PAKCHINA
INVESTMENT COMPANY LIMITED

welcome to 2010

annual report

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PAKCHINA
INVESTMENT COMPANY LIMITED


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vision, mission & core values

VISION

To become a leading DFI as a HUB of investment activities for Pakistani & Chinese entrepreneurs through our in-depth market knowledge. Providing innovative financial solutions through exceptional people, efficient processes, innovative solutions and customer relationship.

Focus on bringing Chinese investment, Technology and know-how to Pakistan by conducting Road Shows and preparing Pitch-books. Allowing Pak China Investment Company to be used as a platform for investment decisions in entering the Pakistani market.

MISSION STATEMENT

As a Focused Development Financial Institution we excel in our mission. Our business spans over Financial, Manufacturing, Real Estate, Energy, Infrastructure, Information Technology and Agriculture Sectors.

Our Mission is to:

- Be a channel of investment flow by becoming prime advisors for investors from Pakistan and China
- Identify and Capitalize on opportunities in Pakistan by leveraging on Chinese technology, financial resources and entrepreneurial expertise
- Act as a catalyst of success for our customers by responding to their needs and develop a lasting Relationship.
- Create a culture of performance integrity and efficiency where productivity performance and innovation are the hallmarks
- Build state-of-the-art technology platform and applications
- Produce exceptional results while keeping within acceptable risk levels

CORE VALUES

At Pak China Investment Company Limited, we live by our Values, which determine our business and personal conduct. We ensure that these values are disseminated and are understood by each one of us in their letter and spirit:

- We work with integrity, professionalism, passion, dedication, creativity and have a one point agenda of desired results
- We respect individuals and their views and understand diversity of our cultures
- We are honest in our communication, we mean what we say and we don't say what we don't mean
- We regard success and satisfaction of our customers as our reward
- We value our leadership and foster its development
- We put team's interest ahead of ours and work as a cohesive team


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corporate **information**

BOARD OF DIRECTORS

Dr. Abdul Hafeez Shaikh	Chairman
Mr. Zuo Kun	Director
Mr. Gu YeNing	Director
Mr. Abdul Wajid Rana	Director
Mr. Cao Wen Jiang	Managing Director
Mr. Javed Mahmood	Deputy Managing Director

HUMAN RESOURCE COMMITTEE

Dr. Abdul Hafeez Shaikh	Chairman
Mr. Cao Wen Jiang	Member
Mr. Abdul Wajid Rana	Member
Mr. Gu YeNing	Member

RISK MANAGEMENT COMMITTEE

Mr. Abdul Wajid Rana	Chairman
Mr. Cao Wen Jiang	Member
Mr. Zuo Kun	Member
Mr. Javed Mahmood	Member

AUDIT COMMITTEE

Dr. Abdul Hafeez Shaikh	Chairman
Mr. Abdul Wajid Rana	Member
Mr. Gu YeNing	Member
Mr. Javed Mahmood	Member

COMPANY SECRETARY

Ms. Shazia Khan

STATUTORY AUDITORS

KPMG Taseer Hadi & Co. Chartered Accountants

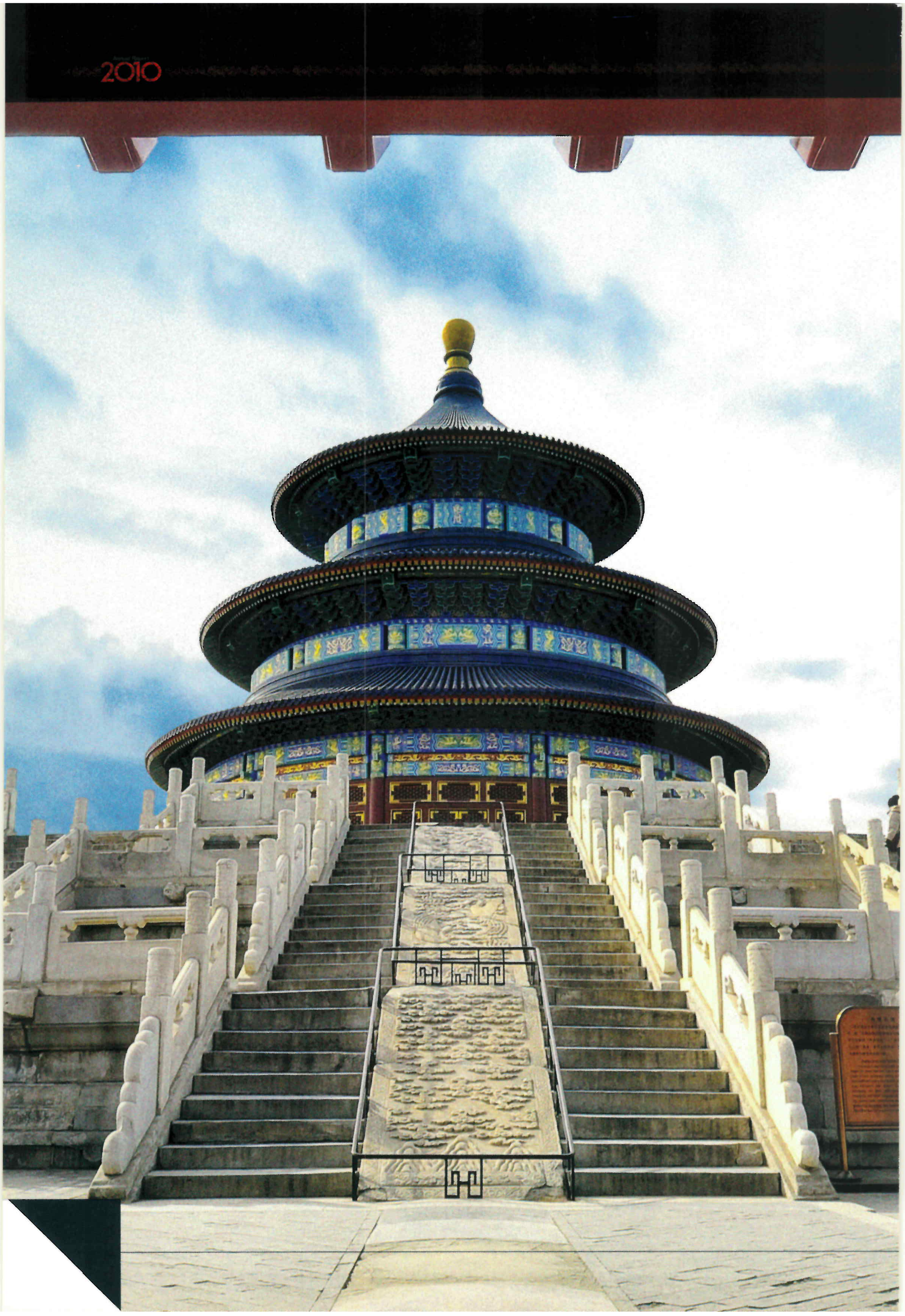
LEGAL ADVISORS

Mohsin Tayebali & Co.

ENTITY RATINGS

Long Term: AA-

Short Term: A1+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company information

REGISTERED HEAD OFFICE

Saudi Pak Tower
13th Floor
61-A Jinnah Avenue
Islamabad-44000
Pakistan

T: +92-51-2800281-6, 2099666

F: +92-51-2800297, 2800279

KARACHI OFFICE

Khadija Tower
Mezzanine Floor
11/5, Block-2, Scheme 5, Clifton
Karachi-75600

T: +92-21-35379888, 35377222

F: +92-21-35810666

PAKCHINA
INVESTMENT COMPANY LIMITED

mastering **destiny** by **carving** one's **fate**

Destiny never comes at its own. It is a carefully and resolutely taken decision not to settle at any point below success that could lead to take command of one's own destiny.

bravery to take-up new **challenges**

Taking up newer challenges in untested waters is easier said then done. But you never explore new worlds without daring to brace the unforeseen.

directors **profile**

Dr. Abdul Hafeez Shaikh

Chairman

Mr. Shaikh, an eminent economist of international repute, has over 30 years experience in economic policymaking management and implementation.

An elected Senator from Sindh Province, he is presently serving as the Federal Minister of Finance of Pakistan. His professional achievements expand in both public and private sectors. As a senior official in World Bank, Mr. Shaikh has advised 21 countries in all major emerging regions of Asia, Africa Europe and Latin America. His previous government appointments include provincial ministry of finance in Sindh and federal ministry of privatization and investment in Pakistan.

In both these places, he has left his mark with high performances inducing greater provincial fiscal discipline and executing record number of privatization transactions in transparent fashion. Prior to his current appointment, Mr. Shaikh was working as a General Partner of an international US-based investment company. An economics graduate from Boston University, USA, Mr. Shaikh has also obtained his PhD in economics from the same university.

Mr. Zuo Kun

Director

A nominee of China Development Bank (CDB), Mr. Zuo has over 13 years experience in various banking areas. Presently, he is working as Chief Operating Officer of CDB Capital. He has served both at branch and head office levels in CDB. Mr. Zuo has worked in credit administration and asset restructuring departments. His other key appointment includes Secretary of General Office Secretariat in CDB. He is a finance graduate from China Financial Academy, Beijing.

Mr. Gu YeNing

Director

A nominee of China Development Bank (CDB), Mr. Gu has 23 years of diverse work experience in engineering and financial sectors. He is currently the Head of the Pakistan Working Group of CDB.

He started his career in Ministry of Railway, where he worked in areas of project bidding, technical and cost engineering and project management. After railway he joined CDB, where he served in senior capacity in various branches. His key areas of responsibilities include credit evaluation and management and loan inspection. A civil engineer by qualification, Mr. Gu has obtained his engineering degree from South West Jiaotong University.

Mr. Abdul Wajid Rana

Director

A nominee of Ministry of Finance (MoF), Mr. Rana, an officer of District Management Group, has 32 years of administrative and public policy experience. Currently, he is the Federal Secretary of Economic Affairs Division in Government of Pakistan. In his illustrious civil service career, he has worked at different governmental levels in provinces and federal capital.

His key areas of work include administration of criminal justice homeland security and counter terrorism, fiscal and financial management, fiscal decentralization, economic reforms, and public policy at strategic and tactical levels, poverty reduction strategy at the national and sub-national levels and public sector development. An author of various publications, Mr. Rana has extensive domestic and overseas training exposure. Besides his Masters degree in political science, Mr. Rana has obtained degrees in the areas of law, finance and business administration.

Mr. Cao Wen Jiang

Managing Director

Mr. Cao was appointed Managing Director of the Company in May 2011. He has a diverse financial sector experience of over 27 years. Prior to his current appointment, he was working as the director of China Development Bank (CDB) for South American region.

Mr. Cao started his career from China Investment Bank, whereby he joined CDB in 1999. Through his long career, he has been working in various areas at branch and head office levels. Besides his domestic banking experience, Mr. Cao has extensive senior level working exposure in Latin America. His major work areas include credit, appraisal and international business. Mr. Cao is a graduate from Shandong Teachers' University.

Mr. Javed Mahmood

Deputy Managing Director

Mr. Mahmood joined the Company as Deputy Managing Director in February 2011. His illustrious career in corporate sector spans over 45 years.

Mr. Mahmood has diverse working exposure at senior levels in commercial banks, Development Finance Institution and power sector. His last appointment was Chief Executive Officer of Hub Power Company, the largest Independent Power Producer of Pakistan.

He has also worked as Group Chief at National Bank of Pakistan, the biggest bank of the country.

Mr. Mahmood has attended numerous domestic and international seminars on finance and banking related topics. He has also presented various papers on financial market development in Pakistan. Mr. Mahmood is a graduate from Punjab University, Lahore.

Ms. Shazia Khan

Company Secretary

Ms. Shazia holds more than 9 years of experience. She is a corporate lawyer by profession.

Prior to joining PCICL she worked with NCHD (National Commission for Human Development), Mahmood Awan & Partners (legal & corporate advisor) and Business & Industrial Insurance Company Limited in the capacity of Company Secretary.

the management

- Mr. Qi Feng
  Chief Financial Officer
- Tariq Mahmood
  Head of Corporate Finance
- Zia Banday
  Head of Risk Management
- Munir Barlas
  Head of Internal Audit
- Anjum Abbas
  Head of Compliance

- **Sohail Khan**
  Head of Information Technology
- **Nabeel Abbas**
  Head of Money Market
- **Yasmin Akbar**
  Manager Credit
- **Khanzada Arsalan Khan**
  Manager Administration

PAKCHINA
INVESTMENT COMPANY LIMITED

dynamism with courage

Success is to be gauged that it is notched within a certain given time-span. So agility of a tiger as well as courage gives you the confidence to attain certain objectives in a given time frame.

reliance on inner strength and initiative

The secret to rise lies in action and initiative and not in a reaction. Those who have full confidence in their inner strength can always dare. They are the ones blessed with the courage to takeup any new initiative and turn it into a roaring success.

charismatic

It is a natural gift bestowed to some individuals in life that helps them rise onto the ladders of practical life and to excel. Tigers are blessed with this natural quality of life.

unwavering will to succeed

The qualities of a tiger are equally applicable in today's world of business. It is with commitment and unwavering will to succeed that enables an individual or a company to steer ahead to conquer and to rise above challenges.

chairman's **review**

It is a matter of pleasure for me in presenting the financial results of Pak China Investment Company for the year 2010. It may be mentioned here that the year under review was marked with catastrophic floods, precarious security and difficult economic conditions for Pakistan. Repercussions of these events were felt across the economic sectors in the country.

However, Pak China, despite its relatively restricted business mandate, was able to register a growth in its profitability along with credit extension in difficult operating conditions.

