees)	37,116,749	25,726,004
Percentage of investment made (%)	100.00%	98.93%
Fair value of investment made (Rupees)	37,116,749	26,003,095

	2013 -----%	2012 -----%	2013 -----Rupees-----	2012 -----Rupees-----
Breakup of investments				
With a scheduled bank	6.81%	4.16%	2,527,921	1,069,413
In savings accounts	93.19%	95.84%	34,588,828	24,656,591
	100.00%	100.00%	37,116,749	25,726,004

28.1.1 Investments out of the provident fund have been made in accordance with the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for that purpose. The current year figures are un-audited.

## 29 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives*	
	2013	2012	2013	2012	2013	2012
	-----Rupees-----					
Fees	-	-	2,179,200	1,115,700	-	-
Managerial remuneration	25,402,758	19,716,403	17,864,000	17,864,000	89,843,568	58,105,623
Charge for defined benefit plan	909,713	732,460	1,214,095	1,103,723	3,773,146	3,673,273
Contribution to defined contribution plan	762,298	623,088	1,056,000	1,056,000	3,276,667	2,213,083
Rent and house maintenance	6,380,760	5,880,689	-	-	-	-
Utilities	859,491	947,832	334,894	285,442	-	-
Medical	968,310	262,574	404,243	825,343	3,522,506	2,045,905
Travelling and conveyance	2,782,975	2,710,367	1,886,254	1,176,670	-	-
Boarding and lodging	1,753,030	2,000,176	872,428	756,688	-	-
Daily Allowance	2,919,600	3,042,560	500,400	420,260	-	-
Others	1,829,380	2,230,637	443,964	1,977,758	-	-
	44,568,315	38,146,786	26,755,478	26,581,584	100,415,887	66,037,884
Number of persons	1	1	5	5	28	21

29.1 The Chief Executive and a Director are also provided with free use of a Company maintained car.

\* All staff with gross monthly salary exceeding Rs. 500,000.

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## 30 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The fair value of government securities is based on Reuters Pages (PKRV) and for listed securities, is based on the market price of such securities. Other investments, where quoted market data is not available, are carried at cost. Fair value of fixed term loans and advances, other assets and other liabilities cannot be calculated with sufficient reliability due to the absence of a current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments.

The carrying amounts of the Company's financial assets, as of 31 December 2013, approximate their fair values.

## 31 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	2013		
	Corporate Finance	Trading and Sales	Others Total
	(Rupees)		
Total income - gross	814,797,831	571,909,815	3,453,886
Total expenses	(145,136,251)	(85,400,157)	(304,647,180)
Profit / (loss) before taxation	669,661,580	486,509,658	(301,193,294)
			854,977,943
Segment assets - gross	7,870,163,483	4,969,428,697	634,206,449
Segment non-performing assets	1,051,934,062	-	-
Segment provision including general provision	(743,289,784)	-	-
Segment liabilities	(326,089,523)	-	(91,469,462)
Segment return on net assets	9.85%	9.79%	-55.50%

	2012		
	Corporate Finance	Trading & Sales	Others Total
	(Rupees)		
Total income - gross	953,472,072	587,559,864	90,294
Total expenses	(179,654,008)	(92,206,200)	(232,185,373)
Profit / (loss) before taxation	773,818,064	495,353,664	(232,095,079)
			1,037,076,649
Segment assets - gross	7,345,018,443	8,597,366,593	649,225,572
Segment non-performing assets	997,390,757	-	-
Segment provision including general provision	(618,770,166)	-	-
Segment liabilities	(90,431,639)	(4,048,600,529)	(64,953,591)
Segment return on net assets	11.66%	10.89%	-39.72%
			16,591,610,608
			997,390,757
			(618,770,166)
			(4,203,985,759)

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## 32 RELATED PARTY TRANSACTIONS

Related parties of the Company comprise of retirement funds, directors and key management personnel. Transactions and balances with related parties are disclosed in the relevant notes to the financial statements.

## 33 CAPITAL ADEQUACY

## 33.1 Scope of application

The Basel III framework has been applied in accordance with BPRD Circular No. 6, dated 15 August, 2013. The Standardized Approach is used for calculating the Capital Adequacy for Market and Credit risks while the Basic Indicator Approach (BIA) is used for calculating the Capital Adequacy for Operational risk.

## 33.2 Capital structure

For the main features of capital structure of the Company, please refer to note 33.12.

## 33.3 Capital management

The Company's objectives when managing capital risks are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend to shareholders, return of capital to shareholders, issue new shares or sell assets to reduce debt. The Company has implemented the capital adequacy framework under the Basel-III regime. The Company, in line with the SBP guidelines, has adopted the standardized approach for credit, market risks and BIA approach for operational risk.

The Company's objectives when managing its capital are:

- To comply with the capital requirements set by the SBP;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The growth prospects of the Company will be linked with the macroeconomic environment, industry conditions and its ability to attract quality assets. At present, the Company has restricted its market risk by not participating in secondary stock trading. It is engaged in booking quality assets in the loan segment.

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.

## 33.4 Regulatory capital requirements

The SBP vide BSD Circular No.19, dated 05 September, 2008 has set the Minimum Capital Requirement (MCR) for DFIs, up to Rs.6 billion. Further, the Company is also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of its risk weighted assets.

The paid up capital of the Company as of 31 December 2013 amounted to Rs. 9,116 million while CAR stands at 98.07% as of that date.

