ANNUAL REPORT 2012

PAK CHINA
INVESTMENT COMPANY LIMITED


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CONTENTS

VISION, MISSION & CORE VALUES

VISION

To become a leading DFI as HUB of investment activities for Pakistan & 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 use as platform for investment decisions in entering the Pakistani market.

MISSION STATEMENT

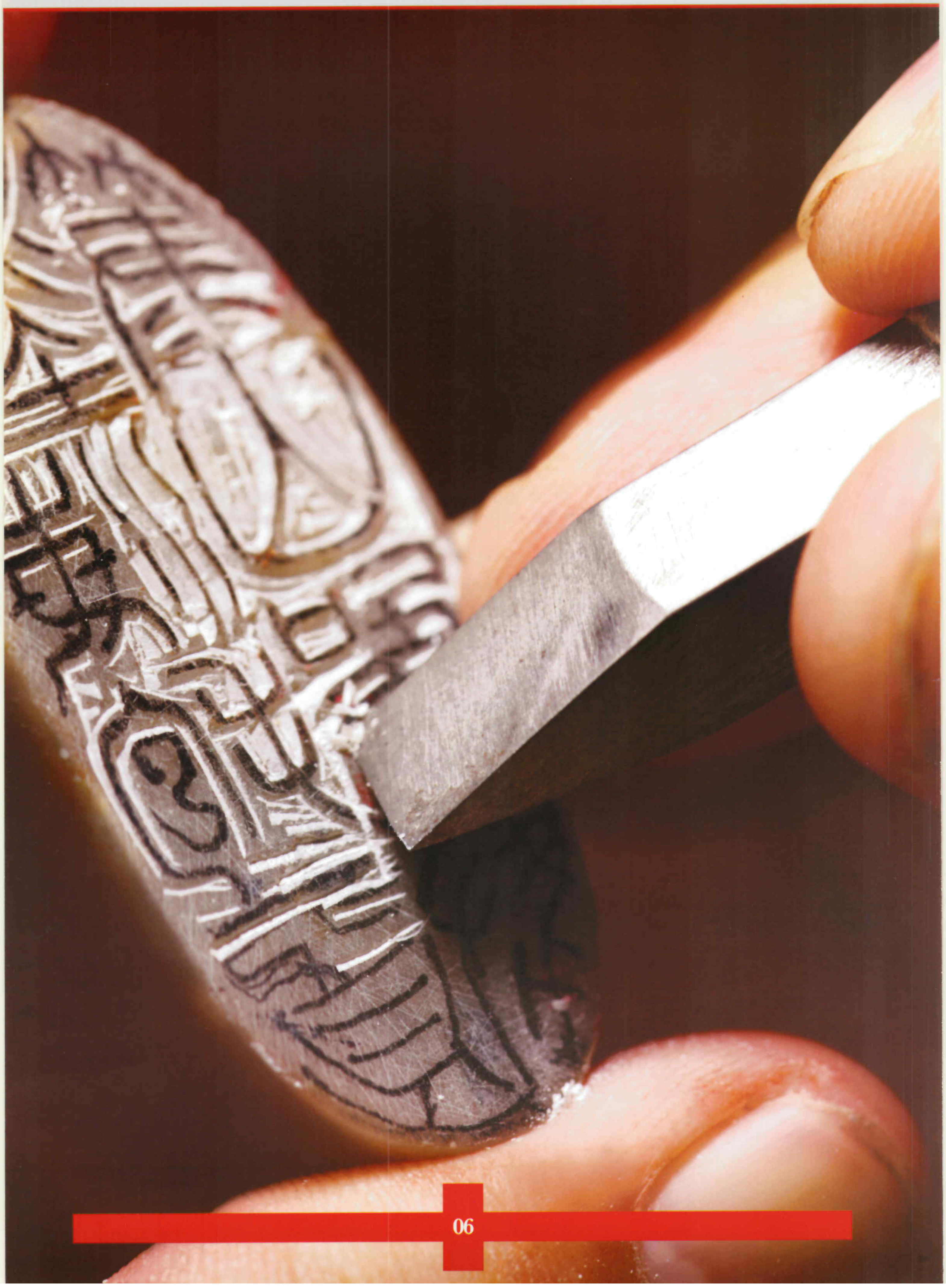
As a Focused Development Financial institution we excel in our mission. Our business spans over Financial Manufacturing. Real Estate Energy, Infrastructure, Information Technology and Agriculture Sectors.

Our Mission is to:

Be a Channel of Investment flow by becoming prime advisors 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 innovations 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 siserminated and are understood by each one of us in their letter and spirit.
We work with integrity, professionalism, passion, dedication, creativity and have one point agenda of desired results.
We respect individuals and their views and understand diversity of our culture.
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 of ours and work as a cohesive team.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Dr. Waqar Masood Khan	Chairman
Mr. Cao Wen Jiang	Director
Mr. Shehazad Arbab	Director
Mr. Zuo Kun	Director
Ms. Lui Hui	Director
Mr. Javed Mahmood	Director

HUMAN RESOURCE COMMITEE

Federal Secretary, Economic Affairs Division	Chairman
Mr. Cao Wen Jiang	Member
Mr. Gu YeNing	Member
Mr. Javed Mahmood	Member

RISK MANAGEMENT COMMITTEE

Federal Secretary, Economic Affairs Division	Chairman
Mr. Cao Wen Jiang	Member
Mr. Gu YeNing	Member
Mr. Javed Mahmood	Member

AUDIT COMMITTEE

Federal Secretary, Economic Affairs Division	Chairman
Mr. Gu YeNing	Member
Mr. Javed Mahmood	Member

COMPANY SECRETARY

Ms. Shazia Khan

STATUTORY AUTITORS

Ernst & Young Ford Rhodes Sidat Hyder

LEGAL ADVISORS

Mohsin Tayebali & Co.

ENTITY RATINGS

Long Term: AA-
Short Term: A1+

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

4th Floor, C-14-C, Touheed Commercial
26th Street, Phase-V DHA
Karachi-75600
T:+92-21-35379888 35377222 35377888
F:+92-21-35810666

DIRECTOR's PROFILE

DR. WAQAR MASOOD KHAN

CHAIRMAN
PAK-CHINA INVESTMENT COMPANY LTD
FEDERAL SECRETARY FINANCE GOVERNMENT OF PAKISTAN

MR. CAO WEN JIANG
MANAGING DIRECTIOR
PAK-CHINA INVESTMENT
COMPANY LTD
DIRECTOR

MR. JAVED MAHMOOD
DEPUTY MANAGING DIRECTOR
PAK-CHINA INVESTMENT
COMPANY LTD

MR. ZUO KUN
CHINA DEVELOPMENT BANK
DIRECTOR

MR. SHEHZAD ARBAB
FEDERAL SECRETARY
ECONOMIC AFFAIR DIVISION
GOVERNMENT OF PAKISTAN
DIRECTOR

MS.LUI HUI
CHINA DEVELOPMENT BANK
DIRECTOR

MS.SHAZIA KHAN
COMPANY SECRETARY
PAK-CHINA INVESTMENT
COMPANY LTD

CHAIRMAN's REVIEW

I am pleased to present the sixth Audited Annual Accounts of the Company for the year ended December 31, 2012.

During the period under review, the Company has shown improvement in its profitability along with credit extension to various sectors of the economy. Key performance highlights for the year are as under:-

- Net interest income increased from Rs. 944 million to Rs. 1,037 million.
- Profit before tax increased from Rs. 868 million to Rs. 1,037 million.
- Company is fully compliant of MCR of SBP.
- Credit rating was maintained at AA- by Pakistan Credit Rating Agency Limited.

Pak China remains in the sphere of development finance of infrastructure development and project financing to those projects which fulfill the need of our company. Portfolio concentration, as in 2011, has remained in power sector. However, it is striving to diversify its sector exposures among other economic sectors. The Company has formulated medium to long term Strategic Business Plan in the light of Joint Venture Agreement and SBP's direction. The Company is exploring vendors for acquiring integrated software to minimize risks and be compliant with Basel-II regime.

Economic Outlook

Pakistan's economy witnessed a modest improvement in FY12 – real GDP grew by 3.7 percent during the year, compared with 3.0 percent in FY11. Although the economy underperformed compared with the growth target of 4.2 percent, this outcome was expected given the energy shortages; security concerns; and floods in two consecutive years. Nevertheless, growth was more broad-based compared to FY11, as it was evenly distributed across agriculture, industry and the services sector.

Commercial banks were clearly not averse to lending to the government. As of June 2012, just the deficit financing by commercial banks (i.e., their holdings of government securities) accounted for 34.4 percent of their aggregate balance sheet, while total private sector lending was only 39 percent: in June 2008, the stock of government securities was only 16.4 percent, while lending to the private sector was 52.4 percent of their total assets. This significant shift in their balance sheet may provide some comfort to banks (for the returns, and improvement in their risk-weighted assets), but also reveals their increasing risk aversion.

Throughout FY12, European policymakers struggled to manage conflicting goals: how to show tangible fiscal austerity to calm an increasingly skeptical global financial market; and how to mollify public sector employees who could lose their benefits (or livelihood) and vote accordingly. This uncomfortable trade-off is made worse by the fact that members of the Euro can broadly be placed into two categories: those that are fiscally responsible and those that are not. Fortunately, the market has already shown where each country stands: Greece; Spain; Portugal; Ireland; Italy and Cyprus need help; Germany; Finland and Austria do not.

The solution to Pakistan's economic problems lies in initiating decisive reforms in the fiscal, PSEs and energy sector. These reforms are indispensible not only to manage scarce government resources that could otherwise be employed more productively but also to create fiscal space to improve public services, infrastructure and revive investments.