Key performance highlights for the year are as under:

- Net profitability increased by 9% to PKR 560 million
- Advances risen by 13% from PKR 4.7 billion to PKR 5.3 billion
- Asset base enhanced by 6% to PKR 11.6 billion
- Credit Rating was maintained at AA- by Pakistan Credit Rating Agency Limited

Being the latest entrant in DFI sector, with only three years of operations, Pak China has kept its focus on remaining a long-term financier for large projects. With its large capital base among DFIs, Pak China has remained relatively under-leveraged company. Solicitation of Chinese-based businesses remains a difficult proposition for Pak China in view of existing macro and micro environment, where net Foreign Direct Investment (FDI) in Pakistan has posted a declining trend. Its corporate exposure has a strong tilt towards syndicated loans. The Company has kept the bulk of its treasury exposure in government securities such as treasury bills, which reflects its short-term focus on liquidity management.

Overview of Macro Environment

From a laggard GDP growth rate of 1.2% in FY 2009 (ended June 30, 2009), Pakistan made a modest growth of 4.1% in FY 2010. However, devastation wrought by floods during August 2010 has erased these modest gains in the economy. The floods not only caused a slowdown in agricultural growth, the manufacturing sector, already facing energy shortages, also took a hit as a result of supply disruptions.

The industrial production after having registered positive growth in 2009-10 slid once again into negative in August 2010 and has remained so for the next four months. On an annual basis, the manufacturing sector contracted by 2.3 percent during July-November 2010.

The double-digit inflation experienced in the aftermath of global hike in commodity prices in 2008, showed a brief respite in 2009, only to be on the rising course again reaching as high as 15.5 percent in December 2010 on a year-on-year basis. Despite tightening of monetary policy, increased government borrowings from banking sector and entrenched inflationary expectations have contributed to persistent high inflation.

With public finance under pressure owing to flood costs and non-implementation of fiscal reforms such as RGST, government was compelled to monetize its fiscal deficit. With a tax to GDP ratio at a dismal 9% government is coming in an increasing bind to manage its finances by either broadening tax base or curtailing government expenditures. As broadening tax base is becoming politically difficult for a coalition government, axe has fallen on government development expenditures, which does not augur well for the country's long term competitiveness.

Strong growth in gross foreign exchange reserves remains among the positive aspects of the economy. Despite the fall in Foreign Direct Investments (FDI) during the year, the exchange reserves made up for the shortfall through higher remittances and the overall balance-of-payments surplus and net addition from International Monetary Fund (IMF) under a standby arrangement.

Banking Sector Outlook

With GDP growth averaging 3% for the last 3-years slow economic activities also impacted the banking sector. With macroeconomic indicators putting pressure on business activities, Commercial Banks had to reorient their asset structure to reflect ground realities. Share of Non-Performing Loans (NPLs) in total loans has risen from 9.9% in 2008 to 14.3% in 2010 whereas the advances to deposit ratio of banks has fallen to 60% in 2010 from 74% in 2008. Banks have started taking greater exposure in government securities, hence resulting in crowding out the private sector. This business focus has resulted in improving Capital Adequacy Ratio (CAR) of banking sector from 12.6% in 2008 to 14.2% in September 2010.

However, better liquidity has enhanced share of interest income and sustained profitability of the banks.

In terms of financial intermediation, Pakistan remains a primarily bank-dominated market. It reflects in the sustenance of high margins of banks, despite prevalent tough economic conditions. Banks in Pakistan were able to marginally increase their Return on Assets (ROA) from 0.8% in 2008 to 1% in 2010, whereas their Return on Equity (ROE), during the same period, has risen from 7.3% to 9.5%. As compared to commercial banks, Development Finance Institutions (DFIs) have limited reach and access to low cost funds.

Most of the existing Joint Venture-DFIs are engaged more in secondary trading activities in shares and fixed income segments than extending support to project finance. With a shallow bond and capital markets, DFIs' capacity to undertake long term infrastructure financing, venture capital and other development finance niches remain limited.

Future Ahead in the Market

Pakistan is expected to face a difficult economic year ahead. With the impact of high flood losses felt across all economic sectors, Asian Development Bank (ADB) has revised down the GDP growth target for Pakistan from 4.0% to 2.5% for the year 2011. However, the reconstruction and rehabilitation activities will subsequently have a positive impact on the economy.

Inflation is expected to remain high on account of supply-side constraints. Broadening of fiscal space remains dependent on political support for the fiscal reform agenda. Pakistan can expect pressure on current account owing to larger imports for reconstruction activities.

However, strong remittances growth and multilaterals' funds flow may ease out some of this pressure. Banking sector performances are expected to track the economy growth trend. With sustained profitability, commercial banks' risk appetite for corporate credit may increase.

Pak China – Looking Forward

In its three years of operations, Pak China has realized the fact that operating like other DFIs in Pakistan will not be financially feasible for the Company. In a bank-dominated competitive financial intermediation sector in Pakistan, DFIs have fewer business avenues to grow and sustain development finance in Pakistan. However, Pak China is aware of its key founding goal of soliciting Chinese outward investments in Pakistan.

It remains a difficult task in view of peculiar investment environment in Pakistan. Pak China is focusing on a strategic approach to sustain its ongoing concern status as a financial intermediary at one end and promote investment opportunities for Chinese entrepreneurs in Pakistan on the other hand.

Fund-based activities will be concentrated more on industrial concerns, which should fulfill the development objectives of enhancing national competitiveness of the country. In present circumstances, Pakistan is expected to remain low on the investment radar of foreign enterprises.

However, we have also witnessed the rise in number of Chinese companies undertaking infrastructure projects in Pakistan. Pak China foresees an opportunity for advisory services for investment facilitation in this capital-intensive sector. In this regard, Pak China will be activating its platform of 'China Advisory', which will target Chinese and Pakistani companies operating in alternate energy, housing, transportation and industrial infrastructure areas.

On the funding side, Pak China has not received its due capital injection of USD 66 million from its two sponsors. With its major concentration in high risk segment of project finance, Pak China requires funding support for lowering its risk profile. It has already obtained approval from State Bank of Pakistan (SBP) for resource mobilization through Certificates of Investment (COIs). Balance sheet leverage will be in sync with fund utilization for business expansion.

Pak China will sustain its revenue flow through conventional financial intermediation services. However, it will also make concerted efforts to generate fee income from the advisory services extended under investment facilitation services. With this two-pronged strategy, Pak China will be striving both for growth and to fulfill its development role as well.

Islamabad,
August 22nd 2011

Dr. Abdul Hafeez Shaikh
Chairman

director's **report**

On behalf of our Board of Directors, I hereby present with pleasure the Director's Report of Pak China Investment Company along with its fourth annual audited accounts for the year ending December 31, 2010.

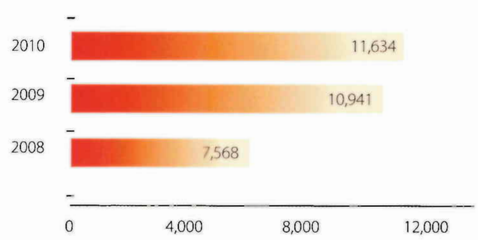
Performance Highlights

Pak China has been able to sustain its profitability in a difficult operating year, as reflected in the figures below:

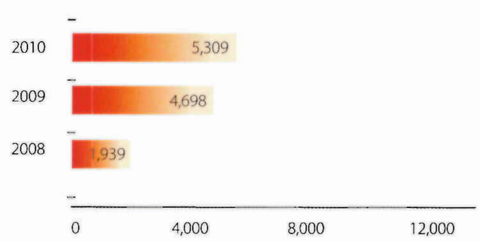
	December, 10	**December, 09**	**December, 08***
P&L – Figures			
Net Interest Income	PKR 866 M	PKR 817 M	PKR 783 M
Non-Interest Income	PKR 176 M	PKR 138 M	PKR 18 M
Profit Before Tax	PKR 862 M	PKR 790 M	PKR 545 M
Profit After Tax	PKR 560 M	PKR 514 M	PKR 355 M
EPS (PKR)	0.62	0.65	0.55
Balance Sheet – Figures			
Assets	PKR 11,634 M	PKR 10,941 M	PKR 7,568 M
Advances	PKR 5,309 M	PKR 4,698 M	PKR 1,939 M
Investments	PKR 3,100 M	PKR 3,158 M	PKR 1,430 M
Equity	PKR 10,477 M	PKR 9,851 M	PKR 6,811 M

* Based an annualized account.

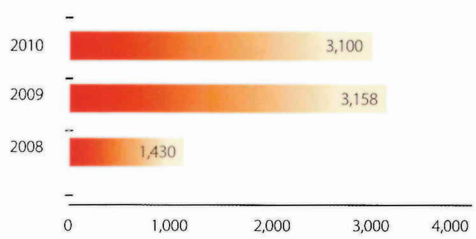
Assets



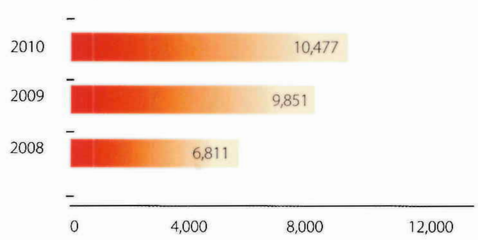
Advances



Investments



Equity

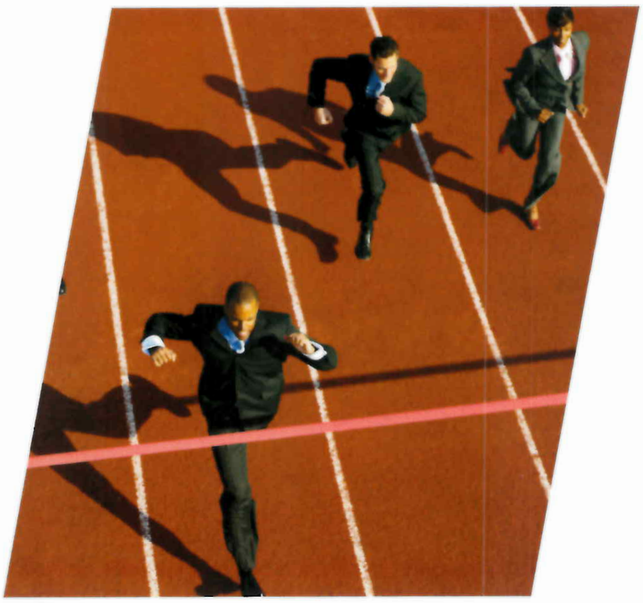


Operational Overview

As evident from the aforementioned figures, Pak China has made strides in all financial indicators. The Company has kept its focus on building a quality asset portfolio. Its two business units of Corporate Finance and Treasury have worked conservatively and the support structure of the Company has evolved in facilitating the turnaround time with more automation and streamlining of procedures.

Corporate Finance

The Corporate Finance Department remains the mainstay of the Company's profitability. Its corporate portfolio has registered a rise of 19% from PKR 6.37 billion in 2009 to PKR 7.57 billion in 2010.
The department has focused on generating fee based income from transaction-related roles. Portfolio concentration, as in 2009, has remained in power sector.



However, it is striving to diversify its sector exposure among other economic sectors. With bulk of the equity utilized in corporate exposure further credit expansion will be dependent on fund raising from the market.

Treasury

The Treasury department has sustained a conservative approach in its business policies. Its focus remained upon conducting business prudently and minimizing risks in all transactions. Major exposure of the treasury was concentrated in government securities.

Risk Management

Risk is continued to be monitored holistically. For strengthening risk management, the Company is exploring vendors for acquiring integrated software to minimize risks and be compliant with Basel-II regime.

Entity Rating

The Pakistan Credit Rating Agency (PACRA) has assigned the Company long and short-term entity ratings of 'AA-' (Double A Minus) and 'A1+' (A One Plus) respectively. These ratings denote a very low expectation of credit risk emanating from high capacity for timely payment of financial commitments.

Corporate & Financial Reporting Framework

The Directors declare that:

- These financial statements, prepared by the Management, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure from them has been appropriately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no doubts regarding the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance.

Statement of Investment of Provident Fund

As per unaudited financial statements dated December 31, 2010, investment of provident fund stands at PKR 19.53 million.

Details of Meetings and Attendance

The Board of Directors of the Company held a single meeting during the period from January 1, 2010 to December 31, 2010. These were attended by the Directors as follows:

Name	Designation	Meetings Attended
Dr. Abdul Hafeez Shaikh	Chairman	1/1
Mr. Xia Qiang	Director	1/0
Mr. Fan Xun	Director	1/0
Mr. Sibtain Fazal Halim	Director	1/1
Mr. Chen Jianbo	Managing Director	1/1
Mr. Syed Iqbal Ashraf	Deputy Managing Director	1/0

Change in Directors

There were changes in the Board of Directors during the period under review. Mr. Shaukat Tarin, the Chairman, resigned from the board and Dr. Abdul Hafeez Shaikh, the Federal Finance Minister, took over as Chairman. Mr. Xia Qiang and Mr. Fan Xun, the nominees of China Development Bank (CDB), were replaced by Mr. Gu YeNing and Mr. Zuo Kun, from CDB.


2010

Auditors

Our present auditors, KPMG Taseer Hadi & Co., Chartered Accountants, retire and being eligible, under Code of Corporate Governance, offer themselves for re-appointment as Auditors for the year 2011.

