

**CITIBANK, N.A. - PAKISTAN BRANCHES**  
 (INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2010**

	Note	2010 (Rupees in '000)	2009
<b>ASSETS</b>			
Cash and balances with treasury banks	6	7,001,789	7,706,034
Balances with other banks	7	1,396,604	2,735,953
Lendings to financial institutions	8	11,410,316	10,155,661
Investments - net	9	50,236,317	33,122,217
Advances - net	10	19,244,213	28,245,029
Fixed assets	11	865,640	1,266,456
Deferred tax assets - net	12	3,693,968	3,637,578
Other assets	13	3,505,065	2,911,872
		<u>97,353,912</u>	<u>89,780,800</u>
<b>LIABILITIES</b>			
Bills payable	15	1,164,263	1,654,759
Borrowings from financial institutions	16	4,342,038	5,561,411
Deposits and other accounts	17	68,304,814	58,147,204
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	18	14,677,325	15,892,011
		<u>88,488,440</u>	<u>81,255,385</u>
<b>NET ASSETS</b>		<u><u>8,865,472</u></u>	<u><u>8,525,415</u></u>
<b>REPRESENTED BY</b>			
Head office capital account	19	6,812,671	6,780,848
Reserves		125,573	92,715
Unremitted profit		<u>2,201,511</u>	<u>1,778,573</u>
		9,139,755	8,652,136
Deficit on revaluation of assets - net of tax	20	<u>(274,283)</u>	<u>(126,721)</u>
		<u><u>8,865,472</u></u>	<u><u>8,525,415</u></u>
<b>CONTINGENCIES AND COMMITMENTS</b>	21		

The annexed notes 1 to 43 and Annexures I and II form an integral part of these financial statements.

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**ARIF USMANI**  
 Managing Director and Citi Country Officer

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**ANJUM HAI**  
 Chief Financial Officer

**CITIBANK, N.A. - PAKISTAN BRANCHES**  
**(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	Note	2010 (Rupees in '000)	2009
Mark-up / return / interest earned	23	9,373,975	9,983,377
Mark-up / return / interest expensed	24	4,241,090	4,718,051
Net mark-up / return / interest income		<u>5,132,885</u>	<u>5,265,326</u>
Provision against loans and advances - net	10.3	1,868,012	1,181,114
Provision for diminution in the value of investments		-	-
Bad debts written off directly	10.4	74,335	2,104,789
		<u>1,942,347</u>	<u>3,285,903</u>
Net mark-up / interest income after provisions		<u>3,190,538</u>	<u>1,979,423</u>
<b>NON MARK-UP / INTEREST INCOME</b>			
Fee, commission and brokerage income		703,022	856,585
Dividend income		728	2,033
Income from dealing in foreign currencies	25	2,465,105	1,669,426
Gain / (loss) on sale of securities	26	330,613	397,188
Unrealised (loss) / gain on revaluation of investments classified as held for trading		(6,451)	1,804
Other income / cost	27	(1,439,319)	(479,839)
Total non mark-up / interest income - net		<u>2,053,698</u>	<u>2,447,197</u>
		<u>5,244,236</u>	<u>4,426,620</u>
<b>NON MARK-UP / INTEREST EXPENSE</b>			
Administrative expenses	28	3,879,891	3,987,382
Provision for diminution in the value of non-banking assets - net	13.2	(2,463)	5,490
Operating fixed assets written off		4,195	5,997
Other charges	29	165,610	125,163
Total non mark-up / interest expenses - net		<u>4,047,233</u>	<u>4,124,032</u>
<b>PROFIT BEFORE TAXATION</b>		<u>1,197,003</u>	<u>302,588</u>
Taxation	30		
- Current		1,156,019	1,305,350
- Prior years		(405,021)	(841,163)
- Deferred		23,067	(250,572)
		<u>774,065</u>	<u>213,615</u>
<b>PROFIT AFTER TAXATION</b>		<u><u>422,938</u></u>	<u><u>88,973</u></u>

The annexed notes 1 to 43 and Annexures I and II form an integral part of these financial statements.

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**Managing Director and Citi Country Officer**

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**ANJUM HAI**  
**Chief Financial Officer**

**CITIBANK, N.A. - PAKISTAN BRANCHES**  
**(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<b>2010</b>	<b>2009</b>
	<b>(Rupees in '000)</b>	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	1,197,003	302,588
<b>Adjustments for non cash and other items:</b>		
Depreciation	372,147	489,368
Amortisation	51,180	48,712
Provision against loans and advances	1,868,012	1,181,114
Unrealised loss / (gain) on revaluation of investments classified as held for trading	6,451	(1,804)
Bad debts written off directly	74,335	2,104,789
Gain on disposal of operating fixed assets	(66,739)	(20,924)
Dividend income	(728)	(2,033)
Lease rentals	-	2,987
Charge for defined benefit plan	43,246	49,628
Provision for diminution in the value of non-banking assets	(2,463)	5,490
Operating fixed assets written off	4,195	5,997
	<u>2,349,636</u>	<u>3,863,324</u>
	3,546,639	4,165,912
<b>(Increase) / decrease in operating assets</b>		
Lendings to financial institutions	(1,254,655)	4,010,399
Held for trading securities	(14,114,628)	721,697
Advances	7,058,469	10,325,817
Other assets	(590,730)	10,515,364
	<u>(8,901,544)</u>	<u>25,573,277</u>
<b>Increase / (decrease) in operating liabilities</b>		
Bills payable	(490,496)	(5,468)
Borrowings from financial institutions	(1,177,755)	2,386,754
Deposits and other accounts	10,157,610	(7,337,564)
Other liabilities (excluding current taxation and payable to defined benefit plan)	(348,352)	(5,386,628)
	<u>8,141,007</u>	<u>(10,342,906)</u>
	2,786,102	19,396,283
Contribution to gratuity fund	(33,035)	(42,083)
Income tax paid	(1,190,363)	(1,516,935)
<b>Net cash inflow from operating activities</b>	<u>1,562,704</u>	<u>17,837,265</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investments in available for sale securities	(3,232,942)	(24,081,745)
Dividend income received	728	2,033
Investments in operating fixed assets	(73,901)	(412,042)
Sale proceeds from disposal of property and equipment	113,934	96,600
<b>Net cash outflow on investing activities</b>	<u>(3,192,181)</u>	<u>(24,395,154)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payments against lease obligations	-	(2,987)
Capital repatriated to head office during the year	-	(1,099,363)
Remittances made during the year on account of head office expenses	(404,322)	-
<b>Net cash outflow on financing activities</b>	<u>(404,322)</u>	<u>(1,102,350)</u>
Effects of exchange rate changes on cash and cash equivalents	31,823	137,866
<b>Decrease in cash and cash equivalents</b>	<u>(2,001,976)</u>	<u>(7,522,373)</u>
Cash and cash equivalents at the beginning of the year	10,400,369	17,922,742
<b>Cash and cash equivalents at the end of the year</b>	<u><u>8,398,393</u></u>	<u><u>10,400,369</u></u>

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**ARIF USMANI**  
**Managing Director and Citi Country Officer**

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**ANJUM HAI**  
**Chief Financial Officer**

**CITIBANK, N.A. - PAKISTAN BRANCHES**  
(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<b>2010</b>	<b>2009</b>
	<b>(Rupees in '000)</b>	
Profit after taxation	422,938	88,973
<b>Components of other comprehensive income not reflected in equity</b> (Deficit) / surplus on revaluation of available for sale securities - net of tax	(147,562)	367,937
<b>Total comprehensive income for the year</b>	<u>275,376</u>	<u>456,910</u>

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**CITIBANK, N.A. - PAKISTAN BRANCHES**  
(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	Head office capital account	Unremitted profit	Share based payment contribution reserve by the ultimate holding company	Total
	------(Rupees in '000)-----			
Balance as at January 1, 2009	7,742,345	1,689,600	75,785	9,507,730
<b>Total comprehensive income</b>				
Profit for the year ended December 31, 2009	-	88,973	-	88,973
<b>Transactions with owners</b>				
Contribution by the ultimate holding company in respect of share based payments	-	-	28,779	28,779
Recharged balance payable to the ultimate holding company for share based payments	-	-	(28,779)	(28,779)
Effect of re-measurement of cost under share based payment - net of tax	-	-	16,930	16,930
			16,930	16,930
Capital remitted during the year	(1,099,363)	-	-	(1,099,363)
Exchange adjustments on revaluation of capital	137,866	-	-	137,866
Balance as at December 31, 2009	<u>6,780,848</u>	<u>1,778,573</u>	<u>92,715</u>	<u>8,652,136</u>
<b>Total comprehensive income</b>				
Profit for the year ended December 31, 2010	-	422,938	-	422,938
<b>Transactions with owners</b>				
Contribution by the ultimate holding company in respect of share based payments	-	-	44,928	44,928
Recharged balance payable to the ultimate holding company for share based payments	-	-	(44,928)	(44,928)
Effect of re-measurement of cost under share based payment - net of tax	-	-	32,858	32,858
			32,858	32,858
Exchange adjustments on revaluation of capital	31,823	-	-	31,823
<b>Balance as at December 31, 2010</b>	<u><u>6,812,671</u></u>	<u><u>2,201,511</u></u>	<u><u>125,573</u></u>	<u><u>9,139,755</u></u>

The annexed notes 1 to 43 and Annexures I and II form an integral part of these financial statements.

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**CITIBANK, N.A. - PAKISTAN BRANCHES**  
**(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**1 STATUS AND NATURE OF BUSINESS**

Citibank, N.A. - Pakistan Branches (the Bank) operates as a branch of Citibank, N.A. which is a foreign banking company incorporated and domiciled in the U.S.A. with limited liability and is a member of Citigroup Inc., which is the ultimate holding company.

Credit ratings assigned to Citigroup Inc. and Citibank, N.A., by Moody's Investor Services are as follows:

	<u>Long-term</u> <u>senior debt</u>	<u>Short-term</u> <u>debt</u>	<u>Outlook</u>
Citigroup Inc.	A3	P-1	Stable
Citibank, N.A.	A1	P-1	Stable

The Bank is engaged in banking activities permissible under the Banking Companies Ordinance, 1962. Its principal office is at AWT Plaza, I. I. Chundrigar Road, Karachi and presently operates through 16 branches (December 31, 2009: 21 branches) in Pakistan.

**2 BASIS OF PRESENTATION**

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

**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 issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the directives issued by State Bank of Pakistan (SBP). In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the directives issued by SBP prevail.
- 3.2** The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002 till further instructions. In addition the Securities and Exchange Commission of Pakistan has also deferred the applicability of International Financial Reporting Standard 7, Financial Instruments: Disclosures (IFRS 7) on banking companies vide SRO 411(I) / 2008 till further orders. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.
- 3.3** IFRS 8, 'Operating Segments' is effective for the Bank's accounting periods beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by SBP.
- 3.4** SBP vide its BSD Circular No. 07 dated April 20, 2010 has clarified that for the purpose of preparation of financial statements in accordance with International Accounting Standard - 1 (Revised), 'Presentation of Financial Statements', two statement approach shall be adopted i.e. separate 'Profit and Loss Account' and 'Statement of Comprehensive Income' shall be presented, and Balance Sheet shall be renamed as 'Statement of Financial Position'. Furthermore, the Surplus / (Deficit) on Revaluation of Available for sale (AFS) Securities only, may be included in the 'Statement of Comprehensive Income'. Accordingly, the above requirements have been adopted in the preparation of these financial statements.

### 3.5 New and amended standards and interpretations mandatory for the first time for the financial year beginning January 1, 2010

The following new and amended standards and interpretations have been published and are mandatory for the first time for the financial year beginning January 1, 2010:

- (a) IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The management of the Bank believes that presently this amendment does not have any impact on the Bank's financial statements.
- (b) IAS 7 (amendment), 'Statement of Cash Flows' (effective from January 1, 2010). The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. The management of the Bank believes that presently this amendment does not have any impact on the Bank's financial statements.
- (c) IAS 36 (amendment), 'Impairment of assets', effective January 1, 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The management of the Bank believes that presently this amendment does not have any impact on the Bank's financial statements.
- (d) IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from January 1, 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The management of the Bank believes that this amendment does not have any impact on the Bank's financial statements.
- (e) IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale' (effective on or after January 1, 2010). The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The management of the Bank believes that presently this amendment does not have any impact on the Bank's financial statements.
- (f) IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after July 1, 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The management of the Bank believes that presently this interpretation does not have any impact on the Bank's financial statements.
- (g) IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after July 1, 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). The management of the Bank believes that presently this interpretation does not have any impact on the Bank's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or to have any significant effect on the Bank's operations and are, therefore, not disclosed in these financial statements.

### **3.6 New and amended standards and interpretations that are not yet effective and have not been early adopted**

The following standards and amendments to existing standards and interpretations have been published and are mandatory for the Bank's accounting period beginning on or after January 1, 2011.

- (a) IAS 1, 'Presentation of financial statements' (effective from January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is not likely to have any impact on the Bank's financial statements as currently no items are being reported in other comprehensive income under the statement of changes in equity.
- (b) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The management of the Bank believes that this interpretation is not likely to have any impact on the Bank's financial statements.
- (c) IFRIC 14 (amendment), 'Prepayments of a minimum funding requirement'. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning January 1, 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The management of the Bank believes that this interpretation is not likely to have any impact on the Bank's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2011 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

## **4 BASIS OF MEASUREMENT**

### **4.1 Accounting convention**

These financial statements have been prepared under the historical cost convention except that held for trading and available for sale investments and derivative financial instruments are measured at fair value.

These financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to the nearest thousand.

### **4.2 Critical accounting estimates and judgements**

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and 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 revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgements were made by the management in the application of accounting policies are as follows:

- i) classification and provisioning against investments (notes 5.3 and 9)
- ii) classification and provisioning against advances (notes 5.4 and 10)
- iii) income taxes (notes 5.8, 12 and 30)
- iv) accounting for defined benefit plan (notes 5.9 and 33)
- v) depreciation / amortisation of fixed assets (notes 5.5 and 11)
- vi) derivative instruments (note 5.14 and 22)



## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

### 5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash and balances with treasury banks, balances with other banks and overdrawn accounts.

### 5.2 Lendings to / borrowings from financial institutions

The Bank enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

#### (a) Sale of securities under repurchase agreements

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the financial statements as investments and the counterparty liability for amounts received under these agreements is included in borrowings from financial institutions. The difference between sale and repurchase price is recognised over the period of transaction as an expense.

#### (b) Purchase of securities under resale agreements

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

#### (c) Other lendings

These are recorded at the proceeds paid. Mark-up received is charged to the profit and loss account over the period on accrual basis.

### 5.3 Investments

The bank classifies its investments as follows:

#### (a) Held for trading

These are securities, which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealer's margin or are securities included in a portfolio in which a pattern of short-term profit making exists.

#### (b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the Bank has the positive intent and ability to hold them till maturity.

#### (c) Available for sale

These are investments that do not fall under the 'held for trading' or 'held to maturity' categories.

Investments are initially recognised at fair value. All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised at trade date, which is the date on which the Bank commits to purchase or sell the investments.

In accordance with the requirements of State Bank of Pakistan, quoted securities other than those classified as 'held to maturity' are subsequently remeasured to market value. Surplus / (deficit) arising on revaluation of securities classified as 'available for sale' is taken to a separate account shown in the statement of financial position below equity. Surplus / (deficit) arising on revaluation of securities classified as 'held for trading' is taken to the profit and loss account. In accordance with the requirements specified by the State Bank of Pakistan, investments classified as 'held to maturity' are carried at amortized cost.

Investment in unquoted equity securities are stated at cost less impairment.

Impairment loss in respect of investments classified as available for sale (except term finance certificates) and held to maturity is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. Provision for diminution in the value of term finance certificates is made as per the requirements set out in the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus on revaluation of securities on the statement of financial position below equity is removed therefrom and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in profit and loss account.

The difference between the face value and purchase price is amortised over the remaining life of the investment using effective yield method, in order to determine amortised cost.

Gains and losses on disposal of investments during the year is taken to the profit and loss account.

#### **5.4 Advances**

Advances are stated net of provisions against advances. Specific and general provisions are made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan from time to time. The net provision made / reversed during the year is charged to the profit and loss account and accumulated provision is netted-off against advances. Advances are written off when there is no realistic prospect of recovery.

#### **5.5 Fixed assets**

##### **Capital work in progress**

Capital work in progress is stated at cost less impairment losses, if any.

##### **Tangible**

Fixed assets are carried at historical cost less accumulated depreciation and accumulated impairment losses, if any except for lease hold land which is stated as cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to income applying the straight-line method using the rates specified in note 11.2 to these financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on additions is charged for the whole month if the assets are purchased before 15th day of the month while no depreciation is charged in the month in which assets are disposed off.

Maintenance and normal repairs are charged to income as and when incurred. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Gain and loss on disposal of fixed assets is taken to profit and loss account.

##### **Intangible**

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

Amortisation is charged to income applying the straight-line method using the rates specified in note 11.3 to these financial statements.

#### **5.6 Non-Current Assets Held for Sale**

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset (or disposal group) held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognized through the profit and loss account for any initial or subsequent write down of the non-current asset (or disposal group) to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognized to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale or while part of a disposal group classified as held for sale.

#### **5.7 Impairment**

The carrying amount of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account.

## 5.8 Taxation

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the profit and loss account except to the extent that it relates to items which are directly recognised in equity, in such cases, the relating income tax is also directly recognised in equity.

### Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments / developments made during the year.

### Deferred

Deferred tax is recognised using balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is calculated at the rates that are expected to apply to the period when the differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

The Bank also recognises a deferred tax asset / liability on the deficit / surplus on revaluation securities, which is adjusted against the related surplus / deficit in accordance with the requirements of the International Accounting Standard 12 - Income Taxes.

## 5.9 Staff retirement benefits

### Defined benefit plan

The Bank operates an approved funded gratuity scheme for all its permanent employees whose period of the service with the Bank is five years or more. Expenses relating to the scheme are recognised and contributions to the fund are made based on actuarial recommendations.

A portion of actuarial gains and losses is recognised over the expected average remaining working lives of employees if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceed the "corridor" defined as greater of:

- (a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets), and
- (b) 10% of the fair value of plan assets at that date.

Gratuity is payable to staff on completion of the prescribed qualifying period of service under the plan.

### Defined contribution plan

The Bank operates a recognised provident fund scheme for all its permanent employees to which equal monthly contributions are made both by the Bank and employees at the rate of 10 percent of basic salary. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

## 5.10 Share based payments

The Bank offers two types of share based incentive plans which are Stock Award and Stock Option programmes. Under these plans, the share / option of the holding company are granted by the holding company to high performing employees of the Bank. Pursuant to a separate agreement the Bank makes a cash settlement to Citigroup Inc. for the value of the share-based incentive awards delivered to the Bank's employees under these plans.

The Bank applies equity-settled accounting for its share based incentive plans, with separate accounting for its associated obligations to make payments to Citigroup Inc.

Fair value of the shares awarded under the stock award programme, on the grant date and on each measurement date, is determined with reference to the price quoted on the New York Stock Exchange.

#### **5.11 Borrowings / deposits and their cost**

- a) Borrowings / deposits are recorded at the proceeds received.
- b) Borrowing / deposit costs are recognised as an expense in the period in which these are incurred using effective mark-up / interest rate method to the extent that they are not directly attributable to the acquisition of or construction of qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) are capitalised as part of the cost of that asset.

#### **5.12 Provisions**

Provision for guarantee claims and other off balance sheet obligations is recognised when intimated and reasonable certainty exists for the Bank to settle the obligation. Expected recoveries are recognised by debiting the customer's account. Charge to profit and loss account is stated net-of expected recoveries.

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

#### **5.13 Revenue recognition**

Mark-up / return / interest on advances and investments is recognized on an accrual basis using effective interest method, except in the case of non-performing advances where income is recognised on receipt basis in compliance with the Prudential Regulations issued by the State Bank of Pakistan.

Where debt securities are purchased at a premium or discount, those premiums / discounts are amortised through the profit and loss account over the remaining maturity, using the effective yield method.

Fee and commission are recognised as and when services are performed.

Gains and losses on sale of investments and operating fixed assets are recognised in the profit and loss account when the risks and rewards of ownership are transferred.

Dividend income is recognised when the Bank's right to receive the dividend has been established.

#### **5.14 Derivative financial instruments**

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value using appropriate valuation techniques. All derivative financial instruments having positive fair value are carried as assets and instruments having negative fair value are carried as liabilities. Any change in the fair value of derivative financial instruments is taken to profit and loss account.

#### **5.15 Foreign currencies**

Foreign currency transactions are recorded at the exchange rates prevailing on the transaction date. All monetary assets and liabilities in foreign currencies are revalued daily into rupees using spot exchange rates published by the State Bank of Pakistan. The forward foreign exchange contracts and swaps are valued using forward rates applicable to their respective remaining maturities.

Exchange gains and losses are included in income currently, except for gain or loss arising on revaluation of capital account which is taken to equity.

Commitments for outstanding forward foreign exchange contracts are disclosed in the financial statements at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date.

#### **5.16 Offsetting**

Financial assets and financial liabilities are offset and the net amount reported in the financial statements only when there is a legally enforceable right to offset the recognised amounts and the Bank intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

#### **5.17 Financial assets and financial liabilities**

The Bank initially recognises financial assets and liabilities on the date at which they originate except for investments which are recognised on the trade date.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or are transferred. The bank also enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or part of the risks and rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet.

Financial liabilities are derecognised when the contractual obligations expire, or are discharged or cancelled.

#### **5.18 Assets acquired in satisfaction of claims**

The Bank occasionally acquires vehicles and other assets in settlement of certain advances. These are stated at the lower of related advances and the current fair value of such assets. Gains or losses on disposal and unrealized losses on revaluation are recognised in income currently. In case certain repossessed assets cannot be disposed of within pre-determined number of days, impairment loss is recognised by the Bank against such assets.

#### **5.19 Acceptances**

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

#### **5.20 Segment reporting**

A segment is a distinguishable component of the Bank that is engaged either in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of the other segments. The operations of the Bank are based in Pakistan, therefore geographical segment is not relevant.

##### **5.20.1 Business segments**

###### **Trading and sales**

It includes fixed income, foreign exchange, funding, own position securities, lending, borrowing and derivatives.

###### **Retail banking**

It includes retail lending, deposits, banking services and credit card business.

###### **Corporate banking**

Corporate banking includes syndicated financing and services provided in connection with merger and acquisitions, project finance, export finance, trade finance, short-term and long-term lending, bill discounting and negotiation, letter of credit, acceptances, guarantees and deposits.

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>6 CASH AND BALANCES WITH TREASURY BANKS</b>			
<b>In hand</b>			
Local currency		579,556	720,533
Foreign currencies		734,175	758,364
<b>With State Bank of Pakistan in</b>			
Local currency current account	6.1	3,236,953	1,779,844
Foreign currency current account		22,117	37,329
Foreign currency deposit accounts			
Cash reserve account	6.2	599,457	657,084
Special cash reserve account	6.3	1,798,371	1,979,678
<b>Foreign currency capital account</b>	19	-	1,763,202
<b>With National Bank of Pakistan in</b>			
Local currency current account		31,160	10,000
		<u>7,001,789</u>	<u>7,706,034</u>

**6.1** The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in the current account opened with the SBP at a sum not less than such percentage of its time and demand liabilities in Pakistan as may be prescribed by SBP.

**6.2** This represents cash reserve of 5% which is required to be maintained with State Bank of Pakistan on deposits held under the New Foreign Currency Accounts Scheme (FE-25 deposits).

**6.3** This represents special cash reserve of 15% which is required to be maintained with State Bank of Pakistan on FE-25 deposits. Profit rates on these deposits are fixed by SBP on a monthly basis. During the year this deposit was not remunerated (2009: Nil).

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>7 BALANCES WITH OTHER BANKS</b>			
<b>In Pakistan</b>			
In current account		79,540	79,589
<b>Outside Pakistan</b>			
In current account	7.1	973,755	1,270,691
In deposit account	7.2	343,309	1,385,673
		<u>1,396,604</u>	<u>2,735,953</u>

**7.1** This includes balance of Rs.969.191 million (2009: Rs.1,269.221 million) held with branches of Citibank, N.A. outside Pakistan.

**7.2** This represents placement with Citibank London at a mark-up of 0.24% (2009: 0.25% to 0.5%) per annum and having maturity upto January 2011 (2009: January 2010).

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>8 LENDINGS TO FINANCIAL INSTITUTIONS</b>			
Call money lending	8.1	100,000	-
Repurchase agreement lendings (Reverse Repo)	8.2 & 8.4	11,310,316	10,155,661
		<u>11,410,316</u>	<u>10,155,661</u>

**8.1** This represents unsecured lending that carries mark-up at the rate of 12.85% (2009: Nil) per annum and is due to mature in February 2011 (2009: Nil).

- 8.2 These represent short term lendings to financial institutions against government securities. These carry mark-up at rates ranging from 12.75% to 13.5% (2009: 11.85% to 12.4%) per annum and have a maturity period of upto January 2011 (2009: March 2010).