Board & Management Committees

To share the load of activities, the board constituted three board committees namely:-

- Audit Committee
- HR Committee
- Risk Management Committee

Apart from above, following three management committees are working:

- Credit Management Committee (CMC)
- Management Committee (MANCom)
- Asset Liability Committee (ALCO)

Looking Forward

PCICL's main aim would be to focus on commercially viable projects in the frame work of the 5 year development program, where PCICL may provide fund based and fee based services. PCICL aims to produce a blend of earnings from 1) Interest Income 2) Fee Income 3) Investment Returns and Capital Gains & would be focusing on a THREE PRONGED STRATEGY. PCICL's objective and mandate has and is to make use of the 5 year development plan of Pakistan and China and the FTA signed with China for the promotion of trade and investments.

Acknowledgement

I would like to thank the Board of Directors, the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan for their help, support and guidance. I thank the management of the Company for their sincerity, dedication and commitment. I also thank the financial institutions, clients and the shareholders for the trust and confidence reposed in the Company.

Dr. Waqar Masood Khan
Chairman

Islamabad

DIRECTOR's REPORT

On behalf of our Board of Directors, I hereby present with pleasure the Director's Report of Pak China Investment Company Limited along with its sixth annual audited accounts for the year ending December 31, 2012.

Banking Sector Review

Banking system remained relatively strong due to improved capital adequacy and solvency indicators, contributed by higher level of profits and equity injections made in CY11. Credit risk increased marginally during H2-CY11 as lending activity remained slow and banks managed to limit the flow of infected portfolio through restructuring/rescheduling of recoverable loans. The overall credit flows registered a first half yearly contraction in gross advances of the banking sector over a decade, an outcome of one-off settlement of inter-corporate public sector circular debt in November 2011. Consequently, public sector advances registered a decline during the period under review.

The asset base of the domestic banking system witnessed strongest growth since 2007 amid robust increase in investments, predominantly in government papers. Deposits were up by Rs. 515 billion, thanks to the stellar inflow of workers' remittances. Banking system remained the main conduit for financing the fiscal deficit, particularly commercial banks as government shifted its borrowings away from State Bank. Accordingly, share of net investments in banks' assets further inched up to 34 percent, with share of net advances sliding down to 43.9 percent.

The asset base of DFIs, which remained stagnant for last couple of years, saw a modest growth of 7 percent during the half year under review. Like banks, increase came from rising investment portfolio, which now constitutes 57 percent of the asset base and 62 percent of the earning assets. Institution wise analysis shows that increase in assets and investment was contributed by a few DFIs. Advances, on the other hand, saw a

contraction of 1.8 percent, which decreased their share in asset base to 32 percent. Lending to financial institution which almost dried up during the first half of the year, saw improved activity; with most of the increase taking place in last quarter of the year.

Investments surged by 15.5 percent over the half year due to 28 percent increase in short term government securities. As a result, the share of, Federal Government securities increased to 59.4 percent of total investments. However this growth was not broad based, as increase was driven by a couple of DFIs. With deterioration of capital market, DFIs shed their investment in shares, mutual funds etc. by 9 percent. The value of investments in subsidiaries and associates (S&A), which mainly constitute Mutual Funds, Leasing and Takaful, further declined due to continuing losses particularly in the later two segments.

Performance Highlights

Financial performance of PCICL for the year ending December 31, 2012 is as under:-
(Rs. in Million)

P & L- Figures	December, 12	December, 11	December, 10
Net Interest Income	1210	943	866
Non Interest Income	233	133	176
Profit before Tax	1037	868	862
Profit after Tax	674	514	560
EPS (PKR)	0.74	0.57	0.62

Balance Sheet Figures	December, 12	December, 11	December, 10
Assets	15,973	11,178	11,634
Advances	4,590	4,438	5,309
Investments	8,021	4,078	3,100
Equity	11,769	11,059	10,477

Operational Overview

As evident from the aforementioned figures, Pak China Investment Company Limited has made strides in all financial indicators. Portfolio concentration, as in 2012, has remained in power sector. However, it is striving to diversify its sector exposures among other economic sectors. The Company has formulated medium to long term Strategic Business Plan in the light of Joint Venture Agreement and SBP's direction. The Company is exploring vendors for acquiring integrated software to minimize risks and be compliant with Basel-II regime.

Credit Rating

The Pakistan Credit Rating Agency (PACRA) has assigned the Company the long-term 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 the highest capacity for timely payment of financial commitments.

Pattern of Shareholding

The pattern of shareholding is as under:-

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

Corporate & Financial Reporting Framework

The Directors are pleased to 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 based on 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 un-audited financial statements dated December 31, 2012, investment of provident fund stands at Rs. in Million

Board Meetings

The numbers of board meetings held during the year ended 31st December, 2012 were two (2) and attendance therein by the Directors is as below:-

Name	Designation	Meetings Attended
Dr. Abdul Hafeez Shaikh	Chairman	1
Mr. Cao Wen Jiang	MD	2
Mr. Javed Mahmood	DMD	2
Mr. Abdul Wajid Rana	Director	1
Mr. Gu YeNing	Director	2
Mr. Zuo Kun	Director	1

Change in Directors

There were certain changes in the Board of Directors during the period under review. Finance Division replaced Mr. Abdul Wajid Rana and nominated Mr. Dr. Waqar Masood Khan as Director of the Board. He was replaced by Mr. Javed Iqbal, Federal Secretary, Economic Affairs Division. CDB nominated Ms. Liu Hui as Director, BOD in place of Mr. Gu YeNing.

Related Party Transactions

Government of Pakistan (Ministry of Finance) is a related party of the Company, therefore, all government authorities, affiliates and other organizations ("State-controlled entities") are related parties of the Company. However, transactions with these state-controlled entities are not very significant. The Company enters into transactions with related parties in the normal course of business. The transactions were carried out in commercial terms and at market rates.

Auditors

Our present auditors, M/s Erst & Young Ford Rhodes Sidat Hyder & Co has presented themselves for re-appointment for the year 2013.

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 Wen Jiang
Managing Director

REVIEW REPORT TO THE MEMBERS
ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices (the Statement contained in the Code of Corporate Governance (the Code) for the year ended 31 December 2012 prepared by the Board the of Director of Pak China Investment Company Limited (the Company) to comply with the Regulation G1 of the Prudential Regulations for Corporate/Commercial banking issued by the State Bank of Pakistan.
The Responsibility for compliance with the Code 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 reflects the status of the Company's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form and opinion on the effectiveness on such internal controls, the Company's corporate governance procedures and risks.

Further, the Code requires the Company top place before the Board of Directors, for their considerations and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price; recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended 31 December 2012.
We draw your attention to clauses 9,15,17 and 20 of the Statement which mention certain non-compliance with the Code.

Our conclusion is not qualified in respect of the above matter.

Ernst & Young Ford Rhodes Sidat Hyder
Charted Accountants
25 June, 2013
Islamabad

STATEMENT OF COMPLIANCE

WITH THE CODE OF CORPORTE GOVERNANCE
PAK CHINA INVESTMENT COMPANY LIMITED (THE COMPANY)
YEAR ENDED 31 DECEMBER 2012

This statement is being presented to comply with the Code of Corporate Governance framed by the Securities and 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 CCG in the following manner.

1. The company encourages representation of independent non-executive directors on its board of directors. At present the board includes:

Category	Name
Executive Directors	Mr. Cao Wen Jiang and Mr. Javed Mehmood
Non-Executive Directors	Dr. Abdul Hafeez Shaikh, Mr. Zuo Kun, Mr. Javed Iqbal and Ms. Liu Hui
Independent Director	

2. The directors have confirmed that none of them is serving as director on more than seven listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Three casual vacancies occurring on the board on 29th March 2012, 31st July 2012 and 24th December 2012 were filled up by the sponsors within one day.
5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, over all corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approve or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the MD, other executive and non-executive directors, have been taken by the board/sponsors.

8. The meetings of the board were presided over thy the Chairman and, in his absence, by a director elected by the board for this purpose and the board met twice in the year. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings, the minutes of the meetings were appropriately recorded and circulated.
9. The Company is in the process of arranging orientation courses for its new directors to apprise them of their duties and responsibilities.
10. No new appointments of the Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit were made during the year. However, any changes to the remuneration, terms and conditions of employment of the CFO, Company Secretary and head Internal Audit have been determined by the CEO with the approval of the Board of Directors.
11. The director's report for this year has been prepared in compliance with the requirements of CCG and fully described the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by the CEO and Deputy CFO before approval by the board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of share holding.
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed and Audit Committee. It comprises three members, of whom two are non-executive directors and the chairman of the committee is and independent director. One meeting of the audit committee was held during the year.
16. The board has formed an HR and Remuneration Committee. It comprises four members, of whom two are non-executive directors and the chairman of the committee is a non-executive director.
17. The board has set up an internal audit function, who are experienced for the purpose and are conversant with the policies and procedures of the Company. Further more, the Company is in the process of recruiting a suitably qualified internal audit team and head of internal audit.
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 ICAP, 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) guide lines on code of ethics as adopted by the ICAP.
19. The statutory auditors of the persons associated with them have not been appointed to provide other services expect in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guide lines in this regard.
20. We confirmed that all other material principles enshrined in the CCG have been complied with except for the following, toward which reasonable progress in being made by the Company to seek compliance by the end of the next accounting regard.
    - The company's code of conduct' has not yet been made available on its website [clause v(a)].
    - Quarterly unaudited financial statement of the Company have not been published [clause xviii].

Dr. Waqar Masood Khan
Chairman

曹文江

Cao Wen Jiang
MD/CEO

FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

Auditors' Report to the Members

We have audited the annexed statement of financial position of Pak China Investment Company Limited (the Company) as at 31December 2012, 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 statements') for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit. The financial statements of the Company for the year ended 31December 2011 were audited by another firm of Chartered Accountants, whose report dated 26 March 2012 expressed an unqualified opinion thereon.