Pattern of Shareholding

Shareholders	Shareholding
Ministry of Finance, Government of Pakistan	50%
China Development Bank	50%

Acknowledgements

The Board expresses its gratitude for the support and commitment extended by its main sponsors, Ministry of Finance Government of Pakistan and China Development Bank. We also appreciate the efforts undertaken by the management and employees of the Company for establishing its mark in the financial sector. The Board is also grateful for the continuous guidance provided by State Bank of Pakistan and Securities & Exchange Commission of Pakistan.

Cao Wenjiang
Managing Director

Javed Mahmood
Deputy Managing Director


2010

review report to the members

On Statement of Compliance with best practices of code of corporate governance

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

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report, if it does not.

A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part to our audit of financial statements we are required to obtain an understanding of the accounting and internal control system sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statements of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the period ended December 31st, 2010.

Statement of Compliance with the Code of Corporate Governance for the period ended Dec 31, 2010

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

The Company has applied the principles contained in the Code in the following manner;

1. The Board of Directors of the Company is appointed by the Government of Islamic Republic of Pakistan (GoP), represented by Ministry of Finance (MoF), and the Peoples Republic of China through China Development Bank (CDB). Under Joint Venture Agreement dated July 18th, 2007 MoF and CDB both will appoint three directors each on their behalf for a term of three years. A total of six directors have been appointed accordingly out of which four are non-executive directors and two are executive directors.

2. The Directors have confirmed that none of them is serving as a director in more then ten listed companies including this Company.

3. The resident directors of the Company have confirmed that they are registered as tax payers and none of them has defaulted in paying of any loan to a banking company, a DFI or an NBFI or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. A casual vacancy occurred on the Board during the period ended Dec 31st, 2010 due to resignation of ex-DMD. However, the nominee director of Ministry of Finance, Government of Pakistan, was replaced subsequently.

5. The Company has prepared a 'Statement of Ethics and Business Practices', which is signed by all the directors and employees of the company

6. The Company has developed a vision / mission statement, an overall Corporate Strategy, a Business Plan and significant policies

7. All the powers of the Board of Directors have been duly exercised and decisions on material transactions including appointment and determination of remuneration and terms and conditions of employment of the MD/CEO & DMD have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman. The Board met once during the period. Written notices of the Board meetings, along with agenda & working papers were circulated at least seven days before the meetings. The minutes of the meetings were also appropriately recorded and circulated.

9. The directors are conversant with the relevant laws applicable to the Company, its policies and procedures and provisions of memorandum and article of association and are aware of their duties and responsibilities. The Directors would be discussing the corporate governance requirements of the DFIs as required by the State Bank of Pakistan Prudential Regulations during the period.

10. The Board has approved the appointment of Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit and as authorized by the Board their remuneration and terms and conditions of employment were determined by the CEO.

11. The Company established the Internal Audit Department.

12. The Director's report for the period has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

13. The Company's financial statements were duly endorsed by CEO and CFO before approval by the Board.

14. The Directors, CEO and Executives do not hold any interest in the shares of the Company.

15. The Company has complied with all other corporate and financial reporting requirements of the Code.

16. The Board formed an audit committee and terms of reference of the said committee were as approved by the Board of Directors.

17. Although a formal orientation course has not been conducted, the directors of the company have been appraised about their responsibilities relating to the Code of Corporate Governance.

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

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

20. We confirm that all other material principles contained in the Code have been complied with.

21. All related party transactions entered during the year were at arm's length basis and these have been placed before the Board of Directors meeting in which the financial statements for the year ended 31 December 2010 are approved. These transactions are duly reviewed and approved by the Board of Directors.

Dr. Abdul Hafeez Shaikh
Chairman
Islamabad: August 22nd 2011

Cao Wen Jiang
Managing Director/CEO
Islamabad


Annual Report
2010

financial **statements**

For the Year Ended Decenber 31st 2010

Auditors' Report to the Member

We have audited the annexed statement of financial position of Pak China Investment Company Limited as at 31 December 31st, 2010 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 (here-in-after referred to as the 'financial statement') for the year ended as 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.

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 aforementioned statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the aforementioned statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the aforementioned statements. We believe that our audit provides a reasonable basis for our opinion, 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, With accounting policies consistently applied;

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 the best of our information and according to the explanation given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and the statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984 in the manner so required and respectively given a true and fair view of the state of the Company's affairs as at December 31st, 2010 and of the profit, its cash flows and changes in equity for the year then ended; and

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

KPMG Taseer Hadi & Co.

Islamabad:
August 22nd, 2011

KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Rehan Chugtai

statement of financial **position**

as at December 31, 2010

	Note	2010	2009
		Rupees	Rupees
ASSETS			
Cash and balances with treasury banks	5	**1,399,836,094**	1,363,660,166
Balances with other banks	6	**8,736,067**	9,147,791
Lendings to financial institutions	7	**1,264,139,593**	1,245,029,030
Investments	8	**3,099,786,748**	3,158,325,703
Advances	9	**5,308,893,009**	4,697,462,564
Fixed assets	10	**180,565,507**	187,828,157
Deferred tax assets	11	**3,043,945**	57,189,957
Other assets	12	**368,958,964**	222,002,819
		11,633,959,927	10,940,646,187
LIABILITIES			
Bills payable		**-**	-
Borrowings	13	**1,132,259,095**	975,684,500
Deposits and other accounts		**-**	-
Subordinated loans		**-**	-
Liabilities against assets subject to finance lease		**-**	-
Deferred tax liabilities	14	**-**	-
Other liabilities		**24,497,667**	113,558,778
		1,156,756,762	1,089,243,278
NET ASSETS		**10,477,203,165**	9,851,402,909
REPRESENTED BY	15		
Share capital	15.3	**6,457,200,000**	6,457,200,000
Reserve	15.4	**285,671,066**	173,597,860
Advance against issue of shares		**2,593,499,200**	2,527,798,400
Unappropriated profit		**1,142,684,261**	694,391,435
	16	**10,479,054,527**	9,852,987,695
Deficit on revaluation of assets - net of tax	17	**(1,851,362)**	(1,584,786)
		10,477,203,165	9,851,402,909
CONTINGENCIES AND COMMITMENTS			

The annexed notes 1 to 34 form an integral part of these financial statements.

Chairman	**Managing Director**	**Director**	**Director**

profit and loss **account**

for the year ended December 31, 2010

	Note	2010	2009
		Rupees	Rupees
Mark-up / return / interest earned	18	**1,252,143,235**	1,050,697,428
Mark-up / return / interest expensed	18.1	**(283,898,690)**	(36,434,574)
Net mark-up / interest income		**968,244,545**	1,014,262,854
Provision against non-performing loans and advances	9.3	**41,360,577**	197,272,636
Provision for diminution in the value of investments		**-**	-
Bad debts written off directly	9.5	**60,800,000**	-
		102,160,577	197,272,636
Net mark-up / interest income after provisions		**866,083,968**	816,990,218
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		**15,708,068**	47,732,976
Dividend income		**-**	-
Exchange (loss)/gain		**(39,020,927)**	81,903,032
Gain on sale of securities		**198,597,196**	8,856,300
Unrealised gain / (loss) on revaluation of investments classified as held for trading		**-**	-
Other income		**939,147**	337,769
Total non mark-up / interest income		**176,223,484**	138,830,077
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	19	**180,205,244**	165,705,651
Provision against lending to financial institutions	20	**-**	-
Other charges		**621**	50,000
Total non mark-up / interest expenses		**180,205,865**	165,755,651
Extra ordinary / unusual items		**-**	-
PROFIT BEFORE TAXATION		**862,101,587**	790,064,644
Taxation	21	**301,735,555**	276,522,625
PROFIT AFTER TAXATION		**560,366,032**	513,542,019
Basic and diluted earnings per share	22	**0.62**	0.65

The appropriation of profit available is set out in the statement of changes in equity.

The annexed notes 1 to 34 form an integral part of these financial statements.

Chairman	Managing Director	Director	Director

PAKCHINA INVESTMENT COMPANY LIMITED

statement of comprehensive **income**

for the year ended December 31, 2010

	2010	2009
	Rupees	Rupees
Profit after tax for the year	**560,366,032**	513,542,019
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**560,366,032**	513,542,019

The annexed notes 1 to 34 form an integral part of these financial statements.

Chairman **Managing Director** **Director** **Director**

cash flow **statement**

for the year ended December 31, 2010

	Note	2010	2009
		Rupees	Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		**862,101,587**	790,064,644
Adjustments for:			
Depreciation		**12,455,905**	9,345,485
Amortization		**1,060,640**	431,925
Bad debts written off directly		**60,800,000**	-
Provision for gratuity		**5,069,114**	4,308,354
Provision against non-performing loans and advances		**41,360,577**	197,272,636
Loss on disposal of operating fixed assets including write off		**76,829**	360,376
		982,924,652	1,001,783,420
Decrease/ (increase) in operating assets			
Lendings to financial institutions		**(19,110,563)**	(1,135,029,030)
Advances		**(713,591,022)**	(2,788,668,588)
Others assets (excluding advance taxation)		**(148,690,373)**	(151,899,381)
		(881,391,958)	(4,075,596,999)
Increase/ (decrease) in operating liabilities			
Borrowings		**156,574,595**	248,930,325
Other liabilities (excluding current taxation)		**1,522,642**	(6,572,537)
		158,097,237	242,357,788
Gratuity paid		**(3,334,885)**	(6,033,413)
Income tax paid		**(338,029,756)**	(192,310,298)
		(341,364,641)	(198,343,711)
Net cash used in operating activities		**(81,734,710)**	(3,029,799,502)
CASH FLOW FROM INVESTING ACTIVITIES			
Net investment in 'available-for-sale' securities		**1,558,588**	(1,694,560,950)
Net investment in 'held-to-maturity' securities		**56,570,250**	(185,000,000)
Capital expenditure		**(6,609,724)**	(25,068,968)
Sale proceeds of property and equipment disposed-off		**279,000**	699,999
Net cash used in investing activities		**51,798,114**	(1,903,929,919)
CASH FLOW FROM FINANCING ACTIVITIES			
Advance against issue of shares		**65,700,800**	2,527,798,400
Net cash flow from financing activities		**65,700,800**	2,527,798,400
Increase/ (decrease) in cash and cash equivalent		**35,764,204**	(2,405,931,021)
Cash and cash equivalents at beginning of the year	23	**1,372,807,957**	3,778,738,978
Cash and cash equivalents at end of the year		**1,408,572,161**	1,372,807,957

The annexed notes 1 to 34 form an integral part of these financial statements.

Chairman	**Managing Director**	**Director**	**Director**

PAKCHINA INVESTMENT COMPANY LIMITED

statement of changes in **equity**

for the year ended December 31, 2010

	Share Capital	Statutory Reserve	Unappropriated Profit	Advance against issue of share	Total
			Rupees		
Balance as at January 01, 2009	6,457,200,000	70,889,456	283,557,820	-	6,811,647,276
Total comprehensive income for the year	-	-	513,542,019	-	513,542,019
Transfer to statutory reserve	-	102,708,404	(102,708,404)	-	-
Transaction with owners recognised directly in equity Advance against issue of shares	-	-	-	2,527,798,400	2,527,798,400
Balance as at December 31, 2009	6,457,200,000	173,597,860	694,391,435	2,527,798,400	9,852,987,695
Balance as at January 01, 2010	6,457,200,000	173,597,860	694,391,435	2,527,798,400	9,852,987,695
Total comprehensive income for the year	-	-	560,366,032	-	560,366,032
Transfer to statutory reserve	-	112,073,206	(112,073,206)	-	-
Transaction with owners recognised directly in equity Advance against issue of shares (note 15.4)	-	-	-	65,700,800	65,700,800
Balance as at December 31, 2010	**6,457,200,000**	**285,671,066**	**1,142,684,261**	**2,593,499,200**	**10,479,054,527**

Chairman **Managing Director** **Director** **Director**

notes to the financial **statements**
for the year ended December 31, 2010

1 **STATUS AND NATURE OF BUSINESS**

Pak China Investment Company Limited ("the Company") was incorporated in Pakistan as a limited company on July 27, 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 objective of the Company is to invest in infrastructure projects, both directly and through establishment of various subsidiary companies.

The Company has commenced business after obtaining Certificate of Commencement of Business from Securities and Exchange Commission of Pakistan ("SECP") on 02 November 2007 and permission to commence business from State Bank of Pakistan on 10 January 2008. The Federal Government of Pakistan specified the name of the Company for the purposes of section 3(A) of the Banking Companies Ordinance, 1962 on 15 December 2007.

2 **STATEMENT OF COMPLIANCE**

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 as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and the directives issued by the State Bank of Pakistan (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.

International Accounting Standard 39, Financial Instruments: Recognition and Measurement, International Accounting Standard 40, Investment Property and International Financial Reporting Standard 7, "Financial Instruments: Disclosures" are not applicable to the Company. Accordingly, the requirements of these International Accounting Standards (IASs) and their respective interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), have not been considered in the preparation of these financial statements.

SBP vide BSD circular letter No. 7 of 2010 dated April 20, 2010 has clarified that two statement approach shall be adopted in the preparation of quarterly, half yearly and annual financial statements as mentioned in the revised IAS-1 "Presentation of Financial Statements". Accordingly, the Company has presented Profit and Loss account and Statement of Comprehensive Income separately in these financial statements. Further in accordance with this circular, the Company has opted not to present the changes in fair value of available for sale securities in Statement of Comprehensive Income and accordingly such changes are included in surplus / (deficit) on revaluation of available for sale securities.

