ANNUAL REPORT 2014

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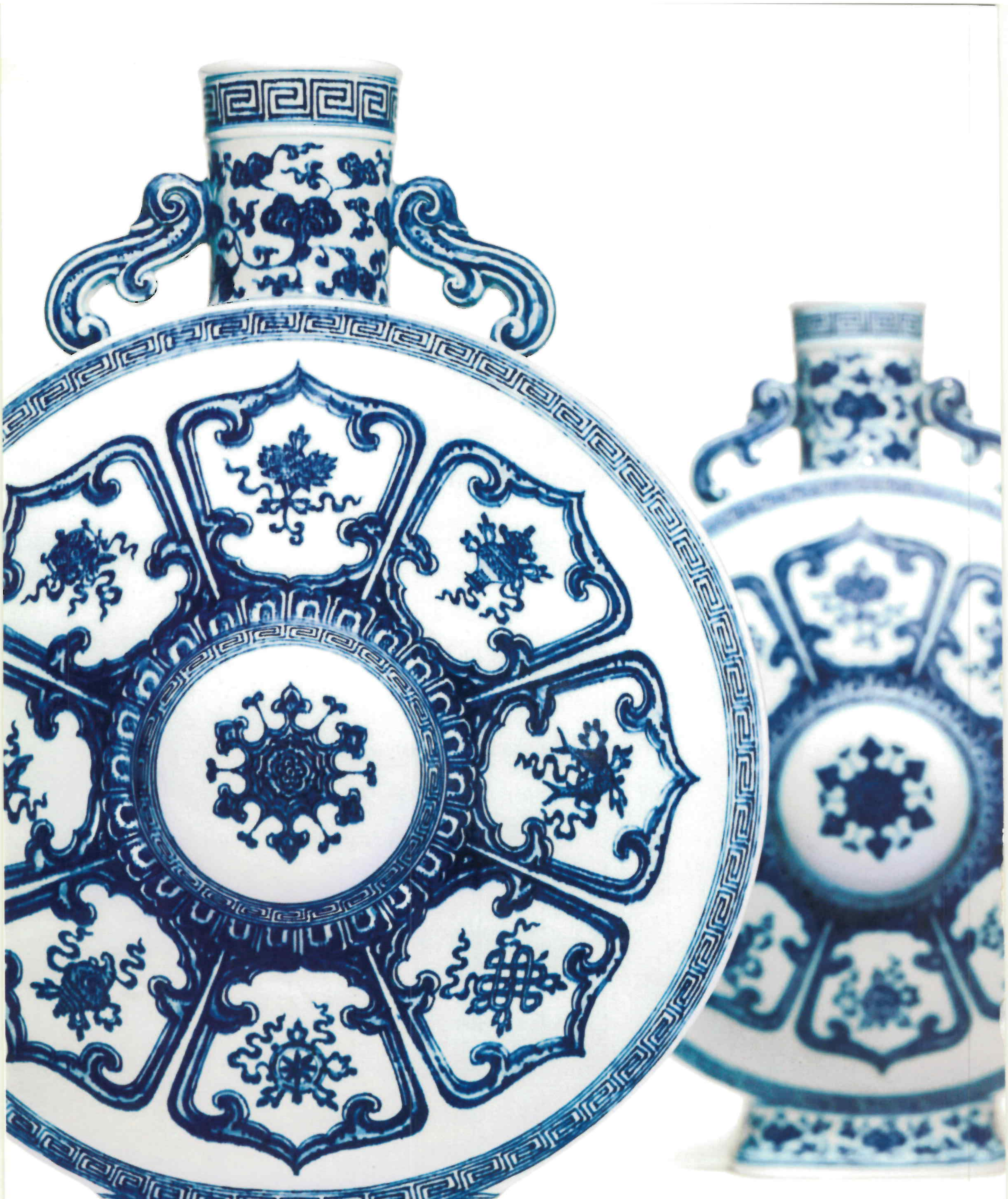


VISION, MISSION & CORE VALUES

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. Saleem Sethi	Director
Mr. Zuo Kun	Director
Ms. Liu Hui	Director
Mr. Shahnawaz Mahmood	Director

HUMAN RESOURCE COMMITTEE

Federal Secretary, Economic Affairs Division	Chairman
Mr. Cao Wen Jiang	Member
Ms. Liu Hui	Member
Mr. Shahnawaz Mehmood	Member

RISK MANAGEMENT COMMITTEE

Federal Secretary, Economic Affairs Division	Chairman
Mr. Cao Wen Jiang	Member
Ms. Liu Hui	Member
Mr. Shahnawaz Mahmood	Member

AUDIT COMMITTEE

Federal Secretary, Economic Affairs Division	Chairman
Ms. Liu Hui	Member
Mr. Shahnawaz Mahmood	Member

COMPANY SECRETARY
Ms. Shazia Khan

STATUTORY AUDITORS
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

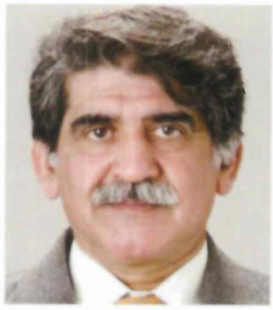
DIRECTOR'S PROFILE

DR. WAQAR MASOOD KHAN
CHAIRMAN
PAK-CHINA INVESTMENT COMPANY LTD
FEDERAL SECRETARY FINANCE
GOVERNMENT OF PAKISTAN

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

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

MR. ZUO KUN
DIRECTOR
CHINA DEVELOPMENT BANK



MR. SALEEM SETHI
FEDERAL SECRETARY
ECONOMIC AFFAIR DIVISION
GOVERNMENT OF PAKISTAN
DIRECTOR

MS. LIU HUI
DIRECTOR
CHINA DEVELOPMENT BANK

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

CHAIRMAN'S REVIEW

I am pleased to present the seventh Annual Report of the Company for the year ended December 31, 2014.

Key highlights for the year 2014 are as under:-

- Advances increased from Rs. 5,329 Million to 5,956 Million.
- Borrowings increased from Rs. 326 Million to 6,742 Million.
- Non Net interest income decreased from Rs. 354 Million to 19 Million.
- Credit rating was maintained at AA by Pakistan Credit Rating Agency Limited.

ECONOMIC OUTLOOK

FY14 ended on a positive note for Pakistan's economy, political transition remained smooth in June 2014 and the new government spelled out its policy focus on energy issues, which had suppressed growth in the previous few years. In addition, several other factors had positioned the economy to post a recovery including adoption of alternate fuel sources by industrial sector in past few years, initiation of talks for the new IMF program, single-digit headline inflation throughout the year and a 300 bps reduction in discount rate which triggered some pick-up in manufacturing loans in addition to reducing the government's debt servicing burden.

Agriculture under-performed due to water shortages at sowing time and soft agri prices globally (mainly cotton) which reduced the area under cultivation. In addition, pest attacks and heavy rains before the harvest season also damaged the standing crops. Robust growth in construction activity and capacity enhancement in few sub-sectors supported the industrial sector during the year. Global prices helped contain Pakistan's import bill and there was some improvement in exports.

Furthermore, higher than anticipated Coalition Support Fund (CSF) inflows and modest growth in worker remittances reduced the current account deficit to 1.0 percent of GDP in FY14 from 2.4 percent in the previous year.

Despite these favorable developments, growing security concerns and persistent structural weaknesses continue to hamper economic growth. While Coalition Support Fund (CSF) is essentially a reimbursement for services provided to NATO countries in Afghanistan (by our armed forces), the actual economic cost of this war on Pakistan is significantly higher than CSF inflows. In addition to the loss of human lives, this war has further deteriorated law & order in the country which in turn has adversely impacted the investment climate caused production losses due to frequent interruption in economic activities, diverted resources to enhance security, encouraged manpower and some businesses to migrate out of the country and adversely impacted revenue collection by the fiscal authorities.

At the same time, the government has challenges in managing public sector enterprises and has therefore, prepared a detailed disinvestment and privatization list. The government is also expanding the tax net to untaxed or under-taxed areas and making efforts to tackle theft and leakages in the energy sector. The inflows from other IFIs (WB & ADB) come with a short lag and the resulting structural reforms could solicit foreign investment. The present government has introduced Prime Minister's Youth Business Loan which will focus on but not be restricted to unemployed youth, especially educated youth looking for establishing or extending business enterprise. It is also expected that inflows from 3G licenses and Etisalaat will significantly narrow the external gap.

