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## **Pak China Investment Company Limited**

### **Financial Statements For the year ended 31 December, 2014**

Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants  
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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, 2014** 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 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, 2014** and of the profit, total comprehensive income, cash flows and changes in equity for the year then ended; and

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

*Ernst + Young Fund Advisors Sd/- Mr. Khayyam Mushir*  
Chartered Accountants

**Audit Engagement Partner's name:** Mr. Khayyam Mushir

**Date:** 27 March, 2015

**Place:** Islamabad

**PAK CHINA INVESTMENT COMPANY LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER, 2014**

		2014	2013
	Note	-----Rupees-----	
<b>ASSETS</b>			
Cash and balances with treasury banks	5	51,866,670	41,539,691
Balances with other banks	6	1,882,251,126	1,883,525,361
Lendings to financial institutions	7	-	559,025,145
Investments	8	11,288,944,291	4,283,207,947
Advances	9	5,956,904,391	5,329,004,252
Operating fixed assets	10	199,423,479	218,912,459
Deferred tax assets	11	42,618,010	-
Other assets	12	585,565,449	415,293,990
		20,007,573,416	12,730,508,845
<b>LIABILITIES</b>			
Bills payable		-	-
Borrowings	13	6,741,689,007	326,089,523
Deposits and other accounts	14	250,000,000	-
Subordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	11	-	12,799,679
Other liabilities	15	68,022,634	78,669,783
		7,059,711,641	417,558,985
<b>NET ASSETS</b>		<u>12,947,861,775</u>	<u>12,312,949,860</u>
<b>REPRESENTED BY</b>			
Share capital	16	9,116,400,000	9,116,400,000
Reserve	17	729,567,931	635,212,571
Unappropriated profit		2,915,980,853	2,538,559,412
		12,761,948,784	12,290,171,983
Surplus on revaluation of Available-For-Sale securities- net of tax	18	185,912,991	22,777,877
		<u>12,947,861,775</u>	<u>12,312,949,860</u>
<b>CONTINGENCIES AND COMMITMENTS</b>		19	

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

  
CHAIRMAN

  
MANAGING DIRECTOR

  
DIRECTOR

  
DIRECTOR

**PAK CHINA INVESTMENT COMPANY LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER, 2014**

	Note	2014 -----Rupees-----	2013
Mark-up / return / interest earned	20	1,331,381,383	1,035,329,119
Mark-up / return / interest expensed	21	(219,807,396)	(101,875,298)
Net mark-up / interest income		1,111,573,987	933,453,821
Provision against non-performing loans and advances	9.3.1	77,505,133	37,707,313
Provision for diminution in the value of available-for-sale investments	8.3	72,848,000	86,812,305
Bad debts written off directly		-	-
		150,353,133	124,519,618
Net mark-up / interest income after provisions		961,220,854	808,934,203
<b>NON MARK-UP / INTEREST INCOME</b>			
Fee, commission and brokerage income		19,462,951	13,761,659
Dividend income		8,984,259	-
Exchange (loss)/gain		(79,308,241)	139,751,250
Income from dealing in foreign currency		-	-
Gain on sale of Available-For-Sale securities		62,000,470	197,865,617
Unrealised gain / (loss) on revaluation of investments classified as Held-For-Trading		-	-
Other income	22	8,256,891	3,453,886
Total non mark-up / interest income		19,396,330	354,832,412
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	23	325,677,990	304,627,180
Impairment loss on available-for-sale investments	8.2.3	35,700,000	4,141,492
Other provisions / write offs		-	-
Other charges	24	435,000	20,000
Total non mark-up / interest expenses		361,812,990	308,788,672
Extraordinary / unusual items		-	-
<b>PROFIT BEFORE TAXATION</b>		618,804,194	854,977,943
Taxation - Current		255,360,009	273,175,845
- Prior years		(37,500,000)	-
- Deferred		(68,465,207)	17,516,656
	25	149,394,802	290,692,501
<b>PROFIT AFTER TAXATION</b>		469,409,392	564,285,442
Unappropriated profit brought forward		2,538,559,412	2,089,913,493
Profit available for appropriation		3,007,968,804	2,654,198,935
<b>Basic and diluted earnings per share</b>	26	0.51	0.62

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

CHAIRMAN

MANAGING DIRECTOR

DIRECTOR

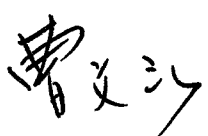
DIRECTOR

**PAK CHINA INVESTMENT COMPANY LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER, 2014**

	Note	2014 -----Rupees-----	2013
Profit after taxation for the year		469,409,392	564,285,442
<b>Other comprehensive income not to be reclassified to profit and loss in subsequent periods</b>			
Re-measurement gains/(losses) on defined benefit plan	29.8	2,367,409	(3,478,043)
<b>Comprehensive income transferred to equity</b>		<u>471,776,801</u>	<u>560,807,399</u>
<b>Components of comprehensive income not reflected in equity</b>			
Net change in fair value of Available-For-Sale securities - net of tax		163,135,114	(13,521,630)
<b>Total comprehensive income for the year</b>		<u>634,911,915</u>	<u>547,285,769</u>

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

  
 CHAIRMAN

  
 MANAGING DIRECTOR

  
 DIRECTOR

  
 DIRECTOR

**PAK CHINA INVESTMENT COMPANY LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER, 2014**

	Note	2014 -----Rupees-----	2013 -----Rupees-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		618,804,194	854,977,943
Less: Dividend income		(8,984,259)	-
		<u>609,819,935</u>	<u>854,977,943</u>
Adjustments for:			
Depreciation		21,793,724	21,818,750
Amortization		-	497,518
Provision for gratuity		10,128,032	6,308,522
Provision against non-performing loans and advances		77,505,133	37,707,313
Provision for diminution in the value of available-for-sale investments		72,848,000	86,812,305
Impairment loss on available-for-sale investments		35,700,000	4,141,492
Exchange loss/ (gain)		79,308,241	(139,751,250)
Gain on sale of fixed assets		(123,491)	(178,886)
		<u>906,979,574</u>	<u>872,333,707</u>
Decrease/ (increase) in operating assets			
Lendings to financial institutions		559,025,145	375,007,855
Advances		(705,405,272)	(776,623,591)
Others assets		(160,175,785)	14,392,718
		<u>(306,555,912)</u>	<u>(387,223,018)</u>
Increase/ (decrease) in operating liabilities			
Borrowings		6,415,599,484	(3,812,942,645)
Deposits and other accounts		250,000,000	-
Other liabilities		12,769,499	6,176,287
		<u>6,678,368,983</u>	<u>(3,806,766,358)</u>
Contribution to plan assets		(12,764,518)	(3,807,970)
Income tax paid		(275,303,587)	(272,241,204)
		<u>(288,068,105)</u>	<u>(276,049,174)</u>
Net cash generated from/ (used in) operating activities		<u>6,990,724,540</u>	<u>(3,597,704,843)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investments (made)/ realized during the year - net		(6,909,166,561)	3,625,906,458
Capital expenditure		(2,311,054)	(21,689,863)
Dividend income received		8,984,259	-
Sale proceeds of fixed assets		129,801	178,886
Net cash (used in)/ generated from investing activities		<u>(6,902,363,555)</u>	<u>3,604,395,481</u>
Effects of exchange rate changes on cash and cash equivalents		(79,308,241)	139,751,250
Increase in cash and cash equivalents		<u>9,052,744</u>	<u>146,441,888</u>
Cash and cash equivalents at the beginning of the year	27	1,925,065,052	1,778,623,164
Cash and cash equivalents at the end of the year	27	<u>1,934,117,796</u>	<u>1,925,065,052</u>

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

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CHAIRMAN

MANAGING DIRECTOR

DIRECTOR

DIRECTOR

**PAK CHINA INVESTMENT COMPANY LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER, 2014**

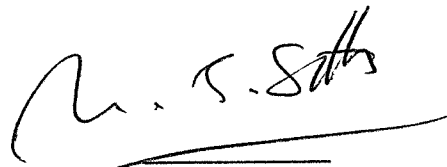
	Share capital	Statutory reserve	Unappropriated profit	Total
	----- (Rupees) -----			
Balance as at 01 January 2013	9,116,400,000	523,051,091	2,089,913,493	11,729,364,584
Profit for the year	-	-	564,285,442	564,285,442
Re-measurement losses on defined benefit plan	-	-	(3,478,043)	(3,478,043)
	-	-	560,807,399	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
Profit for the year	-	-	469,409,392	469,409,392
Re-measurement gains on defined benefit plan	-	-	2,367,409	2,367,409
	-	-	471,776,801	471,776,801
Transfer to statutory reserve	-	94,355,360	(94,355,360)	-
Balance as at 31 December 2014	<u>9,116,400,000</u>	<u>729,567,931</u>	<u>2,915,980,853</u>	<u>12,761,948,784</u>

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

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 CHAIRMAN.

  
 MANAGING DIRECTOR

  
 DIRECTOR

  
 DIRECTOR



**PAK CHINA INVESTMENT COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER, 2014**

**1 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 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, except 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.

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#### 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 amendments to International Financial Reporting Standards (IFRSs), and the new Islamic Financial Accounting Standard (IFAS) and an IFRIC interpretation, which became effective during the year:

IAS 32	Financial Instruments: Presentation – (Amendments) -Offsetting Financial Assets and Financial liabilities
IAS 36	Impairment of Assets – (Amendments) -Amendments relating to disclosure for recoverable amounts for non-financial assets
IFAS 3	Profit and Loss Sharing on Deposits
IFRIC 21	Levies

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

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

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

Standard or interpretation	Effective date (Accounting period beginning)
IAS 1 - Presentation of Financial Statements – (Amendment) - Disclosure Initiative	01 January 2016
IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets (Amendments) - Clarification of Acceptable Method of Depreciation and Amortization	01 January 2016
IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture (Amendments) - Agriculture: Bearer Plants	01 January 2016
IAS 19 - Employee Benefits (Amendments) - Employee Contributions	01 July 2014
IFRS 10 - Consolidated Financial Statements	01 January 2015
IFRS 11 - Joint Arrangements	01 January 2015
IFRS 12 - Disclosure of Interests in Other Entities	01 January 2015
IFRS 13 - Fair Value Measurement	01 January 2015
IAS 27 - Separate Financial Statements	01 January 2015
IAS 28 - Investments in Associates and Joint Ventures	01 January 2015

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## PAK CHINA INVESTMENT COMPANY LIMITED

The Company expects that the adoption of the above new and revised standards will not affect the Company's financial statements, in the period of initial application, except for certain additional disclosures required by IFRS 12 and IFRS 13.