## 33.5 Regulatory capital base

## Common Equity Tier 1 capital (CET1): Instruments and reserves

Fully paid-up capital / capital deposited with SBP

Balance in share premium account

Reserve for issue of bonus shares

General / statutory reserves

Gain / (losses) on derivatives held as cash flow hedge

Unappropriated / unremitted profits / (losses)

Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)

CET 1 before Regulatory Adjustments

	Amount subject to pre BASEL III treatment		
	2013	2013	2012
	-----Rupees ('000)-----		
Fully paid-up capital / capital deposited with SBP	9,116,400	-	9,116,400
Balance in share premium account	-	-	-
Reserve for issue of bonus shares	-	-	-
General / statutory reserves	635,213	-	523,231
Gain / (losses) on derivatives held as cash flow hedge	-	-	-
Unappropriated / unremitted profits / (losses)	2,538,559	-	2,092,924
Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-	-
CET 1 before Regulatory Adjustments	12,290,172	-	11,732,555

Exhibit



## PAK CHINA INVESTMENT COMPANY LIMITED

	Amount subject to pre BASEL III treatment		
	2013	2013	2012
	-----Rupees ('000)-----		
<b>Common Equity Tier 1 capital: Regulatory adjustments</b>			
Goodwill (net of related deferred tax liability)	-	-	-
All other intangibles (net of any associated deferred tax liability)	0	-	498
Shortfall of provisions against classified assets	-	-	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-	-
Defined-benefit pension fund net assets	-	-	-
Reciprocal cross holdings in CET1 capital instruments	-	-	-
Cash flow hedge reserve	-	-	-
Investment in own shares/ CET1 instruments	-	-	-
Securitization gain on sale	-	-	-
Capital shortfall of regulated subsidiaries	-	-	-
Deficit on account of revaluation from bank's holdings of property/ AFS	-	-	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	-
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-	-
Amount exceeding 15% threshold	-	-	-
of which: significant investments in the common stocks of financial entities	-	-	-
of which: deferred tax assets arising from temporary differences	-	-	-
National specific regulatory adjustments applied to CET1 capital	-	-	-
Investment in TFCs of other banks exceeding the prescribed limit	-	-	-
Any other deduction specified by SBP (mention details)	-	-	-
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	-	-
<b>Total regulatory adjustments applied to CET1</b>	<b>0</b>	<b>-</b>	<b>498</b>
<b>Common Equity Tier 1</b>	<b>(a) 12,290,172</b>	<b>-</b>	<b>11,732,057</b>
<b>Additional Tier 1 (AT 1) Capital</b>			
Qualifying Additional Tier-1 instruments plus any related share premium	-	-	-
of which: Classified as equity	-	-	-
of which: Classified as liabilities	-	-	-
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	-	-
of which: instrument issued by subsidiaries subject to phase out	-	-	-
<b>AT1 before regulatory adjustments</b>			
<b>Additional Tier 1 Capital: regulatory adjustments</b>			
Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	-	-
Investment in own AT1 capital instruments	-	-	-
Reciprocal cross holdings in Additional Tier 1 capital instruments	-	-	-
Investments in the capital instruments of banking, financial and insurance entities that are	-	-	-
Significant investments in the capital instruments issued by banking, financial and insurance	-	-	-
Portion of deduction applied 50:50 to core capital and supplementary capital based on pr	-	-	-
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover ded	-	-	-
Total of Regulatory Adjustment applied to AT1 capital	-	-	-
Additional Tier 1 capital	-	-	-
<b>Additional Tier 1 capital recognized for capital adequacy</b>	<b>(b) -</b>	<b>-</b>	<b>-</b>
<b>Tier 1 Capital (CET1 + admissible AT1)</b>	<b>(c) = (a) + (b) 12,290,172</b>	<b>-</b>	<b>11,732,057</b>

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## PAK CHINA INVESTMENT COMPANY LIMITED

	Amount subject to pre BASEL III treatment		
	2013	2013	2012
	-----Rupees ('000)-----		
<b>Tier 2 Capital</b>			
Qualifying Tier 2 capital instruments under Basel III	-	-	-
Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	-	-
Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	-	-
of which: instruments issued by subsidiaries subject to phase out	-	-	-
General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	101,925	-	87,235
Revaluation Reserves	-	-	-
of which: Revaluation reserves on Property	-	-	-
of which: Unrealized Gains/Losses on AFS	10,250	-	16,335
Foreign Exchange Translation Reserves	-	-	-
Undisclosed/Other Reserves (if any)	-	-	-
<b>T2 before regulatory adjustments</b>	<b>112,175</b>	<b>-</b>	<b>103,570</b>
<b>Tier 2 Capital: regulatory adjustments</b>			
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	-	-
Reciprocal cross holdings in Tier 2 instruments	-	-	-
Investment in own Tier 2 capital instrument	-	-	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-
Amount of Regulatory Adjustment applied to T2 capital	-	-	-
Tier 2 capital (T2)	-	-	-
Tier 2 capital recognized for capital adequacy	-	-	-
Excess Additional Tier 1 capital recognized in Tier 2 capital	-	-	-
Total Tier 2 capital admissible for capital adequacy	-	-	-
<b>Tier 2 Capital after regulatory adjustments</b>	(d) <b>112,175</b>	<b>-</b>	<b>103,570</b>
<b>TOTAL CAPITAL (T1 + admissible T2)</b>	(e) = (c) + (d) <b>12,402,347</b>	<b>-</b>	<b>11,835,627</b>
<b>33.6 The capital to risk weighted assets calculated in accordance with SBP guidelines on capital adequacy are as follows:</b>			
Total Credit Risk Weighted Assets	(f) <b>8,153,972</b>	-	6,452,069
Risk weighted assets in respect of amounts subject to Pre-Basel III Treatment	-	-	-
of which: recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	-	-	-
of which: deferred tax assets	-	-	-
of which: Defined-benefit pension fund net assets	-	-	-
of which: [insert name of adjustment]	-	-	-
Total Market Risk Weighted Assets	(g) <b>2,134,874</b>	-	2,125,569
Total Operational Risk Weighted Assets	(h) <b>2,357,937</b>	-	2,267,605
<b>Total Risk Weighted Assets</b>	(i) = (f) + (g) + (h) <b>12,646,783</b>	<b>-</b>	<b>10,845,243</b>