The IMF staff mission has recently concluded its meetings with Pakistan's fiscal and monetary authorities. Broadly speaking, the mission has found the macro stabilization process in the energy and fiscal sectors to be on track. Furthermore, the government is following through with Budget measures to increase tax rates and withdraw some tax exemptions. Similarly, the government is also Implementing the National Energy Policy which entails reducing end-user subsidies and improving bill collections

BOARD AND MANAGEMENT COMMITTEES

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

1. Audit Committee
2. HR Committee
3. Risk Management Committee

Apart from above, following three management committees are working:-

1) Management Committee (MANCOM)
2) Credit Management Committee (CMC)
3) Asset & Liability Committee (ALCO)
4) Procurement Committee (PC)

LOOKING FORWARD

Pak China Corporate Finance exposure is concentrated in the power sector as it has been a priority of the energy starved nation. Treasury has so far used available equity as the primary source of funds and focused on management of liquidity with investments concentrated in T-Bills. Corporate Finance plans to further diversify its portfolio and invest in Renewable Energy Projects, Infrastructure development/SEZ and Project Financing for Local Corporate Clients in preferred sectors. Treasury is also planning to increase its investments through use of Leverage & investment in capital market instruments. PCICL will closely work with CDB and Ministry of Finance (MOF) for Advisory and Financing Arrangement for projects located on Pak China Economic Corridor.

It goes without saying that the performance of the Company cannot be immune from the effects of financial and economic crisis. I would like to emphasize that Pak China Investment Company Limited aims at self sustaining growth aided by sound credit culture, good corporate governance practices and robust risk management framework.

ACKNOWLEDGEMENT

I would like to thank the Board of Directors, State Bank of Pakistan and 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, March 27th, 2015

DIRECTOR'S REPORT

On behalf of our Board of Directors, I hereby present with pleasure the Director's Report of Pak China Investment Limited along with its seventh annual audited accounts for the year ending December 31, 2014.

Banking Sector Review

After witnessing decline in core earnings due to on-going monetary easing and limited private sector borrowing, together with declining yields on government paper, banks have focused on increasing their non-interest income through capital gains on equity securities and fees & commissions on investment advisory, brokerage and custodian services. Banking spreads will remain under pressure as interest rates are expected to remain unchanged from current levels over next year, rendering treasury investments as less attractive and forcing banks to find other avenues for investments including extending loans to private sector.

Performance Highlights

Financial Highlights of the Company for the year ending December 31, 2014 are as under:-
(Rs. in Million)

P & L- Figures	December, 14	December, 13	December, 12
Net Interest Income	1,111	933	1210
Non Interest Income	19	355	233
Profit before Tax	619	855	1037
Profit after Tax	469	564	674
EPS (PKR)	0.51	0.62	0.74

Balance Sheet Figures	December, 14	December, 13	December, 12
Assets	20,007	12,730	15,973
Advances	5,957	5,329	4,590
Investments	11,289	4,283	8,021
Equity	12,948	12,313	11,766

Operational Overview

Pak China Corporate Finance exposure is concentrated in the power sector as it has been a priority of the energy starved nation. Treasury Department has so far used available equity as the primary source of funds and focused on management of liquidity with investments concentrated in T-Bills. Corporate Finance will further diversify its loan portfolio and will work closely with CDB & MOF for Advisory and Financing Arrangement for Projects located on Pak China Economic Corridor. Treasury Department will pursue an aggressive investment strategy this year and diversify the investment portfolio keeping in view the risk & return tradeoff.

Credit Rating

The Pakistan Credit Rating Agency (PACRA) has assigned the Company the long- term and short-term entity ratings of 'AA'(Double A) 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 feel pleasure to give the following statement in respect of the Code of Corporate Governance:

- 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.

Board Meetings

The numbers of Board meetings held during the year ended 31st December, 2013 were three (3) and attendance therein by the Directors is as below:-

Name	Designation	Meetings Attended
Mr. Dr. Waqar Masood Khan	Chairman	02
Mr. Cao Wen Jiang	MD/Director	02
Mr. Zuo Kun	Director	-
Ms. Liu Hui	Director	-
Mr. Shahnawaz Mahmood	DMD/ Director	02
Ms. Nargis Sethi	Director	01
Mr. Muhammad Saleem Sethi	Director	01

Change in Directors

There was a change in the Board of Directors during the period under review. Mr. Saleem Sethi Federal Secretary EAD was appointed as Director, PCICL while replacing Mrs. Nargis Sethi Federal Secretary EAD in July, 2014. Mr. Shahnawaz Mahmood was appointed as DMD/Director in place of Mr. Javed Mahmood in January, 2014.

Statement of Investment in Provident Fund

As per audited financial statements as of 31st December, 2014, investment of provident fund stands at Rs. 43,915,332 Million.

Statement of Internal Control

It is the responsibility of Company's management to:

a) Establish and maintain an adequate and effective system of internal controls and procedures for an efficient working environment for obtaining desired objectives.
b) Evaluate the effectiveness of the Company's internal control system that encompasses material matters by identifying control objective, reviewing significant policies and procedures and establishing relevant control procedures

The control activities are being closely monitored across the Company through Audit Department, working independent of the management. In addition, Compliance Department is also in place to monitor control activities related to regulatory compliance.

In an effort to implement the Internal Controls Guidelines as spelled out by State Bank of Pakistan in BSD Circular No. 7 of 2004 "particularly with reference to Internal Control Over Financial Reporting (ICFR)", the Company hired the Consultants M/s KPMG Taseer Hadi & Co who conducted the exercise of ICFR. Subsequently, they handed over the report to the Company. The completed ICFR stages are as under:-

Stage I:	Process and control documentation
Stage II:	Identification of gaps and recommendations
Stage III:	Development of detailed remediation/ implementation plans
Stage IV:	Development of Management Testing Plan
Stage V:	Implementation of initiatives as planned under stage III
Stage VI:	Quality assurance/validation of initiatives completed
Stage VII:	Conduct of management testing of key controls also reporting of results

Related Party

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 **Ernst & Young Ford Rhodes Sidat Hyder & Co** Chartered Accountants retire and completed their 3 years term with PCICL and now **M/s KPMG Taseer Hadi & Co**, Chartered Accountants offer themselves for reappointment as Auditors for the year 2015

Acknowledgements

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

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Cao Wen Jiang
Managing Director/CEO

STATEMENT OF COMPLIANCE

WITH THE PUBLIC SECTOR COMPANIES (CORPORATE GOVERNANCE) RULES, 2013

Name of the Company: Pak China Investment Company Limited (the Company)
Name of the line ministry: Ministry of Finance

For the year ended: 31 December 2014

I. This statement is being presented to comply with the Public Sector Companies (Corporate Governance) Rules, 2013 (hereinafter called "the Rules") issued for the purpose of establishing a framework of good governance, whereby a public sector company is managed in compliance with the best practices of public sector governance.

II. This Company has complied with the provisions of the Rules in the following manner:

<table>
<tr><th>Sr</th><th>Provision of the Rules</th><th>Rule No.</th><th>Y</th><th>N</th><th>N/A</th><th>Remarks</th></tr>
<tr><td>1.</td><td>The independent directors meet the criteria of independence, as defined under the Rules.</td><td>2(d)</td><td></td><td>✓</td><td></td><td></td></tr>
<tr><td>2.</td><td>The Board has the requisite percentage of independent directors. At present the board includes:
<table>
<tr><th>Category</th><th>Names</th><th>Date of appointment</th></tr>
<tr><td>Independent Directors</td><td>-</td><td>-</td></tr>
<tr><td>Executive Directors</td><td>Mr. Cao Wen Jiang
Mr. Shahnawaz Mahmood</td><td>04 May 2011
06 Jan 2014</td></tr>
<tr><td>Non-Executive Directors</td><td>Dr. Waqar Masood Khan
Mr. Zuo Kun
Ms. Liu Hui
Mr. M.SaleemSethi</td><td>29 Mar 2012
26 Feb 2011
24 Dec 2012
03 Jul 2014</td></tr>
</table></td><td>3(2)</td><td></td><td>✓</td><td></td><td></td></tr>
<tr><td>3.</td><td>A casual vacancy occurring on the board was filled up by the directors within ninety days.</td><td>3(4)</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>4.</td><td>The directors have confirmed that none of them is serving as a director on more than five public sector companies and listed companies simultaneously, except their subsidiaries.</td><td>3(5)</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>5.</td><td>The appointing authorities have applied the fit and proper criteria given in the Annexure in making nominations of the persons for election as board members under the provisions of the Ordinance.</td><td>3(7)</td><td></td><td>✓</td><td></td><td></td></tr>
<tr><td>6.</td><td>The chairman of the board is working separately from the chief executive of the Company.</td><td>4(1)</td><td>✓</td><td></td><td></td><td></td></tr>
</table>