In addition to the above, certain amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 July, 2014 and 01 January, 2016. The Company expects that such improvements to the standards will not have any impact 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	01 January 2018
IFRS 14 – Regulatory Deferral Accounts	01 January 2016
IFRS 15 – Revenue from Contracts with Customers	01 January 2017

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.

#### 4.3 Functional and presentation currencies

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

#### 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.

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**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 basis.

**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.

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.

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#### 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.

#### 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.

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**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.

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 2014. 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, the return on plan assets excluding amounts included in net interest on the net defined benefit obligation and any changes in the effect of the asset ceiling 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

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### 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.

### 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 37.

### 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.

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**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.
Others	Includes rental income earned from a building owned by the Company.

**Geographical Segments**

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

*Engr. A. M. Khan*



## PAK CHINA INVESTMENT COMPANY LIMITED

5	CASH AND BALANCES WITH TREASURY BANKS	Note	2014	2013
			-----Rupees-----	
	In hand-local currency		22,735	25,000
	With State Bank of Pakistan-local currency, current accounts	5.1	50,524,073	40,018,269
	With National Bank of Pakistan-local currency, current account		1,319,862	1,496,422
			<u>51,866,670</u>	<u>41,539,691</u>

5.1 This represents the minimum cash reserve required to be maintained with SBP, in accordance with the requirements of DMMD Circular No. 21, dated 5 October, 2012.

6	BALANCES WITH OTHER BANKS	Note	2014	2013
			-----Rupees-----	
	In Pakistan		16,949,201	25,888,766
	- local currency, current accounts	6.1	27,361,812	22,606,393
	- local currency, deposit accounts	6.2	1,837,940,113	1,835,030,202
	- foreign currency, deposit account		<u>1,882,251,126</u>	<u>1,883,525,361</u>

6.1 These carry interest at rates ranging from 5% to 7% (2013: 5% to 7%) per annum.

6.2 This represents a foreign currency term deposit of USD 18,306,176 (2013: USD 17,476,478) with Habib Bank Limited. It carries mark-up at a rate of 4.75% (2013: 5.20%) per annum, and will mature on June 23, 2015.

## 7 LENDINGS TO FINANCIAL INSTITUTIONS

In local currency				
- Repurchase agreement lending's (Reverse Repo)	7.1 & 7.2	-	559,025,145	

7.1 These carry mark-up at the rate of Nil (2013: 10%) per annum and have matured (2013: January 02, 2014).

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

	2014			2013		
	Held by the Company	Further given as collateral	Total	Held by the Company	Further given as collateral	Total
	-----Rupees-----			-----Rupees-----		
Market Treasury Bills	-	-	-	559,025,145	-	559,025,145

7.2.1 As of 31 December, 2014, the market value of the above securities amounted to Nil (2013: Rs. 559.142 million).

Exhibit

## 8 INVESTMENTS

8.1	Investments by type	Note	2014			2013		
			Held by the Company	Given as collateral	Total	Held by the Company	Given as collateral	Total
			Rupees			Rupees		
	<b>Available-For-Sale</b>							
	Market Treasury Bills	13.2.1	2,230,191,150	1,993,040,850	4,223,232,000	2,485,338,500	-	2,485,338,500
	Pakistan Investment Bonds	13.2.1	2,754,218,700	1,968,500,000	4,722,718,700	-	-	-
	Ordinary shares of a listed company		98,247,704	-	98,247,704	133,947,704	-	133,947,704
	Listed Term Finance Certificates		245,188,640	-	245,188,640	245,286,912	-	245,286,912
	Unlisted Term Finance Certificates		1,001,352,423	-	1,001,352,423	1,010,873,072	-	1,010,873,072
	Mutual Fund Units		650,000,000	-	650,000,000	-	-	-
	Sukuks - unlisted		433,432,610	-	433,432,610	461,976,000	-	461,976,000
			7,412,631,227	3,961,540,850	11,374,172,077	4,337,422,188	-	4,337,422,188
	<b>Held-To-Maturity securities</b>							
	Unlisted Term Finance Certificates		-	-	-	134,348,177	-	134,348,177
	<b>Total investments at cost</b>		7,412,631,227	3,961,540,850	11,374,172,077	4,471,770,365	-	4,471,770,365
	Less: provision for diminution in the value of investments	8.3	296,453,305	-	296,453,305	223,605,305	-	223,605,305
	<b>Total investments - net of provision</b>		7,116,177,922	3,961,540,850	11,077,718,772	4,248,165,060	-	4,248,165,060
	Surplus on revaluation of Available-For-Sale securities	18 & 13.2.1	132,736,369	78,489,150	211,225,519	35,042,887	-	35,042,887
	<b>Total investments at revalued amounts</b>		7,248,914,291	4,040,030,000	11,288,944,291	4,283,207,947	-	4,283,207,947

## 8.2 Investment by segments

	Note	2014	2013
		Rupees	
<b>Federal Government Securities</b>			
Market Treasury Bills	8.2.1	4,223,232,000	2,485,338,500
Pakistan Investment Bonds	8.2.2	4,722,718,700	-
		8,945,950,700	2,485,338,500
<b>Fully paid-up ordinary shares of listed company</b>	8.2.3	98,247,704	133,947,704
<b>Term Finance Certificates</b>			
Listed	8.2.4	245,188,640	245,286,912
Unlisted	8.2.5	1,001,352,423	1,145,221,249
		1,246,541,063	1,390,508,161
<b>Other investments</b>			
Mutual Fund Units	8.2.6	650,000,000	-
Sukuks - unlisted	8.2.7	433,432,610	461,976,000
<b>Total investments - at cost</b>		11,374,172,077	4,471,770,365
Less: provision for diminution in the value of investments	8.3	296,453,305	223,605,305
<b>Investments - net of provisions</b>		11,077,718,772	4,248,165,060
Surplus on revaluation of Available-For-Sale securities		211,225,519	35,042,887
<b>Total investments at revalued amounts</b>		11,288,944,291	4,283,207,947

8.2.1 These carry interest at rates ranging between 9.97% to 10.04% (2013: 9.35% to 9.41%) per annum, with a redemption period of twelve months (2013: three months). These securities have an aggregate face value of Rs. 4,500 million (2013: Rs. 2,500 million).

8.2.2 These carry interest at coupon rates ranging between 11.25% to 11.5% (2013: Nil) per annum, with a redemption period of three to five years (2013: Nil). The interest is receivable on a semiannual basis. These securities have an aggregate face value of Rs. 4,750 million (2013: Nil).

8.2.3 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. 91.704 million (2013: Rs. 149.922 million) at the year end. During the year, the Company has recognized an impairment loss of Rs. 35.700 million (2013: Rs. 4.14 million) for a total impairment loss of Rs. 265.901 million (2013: Rs. 230.210 million), in respect of this investment. The remaining deficit of Rs. 6.55 million has been recognized as part of surplus on revaluation of Available-For-Sale securities- net of tax.

## 8.2.4 Listed Term Finance Certificates

8.2.4.1 This represents 49,136 (2013: 49,136) certificates of Rs. 5,000 each of Askari Bank Limited. The market value of these certificates is Rs. 240.467 million (2013: Rs. 248.943 million) as at 31 December, 2014.

8.2.4.2 These carry interest at the rate of 6 months KIBOR plus 2.5% (2013: 6 months KIBOR plus 2.5%) per annum, and have a redemption period of 5 years (2013: 6 years).

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**8.2.5 Unlisted Term Finance Certificates**

Unlisted Term Finance Certificates		No. of certificates of Rs.5,000 each		Cost	
	Note	2014	2013	2014	2013
-----Rupees-----					
<b>Available-for-sale</b>					
Bank Alfalah Limited		30,000	30,000	149,700,000	149,760,000
Agritech Limited	8.2.5.2	40,000	40,000	199,760,000	199,760,000
Agritech Limited	8.2.5.3	1,695	1,695	8,473,305	8,473,305
Pakistan National Shipping Corporation (PNSC)	8.2.5.4	-	-	153,423,210	191,779,010
Azgard Nine Limited	8.2.5.3	36,000	36,000	115,130,757	115,130,757
Azgard Nine Limited	8.2.5.3	9,214	9,214	46,070,000	46,070,000
Bank Al-Habib Limited		20,000	20,000	99,860,000	99,900,000
Standard Chartered Bank Limited		40,000	40,000	200,000,000	200,000,000
Fauji Akbar Portia Marine Terminals Limited	8.2.5.5	-	-	28,935,151	-
				1,001,352,423	1,010,873,072
<b>Held-to-maturity</b>					
Avari Hotels Limited	8.2.5.6	-	72,172	-	134,348,177
				1,001,352,423	1,145,221,249

**8.2.5.1** These unlisted Term Finance Certificates (TFCs), except for TFC's of Bank Al-Habib Limited, carry interest rates of 3 months to 6 months KIBOR + 0.75% to 3.25% (2013: 3 months 12 months KIBOR + 0.75 to 3.25%) with a redemption period of 1-7 years (2013: 1-8 years). The TFC's of Bank Al-Habib Limited, carry interest rates of 15% per annum.

**8.2.5.2** These securities have been classified as non-performing 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 25% of the provision) in respect of the provisioning against these securities, to the extent of Rs 48.54 million (2013: Rs.95.699 million).

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

**8.2.5.4** As per the revised terms of the agreement between the Company and PNSC, a total of 29 certificates were required to be issued against this investment in 2014. These Certificates have been received during February, 2015.

**8.2.5.5** This represents mark-up, receivable from Fauji Akbar Portia Marine Terminals Limited, converted into two zero coupon TFC's, having face value of Rs.14.349 million and Rs.14.586 million, respectively.

**8.2.5.6** These unlisted TFC have been fully redeemed, during the year. The Company has, however, not issued the related No Objection Certificate to the Central Depository Company of Pakistan Limited, as at the balance sheet date.

**8.2.6 Mutual Fund Units**

	2014	2013	2014	2013
	-----Number of unit-----		-----Rupees-----	
HBL Income Fund	957,317	-	100,000,000	-
ABL Income Fund	9,908,004	-	100,000,000	-
NAFA Income Opportunity Fund	9,055,800	-	100,000,000	-
IGI Income Fund	1,484,540	-	150,000,000	-
First Habib Income Fund	955,819	-	100,000,000	-
Alfalah GHP Sovereign Fund	918,078	-	100,000,000	-
			650,000,000	

**8.2.7** These represent Sukuk Certificates of Liberty Power Technology Limited. These carry mark-up at the rate of 3 months KIBOR plus 3% (2013: 3 months KIBOR plus 3%) per annum. The sukuks have a redemption period of 7 years (2013: 8 years).