	2010	2009
	(Rupees in '000)	
8.3 Particulars of lendings to financial institutions		
In local currency	11,410,316	10,155,661
In foreign currencies	-	-
	<u>11,410,316</u>	<u>10,155,661</u>

8.4 Securities held as collateral against lendings to financial institutions

Note	2010			2009		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	----- (Rupees in '000) -----					
Market Treasury Bills	11,210,316	-	11,210,316	6,884,704	2,383,054	9,267,758
Pakistan Investment Bonds	55,150	44,850	100,000	887,903	-	887,903
	<u>11,265,466</u>	<u>44,850</u>	<u>11,310,316</u>	<u>7,772,607</u>	<u>2,383,054</u>	<u>10,155,661</u>

9 INVESTMENTS

9.1 Investments by types:

	2010			2009		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
	----- (Rupees in '000) -----					
<b>Held-for-trading securities</b>						
Market Treasury Bills	15,304,570	-	15,304,570	2,166,271	-	2,166,271
Pakistan Investment Bonds	1,538,240	-	1,538,240	561,911	-	561,911
	16,842,810	-	16,842,810	2,728,182	-	2,728,182
<b>Available-for-sale securities</b>						
Market Treasury Bills	23,733,562	2,787,299	26,520,861	24,211,458	673,194	24,884,652
Pakistan Investment Bonds	5,093,332	-	5,093,332	3,496,599	-	3,496,599
Fully Paid-up Ordinary Shares	52,000	-	52,000	52,000	-	52,000
Unlisted Term Finance Certificates	2,206,000	-	2,206,000	2,206,000	-	2,206,000
	31,084,894	2,787,299	33,872,193	29,966,057	673,194	30,639,251
<b>Investments at cost</b>	47,927,704	2,787,299	50,715,003	32,694,239	673,194	33,367,433
<b>Less: Provision for diminution in the value of Investments</b>	9.8	52,000	-	52,000	-	52,000
<b>Investments (net of provisions)</b>		47,875,704	2,787,299	50,663,003	32,642,239	673,194
Surplus / (deficit) on revaluation of held-for-trading securities - net	9.10	(4,712)	-	(4,712)	1,739	-
(Deficit) / surplus on revaluation of available-for-sale securities - net	20	(421,820)	(154)	(421,974)	(196,898)	1,943
<b>Total investments at market value</b>		<u>47,449,172</u>	<u>2,787,145</u>	<u>50,236,317</u>	<u>32,447,080</u>	<u>675,137</u>

- 9.1.1 As at December 31, 2009, the Bank held 14,247 'Class A' (listed) and 33,244 'Class C' (unlisted) shares of Visa Inc. at Nil cost. These shares were subsequently sold during the year.

9.2 Investments by segments:	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>Federal Government Securities:</b>			
Market Treasury Bills	9.3 & 9.4	41,825,431	27,050,923
Pakistan Investment Bonds	9.3 & 9.5	<u>6,631,572</u>	<u>4,058,510</u>
		48,457,003	31,109,433
<b>Fully Paid up Ordinary Shares</b>			
Unlisted shares	9.6	52,000	52,000
<b>Term Finance Certificates:</b>			
Unlisted	9.7	2,206,000	2,206,000
<b>Investments at cost</b>		<u>50,715,003</u>	<u>33,367,433</u>
Less: Provision for diminution in value of investments		52,000	52,000
<b>Investments (net of provisions)</b>		<u>50,663,003</u>	<u>33,315,433</u>
Surplus / (deficit) on revaluation of held-for-trading securities		(4,712)	1,739
Deficit on revaluation of available-for-sale securities		(421,974)	(194,955)
<b>Total investments at market value</b>		<u><u>50,236,317</u></u>	<u><u>33,122,217</u></u>

9.3 Investments include certain approved / government securities which are held by the Bank to comply with the Statutory Liquidity Requirement determined on the basis of the Bank's demand and time liabilities as set out under section 29 of the Banking Companies Ordinance, 1962.

9.4 Market Treasury Bills are for a period of three months, six months and one year. The effective rates of profit on Market Treasury Bills range from 12.31% to 13.40% (2009: 11.48% to 13.30) per annum with maturities upto August 2011 (2009: September 2010). In addition Market Treasury Bills having face value of Rs. 4,600 million (2009: Rs. 2,475 million) have been deposited with the State Bank of Pakistan as pledged capital.

9.5 Pakistan Investment Bonds (PIBs) are for periods of three, five, seven, ten, fifteen and twenty years. The yield on these PIBs range from 8.78% to 15.30% (2009: 8.78 to 15%) per annum with maturities from May 2011 to June 2024 (2009: August 2010 to June 2024). Pakistan Investment Bonds having face value of Rs 25 million (2009: Rs 25 million) have been deposited with the State Bank of Pakistan against telegraph transfer / discounting facility granted by them. Pakistan Investment Bonds having face value of Rs 3,090 million (2009: Rs 3,215 million) have been deposited with the State Bank of Pakistan as pledged capital.

9.6 Particulars of Fully Paid-up Ordinary Shares - Unlisted companies	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>Khushhali Bank Limited</b>		
5,000,000 (2009: 5,000,000) fully paid-up ordinary shares of Rs.10 (2009: Rs 10) each.	50,000	50,000
President - Mr. Ghalib Nishtar		
<b>Arabian Sea Country Club</b>		
200,000 (2009: 200,000) fully paid-up ordinary shares of Rs.10/- each	2,000	2,000
Chairman - Mr. Arif Khan Abbasi		
	<u>52,000</u>	<u>52,000</u>

9.7 Particulars of Term Finance Certificates - unquoted secured

**Power Holding Private Limited (liability assumed from National Transmission and Despatch Company Limited) - note 9.7.1**

124,200 (2009: 124,200) certificates of Rs 5,000 each

621,000

621,000

Mark-up: Average six months KIBOR + 1.75 percent per annum

Redemption: In six equal semi annual installments, after completion of grace period. First principal payment due at the end of 30th month from the first disbursement.

Maturity: March 2014

Chief Executive: Mr. Fazeel Asif



<b>Power Holding Private Limited</b>		<b>2010</b>	<b>2009</b>
		<b>(Rupees in '000)</b>	
317,000 (2009: 317,000) certificates of Rs 5,000 each		1,585,000	1,585,000
Mark-up:	Average six months KIBOR + 2.00 percent per annum		
Redemption:	In six equal semi annual installments, after completion of grace period. First principal payment due at the end of 30th month from the first disbursement.		
Maturity:	September 2014		
Chief Executive:	Mr. Fazeel Asif		
		<u>2,206,000</u>	<u>2,206,000</u>
<b>9.7.1</b>	During the year the Government of Pakistan in its move to bring all circular debts of power sector to a single point of responsibility and ownership has transferred bank loan liabilities from the books of power companies (which includes term finance certificates of National Transmission and Despatch Company Limited (NTDC)) to Power Holdings Private Limited. Accordingly NTDC has been fully absolved from those liabilities.		
<b>9.8</b>	<b>Particulars of provision for diminution in the value of investments</b>	<b>2010</b>	<b>2009</b>
		<b>(Rupees in '000)</b>	
Opening balance		52,000	52,000
Charge for the year		-	-
Reversals		-	-
Closing balance		<u>52,000</u>	<u>52,000</u>
<b>9.8.1</b>	<b>Particulars of provision for diminution in the value of investments by type and segment</b>		
Unlisted shares - available-for-sale investments		<u>52,000</u>	<u>52,000</u>
<b>9.9</b>	<b>Quality of Available for Sale Securities</b>		
		<b>2010</b>	<b>2009</b>
		<b>Amount</b>	<b>Amount</b>
		<b>(Rupees'000)</b>	<b>(Rupees'000)</b>
		<b>Rating</b>	<b>Rating</b>
		<b>(where available)</b>	<b>(where available)</b>
<b>Federal Government Securities (at market value)</b>			
Market Treasury Bills	26,509,066	N/A	24,889,022
Pakistan Investment Bonds	4,683,153	N/A	3,191,629
	<u>31,192,219</u>		<u>28,080,651</u>
<b>Ordinary shares - listed (at market value)</b>			
VISA Inc.	-	N/A	105,645
			A1(L), P-1(S)
<b>Ordinary shares - unlisted (at cost)</b>			
Khushhali Bank Limited	50,000	A-(L), A-2(S)	50,000
Arabian Sea Country Club	2,000	Unrated	2,000
	<u>52,000</u>		<u>52,000</u>
<b>Term Finance Certificates - unlisted (at cost)</b>			
Power Holding Private Limited (liability assumed from National Transmission and Despatch Company Limited)	621,000	N/A	621,000
Power Holding Private Limited	1,585,000	Unrated	1,585,000
	<u>2,206,000</u>		<u>2,206,000</u>
<b>Total</b>	<u><u>33,450,219</u></u>		<u><u>30,444,296</u></u>
L - represents long term rating			
S - represents short term rating			
<b>9.10</b>	<b>Unrealised gain / (loss) on revaluation of investments classified as held for trading</b>	<b>2010</b>	<b>2009</b>
		<b>(Rupees in '000)</b>	
Market Treasury Bills		(1,536)	311
Pakistan Investments Bonds		(3,176)	1,428
		<u>(4,712)</u>	<u>1,739</u>

	Note	2010	2009
(Rupees in '000)			
<b>10 ADVANCES</b>			
Loans, cash credits, running finances, etc. In Pakistan		22,115,762	30,338,609
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,076,895	619,207
Payable outside Pakistan		538,547	247,037
		<u>1,615,442</u>	<u>866,244</u>
Advances - gross		<u>23,731,204</u>	<u>31,204,853</u>
Provision against advances			
Specific - provision against non-performing advances	10.2	(4,309,629)	(2,486,006)
General - provision against advances	10.3.1	(177,362)	(473,818)
	10.3	<u>(4,486,991)</u>	<u>(2,959,824)</u>
Advances - net of provision		<u>19,244,213</u>	<u>28,245,029</u>
<b>10.1 Particulars of advances (gross)</b>			
<b>10.1.1</b> In local currency		21,655,065	30,891,217
In foreign currencies		<u>2,076,139</u>	<u>313,636</u>
		<u>23,731,204</u>	<u>31,204,853</u>
<b>10.1.2</b> Short term (for upto one year)		16,638,569	23,761,309
Long term (for over one year)		<u>7,092,635</u>	<u>7,443,544</u>
		<u>23,731,204</u>	<u>31,204,853</u>

**10.1.3** Based on classification defined in SBP Prudential Regulations, Rs 16,863.034 million advances fall under Corporate and Rs 6,868.170 million fall under Consumer and SME classification as at December 31, 2010.

**10.2** Advances include Rs. 4,988.867 million (2009: Rs.3,158.076 million) which have been placed under non-performing status as detailed below:

	2010			2009		
	Classified advances (Domestic)	Provision required	Provision held	Classified advances (Domestic)	Provision required	Provision held
----- (Rupees in '000) -----						
<b>Category of classification</b>						
Substandard	246,201	62,376	62,376	428,714	104,123	104,123
Doubtful	916,302	452,521	452,521	399,864	170,130	170,130
Loss	3,826,364	3,794,732	3,794,732	2,329,498	2,211,753	2,211,753
	<u>4,988,867</u>	<u>4,309,629</u>	<u>4,309,629</u>	<u>3,158,076</u>	<u>2,486,006</u>	<u>2,486,006</u>

**10.3 Particulars of provision against advances**

	Note	2010			2009		
		Specific	General	Total	Specific	General	Total
----- (Rupees in '000) -----							
Opening balance		2,486,006	473,818	2,959,824	1,173,983	605,082	1,779,065
Charge for the year		2,649,139	-	2,649,139	1,696,479	136,968	1,833,447
Reversals		(484,671)	(296,456)	(781,127)	(384,101)	(268,232)	(652,333)
		<u>2,164,468</u>	<u>(296,456)</u>	<u>1,868,012</u>	<u>1,312,378</u>	<u>(131,264)</u>	<u>1,181,114</u>
Amounts written off	10.4.1	(220,644)	-	(220,644)	(355)	-	(355)
Reversal on sale of mortgage portfolio	29.1	(120,201)	-	(120,201)	-	-	-
Closing balance		<u>4,309,629</u>	<u>177,362</u>	<u>4,486,991</u>	<u>2,486,006</u>	<u>473,818</u>	<u>2,959,824</u>

**10.3.1** General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan.

**10.3.2 Particulars of provision against advances**

	2010			2009		
	Specific	General	Total	Specific	General	Total
	------(Rupees in '000)-----					
In local currency	<u>4,309,629</u>	<u>177,362</u>	<u>4,486,991</u>	<u>2,486,006</u>	<u>473,818</u>	<u>2,959,824</u>

**10.3.3** Although the Bank has made provision against its non-performing portfolio as per the category of classification of the loan, the Bank holds enforceable collateral in the event of recovery through litigation for financing other than credit cards and personal loans. These securities comprise of charge against various tangible assets of the borrower including land, building and machinery, stock in trade etc.

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>10.4 Particulars of write-offs</b>			
<b>10.4.1</b> Against provisions	10.3	220,644	355
Directly charged to profit and loss account		<u>74,335</u>	<u>2,104,789</u>
		<u>294,979</u>	<u>2,105,144</u>
<b>10.4.2</b> Write offs of Rs. 500,000 and above	10.5	96,540	378,332
Write offs of below Rs. 500,000		<u>198,439</u>	<u>1,726,812</u>
		<u>294,979</u>	<u>2,105,144</u>

**10.5 Details of loan write off of Rs. 500,000 and above**

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to person(s) during the year ended December 31, 2010 is given in Annexure-I. These loans are written off as a book entry without prejudice to the Bank's right of recovery against the customers.

	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>10.6 Particulars of loans and advances to directors, executives associated companies, etc.</b>		
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons *		
Balance at beginning of the year	1,155,671	1,244,728
Loans granted during the year	154,912	419,441
Repayments	<u>(558,247)</u>	<u>(508,498)</u>
Balance at end of the year	<u>752,336</u>	<u>1,156,671</u>

\* Represents loans given by the Bank to their executives and other employees as per the terms of their employment.