7.	The chairman has been elected from amongst the independent directors.	4(4)			✓	
8.	The Board has evaluated the candidates for the position of the chief executive on the basis of the fit and proper criteria as well as the guidelines specified by the Commission.	5(2)			✓	
9.	(a) 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,including posting the same of the Company’s website. (b) The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from unethical practices.	5(4)	 ✓	✓		
10.	The Board has established a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty; and relationship with the stakeholders, in the manner prescribed in the Rules.	5(5)	✓			
11.	The Board has developed and enforced an appropriate conflict of interest policy to lay down circumstances or considerations when a person may be deemed to have actual or potential conflict of interest, and the procedure for disclosing such interest.	5(5) (b)(ii)	✓			
12.	The Board has developed and implemented a policy on anti-corruption to minimize actual or perceived corruption in the company.	5(5) (b)(vi)		✓		
13.	(a) The Board has ensured equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service. (b) A Committee has been formed to investigating deviations from the company’s code of conduct.	5(5) (c)(ii)	✓	 ✓		
14.	The Board has ensured compliance with the law as well as the company’s internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services, in accordance with the PPRA rules.	5(5) (c)(iii)		✓		
15	The board has developed a vision and mission statement, corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with dates on which they were approved or amended has been maintained.	5(6)	✓			
16.	The board has quantified the outlay of any action in respect of any service delivered or goods sold by the Company as a public service obligation, and has submitted its request for appropriate compensation to the Government for consideration.	5(8)			✓	

<table>
<tr><th></th><th></th><th></th><th></th><th></th><th></th><th></th></tr>
<tr><td>17.</td><td>(a) The board has met at least four times during the year.</td><td>6(1)</td><td></td><td>✓</td><td></td><td></td></tr>
<tr><td></td><td>(b) Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings.</td><td>6(2)</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td></td><td>(c) The minutes of the meetings were appropriately recorded and circulated.</td><td>6(3)</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>18.</td><td>The board has carried out performance evaluation of its members, including the chairman and the chief executive, on the basis of a process, based on specified criteria, developed by it.The board has also monitored and assessed the performance of senior management on annual basis.</td><td>8</td><td></td><td>✓</td><td></td><td></td></tr>
<tr><td>19.</td><td>The board has reviewed and approved the related party transactions placed before it after recommendations of the audit committee. A party wise record of transactions entered into with the related parties during the year has been maintained.</td><td>9</td><td></td><td>✓</td><td></td><td></td></tr>
<tr><td>20.</td><td>The board has approved the profit and loss account for, and balance sheet as at the end of, the first, second and third quarter of the year as well as the financial year end, and has placed the annual financial statements on the company's website.</td><td>10</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td></td><td>Monthly accounts were also prepared and circulated amongst the board members.</td><td></td><td></td><td>✓</td><td></td><td></td></tr>
<tr><td>21.</td><td>All the board members underwent an orientation course arranged by the company to apprise them of the material developments and information as specified in the Rules.</td><td>11</td><td></td><td>✓</td><td></td><td></td></tr>
<tr><td>22.</td><td>(a) The board has formed the requisite committees, as specified in the Rules.</td><td>12</td><td></td><td>✓</td><td></td><td></td></tr>
<tr><td></td><td>(b) The committees were provided with written terms of reference defining their duties, authority and composition.</td><td></td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td></td><td>(c) The minutes of the meetings of the committees were circulated to all the board members.</td><td></td><td></td><td>✓</td><td></td><td></td></tr>
<tr><td></td><td>(d) The committees were chaired by the following non-executive directors:
<table>
<tr><th>Committee</th><th>Numbers of members</th><th>Name of Chair</th></tr>
<tr><td>Audit Committee</td><td>3</td><td>-</td></tr>
<tr><td>Risk Management Committee</td><td>4</td><td>-</td></tr>
<tr><td>Human Resources Committee</td><td>4</td><td>-</td></tr>
<tr><td>Procurement Committee</td><td>-</td><td>-</td></tr>
<tr><td>Nomination Committee</td><td>-</td><td>-</td></tr>
</table></td><td></td><td></td><td>✓</td><td></td><td></td></tr>
<tr><td>23.</td><td>The board has approved appointment of Chief Financial Officer, Company Secretary and Chief Internal Auditor, with their remuneration and terms and conditions of employment, and as per their prescribed qualifications.</td><td>13/14</td><td></td><td></td><td>✓</td><td></td></tr>
<tr><td>24.</td><td>The company has adopted International Financial Reporting Standards notified by the Commission under clause (i) of sub-section (3) of section 234 of the ordinance.</td><td>16</td><td>✓</td><td></td><td></td><td></td></tr>
</table>

<table>
<tr><td>25.</td><td>The directors report for this year has been prepared in compliance with the requirements of the Ordinance and the Rules and fully describes the salient matters required to be disclosed.</td><td>17</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>26.</td><td>The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.</td><td>18</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>27.</td><td>A formal and transparent procedure for fixing the remuneration packages of individual directors has been set in place. The annual report of the Company contains criteria and details of remuneration of each director.</td><td>19</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>28.</td><td>The financial statements of the company were duly endorsed by the Chief executive and Chief financial officer, before approval of the board.</td><td>20</td><td>✓</td><td></td><td></td><td>Mr. Zhang Yanzhi is acting CFO.</td></tr>
<tr><td>29.</td><td>The board has formed an audit committee, with defined and written terms of reference, and having the following members:
<table>
<tr><th>Name of member</th><th>Category</th><th>Professional Background</th></tr>
<tr><td>Mr. SaleemSethi</td><td>Non-Executive Director</td><td>Federal Secretary, Economic Affairs Division</td></tr>
<tr><td>Ms. LuiHui</td><td>Non-Executive Director</td><td>Banker CDB</td></tr>
<tr><td>Mr. Shahnawaz Mahmood</td><td>Executive Director</td><td>Development Finance</td></tr>
</table>
The chief executive and chairman of the Board are not members of the audit committee.</td><td>21</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>30.</td><td>The board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee, and which worked in accordance with the applicable standards.</td><td>22</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>31.</td><td>The Company has appointed its external auditors in line with the requirements envisaged under the Rules.</td><td>23</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>32.</td><td>The external auditors of the company have confirmed that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan.</td><td>23(4)</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>33.</td><td>The external auditors have not been appointed to provide non-audit services and the auditors have confirmed that they have observed applicable guidelines issued by IFAC in this regard.</td><td>23(5)</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>34.</td><td>The Company has complied with all the corporate and financial reporting requirements of the Rules.</td><td></td><td></td><td>✓</td><td></td><td></td></tr>
</table>

Below are therequirements of Code of Corporate Governance, 2012 applicable for the Company for which parallel provisionsdo not exist in the Public Sector Companies (Corporate Governance) Rules, 2013.

35. All the resident directors 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 a member of a stock exchange, has been declared as a defaulter by that stock exchange.

36. All the powers of the BoD have been duly exercised and decisions on material transactions have been taken by the BoD, except for appointment of the Chief financial officer, which is pending.

37. A training programwas not arranged during the year for the members of BoD. However, the management is in the process of arranging a training program for the members of BoD in due course.

38. No meetings of the audit committee were held during the year. The terms of reference of the committee have been formed and advised to the committee for compliance.

39. 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, and that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company.

40. The Company has complied with the corporate and financial reporting requirements of the Code of Corporate Governance, 2012

41. We confirm that all other material principles enshrined in the Code of Corporate Governance, 2012 have been complied with, except for appointment of the Chief Financial Officer, which is pending.