**8.3 Particulars of the provision for diminution in the value of investments**

	2014	2013
	-----Rupees-----	
Opening balance	223,605,305	136,793,000
Charge for the year	72,848,000	86,812,305
	296,453,305	223,605,305

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

<b>Available-For-Sale-securities</b>		
Unlisted Term Finance Certificates	296,453,305	223,605,305

**8.3.2** The above provision includes an impact of Forced Sale Value (FSV) benefit amounting to Rs.18.860 million (2013: 41.767 million) in respect of Azgard Nine Limited and Rs. 5.575 million (2013: 8.358 million) in respect of Agritech Limited. The FSV benefits recognised under the 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 26 December, 2012, has also stipulated that no dividend, cash or kind, shall be paid out of the benefits realised through the relaxations allowed therein.

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		2014		2013	
	Note	Market Value	Credit Rating	Market Value	Credit Rating
<b>8.4 Quality of 'Available For Sale' securities</b>					
<b>Market Treasury Bills</b>	8.4.1	4,239,150,000	Not Available	2,483,832,500	Not Available
<b>Pakistan Investment Bonds</b>	8.4.1	4,876,023,600	Not Available	-	Not Available
<b>Ordinary shares of a listed company</b>					
Agritech Limited		91,704,479	D	149,922,032	D
<b>Listed Term Finance Certificates</b>					
Askari Bank Limited		240,466,797	AA-	248,943,159	AA-
<b>Unlisted Listed Term Finance Certificates</b>					
Bank Alfalah Limited	8.4.2	154,913,901	AA-	158,243,904	AA-
Agritech Limited	8.4.2	54,121,000	D	104,061,000	D
Agritech Limited	8.4.2	-	D	-	D
Pakistan National Shipping Corporation (PNSC)	8.4.2	153,423,210	AA-	191,779,010	AA-
Azgard Nine Limited	8.4.2	18,859,757	D	41,767,757	D
Azgard Nine Limited	8.4.2	-	D	-	D
Bank Al-Habib Limited	8.4.2	114,509,062	AA	107,584,408	AA
Standard Chartered Bank Limited	8.4.2	200,127,400	AAA	200,750,000	AAA
Fauji Akbar Portia Marine Terminals limited	8.4.2	28,935,151	Not Available	-	-
<b>Mutual Funds</b>					
HBL Income Fund		108,966,708	A(f)	-	-
ABL Income Fund		108,771,005	A+	-	-
NAFA Income Opportunity Fund		101,107,103	A-(f)	-	-
IGI Income Fund		162,062,217	A+(f)	-	-
First Habib Income Fund		100,921,123	AA-(f)	-	-
Alfalah GHP Sovereign Fund		101,449,168	AA-(f)	-	-
<b>Sukuks - unlisted</b>					
Liberty Power Tech. Limited	8.4.2	433,432,610	A+	461,976,000	A+
		<u>11,288,944,291</u>		<u>4,148,859,770</u>	

8.4.1 These are Government of Pakistan guaranteed securities.

8.4.2 Investments in these TFCs and Sukuks are stated at their carrying values after deduction of the related provision.

		2014	2013
		Rupees	
<b>9 ADVANCES</b>	Note		
<b>In Pakistan</b>			
Advances	9.1	6,521,770,747	5,807,673,966
Staff loans		32,323,256	41,014,765
Advances- gross		6,554,094,003	5,848,688,731
<b>Provisions against non-performing loans and advances</b>	9.3 & 9.3.1	(482,004,185)	(417,181,000)
Specific provision	9.3.1	(115,185,427)	(102,503,479)
General provision		(597,189,612)	(519,684,479)
		<u>5,956,904,391</u>	<u>5,329,004,252</u>
<b>Advances - net of provision</b>			
9.1 Staff loans		41,014,765	27,806,827
Opening balance		3,784,000	27,230,000
Amounts disbursed during the year		(12,475,509)	(14,022,062)
Amounts recovered during the year		<u>32,323,256</u>	<u>41,014,765</u>
<b>9.2 Particulars of advances - gross</b>			
In local currency		6,554,094,003	5,848,688,731
9.2.1 Short-term (for upto one year)		-	37,800,000
9.2.2 Long-term (for over one year)		<u>6,554,094,003</u>	<u>5,810,888,731</u>
		<u>6,554,094,003</u>	<u>5,848,688,731</u>

EY KPMG

Advances include Rs. 762.5 million (2013: Rs. 682.5 million) which have been placed under non-performing status as detailed below:

Category of classification	2014									
	Classified advances			Provision required			Provision held			
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total	
	Rupees			Rupees			Rupees			
Substandard	-	-	-	-	-	-	-	-	-	
Doubtful	379,999,396	-	379,999,396	158,361,185	-	158,361,185	158,361,185	-	158,361,185	
Loss	382,500,000	-	382,500,000	323,643,000	-	323,643,000	323,643,000	-	323,643,000	
	762,499,396	-	762,499,396	482,004,185	-	482,004,185	482,004,185	-	482,004,185	
2013										
Rupees										
Category of classification	Classified advances			Provision required			Provision held			
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total	
	Rupees			Rupees			Rupees			
	Rupees			Rupees			Rupees			
Substandard	-	-	-	-	-	-	-	-	-	
Doubtful	412,500,000	-	412,500,000	168,303,000	-	168,303,000	168,303,000	-	168,303,000	
Loss	270,000,000	-	270,000,000	248,878,000	-	248,878,000	248,878,000	-	248,878,000	
	682,500,000	-	682,500,000	417,181,000	-	417,181,000	417,181,000	-	417,181,000	
Particulars of provision against non-performing advances										
2014										
Rupees										
Specific			General			Total			Specific	
Specific			General			Total			Specific	
Specific			General			Total			Specific	
Specific			General			Total			Specific	
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Specific			General			Total			Specific	
Specific			General			Total			Specific	
Specific			General							

1. General provision is maintained at the rate of 2% of the performing portfolio of advances.

1. Particulars of provision against non-performing advances

In local currencies  
In foreign currencies

3. In terms of SBP directives, effective up till 31 December, 2012, the Company availed a relaxation in respect of provisioning against a non-performing advance, to Wariid Telecom Private Limited, aggregating to Rs. 150 million (2013: 150 million). With effect from 31 December, 2012, the Company entered into a restructuring agreement with Wariid Telecom Private Limited, accordingly the first instalment of principal is due on 31 December, 2014.

1. The above provision includes an impact of Forced Sale Value (FSV) benefit, amounting to Rs. 44.775 million (2013: 75.893 million), in respect of Digri Sugar Mills, Rs. 14.081 million (2013: 21.122 million) in respect of Maymar Holding, and Rs. 71.123 million (2013: Nil) in respect of TU Plastic Industry Company 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.

Particulars of write-offs

The Company has not written-off any loans and advances, or allowed any financial relief, during the year.

Ex/Sumit

## PAK CHINA INVESTMENT COMPANY LIMITED

	Note	2014 Rupees	2013
<b>10 OPERATING FIXED ASSETS</b>			
Capital Work-In-Progress	10.1	1,500,000	-
Property and equipment	10.2	197,923,474	218,912,454
Intangible assets	10.5	5	5
		<u>199,423,479</u>	<u>218,912,459</u>
<b>10.1 Capital Work-In-Progress</b>			
Advances to suppliers	10.1.1	1,500,000	-

10.1.1 This represents a 25 % advance for development and installation of certain software, for use in the Company's Credit Administration, Corporate Finance and Risk Management Departments.

**10.2 PROPERTY AND EQUIPMENT**

	COST			DEPRECIATION		NET BOOK VALUE		
	As at 01 January, 2014	Additions / (deletions)	As at 31 December, 2014	As at 01 January, 2014	Charge during the year/ (On deletions)	As at 31 December, 2014	As at 31 December, 2014	Rate of depreciation per annum %
	Rupees							
Freehold Land (refer note 10.2.1)	136,000,000	-	136,000,000	-	-	-	136,000,000	-
Building (refer note 10.2.1)	40,341,662	-	40,341,662	2,689,444	4,034,170	6,723,614	33,618,048	10%
Leasehold improvements	12,354,940	-	12,354,940	11,290,205	1,064,733	12,354,938	2	20%
Electrical fittings	6,161,835	-	5,866,435	5,443,315	712,211	5,866,434	1	20%
		(295,400)			(289,092)			
Furniture and fixtures	14,596,305	68,000	14,664,305	12,276,314	1,134,728	13,411,042	1,253,263	20%
Computers and office equipment	37,781,662	743,054	37,594,005	22,800,685	7,376,300	29,246,276	8,347,729	33%
		(930,711)			(930,709)			
Vehicles	40,431,609	-	40,431,609	14,255,596	7,471,582	21,727,178	18,704,431	20%
	287,668,013	811,054	287,252,966	68,765,559	21,793,724	89,329,482	197,923,474	
		(1,228,111)			(1,219,801)			

	COST			DEPRECIATION		NET BOOK VALUE		
	As at 01 January, 2013	Additions / (deletions)	As at 31 December, 2013	As at 01 January, 2013	Charge during the year/ (On deletions)	As at 31 December, 2013	As at 31 December, 2013	Rate of depreciation per annum %
	Rupees							
Freehold land	-	136,000,000	136,000,000	-	-	-	136,000,000	-
Building	-	40,341,662	40,341,662	-	2,689,444	2,689,444	37,652,218	10%
Leasehold improvements	12,354,940	-	12,354,940	9,118,571	2,171,634	11,290,205	1,064,735	20%
Electrical fittings	6,161,835	-	6,161,835	4,304,176	1,139,139	5,443,315	718,520	20%
Furniture and fixtures	13,021,242	1,840,834	14,596,305	10,152,706	2,389,379	12,276,314	2,319,991	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	14,980,977	33%
		(862,072)			(862,072)			
Vehicles	40,431,609	-	40,431,609	6,549,996	7,705,600	14,255,596	26,176,013	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)			

10.2.1 The Company's freehold land and building is situated in Karachi, Pakistan and the related rental income is included in note 12 of these financial statements.