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

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

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change as disclosed in note 4.2 to the financial statements, with which we concur;

(ii) the expenditure incurred during the year was for the purpose of the Company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion, and to the best of our information and according to the explanations given to us the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31December 2012 and of the profit, its comprehensive income, cash flows and changes in equity for the year then ended; and

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

Ernst & Young Ford Rhodes Sidat Hyder

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Audit Engagement Partner:
Khurram Jameel
25 June 2013, Islamabad

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	2012 Rupees	2011 Rupees
ASSETS			
Cash and balances with treasury banks	5	92,588,077	1,491,717,118
Balances with other banks	6	1,686,035,087	23,226,506
Lendings to financial institutions	7	934,033,000	583,954,255
Investments	8	8,020,870,732	4,077,544,264
Advances	9	4,590,087,974	4,437,660,212
Fixed assets	10	219,538,864	176,177,287
Deferred tax assets	13	-	3,470,790
Other assets	11	429,686,708	384,565,310
		15,972,840,442	11,178,315,742
LIABILITES			
Bills payable		-	-
Borrowings	12	4,139,032,168	106,873,755
Deposits and other accounts		-	-
Subordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	13	2,351,263	-
Other liabilities	14	62,602,328	12,220,140
		4,203,985,759	119,093,895
NET ASSETS		11,768,854,683	11,059,221,847
REPRESENTED BY			
Share capital	15	9,116,400,000	9,116,400,000
Reserve		523,231,035	388,411,071
Unappropriated profit		2,092,924,141	1,553,644,283
		11,732,555,176	11,058,455,354
Surplus on revaluation of available for sale securities	16	36,299,507	766,493
		11,768,854,683	11,059,221,847
CONTINGENCIES AND COMMITMENTS	17		

The annexed notes 1 to 35 form an integral part of these financial statements.

Managining Director	Director	Director	Director

PROFIT AND LOSS ACCOUNT
AS AT 31 DECEMBER 2012

	Note	2012 Rupees	2011 Rupees
Mark-up / return / interest earned	18	1,308,462,920	1,313,743,696
Mark-up / return / interest expensed	18.1	(98,390,861)	(47,665,953)
Net mark-up / interest income		1,210,072,059	1,266,077,743
Provision against non-performing loans and advances	9.3	17,945,300	175,398,653
Provision for diminution in the value of available-for-sale investments	8.3	75,864,000	60,929,000
Impairment loss on available-for-sale investments	8.8	79,660,047	85,600,000
Bad debts written off directly		-	-
		173,469,347	321,927,653
Net mark-up / interest income after provisions		1,036,602,712	944,150,090
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		12,936,730	8,900,625
Dividend income		-	-
Exchange gain		121,608,232	63,159,372
Gain on sale of available-for-sale securities		98,024,055	60,312,850
Unrealised gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income		90,294	6,300
Total non mark-up / interest income		232,659,311	132,379,147
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	19	232,153,273	208,403,408
Other provisions / write offs		-	-
Other charges	20	32,100	521,000
Total non mark-up / interest expenses		232,185,373	208,924,408
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		1,037,076,650	867,604,829
Taxation - Current		376,700,664	334,461,262
- Prior		-	21,280,000
- Deferred		(13,723,836)	(1,836,460)
	21	362,976,828	353,904,802
PROFIT AFTER TAXATION		674,099,822	513,700,027
Basic and diluted earnings per share	22	0.74	0.57

The annexed notes 1 to 35 form an integral part of these financial statements

Managining Director	Director	Director	Director

STATEMENT OF COMPREHENSIVE INCOME
AS AT 31 DECEMBER 2012

	2012 Rupees	2011 Rupees
Profit after taxation	**674,099,822**	513,700,027
Other comprehensive income	-	-
Total comprehensive income for the year	**674,099,822**	513,700,027

The annexed notes 1 to 35 form an integral part of these financial statements.

Surplus on revaluation of available for sale investments is required to be shown separately below equity as 'surplus on revaluation of assets' in accordance with the requirements specified by the SBP. Accordingly, this has not been included in the statement of comprehensive income.

Managigining Director	Director	Director	Director

CASH FLOW STATEMENT
AS AT 31 DECEMBER 2012

	Note	2012 Rupees	2011 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		**1,037,076,650**	867,604,829
Adjustments for:			
Depreciation		**14 ,273,818**	11,512,903
Amortization		**1,117,267**	1,556,722
Provision for gratuity		**6,127,739**	4,115,883
Provision against non-performing loans and advances		**17,945,300**	175,398,653
Provision for diminution in the value of available-for-sale investments		**75,864,000**	60,929,000
Impairment loss on available-for-sale investments		**79,660,047**	85,600,000
Gain on sale of fixed assets		**(90,294)**	(6,300)
		1,231,974,527	1,206,711,690
Decrease/ (increase) in operating assets			
Lendings to financial institutions		**(350,078,745)**	680,185,338
Advances		**(170,373,062)**	695,834,144
Others assets		**(72,248,978)**	7,722,458
		(592,700,785)	1,383,741,940
Increase/ (decrease) in operating liabilities			
Borrowings		**4,032,158,413**	(1,025,385,340)
Other liabilities		**956,477**	(1,253,683)
		4,033,114,890	(1,026,639,023)
Gratuity paid		**(1,858,782)**	(4,586,040)
Income tax paid		**(304,003,602)**	(389,623,754)
		(305,862,384)	(394,209,794)
Net cash generated from operating activities		**4,366,526,248**	1,169,604,813
CASH FLOW FROM INVESTING ACTIVITIES			
Investments made during the year - net		**(4,044,184,339)**	(1,120,259,046)
Capital expenditure		**(58,752,663)**	(8,681,404)
Sale proceeds of fixed assets		**90,294**	6,300
Net cash used in investing activities		**(4,102,846,708)**	(1,128,934,150)
CASH FLOW FROM FINANCING ACTIVITIES			
Advance received against issue of shares		**-**	65,700,800
Increase in cash and cash equivalents		**263,679,540**	106,371,463
Cash and cash equivalents at beginning of the year		**1,514,943,624**	1,408,572,161
Cash and cash equivalents at end of the year	23	**1,778,623,164**	1,514,943,624

The annexed notes 1 to 35 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2012

	Share capital	Statutory reserve	Unappropriated profit	Advance against issue of shares	Total
	------------	------------	(Rupees)	------------	------------
Balance as at 01 January 2011	**6,457,200,000**	**285,671,066**	**1,142,684,261**	**2,593,499,200**	**10,479,054,527**
Profit after taxation	-	-	513,700,027	-	513,700,027
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	513,700,027	-	513,700,027
Transfer to statutory reserve	-	102,740,005	(102,740,005)	-	-
Advance received against issue of shares	-	-		65,700,800	65,700,800
Issue of shares	2,659,200,000	-		(2,659,200,000)	-
	2,659,200,000	-	-	(2,593,499,200)	65,700,800
Balance as at 31 December 2011	**9,116,400,000**	**388,411,071**	**1,553,644,283**	-	**11,058,455,354**
Profit after taxation	-	-	674,099,822	-	674,099,822
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	674,099,822	-	674,099,822
Transfer to statutory reserve	-	134,819,964	(134,819,964)	-	-
Balance as at 31 December 2012	**9,116,400,000**	**523,231,035**	**2,092,924,141**	-	**11,732,555,176**

The annexed notes 1 to 35 form an integral part of these financial statements.

According to BPD Circular No. 15 dated 31 May 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. Accordingly, the Company has transferred 20% of its after tax profit for the year to statutory reserve.

Managing Director	Director	Director	Director

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2012

1 LEGAL STATUS AND NATURE OF BUSINESS

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

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 (SBP) on 10 January 2008.

2 BASIS OF PRESENTATION AND MEASUREMENT

2.1 Basis Of presentation

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

2.2 Basis of measurement

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

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

3 STATEMENT OF COMPLIANCE

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

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

4 SIGNIFICANT ACCOUNTING POLICES

4.1 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and 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 judgments about carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. 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. Judgment made by the management in the application of approved accounting standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

4.2 Standards effective in current year

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except that the Company has adopted "IAS 12 – Income Taxes - Recovery of Underlying Assets (Amendment)" which became effective during the year. However, The adoption of the above amendment did not have any material effect on the financial statements.

4.3 Accounting standard not yet effective

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards or interpretations.

Standard or interpretation	Effective date (accounting period) beginning
IAS 1 – Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	01 July 2012
IAS 19 – Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	01 January 2013
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	01 January 2013

The Company expects that the adoption of the above amendments and interpretation of the standards will not materially affect the Company's financial statements in the period of initial application other than the amendments to IAS-19 ' Employee Benefits'. Such amendments range from fundamental changes to simple clarifications and re-wording. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in other comprehensive income when they occur. Amounts recorded in profit and loss will remain limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) will recognise in other comprehensive income with no subsequent recycling to profit and loss.

- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2013. The Company expects that such improvements will not have any material impact on the Company's financial statements in the period of initial application.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	Effective date (accounting period) beginning
IFRS 10 - Consolidated Financial Statements	01 January 2013
IFRS 11 - Joint Arrangements	01 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 - Fair Value Measurment	01 January 2013

4.4 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks and other banks.

4.5 Lendings to / borrowing from financial institutions

Sale under repurchase agreement

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

Purchase under resale agreement

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

Other borrowings

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

4.6 Investments

The Company classifies its investments as follows:

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.

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 plus transaction costs associated with the investments.