Managing Director & CEO

Chairman Board of Directors

EXPLANATION FOR NON-COMPLIANCE WITH THE
PUBLIC SECTOR COMPANIES (CORPORATE GOVERNANCE) RULES, 2013

We confirm that all other material requirements envisaged in the Ruleshave been complied with except for the following, toward which reasonable progress is being made by the Company to seek compliance by the end of the next accounting year:

Sr.	Rule/sub-rule no.	Reasons for non-compliance	Future course of action
1	2(d)& 3(2)	The Company was setup under a joint venture agreement between the Ministry of Finance, Government of Pakistan and China Development Bank, a state owned bank. The directors are appointed under the provisions of the joint venture agreement and accordingly are not independent.	Noted for consideration and compliance.
2	3(7)	The appointing authorities apply fit and proper criteria formulated by State Bank of Pakistan, the regulator of the Company.	Noted for consideration and compliance.
3	5(4)	The Code of Conduct has not been posted on Company's website.	The Company intends to place its Code of Conduct on its website in the next year.
4	5(5)(b)(vi)	A formal procedure for anti-corruption policy is a requirement of the Rules, which is to be documented.	Noted for consideration and compliance.
5	5(5)(c)(ii)	Matters relating to misconduct are examined at the management level. The related committee has not been formed.	Noted for consideration and compliance.
6	5(5)(c)(iii)	The Company's procurement activities are under taken in accordance with its internal policies.	Noted for consideration and compliance.
7	6(1)	Only two meetings could be held during the year, owing to busy schedule of directors.	Noted for consideration and compliance.
8	8	Board of Directors has to decide upon criteria against which performance of Board members can be evaluated.	Noted for consideration and compliance.
9	9	No audit committee meeting was held during the year.	Noted for consideration and compliance.
10	10	The monthly accounts have not been circulated to the Board of Directors.	Noted for consideration and compliance.
11	11	Orientation course is being planned for the next year.	Noted for consideration and compliance.
12	12	Procurement and nomination committees have not been formed. No meetings of the other committees were held.	Noted for consideration and compliance.

13	6, 21 and 10 (Refer to serial no: 34 of the Statement of Compliance)	1- The Company has not communicated to SECP its reason for non-compliance with the requirement that its directors meet at least once a quarter as required by Rule 6. 2- No meeting of the audit committee was conducted during the year. 3- Monthly accounts were not circulated to board members.	Noted for consideration and compliance.

Managing Director & CEO

Chairman Board of Directors

Statement of Internal Controls

The Management of Pak China Investment Company Limited assumes full responsibility for establishing and maintaining an effective system of internal controls throughout the company, to ensure reliable, accurate and fair financial reporting, effectiveness of operations and compliance with applicable laws and regulations. Management understands that the effective maintenance of the Internal Controls System is an ongoing process under the ownership of the management. All significant policies and procedural manuals are in place; and the review, revision, and improvement to keep them updated to cope with latest challenges is actively pursued by the management.

Architecture of the PCICL's Internal Control System involves different levels of monitoring activities i.e. Line Management, Compliance and Audit Department. The Audit Department of the Company is independent from line management, and reviews the adequacy and implementation of control activities across the Company, as well as, the implementation of, and compliance with, all the prescribed policies and procedures.

All significant and material findings pointed out by the internal, external auditors and regulators are being addressed on a priority basis by the Compliance Function of the Company. The function also actively monitors implementation of the corrective / remedial measures to ensure that identified risks are mitigated, to safeguard the interest of the Company.

In compliance with the State Bank of Pakistan (SBP) directives, on September 30, 2012, the Company is in process of implementing the Roadmap regarding Internal Controls over Financial Reporting. This included preparation of detailed documentation of the existing processes, devising a comprehensive evaluation of controls, both at entity as well as activity level, development of detailed remedial action plans for the gaps identified as a result of such evaluation, and devising comprehensive testing plans of the controls of all processes. The whole documentation pertaining to ICFR, including the testing results has been reviewed by the external auditors and their Long Form Report over the same will be submitted to the SBP in order to fulfill the regulatory requirement.

During the year under review, we have endeavored to follow the guidelines issued by the SBP on internal controls, for evaluation and management of significant risks, and we will continue to endeavor for further improvements in the Internal Controls System.

While an Internal Controls System will be effectively implemented and monitored, however, due to inherent limitations, the Internal Controls System is designed to manage rather than eliminate the risks of failure to achieve desired objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Cao Wenjiang
MANAGING DIRECTOR

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 31 December, 2014 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

b) in our opinion:

   i) the statement of financial position and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the changes as stated in note 4.1 to the accompanying financial statements, with which we concur;

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

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

c) in our opinion and to the best of our information and according ro the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of the profit, total comprehensive income, cash flows and changes in equity for the year then ended; and

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

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants
Audit Engagement Partner:
Mr. Khayyam Mushir
27 March 2015 Islamabad

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER, 2014

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

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

CHAIRMAN | MANAGING DIRECTOR | DIRECTOR | DIRECTOR

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER, 2014

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

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

CHAIRMAN	MANAGING DIRECTOR	DIRECTOR	DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER, 2014

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

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

CHAIRMAN	MANAGING DIRECTOR	DIRECTOR	DIRECTOR

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER, 2014

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

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

CHAIRMAN	MANAGING DIRECTOR	DIRECTOR	DIRECTOR

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER, 2014

	Share capital	Statutory reserve	Unappropriated profit	Total
	(Rupees)			
Balance as at 01 January 2013	**9,116,400,000**	**523,051,091**	**2,089,913,493**	**11,729,364,584**
Profit for the year	-	-	564,285,442	564,285,442
Re-measurement losses on defined benefit plan	-	-	(3,478,043)	(3,478,043)
	-	-	560,807,399	560,807,399
Transfer to statutory reserve	-	112,161,480	(112,161,480)	-
Balance as at 31 December 2013	**9,116,400,000**	**635,212,571**	**2,538,559,412**	**12,290,171,983**
Profit for the year	-	-	469,409,392	469,409,392
Re-measurement gains on defined benefit plan	-	-	2,367,409	2,367,409
	-	-	471,776,801	471,776,801
Transfer to statutory reserve	-	94,355,360	(94,355,360)	-
Balance as at 31 December 2014	**9,116,400,000**	**729,567,931**	**2,915,980,853**	**12,761,948,784**

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

CHAIRMAN **MANAGING DIRECTOR** **DIRECTOR** **DIRECTOR**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2014

1 STATUS AND NATURE OF BUSINESS

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

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

2 BASIS OF PRESENTATION AND MEASUREMENT

2.1 Basis of presentation

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

2.2 Basis of measurement

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

3 STATEMENT OF COMPLIANCE

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

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

4 SIGNIFICANT ACCOUNTING POLICIES

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

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

New and amended standards and interpretations

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

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

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

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

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

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

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

In addition to the above, certain amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 July, 2014 and 01 January, 2016. The Company expects that such improvements to the standards will not have any impact on the Company's financial statements in the period of initial application.

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

Standard	Effective date (Accounting period beginning)
IFRS 9 – Financial Instruments	01 January 2018
IFRS 14 – Regulatory Deferral Accounts	01 January 2016
IFRS 15 – Revenue from Contracts with Customers	01 January 2017

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

4.3 Functional and presentation currencies

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

4.4 Cash and cash equivalents

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

4.5 Lendings to / borrowings from financial institutions

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

Sale under repurchase agreement

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

Purchase under resale agreement

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

Other borrowings

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

Other lendings

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

4.6 Investments

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

Held-To-Maturity

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

Available-For-Sale

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

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

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

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

4.7 Advances

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

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

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

4.8 **Operating fixed assets**

Property and equipment

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

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

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

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

Capital work-in-progress

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

Intangible assets

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

4.9 **Impairment**

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

4.10 **Taxation**

Current

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

Deferred

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

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

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

4.11 Revenue recognition

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

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

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

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

4.12 Staff retirement benefits

Defined benefit plan

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

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

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

The gratuity obligations are calculated annually by independent actuaries using the Projected Unit Credit Method. The most recent valuation in this regard was carried out as at 31 December 2014. The present value of the obligation is determined by discounting the estimated future cash outflows, using interest rates of high quality government securities that have terms to maturity approximating the terms of the related obligation.

Re-measurements, comprising of actuarial gains and losses, the return on plan assets excluding amounts included in net interest on the net defined benefit obligation and any changes in the effect of the asset ceiling are recognized immediately in the balance sheet with a corresponding debit or credit to retained earnings, through OCI, in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:
- The date of the plan amendment or curtailment; and
- The date that the Company recognises restructuring-related costs.

The Company recognises the following changes in the defined benefit obligation under 'administrative expenses' in the profit and loss account:
- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- Interest expense

Defined contribution plan

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

4.13 Foreign currency translation

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

4.14 Provisions

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

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

4.15 Offsetting of financial assets and financial liabilities

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

4.16 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities, which are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of its revision and future periods, if the revision affects both current and future periods. Judgments made by the management in the application of approved accounting standards that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are discussed in note 37.