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

	2014 Rupees	2013
Leasehold improvements	12,354,940	5,987,075
Electrical fittings	5,866,435	1,864,575
Furniture and fixtures	12,691,465	8,249,886
Computers and office equipment	14,467,278	13,810,148
Vehicles	3,073,716	3,073,716
	<u>48,353,834</u>	<u>32,985,400</u>

10.3 During the year, electrical fittings and, computers and office equipment having book values of Rs. 6,308 (2013: Nil) and Rs. 2 (2013: Nil), respectively, were sold for Rs. 127,000 (2013: Rs. 178,886) to the 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. The Company has disposed-off the following assets to Mr. Shah Nawaz Mehmood (Deputy Managing Director):

Particulars of Assets	Cost	Book Value	Sale Price	Mode of Disposal
Generator Fauji 40 KVA - Office equipment	744,900	1	60,000	Company Policy
Electrical Fittings	106,000	-	13,000	Company Policy

**10.5 Intangible assets**

	COST			AMORTISATION		NET BOOK VALUE		
	As at 01 January, 2014	Additions / (deletions)	As at 31 December, 2014	As at 01 January 2014	Charge during the year (On deletions)	As at 31 December, 2014	As at 31 December, 2014	Rate of amortisation per annum %
	Rupees							
2014								
Computer software	4,674,479	-	4,674,479	4,674,474	-	4,674,474	5	33%

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

BY FROM

## PAK CHINA INVESTMENT COMPANY LIMITED

## 11 DEFERRED TAX ASSETS/ (LIABILITIES)

Difference between accounting book value and tax base of operating fixed assets  
Unrealized exchange gain  
Provision for staff retirement gratuity  
Provision against non-performing advances  
Provision for diminution in the value of available-for-sale investments  
Impairment loss on available-for-sale investments  
Surplus on revaluation of available-for-sale securities

01 January, 2014	Recognized in profit and loss account	Recognized in equity	31 December, 2014
Rupees-----			
(1,466,961)	4,501,407	-	3,034,446
(128,627,685)	27,723,363	-	(100,904,322)
4,467,581	(1,751,363)	-	2,716,218
17,500,000	-	-	17,500,000
78,261,857	25,496,800	-	103,758,657
29,330,539	12,495,000	-	41,825,539
(12,265,010)	-	(13,047,518)	(25,312,528)
(12,799,679)	68,465,207	(13,047,518)	42,618,010

Difference between accounting book value and tax base of operating fixed assets  
Unrealized exchange gain  
Provision for staff retirement gratuity  
Provision against non-performing advances  
Provision for diminution in the value of available-for-sale investments  
Impairment loss on available-for-sale investments  
Surplus on revaluation of available-for-sale securities

01 January, 2013	Recognized in profit and loss account	Recognized in equity	31 December, 2013
Rupees-----			
1,878,500	(3,345,461)	-	(1,466,961)
(79,275,230)	(49,352,455)	-	(128,627,685)
1,120,151	3,347,430	-	4,467,581
17,500,000	-	-	17,500,000
47,877,550	30,384,307	-	78,261,857
27,881,016	1,449,523	-	29,330,539
(19,545,889)	-	7,280,879	(12,265,010)
(2,563,902)	(17,516,656)	7,280,879	(12,799,679)

## 12 OTHER ASSETS

Income / mark-up accrued in local currency  
Income / mark-up accrued in foreign currency  
Advances, deposits and prepayments  
Advance taxation (payments less provision)  
Others

Note	2014	2013
Rupees-----		
	547,200,048	391,678,577
	2,182,553	3,180,719
	28,196,943	19,253,498
	7,083,247	-
	902,658	1,181,196
	585,565,449	415,293,990

## 13 BORROWINGS

In Pakistan

## 13.1 Particulars of borrowings with respect to currencies

In local currency

## 13.2 Details of borrowings - secured / unsecured

## Secured

Short-term  
Repurchase agreement borrowings

Long-term  
Borrowing from SBP under FFSAP  
Borrowing from SBP under LTFF

13.2.1	3,999,269,600	-
13.2.2	57,547,407	73,989,523
13.2.3	184,872,000	252,100,000
	4,241,689,007	326,089,523

## Unsecured

Short-term  
Call money borrowing from a financial institution

13.2.4	2,500,000,000	-
	6,741,689,007	326,089,523

13.2.1 These carry mark-up at rates ranging from 10% to 10.25% and are secured against government securities with carrying value of Rs.4,040 million.

13.2.2 This represents a Financing Facility for Storage of Agricultural Produce (FFSAP) obtained on concessional rates, for the objectives of developing agricultural produce, marketing it and the enhancement of storage capacities for agriculture produce. The loan availed under the facility is repayable within a maximum period of seven years, including a maximum grace period of six months and mark-up payable at 6.5% (2013: 6.5%) per annum. The Company has utilized the funds under this facility, by disbursing advances to an entity undertaking the relevant project.

13.2.3 This represents a Long-Term Finance Facility (LTFF) for imported and locally manufactured plant and machinery, obtained on concessional rates, to promote industrial growth leading to exports. The loan availed under the facility is 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% (2013: 8.4%) per annum. The Company has utilized the funds under the this facility by disbursing advances to an entity undertaking the relevant project.

13.2.4 This carries mark-up at the rate of 10% and is repayable on 02 January, 2015.

## 14 DEPOSITS AND OTHER ACCOUNTS

Certificate of Investments (COI)  
Fauji Fertilizer Company Ltd.

14.1 This represents COI issued to Fauji Fertilizer Company Limited. The amount is repayable in May 2015 and carry mark-up at the rate of 9.50% per annum.

2014	2013
Rupees-----	
250,000,000	-

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## PAK CHINA INVESTMENT COMPANY LIMITED

		2014	2013
	Note	Rupees	
<b>15 OTHER LIABILITIES</b>			
Mark-up/ return/ interest payable in local currency		21,280,241	6,545,957
Mark up on advance to FAPMT	15.1	31,947,578	-
Accrued liabilities		6,124,345	4,115,376
Advance rent received		729,000	4,725,000
Provision for tax - (provision less payments)		-	50,360,331
Payable to gratuity fund	29	7,760,623	12,764,518
Others		180,847	158,601
		<u>68,022,634</u>	<u>78,669,783</u>

- 15.1 This represents mark-up earned on an advance to Fauji Akbar Portia Marine Terminals (FAPMT), for the period from 24 November, 2013 to 31 December, 2014. Under a restructuring agreement for this advance, between the Company and FAPMT, the Company is entitled to TFCs of the FAPMT, maturing in 2021, in respect of this mark-up income. In accordance with directives of the State Bank of Pakistan, the Company intends to recognize this income in the profit and loss account, on its realization in cash.

**16 SHARE CAPITAL****16.1 Authorised capital**

2014	2013		2014	2013
Number of shares				
1,214,000,000	1,214,000,000	Ordinary shares of Rs. 10 each	12,140,000,000	12,140,000,000

**16.2 Issued, subscribed and paid-up share capital**

2014	2013		2014	2013
Number of shares				
911,640,000	911,640,000	Ordinary shares of Rs. 10 each, issued for cash	9,116,400,000	9,116,400,000

- 16.3 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 (2013: 455,820,000) Ordinary shares of the Company, at the year end.

	2014	2013
	Rupees	
<b>17 RESERVES</b>		
Statutory reserve	729,567,931	635,212,571
At the beginning of the year	635,212,571	523,051,091
Add: transfer during the year	94,355,360	112,161,480
	<u>729,567,931</u>	<u>635,212,571</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 of the Company, and after that a sum not less than 5% of the profit after tax shall be credited to the said reserve.

**18 SURPLUS ON REVALUATION OF AVAILABLE-FOR-SALE SECURITIES - NET OF TAX**

	2014	2013
	Rupees	
Market Treasury Bills	15,918,000	(1,506,000)
Pakistan Investment Bonds	153,304,900	-
Shares of Agritech Limited, a listed company	(6,543,225)	15,974,328
	<u>162,679,675</u>	<u>14,468,328</u>
Term Finance Certificates		
Askari Bank Limited	(4,721,843)	3,656,247
Bank Al-Falah Limited.	5,213,901	8,483,904
Bank Al-Habib Limited.	14,649,063	7,684,408
Standard Chartered Bank Limited.	127,400	750,000
	<u>15,268,521</u>	<u>20,574,559</u>
Mutual Funds		
HLB Income Fund	8,966,708	-
ABL Income Fund	8,771,005	-
NAFA Income Opportunity Fund	1,107,103	-
IGI Income Fund	12,062,217	-
First Habib Income Fund	921,123	-
Alfalsh GHP Sovereign Fund	1,449,167	-
	<u>33,277,323</u>	<u>-</u>
	<u>211,225,519</u>	<u>35,042,887</u>
Deferred tax	(25,312,528)	(12,265,010)
	<u>185,912,991</u>	<u>22,777,877</u>

**19 CONTINGENCIES AND COMMITMENTS****Transaction related contingent liabilities**

Letters of guarantees	-	-
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**Trade related contingent liabilities**

Letters of credit	311,416,840	-
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**Commitments to extend credits**

The Company makes commitments to extend credit in the normal course of its business, but these being revocable commitments, normally do not attract any significant penalty or expense if the facility is unilaterally withdrawn. As at the balance sheet date, however, the Company's outstanding irrevocable commitments amounts to Rs.436 million (2013: Rs.362.200 million).

For tax related contingencies, please refer note 25.2 to these financial statements.