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## PAK CHINA INVESTMENT COMPANY LIMITED

		Amount subject to pre BASEL III treatment		
		2013	2013	2012
		-----%		
33.7	Capital Ratios and buffers (in percentage of risk weighted assets)			
	CET1 to total RWA	(a) / (i)		
	Tier-1 capital to total RWA	(c) / (i)		
	Total capital to RWA	(e) / (i)		
	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)			
	of which: capital conservation buffer requirement			
	of which: countercyclical buffer requirement			
	of which: D-SIB or G-SIB buffer requirement			
	CET1 available to meet buffers (as a percentage of risk weighted assets)			
	National minimum capital requirements prescribed by SBP			
	CET1 minimum ratio			
	Tier 1 minimum ratio			
	Total capital minimum ratio			

97.18%	-	108.18%
97.18%	-	108.18%
98.07%	-	109.13%
0.00%	-	0.00%
0.00%	-	0.00%
0.00%	-	0.00%
0.00%	-	0.00%
0.00%	-	0.00%
97.18%	-	108.18%
5.00%	-	0.00%
6.50%	-	0.00%
10.00%	-	10.00%

	Amount subject to pre BASEL III treatment		
	2013	2013	2012
-----Rupees ('000)-----			
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
Non-significant investments in the capital of other financial entities	-	-	-
Significant investments in the common stock of financial entities	-	-	-
Deferred tax assets arising from temporary differences (net of related tax liability)	-	-	-
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-	-	-
Cap on inclusion of provisions in Tier 2 under standardized approach	-	-	-
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-	-
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-	-

	2013		2012	
	Book value	Risk adjusted value	Book value	Risk adjusted value
-----Rupees ('000)-----				
<b>33.8 Risk weighted exposures</b>				
<b>Credit Risk</b>				
Balance sheet items				
Cash and other liquid assets	2,484,090	1,845,036	2,712,656	1,661,607
Money at call	-	-	-	-
Investments	4,283,208	1,191,727	8,020,871	1,464,248
Loans and advances	5,329,004	4,563,670	4,590,088	3,027,671
Operating fixed assets	218,912	218,912	219,539	219,041
Other assets	415,294	22,420	429,687	61,719
	12,730,508	7,841,765	15,972,841	6,434,286

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## PAK CHINA INVESTMENT COMPANY LIMITED

## Off balance sheet items

Loan repayment guarantees
Purchase and resale agreements
Performance bonds etc.
Revolving underwriting commitments
Stand By Letters of Credit
Outstanding Foreign Exchange Contracts
- Purchase
- Sale
Other commitments

2013		2012	
Book value	Risk adjusted value	Book value	Risk adjusted value
-----Rupees ('000)-----			
-	-	-	-
559,178	7	4,055,912	333
-	-	-	-
362,200	312,200	34,898	17,450
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
1,250,000	-	1,077,000	-
2,171,378	312,207	5,167,810	17,783

## Credit risk-weighted exposures

8,153,972

6,452,069

## Market Risk

General market risk
Specific market Risk

## Market risk-weighted exposures

149,922

332,261

1,984,952

1,793,308

2,134,874

2,125,569

## Operational Risk

2,357,937

2,267,605

## Total risk-weighted exposures

12,646,783

10,845,243

## 33.9 Capital structure reconciliation (Step-I)

## ASSETS

Cash and balances with treasury banks
Balances with other banks
Lendings to financial institutions
Investments
Advances
Operating fixed assets
Deferred tax assets
Other assets

## TOTAL ASSETS

2013	2013
As per audited financial statements	Under regulatory scope of consolidation
-----Rupees ('000)-----	
41,540	41,540
1,883,525	1,883,525
559,025	559,025
4,283,208	4,283,208
5,329,004	5,329,004
218,913	218,913
-	-
415,294	415,294
12,730,509	12,730,509

## LIABILITIES

Bills payable
Borrowings
Deposits and other accounts
Sub-ordinated loans
Liabilities against assets subject to finance lease
Deferred tax liabilities
Other liabilities

## TOTAL LIABILITIES

-	-
326,089	326,089
-	-
-	-
-	-
12,800	12,800
78,670	78,670
417,559	417,559

## Share capital

Reserves
Unappropriated profit
Minority interest
Surplus on revaluation of assets

9,116,400	9,116,400
635,213	635,213
2,538,559	2,538,559
-	-
22,778	22,778
12,312,950	12,312,950

## TOTAL LIABILITIES AND EQUITY

12,730,509	12,730,509
------------	------------

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## PAK CHINA INVESTMENT COMPANY LIMITED