4.17 Earnings per share

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

4.18 Dividend and appropriations to reserves

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

4.19 Segment information

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

Business Segments

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

Geographical Segments

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

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

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

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

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

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

7 LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2014	2013
In local currency			
- Repurchase agreement lending's (Reverse Repo)	7.1 & 7.2	**-**	559,025,145

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

7.2 Security held as collateral against lendings to financial institutions

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

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

8 INVESTMENTS

8.1 Investments by type

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

8.2 Investment by segments

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

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

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

8.2.3 This represents an investment in 11,832,836 ordinary shares (of Rs. 10 each) of Agritech Limited, costing Rs. 364.149 million with a market value of Rs. 91.704 million (2013: Rs. 149.922 million) at the year end. During the year, the Company has recognized an impairment loss of Rs. 35.700 million (2013: Rs. 4.14 million) for a total impairment loss of Rs. 265.901 million (2013: Rs 230.210 million), in respect of this investment. The remaining deficit of Rs. 6.55 million has been recognized as part of surplus on revaluation of Available-For-Sale securities- net of tax.

8.2.4 Listed Term Finance Certificates

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

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

8.2.5 Unlisted Term Finance Certificates

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

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

8.2.5.2 These securities have been classified as non-performing in accordance with the requirements of the Prudential Regulations. However, in terms of SBP directives, the Company has availed a relaxation (at the rate of 25% of the provision) in respect of the provisioning against these securities, to the extent of Rs 48.54 million (2013: Rs.95.699 million).

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

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

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

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

8.2.6 Mutual Fund Units

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

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

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

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

8.3.1 Particulars of provision in respect of type and segment

	2014	2013
Available-For-Sale-securities		
Unlisted Term Finance Certificates	**296,453,305**	223,605,305

8.3.2 The above provision includes an impact of Forced Sale Value (FSV) benefit amounting to Rs.18.860 million (2013: 41.767 million) in respect of Azgard Nine Limited and Rs. 5.575 million (2013: 8.358 million) in respect of Agritech Limited. The FSV benefits recognised under the Prudential Regulations are not available for the distribution of cash or stock dividend to the shareholders. Further, SBP in its letter no. OSED/SEU-05/041(01)-12/2218/2012 dated 26 December, 2012, has also stipulated that no dividend, cash or kind, shall be paid out of the benefits realised through the relaxations allowed therein.

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

8.4.1 These are Government of Pakistan guaranteed securities.

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

9 ADVANCES

	Note	2014	2013
		-----Rupees-----	
In Pakistan			
Advances		**6,521,770,747**	5,807,673,966
Staff loans	**9.1**	**32,323,256**	41,014,765
Advances- gross		**6,554,094,003**	5,848,688,731
Provisions against non-performing loans and advances			
Specific provision	**9.3 & 9.3.1**	**(482,004,185)**	(417,181,000)
General provision	**9.3.1**	**(115,185,427)**	(102,503,479)
		(597,189,612)	(519,684,479)
Advances - net of provision		**5,956,904,391**	5,329,004,252

9.1 Staff loans

	2014	2013
Opening balance	**41,014,765**	27,806,827
Amounts disbursed during the year	**3,784,000**	27,230,000
Amounts recovered during the year	**(12,475,509)**	(14,022,062)
	32,323,256	41,014,765

9.2 Particulars of advances - gross

	2014	2013
In local currency	**6,554,094,003**	5,848,688,731
9.2.1 Short-term (for upto one year)	**-**	37,800,000
9.2.2 Long-term (for over one year)	**6,554,094,003**	5,810,888,731
	6,554,094,003	5,848,688,731

11 DEFERRED TAX ASSETS/ (LIABILITIES)

	01 January, 2014	Recognized in profit and loss account	Recognized in equity	31 December, 2014
	Rupees			
Difference between accounting book value and tax base of operating fixed assets	**(1,466,961)**	**4,501,407**	**-**	**3,034,446**
Unrealized exchange gain	**(128,627,685)**	**27,723,363**	**-**	**(100,904,322)**
Provision for staff retirement gratuity	**4,467,581**	**(1,751,363)**	**-**	**2,716,218**
Provision against non-performing advances	**17,500,000**	**-**	**-**	**17,500,000**
Provision for diminution in the value of available-for-sale investments	**78,261,857**	**25,496,800**	**-**	**103,758,657**
Impairment loss on available-for-sale investments	**29,330,539**	**12,495,000**	**-**	**41,825,539**
Surplus on revaluation of available-for-sale securities	**(12,265,010)**	**-**	**(13,047,518)**	**(25,312,528)**
	(12,799,679)	**68,465,207**	**(13,047,518)**	**42,618,010**

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

	Note	2014	2013
		Rupees	
12 OTHER ASSETS			
Income / mark-up accrued in local currency		**547,200,048**	391,678,577
Income / mark-up accrued in foreign currency		**2,182,553**	3,180,719
Advances, deposits and prepayments		**28,196,943**	19,253,498
Advance taxation (payments less provision)		**7,083,247**	-
Others		**902,658**	1,181,196
		585,565,449	415,293,990
13 BORROWINGS			
In Pakistan		**6,741,689,007**	326,089,523
13.1 Particulars of borrowings with respect to currencies			
In local currency		**6,741,689,007**	326,089,523
13.2 Details of borrowings - secured / unsecured			
Secured			
Short-term			
Repurchase agreement borrowings	13.2.1	**3,999,269,600**	-
Long-term			
Borrowing from SBP under FFSAP	13.2.2	**57,547,407**	73,989,523
Borrowing from SBP under LTFF	13.2.3	**184,872,000**	252,100,000
		4,241,689,007	326,089,523
Unsecured			
Short-term			
Call money borrowing from a financial institution	13.2.4	**2,500,000,000**	-
		6,741,689,007	326,089,523

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

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

13.2.3 This represents a Long-Term Finance Facility (LTFF) for imported and locally manufactured plant and machinery, obtained on concessional rates, to promote industrial growth leading to exports. The loan availed under the facility is repayable within a maximum period of ten years, including a maximum grace period of one and a half years, and mark-up payable at 8.4% (2013: 8.4%) per annum. The Company has utilized the funds under the this facility by disbursing advances to an entity undertaking the relevant project.

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

	2014	2013
14 DEPOSITS AND OTHER ACCOUNTS	Rupees	
Certificate of Investments (COI)		
Fauji Fertilizer Company Ltd.	**250,000,000**	-

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

15 OTHER LIABILITIES

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

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

16 SHARE CAPITAL

16.1 Authorised capital

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

16.2 Issued, subscribed and paid-up share capital

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

16.3 The Ministry of Finance, Government of Pakistan, and the China Development Bank on behalf of the Government of Pakistan and the Government of China, respectively, each hold 455,820,000 (2013: 455,820,000) Ordinary shares of the Company, at the year end.

17 RESERVES

	2014	2013
	Rupees	
Statutory reserve	**729,567,931**	635,212,571
At the beginning of the year	**635,212,571**	523,051,091
Add: transfer during the year	**94,355,360**	112,161,480
	729,567,931	635,212,571

According to BPD Circular No. 15, dated 31 May, 2004, issued by the SBP, an amount not less than 20% of the after tax profits shall be transferred to create a reserve fund, till such time the reserve fund equals the amount of the paid-up capital of the Company, and after that a sum not less than 5% of the profit after tax shall be credited to the said reserve.