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## PAK CHINA INVESTMENT COMPANY LIMITED

		2014	2013
	Note	-----Rupees-----	
<b>20 MARK - UP / RETURN / INTEREST EARNED</b>			
On loans and advances		624,454,775	606,587,367
On investments			
- Held-To-Maturity		11,765,224	27,475,061
- Available-For-Sale		574,253,604	295,214,233
		586,018,728	322,689,294
On deposits with banks		91,694,166	48,034,128
On securities purchased under resale agreements		29,213,714	58,018,330
		<u>1,331,381,383</u>	<u>1,035,329,119</u>
<b>21 MARK - UP / RETURN / INTEREST EXPENSED</b>			
Deposits		14,640,410	-
Borrowings		78,079,007	34,130,732
Securities sold under repurchase agreements		127,087,979	67,744,566
		<u>219,807,396</u>	<u>101,875,298</u>
<b>22 OTHER INCOME</b>			
Rent income	10.2.1	8,060,000	3,250,000
Gain on sale of operating fixed assets		123,491	178,886
Miscellaneous income		73,400	25,000
		<u>8,256,891</u>	<u>3,453,886</u>
<b>23 ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances and other benefits		191,675,774	162,942,926
Directors' fee		1,207,800	2,179,200
Gratuity		10,128,031	6,308,522
Employer's contribution to the provident fund		6,088,189	5,556,827
Traveling, conveyance, boarding and lodging		22,009,523	31,091,983
Rent, rates and taxes		28,347,569	27,509,645
Utilities		5,928,615	4,944,088
Communication		3,790,932	4,541,586
Office security charges		3,162,592	4,523,445
Professional training and staff welfare		3,383,969	876,589
Advertisements, periodicals and membership fees		1,002,260	1,030,944
Printing and stationery		2,158,915	3,522,959
Depreciation	10.2	21,793,724	21,818,750
Amortization	10.5	-	497,518
Auditors' remuneration	23.1	1,500,000	1,045,000
Legal, consultancy and other professional services		8,037,586	11,684,413
Repairs and maintenance		4,738,412	4,264,858
Insurance		4,379,265	3,065,503
Entertainment		1,414,290	1,165,019
Bank charges		296,054	295,807
Brokerage fee and commission			
Miscellaneous		4,634,490	5,761,598
		<u>325,677,990</u>	<u>304,627,180</u>
<b>23.1 Auditors' remuneration</b>			
Audit fee		600,000	600,000
Half yearly review		200,000	200,000
Special certifications and sundry services		600,000	175,000
Out of pocket expenses		100,000	70,000
		<u>1,500,000</u>	<u>1,045,000</u>
<b>24 OTHER CHARGES</b>			
Penalty imposed by the SBP		435,000	20,000
This represents penalty imposed by Off-Site Supervision and Enforcement Department of State Bank of Pakistan.			
<b>25 TAXATION</b>			
For the year			
Current		255,360,009	273,175,845
Deferred		(68,465,207)	17,516,656
For the prior year			
Current	25.1	(37,500,000)	-
		<u>149,394,802</u>	<u>290,692,501</u>

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## PAK CHINA INVESTMENT COMPANY LIMITED

	2014	2013
	-----Rupees-----	
<b>25.1 Relationship between tax expense and accounting profit</b>		
Profit before taxation	618,804,194	854,977,943
Tax at applicable rate of 33%/ 34%.	204,205,384	290,692,501
Tax effects of - income taxable at reduced rates	(13,428,837)	-
- recognition of deferred tax at higher rate	(3,881,745)	-
Prior year current tax charge	(37,500,000)	-
	149,394,802	290,692,501

- 25.2** 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 by disallowing "provision against lending to financial institutions" amounting to Rs.94.518 million. The Company has filed a review petition before the Appellate Tribunal Inland Revenue (ATIR) Islamabad. Further, the Company has also filed an appeal before the Islamabad High Court, against the order passed by the ATIR, Islamabad, which is pending fixation. Based on the advice of its tax advisor, the Company is confident that the ultimate outcome of the above matter will be in the Company's favour. Accordingly, no provision has been recognized in these financial statements.

Further, for tax year 2011, the assessment of the Company was amended by the Assistant Commissioner Inland Revenue (ACIR) by disallowing "provision against non performing loans and advances " and "bad debts written off". The ACIR, further disallowed credit for advance tax and imposed Workers Welfare Fund levy. As a result of a rectification application filed by the Company, the tax demand was reduced to Rs.15.109 million. The Company has deposited the amount of tax demand with the tax authorities. The Company's appeal with the Commissioner Inland Revenue (Appeals) [CIR(A)] was decided in its favour. The department has filed an appeal with the ATIR, against the decision of the CIR(A). Based on the advice of its tax advisor, the Company is confident that the ultimate outcome of the above matter will be in the Company's favour. Accordingly, no provision has been recognized in these financial statements.

	2014	2013
<b>26 BASIC AND DILUTED EARNINGS PER SHARE</b>		
Net profit for the year (Rupees)	469,409,392	564,285,442
Weighted average number of ordinary shares (Number)	911,640,000	911,640,000
Basic earnings per share (Rupees)	0.51	0.62

There were no convertible dilutive potential Ordinary shares outstanding as on 31 December, 2014 and 2013.

		2014	2013
<b>27 CASH AND CASH EQUIVALENTS</b>		-----Rupees-----	
Cash and balances with treasury banks	5	51,866,670	41,539,691
Balances with other banks	6	1,882,251,126	1,883,525,361
		1,934,117,796	1,925,065,052

		Number of employees	Number of employees
<b>28 STAFF STRENGTH</b>			
Permanent		38	40
Temporary / on contractual basis		-	-
The Company's own staff strength at the end of the year		38	40
Outsourced		11	10
Total Staff strength		49	50

**29 DEFINED BENEFIT PLAN**

**29.1 General description**

The Company operates an approved funded gratuity scheme for all its regular employees. Contributions are made in accordance with an actuarial valuation. The latest actuarial valuation was carried out as at 31 December 2014.

The benefits under the gratuity scheme are payable on retirement, at the age of 60 years, or on 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.

	2014	2013
<b>29.2 Principal actuarial assumptions</b>		
Discount rate used for Profit and Loss	11.25%	11.00%
Discount rate used for year end obligation	11.25%	12.50%
Expected rate of salary increase	10.25%	11.50%
Average remaining working lives of employees	10.71 years	9 years
Normal retirement age	60 years	60 years

		2014	2013
<b>29.3 Reconciliation of amount payable to defined benefit plan</b>		-----Rupees-----	
Present value of defined benefit obligation	29.5	28,297,493	24,751,685
Payable to outgoing employees		1,774,500	-
Fair value of plan assets	29.6	(22,311,370)	(11,987,167)
		7,760,623	12,764,518

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	2014	2013
	-----Rupees-----	
<b>29.4 Movement in payable to defined benefit plan</b>		
Opening balance	12,764,518	6,785,923
Charge for the year	10,128,032	6,308,522
Remeasurements (gains)/losses chargeable to the other comprehensive income	(2,367,409)	3,478,043
Company's contributions for the year	(12,764,518)	(3,807,970)
	<u>7,760,623</u>	<u>12,764,518</u>
<b>29.5 The movement in the present value of the defined benefit obligation over the year is as follows:</b>		
Opening balance	24,751,685	14,106,470
Current service cost	9,661,039	5,562,070
Interest cost	2,652,898	1,551,712
Benefits payable to outgoing employees	(1,774,500)	-
Benefits paid	(5,282,500)	-
Remeasurement gain	(1,711,129)	3,531,433
Closing balance	<u>28,297,493</u>	<u>24,751,685</u>
<b>29.6 The movement in the fair value of plan assets for the year is as follows:</b>		
Opening balance	11,987,167	7,320,547
Interest income on plan assets	2,185,905	805,260
Contributions	12,764,518	3,807,970
Benefits paid	(5,282,500)	-
Return on plan assets excluding interest income	656,280	53,390
Closing balance	<u>22,311,370</u>	<u>11,987,167</u>
Actual return on plan assets	<u>2,842,185</u>	<u>858,650</u>
<b>29.7 The amounts recognized in profit and loss are as follows:</b>		
Current service cost	9,661,039	5,562,070
Interest cost	2,652,898	1,551,712
Interest income on plan assets	(2,185,905)	(805,260)
	<u>10,128,032</u>	<u>6,308,522</u>
<b>29.8 The amounts recognized in the other comprehensive income are as follows:</b>		
<b>Remeasurement gain/ (loss):</b>		
Actuarial gain/ (loss) - experience adjustment	1,711,129	(3,531,433)
Return on plan assets, excluding interest income	656,280	53,390
	<u>2,367,409</u>	<u>(3,478,043)</u>
<b>29.9 Plan assets comprise of the following:</b>	2014 2013	
	-----%-----	
National Savings Certificates	99.76% 48.80%	22,258,596 5,850,000
Accrued interest	0% 18.95%	- 2,271,598
Bank balances	0.24% 32.25%	52,775 3,865,569
		<u>22,311,371</u> <u>11,987,167</u>
<b>29.10 Year end sensitivity analysis (+/- 100 bps) on the defined benefit obligation</b>	2014 2013	
	-----Rupees-----	
Current liability	28,297,493	24,751,685
Discount rate +100 bps	(25,547,288)	(22,674,918)
Discount rate -100 bps	31,533,506	27,197,853
Average salary increase +100 bps	31,676,192	27,197,853
Average salary increase -100 bps	(25,384,987)	(22,640,301)
<b>29.11 Risk associated with defined benefit plan</b>		
The defined benefit plan exposes the Company to the following risks:		
<b>Investment risk</b>		
The risk arises when the actual performance of the investments is lower than expectation, which may result in shortfall in funds needed to meet the related liabilities.		
<b>Mortality risks</b>		
The risk that actual mortality experience is different to that assumed in calculation of liability. The effect will depend upon the beneficiaries' servage/ age distribution and benefit.		
<b>Salary increase risk</b>		
The risk arises when the actual increases are higher than expectation, which impacts the related liability		
<b>Withdrawal risk</b>		
The risk of higher or lower withdrawal, as compared to that assumed in calculation of liability.		

Exhibit

## 29.12 Historical information of the defined benefit plan

	2014 Rupees	2013 Rupees	2012 Rupees	2011 Rupees	2010 Rupees
Present value of defined benefit obligations	28,297,493	24,751,685	14,106,470	8,322,034	8,085,333
Fair value of plan assets	(22,311,370)	(11,987,167)	(7,320,547)	(6,492,151)	(9,830,809)
Deficit/ (surplus)	5,986,123	12,764,518	6,785,923	1,829,883	(1,745,476)
Experience adjustments					
- on obligations	1,711,129	(3,531,433)	(1,311,501)	(572,036)	41,949
- on plan assets	656,280	53,390	16,877	(576,663)	(75,862)

29.13 Based on actuarial advice, the management estimates that the gratuity charge for the next year would be Rs. 8.696 million.

## 30 DEFINED CONTRIBUTION PLAN

The Company also operates a recognised contributory provident fund scheme for all its regular employees, where contributions are made by the company and employees at 10% per annum (2013: 10% per annum) of the employees' basic salary. During the year the company contributed Rs. 6.088 million (2013: Rs. 5.556 million) in respect of this fund.

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

	2014 Rupees	2013 Rupees (Restated)
Contribution from the Company	6,088,189	5,556,827
Contribution from the employees	6,088,189	5,556,827
	12,176,378	11,113,654

## 30.1 Provident fund trust

Size of the trust (Rupees)	43,895,332	40,629,453
Cost of investments made (Rupees)	43,264,676	39,930,895
Percentage of investment made (%)	98.56%	98.28%
Fair value of investment made (Rupees)	43,915,332	40,629,453

	2014 %	2013 %	2014 Rupees	2013 Rupees
Break-up of investments				
With a scheduled bank	2.40%	8.71%	1,053,002	3,538,509
In savings accounts	97.65%	91.34%	42,862,330	37,110,944
			43,915,332	40,649,453

30.1.1 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.