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 SBP, quoted securities, other than those classified as held to maturity are subsequently stated at market values. Investments classified as held to maturity are carried at amortised cost.

Surplus / deficit arising on revaluation of quoted securities classified as available for sale is kept in a separate account shown in the statement of financial position below equity.

Impairment loss in respect of investments classified as available for sale (except debt securities) is recognized 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 marketable investment below its cost is also considered an objective evidence of impairment. Provisions for diminution in the value of debt securities is made as per the Prudential Regulations issued by the SBP and included in profit and loss account. In case of impairment of available for sale quoted securities, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in the profit and loss account.

4.7 Advances

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

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

4.8 Fixed assets

Property and equipment

These are stated at cost less accumulated depreciation and 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. Depreciation on additions during the year is charged from the month of acquisition or the date the asset is available for use and on disposals upto the month of disposal. The useful lives, residual value and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date.

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

Gains and losses on 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.

Capital work-in-progress

These are stated at cost less impairment, if any.

Intangible assets

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

Impairment

The carrying amount of fixed assets are reviewed at each reporting 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.

4.9 Taxation

Current

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

Deferred

The Company accounts for deferred taxation using balance sheet liability method on all temporary differences. The amount of deferred tax provided is based on 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.

4.10 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 SBP.

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

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.

4.11 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.

4.12 Foreign currency translation

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

4.13 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.

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

4.14 Financial instruments

Financial assets and financial liabilities

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are de-recognised when obligation is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognised in the profit and loss account of the current period.

Offsetting

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

4.15 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. 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.

4.16 Dividend and appropriation to reserve

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

4.17 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

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

Geographical Segment

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

5 CASH AND BALANCES WITH TREASURY BANK

	Note	2012 Rupees	2011 Rupees
Cash in hand in local currency		**15,528**	25,000
With SBP in local currency current accounts	5.1	**91,448,008**	7,279,622
With National Bank of Pakistan in			
- local currency current account		**1,124,541**	1,250,421
- foreign currency deposit account		**-**	1,483,162,075
		92,588,077	1,491,717,118

5.1 Represent current accounts maintained with SBP as per the requirement to maintain a local currency cash reserve at a sum not less than such percentage of time and demand liabilities in Pakistan as may be prescribed from time to time by SBP.

6 BALANCES WITH OTHER BANKS

	Note	2012 Rupees	2011 Rupees
In Pakistan			
- local currency current account		**16,000,414**	2,238,027
- local currency deposit accounts	6.1	**14,815,545**	20,988,479
- foreign currency deposit account	6.2	**1,655,219,128**	-
		1,686,035,087	23,226,506

6.1 These carry interest rates ranging from 5% to 7% (2011: 6% to 9%) per annum.

6.2 This carries interest rate of 2.75% per annum.

7 LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2012	2011
In local currency			
- Repurchase agreement lendings (Reverse Repo)	7.1 & 7.2	**934,033,000**	583,954,255

7.1 This carries mark-up rate of 7% (2011: 11.9%) per annum and have matured in January 2013.

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

	2012			2011		
	Held by the Company	Further given as collateral	Total	Held by the Company	Further given as collateral	Total
	Rupees			Rupees		
Market Treasury Bills	**934,033,000**	**-**	**934,033,000**	583,954,255	-	583,954,255

7.2.1 As of 31 December 2012, the market value of the above securities amounted to Rs.934.342 million (2011: Rs.584.501 million).

8 INVESTMENTS

8.1 Investments by type

	Note	2012 Held by the Company	2012 Given as collateral	2012 Total	2011 Held by the Company	2011 Given as collateral	2011 Total
		---Rupees---			---Rupees---		
Available-for-sale							
Market Treasury Bills	8.4	2,308,279,604	3,115,983,996	5,424,263,600	1,602,461,860	-	1,602,461,860
Pakistan Investment Bonds	8.5	430,204,678	-	430,204,678	431,024,296	-	431,024,296
Listed Term Finance Certificates	8.6	245,385,184	-	245,385,184	245,483,456	-	245,483,456
Un-listed Term Finance Certificates	8.7	1,049,328,872	-	1,049,328,872	857,520,755	-	857,520,755
Ordinary shares of a listed company	8.8	138,089,196	-	138,089,196	153,600,000	-	153,600,000
Sukuks	8.9	502,117,056	-	502,117,056	528,773,927	-	528,773,927
		4,673,404,590	3,115,983,996	7,789,388,586	3,818,864,294	-	3,818,864,294
Held-to-maturity							
Unlisted Term Finance Certificates	8.7	312,429,750	-	312,429,750	318,429,750	-	318,429,750
Investments at cost		4,985,834,340	3,115,983,996	8,101,818,336	4,137,294,044	-	4,137,294,044
Provision for diminution in value of investments	8.3	(136,793,000)	-	(136,793,000)	(60,929,000)	-	(60,929,000)
Investments - net of provisions		4,849,041,340	3,115,983,996	7,965,025,336	4,076,365,044	-	4,076,365,044
Surplus on revaluation of available-for-sale securities		52,572,202	3,273,194	55,845,396	1,179,220	-	1,179,220
Total investments		4,901,613,542	3,119,257,190	8,020,870,732	4,077,544,264	-	4,077,544,264

8.2 Investment by segments

	Note	2012 Rupees	2011 Rupees
Federal Government Securities			
- Market Treasury Bills	8.4	5,424,263,600	1,602,461,860
- Pakistan Investment Bonds	8.5	430,204,678	431,024,296
		5,854,468,278	2,033,486,156
Term Finance certificates			
- Listed	8.6	245,385,184	245,483,456
- Unlisted	8.7	1,361,758,622	1,175,950,505
		1,607,143,806	1,421,433,961
Fully paid up ordinary shares -listed	8.8	138,089,196	153,600,000
Other investments			
- Sukuks	8.9	502,117,056	528,773,927
Investments at cost		8,101,818,336	4,137,294,044
Provision for diminution in value of investments	8.3	(136,793,000)	(60,929,000)
Investments - net of provisions		7,965,025,336	4,076,365,044
Surplus on revaluation of available-for-sale securities		55,845,396	1,179,220
Total investments		8,020,870,732	4,077,544,264

8.3 Provision for diminution in the value of investments

	2012	2011
Opening balance	60,929,000	-
Charge for the year	75,864,000	60,929,000
Closing balance	136,793,000	60,929,000

8.3.1 Particulars of provision in respect of type and segment

Available for sale securities

	2012	2011
Unlisted Term Finance Certificates	136,793,000	60,929,000

The above provision has been computed after considering the benefit of forced sales value (FSV) of collaterals amounting to Rs.105.455 million (2011: Rs.109.7 million). The FSV benefit is not allowed for distribution of cash or stock dividend to shareholders.

8.4 These carry interest rates ranging between 9.28 % to 10.44% (2011: 11.76% to 11.85%) per annum with redemption period of three to six monthes (2011: one year). These securities have an aggregate face value of Rs.5,550 million (2011: Rs.1,693 million).

8.5 This carries interest at the rate of 11.5% (2011: 11.5%) per annum with redemption period of four years (2011: five years). These securities have an aggregate face value of Rs.448.1 million (2011: Rs.448.1 million).

8.6 Represents 49,136 (2011: 49,136) certificates of Rs.5,000 each of Askari Bank Limited. The market value of these certificates amounts to Rs.270.9 million (2011: Rs.251.3 million) as at 31 December 2012 with a rating of AA. These carry interest at the rate of 6 months KIBOR plus 2.5% (2011: 6 months KIBOR plus 2.5%) per annum and have a redemption period of 7 years (2011: 8 years).

8.7 Unlisted Term Finance Certificates

	Note	No. of certifiates of Rs.5,000 each		Rating		Cost	
		2012	2011	2012	2011	2012	2011
						---Rupees---	
Available-for-sale							
Bank Alfalah Limited		**30,000**	30,000	**AA-**	AA-	**149,820,000**	149,880,000
Agritech Limited	**8.7.2**	**40,000**	40,000	**D**	D	**199,760,000**	199,760,000
Agritech Limited		**1,695**	1,695	**D**	D	**8,473,305**	8,475,000
Pakistan National Shipping Corporation (PNSC)		**- ***	- *	**AA-**	AA-/A1+	**230,134,810**	220,145,755
Azgard Nine Limited	**8.7.2**	**36,000**	36,000	**D**	D	**115,130,757**	179,280,000
Azgard Nine Limited		**9,214**	-	**D**	-	**46,070,000**	-
Bank Al Habib Limited		**20,000**	20,000	**AA-**	AA	**99,940,000**	99,980,000
Standard Chartered Bank Limited		**40,000**	-	**AAA**	-	**200,000,000**	-
						1,049,328,872	857,520,755
Held-to-maturity							
Avari Hotels Limited		**74,400**	75,000	**A-**	A-	**312,429,750**	318,429,750
						1,361,758,622	1,175,950,505

* As per the agreement between the Company and PNSC, 60,000 certificates will be issued upon full disbursement.

8.7.1 These carry interest rates of 3 months to 6 months KIBOR + 0.75% to 3.25% (2011: 3 months KIBOR + 1.25% to 6 months KIBOR + 2.50%) with a redemption period of 2-9 years (2011: 2-10 years).

8.7.2 These securities have been classified as non-performing in accordance with the requirements of Prudential Regulations. However, in terms of SBP directives, the Company has availed relaxation in respect of provisioning against these securities to the extent of Rs.136.793 million (2011: Rs.60.929 million).

8.8 Represents 11,832,836 ordinary shares of Rs.10 each of Agritech Limited. The market value of these shares at year end was Rs.138.089 million. During the year, the Company has recognized an impairment loss of Rs.79.66 million, being the difference of cost and market value of these shares.