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>11 FIXED ASSETS</b>			
Capital work-in-progress	11.1	4,650	15,692
Property and equipment	11.2	729,551	1,068,145
Intangible assets	11.3	<u>131,439</u>	<u>182,619</u>
		<u>865,640</u>	<u>1,266,456</u>

	2010	2009
	(Rupees in '000)	
<b>11.1 Capital work-in-progress</b>		
Civil works	-	3,971
Equipment	2,159	193
Advances to suppliers and contractors	115	3,843
Others	2,376	7,685
	<u>4,650</u>	<u>15,692</u>

**11.2 Property and equipment**

	2010							
	COST			ACCUMULATED DEPRECIATION			BOOK VALUE	Rate of depreciation %
	As at January 01, 2010	Additions/ (Deletions)	As at December 31, 2010	As at January 01, 2010	Charge for the year / (on deletions)	As at December 31, 2010	As at December 31, 2010	
(Rupees in '000)								
Leasehold land and buildings	6,751	-	6,295	2,301	244	2,089	4,206	5
		(456)			(456)			
Furniture and fixtures	777,546	17,778	701,223	406,899	100,528	423,483	277,740	10 - 50
		(94,101)			(83,944)			
Electrical, office and computer equipment	1,291,665	2,503	1,248,011	764,425	212,585	936,711	311,300	14.3-33.33
		(46,157)			(40,299)			
Vehicles	285,565	64,662	279,840	119,757	58,790	143,535	136,305	20
		(70,387)			(35,012)			
	<u>2,361,527</u>	<u>84,943</u>	<u>2,235,369</u>	<u>1,293,382</u>	<u>372,147</u>	<u>1,505,818</u>	<u>729,551</u>	
		(211,101)			(159,711)			

  

	2009							
	COST			ACCUMULATED DEPRECIATION			BOOK VALUE	Rate of depreciation %
	As at January 01, 2009	Additions/ (Deletions)	As at December 31, 2009	As at January 01, 2009	Charge for the year / (on deletions)	As at December 31, 2009	As at December 31, 2009	
(Rupees in '000)								
Leasehold land and buildings	6,751	-	6,751	2,057	244	2,301	4,450	5
Furniture and fixtures	762,243	150,812	777,546	389,978	139,823	406,899	370,647	10 - 50
		(135,509)			(122,902)			
Electrical, office and computer equipment	1,433,302	127,423	1,291,665	739,172	287,157	764,425	527,240	14.3-33.33
		(269,060)			(261,904)			
Vehicles	308,372	82,291	285,565	100,807	62,144	119,757	165,808	20
		(105,098)			(43,194)			
	<u>2,510,668</u>	<u>360,526</u>	<u>2,361,527</u>	<u>1,232,014</u>	<u>489,368</u>	<u>1,293,382</u>	<u>1,068,145</u>	
		(509,667)			(428,000)			

**11.2.1** The cost of fully depreciated assets still in use amounts to Rs. 704.289 million (2009: Rs. 561.859 million).

**11.2.2** During the year the Bank decided to close down five of its branches. Pursuant to this decision the management has recognised an accelerated depreciation of Rs. 40.96 million (2009: Rs.73.484 million) on certain fixed assets located at these branches.

**11.2.3** The fair value of leasehold land and buildings is Rs. 171.512 million (2009: Rs. 235.332 million) based on revaluation carried out on March 05, 2008 and November 20, 2008.

### 11.3 Intangible assets

	2010							
	COST			ACCUMULATED AMORTISATION			BOOK VALUE	
	As at January 01, 2010	Additions / (deletions)	As at December 31, 2010	As at January 01, 2010	Amortisation for the year / (amortisation on deletions)	As at December 31, 2010	As at December 31, 2010	Rate of amortisation
	(Rupees in '000)							%
Computer software	258,524	-	258,524	75,905	51,180	127,085	131,439	20 - 33.33

  

	2009							
	COST			ACCUMULATED AMORTISATION			BOOK VALUE	
	As at January 01, 2009	Additions / (deletions)	As at December 31, 2009	As at January 01, 2009	Amortisation for the year / (amortisation on deletions)	As at December 31, 2009	As at December 31, 2009	Rate of amortisation
	(Rupees in '000)							%
Computer software	68,147	190,377	258,524	27,193	48,712	75,905	182,619	20 - 33.33

11.3.1 The cost of fully amortised assets still in use amounts to Rs. 41.653 million (2009: Rs 24.560 million).

### 11.4 Disposals of fixed assets during the year

Details of disposals of fixed assets having cost of more than Rs. 1,000,000 or net book value of Rs. 250,000 or more are given in Annexure-II and is an integral part of these financial statements.

	Note	2010 ----- (Rupees in '000) -----	2009
12 DEFERRED TAX ASSETS - net			
Deferred tax assets - net	12.1	<u>3,693,968</u>	<u>3,637,578</u>

### 12.1 Movement in temporary differences during the year

	Note	2010			
		At January 01, 2010	Recognised in profit and loss	Recognised in equity / other comprehensive income	At December 31, 2010
		(Rupees in '000)			
Deductible temporary differences on					
- deficit on revaluation of investments	20	68,234	-	79,457	147,691
- defined benefit plan (gratuity)		9,787	(9,787)	-	-
- provision against off balance sheet items and corporate and consumer financing	12.2	3,471,117	(103,308)	-	3,367,809
- accelerated tax depreciation		(38,796)	61,006	-	22,210
- other deductible temporary differences		127,236	29,022	-	156,258
		<u>3,637,578</u>	<u>(23,067)</u>	<u>79,457</u>	<u>3,693,968</u>
		<u>3,637,578</u>	<u>(23,067)</u>	<u>79,457</u>	<u>3,693,968</u>
		2009			
		At January 01, 2009	Recognised in profit and loss	Recognised in equity / other comprehensive income	At December 31, 2009
		(Rupees in '000)			
Deductible temporary differences on					
- deficit on revaluation of investments	20	266,355	-	(198,121)	68,234
- defined benefit plan (gratuity)		17,222	(7,435)	-	9,787
- provision against off balance sheet items and corporate and consumer financing	12.2	3,171,920	299,197	-	3,471,117
- other deductible temporary differences		161,532	(34,296)	-	127,236
		<u>3,617,029</u>	<u>257,466</u>	<u>(198,121)</u>	<u>3,676,374</u>
Taxable temporary differences on					
- accelerated tax depreciation		(31,902)	(6,894)	-	(38,796)
		<u>3,585,127</u>	<u>250,572</u>	<u>(198,121)</u>	<u>3,637,578</u>

- 12.2** The Finance Act, 2010 has made certain further amendments in the Seventh Schedule to the Income Tax Ordinance 2001 to allow provisions for advances and off-balance sheet items relating to Consumer and SME advances up to 5% of such advances. Provisions for advances and off-balance sheet items relating to advances other than Consumer and SME would continue to be allowed up to 1% of such advances and provision in excess of 1% of total of such advances would be allowed to be carried forward to succeeding years. Further a new Rule 8 (A) has been introduced in the Seventh Schedule to allow for amounts provided for in tax year 2008 and prior to said tax year for doubtful debts, which were neither claimed nor allowed as tax deductible in any year to be allowed as deduction in the tax year in which such doubtful debts are written off.

However, the relevant provisions of the Seventh Schedule amended through Finance Act, 2010 lack clarity relating to carry forward of provisions for advances and off balance sheet items in excess of 5% of Consumer and SME advances. The interpretation that the excess amount cannot be carried forward to future years leads to permanently disallowing Consumer and SME provisions in excess of 5% which is unprecedented and widely recognized as being inequitable and not the actual intent of law.

The Pakistan Banks' Association working with the banking industry is continuing to make representations to the Federal Board of Revenue to issue the necessary clarification in law. However, as a matter of prudence, the bank has not recognised a deferred tax asset of Rs. 245.157 million on provisions amounting to Rs. 700.449 million made in 2010 which were in excess of 5% of gross advances pertaining to Consumer and SMEs.

With reference to allowability of provisions of upto 1 percent of total advances, the management has carried out an exercise at the period end and concluded that full deduction of these provisions in succeeding years would be allowed and has accordingly recognised deferred tax asset on such provisions amounting to Rs. 516.541 million.

<b>13 OTHER ASSETS</b>	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>(Rupees in '000)</b>	
Income / Mark-up accrued in local currency		799,664	901,726
Income / Mark-up accrued in foreign currency		13,534	6,006
Advances, deposits, prepayments and other receivables		374,299	608,874
Non-banking assets acquired in satisfaction of claims	13.1	21,562	27,898
Unrealised gain on forward foreign exchange contracts, foreign currency options and derivative contracts		2,241,437	1,339,075
Receivable from the State Bank of Pakistan - customer encashed			
USD Bonds / SSCs & DSCs		26,459	33,421
Others		47,884	17,109
		<u>3,524,839</u>	<u>2,934,109</u>
Less: Provision held against non-banking assets acquired in satisfaction of claims	13.2	<u>19,774</u>	<u>22,237</u>
Other assets - net of provision		<u>3,505,065</u>	<u>2,911,872</u>
<b>13.1</b> Market value of non-banking assets acquired in satisfaction of claims		<u>27,073</u>	<u>28,802</u>
<b>13.2</b> Provision against other assets			
Opening balance		22,237	16,747
Charge for the year		(2,463)	5,490
Closing balance		<u>19,774</u>	<u>22,237</u>
<b>14 CONTINGENT ASSETS</b>			
There were no contingent assets of the Bank as at December 31, 2010 (2009: Nil).			
<b>15 BILLS PAYABLE</b>	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>(Rupees in '000)</b>	
In Pakistan		<u>1,164,263</u>	<u>1,654,759</u>
<b>16 BORROWINGS FROM FINANCIAL INSTITUTIONS</b>			
In Pakistan		4,342,038	5,561,411
Outside Pakistan		-	-
		<u>4,342,038</u>	<u>5,561,411</u>

16.1 Particulars of borrowings with respect to currencies	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
In local currency		4,342,038	5,561,411
In foreign currencies		-	-
		4,342,038	5,561,411
<b>16.2 Details of borrowings Secured / Unsecured</b>			
<b>Secured</b>			
Borrowings from State Bank of Pakistan			
Under export refinance scheme	16.2.1	1,361,561	1,598,680
Under Long Term Financing-Export Oriented Projects scheme (LTF-EOP)	16.2.2	93,178	340,414
Repurchase agreement borrowings	16.2.3	2,787,299	3,080,699
		4,242,038	5,019,793
<b>Unsecured</b>			
Call borrowings	16.2.4	100,000	500,000
Overdrawn accounts		-	41,618
		100,000	541,618
		4,342,038	5,561,411

**16.2.1** The Bank has entered into an agreement for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreement, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP. This facility is secured against demand promissory note executed in favour of SBP. These borrowings carry mark-up at rates ranging from 8.5% to 9% (2009: 6.5 %) per annum payable on a quarterly basis.

**16.2.2** These borrowings have been made from SBP under the scheme for providing long term finance to customers for export oriented projects. As per the agreements with SBP, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP. This facility is secured against demand promissory note executed in favour of SBP. The mark up rate of this facility is 5% (2009: 4% to 5%) per annum payable on a quarterly basis.

**16.2.3** These represent repurchase agreement borrowings from other banks and carry mark up at rates ranging from 13% to 13.25% (2009: 11.97% to 12.50% ) per annum and having maturities up to January 2011 (2009: January 2010).

**16.2.4** This represents unsecured borrowing that carries mark-up at the rate of 12.75% (2009: 12.1% to 12.6%) per annum and are due to mature in January 2011 (2009: May 2010).

17 DEPOSITS AND OTHER ACCOUNTS	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>Customers</b>		
Fixed deposits	34,557,683	26,003,438
Savings deposits	20,375,001	21,643,640
Current accounts - non-remunerative	10,098,438	6,957,836
Other deposits	247,829	201,238
	65,278,951	54,806,152
<b>Financial institutions</b>		
Remunerative deposits	2,016,499	2,353,307
Non-remunerative deposits	1,009,364	987,745
	3,025,863	3,341,052
	68,304,814	58,147,204
<b>17.1 Particulars of deposits</b>		
In local currency	57,021,986	45,112,144
In foreign currencies	11,282,828	13,035,060
	68,304,814	58,147,204

**17.2** Includes deposits of Citigroup companies amounting to Rs. 618.795 million (2009: Rs. 338.301 million).

	Note	2010	2009
		(Rupees in '000)	
<b>18 OTHER LIABILITIES</b>			
Mark-up / return / interest payable in local currency		615,684	776,097
Mark-up / return / interest payable in foreign currencies		3,209	3,345
Unearned commission and income on bills discounted		77,551	91,829
Accrued expenses	18.1	759,575	881,094
Current taxation (provision less payments)		800,291	1,221,963
Branch adjustment account		-	2
Unrealised loss on forward foreign exchange contracts, foreign currency options and derivative contracts		11,058,699	11,377,517
Unremitted head office expenses		544,193	728,818
Payable to regional offices for support services		62,165	40,688
Payable to defined benefit plan	33.4	71,324	61,113
Provision against off-balance sheet obligations	18.2	23,185	23,185
Advances from customers		20,507	26,724
Short sell - Pakistan Investment Bonds		44,850	-
Others		596,092	659,636
		<u>14,677,325</u>	<u>15,892,011</u>

**18.1** This includes the Bank's obligation to the ultimate holding company under the stock award and stock option programmes. As of December 31, 2010 recognised liability for share based incentive plans was Rs. 73.566 million (2009: Rs. 56.031 million ).