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

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

19 CONTINGENCIES AND COMMITMENTS

	2014	2013
Transaction related contingent liabilities		
Letters of guarantees	**-**	-
Trade related contingent liabilities		
Letters of credit	**311,416,840**	-

Commitments to extend credits

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

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

29.4 Movement in payable to defined benefit plan	2014	2013
	----------------Rupees----------------	
Opening balance	**12,764,518**	6,785,923
Charge for the year	**10,128,032**	6,308,522
Remeasurements (gains)/losses chargeable to the other comprehensive income	**(2,367,409)**	3,478,043
Company's contributions for the year	**(12,764,518)**	(3,807,970)
	7,760,623	12,764,518

29.5 The movement in the present value of the defined benefit obligation over the year is as follows:

Opening balance	**24,751,685**	14,106,470
Current service cost	**9,661,039**	5,562,070
Interest cost	**2,652,898**	1,551,712
Benefits payable to outgoing employees	**(1,774,500)**	-
Benefits paid	**(5,282,500)**	-
Remeasurement gain	**(1,711,129)**	3,531,433
Closing balance	**28,297,493**	24,751,685

29.6 The movement in the fair value of plan assets for the year is as follows:

Opening balance	**11,987,167**	7,320,547
Interest income on plan assets	**2,185,905**	805,260
Contributions	**12,764,518**	3,807,970
Benefits paid	**(5,282,500)**	-
Return on plan assets excluding interest income	**656,280**	53,390
Closing balance	**22,311,370**	11,987,167
Actual return on plan assets	**2,842,185**	858,650

29.7 The amounts recognized in profit and loss are as follows:

Current service cost	**9,661,039**	5,562,070
Interest cost	**2,652,898**	1,551,712
Interest income on plan assets	**(2,185,905)**	(805,260)
	10,128,032	6,308,522

29.8 The amounts recognized in the other comprehensive income are as follows:

Remeasurement gain/ (loss):		
Actuarial gain/ (loss) - experience adjustment	**1,711,129**	(3,531,433)
Return on plan assets, excluding interest income	**656,280**	53,390
	2,367,409	(3,478,043)

29.9 Plan assets comprise of the following:	2014	2013		
	--------%--------			
National Savings Certificates	**99.76%**	48.80%	**22,258,596**	5,850,000
Accrued interest	**0%**	18.95%	**-**	2,271,598
Bank balances	**0.24%**	32.25%	**52,775**	3,865,569
			22,311,371	11,987,167

29.10 Year end sensitivity analysis (+/- 100 bps) on the defined benefit obligation	2014	2013
	----------------Rupees----------------	
Current liability	**28,297,493**	24,751,685
Discount rate +100 bps	**(25,547,288)**	(22,674,918)
Discount rate -100 bps	**31,533,506**	27,197,853
Average salary increase +100 bps	**31,676,192**	27,197,853
Average salary increase -100 bps	**(25,384,987)**	(22,640,301)

29.11 Risk associated with defined benefit plan

The defined benefit plan exposes the Company to the following risks:

Investment risk

The risk arises when the actual performance of the investments is lower than expectation, which may result in shortfall in funds needed to meet the related liabilities.

Mortality risks

The risk that actual mortality experience is different to that assumed in calculation of liability. The effect will depend upon the beneficiaries' servage/ age distribution and benefit.

Salary increase risk

The risk arises when the actual increases are higher than expectation, which impacts the related liability

Withdrawal risk

The risk of higher or lower withdrawal, as compared to that assumed in calculation of liability.

29.12 **Historical information of the defined benefit plan**

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

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

30 DEFINED CONTRIBUTION PLAN

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

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

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

30.1 **Provident fund trust**

	2014	2013
Size of the trust (Rupees)	**43,895,332**	40,629,453
Cost of investments made (Rupees)	**43,264,676**	39,930,895
Percentage of investment made (%)	**98.56%**	98.28%
Fair value of investment made (Rupees)	**43,915,332**	40,629,453

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

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

31 COMPENSATION OF DIRECTORS AND EXECUTIVES

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

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

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

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The carrying amounts of the Company's financial assets, as of 31 December, 2014, approximate their fair values.

33 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	2014			
	Corporate Finance	Trading and Sales	Others	Total
	(Rupees)			
Total income - gross	**821,890,836**	**520,634,206**	**8,252,671**	**1,350,777,713**
Total expenses	**(207,733,088)**	**(198,127,441)**	**(326,112,990)**	**(731,973,519)**
Profit / (loss) before taxation	**614,157,748**	**322,506,765**	**(317,860,319)**	**618,804,194**
Segment assets - gross	**8,341,040,676**	**11,732,568,719**	**827,606,938**	**20,901,216,333**
Segment non-performing assets	**1,131,933,458**	**-**	**-**	**1,131,933,458**
Segment provision including general provision	**(893,642,917)**	**-**	**-**	**(893,642,917)**
Segment liabilities	**(242,419,407)**	**(6,749,269,600)**	**(68,022,634)**	**(7,059,711,641)**
Segment return on net assets	**8.52%**	**6.47%**	**-41.85%**	

	2013			
	Corporate Finance	Trading and Sales	Others	Total
	(Rupees)			
Total income - gross	814,797,831	571,909,814	3,453,886	1,390,161,531
Total expenses	(145,136,251)	(85,400,157)	(304,647,180)	(535,183,588)
Profit / (loss) before taxation	669,661,580	486,509,657	(301,193,294)	854,977,943
Segment assets - gross	7,870,163,483	4,969,428,697	634,206,449	13,473,798,629
Segment non-performing assets	1,051,934,062	-	-	1,051,934,062
Segment provision including general provision	(743,289,784)	-	-	(743,289,784)
Segment liabilities	(326,089,523)	-	(91,469,462)	(417,558,985)
Segment return on net assets	9.85%	9.79%	-55.50%	

34 RELATED PARTY TRANSACTIONS

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

35 CAPITAL ADEQUACY

35.1 Scope of application

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

35.2 Capital structure

For the main features of capital structure of the Company, please refer to note 35.7

35.3 Capital management

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

The Company's objectives when managing its capital are:

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 are 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 disbursing quality assets in the loan segment.

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

35.4 Regulatory capital requirements

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

The paid up capital of the Company, as of 31 December, 2014, amounted to Rs. 9,116 million while CAR stands at 87.03% as of that date.

35.5 Capital Adequacy Ratio (CAR) disclosure

		2014	2013
		Rupees ('000)	
	Common Equity Tier 1 capital (CET1): Instruments and reserves		
1	Fully Paid-up Capital/ Capital deposited with SBP	9,116,400	9,116,400
2	Balance in Share Premium Account		
3	Reserve for issue of Bonus Shares		
4	Discount on Issue of shares		
5	General/ Statutory Reserves	729,568	635,213
6	Gain/(losses) on derivatives held as Cash Flow Hedge		
7	Unappropriated/unremitted profits/ (losses)	2,915,981	2,538,559
8	Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)		
9	**CET 1 before Regulatory Adjustments**	12,761,949	12,290,172
10	Total regulatory adjustments applied to CET1 (Note 35.5.1)	-	-
11	**Common Equity Tier 1**	**12,761,949**	12,290,172

		2014	2013
		----Rupees ('000)----	
	Additional Tier 1 (AT 1) Capital		
12	Qualifying Additional Tier-1 capital instruments plus any related share premium		
13	of which: Classified as equity		
14	of which: Classified as liabilities		
15	Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)		
16	of which: instrument issued by subsidiaries subject to phase out		
17	**AT1 before regulatory adjustments**	-	-
18	Total regulatory adjustment applied to AT1 capital (Note 35.5.2)	-	-
19	Additional Tier 1 capital after regulatory adjustments		
20	**Additional Tier 1 capital recognized for capital adequacy**		
21	**Tier 1 Capital (CET1 + admissible AT1) (11+20)**	**12,761,949**	12,290,172
	Tier 2 Capital		
22	Qualifying Tier 2 capital instruments under Basel III plus any related share premium		
23	Tier 2 capital instruments subject to phase-out arrangement issued under pre-Basel 3 rules		
24	Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)		
25	of which: instruments issued by subsidiaries subject to phase out		
26	General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	115,185	101,925
27	Revaluation Reserves (net of taxes)		
28	of which: Revaluation reserves on fixed assets		
29	of which: Unrealized gains/losses on AFS	104,111	10,250
30	Foreign Exchange Translation Reserves		
31	Undisclosed/Other Reserves (if any)		
32	**T2 before regulatory adjustments**	**219,296**	112,175
33	Total regulatory adjustment applied to T2 capital (Note 35.5.3)	-	-
34	Tier 2 capital (T2) after regulatory adjustments	219,296	112,175
35	Tier 2 capital recognized for capital adequacy	219,296	112,175
36	Portion of Additional Tier 1 capital recognized in Tier 2 capital		
37	**Total Tier 2 capital admissible for capital adequacy**	219,296	112,175
38	**TOTAL CAPITAL (T1 + admissible T2) (21+37)**	**12,981,245**	12,402,347
39	**Total Risk Weighted Assets (RWA) {for details refer Note 35.8}**	**14,915,059**	12,646,784
	Capital Ratios and buffers (in percentage of risk weighted assets)		
40	**CET1 to total RWA**	**85.56%**	97.18%
41	**Tier-1 capital to total RWA**	**85.56%**	97.18%
42	**Total capital to total RWA**	**87.03%**	98.07%
43	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		
44	of which: capital conservation buffer requirement		
45	of which: countercyclical buffer requirement		
46	of which: D-SIB or G-SIB buffer requirement		
47	CET1 available to meet buffers (as a percentage of risk weighted assets)		
	National minimum capital requirements prescribed by SBP		
48	**CET1 minimum ratio**	**5.50%**	5.50%
49	**Tier 1 minimum ratio**	**7.00%**	6.50%
50	**Total capital minimum ratio**	**10.00%**	10.00%