8.9 Represents Sukuk Certificates of Liberty Power Technology Limited. These carry mark-up at the rate of 3 months KIBOR plus 3% (2011: 3 months KIBOR plus 3%) per annum, with a rating of A+ (2011: AA-). The sukuks have a redemption period of 9 years (2011: 10 years).

9 ADVANCES

	Note	2012 Rupees	2011 Rupees
In Pakistan			
Advances		**5,044,258,313**	4,883,793,276
Staff loans		**27,806,827**	17,898,802
Advances- gross		**5,072,065,140**	4,901,692,078
Provisions against non-performing loans and advances			
Specific provision	**9.2 & 9.3**	**(394,742,000)**	(377,756,000)
General provision	**9.3**	**(87,235,166)**	(86,275,866)
		(481,977,166)	(464,031,866)
Advances - net of provision		**4,590,087,974**	4,437,660,212

9.1 Particulars of advances - gross

		2012	2011
9.1.1	In local currency	**5,072,065,140**	4,901,692,078
9.1.2	Short term (upto one year)	**-**	-
	Long term (over one year)	**5,072,065,140**	4,901,692,078
		5,072,065,140	4,901,692,078

9.2 **Advances include Rs.682.5 million (2011: Rs.570 million) which have been placed under non-performing status as detailed below:**

	2012 Rupees								
	Classified advances			Provision required			Provision held		
Category of classification	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	412,500,000	-	412,500,000	156,425,000	-	156,425,000	156,425,000	-	156,425,000
Loss	270,000,000	-	270,000,000	238,317,000	-	238,317,000	238,317,000	-	238,317,000
	682,500,000	-	682,500,000	394,742,000	-	394,742,000	394,742,000	-	394,742,000

	2011 Rupees								
	Classified advances			Provision required			Provision held		
Category of classification	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	300,000,000	-	300,000,000	150,000,000	-	150,000,000	150,000,000	-	150,000,000
Loss	270,000,000	-	270,000,000	227,756,000	-	227,756,000	227,756,000	-	227,756,000
	570,000,000	-	570,000,000	377,756,000	-	377,756,000	377,756,000	-	377,756,000

9.3 **Particulars of provision against non-performing advances**

	2012 Rupees			2011 Rupees		
	Specific	General	Total	Specific	General	Total
Opening balance	377,756,000	86,275,866	464,031,866	235,636,000	52,997,213	288,633,213
Charge for the year	16,986,000	959,300	17,945,300	150,000,000	33,278,653	183,278,653
Reversals during the year		-	-	(7,880,000)	-	(7,880,000)
	16,986,000	959,300	17,945,300	142,120,000	33,278,653	175,398,653
Closing balance	394,742,000	87,235,166	481,977,166	377,756,000	86,275,866	464,031,866

9.3.1 In terms of SBP directives, the Company has availed relaxation in respect of provisioning against non-performing advances of certain borrowers aggregating to Rs.150 million (2010: Rs.150 million).

9.3.2 The above provision has been computed after considering the FSV benefit of collaterals amounting to Rs.131.333 million (2011: Rs.42.244 million). The FSV benefit is not allowed for distribution of cash or stock dividend to shareholders.

9.3.3 General provision is maintained at the rate of 2% of advances other than non-performing advances.

9.4 **Particulars of write-offs**

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

10 FIXED ASSETS

	Note	2012 Rupees	2011 Rupees
Capital work-in-progress	10.1	172,454,526	156,118,576
Property and equipment	10.2	46,586,815	18,443,919
Intangible assets	10.3	497,523	1,614,792
		219,538,864	176,177,287

10.1 Capital work-in-progress

	Note	2012 Rupees	2011 Rupees
Advances to suppliers		-	1,861,510
Civil works		172,454,526	154,257,066
	10.1.1	**172,454,526**	156,118,576

10.1.1 Represents value of work in progress on property (land and building) located at DHA Karachi.

10.2 Property and equipment

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

	COST			DEPRECIATION			NET BOOK VALUE	
	As at 01 January	Additions / (deletions)	As at 31 December	As at 01 January	Charge during the year (On deletions)	As at 31 December	As at 31 December	Rate of depreciation per annum
2011				Rupees				%
Vehicles	3,073,716	-	3,073,716	1,610,208	614,743	2,224,951	848,765	20%
Computers and office equipment	17,245,280	1,587,841	18,826,821	10,916,874	4,591,258	15,501,832	3,324,989	33%
		(6,300)			(6,300)			
Furniture and fixtures	13,007,242	14,000	13,021,242	4,944,912	2,603,547	7,548,459	5,472,783	20%
		-			-			
Leasehold improvements	12,354,940	-	12,354,940	4,176,595	2,470,988	6,647,583	5,707,357	20%
Electrical fittings	6,161,835	-	6,161,835	1,839,442	1,232,367	3,071,809	3,090,026	20%
	51,843,013	**1,601,841**	**53,438,554**	**23,488,031**	**11,512,903**	**34,994,634**	**18,443,920**	
		(6,300)			**(6,300)**			

10.3 Intangible assets

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

	COST			AMORTISATION			NET BOOK VALUE	
	As at 01 January	Additions / (deletions)	As at 31 December	As at 01 January	Charge during the year (On deletions)	As at 31 December	As at 31 December	Rate of amortisation per annum
2011				Rupees				%
Computer softwares	4,674,479	-	4,674,479	1,502,967	1,556,722	3,059,689	1,614,792	33%

10.4 During the year, computers and office equipment having book value of Rs.Nil were sold for Rs.90,294 to employees of the Company in accordance with the Company's policy.

		Note	2012 Rupees	2011 Rupees
11	**OTHER ASSETS**			
	Income / mark-up accrued in local currency		**389,474,325**	345,052,860
	Income / mark-up accrued in foreign currency		**1,870,624**	2,706,263
	Advances, deposits and prepayments		**38,276,675**	13,403,418
	Receivable from gratuity fund	25	**-**	460,987
	Advance tax - net		**-**	22,858,647
	Others		**65,084**	83,135
			429,686,708	384,565,310
12	**BORROWINGS**			
	In Pakistan		**4,139,032,168**	106,873,755
12.1	**Particulars of borrowings with respect to currencies**			
	In local currency		**4,139,032,168**	106,873,755
12.2	**Details of borrowings**			
	Repurchase agreement borrowings - secured	12.2.1	**3,116,600,529**	-
	Call money borrowing from a financial institution - unsecured	12.2.3	**932,000,000**	-
	Borrowing from SBP - unsecured	12.2.2	**90,431,639**	106,873,755
			4,139,032,168	106,873,755

12.2.1 These carry mark-up rates ranging from 8% to 9.4% (2011: nil) per annum and have matured in January 2013.

12.2.2 This carries mark up at the rate of 6.95% per annum and has matured in January 2013.

12.2.3 Represents financing facility obtained from SBP under the scheme "Financing Facility For Storage of Agri Produce". This carries mark up at the rate of 6.5% (2011: 6.5%) per annum and is repayable in 14 semi-annual installments starting from July 2011.

		Note	2012 Rupees	2011 Rupees
13	**DEFEREED TAX LIABILITIES**			
	Recognised in profit and loss account			
	Accelerated tax depreciation		**1,878,500**	1,378,330
	Exchange gain		**(79,275,230)**	(36,510,533)
	Provision for gratuity		**1,332,790**	(161,345)
	Provision for non-performing loans and advances		**17,500,000**	17,500,000
	Provision for dimunition in the value of available-for-sale investments		**47,877,550**	21,325,150
	Impairment loss on available-for-sale investments		**27,881,016**	-
	Others		**-**	351,915
			17,194,626	3,883,517
	Recognised in equity			
	Surplus on revaluation of available for sale investments		**(19,545,889)**	(412,727)
			(2,351,263)	3,470,790
	Movement of deferred tax is as follows:			
	Opening balance		**3,470,790**	3,043,945
	Charge to profit and loss account		**13,723,836**	1,836,460
	Credited to equity		**(19,545,889)**	(1,409,615)
	Closing balance		**(2,351,263)**	3,470,790
14	**OTEHR LIABILITIES**			
	Mark-up/ return/ interest payable in local currency		**5,089,493**	1,750,973
	Accrued expenses		**3,649,584**	10,469,167
	Provision for tax - net		**49,425,711**	-
	Payable to gratuity fund	25	**3,807,970**	-
	Others		**629,570**	-
			62,602,328	12,220,140

15 SHARE CAPITAL

15.1 **Authorised capital**

2012	2011			
Number of shares				
1,214,000,000	1,214,000,000	Ordinary shares of Rs. 10 each	**12,140,000,000**	12,140,000,000

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

2012	2011			
Number of shares				
911,640,000	911,640,000	Ordinary shares of Rs. 10 each, issued for cash	**9,116,400,000**	9,116,400,000

16 SURPLUS ON REVALUATION OF AVAILABEL FOR SALE SECURITIES

	2012 Rupees	2011 Rupees
Market Treasury Bills	**6,174,700**	(1,343,371)
Pakistan Investment Bonds	**24,067,451**	(3,314,515)
Term Finance Certificates	**25,603,245**	5,837,106
	55,845,396	1,179,220
Related deferred tax	**(19,545,889)**	(412,727)
	36,299,507	766,493

17 CONTINGENCIES AND COMMITMENTS

Transaction related contingent liabilities

Letters of guarantees	**-**	23,420,379

Trade related contingent liabilities

Letters of credit	**-**	207,707,400

Commitments to extend credits

The Company makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn except for Rs.34.898 million (2011: Rs.252.144 million).