	Note	2010	2009
		(Rupees in '000)	
<b>18.2 Provision against off-balance sheet obligations</b>			
Opening balance		23,185	23,185
Charge for the year		-	-
Closing balance		<u>23,185</u>	<u>23,185</u>

## 19 HEAD OFFICE CAPITAL ACCOUNT

### Capital held as:

Interest free deposit in approved foreign exchange

Remitted from Head Office - net of repatriated capital USD Nil (2009: 20.93 million)		-	1,253,786
Revaluation surplus allowed by the State Bank of Pakistan - cumulative	19.1	-	509,416
		-	1,763,202
Deposit of un-encumbered approved securities	19.2	6,812,671	5,017,646
		<u>6,812,671</u>	<u>6,780,848</u>

**19.1** This represents surplus in proportion to interest free deposit in approved foreign exchange maintained with the State Bank of Pakistan.

**19.2** This represents Market Treasury Bills having face value of Rs. 4,600 million (2009: Rs. 2,475 million) and Pakistan Investment Bonds having face value of Rs. 3,090 million (2009: Rs. 3,215 million). The market value of Market Treasury Bills and Pakistan Investment Bonds as at December 31, 2010 amounts to Rs. 4,437.882 million and Rs. 3,086.372 million (2009: Rs. 2,419.654 million and Rs. 2,915.406 million) and these have maturities of up to June 2011 and June 2024 respectively (2009: March 2010 and May 2016).

**19.3** Capital has been deposited with the State Bank of Pakistan in compliance with section 13 of the Banking Companies Ordinance, 1962.



<b>20</b>	<b>DEFICIT ON REVALUATION OF ASSETS - net</b>	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>(Rupees in '000)</b>		
	Federal and Provincial Government Securities			
	- Market Treasury Bills		(11,795)	4,370
	- Pakistan Investment Bonds		(410,179)	(304,970)
	- Listed shares		-	105,645
			(421,974)	(194,955)
	Less: Related deferred tax asset	12.1	147,691	68,234
			<u>(274,283)</u>	<u>(126,721)</u>
<b>21</b>	<b>CONTINGENCIES AND COMMITMENTS</b>			
<b>21.1</b>	<b>Direct credit substitutes</b>			
	Includes general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities.			
			<b>2010</b>	<b>2009</b>
			<b>(Rupees in '000)</b>	
	(i) Government		21,148	55,985
	(ii) Banking companies and other financial institutions		68,874	12,398
	(iii) Others		7,010,606	8,122,020
			<u>7,100,628</u>	<u>8,190,403</u>
<b>21.2</b>	<b>Transaction-related contingent liabilities</b>			
	Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credit related to particular transactions.			
			<b>2010</b>	<b>2009</b>
			<b>(Rupees in '000)</b>	
	(i) Government		1,078,396	1,226,058
	(ii) Banking companies and other financial institutions		120,152	126,201
	(iii) Others		1,717,533	395,622
			<u>2,916,081</u>	<u>1,747,881</u>
<b>21.3</b>	<b>Trade-related contingent liabilities</b>			
	Includes short-term self liquidating trade related contingent liabilities arising from the movement of goods, such as documentary credits where the underlying shipment is used as security.			
		<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>(Rupees in '000)</b>		
	Letters of credit		<u>13,235,235</u>	<u>9,330,190</u>
<b>21.4</b>	<b>Other contingencies</b>			
	Indemnity issued		15,484	15,484
	Claims not acknowledged as debt		276,363	275,972
		21.4.1	<u>291,847</u>	<u>291,456</u>
<b>21.4.1</b>	These are not recognised as debt as the probability of these crystallising against the Bank is considered remote.			
<b>21.4.2</b>	The bank has received communication from the State Bank of Pakistan dated March 25, 2011 wherein the bank has been asked to take measures to fully comply with the requirements specified by the State Bank of Pakistan's guidelines relating to the returns on a specific portfolio of its foreign currency deposits. Based on legal advice, the bank maintains that it has fully complied with such requirements and returns on these deposits are in accordance with the bank's General Terms and Conditions. The possible financial impact, if any has currently not been determined as it involves data relating to past several years. The bank has taken up the matter with the SBP and discussions with the SBP are in progress. The management is confident that this matter will be resolved in its favour.			
<b>21.5</b>	<b>Commitments in respect of forward transactions</b>		<b>2010</b>	<b>2009</b>
			<b>(Rupees in '000)</b>	
	Forward repurchase agreement lendings (reverse repos)		<u>11,372,857</u>	<u>10,317,618</u>
	Forward repurchase agreement borrowings (repos)		<u>2,790,284</u>	<u>3,085,119</u>
	Forward agreement to purchase (reverse repos)		-	2,808,113
	Forward sale contracts of government securities		<u>838,267</u>	-
	Uncancellable commitments to extend credit		<u>378,430</u>	-

21.6 Commitments in respect of forward exchange contracts	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
Purchase		128,072,394	120,306,365
Sale		<u>71,842,177</u>	<u>63,979,867</u>

The Bank utilises foreign exchange instruments to meet the needs of its customers and as part of its asset and liability management activity to hedge its own exposure to currency risk.

21.7 Other commitments	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
Cross currency and interest rate derivative contracts (notional amount)	22.1	<u>66,308,305</u>	<u>64,724,267</u>
Foreign currency options	22.1	<u>2,062,762</u>	<u>2,613,192</u>

## 22 DERIVATIVE INSTRUMENTS

A derivative financial instrument is a contract the value of which is determined by reference to one or more underlying financial instruments, reference rates or indices. Forward contracts, options and swaps are the most common types of derivatives. Also included in derivatives are structured financial products that have one or more characteristics of forwards, futures, swaps and options.

The Bank enters into derivatives contracts for market making and for creating effective hedges to enable customers and the Bank to transfer, modify or reduce their interest rate and foreign exchange risks. The Bank as an Authorized Derivative Dealer (ADD) is an active participant in the derivative market of Pakistan.

Overall responsibility for derivatives trading activity lies with the treasury. Existence of an independent market risk function together with the Asset Liability Committee (ALCO) assists in the identification and quantification of risks on derivatives. This involves:

- co-ordinating approvals of market risk limits;
- formulation of policies and procedures with respect to market risk; and
- monitoring of market risk and credit risk exposure.

Treasury operations records transactions in the books, while product control reports the price and liquidity information independently.

The risk embedded in derivatives transactions are discussed in note 41.

### 22.1 Product analysis

Counterparties	2010			
	Interest Rate and Cross Currency Swaps		FX Options	
	Number of Contracts	Notional Principal (Rupees in '000)	Number of Contracts	Notional Principal (Rupees in '000)
With Banks for				
Hedging	2	13,639,591	8	1,031,381
Market Making	3	245,506	1	73,696
With FIs other than banks				
Hedging	-	-	-	-
Market Making	4	2,549,209	-	-
With other entities for				
Hedging	-	-	-	-
Market Making	82	49,873,999	7	957,685
Total				
Hedging	2	13,639,591	8	1,031,381
Market Making	89	52,668,714	8	1,031,381
	<u>91</u>	<u>66,308,305</u>	<u>16</u>	<u>2,062,762</u>

Counterparties	2009			
	Interest Rate and Cross Currency Swaps		FX Options	
	Number of Contracts	Notional Principal (Rupees in '000)	Number of Contracts	Notional Principal (Rupees in '000)
With Banks for				
Hedging	3	13,815,695	11	1,306,596
Market Making	5	585,059	-	-
With FIs other than banks				
Hedging	-	-	-	-
Market Making	3	3,181,908	-	-
With other entities for				
Hedging	-	-	-	-
Market Making	82	47,141,605	11	1,306,596
Total				
Hedging	3	13,815,695	11	1,306,596
Market Making	90	50,908,572	11	1,306,596
	93	64,724,267	22	2,613,192

## 22.2 Maturity analysis

### Interest rate and cross currency swaps

#### Remaining maturity

	Number of Contracts	Notional Principal	2010		
			Mark to Market		Net
			Negative	Positive	
------(Rupees in '000)-----					
Upto 1 month	-	-	-	-	-
1 to 3 months	2	627,464	(740,527)	654,288	(86,239)
3 to 6 months	1	65,962	(104,325)	66,977	(37,348)
6 months to 1 Year	13	1,141,821	(1,602,326)	1,177,588	(424,738)
1 to 2 Years	17	1,875,725	(2,219,911)	1,845,845	(374,066)
2 to 3 Years	40	20,333,221	(25,764,229)	20,622,742	(5,141,487)
3 to 5 Years	14	30,575,356	(7,307,138)	6,546,543	(760,595)
5 to 10 years	4	11,688,756	(12,928,945)	12,365,409	(563,536)
Above 10 Years	-	-	-	-	-
	91	66,308,305	(50,667,401)	43,279,392	(7,388,009)

#### Remaining maturity

	Number of Contracts	Notional Principal	2009		
			Mark to Market		Net
			Negative	Positive	
------(Rupees in '000)-----					
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 months to 1 Year	5	1,634,097	(1,774,471)	1,397,159	(377,312)
1 to 2 Years	6	1,267,340	(1,810,975)	1,251,036	(559,939)
2 to 3 Years	18	3,473,776	(4,780,858)	3,459,632	(1,321,226)
3 to 5 Years	62	51,531,604	(35,465,956)	28,960,428	(6,505,528)
5 to 10 years	2	6,817,450	(8,004,400)	7,153,151	(851,249)
Above 10 Years	-	-	-	-	-
	93	64,724,267	(51,836,660)	42,221,406	(9,615,254)

22.3 As at December 31, 2010 the fair value of derivative financial instruments has been determined using valuation techniques with significant inputs such as forecasted market interest rates and foreign exchange rates. The determination of the fair value of these instruments is most sensitive to these key assumptions. Any significant change in these key assumptions may have an effect on the fair value of these derivative financial instruments.

		2010	2009
		(Rupees in '000)	
<b>23</b>	<b>MARK-UP/ RETURN/ INTEREST EARNED</b>		
a)	On loans and advances to		
	Customers	3,120,868	5,154,586
	Financial Institutions	-	-
b)	On investments in		
	Held for trading securities	1,106,373	684,446
	Available for sale securities	3,367,930	2,907,446
c)	On deposits with financial institutions	10,618	44,392
d)	On securities purchased under resale agreements (reverse repo)	1,768,186	1,192,507
		<u>9,373,975</u>	<u>9,983,377</u>
<b>24</b>	<b>MARK-UP / RETURN / INTEREST EXPENSED</b>		
	Deposits	3,864,783	4,129,882
	Securities sold under repurchase agreements (repo)	201,424	266,911
	Borrowings (including LTF - EOP)	174,883	321,258
		<u>4,241,090</u>	<u>4,718,051</u>
<b>25</b>	<b>INCOME FROM DEALING IN FOREIGN CURRENCIES</b>		
	It includes income from foreign exchange dealings, forward settled interbank deals, revaluation of on balance sheet exposure and foreign exchange impact with respect to derivative contracts.		
<b>26</b>	<b>GAIN / (LOSS) ON SALE OF SECURITIES</b>	<b>Note</b>	<b>2010</b>
			<b>2009</b>
			<b>(Rupees in '000)</b>
	Federal Government Securities		
	Market Treasury Bills		8,297
	Pakistan Investment Bonds		275,649
	Shares - listed	26.1	(26,721)
			121,539
			<u>349,037</u>
			<u>397,188</u>
<b>26.1</b>	This represents income in respect of 47,491 (2009: Nil) shares of VISA Inc. sold during the year.		
<b>27</b>	<b>OTHER INCOME</b>	<b>Note</b>	<b>2010</b>
			<b>2009</b>
			<b>(Rupees in '000)</b>
	Credit losses recovered		174,907
	Net profit on sale of property and equipment		206,165
	Income from derivative contracts	27.1	66,739
	Others		(1,692,231)
			(737,188)
			<u>11,266</u>
			<u>(479,839)</u>
<b>27.1</b>	This includes funding cost of FX swaps amounting to Rs. 1.9 billion (2009: Rs. 1.1 billion).		
<b>28</b>	<b>ADMINISTRATIVE EXPENSES</b>	<b>Note</b>	<b>2010</b>
			<b>2009</b>
			<b>(Rupees in '000)</b>
	Salaries, allowances, etc.		1,083,879
	Charge for defined benefit plan	33.8	43,246
	Contribution to defined contribution plan	34	49,885
	Head office / Regional office expenses		53,388
	Rent, taxes, insurance, electricity, etc.		219,697
	Contract Services		106,858
	Legal and professional charges		451,413
	Communications		560,147
	Repairs and maintenance		537,784
	Travelling and conveyance		521,674
	Rentals of operating leases		24,132
	Stationery and printing		25,948
	Advertisement and publicity		195,030
	Support services from regional offices		220,873
	Donations	28.1	87,318
	Auditors' remuneration	28.2	117,009
	Depreciation	11.2	97,626
	Amortization	11.3	-
	Restructuring expense		2,987
	Others		51,210
			67,256
			3,509
			287,463
			270,604
			4,283
			1,459
			3,800
			1,925
			372,147
			489,368
			51,180
			48,712
			96,430
			(16,991)
			<u>219,859</u>
			<u>179,645</u>
			<u>3,879,891</u>
			<u>3,987,382</u>

- 28.1 The Bank or any of its directors or their spouses had no interest in the donees. Details of donations made during the year are as follows:

	2010 (Rupees in '000)	2009 (Rupees in '000)
	<b>Note</b>	
Edhi Foundation	3,500	-
HOPE Foundation	783	-
Sarhad Rural Support Programme	-	1,459
	<u>4,283</u>	<u>1,459</u>
<b>28.2 Auditors' remuneration</b>		
Audit fee	1,450	1,350
Fee for the half yearly review	450	400
Special certifications and sundry advisory services	1,700	125
Out-of-pocket expenses	200	50
	<u>3,800</u>	<u>1,925</u>
<b>29 OTHER CHARGES</b>		
Penalties imposed by State Bank of Pakistan	832	13,490
Worker's Welfare Fund	54,297	111,673
Loss on sale of mortgage portfolio	29.1 110,481	-
	<u>165,610</u>	<u>125,163</u>

- 29.1 During the year the Bank sold its mortgage portfolio to Bank Islami Limited as part of its restructuring initiatives. Details of the transaction are as under:

	Rupees in '000
Gross advances	953,272
Specific provision - note 10.3	(120,201)
Carrying value of portfolio	833,071
Sale consideration	722,590
Loss on sale	<u>110,481</u>

	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>30 TAXATION</b>		
<b>For the year</b>		
Current	1,156,019	1,305,350
Deferred	(330,828)	(1,299,009)
	<u>825,191</u>	<u>6,341</u>
<b>For prior years</b>		
Current	(405,021)	(841,163)
Deferred	353,895	1,048,437
	<u>(51,126)</u>	<u>207,274</u>
	<u>774,065</u>	<u>213,615</u>

The income tax assessments of the Bank have been finalised upto and including tax year 2010. Matters of disagreement exist between the Bank and the tax authorities for various assessments / tax years and are pending with the Commissioner of Income Tax (Appeals) and the Income Tax Appellate Tribunal (ITAT).