Regulatory Adjustments and Additional Information

		2014		2013
		Amount	Amounts subjects to pre - Basel III treatment	
		----Rupees ('000)----		
35.5.1	**Common Equity Tier 1 capital: Regulatory adjustments**			
1	Goodwill (net of related deferred tax liability)			
2	All other intangibles (net of any associated deferred tax liability)			
3	Shortfall in provisions against classified assets			
4	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)			
5	Defined-benefit pension fund net assets			
6	Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities			

		2014	2013
7	Cash flow hedge reserve		
8	Investment in own shares/ CET1 instruments		
9	Securitization gain on sale		
10	Capital shortfall of regulated subsidiaries		
11	Deficit on account of revaluation from bank's holdings of fixed assets/ AFS		
12	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
13	Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
14	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
15	Amount exceeding 15% threshold		
16	of which: significant investments in the common stocks of financial entities		-
17	of which: deferred tax assets arising from temporary differences		-
18	National specific regulatory adjustments applied to CET1 capital		
19	Investments in TFCs of other banks exceeding the prescribed limit	-	-
20	Any other deduction specified by SBP (mention details)		
21	Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions		
22	**Total regulatory adjustments applied to CET1**	-	-
35.5.2	Additional Tier-1 and Tier-1 Capital: regulatory adjustments		
23	Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]		
24	Investment in own AT1 capital instruments		
25	Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities		
26	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
27	Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation		
28	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital		
29	Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
30	**Total regulatory adjustment applied to AT1 capital**	-	-
35.5.3	Tier 2 Capital: regulatory adjustments		
31	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital		
32	Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities		
33	Investment in own Tier 2 capital instrument		
34	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
35	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation		
36	**Total regulatory adjustment applied to T2 capital**	-	-
35.5.4	Additional Information	2014	2013
		Rupees ('000)	
	Risk Weighted Assets subject to pre-Basel III treatment		
37	Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)		
(i)	of which: deferred tax assets		
(ii)	of which: Defined-benefit pension fund net assets		
(iii)	of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity		
(iv)	of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity		
	Amounts below the thresholds for deduction (before risk weighting)		
38	Non-significant investments in the capital of other financial entities		
39	Significant investments in the common stock of financial entities		
40	Deferred tax assets arising from temporary differences (net of related tax liability)	42,618	-
	Applicable caps on the inclusion of provisions in Tier 2		
41	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)		
42	Cap on inclusion of provisions in Tier 2 under standardized approach		
43	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
44	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		

35.6 Capital Structure Reconciliation

Step 1

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

Step 2

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

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

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

20	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		(a) - (ac) - (ae)
21	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		(b) - (ad) - (af)
22	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	(i)
23	Amount exceeding 15% threshold		
24	of which: significant investments in the common stocks of financial entities		
25	of which: deferred tax assets arising from temporary differences		
26	National specific regulatory adjustments applied to CET1 capital		
27	of which: Investment in TFCs of other banks exceeding the prescribed limit		
28	of which: Any other deduction specified by SBP (mention details)		
29	Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions		
30	**Total regulatory adjustments applied to CET1**	0	
31	**Common Equity Tier 1**	**12,761,949**	
	Additional Tier 1 (AT 1) Capital		
32	Qualifying Additional Tier-1 instruments plus any related share premium		
33	of which: Classified as equity		(t)
34	of which: Classified as liabilities		(m)
35	Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)		(y)
36	of which: instrument issued by subsidiaries subject to phase out		
37	**AT1 before regulatory adjustments**	-	
	Additional Tier 1 Capital: regulatory adjustments		
38	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)		
39	Investment in own AT1 capital instruments		
40	Reciprocal cross holdings in Additional Tier 1 capital instruments		
41	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		(ac)
42	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation		(ad)
43	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital		
44	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
45	Total of Regulatory Adjustment applied to AT1 capital	-	
46	Additional Tier 1 capital	-	
47	**Additional Tier 1 capital recognized for capital adequacy**	-	
48	**Tier 1 Capital (CET1 + admissible AT1) (31+47)**	**12,761,949**	
	Tier 2 Capital		
49	Qualifying Tier 2 capital instruments under Basel III plus any related share premium		
50	Capital instruments subject to phase out arrangement from tier 2		(n)
51	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)		(z)
52	of which: instruments issued by subsidiaries subject to phase out		
53	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	115,185	(g)
54	Revaluation Reserves		
55	of which: Revaluation reserves on fixed assets		
56	of which: Unrealized Gains/Losses on AFS	104,111	portion of (aa)
57	Foreign Exchange Translation Reserves		(v)

58	Undisclosed/Other Reserves (if any)		
59	**T2 before regulatory adjustments**	**219,296**	
	Tier 2 Capital: regulatory adjustments		
60	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital		
61	Reciprocal cross holdings in Tier 2 instruments		
62	Investment in own Tier 2 capital instrument		
63	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		(ae)
64	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)
65	Amount of Regulatory Adjustment applied to T2 capital	-	
66	Tier 2 capital (T2)	219,296	
67	Tier 2 capital recognized for capital adequacy	219,296	
68	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
69	Total Tier 2 capital admissible for capital adequacy	219,296	
70	**TOTAL CAPITAL (T1 + admissible T2)**	**12,981,245**	

35.7 Main Features of Regulatory Capital Instruments

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

35.8 Risk Weighted Assets

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

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

Capital Adequacy Ratios	2014		2013	
	Required	Actual	Required	Actual
CET1 to total RWA	**5.50%**	**85.56%**	5.50%	97.18%
Tier-1 capital to total RWA	**7.00%**	**85.56%**	6.50%	97.18%
Total capital to total RWA	**10.00%**	**87.03%**	10.00%	98.07%

36 RISK MANAGEMENT

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

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

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

36.1 Credit risk

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

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

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

36.1.1 Segment by class of business

	2014			
	Advances - Gross		Contingencies and commitments	
	Rupees	%	Rupees	%
Fertilizer	195,000,000	2.98	-	-
Power	2,548,678,996	38.89	497,428,986	66.55
Steel	275,890,000	4.21	-	-
Sugar	462,500,000	7.06	250,000,000	33.45
Telecommunication	300,000,000	4.58	-	-
Storage	636,250,490	9.71	-	-
Real Estate	70,000,000	1.07	-	-
Cement	200,000,000	3.05	-	-
Glass	168,065,000	2.56	-	-
Textile	563,164,643	8.59	-	-
Engineering	416,666,668	6.36	-	-
Plastic	79,999,396	1.22	-	-
Financials	283,333,334	4.32	-	-
Petroleum	172,222,220	2.63	-	-
Food & Beverages	150,000,000	2.29	-	-
Others	32,323,256	0.49	-	-
	6,554,094,003	100	747,428,986	100

	2013			
	Advances - Gross		Contingencies and commitments	
	Rupees	%	Rupees	%
Fertilizer	300,000,000	5.13	-	-
Power	2,375,998,425	40.62	-	-
Steel	285,890,000	4.89	-	-
Sugar	512,500,000	8.76	-	-
Telecommunication	300,000,000	5.13	-	-
Storage	652,692,540	11.16	-	-
Real Estate	70,000,000	1.20	-	-
Cement	200,000,000	3.42	-	-
Glass	235,293,000	4.02	-	-
Textile	137,500,000	2.35	-	-
Engineering	300,000,001	5.13	-	-
Plastic	100,000,000	1.71	-	-
Financial institutions	300,000,000	5.13	100,000,000	27.61
Coal	37,800,000	0.65	62,200,000	17.17
Petroleum	-	-	200,000,000	55.22
Others	41,014,765	0.70	-	-
	5,848,688,731	100	362,200,000	100

36.1.2 Segment by sector

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

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

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

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

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

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

36.1.5 Geographical Segment Analysis

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

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

36.2 Liquidity risk

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

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

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

36.2.1 Maturities of assets and liabilities

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

	------Rupees----
Share capital	9,116,400,000
Reserve	729,567,931
Unappropriated profit	2,915,980,853
Surplus on revaluation of Available-For-Sale securities	185,912,991
	12,947,861,775