18 MARK - UP / RETURN / INTEREST EARNED

	Note	2012 Rupees	2011 Rupees
On loans and advances		**657,421,317**	837,218,345
On investments in			
- Held-to-maturity		**45,289,317**	51,855,631
- Available-for-sale		**504,769,011**	328,318,287
		550,058,328	380,173,918
On deposits with banks		**56,537,617**	62,731,904
On securities purchased under resale agreements		**44,445,658**	33,619,529
		1,308,462,920	1,313,743,696,

18.1 MARK - UP / RETURN / INTEREST EXPENSED

On borrowings with SBP and financial institutions	**42,611,313**	15,067,161
On securities sold under repurchase agreements	**55,779,548**	32,598,792
	98,390,861	47,665,953

19 ADMINISTRATIVE EXPENSES

	Note	2012	2011
Salaries, allowances and other benefits		**120,549,006**	115,667,198
Directors' fee		**1,115,700**	1,557,900
Gratuity		**6,127,739**	4,115,883
Employer's contribution to the provident fund		**4,318,608**	3,943,745
Traveling, conveyance, boarding and lodging		**25,948,123**	12,918,347
Rent, rates and taxes		**30,397,227**	28,313,129
Utilities		**4,518,496**	3,362,864
Communication		**3,147,619**	1,578,426
Office security charges		**3,476,380**	2,828,000
Professional training and staff welfare		**2,580,195**	226,327
Donations		**-**	10,000,000
Advertisements, periodicals and membership fees		**1,728,261**	260,417
Printing and stationery		**1,878,866**	2,132,702
Depreciation	10.2	**14,273,818**	11,512,903
Amortization	10.3	**1,117,267**	1,556,722
Auditors' remuneration	19.1	**877,500**	850,000
Legal, consultancy and other professional services		**2,103,843**	2,476,255
Repairs and maintenance		**2,856,725**	2,339,662
Insurance		**2,236,887**	1,172,729
Entertainment		**1,068,825**	959,966
Bank charges		**277,822**	188,605
Miscellaneous		**1,554,366**	441,628
		232,153,273	208,403,408

		Note	2012 Rupees	2011 Rupees
19.1	**Auditors' remuneration**			
	Audit fee		**475,000**	450,000
	Half yearly review		**150,000**	150,000
	Special certifications and sundry services		**230,000**	200,000
	Out of pocket expenses		**22,500**	50,000
			877,500	850,000

20 OTHER CHARGES

Penalty imposed by the SBP		**32,100**	521,000

21 TAXATION

	Note	2012 Rupees	2011 Rupees
Current		**376,700,664**	334,461,262
Prior		**-**	21,280,000
Deferred		**(13,723,836)**	(1,836,460)
	21.1	**362,976,828**	353,904,802

21.1 Relationship between tax expense and accounting profit

	2012 Rupees	2011 Rupees
Profit before taxation	**1,037,076,650**	867,604,829
Tax at applicable rate of 35%.	**362,976,828**	303,661,690
Tax effects of - inadmissible expenses	**-**	51,422,350
- other prepayment differences	**-**	(1,179,238)
	362,976,828	353,904,802

21.2 The income tax returns of the Company have been filed and are deemed assessed up to and including the tax year 2012. However, for the tax year 2009, the assessment of the Company was amended by the Taxation Officer by disallowing "provision against lending to financial institutions" amounting to Rs.94.518 million. The Company is contesting the above decision before the Appellate Tribunal and based on the advice of its tax advisor, is confident that the ultimate outcome of the above matter will be in the Company's favour. Accordingly, no provision is considered necessary in these financial statements in this respect.

22 BASIC AND DILUTED EARNINGS PER SHARE

	2012	2011
Net profit for the year (Rupees)	**674,099,822**	513,700,027
Weighted average number of ordinary shares (Number)	**911,640,000**	908,921,967
Basic/ diluted earnings per share (Rupees)	**0.74**	0.57

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

23 CASH AND CASH EQUIVALENTS

	2012 Rupees	2011 Rupees
Cash and balances with treasury banks	**92,588,077**	1,491,717,118
Balances with other banks	**1,686,035,087**	23,226,506
	1,778,623,164	1,514,943,624

24 STAFF STRENGTH

	Number of employees	Number of employees
Permanent	**36**	35
Temporary / on contractual basis	**-**	1
Company's own staff strength	**36**	36
Outsourced	**10**	8
Total staff strength	**46**	44

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. Latest actuarial valuation was carried out as at 31 December 2012.

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.

25·2	Principal actuarial assumptions	2012	2011
	Discount rate used	11.00%	12.50%
	Expected rate of return on plan assets	12.50%	13.00%
	Expected rate of salary increase	10.00%	11.50%
	Average remaining working lives of employees	12.7 years	12 years
	Normal retirement age	60 years	60 years

		2012 Rupees	2011 Rupees
25.3	**Reconciliation of payable / (receivable) to defined benefit plan**		
	Present value of the defined benefit obligations	14,106,470	8,322,034
	Fair value of plan assets	(7,320,547)	(6,492,151)
	Net actuarial not recognized	(2,394,769)	(1,124,503)
	Transitional liability to be recognised later	(583,184)	(1,166,367)
		3,807,970	(460,987)
25·4	**Movement in defined benefit obligations**		
	Opening balance	8,322,034	8,085,333
	Current service cost	5,291,463	3,759,612
	Interest cost	1,040,254	1,051,093
	Benefits paid during the year	(1,858,782)	(5,146,040)
	Actuarial loss	1,311,501	572,036
	Closing balance	14,106,470	8,322,034
25·5	**Movement in fair value of plan assets**		
	Opening balance	6,492,151	9,830,809
	Expected return on plan assets	811,519	1,278,005
	Contributions during the year	1,858,782	4,586,040
	Benefits paid during the year	(1,858,782)	(8,626,040)
	Actuarial loss on plan assets	16,877	(576,663)
	Closing balance	7,320,547	6,492,151
25.6	**Plan assets consist of the following:**		
	National saving certificates	5,850,000	5,850,000
	Accrued interest	1,397,056	558,523
	Bank balances	73,491	83,628
		7,320,547	6,492,151
25.7	**Movement in defined befefit plan**		
	Opening balance	(460,987)	9,170
	Charge for the year	6,127,739	4,115,883
	Contributions during the year	(1,858,782)	(4,586,040)
	Closing balance	3,807,970	(460,987)
25·8	**Charge for define benefit plan**		
	Transitional liability recongnised	583,183	583,183
	Current service cost	5,291,463	3,759,612
	Interest cost	1,040,254	1,051,093
	Expected return on plan assets	(811,519)	(1,278,005)
	Actuarial loss	24,358	-
		6,127,739	4,115,883
25·9	**Actual return on plan assets**	828,397	701,342

25·10	Historical information	2012 Rupees	2011 Rupees	2010 Rupees	2009 Rupees
	Present value of defined benefit obligations	14,106,470	8,322,034	8,085,333	6,648,481
	Fair value of plan assets	(7,320,547)	(6,492,151)	9,830,809	6,098,916
	Deficit/ (surplus)	6,785,923	1,829,883	(1,745,476)	549,565
	Experience adjustments				
	- on obligations	(1,311,501)	(572,036)	41,949	(7,394)
	- on plan assets	16,877	(576,663)	(75,862)	98,916

25·11 Based on actuarial advice, the management estimates that the gratuity charge for the next year would be Rs.6.892 million.

26 DEFINED CONTRIBUTION PLAN

The general description of the defined contribution plan is included in note 4.11.

27 COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2012	2011	2012	2011	2012	2011
	Rupees					
Fee	-	-	**1,115,700**	1,557,900	-	-
Managerial remuneration	**19,716,403**	20,704,638	**17,864,000**	21,402,353	**58,105,623**	49,801,399
Charge for defined benefit plan	**732,460**	97,707	**1,103,723**	145,702	**3,673,273**	3,430,914
Contribution to provident fund	**623,088**	409,857	**1,056,000**	979,355	**2,213,083**	1,772,634
Rent and house maintenance	**5,880,689**	4,739,997	-	-	-	-
Utilities	**947,832**	391,830	**285,442**	99,840	-	-
Medical	**262,574**	54,091	**825,343**	430,279	**2,045,905**	1,243,285
Others	**9,983,740**	4,265,489	**4,331,376**	2,107,961	-	-
	38,146,786	30,663,609	**26,581,584**	26,723,390	**66,037,884**	56,248,232
Number of persons	**1**	1	**5**	5	**21**	15

27.1 The Chief Executive and a Director are also provided with free use of the Company's maintained car.

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The carrying amounts of the Company's financial assets, as of 31 December 2012, approximate their fair values.

29 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIS

	2012			
	Corporate Finance	Trading & Sales	Others	Total
	(Rupees)			
Total income - gross	**953,472,072**	**587,559,864**	**90,294**	**1,541,122,230**
Total expenses	**(179,654,008)**	**(92,206,200)**	**(232,185,373)**	**(504,045,581)**
Profit / (loss) before taxation	**773,818,064**	**495,353,664**	**(232,095,079)**	**1,037,076,649**
Segment assets - gross	**7,345,018,443**	**8,597,366,593**	**649,225,572**	**16,591,610,608**
Segment non-performing assets	**997,390,757**	**-**	**-**	**997,390,757**
Segment provision including general provision	**(618,770,166)**	**-**	**-**	**(618,770,166)**
Segment liabilities	**(90,431,639)**	**(4,048,600,529)**	**(64,953,591)**	**(4,203,985,759)**
Segment return on net assets	**11.66%**	**10.89%**	**-39.72%**	

	2011			
	Corporate Finance	Trading & Sales	Others	Total
	(Rupees)			
Total income - gross	1,097,040,699	349,075,844	6,300	1,446,122,843
Total expenses	(326,659,379)	(42,934,227)	(208,924,408)	(578,518,014)
Profit / (loss) before taxation	770,381,320	306,141,617	(208,918,108)	867,604,829
Segment assets - gross	7,011,337,072	4,127,726,149	564,213,387	11,703,276,608
Segment non-performing assets	949,040,000	-	-	949,040,000
Segment provision including general provision	(524,960,866)	-	-	(524,960,866)
Segment liabilities	(106,873,755)	-	(12,220,140)	(119,093,895)
Segment return on net assets	11.88%	7.42%	-37.03%	

30 RELATED PARTY TRANSACTIONS

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

31 CAPITAL-ASSESSMENT AND ADEQUACY BASELL II SPECIFIC

31.1 Capital management

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

The Company's objectives when managing its capital are:

a) To comply with the capital requirements set by the SBP;
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.