2.1 **Forthcoming accounting standards/ interpretations**

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning as mentioned there against are either not relevant to Company's operations or are not expected to have significant impact on the Company's financial statements other than certain increased disclosures:

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 01, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Company's financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 01, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on Company's financial statements.

IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after January 01, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather

notes to the financial **statements**

for the year ended December 31, 2010

than an expense. This amendment is not likely to have any impact on Company's financial statements.

Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 1, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.

3 BASIS OF PRESENTATION AND MEASUREMENT

3.1 Basis of presentation

These financial statements have been presented in accordance with the requirements of format prescribed by the State Bank of Pakistan's BSD Circular No 4 dated February 17, 2006.

3.2 Basis of measurement

These financial statements have been prepared on the historical cost basis as modified for revaluation of certain investments at market rates in accordance with the requirements of BSD Circular No. 10 dated 13 July 2004 as amended through BSD Circular No. 11 dated 04 August 2004 and BSD Circular No. 14 dated 24 September 2004.

3.3 Functional and presentation currency

The financial statements are presented in Pakistan Rupees which is the Company's functional currency. The amounts have been rounded off to the nearest rupee.

3.4 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and 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 basis of making the judgements 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. Revision 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. Judgement made by the management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting polices applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the period presented.

4.1 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash and balances with treasury banks and with other banks.

4.2 Revenue recognition

Mark-up / return / interest income and expenses are recognised on a time proportion basis taking into account effective yield on the instrument, except where recovery is considered doubtful, the income is recognised on receipt basis. Interest / return / mark-up on rescheduled / restructured advances and investments is recognised as permitted by the Prudential Regulations issued by the State Bank of Pakistan.

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

notes to the financial **statements**

for the year ended December 31, 2010

The surplus / (deficit) arising on revaluation of the Company's held for trading investment portfolio is taken to the profit and loss account.

Premium or discount on acquisition of investments is capitalised and amortised through the profit and loss account over the remaining period till maturity.

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

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

4.3 Sale and repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investment and the counter party liability is included in borrowings. Securities purchased under an agreement to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. The difference between the purchase/ sale and re-sale/ re-purchase price is recognised as mark-up income/ expense on a time proportion basis, as the case may be.

4.4 Advances

Advances are stated net of provisions for non-performing advances. Provision for advances is determined in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan from time to time. In addition, a general provision is maintained for advances (Refer note 9.3.1)

Provision against non-performing advances and general provision is charged to the profit and loss account. Advances are written off when there is no realistic prospect of recovery.

4.5 Investments

The Company classifies its investments as follows:

(a) Held to maturity

These are securities with fixed or determinable payments and maturity in respect of which the Company has the positive intent and ability to hold till maturity. In accordance with the BSD circular No. 14 dated September 24, 2004 issued by the State Bank of Pakistan, investments classified as 'held to maturity' are carried at amortised cost less impairment, if any.

(b) 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 fair value which includes transaction costs associated with the investment.

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the Company commits to purchase or sell the investment.

Premium or discount on acquisition of investments is amortised through the profit and loss account over the remaining period till maturity using effective interest method.

In accordance with the requirements of the State Bank of Pakistan, quoted securities other than those classified as 'held to maturity' are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities classified as 'available for sale', is taken to a separate account shown in the balance sheet below equity.

Impairment loss in respect of investments charged as available for sale (except term finance certificates) and held to maturity is recongnised 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 fair value of an investment below its cost is also considered an objective evidence of impairment. Provisions for diminution in the value of term finance certificates and sukuks is made as per the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in profit and loss account.

Profit / loss on sale of investments is credited / charged to the profit and loss account currently.

4.6 Taxation

Current

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

Deferred

The Company accounts for deferred taxation using the balance sheet liability method. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the tax rates enacted or substantively enacted at balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits will be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4.7 Operating fixed assets and capital work-in-progress

Fixed assets are stated at cost less accumulated depreciation and impairment loss (if any). Capital work in progress is stated at cost less impairment, if any.

Depreciation is calculated on a straight line method to write off the depreciable amount of each asset over its estimated useful life after taking into account residual value, if any. Rates of depreciation are specified in Note 10.2 to the financial statements. 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 costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Gains and losses on disposal of an item 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.

4.8 Intangible assets

Intangible assets having finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight line method over their estimated useful lives. The useful lives and amortization methods are reviewed and adjusted, if appropriate at each balance sheet date. Intangible asset having an indefinite useful life are stated at acquisition cost, less impairment loss, if any.

4.9 Staff Retirement Benefits

Defined benefit plan

The Company operates an approved funded gratuity scheme for all its regular employees. Contributions are made in accordance with the actuarial recommendation and included in profit and loss account. The actuarial valuation is carried out using "Projected Unit Credit Method". The actuarial gains / losses in excess of corridor limit (10% of higher of present value of obligation and fair value of plan assets) are recognized over the expected remaining working life of the employees. The Company has adopted a policy of recognising transitional liability over a period of 5 years.

Defined contribution plan

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

4.10 Impairment

The carrying amount of the assets are reviewed at each balance sheet 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 impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

notes to the financial **statements**

for the year ended December 31, 2010

4.11 Foreign currency

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

4.12 Off-setting of financial assets and financial liabilities

'Financial assets' and 'financial liabilities' are only offset and the net amount is reported in the balance sheet 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.

4.13 Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the year including instrument mandatorily convertible into ordinary shares.

4.14 Provision of guarantee claims, off balance sheet items and other provisions

Provision for guarantee claims and other off balance sheet obligations are recognised when intimated and reasonable certainty exists for the Company to settle the obligation. Charge to profit and loss account is stated net of expected recoveries.

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 balance sheet date and are adjusted to reflect the current best estimate.

4.15 Borrowings

Borrowings other than repo are recognized initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at amortized cost with any difference between originally recognized amount and redemption value being recognized in the income statement over the period of borrowing on an effective interest rate basis.

4.16 Other liabilities

Other liabilities are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

4.17 Dividend and appropriation to reserve

Dividend and appropriation to reserves, except appropriation which are required by law after the balance sheet date, are recognised as liability in the Company's financial statements in the year in which these are approved.

4.18 Segment information

A segment is 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 business segments.

Business Segments

Following are the main segments of the Company:

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

Geographical Segments

The Company's all business segments operate only in Pakistan.

notes to the financial **statements**
for the year ended December 31, 2010

		Note	2010 Rupees	2009 Rupees
5	**CASH AND BALANCES WITH TREASURY BANKS**			
	Cash in hand in local currency		**25,000**	25,000
	With State Bank of Pakistan in			
	local currency current account	5.1	**6,243,511**	4,702,939
	With National Bank of Pakistan in			
	local currency current account		**404,837**	2,793,921
	foreign currency deposit account	5.2	**1,393,162,746**	1,356,138,306
			1,399,836,094	1,363,660,166

5.1 The local currency current account is maintained with the State Bank Pakistan (SBP) as per the requirement to maintain a local currency cash reserve at a sum not less than such percentage of its time and demand liabilities in Pakistan as may be prescribed from time to time by SBP.

5.2 This represents foreign currency deposit receipt (FDR) of National Bank of Pakistan. The return on this FDR ranges between 0.70% to 1% per annum (2009: 1% to 2%) during the period of placement and is maturing on January 05, 2011.

		Note	2010 Rupees	2009 Rupees
6	**BALANCES WITH OTHER BANKS**			
	In Pakistan			
	- Local currency current accounts		**6,843,636**	9,147,791
	- Local currency deposit accounts		**1,892,431**	-
			8,736,067	9,147,791
7	**LENDINGS TO FINANCIAL INSTITUTIONS**			
	Lending under letter of placements (LoPs)	7.2	**964,509,745**	1,015,000,000
	Repurchase agreement lending (Reverse Repo)	7.3 & 7.4	**299,629,848**	230,029,030
			1,264,139,593	1,245,029,030

notes to the financial **statements**
for the year ended December 31, 2010

7.1 All lendings of the Company are in local currency.

7.2 LoPs carry interest ranging between 13.5 % to 13.75 % per annum (2009: 12 % to 12.75 % per annum) with maturities ranging between 6 days to 31 days (2009: 4 days to 18 days).

7.3 This is secured against underlying Government security, the differential between the contracted rate and re-sale price is amortised over the period of related contract and recorded under mark-up / return / interest earned. This carries mark-up at the rate of 12.75% (2009: 12.25%) per annum with maturity of 3 days (2009: 4 days).

7.4 **Security held as collateral against lending to financial institution**

	2010			2009		
	Held by the Company	**Further given as collateral**	**Total**	Held by the Company	Further given as collateral	Total
	Rupees			Rupees		
Market treasury bill	**299,629,848**	**-**	**299,629,848**	230,029,030	-	230,029,030
	299,629,848	**-**	**299,629,848**	230,029,030	-	230,029,030

8 INVESTMENTS

Investment by type

	Note	**2010**			2009		
		Held by the Company	**Further given as collateral**	**Total**	Held by the Company	Further given as collateral	Total
		Rupees			Rupees		
Available-for-sale securities							
Market treasury bills	8.1	**288,389,200**	**840,851,620**	**1,129,240,820**	751,393,195	979,515,813	1,730,909,008
Commercial papers		**-**	**-**	**-**	254,030,828	-	254,030,828
Sukuk certificates - secured	8.2	**505,126,000**	**-**	**505,126,000**	205,304,000	-	205,304,000
Term finance certificates	8.3	**910,638,428**	**-**	**910,638,428**	595,520,000	-	595,520,000
Ordinary shares of listed company	8.4	**239,200,000**	**-**	**239,200,000**	-	-	-
Held-to-maturity securities							
Term finance certificates	8.5	**318,429,750**	**-**	**318,429,750**	375,000,000	-	375,000,000
Investment at cost		**2,261,783,378**	**840,851,620**	**3,102,634,998**	2,181,248,023	979,515,813	3,160,763,836
Less: Provision for diminution in value of investments		**-**	**-**	**-**	-	-	-
Investment (Net of provisions)		**2,261,783,378**	**840,851,620**	**3,102,634,998**	2,181,248,023	979,515,813	3,160,763,836
Deficit on revaluation of available-for-sale securities		**(1,166,100)**	**(1,682,150)**	**(2,848,250)**	(261,320)	(2,176,813)	(2,438,133)
Total investments		**2,260,617,278**	**839,169,470**	**3,099,786,748**	2,180,986,703	977,339,000	3,158,325,703

notes to the financial **statements**
for the year ended December 31, 2010

8.1 These carry interest ranging between 12.15% to 12.40% (2009: 11.58% to 13.40%) per annum with redemption period of one year (2009: six months to one year). These include mark-up accrued upto the year end.

8.2 These carry interest of 3 months KIBOR + 3% (2009: KIBOR + 3%) with redemption period of 10.5 years (2009:11.5 years).

8.3 These carry interest of 3 months KIBOR + 3.25% to 12 months KIBOR + 1% (2009: ranging between 3 months KIBOR + 3.25% to 6 months KIBOR + 2.5%) with redemption period of 3-7 years(2009:5 to 10 years). This includes TFC of Rs. 180 million of Azgard Nine Limited which was converted from commercial paper upon maturity.

8.4 This represents shares of Agritech Limited obtained by the Company consequent to settlement of advance of Rs. 300 million with Azgard Nine Limited. The market value of shares was Rs 239.2 million at the date of settlement and the Company recognized Rs. 60.8 million in profit & loss account being the difference between the carrying amount of advance and market value of shares (Refer note 9.5).

8.5 This carries interest of 6 months KIBOR + 3.25% per annum (2009:6 months KIBOR + 3.25% per annum) with redemption period of 6 years (2009:7 years).

8.6	**Investment by segments**	**2010 Rupees**	2009 Rupees
	Federal Government Securities		
	- Market treasury bills	**1,129,240,820**	1,730,909,008
	Term finance certificates		
	- Listed	**245,581,728**	245,680,000
	- Unlisted	**983,486,450**	724,840,000
	Fully paid up ordinary shares - listed	**239,200,000**	-
	Other investments		
	- Sukuk certificates	**505,126,000**	205,304,000
	- Commercial papers	-	254,030,828
	Investment at cost	**3,102,634,998**	3,160,763,836
	Less: Provision for diminution in value of investments	-	-
	Investment (Net of provisions)	**3,102,634,998**	3,160,763,836
	Deficit on revaluation of available-for-sale securities	**(2,848,250)**	(2,438,133)
	Total investments at market value	**3,099,786,748**	3,158,325,703

notes to the financial **statements**
for the year ended December 31, 2010

8.7 Principal terms of investment in Federal Government Securities

Name of investment	Maturity	Principal payment	Rate	Coupon
Market treasury bills	one year	On maturity	12.15% to 12.40%	at maturity

8.8 Investment in Term Finance Certificates

No of certificates 2010	No of certificates 2009	Company Name	Note	Name of Chief Executive	Redemption per certificate	2010 Rupees	2009 Rupees
Unlisted							
75,000	75,000	Avari Hotels Limited		Byram D. Avari	4246	**318,429,750**	375,000,000
30,000	30,000	Bank Alfalah Limited		Sirajuddin Aziz	4998	**149,940,000**	150,000,000
40,000	40,000	Agritech Limited		Ahmed Jaudet Bilal	4996	**199,840,000**	199,840,000
-	-	Pakistan National Shipping Corporation	8.8.1	Rashid Siddiqi	-	**135,276,700**	-
36,000	-	Azgard Nine Limited		Ahmed Sheikh	5000	**180,000,000**	-
Listed							
49,136	49,136	Askari Bank Limited		M R Mehkari	4998	**245,581,728**	245,680,000
Book value at end of the year						**1,229,068,178**	970,520,000

8.8.1 60,000 term finance certificates with face value of rupees 5000 each will be issued after full disbursement.