## 33.10 Capital structure reconciliation (step-II)

## ASSETS

Cash and balances with treasury banks	
Balanced with other banks	
Lending to financial institutions	
Investments	
of which: Non-significant capital investments in capital of other financial institutions exceeding 10% threshold	
of which: significant capital investments in financial sector entities exceeding regulatory threshold	
of which: Mutual Funds exceeding regulatory threshold	
of which: reciprocal crossholding of capital instrument	
of which: others	
Advances	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	
general provisions reflected in Tier 2 capital	
Operating fixed assets	
Deferred tax assets	
of which: DTAs excluding those arising from temporary differences	
of which: DTAs arising from temporary differences exceeding regulatory threshold	
Other assets	
of which: Goodwill	
of which: Intangibles	
of which: Defined-benefit pension fund net assets	

## TOTAL ASSETS

## LIABILITIES AND EQUITY

Bills payable	
Borrowings	
Deposits and other accounts	
Sub-ordinated loans	
of which: eligible for inclusion in AT1	
of which: eligible for inclusion in Tier 2	
Liabilities against assets subject to finance lease	
Deferred tax liabilities	
of which: DTLs related to goodwill	
of which: DTLs related to intangible assets	
of which: DTLs related to defined pension fund net assets	
of which: other deferred tax liabilities	
Other liabilities	

## TOTAL LIABILITIES

Share capital	
of which: amount eligible for CET1	
of which: amount eligible for AT1	
Reserves	
of which: portion eligible for inclusion in CET1	
of which: portion eligible for inclusion in Tier 2	
Unappropriated profit/ (losses)	
Minority Interest	
of which: portion eligible for inclusion in CET1	
of which: portion eligible for inclusion in AT1	
of which: portion eligible for inclusion in Tier 2	
Surplus on revaluation of assets	
of which: Revaluation reserves on Property	
of which: Unrealized Gains/Losses on AFS	
In case of Deficit on revaluation (deduction from CET1)	

## TOTAL LIABILITIES AND EQUITY

2013	2013	
As per audited financial statements	Under regulatory scope of consolidation	Reference
-----Rupees ('000)-----		
41,540	41,540	
1,883,525	1,883,525	
559,025	559,025	
4,283,208	4,283,208	
-	-	a
-	-	b
-	-	c
-	-	d
-	-	e
5,329,004	5,329,004	
-	-	f
102,503	101,925	g
218,913	218,913	
-	-	
-	-	h
-	-	i
415,294	415,294	
-	-	j
0	0	k
-	-	l
12,730,509	12,730,509	
-	-	
326,089	326,089	
-	-	
-	-	
-	-	m
-	-	n
12,800	12,800	
-	-	o
-	-	p
-	-	q
12,800	12,800	r
78,670	78,670	
417,559	417,559	
9,116,400	9,116,400	
9,116,400	9,116,400	s
-	-	t
635,213	635,213	
635,213	635,213	u
-	-	v
2,538,559	2,538,559	w
-	-	
-	-	x
-	-	y
-	-	z
22,778	22,778	
-	-	
22,778	22,778	aa
-	-	ab
12,312,950	12,312,950	
12,730,509	12,730,509	

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2013	
Under	
regulatory	
scope of	
consolidation	Reference
Rupees ('000)	

third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)

	x
--	---

12,290,172

Total regulatory adjustments applied to CET1 (sum of 9 to 25)

ab

12,290,172

of which: instrument issued by subsidiaries subject to phase out

-	t
-	m
	y

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	2013 Under regulatory scope of consolidation Rupees ('000)	Reference
<b>Additional Tier 1 Capital: regulatory adjustments</b>		
Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	
Investment in own AT1 capital instruments	-	
Reciprocal cross holdings in Additional Tier 1 capital instruments	-	
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-BaseI III treatment which, during transitional period, remain subject to deduction from tier-1 capital	-	
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
Total of Regulatory Adjustment applied to AT1 capital	-	
Additional Tier 1 capital	-	
<b>Additional Tier 1 capital recognized for capital adequacy</b>	-	
<b>Tier 1 Capital (CET1 + admissible AT1)</b>	<b>12,290,172</b>	
<b>Tier 2 Capital</b>		
Qualifying Tier 2 capital instruments under Basel III	-	n
Capital instruments subject to phase out arrangement from tier 2 (Pre-BaseI III instruments)	-	
Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	z
of which: instruments issued by subsidiaries subject to phase out	-	
General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	101,925	g
Revaluation Reserves	-	
of which: Revaluation reserves on Property	-	
of which: Unrealized Gains/Losses on AFS	10,250	portion of aa
Foreign Exchange Translation Reserves	-	v
Undisclosed/Other Reserves (if any)	-	
<b>T2 before regulatory adjustments</b>	<b>112,175</b>	
<b>Tier 2 Capital: regulatory adjustments</b>		
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-BaseI III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	
Reciprocal cross holdings in Tier 2 instruments	-	
Investment in own Tier 2 capital instrument	-	
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
Amount of Regulatory Adjustment applied to T2 capital	-	
Tier 2 capital (T2)	-	
Tier 2 capital recognized for capital adequacy	-	
Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
Total Tier 2 capital admissible for capital adequacy	-	
<b>Tier 2 Capital after regulatory adjustments</b>	<b>112,175</b>	
<b>TOTAL CAPITAL (T1 + admissible T2)</b>	<b>12,402,347</b>	