## 31 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2014	2013	2014	2013	2014	2013
	Rupees					
Fee	-	-	1,207,800	2,179,200	-	-
Managerial remuneration	29,825,371	25,402,758	20,782,335	17,864,000	130,174,726	89,843,568
Charge for defined benefit plan	1,485,556	909,713	1,308,674	1,214,095	7,289,544	3,773,146
Contribution to defined contribution plan	765,168	762,298	1,142,865	1,056,000	4,171,976	3,276,667
Rent and house maintenance	3,425,086	6,380,760	-	-	-	-
Utilities	906,500	859,491	537,708	334,894	-	-
Medical	1,079,242	968,310	299,867	404,243	5,101,963	3,522,506
Travelling and conveyance	3,622,772	2,782,975	937,631	1,886,254	-	-
Boarding and lodging	1,356,205	1,753,030	374,634	872,428	-	-
Daily allowance	2,461,840	2,919,600	172,160	500,400	-	-
Others	2,058,615	1,829,380	2,511,766	443,964	-	-
	46,986,355	44,568,315	29,275,440	26,755,478	146,738,209	100,415,887
Number of persons	1	1	5	5	36	28

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

31.2 Executive represents all staff of the Company with gross monthly salary exceeding Rs 500,000.

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**34 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.

**35 CAPITAL ADEQUACY****35.1 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

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability

The fair value of government securities is based on Reuters Pages (PKRV), data is not available, are carried at cost. Fair value of fixed term loans and current and active market for such assets and liabilities and reliable data reg

The carrying amounts of the Company's financial assets, as of 31 December

**SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES**

Total income - gross  
Total expenses  
Profit / (loss) before taxation

Segment assets - gross  
Segment non-performing assets  
Segment provision including general provision  
Segment liabilities  
Segment return on net assets

Total income - gross  
Total expenses  
Profit / (loss) before taxation

Segment assets - gross  
Segment non-performing assets  
Segment provision including general provision  
Segment liabilities  
Segment return on net assets

## PAK CHINA INVESTMENT COMPANY LIMITED

2014

2013

Rupees ('000)

**Additional Tier 1 (AT 1) Capital**

Qualifying Additional Tier-1 capital instruments plus any related share premium

of which: Classified as equity

of which: Classified as liabilities

Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)

of which: instrument issued by subsidiaries subject to phase out

**AT1 before regulatory adjustments**

Total regulatory adjustment applied to AT1 capital (Note 35.5.2)

Additional Tier 1 capital after regulatory adjustments

**Additional Tier 1 capital recognized for capital adequacy****Tier 1 Capital (CET1 + admissible AT1) (11+20)****Tier 2 Capital**

Qualifying Tier 2 capital instruments under Basel III plus any related share premium

Tier 2 capital instruments subject to phase-out arrangement issued under pre-Base 3 rules

Tier 2 capital instruments issued to third parties 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

Revaluation Reserves (net of taxes)

of which: Revaluation reserves on fixed assets

of which: Unrealized gains/losses on AFS

Foreign Exchange Translation Reserves

Undisclosed/Other Reserves (if any)

**T2 before regulatory adjustments**

Total regulatory adjustment applied to T2 capital (Note 35.5.3)

Tier 2 capital (T2) after regulatory adjustments

Tier 2 capital recognized for capital adequacy

Portion of Additional Tier 1 capital recognized in Tier 2 capital

**Total Tier 2 capital admissible for capital adequacy****TOTAL CAPITAL (T1 + admissible T2) (21+37)****Total Risk Weighted Assets (RWA) (for details refer Note 35.8)****Capital Ratios and buffers (in percentage of risk weighted assets)**

CET1 to total RWA

Tier-1 capital to total RWA

Total capital to total RWA

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

2014

2013

**Regulatory Adjustments and Additional Information**

Amount

Amounts  
subjects to pre  
- Basel III  
treatment

Rupees ('000)

**35.5.1 Common Equity Tier 1 capital: Regulatory adjustments**

Goodwill (net of related deferred tax liability)

All other intangibles (net of any associated deferred tax liability)

Shortfall in 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 of banking, financial and insurance entities

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## PAK CHINA INVESTMENT COMPANY LIMITED

7	Cash flow hedge reserve		
8	Investment in own shares/ CET1 instruments		
9	Securitization gain on sale		
10	Capital shortfall of regulated subsidiaries		
11	Deficit on account of revaluation from bank's holdings of fixed assets/ AFS		
12	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)		
13	Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
14	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
15	Amount exceeding 15% threshold		
16	of which: significant investments in the common stocks of financial entities		-
17	of which: deferred tax assets arising from temporary differences		-
18	National specific regulatory adjustments applied to CET1 capital		
19	Investments in TFCs of other banks exceeding the prescribed limit	-	-
20	Any other deduction specified by SBP (mention details)		
21	Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions		
22	<b>Total regulatory adjustments applied to CET1</b>	-	-
35.5.2	<b>Additional Tier-1 and Tier-1 Capital: regulatory adjustments</b>		
23	Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]		
24	Investment in own AT1 capital instruments		
25	Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities		
26	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)		
27	Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation		
28	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Base I treatment which, during transitional period, remain subject to deduction from additional tier-1 capital		
29	Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
30	<b>Total regulatory adjustment applied to AT1 capital</b>	-	-
35.5.3	<b>Tier 2 Capital: regulatory adjustments</b>		
31	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Base I treatment which, during transitional period, remain subject to deduction from tier-2 capital		
32	Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities		
33	Investment in own Tier 2 capital instrument		
34	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)		
35	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation		
36	<b>Total regulatory adjustment applied to T2 capital</b>	-	-
35.5.4	<b>Additional Information</b>	<b>2014</b>	<b>2013</b>
		-----Rupees ('000)-----	
	<b>Risk Weighted Assets subject to pre-Base I treatment</b>		
37	Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Base I Treatment)		
(i)	of which: deferred tax assets		
(ii)	of which: Defined-benefit pension fund net assets		
(iii)	of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity		
(iv)	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		
	<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
38	Non-significant investments in the capital of other financial entities		
39	Significant investments in the common stock of financial entities		
40	Deferred tax assets arising from temporary differences (net of related tax liability)	42,618	-
	<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
41	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)		
42	Cap on inclusion of provisions in Tier 2 under standardized approach		
43	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
44	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		

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## 35.6 Capital Structure Reconciliation

## Step 1

	Balance sheet of the published financial statements As at December 31, 2014	Under regulatory scope of consolidation As at December 31, 2014
	-----Rupees ('000)-----	
<b>Assets</b>		
Cash and balances with treasury banks	51,867	51,867
Balanced with other banks	1,882,251	1,882,251
Lending to financial institutions	-	-
Investments	11,288,944	11,288,944
Advances	5,956,904	5,956,904
Operating fixed assets	199,423	199,423
Deferred tax assets	42,618	42,618
Other assets	585,565	585,565
<b>Total assets</b>	<b>20,007,573</b>	<b>20,007,573</b>
<b>Liabilities and Equity</b>		
Bills payable	-	-
Borrowings	6,741,689	6,741,689
Deposits and other accounts	250,000	250,000
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Other liabilities	68,023	68,023
<b>Total liabilities</b>	<b>7,059,712</b>	<b>7,059,712</b>
Share capital/ Head office capital account	9,116,400	9,116,400
Reserves	729,568	729,568
Unappropriated/ Unremitted profit/ (losses)	2,915,981	2,915,981
Minority Interest	-	-
	<b>12,761,949</b>	<b>12,761,949</b>
Surplus on revaluation of assets - net of tax	185,913	185,913
<b>Total liabilities &amp; equity</b>	<b>20,007,573</b>	<b>20,007,573</b>

## Step 2

	Balance sheet of the published financial statements As at December 31, 2014	Under regulatory scope of consolidation As at December 31, 2014	Ref
	-----Rupees ('000)-----		
<b>Assets</b>			
Cash and balances with treasury banks	51,867	51,867	
Balanced with other banks	1,882,251	1,882,251	
Lending to financial institutions	-	-	
Investments	11,288,944	11,288,944	
of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold	-	-	a
of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold	-	-	b
of which: Mutual Funds exceeding regulatory threshold	-	-	c
of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)	-	-	d
of which: others (see note 8)	11,288,944	11,288,944	e
Advances	5,956,904	5,956,904	
shortfall in provisions/ excess of total EL amount over eligible provisions	-	-	f
general provisions reflected in Tier 2 capital	115,185	115,185	g
Fixed Assets	199,423	199,423	
of which: Intangibles	0	0	k
Deferred Tax Assets	42,618	42,618	
of which: DTAs that rely on future profitability excluding those arising from temporary differences	-	-	h
of which: DTAs arising from temporary differences exceeding regulatory threshold	-	-	i
Other assets	585,565	585,565	
of which: Goodwill	-	-	j
of which: Defined-benefit pension fund net assets	-	-	l
<b>Total assets</b>	<b>20,007,573</b>	<b>20,007,573</b>	

E 4.1.1



## PAK CHINA INVESTMENT COMPANY LIMITED

## Step 2 continued

	Balance sheet of the published financial statements As at December 31, 2014	Under regulatory scope of consolidation As at December 31, 2014	Ref
<b>Liabilities and Equity</b>			
Bills payable	-	-	
Borrowings	6,741,689	6,741,689	
Deposits and other accounts	250,000	250,000	
Sub-ordinated loans	-	-	
of which: eligible for inclusion in AT1			m
of which: eligible for inclusion in Tier 2			n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities			
of which: DTLs related to goodwill	-	-	o
of which: DTLs related to intangible assets	-	-	p
of which: DTLs related to defined pension fund net assets	-	-	q
of which: other deferred tax liabilities	-	-	r
Other liabilities	68,023	68,023	
<b>Total liabilities</b>	<b>7,059,712</b>	<b>7,059,712</b>	
Share capital	9,116,400	9,116,400	
of which: amount eligible for CET1	9,116,400	9,116,400	s
of which: amount eligible for AT1	-	-	t
Reserves	729,568	729,568	
of which: portion eligible for inclusion in CET1(provide breakup) -	729,568	729,568	u
Statutory			
of which: portion eligible for inclusion in Tier 2			v
Unappropriated profit/ (losses)	2,915,981	2,915,981	w
Minority Interest	-	-	
of which: portion eligible for inclusion in CET1	-	-	x
of which: portion eligible for inclusion in AT1	-	-	y
of which: portion eligible for inclusion in Tier 2	-	-	z
Surplus on revaluation of assets	185,913	185,913	
of which: Revaluation reserves on Fixed Assets	-	-	
of which: Unrealized Gains/Losses on AFS	185,913	185,913	aa
In case of Deficit on revaluation (deduction from CET1)	-	-	ab
<b>Total liabilities &amp; Equity</b>	<b>20,007,573</b>	<b>20,007,573</b>	