8.9 Quality of available-for-sale securities

	Note	2010 Market value Rupees	2010 Rating	2009 Market value Rupees	2009 Rating
Market treasury bills	8.9.1	**1,126,592,570**	**Unrated**	1,730,909,008	Unrated
Commercial papers					
-Azgard Nine Limited		**-**	**-**	160,918,583	A+
-Pak Electron Limited		**-**	**-**	93,112,245	A
Sukuk certificates		**505,126,000**	**AA-**	205,304,000	AA-
Term finance certificates	8.9.2				
-Askari Bank Limited		**245,581,728**	**AA-**	245,680,000	AA
-Agritech Limited		**199,840,000**	**CCC**	199,840,000	A+
-Bank Alfalah Limited		**149,940,000**	**AA-**	150,000,000	AA
-Pakistan National Shipping Corporation		**135,276,700**	**AA-**	-	-
-Azgard Nine Limited		**180,000,000**	**CCC**	-	-
Ordinary shares of listed company		**239,000,000**	**CCC**	-	-
		2,781,356,998		2,785,763,836	

8.9.1 These are Government of Pakistan guaranteed securities.

8.9.2 Local securities have either been rated by 'The Pakistan Credit Rating Agency Limited' (PACRA) or 'JCR-VIS Credit Rating Company Limited' (JCR-VIS). These ratings reflect independent credit risk assessment by respective credit rating entities.

notes to the financial **statements**
for the year ended December 31, 2010

		Note	2010	2009
			Rupees	Rupees
9	**ADVANCES**			
	Inside Pakistan		**5,569,721,333**	4,927,263,614
	Staff loans	9.4	**27,804,889**	17,471,586
	Advances- gross		**5,597,526,222**	4,944,735,200
	Provision against non-performing loans			
	Specific provision	9.2	**(235,636,000)**	(200,000,000)
	General provision		**(52,997,213)**	(47,272,636)
			(288,633,213)	(247,272,636)
	Advances - net of provision		**5,308,893,009**	4,697,462,564
9.1	**Particulars of advances**			
	In local currency		**5,597,526,222**	4,944,735,200
	Short term (for upto one year) - advances having contractual repayment period of one year		**750,000,000**	1,135,000,000
	Long term (for over one year) - advances having contractual repayment period of more than one year		**4,847,526,222**	3,809,735,200
			5,597,526,222	4,944,735,200

9.2 Advances includes Rs. 270 million (2009: Rs 200 million) which have been placed under non-performing status as detailed below:

2010
Rupees

	Classified Advances			**Provision required**			**Provision held**		
	Domestic	**Overseas**	**Total**	**Domestic**	**Overseas**	**Total**	**Domestic**	**Overseas**	**Total**
Category of classification									
Other assets especially mentioned	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	**270,000,000**	**-**	**270,000,000**	**235,636,000**	**-**	**235,636,000**	**235,636,000**	**-**	**235,636,000**
	270,000,000	**-**	**270,000,000**	**235,636,000**	**-**	**235,636,000**	**235,636,000**	**-**	**235,636,000**

2009
Rupees

	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Category of classification									
Other assets especially mentioned	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	200,000,000	-	200,000,000	200,000,000	-	200,000,000	200,000,000	-	200,000,000
	200,000,000	-	200,000,000	200,000,000	-	200,000,000	200,000,000	-	200,000,000

notes to the financial **statements**
for the year ended December 31, 2010

9.3 Particulars of provision against non-performing advances

	2010 Rupees			2009 Rupees		
	Specific	**General**	**Total**	Specific	General	Total
Opening balance	**200,000,000**	**47,272,636**	**247,272,636**	-	-	-
Charge for the year	**35,636,000**	**5,724,577**	**41,360,577**	150,000,000	47,272,636	197,272,636
Provision transferred from investments	**-**	**-**	**-**	50,000,000	-	50,000,000
Closing balance	**235,636,000**	**52,997,213**	**288,633,213**	200,000,000	47,272,636	247,272,636

9.3.1 General provision is maintained at the rate of 1% on advances other than non-performing advances.

9.4 Staff loans have been reclassified from other assets for better presentation.

9.5 Particulars of write offs:

	2010 Rupees	2009 Rupees
Directly charged to profit and loss account	60,800,000	-

9.6 Details of loan write off of Rs. 500,000/- and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person during the year ended 31st December 2010 is given at Annexure-1.

10 FIXED ASSETS	Note	**2010 Rupees**	2009 Rupees
Capital work-in-progress	10.1	**149,039,013**	148,550,987
Property and equipment	10.2	**28,354,982**	38,003,585
Intangible asset	10.3	**3,171,512**	1,273,585
		180,565,507	187,828,157

10.1 Capital work-in-progress

	Note	2010	2009
Advances to suppliers		**-**	1,050,487
Civil works	10.1.1	**149,039,013**	147,500,500
		149,039,013	148,550,987

10.1.1 This represents value of work in progress on property located at DHA Karachi. The management is in the process of transferring the title of property in the Company's name.

notes to the financial **statements**

for the year ended December 31, 2010

10.2 Property and equipment

2010

	COST			DEPRECIATION				
	Opening balance as at Jan 01, 2010	**Additions/ (deletions)/ (adjustments) during the year**	**Closing balance as at December 31, 2010**	**Opening balance as at Jan 01, 2010**	**Charge during the year (on deletion/ adjustments)**	**Closing balance as at December 31, 2010**	**Net book value as at December 31, 2010**	**Rate of depreciation per annum %**
	Rupees							
Vehicles	**3,073,716**	**-**	**3,073,716**	**995,465**	**614,743**	**1,610,208**	**1,463,508**	**20%**
Computer and office equipment	**14,987,451**	**3,029,629**	**17,245,280**	**5,838,142**	**5,544,350**	**10,916,874**	**6,328,406**	**33%**
		(744,900)			**(455,216)**			
		(26,900)			**(10,402)**			
Furniture and fixtures	**12,971,358**	**150,000**	**13,007,242**	**2,399,426**	**2,593,457**	**4,944,912**	**8,062,330**	**20%**
		(114,116)			**(47,971)**			
Leasehold improvements	**12,354,940**		**12,354,940**	**1,705,607**	**2,470,988**	**4,176,595**	**8,178,345**	**20%**
Electrical fittings	**6,161,835**		**6,161,835**	**607,075**	**1,232,367**	**1,839,442**	**4,322,393**	**20%**
	49,549,300	**3,179,629**	**51,843,013**	**11,545,715**	**12,455,905**	**23,488,031**	**28,354,982**	
		(859,016)			**(503,187)**			
		(26,900)			**(10,402)**			

2009

	COST			DEPRECIATION				
	Opening balance as at Jan 01, 2009	Additions/ (deletions)/ (adjustments) during the year	Closing balance as at December 31, 2009	Opening balance as at Jan 01, 2009	Charge during the year (on deletion/ adjustments)	Closing balance as at December 31, 2009	Net book value as at December 31, 2009	Rate of depreciation per annum %
	Rupees							
Vehicles	3,073,716	-	3,073,716	343,754	651,711	995,465	2,078,251	20%
Computer and office equipment	10,172,649	5,245,917	14,987,451	1,505,179	4,510,191	5,838,142	9,149,309	33%
		(374,120)			(147,354)			
		(56,995)			(29,874)			
Furniture and fixtures	9,677,335	4,383,429	12,971,358	514,587	2,167,757	2,399,426	10,571,932	20%
		(1,089,406)			(282,918)			
Leasehold improvements	5,987,075	6,367,865	12,354,940	226,360	1,479,247	1,705,607	10,649,333	20%
Electrical fittings	1,864,575	4,297,260	6,161,835	70,496	536,579	607,075	5,554,760	20%
	30,775,350	20,294,471	49,549,300	2,660,376	9,345,485	11,545,715	38,003,585	
		(1,463,526)			(430,272)			
		(56,995)			(29,874)			

10.2.1 The fair value of property and equipment as per the management estimate is not materially different from the carrying amount.

notes to the financial **statements**

for the year ended December 31, 2010

10.2.2 Detail of disposals of operating fixed assets

Particulars of assets	Original cost	Accumulated depreciation	Book Value	Sale proceeds	Model of disposal	Particulars of buyer
Computer and office equipment	744,900	455,216	289,684	243,000	As per policy	Syed Iqbal Ashraf
Furniture and fixtures	114,116	47,971	66,145	36,000	Bids	Muhammad Aslam Furniture

10.3 Intangible asset

2010

	COST			DEPRECIATION				
	Opening balance as at Jan 01, 2010	Additions/ adjustment during the year	Closing balance as at December 31, 2010	Opening balance as at Jan 01, 2010	Amortization charge for the year/(on adjustment)	Closing balance as at December 31, 2010	Net book value as at December 31, 2010	Rate of amortization per annum %
	Rupees							
Computer software	1,705,510	2,942,069 26,900	4,674,479	431,925	1,060,640 10,402	1,502,967	3,171,512	33%
	1,705,510	2,942,069 26,900	4,674,479	431,925	1,060,640 10,402	1,502,967	3,171,512	

2009

	COST			DEPRECIATION				
	Opening balance as at Jan 01, 2009	Additions during the year	Closing balance as at December 31, 2009	Opening balance as at Jan 01, 2009	Amortization charge for the year	Closing balance as at December 31, 2009	Net book value as at December 31, 2009	Rate of amortization per annum %
	Rupees							
Computer software	-	1,705,510	1,705,510	-	431,925	431,925	1,273,585	33%
	-	1,705,510	1,705,510	-	431,925	431,925	1,273,585	

11 DEFERRED TAX ASSETS	Note	2010 Rupees	2009 Rupees
Debit/ (credit) balances arising on account of:			
Recognised in profit and loss account			
Accelerated tax depreciation allowance		**(1,503,160)**	(2,698,554)
Preliminary expenses		**1,055,744**	1,759,573
Provision for non-performing loans		**17,500,000**	86,545,423
Exchange gain-net		**(15,008,737)**	(28,666,061)
Provision for gratuity		**3,210**	(603,771)
Recognised in equity		**-**	-
Deficit on revaluation of available for sale investments		**996,888**	853,347
		3,043,945	57,189,957

notes to the financial **statements**

for the year ended December 31, 2010

		Note	2010	2009
			Rupees	Rupees
11.1	**Movement of deferred tax is as follows:**			
	Opening balance		**57,189,957**	51,177,984
	Charge/credit for the year		**(54,289,552)**	5,495,275
	Credited to equity		**143,540**	516,698
	Closing balance		**3,043,945**	57,189,957
12	**OTHER ASSETS**			
	Income / mark-up accrued in local currency		**349,824,359**	203,064,243
	Income / mark-up accrued in foreign currency		**893,151**	1,077,480
	Advances, deposits, advance rent and other prepayments		**18,241,454**	16,136,037
	Receivable from gratuity fund		**-**	1,725,059
			368,958,964	222,002,819
13	**BORROWINGS**			
	In Pakistan		**1,132,259,095**	975,684,500
13.1	**Detail/ particular of borrowings with respect to currencies and security**			
	In local currency, repurchase agreement borrowings - secured	13.2 13.3	**832,259,095**	975,684,500
	Other borrowings		**300,000,000**	-
			1,132,259,095	975,684,500

13.2 The Company has arranged borrowings from financial institution against sale and repurchase of market treasury bills. The mark-up on these finances range between 12.9% to 12.95% per annum (2009: 12.15% to 12.2 % per annum) with maturity ranging from 6 days to 10 days (2009: 6 days to 18 days).

13.3 This represents Murabaha finance obtained from Dawood Islamic Bank. The profit rate on the finance is 12.5% (2009: Nil) per annum and is maturing on 03 January 2011 (2009: Nil)

14	**OTHER LIABILITIES**	**2010**	2009
		Rupees	Rupees
	Mark-up/ return/ interest payable in local currency	7,235,016	1,918,263
	Payable to suppliers	2,611,933	2,664,007
	Accrued expenses	2,895,016	3,708,434
	Retention money payable	-	579,468
	Current taxation (Provisions less payments)	11,023,844	101,607,597
	Withholding tax/ federal excise duty payable	117,358	2,898,279
	Payable to gratuity fund	9,170	-
	Payable to provided fund	-	122,730
	Others	605,330	60,000
		24,497,667	113,558,778

notes to the financial **statements**
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	2010	2009
	Rupees	Rupees

15 SHARE CAPITAL

15.1 Authorised Share Capital

2010 (Number of shares)	2009 (Number of shares)		**2010** Rupees	2009 Rupees
1,214,000,000	1,214,000,000	Ordinary shares of Rs. 10 each	**12,140,000,000**	12,140,000,000

15.2 Issued, Subscribed and Paid-up Share Capital

2010 (Number of shares)	2009 (Number of shares)		**2010** Rupees	2009 Rupees
645,720,000	645,720,000	Ordinary shares of Rs. 10 each, issued for each	**6,457,200,000**	6,457,200,000

The Ministry of Finance (MOF) on behalf of the Government of Pakistan (GOP) and China Development Bank (CDB) on behalf of Government of China (GOC) each held 322,860,000 ordinary shares of the Company as at December 31, 2010.