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## 33.12 Regulatory capital instruments- main feature report

Main features	Common shares	Explanation
Issuer	Pak China Investment Co Ltd,	Not Listed
Unique identifier	N/A	
Governing law(s) of the instrument	Applicable Laws of Pakistan	
<b>Regulatory treatment</b>		
Transitional Basel III rules	Common Equity Tier I	
Post-transitional Basel III rules	Common Equity Tier I	
Eligible at solo/ group/ group&solo	Stand Alone	
Instrument type	Share Capital	
Amount recognized in regulatory capital (Rupees in thousands)	9,116,400,000	
Par value of instrument	PKR 10 per share	
Accounting classification	Shareholder's Equity	
Original date of issuance	2008	
Perpetual or dated	Perpetual	
Original maturity date	No Maturity	
Issuer call subject to prior supervisory approval	N/A	
Optional call date, contingent call dates and redemption amount	N/A	
Subsequent call dates, if applicable	N/A	
<b>Coupons / dividends</b>		
Fixed or floating dividend/ coupon	N/A	
Coupon rate and any related index/ benchmark	N/A	
Existence of a dividend stopper	No	
Fully discretionary, partially discretionary or mandatory	Fully discretionary	
Existence of step up or other incentive to redeem	No	
Noncumulative or cumulative	N/A	
<b>Convertible or non-convertible</b>		
If convertible, conversion trigger (s)	N/A	
If convertible, fully or partially	N/A	
If convertible, conversion rate	N/A	
If convertible, mandatory or optional conversion	N/A	
If convertible, specify instrument type convertible into	N/A	
If convertible, specify issuer of instrument it converts into	N/A	
<b>Write-down feature</b>		
If write-down, write-down trigger(s)	N/A	
If write-down, full or partial	N/A	
If write-down, permanent or temporary	N/A	
If temporary write-down, description of write-up mechanism	N/A	
Position in subordination hierarchy in liquidation	Common Equity (Ranks after all creditors and depositors)	
Non-compliant transitioned features	N/A	
If yes, specify non-compliant features	N/A	

## 33.13 The capital requirements for the Company as per the major risk categories is given below:

Credit Risk	2013	2012	2013	2012
	Capital requirements		Risk weighted assets	
	-----Rupees ('000)-----			
Claims on:				
Corporate	459,326	326,378	4,593,257	3,263,776
Banks	184,504	166,161	1,845,036	1,661,607
Sovereigns	-	-	-	-
Retail portfolio	362	265	3,624	2,646
Secured by residential property	1,436	973	14,355	9,733
Past due loans	42,680	47,961	426,801	479,608
Listed equity investments	72,098	73,880	720,984	738,803
Unlisted equity investments	-	-	-	-
Operating fixed assets	21,891	21,904	218,912	219,041
Other assets	1,880	5,907	18,796	59,072
Off balance sheet exposure - market related	31,221	1,778	312,207	17,783

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## PAK CHINA INVESTMENT COMPANY LIMITED

## Market Risk

Capital requirement for portfolios subject to the Standardized Approach

Interest rate risk	-	19,417	-	194,172
Equity position risk	29,984	27,618	299,844	276,178
Foreign exchange risk	183,503	165,522	1,835,030	1,655,219

## Operational Risk

Capital requirement for operational risks

	235,794	226,761	2,357,937	2,267,605
	<u>1,264,679</u>	<u>1,084,525</u>	<u>12,646,783</u>	<u>10,845,243</u>

## Capital Adequacy Ratio

		2013	2012
Total eligible regulatory capital held - Rupees ('000)	(e)	12,402,347	11,835,627
Total Risk Weighted Assets - Rupees ('000)	(i)	12,646,783	10,845,243
Capital Adequacy Ratio - % age	(e) / (i)	98.07%	109.13%

## 34 RISK MANAGEMENT

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

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

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

## 34.1 Credit risk

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

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

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

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## PAK CHINA INVESTMENT COMPANY LIMITED

## 34.1.1 Segment by class of business

Fertilizer  
Power  
Steel  
Sugar  
Telecommunication  
Storage  
Real Estate  
Cement  
Glass  
Textile  
Engineering  
Plastic  
Financial institutions  
Coal  
Petroleum  
Others

2013			
Advances - Gross		Contingencies and commitments	
Rupees	%	Rupees	%
300,000,000	5.13	-	-
2,375,998,425	40.62	-	-
285,890,000	4.89	-	-
512,500,000	8.76	-	-
300,000,000	5.13	-	-
652,692,540	11.16	-	-
70,000,000	1.20	-	-
200,000,000	3.42	-	-
235,293,000	4.02	-	-
137,500,000	2.35	-	-
300,000,001	5.13	-	-
100,000,000	1.71	-	-
300,000,000	5.13	100,000,000	27.61
37,800,000	0.65	62,200,000	17.17
-	0.00	200,000,000	55.22
41,014,765	0.70	-	-
5,848,688,731	100	362,200,000	100

Fertilizer  
Power  
Steel  
Sugar  
Telecommunication  
Storage  
Real Estate  
Cement  
Glass  
Others

2012			
Advances - Gross		Contingencies and commitments	
Rupees	%	Rupees	%
280,000,000	5.52	-	-
2,613,221,760	51.52	34,898,362	100.00
297,100,000	5.86	-	-
312,500,000	6.16	-	-
300,000,000	5.91	-	-
671,436,553	13.24	-	-
70,000,000	1.38	-	-
200,000,000	3.94	-	-
300,000,000	5.91	-	-
27,806,827	0.55	-	-
5,072,065,140	100	34,898,362	100