The issues mainly relate to addition of mark-up in suspense to income, bad debts written off and disallowances relating to various profit and loss expenses and payments for support services from regional office. However, adequate provision has been made in these financial statements in respect of these matters.

	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>30.1 Relationship between tax expense and accounting profit</b>		
Profit before taxation	<u>1,197,003</u>	<u>302,588</u>
Taxation at the applicable tax rate of 35% (2009: 35%)	418,951	105,906
Taxation effect of expenses that are not deductible in determining taxable income	100,903	130,356
Taxation effect of income chargeable to tax at reduced rates	(7,990)	-
Taxation effect of certain expenses previously treated as non deductible allowed in the current year in determining taxable income	-	(67,041)
Taxation effect of provision against consumer and SME advances in excess of 5% of such advances	245,157	-
Others (including prior period reversal)	17,044	44,394

774,065

213,615

	Note	2010	2009
<b>31 CASH AND CASH EQUIVALENTS</b>		<b>(Rupees in '000)</b>	
Cash and balance with treasury banks	6	7,001,789	7,706,034
Balance with other banks	7	1,396,604	2,735,953
Overdrawn accounts	16.2	-	(41,618)
		<u>8,398,393</u>	<u>10,400,369</u>
<b>32 STAFF STRENGTH</b>		<b>(Number of employees)</b>	
Permanent		621	746
Contractual basis		-	1
Bank's own staff strength at the end of the year		<u>621</u>	<u>747</u>
Outsourced		732	875
Total staff strength at the end of the year		<u>1,353</u>	<u>1,622</u>
<b>33 DEFINED BENEFIT PLAN</b>			
<b>33.1 General description</b>			
All permanent employees with a minimum service period of five years or more with the Bank are entitled to end of service benefits calculated at 130 percent of basic salary for each year of service with the Bank. The assets of the funded plan are held independently in a separate trustee administered fund.			
<b>33.2 Principal actuarial assumptions</b>			
The latest actuarial valuation was carried out as at December 31, 2010 using the Projected Unit Credit Method. The main assumptions used for the actuarial valuation were as follows:			
		<b>2010</b>	<b>2009</b>
Discount rate		14%	13.25%
Estimated return on plan assets of the fund - per annum		13%	13%
Estimated salary increase - per annum		11%	10%
Estimated service length of the employees		9 years	11 years
<b>33.3 Reconciliation of payable to defined benefit plan</b>	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>(Rupees in '000)</b>	
Present value of defined benefit obligations		221,720	185,911
Fair value of plan assets		(96,350)	(108,250)
Net actuarial losses not recognised		(54,046)	(16,548)
		<u>71,324</u>	<u>61,113</u>
<b>33.4 Movement in payable to defined benefit plan</b>			
Opening balance		61,113	53,568
Charge for the year	33.8	43,246	49,628
Banks contribution to fund made during the year		(33,035)	(34,140)
Benefits paid on behalf of fund		-	(7,943)
Closing balance		<u>71,324</u>	<u>61,113</u>
<b>33.5 Movement in defined benefit obligation</b>			
Obligations at the beginning of the year		185,911	185,670
Current service cost		21,781	32,359
Interest cost		23,518	27,851
Benefits paid by the fund		(52,914)	(56,908)
Curtailed gain		-	(18,752)
Settlement loss		-	17,226
Actuarial (gains) / losses on obligation		43,424	(1,535)
Obligations at the end of the year		<u>221,720</u>	<u>185,911</u>
<b>33.6 Movement in fair value of plan asset</b>			
Opening balance		108,250	104,211
Expected return on plan assets		14,951	13,547
Contribution by the Bank		33,035	34,140
Benefits paid by the fund		(52,914)	(56,908)
Benefits paid by the Bank on behalf of fund		-	7,943
Actuarial gain / (loss) on plan assets		(6,972)	5,317
Fair value at the end of the year		<u>96,350</u>	<u>108,250</u>

	2010	2009
	(Rupees in '000)	
<b>33.7 Plan assets consists of the following</b>		
Pakistan Investment Bonds.	91,408	108,250
Cash and bank	4,942	-
	<u>96,350</u>	<u>108,250</u>
<b>33.8 Charge for defined benefit plan</b>		
Current service cost	21,781	32,359
Interest cost	23,518	27,851
Expected return on plan assets	(14,951)	(13,547)
Net actuarial (gains) / losses recognised	12,898	4,491
Curtailement gain	-	(18,752)
Settlement loss	-	17,226
	<u>43,246</u>	<u>49,628</u>
<b>33.9 Actual return on plan assets</b>	<u>7,980</u>	<u>18,864</u>
<b>33.10 Five year data on deficit of the plan and experience adjustments</b>		

	2010	2009	2008	2007	2006
	(Rupees '000)				
Present value of defined benefit obligation	(221,720)	(185,911)	(185,670)	(299,510)	(222,913)
Fair value of plan assets	96,350	108,250	104,211	150,289	122,568
Deficit	<u>(125,370)</u>	<u>(77,661)</u>	<u>(81,459)</u>	<u>(149,221)</u>	<u>(100,345)</u>
Experience adjustments on plan liabilities [loss / (gain)]	43,424	(1,535)	(97,925)	61,131	11,580
Experience adjustments on plan assets / [loss / (gain)]	6,972	(5,317)	12,166	(3,371)	13,637

**33.11** The expected contribution to the gratuity fund for the next year commencing January 1, 2011 is Rs. 46.306 million (2009: Rs. 33.035 million for the year commencing January 1, 2010).

#### **34 DEFINED CONTRIBUTION PLAN**

All permanent employees of the Bank are entitled to end of service benefits through a recognised provident fund, whereby the Bank and all permanent employees are required to make monthly contributions to the scheme at 10 percent of basic salary.

During the year, the Bank contributed Rs 49.885 million (2009: Rs 53.388 million) in respect of the defined contribution plan.

#### **35 SHARE-BASED INCENTIVE PLANS**

The Bank offers a number of share based incentive plans to attract, retain and motivate employees, to compensate them for their contributions to the Bank, and to encourage employee stock ownership.

##### **35.1 Stock option programme**

Information with respect to stock option activity under the stock option programme is as follows:

	2010		2009	
	Options (Number of shares)	Weighted average share price \$ USD	Options (Number of shares)	Weighted average share price \$ USD
<b>Outstanding at the beginning of the year</b>	74,185	10.14	23,478	40.93
Granted	-	-	63,955	4.08
Forfeited	(1,129)	4.08	(2,978)	47.22
Exercised	-	-	-	-
Transfers	(15,511)	5.31	-	-
Expired	(8,429)	48.61	(10,270)	32.05
<b>Outstanding at the end of the year</b>	<u>49,116</u>	<u>5.20</u>	<u>74,185</u>	<u>10.14</u>
<b>Exercisable at the end of year</b>	<u>17,502</u>	<u>7.22</u>	<u>10,230</u>	<u>48.01</u>

No share options were exercised during the year (2009: No option exercised).



- 35.2 The following table summarises the information about stock options outstanding under the programme at December 31, 2010:

Range of exercise prices	Options outstanding			Options exercisable	
	Shares Outstanding	Weighted average contractual life remaining	Weighted average exercise price \$ USD	Number Exercisable	Weighted average exercise price \$ USD
< \$30.00	47,775	4.83	4.08	16,161	4.08
\$30.00 - \$39.99	-	-	-	-	-
\$40.00 - \$49.99	1,341	0.69	45.08	1,341	45.08
\$50.00 and above	-	-	-	-	-
	<u>49,116</u>	<u>4.72</u>	<u>5.20</u>	<u>17,502</u>	<u>7.22</u>

The following table summarises the information about stock options outstanding under the programme at December 31, 2009:

Range of exercise prices	Options outstanding			Options exercisable	
	Shares Outstanding	Weighted average contractual life remaining	Weighted average exercise price \$ USD	Number Exercisable	Weighted average exercise price \$ USD
< \$30.00	63,955	5.83	4.08	-	-
\$30.00 - \$39.99	-	-	-	-	-
\$40.00 - \$49.99	10,230	0.36	48.01	10,230	48.01
\$50.00 and above	-	-	-	-	-
	<u>74,185</u>	<u>5.08</u>	<u>10.14</u>	<u>10,230</u>	<u>48.01</u>

### 35.3 Stock award programme

The Bank offers a stock award programme, under which shares are awarded in the form of restricted or deferred stock to certain employees. During the applicable vesting period, the shares awarded cannot be sold or transferred by the employees, and the award is subject to cancellation if the employment is terminated. Stock awards granted generally vest over a four year period.

Information with respect to unvested stock awards is as follows:

	2010		2009	
	Shares	Weighted average share price \$ USD	Shares	Weighted average share price \$ USD
<b>Unvested at the beginning of the year</b>	54,111	19.27	39,143	32.92
Awards	54,701	3.52	27,007	4.67
Cancellations	-	-	(257)	31.29
Deletions	-	-	-	-
Vestings	(18,534)	25.51	(11,782)	37.45
<b>Unvested at the end of the year</b>	<u>90,278</u>	<u>8.44</u>	<u>54,111</u>	<u>19.27</u>

- 35.4 Net reversal of Rs. 32.858 million (2009: Rs. 16.930 million) was recognised in equity arising mainly due to fair value adjustment as required by IFRS 2 - Share Based Payment. As of December 31, 2010 recognised liability for outstanding share based incentive plans was Rs. 73.566 million (2009: Rs. 56.031 million). Fair value of shares has been determined on the basis of market value of shares of Citigroup Inc. as at December 31, 2010. i.e. \$ USD 4.73 (2009: \$ USD 3.31) per share.

### 36 COMPENSATION OF CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive Officer		Executives	
	2010	2009	2010	2009
	(Rupees in '000)			
Managerial remuneration	33,793	32,642	485,104	439,394
Charge for defined benefit plan	1,067	851	31,844	26,075
Contribution to defined contribution plan	1,333	1,022	38,228	31,302
Rent and house maintenance	5,333	4,088	159,965	127,009
Utilities	1,874	2,169	80,400	77,035
Medical	93	143	7,587	6,787
Others	1,459	6,781	17,025	12,528
	<u>44,952</u>	<u>47,696</u>	<u>820,153</u>	<u>720,130</u>
Number of persons	<u>1</u>	<u>1</u>	<u>313</u>	<u>280</u>

The Bank also provides free use of furnished accommodation to the Chief Executive and bank maintained cars to the Chief Executive and certain Executives.

### 37 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 traded investments other than those classified as held to maturity is based on quoted market price. Fair value of unquoted equity investments is determined on the basis of break-up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.4 to these financial statements.

The repricing profile, effective rates and maturity are stated in note 41 to these financial statements.