15.3 Reserves	Note	**2010 Rupees**	2009 Rupees
Compulsory reserve – statutory reserve	15.3.1	**285,671,066**	173,597,860

15.3.1 Compulsory reserve - statutory reserve

According to BPD Circular No. 15 dated May 31, 2004 issued by 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 paid-up capital and after that a sum not less than 5% of profit after tax shall be credited to statutory reserve. Therefore in accordance with SBP requirements, the Company has transferred this amount to capital reserve.

15.4 ADVANCE AGAINST ISSUE OF SHARES

This represents amount contributed by Ministry of Finance(MOF) and China Development Bank(CDB) of USD 16 million each. Contribution received from CDB was recorded in the month of January 2009, when the prevailing the exchange rate prevailing at that date was USD/PKR: 78.99. The contribution from MOF was received in the month of September 2009 in Pakistani rupees converted at the exchange rate prevailing in January 2009. The exchange rate prevailing on the date of the contribution by MOF was USD/PKR: 83.1. The joint venture agreement requires that contribution from MOF should be in Pak Rupees equivalent of USD on the date of contribution. Accordingly the Board of Directors in its meeting held on 22nd July 2010 has resolved that MOF will further contribute an amount equal to the exchange difference between the exchange rate prevailing on the date of contribution by MOF and the exchange rate at which contribution was received from CDB.

As the shares are to be issued in the ratio of 50:50 to MOF and CDB, the contribution by CDB was revalued at the exchange rate applicable at the date of contribution by MOF.

The Company will issue the shares to MOF and CDB once the additional contribution by MOF is received.

notes to the financial **statements**

for the year ended December 31, 2010

		2010	2009
		Rupees	Rupees
16	**Deficit on revaluation of assets - net of tax**		
	Deficit arising on revaluation of treasury bills	**(2,648,250)**	(2,438,133)
	Deficit arising on revaluation of quoted equity securities	**(200,000)**	-
	Deferred tax	**996,888**	853,347
	Deficit on revaluation of available-for-sale securities - Net	**(1,851,362)**	(1,584,786)
17	**CONTINGENCIES AND COMMITMENTS**		
	Transaction related contingent liabilities		
	Letters of guarantees	**111,379,987**	47,475,964
	Trade related contingent liabilities		
	Letters of credit	**99,998,542**	495,783,011

Commitments

The Company makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn except for Rs. 653,757,438 (2009: Rs. 2,052,432,386).

		2010 Rupees	2009 Rupees
18	**MARK - UP / RETURN / INTEREST EARNED**		
	On loans and advances to customers	**745,778,456**	465,671,559
	On investments in		
	- Held-to-maturity securities	**55,897,727**	53,418,545
	- Available-for-sale securities	**323,881,984**	352,135,620
	On deposits with other banks and financial institutions	**99,335,499**	179,394,529
	On securities purchased under resale agreement	**27,249,569**	77,175
		1,252,143,235	1,050,697,428
18.1	**MARK - UP / RETURN / INTEREST EXPENSED**		
	Other borrowings	**18,959,328**	4,409,130
	Securities sold under repurchase agreements	**264,939,362**	32,025,444
		283,898,690	36,434,574

notes to the financial **statements**

for the year ended December 31, 2010

		Note	2010 Rupees	2009 Rupees
19	**ADMINISTRATIVE EXPENSES**			
	Salaries, allowances and employees' benefits		**101,781,225**	102,324,263
	Directors' fee		**258,000**	980,400
	Gratuity		**5,069,114**	4,308,354
	Employer's contribution to the provident fund		**3,466,748**	3,195,915
	Traveling, conveyance, boarding and lodging		**7,335,676**	4,643,478
	Rent, rates and taxes		**26,221,184**	22,406,388
	Utilities		**3,125,389**	2,634,802
	Communication		**1,580,085**	1,966,087
	Office security charges		**1,757,000**	1,171,927
	Professional training and staff welfare		**238,891**	82,997
	Donation	19.1	**500,000**	500,000
	Advertisements, periodicals and membership dues		**1,222,144**	2,653,511
	Printing and stationery	20.2	**1,421,169**	1,202,994
	Depreciation	10.3	**12,455,905**	9,345,485
	Amortization	19.2	**1,060,640**	431,925
	Auditors' remuneration		**675,000**	500,000
	Legal, consultancy and other professional services		**2,832,224**	2,120,155
	Repairs and maintenance		**2,543,123**	1,081,117
	Insurance		**1,516,325**	1,271,159
	Entertainment		**889,455**	528,477
	Bank charges		**420,239**	101,537
	Brokerage fee and commission		**2,326,608**	802,714
	Miscellaneous		**1,432,271**	1,091,590
	Loss on sale of operating fixed assets		**76,829**	333,255
	Fixed assets written off		**-**	27,121
			180,205,244	165,705,651

19.1 This represents donation given to Prime Minister's Flood Relief Fund. None of the directors or their spouses had any interest in the donee fund.

		2010 Rupees	2009 Rupees
19.2	**Auditors' remuneration**		
	Audit fee	425,000	300,000
	Half yearly review	125,000	100,000
	Special certifications and sundry advisory services	75,000	50,000
	Out of pocket expenses	50,000	50,000
		675,000	500,000
20	**OTHER CHARGES**		
	Penalty imposed by SBP	621	50,000

notes to the financial **statements**
for the year ended December 31, 2010

		2010	2009
		Rupees	Rupees
21	**TAXATION**		
	Current	**316,829,241**	315,055,452
	Prior	**(69,383,238)**	(33,037,552)
	Deferred	**54,289,552**	(5,495,275)
		301,735,555	276,522,625
21.1	**Relationship between tax expense and accounting profit**		
	Profit before taxation	**862,101,587**	790,064,644
	Tax at applicable rate of 35%.	**301,735,555**	276,522,625
		301,735,555	276,522,625

		For the year ended 2010	For the year ended 2009
22	**BASIC AND DILUTED EARNINGS PER SHARE**		
	Profit for the year (Rupees)	**560,366,032**	513,542,019
	Weighted average number of ordinary shares (Number)	**905,069,920**	794,817,427
	Basic/ diluted earnings per share (Rupees)	**0.62**	0.65

There is no dilutive effect on the basic earnings per share of the Company.

		2010 Rupees	2009 Rupees
23	**CASH AND CASH EQUIVALENTS**		
	Cash and balances with treasury banks	**1,399,836,094**	1,363,660,166
	Balances with other banks	**8,736,067**	9,147,791
		1,408,572,161	1,372,807,957

		Number	Number
23	**STAFF STRENGTH**		
	Permanent	**33**	34
	Temporary / on contractual basis	**1**	-
	Own staff strength at end of the year/ period	**34**	34
	Outsourced	**6**	9
	Total staff strength	**40**	43

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25 DEFINED BENEFIT PLAN

25.1 General description

The Company operates an approved funded gratuity scheme for all its regular employees. Contributions are made in accordance with the actuarial recommendation.

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

		2010	2009
25.2	**Principal actuarial assumptions**		
	Discount rate used	**13%**	12%
	Expected rate of return on plan assets	**13%**	11%
	Expected rate of salary increase	**12%**	12%
	Average remaining working lives of employees	**13 Years**	12 years
	Normal retirement age	**60 years**	60 years

		2010 Rupees	2009 Rupees
25.3	**Reconciliation of payable to defined benefit plan**		
	Present value of the defined benefit obligations	**8,085,333**	6,648,481
	Benefits payable	**3,480,000**	-
	Fair value of plan assets	**(9,830,809)**	(6,098,916)
	Actuarial gains to be recognised in later periods	**24,196**	58,109
	Transitional liability to be recognised later	**(1,749,550)**	(2,332,733)
		9,170	(1,725,059)
25.4	**Movement in defined benefit obligation**		
	Present value of defined benefit obligations at beginning of the year	**6,648,481**	2,915,916
	Current service cost	**4,419,983**	3,375,261
	Interest cost	**797,818**	349,910
	Benefits paid during the year	**(259,000)**	-
	Benefits due but not paid during the year	**(3,480,000)**	-
	Actuarial (gain)/loss on obligation	**(41,949)**	7,394
	Present value of defined benefit obligations at end of the year	**8,085,333**	6,648,481
25.5	**Movement in fair value of plan assets**		
	Fair value of plan assets at beginning of the year	**6,098,916**	-
	Expected return on plan assets	**731,870**	-
	Contributions	**3,334,885**	6,033,413
	Benefits paid during the year	**(259,000)**	-
	Actuarial (loss)/gain on plan assets	**(75,862)**	65,503
	Fair value of plan assets at end of the year	**9,830,809**	6,098,916
25.6	**Plan assets consists of the following:**		
	Special Saving Account	**2,868,000**	6,000,000
	Accrued interest	**254,974**	-
	Cash at bank	**6,707,835**	98,916
		9,830,809	6,098,916

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		2010	2009
		Rupees	Rupees
25.7	**Movement in payable to defined benefit plan**		
	Opening balance	**(1,725,059)**	-
	Charge for the year	**5,069,114**	4,308,354
	Company's contribution to fund during the year	**(3,334,885)**	(6,033,413)
	Closing balance	**9,170**	(1,725,059)
25.8	**Charge for the defined benefit plan**		
	Transitional liability charge due to application of IAS-19	**583,183**	583,183
	Current service cost	**4,419,983**	3,375,261
	Interest cost	**797,818**	349,910
	Expected return on plan assets	**(731,870)**	-
		5,069,114	4,308,354
25.9	**Actual Return on Plan Assets**	**656,008**	65,503

25.10 Comparision of present value of defined benefit obligation , fair value of plan assets and deficit of gratuity fund for the last two years is as follows:

	2010 Rupees	2009 Rupees
Present value of defined benefit obligation	**8,085,333**	6,648,481
Fair value of plan assets	**9,830,809**	6,098,916
(Surplus)/deficit	**(1,745,476)**	549,565
Experience adjustments		
- on obligations	**41,949**	(7,394)
- on plan assets	**(75,862)**	98,916

Estimated charge for the next year is 4,115,883 (2009:Rs. 4,945,914).

26 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2010	2009	**2010**	2009	**2010**	2009
	Rupees					
Fee	**-**	-	**258,000**	980,400	**-**	-
Managerial remuneration	**15,907,760**	12,431,749	**7,900,182**	17,400,000	**43,104,302**	42,778,176
Charge for defined benefit plan	**1,247,877**	813,762	**-**	1,406,538	**3,130,651**	1,641,967
Contribution to provident fund	**536,953**	455,549	**400,000**	960,000	**1,978,925**	1,528,150
Rent and house maintenance	**4,981,659**	4,671,725	**-**	-	**-**	-
Utilities	**452,949**	447,488	**236,792**	396,563	**-**	-
Medical	**553,246**	64,960	**41,230**	69,223	**889,911**	810,075
Others	**725,121**	661,998	**-**	215,855	**-**	-
	24,405,565	19,547,231	**8,836,204**	21,428,579	**49,103,789**	46,758,368
Number of persons	**1**	1	**5**	5	**17**	11

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for the year ended December 31, 2010

26.1 Executives mean employees, other than the chief executive and directors, whose basic salary exceed five hundred thousand rupees in a financial year. The Chief Executive and certain executives are also provided with other facilities, including the free use of the Company maintained car. Remuneration and other benefits to Directors include remuneration and benefits to the Company's Deputy Managing Director.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

27.1 On balance sheet financial instruments

	2010		2009	
	Book Value	**Fair Value**	Book Value	Fair Value
	Rupees			
Assets				
- Cash balances with treasury banks	**1,399,836,094**	**1,399,836,094**	1,363,660,166	1,363,660,166
- Balances with other banks	**8,736,067**	**8,736,067**	9,147,791	9,147,791
- Lendings to financial institutions	**1,264,139,593**	**1,264,139,593**	1,245,029,030	1,245,029,030
- Investments	**3,099,786,748**	**3,099,786,748**	3,158,325,703	3,158,325,703
- Advances	**5,308,893,009**	**5,308,893,009**	4,679,990,978	4,679,990,978
- Other assets	**355,339,060**	**355,339,060**	222,002,819	222,002,819
	11,436,730,571	**11,436,730,571**	10,678,156,487	10,678,156,487
Liabilities				
- Borrowings	**1,132,259,095**	**1,132,259,095**	975,684,500	975,684,500
- Other liabilities	**13,473,823**	**13,473,823**	9,052,902	9,052,902
	1,145,732,918	**1,145,732,918**	984,737,402	984,737,402

27.2 Off -balance sheet financial instruments

Commitments to extend credits (In case materialize)	**653,757,438**	**653,757,438**	2,052,432,386	2,052,432,386

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

Fair value of available for sale treasury bills and term finance certificates are calculated using market rates obtained from the active market. Other available for sale investments for which quoted market data is not available are carried at cost which approximates their carrying amount.

notes to the financial **statements**

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Fair value of fixed term loans and advances, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of advances is calculated in accordance with the Company's accounting policy.

In the opinion of the management, the fair value of the remaining financial assets and liabilities is not significantly different from the carrying values since assets and liabilities are either short term in nature or in the case of advances are frequently repriced.