## 34.1.2 Segment by sector

Public / Government  
Private

2013			
Advances - Gross		Contingencies and commitments	
Rupees	%	Rupees	%
100,000,000	1.71	100,000,000	27.61
5,748,688,731	98.29	262,200,000	72.39
5,848,688,731	100.00	362,200,000	100.00

Public / Government  
Private

2012			
Advances - Gross		Contingencies and commitments	
Rupees	%	Rupees	%
-	-	-	-
5,072,065,140	100.00	34,898,362	100.00
5,072,065,140	100.00	34,898,362	100.00

## 34.1.3 Details of non-performing advances and specific provisions by class of business

Cement  
Real Estate  
Telecommunication  
Sugar

2013		2012	
Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
200,000,000	200,000,000	200,000,000	200,000,000
70,000,000	48,878,000	70,000,000	38,317,000
300,000,000	150,000,000	300,000,000	150,000,000
112,500,000	18,303,000	112,500,000	6,425,000
682,500,000	417,181,000	682,500,000	394,742,000

## 34.1.4 Details of non-performing advances and specific provisions by sector

Public/Government  
Private

682,500,000	417,181,000	682,500,000	394,742,000
682,500,000	417,181,000	682,500,000	394,742,000

## 34.1.5 Geographical Segment Analysis

In Pakistan

2013			
Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
854,977,943	12,730,508,845	12,312,949,860	362,200,000
2012			
Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
1,037,684,191	15,972,840,442	11,768,854,683	34,898,362

In Pakistan

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## 34.2 Liquidity risk

Liquidity risk is the potential loss to the Company arising from either its inability to meet its obligation or to arrange the requisite funding for its assets at a reasonable price.

This risk arises from mismatches in the timing of cashflows. The objective of the Company's liquidity management is to ensure that all foreseeable funding commitments can be met when due. The Company's Asset and Liability Committee is primarily responsible for the formulation of the overall strategy and oversight of the liquidity management. The Company manages its liquidity risk by diversifying and ensuring the stability of its liability structure (funding mix). The risk management function generates and monitors daily liquidity position of the Company.

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

## 34.2.1 Maturities of assets and liabilities

	Total	2013								
		Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
		Rupees								
Assets										
Cash and balances with treasury banks	41,539,691	41,539,691	-	-	-	-	-	-	-	-
Balances with other banks	1,883,525,361	48,495,159	-	1,835,030,202	-	-	-	-	-	-
Lendings to financial institutions	559,025,145	559,025,145	-	-	-	-	-	-	-	-
Investments	4,283,207,947	2,444,576,042	41,790,504	75,142,253	336,600,016	169,024,572	172,177,673	407,935,668	635,961,219	-
Advances	5,329,004,252	84,390,247	130,991,054	223,097,299	410,728,953	1,256,890,479	760,091,838	1,431,581,715	1,009,441,781	21,790,885
Operating fixed assets	218,912,459	1,873,431	3,746,852	6,048,227	11,513,540	18,913,664	11,505,744	11,829,580	17,481,421	136,000,000
Other assets	415,293,990	163,206,165	42,215,325	49,698,988	35,646,464	71,077,023	53,450,025	-	-	-
	12,730,508,845	3,343,105,880	218,743,735	2,189,016,969	794,488,973	1,515,905,738	997,225,280	1,851,346,963	1,662,884,421	157,790,885
Liabilities										
Borrowings	326,089,523	25,028,058	-	16,807,000	41,835,058	83,670,116	83,670,116	75,079,175	-	-
Deferred tax assets	12,799,679	-	12,799,679	-	-	-	-	-	-	-
Other liabilities	78,669,783	10,247,263	64,474,849	3,272,671	675,000	-	-	-	-	-
	417,558,985	35,275,321	77,274,528	20,079,671	42,510,058	83,670,116	83,670,116	75,079,175	-	-
Net assets	12,312,949,860	3,307,830,559	141,469,207	2,168,937,298	751,978,915	1,432,235,622	913,555,164	1,776,267,788	1,662,884,421	157,790,885

Bafat



2013  
Total  
Rupees

9,116,400,000  
635,212,571  
2,538,559,412

Share capital  
Reserves  
Unappropriated profit  
Surplus on revaluation of  
available-for-sale  
securities