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

### 38 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The Chief Operating Decision Maker (CODM) is the Managing Director and Citi Country Officer of the Bank. The segment analysis with respect to business activity presented to the CODM is as follows:

	2010			
	Trading & Sales	Retail Banking	Corporate Banking	Total
	----- (Rupees in '000) -----			
Total Income	4,365,685	3,278,836	3,783,152	11,427,673
Total Expenses	2,261,701	5,055,612	3,687,422	11,004,735
Net Income	2,103,984	(1,776,776)	95,730	422,938
Segment Assets (Gross)	69,389,894	13,220,950	19,301,833	101,912,677
Segment Non Performing Loans	-	1,845,071	3,143,796	4,988,867
Segment Provision Required *	-	1,997,334	2,561,431	4,558,765
Segment Liabilities	14,421,510	30,351,885	43,715,045	88,488,440
Segment Return on net Assets (ROA) (%)**	3.0%	-15.8%	0.6%	0.4%
Segment Cost of funds (%)***	9.1%	5.2%	6.8%	6.1%

  

	2009			
	Trading & Sales	Retail Banking	Corporate Banking	Total
	----- (Rupees '000) -----			
Total Income	4,549,536	4,454,391	3,426,647	12,430,574
Total Expenses	1,953,599	6,514,849	3,873,153	12,341,601
Net Income	2,595,937	(2,060,458)	(446,506)	88,973
Segment Assets (Gross)	53,029,921	14,132,647	25,652,293	92,814,861
Segment Non Performing Loans	-	1,065,100	2,092,976	3,158,076
Segment Provision Required *	-	1,325,697	1,708,364	3,034,061
Segment Liabilities	10,335,616	32,468,358	38,451,411	81,255,385
Segment Return on net Assets (ROA) (%)**	4.9%	-16.1%	-1.9%	0.1%
Segment Cost of funds (%)***	12.0%	6.0%	6.6%	6.6%

\* The provision against each segment represents provision held against advances, investments and other assets.

\*\* Segment ROA = Net income / (Segment Assets - Segment Provisions)

\*\*\* Segment cost of funds have been computed based on the average balances.

### 39 RELATED PARTY TRANSACTIONS

Transactions with related parties comprise of transactions in the normal course of business with other branches of Citibank, N.A. outside Pakistan, other direct and indirect subsidiaries of Citigroup, retirement benefit plans and key management personnel of the Bank.

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to executives is determined in accordance with the terms of their appointment.

**39.1** Details of significant transactions with related parties and balances with them as at year end are as follows:

	Balance as at December 31, 2009	Net placements / disbursements / deposits / transfers	Net settlements / repayments / withdrawals / transfers	Balance as at December 31, 2010
------(Rupees in '000)-----				
<b>Loans and Advances</b>				
Key management personnel	4,141	3,236	(6,995)	382
<b>Deposits</b>				
Associated undertakings	338,301	966,386	(685,892)	618,795
Key management personnel	2,464	35,347	(30,505)	7,306
Staff retirement benefit funds	20,229	724,779	(731,351)	13,657
			<b>2010</b>	<b>2009</b>
			------(Rupees '000)-----	
Nostro balances / placements with Citibank Branches outside Pakistan			1,312,499	2,654,894
Unremitted head office expenses			544,193	728,818
Payable for expenses and share based payment			119,088	97,448
Payable to defined benefit plan			71,324	61,113
Claims receivable from Citi Global Insurance Reserve Plan			-	3,901
<b>Income / expense for the year</b>				
Mark-up / return / interest earned			10,162	16,579
Mark-up / return / interest expensed			1,961	28,134
Other income			7,545	19,215
Regional expenses for support services			287,463	270,604
Head office expenses			219,697	106,858
Remuneration paid to key management personnel			59,273	63,096
Contribution to staff retirement benefit funds			82,920	95,471
Sale of fixed assets			1,008	7

**40 CAPITAL-ASSESSMENT AND ADEQUACY**

**40.1 Capital Management**

The Bank manages its capital under the Basel II Standardised approach. The Bank has adopted Standardized Approach for credit and market risk whereas Basic Indicator Approach has been adopted for the operational risk under the Basel II accord.

The objective of managing capital is to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns to investors by pricing products and services commensurately with the level of risk. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

### Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 07 dated April 15, 2009 has prescribed the minimum paid-up capital (net of losses) for Banks / Development Finance Institutions to be raised to Rs.10 billion by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs. 10 billion capital (net of losses) by the end of the financial year 2013. However, branches of foreign banks operating in Pakistan whose head office holds paid-up capital (free of losses) of atleast US\$ 300 million, have a CAR of 8% or minimum prescribed by the home regulator and have prescribed number of branches, are allowed to maintain lower amount with prior approval of SBP. In this regard the Bank has obtained SBP's approval to maintain minimum required capital of Rs. 6 billion (net of losses) effective December 31, 2009.

The Head office capital account of the Bank for the year ended December 31, 2010 stands at Rs 6.813 billion and is in compliance with the SBP requirement for the said year. In addition the banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 10% of the risk weighted exposures of the Bank. The Bank's CAR as at December 31, 2010 was 15.66% of its risk weighted exposure.

#### 40.2 Capital Structure

The Bank's regulatory capital is analyzed into three tiers:

- Tier I capital, which includes head office capital under sub-section 2 of section 13 of the Banking Companies Ordinance, 1962, other reserves and retained profit. Goodwill, book value of intangibles and revaluation deficit on securities are deducted from Tier I capital.
- Tier II capital includes general provisions or general reserves for loan losses (up to a maximum of 1.25% of risk weighted assets) and revaluation reserve on equity investments after deduction of deficit on available for sale securities (up to a maximum of 45% of balance).
- Tier III capital - the Bank has no eligible Tier III capital.

The total of Tier II and Tier III capital has to be limited to Tier I capital.

The Bank has complied with all externally imposed capital requirements throughout the period.

The Capital of the Bank can be analyzed as follows:

<b>Regulatory capital base</b>	<b>2010</b>	<b>2009</b>
	------(Rupees in '000)-----	
<b>Tier I Capital</b>		
Head office capital account	6,812,671	6,780,848
Reserves	125,573	92,715
Unappropriated / unremitted profits (net of losses)	2,201,511	1,778,573
	9,139,755	8,652,136
Less: Deductions		
- Book value of intangibles *	(131,439)	(188,665)
- Deficit on account of revaluation of investments held in AFS category	(421,974)	(194,955)
	(553,413)	(383,620)
<b>Total Tier I Capital</b>	<b>8,586,342</b>	<b>8,268,516</b>
<b>Tier II Capital</b>		
General Provisions for loan losses subject to 1.25% of total risk weighted assets	177,362	336,850
<b>Total Tier II Capital</b>	<b>177,362</b>	<b>336,850</b>
<b>Eligible Tier III Capital</b>	-	-
<b>Total Regulatory Capital Base (I+II+III)</b>	<b>8,763,704</b>	<b>8,605,366</b>

\* includes Rs. Nil (2009: Rs 6.046 million) which pertains to softwares included in capital work-in-progress.

#### 40.3 Capital Adequacy

Capital is generally generated via earnings from operating businesses. This is augmented through investment from the head office. Any excess capital is remitted back. The Capital Management process is governed by the Bank's Asset & Liability Committee (ALCO). ALCO is responsible for managing the Bank's capital position vis-à-vis internal as well as regulatory requirements.

Capital is used primarily to support asset growth in the Bank's businesses and is sufficient to absorb unexpected market, credit or operational losses.

For credit risk, the capital requirement is based on the risk assessment (hereinafter called credit rating) made by External Credit Assessment Institutions (ECAIs) recognized as eligible by SBP for capital adequacy purposes. Bank then assigns a risk weight individually to all its on-balance sheet and off-balance sheet exposures. Risk weights are based on external rating grade or a fixed weight that is broadly aligned with the likelihood of counterparty default.

For market risk, capital is allocated in respect of the exposure to risks deriving from changes in interest rates, in the Banks' trading book, and in respect of exposure to risks deriving from changes in foreign exchange rates in the overall banking activity.

On balance sheet assets held in the trading book are subject to only market risk capital requirements and are not subject to credit risk capital requirement. On balance sheet assets held outside trading book and funded by another currency and unhedged for foreign exchange risk are subject to both credit and market risk capital requirement. Derivatives, unless they are contracted to hedge positions in the banking book are considered part of trading book and are subject to both credit and market risk capital requirement.

Under the Basic Indicator Approach, the capital charge for operational risk is a fixed percentage (12.5%) of average positive annual gross income of the Bank over the past three years. Figures for any year in which annual gross income is negative or zero, is excluded from both the numerator and denominator when calculating the average.

The capital requirements for the banking group under the major risk categories is indicated below:

	Capital Requirements		Risk Weighted Assets	
	2010	2009	2010	2009
	----- (Rupees in '000) -----			
<b>Credit Risk</b>				
<b>Portfolios subject to standardized approach</b>				
On Balance Sheet Items:				
Cash	-	-	-	-
Claims on Government of Pakistan, Sovereign and State Bank of Pakistan	2,212	3,733	22,117	37,329
Claims on Public sector entities in Pakistan	125,140	124,106	1,251,402	1,241,057
Claims on Banks	36,650	105,246	366,501	1,052,463
Claims on Corporate	1,201,050	1,505,818	12,010,500	15,058,178
Claims categorised as retail portfolio	329,222	611,432	3,292,221	6,114,320
Claims fully secured by residential property	28,246	74,414	282,456	744,136
Past due loans	65,352	49,889	653,519	498,887
Operating fixed assets	73,420	107,779	734,201	1,077,791
All Other assets	399,670	423,441	3,996,697	4,234,409
	<u>2,260,962</u>	<u>3,005,858</u>	<u>22,609,614</u>	<u>30,058,570</u>
Off Balance Sheet items:				
Direct credit substitutes and other commitments	899,274	436,252	8,992,735	4,362,516
Performance related contingencies	76,303	42,143	763,030	421,430
Trade related contingencies and shipping guarantees	74,735	105,742	747,348	1,057,416
Other commitments that can be unconditionally cancelled	-	-	-	-
Outstanding foreign exchange contracts	75,169	62,803	751,685	628,026
Outstanding derivatives contracts	267,738	177,564	2,677,375	1,775,640
	<u>1,393,219</u>	<u>824,504</u>	<u>13,932,173</u>	<u>8,245,028</u>
Credit risk-weighted exposures	<u>3,654,181</u>	<u>3,830,362</u>	<u>36,541,787</u>	<u>38,303,598</u>
<b>Market Risk</b>				
<b>Capital Requirement for portfolios subject to Standardized Approach</b>				
Interest rate risk	309,699	249,813	3,096,988	2,498,125
Foreign exchange risk	162,081	51,264	1,620,812	512,638
Equity position risk etc.	-	-	-	-
Market risk-weighted exposures	<u>471,780</u>	<u>301,077</u>	<u>4,717,800</u>	<u>3,010,763</u>
<b>Operational Risk</b>				
<b>Capital Requirement for operational risks subject to Basic Indicator Approach</b>				
	<u>1,471,351</u>	<u>1,584,472</u>	<u>14,713,506</u>	<u>15,844,719</u>
<b>Total</b>	<u>5,597,312</u>	<u>5,715,911</u>	<u>55,973,093</u>	<u>57,159,080</u>

<b>Capital Adequacy Ratio</b>	<b>2010</b>	<b>2009</b>		
	----- <b>(Rupees in '000)</b> -----			
Total eligible regulatory capital held (a)	<u>8,763,704</u>	<u>8,605,366</u>		
Total risk weighted assets (b)	<u>55,973,093</u>	<u>57,159,080</u>		
Capital Adequacy Ratio [(a)/(b)x100]	<table border="1"><tr><td>15.66%</td></tr></table>	15.66%	<table border="1"><tr><td>15.06%</td></tr></table>	15.06%
15.66%				
15.06%				

#### 41 RISK MANAGEMENT

The Head office capital account of the Bank for the year ended December 31, 2010 stands at Rs 6.813 billion and is in compliance with the SBP requirement for the said year. In addition the banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 10% of the risk weighted exposures of the Bank. The Bank's CAR as at

- These standards are governed by specific policies which are defined and documented.
- Risks are measured using defined methodologies.
- Limits for credit, market and liquidity risks are approved by Risk Management, which is "independent" of the business areas.
- Dedicated risk management and control functions are in place for credit (Corporate and Consumer), market, liquidity and operational risks.

Additionally, Risk Management maintains oversight of the regulatory, economic, reputational and legal risks associated with the above-mentioned risk areas.

##### 41.1 Credit risk

This represents the potential for financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations arising out of activities which include lending, sales and trading, derivatives, securities transaction and settlement.

##### 41.1.1 Corporate credit risk

This risk is managed through the following:

- Single centre of control for each credit relationship that coordinates credit activities with the borrower.
- Documented target market and portfolio concentration limits that establish the credit appetite and minimum acceptable standards (both borrower and industry specific), provide portfolio diversification and maintain risk / capital alignment.
- Consistent standards for credit origination, documentation and remedial management.
- Maintenance of accurate and consistent borrower risk ratings through use of statistical models (periodically validated) or approved scoring methodologies after taking into consideration the available credit risk mitigants.
- Periodic stress testing of the credit portfolio based on emerging or expected risk events.

##### 41.1.2 Consumer credit risk

Independent credit risk management is responsible for establishing the Consumer credit policy, approving specific policies and procedures, providing ongoing assessment of Consumer portfolio risk and approving new products. The Consumer Credit Cycle management entails the following:

- Product approval.
- Consistent and prudent underwriting standards.
- Robust account management policies to manage the portfolio.
- Efficient collection and recovery unit to ensure acceptable loss norms.
- Reliable and accurate Management Information System to support informed decision making.
- Effective anti-fraud controls to minimize fraud losses.

##### 41.1.3 Credit Risk - General Disclosures Basel II Specific

The Bank has adopted standardised approach of Basel II for calculation of capital charge against credit risk in line with SBP requirement.