28 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2010			
	Corporate Finance	**Trading & Sales**	**Others**	**Total**
	Rupees			
Total income	**994,317,527**	**472,130,971**	**939,147**	**1,467,387,645**
Total expense	**(102,160,577)**	**(322,919,617)**	**(180,205,865)**	**(605,286,059)**
Net income (loss)	**892,156,950**	**149,211,354**	**(179,266,718)**	**862,101,587**
Segment assets - gross	**6,724,118,792**	**4,645,905,931**	**552,568,416**	**11,922,593,139**
Segment non-performing loans	**270,000,000**	**-**	**-**	**270,000,000**
Segment provision including general provision	**(288,633,213)**	**-**	**-**	**(288,633,213)**
Segment liabilities	**-**	**(1,132,259,095)**	**(24,497,667)**	**(1,156,756,762)**
Segment return on net assets (ROA) %	**13.43%**	**3.32%**	**(43.1%)**	**7.46%**

	2009			
	Corporate Finance	Trading & Sales	Others	Total
	Rupees			
Total income	649,435,136	539,754,600	337,769	1,189,527,505
Total expense	(197,272,636)	(36,434,574)	(165,755,651)	(399,462,861)
Net income (loss)	452,162,500	503,320,026	(165,417,882)	790,064,644
Segment assets - gross	6,557,555,164	4,350,012,860	279,342,208	11,186,910,232
Segment non-performing loans	200,000,000	-	-	200,000,000
Segment provision including general provision	(247,272,636)	-	-	(247,272,636)
Segment liabilities	-	(977,602,763)	(111,640,515)	(1,089,243,278)
Segment return on net assets (ROA) %	9.86%	10.62%	0.15%	10.19%

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29 RELATED PARTY TRANSACTIONS

The Company has related party relationship with the entities in which its shareholders has any interest, key management personnel and its directors. Government of Pakistan (Ministry of Finance) is a related party of the Company, therefore all government authorities, agencies, affiliates and other organisations ("State-controlled entities") are related parties of the Company. Transactions with these state-controlled entities are not very significant and impracticable to quantify for disclosure in these financial statements.

The Company enters into transactions with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates.

	2010 Rupees	2009 Rupees
Transactions with associates due to common directorship (other than those with agencies and department of GOP)		
Payment to provident fund	**3,466,748**	4,037,961
Payment to gratuity fund	**3,334,885**	6,033,413
Placement of LOPs with related party	**15,701,509,754**	18,280,322,800
Treasury Bills	**10,217,844,152**	24,878,847,151
Other borrowings	**1,025,000,000**	-
Mark-up receivable on LOPs of related party	**7,942,654**	2,550,343
Mark-up earned on LOPs during the year	**55,419,233**	31,615,007
Mark-up receivable on treasury bills	**18,672,648**	-
Mark-up earned on treasury bills for the year	**33,324,067**	44,160,292
Mark-up paid on treasury bills for the year	**2,161,645**	9,198,261
Mark-up paid on other borrowings for the year	**444,133**	-
Rent paid	**16,527,884**	15,025,349
(Payable)/ receivable to/from gratuity fund	**(9,170)**	1,725,059
Deposit for issuance of shares		
China Development Bank (Government of China)		
(2010 represents revaluation of balance for issuance of shares)	**65,700,800**	1,263,899,200
Ministry of Finance (Government of Pakistan)	**-**	1,263,899,200

29.1 Key management personnel include the Managing Director, Deputy Managing Director, Deputy Chief Financial Officer, and the Company Secretary. Their salaries and other benefits other than the fee to executive directors amount to Rs. 34.7 million (2009: Rs. 49.37 million).

30 CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

30.1 Scope Of Applications

As per the requirements of State Bank of Pakistan, the capital adequacy framework has been applicable on all banks and DFIs. The Company has implemented the capital adequacy framework under Basel - II regime on stand alone basis. With a short operating period, the balance sheet of the Company remains relatively unleveraged. Hence the Company is expected to maintain adequate capital against the regulatory requirement of minimum capital in the near future. The Company remains cognizant of the fact that its going concern status is not dependent only on strong capital base but its ability to book quality assets that fits well on the risk and return spectrum it is pursuing. At present, the Company is dependent on its equity base to meet its capital requirements; however, it is contemplating various options to leverage its balance sheet in the ensuing years.

notes to the financial **statements**

for the year ended December 31, 2010

		2010	2009
		Rupees	Rupees
30.1.1	**Capital Structure**		
	Tier I Capital		
	Shareholders equity	**6,457,200,000**	6,457,200,000
	Deposit for issuance of shares	**2,593,499,200**	2,527,798,400
	Reserve	**285,671,066**	173,597,860
	Unappropriated / unremitted profits	**1,142,684,261**	694,391,435
	Less: Adjustments		
	Book value of intangible asset	**(3,171,512)**	(1,273,585)
	Deficit on revaluation of available for sale securities	**(2,848,250)**	(2,438,133)
	Total Tier I Capital	**10,473,034,765**	9,849,275,977
	Tier II Capital		
	General provision for loan losses subject to 1.25% of total risk weighted assets	**52,997,213**	47,272,636
	Total Tier II Capital	**52,997,213**	47,272,636
	Eligible Tier III Capital	**-**	-
	Total Regulatory Capital Base	**10,526,031,978**	9,896,548,613

30.1.2 Capital Adequacy

As per BSD Circular No. 1 dated January 1, 2008, the State Bank of Pakistan has required all Banks / DFIs to adopt standardized approaches for Credit and Market Risk and Basic Indicator / Standardized approach for Operational Risk under Basel-II Regime from January 1, 2008. Pursuant to BSD circular No. 07 dated April 25, 2009 Banks / DFIs have to set aside an amount of capital equivalent to 10% (December 31, 2009: 10%) of their risk weighted assets for conducting business. The New Basel Regime not only covers additional risks, but also provide flexibility on capital assignment against different types of credit risks. Higher quality assets in each segment will decrease the capital requirements.

The Company's objectives when managing its capital are:

a) To comply with the capital requirements set by the State Bank of Pakistan;

b) To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to other stakeholders; and

c) To maintain a strong capital base to support the development of its business.

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

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

The Company will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

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	2010		2009	
	Capital Requirements	**Risk Weighted Assets**	Capital Requirements	Risk Weighted Assets
		Rupees		
Credit Risk				
Portfolios subject to standardized approach (Simple)	**700,687,947**	**7,006,879,474**	642,491,535	6,424,915,352
Market risk				
Capital requirement for portfolios subject to standardized approach - Interest rate risk	**191,511,214**	**1,915,112,142**	5,644,773	56,447,727
Operational Risk				
Capital Requirement for operational risks	**198,280,116**	**1,982,801,164**	177,846,739	1,778,467,386
Total	**1,090,479,277**	**10,904,792,780**	825,983,047	8,259,830,465

Capital Adequacy Ratio		**2010 Rupees**	2009 Rupees
Total eligible regulatory capital held	(a)	**10,526,031,978**	9,896,548,613
Total Risk Weighted Assets	(b)	**10,904,792,780**	8,259,830,465
Capital Adequacy Ratio	(a) / (b)	**97%**	120%

31 RISK MANAGEMENT

The Company is primarily subject to interest rate risk, credit risk, market risk and liquidity risk. The management of Company is cognizant of these risks and has put in place requisite parameters to manage distinct risks within acceptable limits. The approach used for risk management has taken into account the nature and size of the organization. The core principle behind the risk management approach in the Company is that the members of the respective specialized risk management committees collaborate with relevant department in line with the risk management policies and frame works. A dedicated risk management function is also functioning to identify, quantify, monitor and control these risks.

31.1 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances that are considered doubtful for recovery.

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31.1.1 Segment by class of business

	2010			
	Advances - Gross		**Contingencies and commitments**	
	Rupees	**Percent**	**Rupees**	**Percent**
Fertilizer	**469,239,870**	**8.38**	**30,760,130**	**3.56**
Power	**3,428,250,966**	**61.25**	**562,283,034**	**64.99**
Steel	**189,730,497**	**3.39**	**107,369,503**	**12.41**
Sugar	**162,500,000**	**2.90**	**-**	**-**
Telecommunication	**300,000,000**	**5.36**	**-**	**-**
Storage	**750,000,000**	**13.40**	**-**	**-**
Real Estate	**70,000,000**	**1.25**	**-**	**-**
Cement	**200,000,000**	**3.57**	**-**	**-**
Transport, Storage and Communication	**-**	**-**	**164,723,300**	**19.04**
Others	**27,804,889**	**0.50**	**-**	**-**
	5,597,526,222	**100**	**865,135,967**	**100**

	2009			
	Advances - Gross		Contingencies and commitments	
	Rupees	Percent	Rupees	Percent
Fertilizer	267,376,515	5.41	242,881,662	9.36
Power	2,943,620,087	59.53	1,425,530,433	54.92
Steel	169,582,938	3.43	60,660,100	2.34
Sugar	200,000,000	4.04	-	-
Textiles	300,000,000	6.07	-	-
Telecommunication	300,000,000	6.07	-	-
Storage	461,684,073	9.34	366,619,166	14.12
Real Estate	85,000,000	1.72	500,000,000	19.26
Cement	200,000,000	4.04	-	-
Others	17,471,586	0.35	-	-
	4,944,735,199	100	2,595,691,361	100

31.1.2 Segment by sector

	2010			
	Advances - Gross		**Contingencies and commitments**	
	Rupees	**Percent**	**Rupees**	**Percent**
Public/Government	**877,345,331**	**15.67**	**537,377,969**	**62.11**
Private	**4,720,180,891**	**84.33**	**327,757,998**	**37.89**
	5,597,526,222	**100**	**865,135,967**	**100**

	2009			
	Advances - Gross		Contingencies and commitments	
	Rupees	Percent	Rupees	Percent
Public/Government	877,345,331	17.74	372,654,669	14.36
Private	4,067,389,868	82.26	2,223,036,692	85.64
	4,944,735,199	100.00	2,595,691,361	100.00

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

	2010		2009	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	Rupees			
Cement	200,000,000	200,000,000	200,000,000	200,000,000
Real Estate	70,000,000	35,636,000	-	-
	270,000,000	235,636,000	200,000,000	200,000,000

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

	2010		2009	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	Rupees			
Public/Government	-	-	-	-
Private	270,000,000	235,636,000	200,000,000	200,000,000
	270,000,000	235,636,000	200,000,000	200,000,000

31.1.5 Geographical Segment Analysis

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	Rupees			
Pakistan	862,101,587	11,633,959,927	10,477,203,165	865,135,967

	2009			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	Rupees			
Pakistan	790,064,644	10,940,646,187	9,851,402,909	2,595,691,361

31.1.6 Credit Risk-General Disclosures Basel II Specific

As per the SBP's instructions, the Company is using the standardized approach for ascertaining capital requirements for its credit risk. It is in the process of formulating its procedures for IRB approach for its credit risk. The Company will obtain necessary approvals and validation from SBP, before adopting IRB approach.

31.1.6.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach - Basel II specific

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Types of Exposures and ECAI's used

Exposures	2010 JCA-VIS	2010 PACRA	2010 OTHER Moody's	2009 JCR-VIS	2009 PACRA	2009 OTHER Specify Specify
Corporate	✓	✓	X	✓	✓	X
Banks	✓	✓	✓	✓	✓	X

Credit Exposures subject to Standardised approach

		2010			2009		
Exposures	**Rating Category**	**Amount Outstanding Rupees**	**Deduction CRM Rupees**	**Net amount (Rupees)**	Amount Outstanding Rupees	Deduction CRM Rupees	Net amount (Rupees)
Cash and cash equivalents		**25,000**	-	**25,000**	25,000	-	25,000
Claims on Government		**6,243,511**	-	**6,243,511**	4,702,939	-	4,702,939
Corporate	1	**1,414,844,845**	-	**1,414,844,845**	1,020,003,456	-	1,020,003,456
Corporate	2	**2,076,273,627**	-	**2,076,273,627**	1,128,870,828	-	1,128,870,828
Corporate	Unrated	**1,979,266,793**	-	**1,979,266,793**	2,735,218,827	-	2,735,218,827
Public Sector Entity	1	**137,064,869**	-	**137,064,869**	-	-	-
Public Sector Entity	Unrated	**970,884,845**	-	**970,884,845**	877,345,331	-	877,345,331
Claims denominated in foreign currency on banks with original maturity of 3 months or less		-	-	-	1,356,138,306	-	1,356,138,306
Banks- less than 3 months funded in PKR		**1,281,327,799**	**(299,632,557)**	**981,695,242**	1,256,970,742	(230,029,030)	1,026,941,712
Claim on Banks	4,5	**1,393,162,746**	-	**1,393,162,746**	-	-	-
Claims categorized as retail portfolio		**3,329,953**	-	**3,329,953**	-	-	-
Claim fully secured by residential property		**27,804,889**	-	**27,804,889**	-	-	-
Past due loans		**435,149,957**	-	**435,149,957**	-	-	-
Listed equity investments and regulatory capital investments		**402,170,282**	-	**402,170,282**	395,680,000	-	395,680,000
Investment in operating fixed assets		**177,393,995**	-	**177,393,995**	186,554,572	-	186,554,572
Other assets		**13,250,476**	-	**13,250,476**	296,664,362	-	296,664,362
Total		**10,318,193,587**	**(299,632,557)**	**10,018,561,030**	9,258,174,363	(230,029,030)	9,028,145,333

Following is the list of main type of collateral taken by the Company:

- Government Securities
- Registered charge on stocks, book debts, receivables and other assets
- Pledge of sponsors' shares
- Guarantee of Government of Pakistan
- Industrial land and building mortgage (equitable)
- Personal guarantees
- Hypothecation over movable properties
- Registered charge over fixed assets

31.2 Liquidity risk

Liquidity risk is the potential loss to the Company arising from either its inability to meet its obligation or to arrange the requisite funding for its assets at a reasonable price. The Company manages its liquidity risk by diversifying and ensuring the stability of its liability structure (funding mix). The risk management function generates and monitors daily liquidity position of the Company.