22,777,877  
12,312,949,860

2012

	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
Rupees										
<b>Assets</b>										
Cash and balances with treasury banks	92,588,077	92,588,077	-	-	-	-	-	-	-	-
Balances with other banks	1,686,035,087	30,815,959	-	1,655,219,128	-	-	-	-	-	-
Lending to financial institutions	934,033,000	934,033,000	-	-	-	-	-	-	-	-
Investments	8,020,870,732	9,799,903	3,558,577,128	1,945,552,505	187,941,975	297,538,513	181,220,623	879,736,974	960,503,111	-
Advances	4,590,087,974	23,988,550	11,604,643	44,680,969	141,772,492	450,848,761	670,751,762	1,313,638,094	1,918,696,123	14,106,580
Operating fixed assets	219,538,864	1,539,559	175,533,644	4,618,677	8,839,498	11,298,513	8,086,320	9,622,653	-	-
Other assets	429,686,708	129,128,564	61,375,281	37,251,654	191,352,758	8,988,992	1,589,459	-	-	-
	15,972,840,442	1,221,893,612	3,807,090,696	3,687,322,933	529,906,723	768,674,779	861,648,164	2,202,997,721	2,879,199,234	14,106,580
<b>Liabilities</b>										
Borrowings	4,139,032,168	4,056,821,587	-	-	8,221,058	16,442,116	16,442,116	32,884,232	8,221,059	-
Deferred tax Liabilities	2,563,902	-	-	2,563,902	-	-	-	-	-	-
Other liabilities	65,580,281	7,984,507	56,966,204	629,570	-	-	-	-	-	-
	4,207,176,351	4,064,806,094	56,966,204	3,193,472	8,221,058	16,442,116	16,442,116	32,884,232	8,221,059	-
<b>Net assets</b>	<b>11,765,664,091</b>	<b>(2,842,912,482)</b>	<b>3,750,124,492</b>	<b>3,684,129,461</b>	<b>521,685,665</b>	<b>752,232,663</b>	<b>845,206,048</b>	<b>2,170,113,489</b>	<b>2,870,978,175</b>	<b>14,106,580</b>
<b>Share capital</b>										
Share capital	9,116,400,000									
Reserves	523,051,091									
Un-appropriated profit	2,089,913,493									
Surplus on revaluation of available-for-sale securities	36,299,507									
	<u>11,765,664,091</u>									

Enforce



## 34.3 Market risk

Market risk is the risk of losses due to adverse movements in market variables such as foreign exchange rates, interest rates and equity prices and / or commodity prices. Market risk pertaining to the trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. The company does not have a defined trading book and investments are classified as either available-for-sale or Held-to-maturity. Due to the diversified nature of investments in the banking book, the Company is primarily subject to interest rate risk. The Company via its JV agreement is not to engage in secondary market equity trading. The Company is using the Basel-III standardized approach to calculate risk weighted assets against market risk exposure.

## 34.3.1 Interest rate risk

Interest rate risk is the risk that assets value will change due to change in the market interest rates. The Company manages its interest rate risk by entering into floating rate agreements with its customers. Major portion of the credit portfolio is linked to floating rate. To further keep the Company abreast of the interest rate risk, an Asset and Liability Committee (ALCO) meets regularly to discuss the interest rate risk strategy. Interest rate risk profile is also prepared on a monthly basis to ascertain the interest rates movements with regard to the portfolio while also anticipating policy rate movements.

	Effective yield / interest rate %	2013										Not exposed to yield / interest rate risk
		Exposed to yield / profit risk								Above ten years		
		Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years		Over five to ten years	
----- Rupees -----												
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks												
Balances with other banks	6%	41,539,691	-	-	-	-	-	-	-	-	-	41,539,691
Lendings to financial institutions	10%	1,883,525,361	48,495,159	-	1,835,030,202	-	-	-	-	-	-	-
Investments	12%	559,025,145	559,025,145	-	-	-	-	-	-	-	-	-
Advances	11%	4,283,207,947	2,494,883,542	37,183,505	73,729,470	179,246,267	157,507,072	156,053,173	472,355,499	562,327,388	-	149,922,032
Other assets		5,329,004,252	84,390,247	130,991,054	223,097,299	410,728,953	1,256,890,479	760,091,839	1,431,581,714	1,009,441,782	21,790,885	-
		403,535,165	-	-	-	-	-	-	-	-	-	403,535,165
		12,499,837,561	3,186,794,093	168,174,559	2,131,856,971	589,975,220	1,414,397,551	916,145,012	1,903,937,213	1,571,769,170	21,790,885	594,996,888
Financial Liabilities												
Borrowings	7%	326,089,523	25,028,058	-	16,807,001	41,835,058	83,670,116	83,670,116	66,858,116	8,221,058	-	-
Other liabilities		78,669,783	-	-	-	-	-	-	-	-	-	78,669,783
		404,759,306	25,028,058	-	16,807,001	41,835,058	83,670,116	83,670,116	66,858,116	8,221,058	-	78,669,783
On balance sheet gap		12,095,078,255	3,161,766,035	168,174,559	2,115,049,970	548,140,162	1,330,727,435	832,474,896	1,837,079,097	1,563,548,112	21,790,885	516,327,105
Off-balance sheet financial instruments												
Commitments to extend credits (In case materialized)		362,200,000	-	-	-	-	-	-	-	-	-	362,200,000
Off-balance sheet gap - net		362,200,000	-	-	-	-	-	-	-	-	-	362,200,000
Total yield/ interest risk sensitivity gap		3,161,766,035	168,174,559	2,115,049,970	548,140,162	1,330,727,435	832,474,896	1,837,079,097	1,563,548,112	21,790,885	878,527,105	
Cumulative yield/ interest rate sensitivity gap		3,161,766,035	3,329,940,594	5,444,990,564	5,993,130,726	7,323,858,161	8,156,333,057	9,993,412,154	11,556,960,266	11,578,751,151	12,457,278,256	