31.2 Regulatory capital requirements

The SBP vide BSD Circular No.7 dated 15 April 2009 has set the Minimum Capital Requirement (MCR) for DFIs up to Rs.10 billion to be achieved in a phased manner by 31 December 2013. The required MCR (free of losses) as of 31 December 2012 is Rs.9 billion. Further, the Bank is also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of the risk weighted assets of the Bank.

The paid up capital of the Company as of 31 December 2012 amounted to Rs.9,116 million while CAR stands at 109.13% as of that date.

31.3 Capital structure

	2012 Rupees	2011 Rupees
Tier I Capital		
Share capital	**9,116,400,000**	9,116,400,000
Reserve	**523,231,035**	388,411,071
Unappropriated profit	**2,092,924,141**	1,553,644,283
	11,732,555,176	11,058,455,354
Less: Book value of intangible asset	**497,523**	1,614,790
	11,732,057,653	11,056,840,564
Tier II Capital		
General provision subject to 1.25% of total risk weighted assets	**87,235,166**	86,275,866
Revaluation reserves (up to 45%)	**16,334,778**	344,922
	103,569,944	86,620,788
Eligible Tier III Capital	-	-
Total regulatory capital base	**11,835,627,597**	11,143,461,352

31.4 The capital to risk weighted assets calculated in accordance with SBP guidelines on capital adequacy is as follows:

	2012		2011	
	Capital Requirements	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets
	Rupees		Rupees	
Credit Risk				
Portfolios subject to standardized approach (Simple)	**645,206,888**	**6,452,068,881**	604,069,742	6,040,697,424
Market risk				
Capital requirement for portfolios subject to standardized aproach - Interest rate risk	**212,556,914**	**2,125,569,141**	192,267,088	1,922,670,877
Operational Risk				
Capital Requirement for operational risks	**226,760,529**	**2,267,605,292**	214,229,993	2,142,299,927
Total	**1,084,524,331**	**10,845,243,314**	1,010,566,823	10,105,668,228

Capital Adequacy Ratio		2012 Rupees	2011 Rupees
Total eligible regulatory capital held	(a)	**11,835,627,597**	11,143,461,352
Total Risk Weighted Assets	(b)	**10,845,243,314**	10,105,668,228
Capital Adequacy Ratio (a) / (b)		**109.13%**	110.27%

32 RISK MANAGEMENT

The Company is primarily subject to 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 in light of approved policies & proudures

32.1 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.

32.1.1 Segment by class of business

	2012			
	Advances - Gross		Contingencies and commitments	
	Rupees	Percent	Rupees	Percent
Fertilizer	**280,000,000**	**5.52**	-	-
Power	**2,613,221,760**	**51.52**	**34,898,362**	**100**
Steel	**297,100,000**	**5.86**	-	-
Sugar	**312,500,000**	**6.16**	-	-
Telecommunication	**300,000,000**	**5.91**	-	-
Storage	**671,436,553**	**13.24**	-	-
Real Estate	**70,000,000**	**1.38**	-	-
Cement	**200,000,000**	**3.94**	-	-
Glass	**300,000,000**	**5.91**	-	-
Transport, Storage & Communications	-	**0.00**	-	-
Others	**27,806,827**	**0.55**	-	-
	5,072,065,140	**100**	**34,898,362**	**100**

	2011			
	Advances - Gross		Contingencies and commitments	
	Rupees	Percent	Rupees	Percent
Fertilizer	500,000,000	10.20	-	-
Power	2,649,461,863	54.05	153,391,799	31.74
Steel	297,100,000	6.06	-	-
Sugar	112,500,000	2.30	-	-
Telecommunication	300,000,000	6.12	-	-
Storage	732,571,413	14.95	-	-
Real Estate	70,000,000	1.43	-	-
Cement	200,000,000	4.08	-	-
Glass	22,160,000	0.45	277,840,000	57.49
Transport, Storage & Communications	-	-	52,039,804	10.77
Others	17,898,802	0.37	-	-
	4,901,692,078	100	483,271,603	100

32.1.2 Segment by sector

	2012			
	Advances - Gross		Contingencies and commitments	
	Rupees	Percent	Rupees	Percent
Public/Government	-	-	-	-
Private	**5,072,065,140**	**100**	**34,898,362**	**100**
	5,072,065,140	**100**	**34,898,362**	**100**

	2011			
	Advances - Gross		Contingencies and commitments	
	Rupees	Percent	Rupees	Percent
Public/Government	-	-	52,039,804	10.77
Private	4,901,692,078	100	431,231,799	89.23
	4,901,692,078	100	483,271,603	100

32.1.3 Details of non-performing advance and specific provision by class of buniss

	2012		2011	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	Rupees		Rupees	
Cement	**200,000,000**	**200,000,000**	200,000,000	200,000,000
Real Estate	**70,000,000**	**38,317,000**	70,000,000	27,756,000
Telecommunication	**300,000,000**	**150,000,000**	300,000,000	150,000,000
Sugar	**112,500,000**	**6,425,000**	-	-
	682,500,000	**394,742,000**	570,000,000	377,756,000

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

	2012 Classified Advances	2012 Specific Provisions Held	2011 Classified Advances	2011 Specific Provisions Held
	Rupees		Rupees	
Public/Government	-	-	-	-
Private	682,500,000	394,742,000	570,000,000	377,756,000
	682,500,000	394,742,000	570,000,000	377,756,000

32.1.5 Geographical Segment Analysis

	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
2012		(Rupees)		
In Pakistan	1,037,076,650	15,972,840,442	11,768,854,683	34,898,362
2011		(Rupees)		
In Pakistan	867,604,829	11,178,315,742	11,059,221,847	483,271,603

32.1.6 Credit Risk-General Disclosures Basel II Specific

As per 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.

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

Types of Exposures and ECAI's used

Exposures	2012 JCR-VIS	2012 PACRA	2012 OTHER Moody's	2011 JCR-VIS	2011 PACRA	2011 OTHER Moody's
Corporate	P	P	x	P	P	x
Banks	P	P	P	P	P	P

Credit Exposures subject to Standardised approach

Exposures	Rating category	2012 Amount Outstanding	2012 Deduction CRM	2012 Net amount	2011 Amount Outstanding	2011 Deduction CRM	2011 Net amount
		Rupees			Rupees		
Cash and cash		15,528	-	15,528	25,000	-	25,000
Claims on Government		91,448,008	-	91,448,008	30,138,269	-	30,138,269
Corporate	1	886,761,625	-	886,761,625	1,921,861,369	-	1,921,861,369
Corporate	2	3,355,040,077	-	3,355,040,077	2,247,039,146	-	2,247,039,146
Corporate	5,6	54,543,305	-	54,543,305	8,475,000	-	8,475,000
Corporate	Unrated	1,280,488,286	-	1,280,488,286	1,302,068,626	-	1,302,068,626
Public Sector Entity	1	233,001,974	-	233,001,974	223,455,360	-	223,455,360
Public Sector Entity	Unrated	-	-	-	6,344,400	-	6,344,400
Banks- less than 3 months funded in PKR		966,152,750	934,212,250	31,940,500	608,811,929	584,335,002	24,476,927
Claim on Banks	4,5	1,655,219,128	-	1,655,219,128	1,483,162,075	-	1,483,162,075
Claims categorized as retail portfolio		3,528,586	-	3,528,586	2,407,782	-	2,407,782
Claim fully secured by residential property		27,806,827	-	27,806,827	17,898,802	-	17,898,802
Past due loans		465,855,757	-	465,855,757	510,355,000	-	510,355,000
Listed equity investments and regulatory capital		738,802,696	-	738,802,696	507,251,917	-	507,251,917
Investment in operating fixed assets		219,041,341	-	219,041,341	174,562,497	-	174,562,497
Other assets		59,072,572	-	59,072,572	36,691,377	-	36,691,377
Total		10,036,778,460	934,212,250	9,102,566,210	9,080,548,549	584,335,002	8,496,213,547

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

32.2 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.