notes to the financial **statements**

for the year ended December 31, 2010

31.2.1 Maturities of assets and liabilities

	2010									
	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									
Assets										
Cash and balances with treasury banks	**1,399,836,094**	**-**	**1,399,836,094**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balances with other banks	**8,736,067**	**8,736,067**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Lendings to financial institutions	**1,264,139,593**	**1,264,139,593**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investments	**3,099,786,748**	**800,000**	**775,472,805**	**655,078,797**	**67,094,277**	**336,604,073**	**299,147,553**	**469,126,155**	**496,463,088**	**-**
Advances	**5,308,893,009**	**37,166,892**	**52,154,593**	**177,058,310**	**229,530,867**	**713,826,306**	**808,367,580**	**1,383,607,416**	**1,901,086,679**	**6,094,366**
Fixed assets	**180,565,507**	**628,357**	**1,256,715**	**1,885,072**	**3,770,144**	**156,579,301**	**7,635,288**	**8,810,630**	**-**	**-**
Deferred tax assets	**3,043,945**	**4,275**	**11,757**	**(13,999,029)**	**17,525,640**	**51,283**	**51,283**	**(601,264)**		
Other assets	**368,958,964**	**249,154,753**	**10,836,963**	**101,529,868**	**4,755,867**	**2,635,304**	**46,209**	**-**	**-**	**-**
	11,633,959,927	**1,560,629,937**	**2,239,568,927**	**921,553,018**	**322,676,795**	**1,209,696,267**	**1,115,247,913**	**1,860,942,937**	**2,397,549,767**	**6,094,366**
Liabilities										
Borrowings	**1,132,259,095**	**1,132,259,095**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other liabilities	**24,497,667**	**13,473,823**	**11,023,844**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	1,156,756,762	**1,145,732,918**	**11,023,844**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net assets	**10,477,203,165**	**414,897,019**	**2,228,545,083**	**921,553,018**	**322,676,795**	**1,209,696,267**	**1,115,247,913**	**1,860,942,937**	**2,397,549,767**	**6,094,366**
Share capital	**6,457,200,000**									
Reserve	**285,671,066**									
Unappropriated profit	**1,142,684,261**									
Advance against issue of shares	**2,593,499,200**									
Deficit on revaluation of assets - net of tax	**(1,851,362)**									
	10,477,203,165									

	2009									
	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									
Assets										
Cash and balances with treasury banks	1,363,660,166	1,363,660,166	-	-	-	-	-	-	-	-
Balances with other banks	9,147,791	9,147,791	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,245,029,030	1,245,029,030	-	-	-	-	-	-	-	-
Investments	3,158,325,703	-	106,711,763	1,900,799,821	62,509,885	140,417,570	145,550,170	241,140,340	561,196,150	-
Advances	4,697,462,564	6,634,000	96,609,000	329,301,000	99,835,332	436,780,290	705,356,778	1,361,213,554	1,615,565,401	46,167,209
Operating fixed assets	187,828,157	767,534	1,535,068	2,306,224	5,655,692	156,707,288	9,314,641	11,541,710	-	-
Deferred tax asset	57,189,957	704,648	(28,622,209)	717,653	68,856,098	(279,222)	2,447,017	5,069,354	8,154,045	142,574
Other assets	222,002,819	114,950,006	53,835,827	48,727,100	3,276,439	1,128,015	-	-	-	85,432
	10,940,646,187	2,740,893,175	230,069,449	2,281,851,798	240,133,446	734,753,942	862,668,606	1,618,964,958	2,184,915,596	46,395,215
Liabilities										
Borrowings	975,684,500	975,684,500	-	-	-	-	-	-	-	-
Other liabilities	113,558,778	11,371,713	-	579,468	101,607,597	-	-	-	-	-
	1,089,243,278	987,056,213	-	579,468	101,607,597	-	-	-	-	-
Net assets	9,851,402,909	1,753,836,962	230,069,449	2,281,272,330	138,525,849	734,753,942	862,668,606	1,618,964,958	2,184,915,596	46,395,215
Share capital	6,457,200,000									
Reserves	173,597,860									
Un-appropriated profit	694,391,435									
Advance against issue of shares	2,527,798,400									
Deficit on revaluation of assets - net of tax	(1,584,786)									
	9,851,402,909									

31.3 Market risk

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. All investments excluding trading book are considered as part of banking book. Banking book includes all investment other than available for sale market treasury bills. Due to diversified nature of investments in banking book, the Company is subject to interest rate risk only. The Company is using Basel-II standardized approach to calculate risk weighted assets against market risk exposure.

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for the year ended December 31, 2010

31.3.1 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 on a monthly basis 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.

	2010											
			Exposed to yield / profit risk									
	Effective yield / interest rate %	Total	Upto to month	Over one to three months	Over three to six months	Over six months to one year	Over tone to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years	Not exposed to yield / interest rate risk
		Rupees										
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks	0.9	1,399,836,094	-	1,393,567,584	-	-	-	-	-	-	-	6,268,510
Balances with other banks	6.00	8,736,067	8,736,067	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	13.05	1,264,139,593	1,264,139,593	-	-	-	-	-	-	-	-	-
Investments	14.10	3,099,786,748	800,000	775,472,805	655,078,797	67,094,277	336,604,073	299,147,553	469,126,155	496,463,088	-	-
Advances	15.27	5,308,893,009	37,166,892	52,154,593	177,058,310	229,530,867	713,826,306	808,367,580	1,383,607,416	1,901,086,679	6,094,366	-
Other assets		355,385,570	-	-	-	-	-	-	-	-	-	355,385,570
		11,436,777,081	1,310,842,552	2,221,194,982	832,137,107	296,625,144	1,050,430,379	1,107,515,133	1,852,733,571	2,397,549,767	6,094,366	361,654,080
Financial Liabilities												
Borrowings	12.15	1,132,259,095	1,132,259,095	-	-	-	-	-	-	-	-	-
Other liabilities		13,473,823	7,235,016	-	-	-	-	-	-	-	-	6,238,807
		1,145,732,918	1,139,494,111	-	-	-	-	-	-	-	-	6,238,807
On balance sheet gap		10,291,044,163	171,348,441	2,221,194,982	832,137,107	296,625,144	1,050,430,379	1,107,515,133	1,852,733,571	2,397,549,767	6,094,366	355,415,273
Off-balance sheet financial instruments												
Commitments to extend credits (In case materialize)		653,757,438	-	-	-	-	-	-	-	-	-	653,757,438
Off-balance sheet gap - net		653,757,438	-	-	-	-	-	-	-	-	-	653,757,438
Total yield/ interest risk sensitivity gap			171,348,441	2,221,194,982	832,137,107	296,625,144	1,050,430,379	1,107,515,133	1,852,733,571	2,397,549,767	6,094,366	1,009,172,711
Cumulative yield/ interest rate sensitivity gap			171,348,441	2,392,543,423	3,224,680,530	3,521,305,674	4,571,736,053	5,679,251,186	7,531,984,757	9,929,534,524	9,935,628,890	10,944,801,601

	2009											
			Exposed to yield / profit risk									
	Effective yield / interest rate %	Total	Upto to month	Over one to three months	Over three to six months	Over six months to one year	Over tone to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years	Not exposed to yield / interest rate risk
		Rupees										
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks		1,363,660,166	1,356,138,306	-	-	-	-	-	-	-	-	7,521,860
Balances with other banks	6.00	9,147,791	9,147,791	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	12.44	1,245,029,030	1,245,029,030	-	-	-	-	-	-	-	-	-
Investments	13.82	3,158,325,703	-	106,711,763	1,900,799,821	62,509,885	140,417,570	145,550,170	241,140,340	561,196,150	-	-
Advances	15.27	4,679,990,978	-	96,525,000	329,175,000	99,583,332	436,267,290	704,852,778	1,360,205,554	1,613,045,401	40,327,623	-
Other assets	4.00	222,573,120	6,634,000	84,000	126,000	252,000	504,000	504,000	1,008,000	2,520,000	5,925,017	208,016,103
		10,681,726,788	2,616,949,127	203,320,763	2,230,100,821	162,345,217	577,197,860	850,906,948	1,602,353,894	2,176,761,551	46,252,640	215,537,963
Financial Liabilities												
Borrowings	12.15	975,684,500	975,684,500	-	-	-	-	-	-	-	-	-
Other liabilities		9,052,902	-	-	-	-	-	-	-	-	-	9,052,902
		984,737,402	975,684,500	-	-	-	-	-	-	-	-	9,052,902
On balance sheet gap		9,696,689,386	1,641,264,627	203,320,763	2,230,100,821	162,345,217	577,197,860	850,906,948	1,602,353,894	2,176,761,551	46,252,640	206,485,061
Off-balance sheet financial instruments												
Purchase and resale agreements	12.25	230,337,730	230,337,730	-	-	-	-	-	-	-	-	-
Sale and repurchase agreements	12.20	980,398,900	980,398,900	-	-	-	-	-	-	-	-	-
Commitments to extend credits (In case materialize)		2,052,432,386	-	-	-	-	-	-	-	-	-	2,052,432,386
Off-balance sheet gap - net		1,302371,216	(750,061,170)	-	-	-	-	-	-	-	-	2,052,432,386
Total yield/ interest risk sensitivity gap			891,203,457	203,320,763	2,230,100,821	162,345,217	577,197,860	850,906,948	1,602,353,894	2,176,761,551	46,252,640	2,258,917,447
Cumulative yield/ interest rate sensitivity gap			891,203,457	1,094,524,220	3,324,625,041	3,486,970,258	4,064,168,118	4,915,075,066	6,517,428,960	8,694,190,511	8,740,443,153	10,999,360,598

31.3.2 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 following exposure in this category of market risk.

	2010			
	Assets	**Liabilities**	**Off balance sheet items**	**Net currency exposure**
	Rupees			
Pakistan Rupee	**10,057,187,729**	**1,156,756,762**	**-**	**8,900,430,967**
United States Dollar	**1,393,162,746**	**-**	**-**	**1,393,162,746**
	11,450,350,475	**1,156,756,762**	**-**	**10,293,593,713**

	2009			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	Rupees			
Pakistan Rupee	9,339,489,767	1,089,243,278	-	8,250,246,489
United States Dollar	1,356,138,306	-	-	1,356,138,306
	10,695,628,073	1,089,243,278	-	9,606,384,795

31.3.3 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 is not currently exposed to equity risk.

31.4 Capital risk management

The Company's objectives when managing capital risks are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend to shareholders, return of capital to shareholders, issue new shares or sell assets to reduce debt. In terms of BSD circular No. 19 of 2008 issued by the State Bank of Pakistan, DFIs are required to raise their paid up capital to Rs. 6 billion by December 31, 2009. Upto the year end, the Company has a paid up capital of Rs. 6.4 billion. The Company has also received deposit of Rs. 2.5 billion for issue of shares.

31.5 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 the operational risk in order to ensure the safeguarding of assets and to mitigate other related risks.

31.5.1 Operational Risk-Disclosures Basel II 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 loss owing to operational risk.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS

32.1 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 the State Bank of Pakistan, payment status of mark-up and principal, expected future cash flows of the business, security position and personal wealth of the directors and owners are taken into account.

32.2 Classification of investments

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

Since the Company upto the year end has no investment classified as 'held for trading', investments which are not classified as 'held to maturity' are classified as 'available-for-sale'.

32.3 Impairment of available for sale investments

The management determines that 'available-for-sale' investments are impaired when there has been a significant or prolonged decline in market value/ fair value below its cost. In making this judgement, the management considers among other factors, the decline market price below cost by 20% as significant and if the decline in market price persists for 9 months as prolonged.

32.4 Income taxes

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

32.5 Operating fixed assets and intangible asset

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

32.6 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.

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32.7 Valuation of financial instruments

For available for sale treasury bill investments, the Company uses PKRV rates available at the balance sheet date to ascertain their fair values. For available for sale quoted term finance certificates, the Company uses quoted market rates available at the balance sheet date to ascertain their fair value.

32.8 Gratuity

The Company's gratuity liability is determined using assumptions which are disclosed in note 25 to the financial statements which are used for determining present value of defined benefit obligations and fair value of plan assets. Any change in the assumptions from actual results would change the amount of unrecognised gains and losses.

33 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue in the Board of Directors meeting held on August 22, 2011.

34 GENERAL

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

34.2 Captions as prescribed by BSD Circular No. 4 dated February 17, 2006 issued by the State Bank of Pakistan for which there are no amounts have not been reproduced in these financial statements except for the balance sheet and profit and loss account.

Chairman	Managing Director	Director	Director

Annexure-1

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES OR ABOVE PROVIDED DURING THE YEAR ENDED 31 DECEMBER 2010

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors NIC/ Passport No.	Father's/ Husband's name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total
				Principal	Interest/ Mark-up	Other	Total				
				Rupees							
1.	Azgard Nine Limited 54600, Shahrah-e-roomi, Lahore.	Mueeb Afzal 35200-2144315-7	Muhammad Afzal	300,000,000	6,602,055	-	306,602,055	60,800,000	-	-	60,800,000
		Ahmed N.Shaikh 35201-8953938-7	Humayun N.Shaikh								
		Aehsun N.Shaikh 35201-5252539-3	Humayun N.Shaikh								
		Khalid A.H Sagar 2435080	Abdullah Hamad								
		Irfan Nazir Ahmed 61101-1994174-3	Nazir Ahmed								
		Usman Rasheed 45101-0633360-7	Rasheed Ahmed								
		Aamer Ghias 55201-4464173-3	Mohammad Ghias								
			TOTAL:	300,000,000				60,800,000			60,800,000