## Step 3

	Component of regulatory capital reported by bank ---Rupees ('000)---	Source based on reference number from step 2
<b>Common Equity Tier 1 capital (CET1): Instruments and reserves</b>		
1 Fully Paid-up Capital/ Capital deposited with SBP	9,116,400	(s)
2 Balance in Share Premium Account		
3 Reserve for issue of Bonus Shares		
4 General/ Statutory Reserves	729,568	(u)
5 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	
6 Unappropriated/unremitted profits/ (losses)	2,915,981	(w)
7 Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)		(x)
8 <b>CET 1 before Regulatory Adjustments</b>	<b>12,761,949</b>	
<b>Common Equity Tier 1 capital: Regulatory adjustments</b>		
9 Goodwill (net of related deferred tax liability)		(j) - (o)
10 All other intangibles (net of any associated deferred tax liability)	0	(k) - (p)
11 Shortfall of provisions against classified assets		(f)
12 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		{{(h) - (r)} * x%
13 Defined-benefit pension fund net assets		{{(l) - (q)} * x%
14 Reciprocal cross holdings in CET1 capital instruments		(d)
15 Cash flow hedge reserve		
16 Investment in own shares/ CET1 instruments		
17 Securitization gain on sale		
18 Capital shortfall of regulated subsidiaries		
19 Deficit on account of revaluation from bank's holdings of fixed assets/		(ab)

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20	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)		(a) - (ac) - (ae)
21	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)		(b) - (ad) - (af)
22	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	(i)
23	Amount exceeding 15% threshold		
24	of which: significant investments in the common stocks of financial entities		
25	of which: deferred tax assets arising from temporary differences		
26	National specific regulatory adjustments applied to CET1 capital		
27	of which: Investment in TFCs of other banks exceeding the prescribed limit		
28	of which: Any other deduction specified by SBP (mention details)		
29	Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	0	
30	<b>Total regulatory adjustments applied to CET1</b>	<b>12,761,949</b>	
31	<b>Common Equity Tier 1</b>		
32	<b>Additional Tier 1 (AT 1) Capital</b>		
33	Qualifying Additional Tier-1 instruments plus any related share premium		(t)
34	of which: Classified as equity		(m)
35	of which: Classified as liabilities		(y)
36	Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)		
37	of which: instrument issued by subsidiaries subject to phase out		
37	<b>AT1 before regulatory adjustments</b>		
38	<b>Additional Tier 1 Capital: regulatory adjustments</b>		
39	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)		
40	Investment in own AT1 capital instruments		
41	Reciprocal cross holdings in Additional Tier 1 capital instruments		
42	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)		(ac)
43	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation		(ad)
44	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-1 capital		
45	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
46	Total of Regulatory Adjustment applied to AT1 capital	-	
47	Additional Tier 1 capital	-	
47	<b>Additional Tier 1 capital recognized for capital adequacy</b>	<b>12,761,949</b>	
48	<b>Tier 1 Capital (CET1 + admissible AT1) (31+47)</b>		
49	<b>Tier 2 Capital</b>		
50	Qualifying Tier 2 capital instruments under Basel III plus any related share premium		(n)
51	Capital instruments subject to phase out arrangement from tier 2		(z)
52	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)		
53	of which: instruments issued by subsidiaries subject to phase out	115,185	(g)
54	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets		
55	Revaluation Reserves		
56	of which: Revaluation reserves on fixed assets	104,111	portion of (aa)
57	of which: Unrealized Gains/Losses on AFS		(v)
57	Foreign Exchange Translation Reserves		

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58	Undisclosed/Other Reserves (if any)		
59	T2 before regulatory adjustments	219,296	
	<b>Tier 2 Capital: regulatory adjustments</b>		
60	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		
61	Reciprocal cross holdings in Tier 2 instruments		
62	Investment in own Tier 2 capital instrument		
63	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)		(ae)
64	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation		(af)
65	Amount of Regulatory Adjustment applied to T2 capital	-	
66	Tier 2 capital (T2)	219,296	
67	Tier 2 capital recognized for capital adequacy	219,296	
68	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
69	Total Tier 2 capital admissible for capital adequacy	219,296	
70	<b>TOTAL CAPITAL (T1 + admissible T2)</b>	<b>12,981,245</b>	

## 35.7 Main Features of Regulatory Capital Instruments

1	Issuer	Pak China Investment Co Ltd.
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	NA
3	Governing law(s) of the instrument	Applicable Laws of Pakistan
	<b>Regulatory treatment</b>	
4	Transitional Basel III rules	Common Equity Tier I
5	Post-transitional Basel III rules	Common Equity Tier I
6	Eligible at solo/ group/ group&solo	Stand Alone
7	Instrument type	Ordinary shares
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	9,116,400
9	Par value of instrument	PKR 10 per share
10	Accounting classification	Shareholder's Equity
11	Original date of issuance	2008
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<b>Coupons / dividends</b>	
17	Fixed or floating dividend/ coupon	N/A
18	Coupon rate and any related index/ benchmark	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
	<b>Convertible or non-convertible</b>	
23	If convertible, conversion trigger (s)	N/A
24	If convertible, fully or partially	N/A
25	If convertible, conversion rate	N/A
26	If convertible, mandatory or optional conversion	N/A
27	If convertible, specify instrument type convertible into	N/A
28	If convertible, specify issuer of instrument it converts into	N/A
	<b>Write-down feature</b>	
29	If write-down, write-down trigger(s)	N/A
30	If write-down, full or partial	N/A
31	If write-down, permanent or temporary	N/A
32	If temporary write-down, description of write-up mechanism	N/A
33	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Common Equity (Ranks after all creditors and depositors)
34	Non-compliant transitioned features	No
35	If yes, specify non-compliant features	N/A

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## PAK CHINA INVESTMENT COMPANY LIMITED

## 35.8 Risk Weighted Assets

The capital requirements for the banking group as per the major risk categories has been indicated in the manner given below:-

	Capital Requirements		Risk Weighted Assets	
	2014	2013	2014	2013
	Rupees ('000)		Rupees ('000)	
<b>Credit Risk</b>				
Portfolios subject to standardized approach (Simple or Comprehensive)				
<b>On-Balance sheet</b>				
Cash and cash equivalents	-	-	-	-
Sovereign	3,106	3,882	31,062	38,820
Public Sector entities	184,707	184,504	1,847,066	1,845,036
Banks/ DFI	560,993	455,444	5,609,932	4,554,437
Corporate portfolio	370	362	3,703	3,624
Retail	1,131	1,436	11,313	14,355
Residential Mortgages	32,338	42,680	323,376	426,802
Past due loans	19,942	21,891	199,423	218,912
Operating Fixed Assets	40,180	1,880	401,800	18,796
Other assets	842,767	712,079	8,427,675	7,120,782
<b>Off-Balance sheet</b>				
Non-market related	72,105	31,221	721,050	312,207
Market related	-	-	-	-
	72,105	31,221	721,050	312,207
<b>Equity Exposure Risk in the Banking Book</b>				
Listed, Unlisted	75,438	72,098	754,379	720,984
	990,310	815,398	9,903,104	8,153,973
<b>Total Credit risk</b>				
<b>Market Risk</b>				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	77,323	-	773,225	-
Equity position risk	21,076	29,984	210,763	299,844
Foreign Exchange risk	183,794	183,503	1,837,938	1,835,030
	282,193	213,487	2,821,926	2,134,874
<b>Total Market Risk</b>				
<b>Operational Risk</b>				
Capital Requirement for operational risks				
	219,003	235,794	2,190,029	2,357,937
<b>Total</b>	<u>1,491,506</u>	<u>1,264,679</u>	<u>14,915,059</u>	<u>12,646,784</u>
<b>Capital Adequacy Ratios</b>				
	2014 Required	Actual	2013 Required	Actual
CET1 to total RWA	5.50%	85.56%	5.50%	97.18%
Tier-1 capital to total RWA	7.00%	85.56%	6.50%	97.18%
Total capital to total RWA	10.00%	87.03%	10.00%	98.07%

E-1 FPM

## 36 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 the Risk Management function of the Company through the Risk Management Committee (RMC). RMC of the Board has been constituted to facilitate focused oversight of various risks and is updated on a 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 the 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.

### 36.1 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.

*EY/PAK*

## PAK CHINA INVESTMENT COMPANY LIMITED

## 36.1.1 Segment by class of business

Fertilizer  
Power  
Steel  
Sugar  
Telecommunication  
Storage  
Real Estate  
Cement  
Glass  
Textile  
Engineering  
Plastic  
Financials  
Petroleum  
Food & Beverages  
Others

2014			
Advances - Gross		Contingencies and commitments	
Rupees	%	Rupees	%
195,000,000	2.98	-	-
2,548,678,996	38.89	497,428,986	66.55
275,890,000	4.21	-	-
462,500,000	7.06	250,000,000	33.45
300,000,000	4.58	-	-
636,250,490	9.71	-	-
70,000,000	1.07	-	-
200,000,000	3.05	-	-
168,065,000	2.56	-	-
563,164,643	8.59	-	-
416,666,668	6.36	-	-
79,999,396	1.22	-	-
283,333,334	4.32	-	-
172,222,220	2.63	-	-
150,000,000	2.29	-	-
32,323,256	0.49	-	-
6,554,094,003	100	747,428,986	100

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	-	-
652,892,540	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
-	-	200,000,000	55.22
41,014,765	0.70	-	-
5,848,688,731	100	362,200,000	100

## 36.1.2 Segment by sector

Public/Government  
Private

2014			
Advances - Gross		Contingencies and commitments	
Rupees	%	Rupees	%
133,333,334	2.03	-	-
6,420,760,669	97.97	747,428,986	100
6,554,094,003	100	747,428,986	100

Public/Government  
Private

2013			
Advances - Gross		Contingencies and commitments	
Rupees	Percent	Rupees	Percent
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	362,200,000	100.00

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

Cement  
Real Estate  
Telecommunication  
Sugar  
Plastic

2014		2013	
Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Rupees			
200,000,000	200,000,000	200,000,000	200,000,000
70,000,000	55,918,000	70,000,000	48,878,000
300,000,000	150,000,000	300,000,000	150,000,000
112,500,000	67,725,000	112,500,000	18,303,000
79,999,396	8,361,185	-	-
762,499,396	482,004,185	682,500,000	417,181,000

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

Public/Government  
Private

2014		2013	
Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Rupees			
-	-	-	-
762,499,396	482,004,185	682,500,000	417,181,000
762,499,396	482,004,185	682,500,000	417,181,000

## 36.1.5 Geographical Segment Analysis

In Pakistan

2014			
Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
(Rupees)			
618,804,194	20,007,573,416	12,947,861,775	747,428,986

2013			
Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
(Rupees)			
854,977,943	12,730,508,845	12,312,949,860	362,200,000

In Pakistan

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## 36.2 Liquidity risk

## PAK CHINA INVESTMENT COMPANY LIMITED

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 cash flows. 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 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 the 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.