EY



	Effective yield / interest rate %	2012										Not exposed to yield / interest rate risk
		Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years	
-----Rupees-----												
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks	0.0	92,588,077	-	-	-	-	-	-	-	-	-	92,588,077
Balances with other banks	4.6	1,686,035,087	30,815,959	-	1,655,219,128	-	-	-	-	-	-	-
Lendings to financial institutions	7.00	934,033,000	934,033,000	-	-	-	-	-	-	-	-	-
Investments	10.10	8,020,870,732	9,799,903	3,557,872,855	1,944,846,537	48,439,996	285,498,948	166,878,407	854,398,474	960,503,111	-	192,632,501
Advances	12.28	4,590,087,974	23,988,550	11,604,643	44,680,969	141,772,492	450,848,761	670,751,762	1,313,638,094	1,918,696,123	14,106,580	-
Other assets		397,220,548	-	-	-	-	-	-	-	-	-	397,220,548
		15,720,835,418	998,637,412	3,569,477,498	3,644,746,634	190,212,488	736,347,709	837,630,169	2,168,036,568	2,879,199,234	14,106,580	682,441,126
Financial Liabilities												
Borrowings	8.36	4,139,032,168	4,056,821,587	-	-	8,221,058	16,442,116	16,442,116	32,884,232	8,221,059	-	-
Other liabilities		65,580,281	-	-	-	-	-	-	-	-	-	65,580,281
		4,204,612,449	4,056,821,587	-	-	8,221,058	16,442,116	16,442,116	32,884,232	8,221,059	-	65,580,281
On balance sheet gap		11,516,222,969	(3,058,184,175)	3,569,477,498	3,644,746,634	181,991,430	719,905,593	821,188,053	2,135,152,336	2,870,978,175	14,106,580	616,860,845
Off-balance sheet financial instruments												
Commitments to extend credit (In case materialized)		34,898,362	-	-	-	-	-	-	-	-	-	34,898,362
Off-balance sheet gap - net		34,898,362	-	-	-	-	-	-	-	-	-	34,898,362
Total yield/ interest risk sensitivity gap		(3,058,184,175)	3,569,477,498	3,644,746,634	181,991,430	719,905,593	821,188,053	2,135,152,336	2,870,978,175	14,106,580	654,737,160	
Cumulative yield/ interest rate sensitivity gap		(3,058,184,175)	511,293,323	4,156,039,957	4,338,031,387	5,057,936,980	5,879,125,033	8,014,277,369	10,885,255,544	10,899,362,124	11,554,099,284	

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**34.3.2 Foreign exchange risk**

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

	2013			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	-----Rupees-----			
Pakistan Rupee	10,676,566,184	404,759,306	-	10,271,806,878
United States Dollar	1,835,030,202	-	-	1,835,030,202
	<u>12,511,596,386</u>	<u>404,759,306</u>	<u>-</u>	<u>12,106,837,080</u>

	2012			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	-----Rupees-----			
Pakistan Rupee	14,098,082,450	4,204,612,449	-	9,893,470,001
United States Dollar	1,655,219,128	-	-	1,655,219,128
	<u>15,753,301,578</u>	<u>4,204,612,449</u>	<u>-</u>	<u>11,548,689,129</u>

**34.3.3 Equity risk**

Equity price risk is the risk to the Company's earnings or capital, resulting from an adverse change in the value / price of equity. The Company's exposure in the equity market is classified in the available-for-sale category, with the intent to earn profit based on fundamentals.

**34.4 Operational risk**

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems of the Company.

The risk management function in the Company monitors the operational risk in order to ensure the safeguarding of assets and to mitigate other related risks.

The Company has invited proposals for consultancy services to implement a comprehensive Operational Risk Framework.

**34.4.1 Operational Risk-Disclosures Basel III Specific**

The Company has adopted the Basic Indicator Approach for ascertaining capital requirements for its operational risk. Up to the year end, the Company has not incurred any significant loss owing to operational risk.

**35 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS****35.1 Provision against non-performing loans and advances**

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

**35.2 Classification / valuation of investments**

For classification / valuation of investments, the Company follows the guidance provided in SBP circulars.

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**35.3 Impairment of investments**

The management determines that 'available-for-sale' equity investments are impaired when there has been a significant or prolonged decline in market value/ fair value below its cost. In making this judgment, the management considers, among other factors, decline in market price below cost by 20% as significant, and if the decline in market price persists for 9 months, as prolonged. For debt securities, impairment loss is determined on the basis of Prudential Regulations of SBP.

**35.4 Provision for income taxes**

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

**35.5 Operating fixed assets**

The Company reviews the useful lives and residual values of operating fixed assets on a regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of fixed assets with a corresponding effect on the depreciation charge/ amortization and impairment.

**35.6 Contingencies**

The Company reviews the status of all the legal cases on a regular basis. Based on the expected outcome and lawyers' judgments, an appropriate provision is made.

**35.7 Provision for gratuity**

Provision for gratuity is determined using actuarial assumptions. Any change in the assumptions from actual results would change the amount of unrecognised gains and losses.

**36 DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue in the Board of Directors meeting held on 27 March 2014.

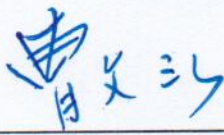
**37 GENERAL**

**37.1** The Pakistan Credit Rating Agency Limited has issued long term credit rating of AA- and the short term rating of A1+ for the Company.

**37.2** Captions as prescribed by BSD Circular No. 4 dated 17 February 2006 issued by the SBP for which there are no amounts have not been reproduced in these financial statements except for the statement of financial position and profit and loss account.

**37.3** Figures have been rounded off to the nearest Rupees, unless otherwise stated. *Exhibit*

  
CHAIRMAN

  
MANAGING DIRECTOR

  
DIRECTOR

  
DIRECTOR