32.2.1 Maturities of assets and liabilities

	2012									
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
	(Rupees)									
Assets										
Cash and balances with treasury banks	92,588,077	92,588,077	-	-	-	-	-	-	-	-
Balances with other banks	1,686,035,087	30,815,959	-	1,655,219,128	-	-	-	-	-	-
Lendings to financial institutions	934,033,000	934,033,000	-	-	-	-	-	-	-	-
Investments	8,020,870,732	9,799,903	3,558,577,128	1,945,552,505	187,941,975	297,538,513	181,220,623	879,736,974	960,503,111	-
Advances	4,590,087,974	23,988,550	11,604,643	44,680,969	141,772,492	450,848,761	670,751,762	1,313,638,094	1,918,696,123	14,106,580
Fixed assets	219,538,864	1,539,559	175,533,644	4,618,677	8,839,498	11,298,513	8,086,320	9,622,653	-	-
Other assets	429,686,708	129,128,564	61,375,281	37,251,654	191,352,758	8,988,992	1,589,459	-	-	-
	15,972,840,442	1,221,893,612	3,807,090,696	3,687,322,933	529,906,723	768,674,779	861,648,164	2,202,997,721	2,879,199,234	14,106,580
Liabilities										
Borrowings	4,139,032,168	4,056,821,587	-	-	8,221,058	16,442,116	16,442,116	32,884,232	8,221,059	-
Deferred tax assets	2,351,263	-	-	2,351,263	-	-	-	-	-	-
Other liabilities	62,602,328	7,984,507	53,988,251	629,570	-	-	-	-	-	-
	4,203,985,759	4,064,806,094	53,988,251	2,980,833	8,221,058	16,442,116	16,442,116	32,884,232	8,221,059	-
Net assets	**11,768,854,683**	**(2,842,912,482)**	**3,753,102,445**	**3,684,342,100**	**521,685,665**	**752,232,663**	**845,206,048**	**2,170,113,489**	**2,870,978,175**	**14,106,580**
Share capital	9,116,400,000									
Reserve	523,231,035									
Unappropriated profit	2,092,924,141									
Surplus on revaluation of available for sale securities	36,299,507									
	11,768,854,683									

	2011									
	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	1,491,717,118	8,555,043	-	1,483,162,075	-	-	-	-	-	-
Balances with other banks	23,226,506	23,226,506	-	-	-	-	-	-	-	-
Lendings to financial institutions	583,954,255	583,954,255	-	-	-	-	-	-	-	-
Investments	4,077,544,264	97,922,519	29,757,997	1,124,556,867	665,395,545	289,724,096	232,053,881	690,311,864	941,990,538	5,830,957
Advances	4,437,660,212	129,248,519	41,615,905	31,515,684	74,568,152	503,696,367	500,056,088	1,063,885,661	2,057,328,630	35,745,206
Fixed assets	176,177,287	979,944	3,821,398	2,939,832	5,879,664	160,901,499	1,654,950	-	-	-
Deferred tax assets	3,470,790	-	-	-	-	-	-	-	-	3,470,790
Other assets	384,565,310	97,998,485	125,532,330	141,490,228	18,147,277	1,350,781	46,209	-	-	-
	11,178,315,742	941,885,271	200,727,630	2,783,664,686	763,990,638	955,672,743	733,811,128	1,754,197,525	2,999,319,168	45,046,953
Liabilities										
Borrowings	106,873,755	8,221,058	-	-	8,221,058	16,442,116	16,442,116	32,884,232	24,663,175	-
Other liabilities	12,220,140	3,798,592	1,049,050	7,372,498	-	-	-	-	-	-
	119,093,895	12,019,650	1,049,050	7,372,498	8,221,058	16,442,116	16,442,116	32,884,232	24,663,175	-
Net assets	11,059,221,847	929,865,621	199,678,580	2,776,292,188	755,769,580	939,230,627	717,369,012	1,721,313,293	2,974,655,993	45,046,953
Share capital	9,116,400,000									
Reserves	388,411,071									
Un-appropriated profit	1,553,644,283									
Surplus on revaluation of Assets	766,493									
	11,059,221,847									

32.3 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. The company does not have a defined trading book and all investments are classified as Available for Sale or Held to Maturity. Due to diversified nature of investments in banking book, the Company is primarily subject to interest rate risk. The Company via its JV agreement is not to engage in secondary market equity trading. The Company is using Basel-II standardized approach to calculate risk weighted assets against market risk exposure.

32.3.1 Interest rate risk

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

		2012										
	Effective yield / interest rate %		Exposed to yield / profit risk									Not exposed to yield / interest rate risk
		Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years	
		Rupees										
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks		92,588,077	-	-	-	-	-	-	-	-	-	92,588,077
Balances with other banks	4.55	1,686,035,087	30,815,959	-	1,655,219,128	-	-	-	-	-	-	-
Lendings to financial institutions	7.00	934,033,000	934,033,000	-	-	-	-	-	-	-	-	-
Investments	10.10	8,020,870,732	9,799,903	3,557,872,855	1,944,846,537	48,439,996	285,498,948	166,878,407	854,398,474	960,503,111	-	192,632,501
Advances	12.28	4,590,087,974	23,988,550	11,604,643	44,680,969	141,772,492	450,848,761	670,751,762	1,313,638,094	1,918,696,123	14,106,580	-
Other assets		397,220,548	-	-	-	-	-	-	-	-	-	397,220,548
		15,720,835,418	998,637,412	3,569,477,498	3,644,746,634	190,212,488	736,347,709	837,630,169	2,168,036,568	2,879,199,234	14,106,580	682,441,126
Financial Liabilities												
Borrowings	8.36	4,139,032,168	4,056,821,587	-	-	8,221,058	16,442,116	16,442,116	32,884,232	8,221,059	-	-
Other liabilities		62,602,328	-	-	-	-	-	-	-	-	-	62,602,328
		4,201,634,496	4,056,821,587	-	-	8,221,058	16,442,116	16,442,116	32,884,232	8,221,059	-	62,602,328
On balance sheet gap		**11,519,200,922**	**(3,058,184,175)**	**3,569,477,498**	**3,644,746,634**	**181,991,430**	**719,905,593**	**821,188,053**	**2,135,152,336**	**2,870,978,175**	**14,106,580**	**619,838,798**
Off-balance sheet financial instruments												
Commitments to extend credits (In case materialize)		34,898,362	-	-	-	-	-	-	-	-	-	34,898,362
Off-balance sheet gap - net		**34,898,362**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**34,898,362**
Total yield/ interest risk sensitivity gap			**(3,058,184,175)**	**3,569,477,498**	**3,644,746,634**	**181,991,430**	**719,905,593**	**821,188,053**	**2,135,152,336**	**2,870,978,175**	**14,106,580**	**654,737,160**
Cumulative yield/ interest rate sensitivity gap			**(3,058,184,175)**	**511,293,323**	**4,156,039,957**	**4,338,031,387**	**5,057,936,980**	**5,879,125,033**	**8,014,277,369**	**10,885,255,544**	**10,899,362,124**	**11,554,099,284**

	Effective yield / interest rate %	2011										
		Total	Exposed to yield / profit risk									Not exposed to yield / interest rate risk
			Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Above ten years	
		---Rupees---										
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks	-	1,491,717,118	-	-	1,483,162,075	-	-	-	-	-	-	8,555,043
Balances with other banks	14.9	23,226,506	23,148,142	-	-	-	-	-	-	-	-	78,364
Lendings to financial institutions	14.39	583,954,255	583,954,255	-	-	-	-	-	-	-	-	-
Investments	12.57	4,077,544,264	97,922,519	29,757,997	1,124,556,867	665,395,545	289,724,096	232,053,881	690,311,864	941,990,538	5,830,957	-
Advances	12.95	4,437,660,212	129,248,519	41,615,905	31,515,684	74,568,152	503,696,367	500,056,088	1,063,885,661	2,057,328,630	35,745,206	-
Other assets	-	374,861,178	-	-	-	-	-	-	-	-	-	374,861,178
		10,988,963,533	834,273,435	71,373,902	2,639,234,626	739,963,697	793,420,463	732,109,969	1,754,197,525	2,999,319,168	41,576,163	383,494,585
Financial Liabilities												
Borrowings	12.25	106,873,755	8,221,058	-	-	8,221,058	16,442,116	16,442,116	32,884,232	24,663,175	-	-
Other liabilities		12,220,140	-	-	-	-	-	-	-	-	-	12,220,140
		119,093,895	8,221,058	-	-	8,221,058	16,442,116	16,442,116	32,884,232	24,663,175	-	12,220,140
On balance sheet gap		10,869,869,638	826,052,377	71,373,902	2,639,234,626	731,742,639	776,978,347	715,667,853	1,721,313,293	2,974,655,993	41,576,163	371,274,445
Off-balance sheet financial instruments												
Commitments to extend credit (In case materialize)		252,143,824	-	-	-	-	-	-	-	-	-	252,143,824
Off-balance sheet gap - net		252,143,824	-	-	-	-	-	-	-	-	-	252,143,824
Total yield/ interest risk sensitivity gap			826,052,377	71,373,902	2,639,234,626	731,742,639	776,978,347	715,667,853	1,721,313,293	2,974,655,993	41,576,163	-
Cumulative yield/ interest rate sensitivity gap			826,052,377	897,426,279	3,536,660,905	4,268,403,544	5,045,381,891	5,761,049,744	7,482,363,037	10,457,019,030	10,498,595,193	-

32.3.2 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.

	2012			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	---Rupees---			
Pakistan Rupee	**14,180,538,556**	**4,201,634,496**	**-**	**9,978,904,060**
United States Dollar	**1,655,219,128**	-	**-**	**1,655,219,128**
	15,835,757,684	**4,201,634,496**	**-**	**11,634,123,188**

	2011			
	Assets	Liabilities	Off balance sheet items	Net currency exposure
	---Rupees---			
Pakistan Rupee	9,505,801,458	119,093,895	-	9,386,707,563
United States Dollar	1,483,162,075	-	-	1,483,162,075
	10,988,963,533	119,093,895	-	10,869,869,638

32.3.3 Equity risk

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

32.4 Operational risk

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

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

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

32.4.1 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 significant loss owing to operational risk.

33 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

33.1 Provision against non-performing loans and advances

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

33.2 Classification / valuation of investments

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

33.3 **Impairment of investments**

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

33.4 **Provision for income taxes**

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

33.5 **Fixed assets**

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

33.6 **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.

33.7 **Provision for gratuity**

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

34 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue in the Board of Directors meeting held on June 25, 2013

35 GENERAL

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

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

35.3 Figures have been rounded off to the nearest rupees, unless otherwise stated.

Managing Director	**Director**	**Director**	**Director**