## 36.2.1 Maturities of assets and liabilities

	2014									
	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	51,866,670	51,866,670	-	-	-	-	-	-	-	-
Balances with other banks	1,882,251,126	44,311,014	-	1,837,940,112	-	-	-	-	-	-
Investments	11,288,944,291	29,743,348	24,649,134	1,479,713,696	2,835,379,825	4,496,263,610	991,620,904	986,269,281	445,304,493	-
Advances	5,956,904,391	60,705,675	150,557,060	330,377,240	686,583,091	1,117,991,272	957,402,736	1,511,739,714	1,046,642,861	-
Deferred tax assets	42,618,010	19,676,739	305,429	(120,297,440)	20,264,771	62,340,799	9,162,154	19,643,340	31,522,218	94,904,742
Operating fixed assets	199,423,479	1,597,921	3,195,828	4,793,742	11,087,484	13,437,535	7,795,434	8,068,344	13,447,191	-
Other assets	585,565,449	378,515,452	82,784,120	45,169,116	40,424,795	38,671,966	-	-	-	136,000,000
	20,007,573,416	586,416,819	261,491,571	3,577,696,466	3,593,739,966	5,728,705,182	1,965,981,228	2,525,720,679	1,536,916,763	230,904,742
<b>Liabilities</b>										
Borrowings	6,741,689,007	6,524,297,658	-	16,807,000	41,835,058	83,670,116	66,858,116	8,221,059	-	-
Deposits and other accounts	250,000,000	-	-	250,000,000	-	-	-	-	-	-
Other liabilities	68,022,634	21,253,799	-	14,821,257	-	31,947,578	-	-	-	-
	7,059,711,641	6,545,551,457	-	281,628,257	41,835,058	115,617,694	66,858,116	8,221,059	-	-
<b>Net assets</b>	<b>12,947,861,775</b>	<b>(5,959,134,638)</b>	<b>261,491,571</b>	<b>3,296,068,209</b>	<b>3,551,904,908</b>	<b>5,613,087,488</b>	<b>1,899,123,112</b>	<b>2,517,499,620</b>	<b>1,536,916,763</b>	<b>230,904,742</b>

EY/AMH

Share capital  
Reserve  
Unappropriated profit  
Surplus on revaluation of  
Available-For-Sale securities

-----Rupees-----  
9,116,400,000  
729,567,931  
2,915,980,853  
185,912,991  
12,947,861,775

	2013									
	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	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
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
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
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
<b>Liabilities</b>										
Borrowings	326,089,523	25,028,058	-	16,807,000	41,835,058	83,670,116	83,670,116	75,079,174	-	-
Deferred tax Liabilities	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	75,079,174	-	-
<b>Net assets</b>	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	1,776,267,789	1,662,884,421	157,790,885
Share capital	9,116,400,000									
Reserves	635,212,571									
Un-appropriated profit	2,538,559,412									
Surplus on revaluation of Available-For-Sale securities	22,777,877									
	<u>12,312,949,860</u>									

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Market risk is the loss due to adverse movements in market rates or price 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 all investments are classified as Available-For-Sale or Held-to-Maturity. Due to diversified nature of investments in banking book, the Company is primarily subject to interest rate risk. The Company, in accordance with its Joint Venture agreement, is not allowed to engage in secondary market equity trading. The Company is using Basel-III standardized approach to calculate risk weighted assets against market risk exposure.

### 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 %	2014										Not exposed to yield / interest rate risk
		Total	Upto one month	Over one to three months	Over three to six months	Exposed to yield / profit risk					Over five to ten years	
						Over six months to one year	Over one to two years	Over two to three years	Over three to five years			
Rupees												
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks		51,866,670	-	-	-	-	-	-	-	-	-	51,866,670
Balances with other banks	6.43%	1,882,251,126	44,304,756	-	1,837,940,113	-	-	-	-	-	-	6,257
Investments	11.96%	11,288,944,291	29,743,348	24,649,134	1,479,713,696	2,835,379,825	4,404,559,130	991,620,904	986,269,282	416,369,342	-	120,639,630
Advances	11%	5,956,904,391	60,705,675	150,557,060	330,377,240	686,583,091	1,117,991,272	957,402,736	1,511,739,714	1,046,642,861	94,904,742	-
Other assets		556,132,526	-	-	-	-	-	-	-	-	-	556,132,526
		19,736,099,004	134,753,779	175,206,194	3,648,031,049	3,521,962,916	5,522,550,402	1,949,023,640	2,498,008,996	1,463,012,203	94,904,742	728,645,083
Financial Liabilities												
Borrowings	9%	6,741,689,007	6,524,297,658	-	16,807,000	41,835,058	83,670,116	66,858,116	8,221,059	-	-	-
Deposits and other accounts	9.5%	250,000,000	-	-	250,000,000	-	-	-	-	-	-	-
Other liabilities		64,281,207	-	-	-	-	-	-	-	-	-	64,281,207
		7,055,970,214	6,524,297,658	-	266,807,000	41,835,058	83,670,116	66,858,116	8,221,059	-	-	64,281,207
On balance sheet gap		12,680,128,790	(6,389,543,879)	175,206,194	3,381,224,049	3,480,127,856	5,438,880,286	1,882,165,524	2,489,787,937	1,463,012,203	94,904,742	664,363,876
Off-balance sheet financial instruments												
Commitments to extend credits (in case these materialize)		747,428,986	-	-	-	-	-	-	-	-	-	747,428,986
Off-balance sheet gap - net		747,428,986	-	-	-	-	-	-	-	-	-	747,428,986
Total yield/ interest risk sensitivity gap		(6,389,543,879)	175,206,194	3,381,224,049	3,480,127,856	5,438,880,286	1,882,165,524	2,489,787,937	1,463,012,203	94,904,742	1,411,792,862	-
Cumulative yield/ interest rate sensitivity gap		(6,389,543,879)	(6,214,337,685)	(2,833,113,636)	647,074,222	6,085,894,508	7,968,060,032	10,457,847,969	11,920,860,172	12,015,764,914	13,427,557,716	-

By hand

2013													
	Effective yield / interest rate %	Total	Upto one month	Over one to three months	Over three to six months	Exposed to yield / profit risk				Over three to five years	Over five to ten years	Above ten years	Not exposed to yield / interest rate risk
						Over six months to one year	Over one to two years	Over two to three years	Over three to five 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	37,183,504	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	760,091,838	1,431,581,714	1,009,441,782	21,790,886	-	403,535,165
		403,535,165	-	-	-	-	-	-	-	-	-	-	403,535,165
		12,499,837,561	3,186,794,093	168,174,558	2,131,856,971	589,975,220	1,414,397,551	916,145,011	1,903,937,213	1,571,769,170	21,790,886	-	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	-	-	73,944,783
Other liabilities		73,944,783	-	-	-	-	-	-	-	-	-	-	73,944,783
		400,034,306	25,028,058	-	16,807,001	41,835,058	83,670,116	83,670,116	66,858,116	8,221,058	-	-	73,944,783
On balance sheet gap		12,099,803,255	3,161,766,035	168,174,558	2,115,049,970	548,140,162	1,330,727,435	832,474,895	1,837,079,097	1,563,548,112	21,790,886	-	521,052,105
Off-balance sheet financial instruments													
Commitments to extend credit (in case materialize)		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	168,174,558	2,115,049,970	548,140,162	1,330,727,435	832,474,895	1,837,079,097	1,563,548,112	21,790,886	883,252,105	-	-
Cumulative yield/ interest rate sensitivity gap													
		3,161,766,035	3,329,940,594	5,444,990,563	5,993,130,725	7,323,858,160	8,156,333,056	9,993,412,152	11,556,960,264	11,578,751,150	12,462,003,255	-	-

EY/PAK

**36.3.2 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.

exchange rate movement. This Company has the following exposures in this category, or in the

	2014			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	-----Rupees-----			
Pakistan Rupee	17,927,591,814	6,809,711,641	-	11,117,880,173
United States Dollar	1,837,940,113	-	-	1,837,940,113
	19,765,531,927	6,809,711,641	-	12,955,820,286

	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
	12,511,596,386	404,759,306	-	12,106,837,080

**36.3.3 Equity risk**

Equity price risk is the risk to the 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 Available-For-Sale category, as the Company intends to earn profit based on fundamentals.

**36.4 Operational risk**

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

The risk management function in the Company monitors 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.

**36.4.1 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.

**37 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS****37.1 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 security position are taken into account.

**37.2 Classification / valuation of investments**

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

E4FAM

**37.3 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, the 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 the Prudential Regulations of SBP.

**37.4 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 with the tax authorities.

**37.5 Operating fixed assets**

The Company reviews the useful lives and residual value of 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.

**37.6 Contingencies**

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

**37.7 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.

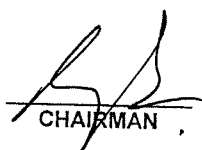
**38 DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue in the Board of Directors meeting held on 27 MAR 2015.

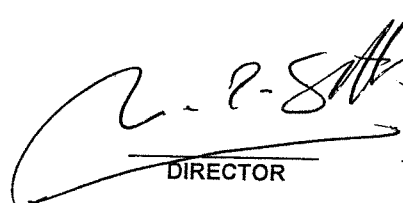
**39 GENERAL**

- 39.1** The Pakistan Credit Rating Agency Limited has issued a long term credit rating of AA, and the short term rating of A1+, for the Company.
- 39.2** 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.
- 39.3** Figures have been rounded off to the nearest Rupees, unless otherwise stated.

EYPM

  
 CHAIRMAN

  
 MANAGING DIRECTOR

  
 DIRECTOR

  
 DIRECTOR