	2013									
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
	(Rupees)									
Assets										
Cash and balances with treasury banks	41,539,691	41,539,691	-	-	-	-	-	-	-	-
Balances with other banks	1,883,525,361	48,495,159	-	1,835,030,202	-	-	-	-	-	-
Lendings to financial institutions	559,025,145	559,025,145	-	-	-	-	-	-	-	-
Investments	4,283,207,947	2,444,576,042	41,790,504	75,142,253	336,600,016	169,024,572	172,177,673	407,935,668	635,961,219	-
Advances	5,329,004,252	84,390,247	130,991,054	223,097,299	410,728,953	1,256,890,479	760,091,838	1,431,581,715	1,009,441,781	21,790,885
Fixed assets	218,912,459	1,873,431	3,746,852	6,048,227	11,513,540	18,913,664	11,505,744	11,829,580	17,481,421	136,000,000
Deferred tax assets	-									
Other assets	415,293,990	163,206,165	42,215,325	49,698,988	35,646,464	71,077,023	53,450,025	-	-	-
	12,730,508,845	3,343,105,880	218,743,735	2,189,016,969	794,488,973	1,515,905,738	997,225,280	1,851,346,963	1,662,884,421	157,790,885
Liabilities										
Borrowings	326,089,523	25,028,058	-	16,807,000	41,835,058	83,670,116	83,670,116	75,079,174	-	-
Deferred tax Liabilities	12,799,679	-	12,799,679	-	-	-	-	-	-	-
Other liabilities	78,669,783	10,247,263	64,474,849	3,272,671	675,000	-	-	-	-	-
	417,558,985	35,275,321	77,274,528	20,079,671	42,510,058	83,670,116	83,670,116	75,079,174	-	-
Net assets	12,312,949,860	3,307,830,559	141,469,207	2,168,937,298	751,978,915	1,432,235,622	913,555,164	1,776,267,789	1,662,884,421	157,790,885

Share capital	9,116,400,000
Reserves	635,212,571
Un-appropriated profit	2,538,559,412
Surplus on revaluation of Available-For-Sale securities	22,777,877
	12,312,949,860

36.3 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, in accordance with its Joint Venture agreement, is not allowed to engage in secondary market equity trading. The Company is using Basel-III standardized approach to calculate risk weighted assets against market risk exposure.

36.3.1 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.

	2014											
	Effective yield / interest rate %	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	
On balance sheet financial instruments		----Rupees----										
Financial Assets												
Cash and balances with treasury banks		51,866,670	-	-	-	-	-	-	-	-	-	51,866,670
Balances with other banks	6.43%	1,882,251,126	44,304,756	-	1,837,940,113	-	-	-	-	-	-	6,257
Investments	11.96%	11,288,944,291	29,743,348	24,649,134	1,479,713,696	2,835,379,825	4,404,559,130	991,620,904	986,269,282	416,369,342	-	120,639,630
Advances	11%	5,956,904,391	60,705,675	150,557,060	330,377,240	686,583,091	1,117,991,272	957,402,736	1,511,739,714	1,046,642,861	94,904,742	-
Other assets		556,132,526	-	-	-	-	-	-	-	-	-	556,132,526
		19,736,099,004	134,753,779	175,206,194	3,648,031,049	3,521,962,916	5,522,550,402	1,949,023,640	2,498,008,996	1,463,012,203	94,904,742	728,645,083
Financial Liabilities												
Borrowings	9%	6,741,689,007	6,524,297,658	-	16,807,000	41,835,058	83,670,116	66,858,116	8,221,059	-	-	-
Deposits and other accounts	9.5%	250,000,000	-	-	250,000,000	-	-	-	-	-	-	-
Other liabilities		64,281,207	-	-	-	-	-	-	-	-	-	64,281,207
		7,055,970,214	6,524,297,658	-	266,807,000	41,835,058	83,670,116	66,858,116	8,221,059	-	-	64,281,207
On balance sheet gap		**12,680,128,790**	**(6,389,543,879)**	**175,206,194**	**3,381,224,049**	**3,480,127,858**	**5,438,880,286**	**1,882,165,524**	**2,489,787,937**	**1,463,012,203**	**94,904,742**	**664,363,876**
Off-balance sheet financial instruments												
Commitments to extend credits (In case these materialize)		747,428,986	-	-	-	-	-	-	-	-	-	747,428,986
Off-balance sheet gap - net		**747,428,986**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**747,428,986**
Total yield/ interest risk sensitivity gap			**(6,389,543,879)**	**175,206,194**	**3,381,224,049**	**3,480,127,858**	**5,438,880,286**	**1,882,165,524**	**2,489,787,937**	**1,463,012,203**	**94,904,742**	**1,411,792,862**
Cumulative yield/ interest rate sensitivity gap			**(6,389,543,879)**	**(6,214,337,685)**	**(2,833,113,636)**	**647,014,222**	**6,085,894,508**	**7,968,060,032**	**10,457,847,969**	**11,920,860,172**	**12,015,764,914**	**13,427,557,776**

	Effective yield / interest rate %	Total	2013 Exposed to yield / profit 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	Not exposed to yield / interest rate risk
		-----Rupees-----										
On balance sheet financial instruments												
Financial Assets												
Cash and balances with treasury banks		41,539,691	-	-	-	-	-	-	-	-	-	41,539,691
Balances with other banks	6%	1,883,525,361	48,495,159	-	1,835,030,202	-	-	-	-	-	-	-
Lendings to financial institutions	10%	559,025,145	559,025,145	-	-	-	-	-	-	-	-	-
Investments	12%	4,283,207,947	2,494,883,542	37,183,504	73,729,470	179,246,267	157,507,072	156,053,173	472,355,499	562,327,388	-	149,922,032
Advances	11%	5,329,004,252	84,390,247	130,991,054	223,097,299	410,728,953	1,256,890,479	760,091,838	1,431,581,714	1,009,441,782	21,790,886	-
Other assets		403,535,165	-	-	-	-	-	-	-	-	-	403,535,165
		12,499,837,561	3,186,794,093	168,174,558	2,131,856,971	589,975,220	1,414,397,551	916,145,011	1,903,937,213	1,571,769,170	21,790,886	594,996,888
Financial Liabilities												
Borrowings	7%	326,089,523	25,028,058	-	16,807,001	41,835,058	83,670,116	83,670,116	66,858,116	8,221,058	-	-
Other liabilities		73,944,783	-	-	-	-	-	-	-	-	-	73,944,783
		400,034,306	25,028,058	-	16,807,001	41,835,058	83,670,116	83,670,116	66,858,116	8,221,058	-	73,944,783
On balance sheet gap		12,099,803,255	3,161,766,035	168,174,558	2,115,049,970	548,140,162	1,330,727,435	832,474,895	1,837,079,097	1,563,548,112	21,790,886	521,052,105
Off-balance sheet financial instruments												
Commitments to extend credit (In case materialize)		362,200,000	-	-	-	-	-	-	-	-	-	362,200,000
Off-balance sheet gap - net		362,200,000	-	-	-	-	-	-	-	-	-	362,200,000
Total yield/ interest risk sensitivity gap			**3,161,766,035**	**168,174,558**	**2,115,049,970**	**548,140,162**	**1,330,727,435**	**832,474,895**	**1,837,079,097**	**1,563,548,112**	**21,790,886**	**883,252,105**
Cumulative yield/ interest rate sensitivity gap			**3,161,766,035**	**3,329,940,594**	**5,444,990,563**	**5,993,130,725**	**7,323,858,160**	**8,156,333,056**	**9,993,412,152**	**11,556,960,264**	**11,578,751,150**	**12,462,003,255**

36.3.2 Foreign exchange risk

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

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

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

36.3.3 Equity risk

Equity price risk is the risk to the earnings or capital resulting from an adverse change in the value/ price of equity. The Company's exposure in the equity market is classified in Available-For-Sale category, as the Company intends to earn profit based on fundamentals.

36.4 Operational risk

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

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

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

36.4.1 Operational Risk-Disclosures Basel III Specific

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

37 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

37.1 Provision against non-performing loans and advances

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

37.2 Classification / valuation of investments

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

37.3 Impairment of investments

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

37.4 Provision for income taxes

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

37.5 Operating fixed assets

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

37.6 Contingencies

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

37.7 Provision for gratuity

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

38 DATE OF AUTHORISATION FOR ISSUE

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

39 GENERAL

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

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

39.3 Figures have been rounded off to the nearest Rupees, unless otherwise stated.

CHAIRMAN	MANAGING DIRECTOR	DIRECTOR	DIRECTOR