#### 41.1.4 Credit Risk: Disclosures for portfolio subject to the Standardised Approach

Under standardized approach the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. In this connection, Bank utilizes the credit ratings assigned by ECAIs and has recognized agencies such as PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company - Vital Information System), Moody's and Standard & Poors which are also recognized by the SBP.

##### Types of exposures and ECAI's used:

Exposures	JCR-VIS	PACRA	Standard & Poors	Moody's
Corporate	✓	✓	N/A	N/A
Banks	✓	✓	✓	✓
SME's	✓	✓	N/A	N/A
Public Sector Entities (PSEs)	✓	✓	N/A	N/A

##### Use of ECAI Ratings

The Bank prefers solicited ratings over unsolicited ratings at all times, owing to the greater degree of accuracy (in general) associated with solicited ratings as compared to unsolicited ratings. Unsolicited ratings may only be used in cases where a solicited rating is not available.

##### Mapping to SBP Rating Grades

The selected final ratings (after application of the principles stated above) for all exposures need to be translated to the standard rating grades given by the SBP. In this regard, the mapping tables to be used for converting ECAI ratings to SBP rating grades are given below:

##### Long – Term Rating Grades Mapping

SBP Rating grade	Fitch	Moody's	S & P	PACRA	JCR-VIS	ECA Scores
1	AAA	Aaa	AAA	AAA	AAA	0
	AA+	Aa1	AA+	AA+	AA+	1
	AA	Aa2	AA	AA	AA	
2	AA-	Aa3	AA-	AA-	AA-	
	A+	A1	A+	A+	A+	2
	A	A2	A	A	A	
3	A-	A3	A-	A-	A-	
	BBB+	Baa1	BBB+	BBB+	BBB+	3
	BBB	Baa2	BBB	BBB	BBB	
4	BBB-	Baa3	BBB-	BBB-	BBB-	
	BB+	Ba1	BB+	BB+	BB+	4
	BB	Ba2	BB	BB	BB	
5	BB-	Ba3	BB-	BB-	BB-	
	B+	B1	B+	B+	B+	5
	B	B2	B	B	B	6
6	B-	B3	B-	B-	B-	
	CCC+ and below	Caa1 and below	CCC+ and below	CCC CC C	CCC CC C	7
					D	

##### Short – Term Rating Grades Mapping

SBP Rating Grade	Fitch	Moody's	S & P	PACRA	JCR-VIS
S1	F1	P-1	A-1+	A-1+	A-1+
			A-1	A-1	A-1
S2	F2	P-2	A-2	A-2	A-2
S3	F3	P-3	A-3	A-3	A-3
S4	Others	Others	Others	Others	Others

#### 41.1.5 Credit Exposures subject to Standardised approach

For exposure amounts after risk mitigation subject to the standardized approach, amount of bank's/DFI's outstanding (rated & unrated ) in each risk bucket as well as those that are deducted are as follows:

Exposures	2010			2009			
	Rating Category	Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
------(Rupees '000)-----							
Corporate	1	2,790,625	(28,314)	2,762,311	5,573,315	(33,248)	5,540,067
	2	4,693,636	-	4,693,636	4,265,519	(58,112)	4,207,407
	3,4	138,634	-	138,634	399,269	-	399,269
	Unrated	49,772,011	(40,038)	49,731,973	51,235,904	(139,431)	51,096,473
Banks	1	25,919,001	(25,097,517)	821,484	13,422,242	(12,201,775)	1,220,467
	2	10,545,666	-	10,545,666	9,609,528	-	9,609,528
	3	-	-	-	568,689	-	568,689
	5	-	-	-	-	-	-
	Unrated	667,224	-	667,224	1,393,906	-	1,393,906
Sovereigns etc		37,869,390	-	37,869,390	34,340,775	-	34,340,775
	4,5	22,117	-	22,117	37,329	-	37,329
Public sector entities	1	11,420,457	-	11,420,457	9,522,122	-	9,522,122
	2,3	-	-	-	-	-	-
	Unrated	2,312,758	(30)	2,312,728	2,548,250	(61)	2,548,189
Retail	Unrated	10,753,582	(140,981)	10,612,601	18,792,215	(284,202)	18,508,013

CRM= Credit Risk Mitigation

#### 41.1.6 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank has adopted the Comprehensive Approach of Credit Risk Mitigation for the Banking Book. In instances where the Bank's exposure on an obligor is secured by collateral that conforms to the eligibility criteria under the Comprehensive Approach of CRM, then the Bank reduces its exposure under that particular transaction by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement i.e. risk weight of the collateral instrument securing the exposure is substituted for the risk weight of the counter party.

The Bank accepts cash, lien on deposits, government securities under the Comprehensive Approach of Credit Risk Mitigation. The Bank has in place detailed guidelines with respect to valuation and management of various collateral types. In order to obtain the credit risk mitigation benefit, the Bank uses realizable value of eligible collaterals to the extent of outstanding exposure.

Counterparty ratings are obtained through the two local SBP authorized External Credit Rating Agencies; JCR VIS and PACRA and other international sources such as Standard and Poor's and Moody's. Credit risk assessment and the continuous monitoring of counterparty and portfolio credit exposures is carried out by the Credit Risk Management function.

The wholesale portfolio, which includes corporate and commercial are ideally collateralized by cash equivalents, fixed and current assets including property plant and equipment and land. Loans to individuals are typically secured by autos for car loans and private or income producing real estate is secured by a mortgage over the relevant property.

#### 41.1.7 Credit concentration risk

Credit concentration risk arises mainly due to concentration of exposures under various categories viz. industry, geography, and single/group borrower exposures. Within credit portfolio, as a prudential measure aimed at better risk management and avoidance of concentration of risks, the SBP has prescribed regulatory limits on banks' maximum exposure to single borrowers and group borrowers.



#### 41.1.8 Segmental information

##### 41.1.8.1 Segments by class of business

	-----2010-----					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Food manufacturing	981,309	4.14	1,043,373	1.53	328,343	1.41
Textile	5,567,308	23.46	59,348	0.09	120,130	0.52
Chemical and pharmaceuticals	1,260,768	5.31	7,968,945	11.67	3,946,712	16.97
Cement	1,868,063	7.87	3,543	0.01	-	-
Footwear and Leather garments	147,262	0.62	87,206	0.13	-	-
Automobile and transportation equipment	643,082	2.71	34,384	0.05	154,481	0.66
Electronics and electrical appliances	58,497	0.25	1,805,033	2.64	206,296	0.89
Tobacco	97,918	0.41	20,977	0.03	135,908	0.58
Power (electricity), Gas, Water, Sanitary	1,501,865	6.33	-	-	95,274	0.41
Wholesale and Retail Trade	100,675	0.42	274,014	0.40	349	-
Transport, Storage and Communication	573,458	2.42	14,100,482	20.64	3,381,817	14.54
Financial	647,033	2.73	3,025,863	4.43	4,035,192	17.36
Individuals	7,013,806	29.56	28,766,875	42.12	-	-
Others	3,270,160	13.77	11,114,771	16.26	10,847,442	46.66
	<u>23,731,204</u>	<u>100.00</u>	<u>68,304,814</u>	<u>100.00</u>	<u>23,251,944</u>	<u>100.00</u>

	-----2009-----					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Food manufacturing	1,307,717	4.19	741,260	1.27	775,147	4.02
Textile	5,556,056	17.81	42,161	0.07	160,345	0.83
Chemical and pharmaceuticals	2,869,185	9.19	3,255,029	5.60	4,505,456	23.38
Cement	1,227,950	3.94	4,110	0.01	9,754	0.05
Footwear and Leather garments	387,279	1.24	6,670	0.01	-	-
Automobile and transportation equipment	1,066,500	3.42	11,262	0.02	26,461	0.14
Electronics and electrical appliances	143,454	0.45	1,410,828	2.43	8,967	0.05
Tobacco	1,715	0.01	513,493	0.87	33,792	0.18
Power (electricity), Gas, Water, Sanitary	891,429	2.86	-	-	4,445,069	23.07
Wholesale and Retail Trade	404,821	1.30	-	-	16,323	0.08
Transport, Storage and Communication	1,054,009	3.38	7,261,095	12.49	579,208	3.01
Financial	622,273	1.99	3,341,052	5.75	8,343,978	43.30
Individuals	11,312,402	36.25	31,344,755	53.91	-	-
Others	4,360,063	13.97	10,215,489	17.57	363,974	1.89
	<u>31,204,853</u>	<u>100.00</u>	<u>58,147,204</u>	<u>100.00</u>	<u>19,268,474</u>	<u>100.00</u>

##### 41.1.8.2 Segment by sector

	-----2010-----					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	474,087	2.0	83,470	0.1	1,099,544	5.0
Private	23,257,117	98.0	68,221,344	99.9	22,152,400	95.0
	<u>23,731,204</u>	<u>100.0</u>	<u>68,304,814</u>	<u>100.0</u>	<u>23,251,944</u>	<u>100.0</u>

	-----2009-----					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	441,429	1.4	116,627	0.2	1,282,043	6.7
Private	30,763,424	98.6	58,030,577	99.8	17,986,431	93.3
	<u>31,204,853</u>	<u>100.0</u>	<u>58,147,204</u>	<u>100.0</u>	<u>19,268,474</u>	<u>100.0</u>

\* Contingent liabilities for the purpose of this note includes direct credit substitutes, transaction related contingent liabilities and trade related contingent liabilities.

**41.1.8.3 Details of non-performing advances and specific provisions by class of business segment**

	-----2010-----		-----2009-----	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	----- (Rupees in '000) -----			
Textile	1,492,721	1,079,396	870,040	707,182
Chemicals and pharmaceuticals	80,545	80,545	80,545	68,744
Individuals	1,840,920	1,798,199	1,065,100	827,642
Others	1,574,681	1,351,489	1,142,391	882,438
	<u>4,988,867</u>	<u>4,309,629</u>	<u>3,158,076</u>	<u>2,486,006</u>

**41.1.8.4 Details of non-performing advances and specific provisions by sector**

Public / Government	-	-	-	-
Private	4,988,867	4,309,629	3,158,076	2,486,006
	<u>4,988,867</u>	<u>4,309,629</u>	<u>3,158,076</u>	<u>2,486,006</u>

**41.1.8.5 Geographical segment analysis**

	-----2010-----			
	Profit before taxation	Total assets employed	Net assets employed	Contingent liabilities*
	----- (Rupees in '000) -----			
Pakistan	1,197,003	97,353,912	8,865,472	23,251,944
	<u>1,197,003</u>	<u>97,353,912</u>	<u>8,865,472</u>	<u>23,251,944</u>
	-----2009-----			
	Profit before taxation	Total assets employed	Net assets employed	Contingent liabilities*
	----- (Rupees in '000) -----			
Pakistan	302,588	89,780,800	8,525,415	19,268,474
	<u>302,588</u>	<u>89,780,800</u>	<u>8,525,415</u>	<u>19,268,474</u>

\*Contingent liabilities for the purpose of this note includes direct credit substitutes, transaction related contingent liabilities and trade related contingent liabilities.

Total assets employed include intra group items of Rs.1,312.499 million (2009: Rs. 2,654.894 million).

**41.2 Market risk**

Market risk is the risk of losses arising from fluctuation in the market value of trading and non-trading portfolios. The primary sources of market risk are fluctuation in interest rates and foreign exchange rates.

Market risk is measured in accordance with the Bank's established standards, under which the business is required to establish, with approval from independent market risk management, a market risk limit framework, including risk measures, limits and controls, that clearly defines approved risk profiles and is within the parameters of the Bank's overall risk appetite. In all cases, businesses are ultimately responsible for the market risk they take and for remaining within their defined limits.

The Bank's principal measure of earnings risk to earnings from non-trading portfolios due to interest rate changes is Interest Rate Exposure (IRE). This measures the change in expected Net Interest Revenue from changes in market rates of interest. Market risk in trading portfolios is measured through a complementary set of tools, including factor sensitivities, value-at-risk and stress testing.

The Bank uses the Standardized Approach to calculate capital charge for market risk as per the current regulatory framework under Basel II. This approach covers the Bank's trading portfolios, comprising off-balance sheet transactions including derivatives and securities classified under the trading portfolio.

#### 41.2.1 Foreign exchange risk

Foreign Exchange Risk is the risk of loss resulting from adverse movement in exchange rates. The Bank's principal exchange rate related contracts are forward foreign exchange conducts, cross currency swaps and options. Non traded foreign exchange risk arises through the provision of banking products and services in foreign currency. The objectives of foreign exchange risk management function is to minimise the adverse impact of foreign exchange assets and liabilities mismatch and maximise the earnings observing the limits set by the Bank. Exchange position arising from trading activities are monitored through foreign exchange limits on aggregate and individual basis. Hedging strategies and mark to market valuations are used to mitigate exchange risk resulting from open positions. Overall exchange position risk is maintained in accordance with the regulatory requirements prescribed by the State Bank of Pakistan.

The analysis below represents the concentration of the Bank's foreign currency risk for on and off balance sheet financial instruments.

-----2010-----				
	Assets	Liabilities *	Off-balance sheet items	Net foreign currency exposure
------(Rupees in '000)-----				
United States dollar	36,996,164	41,292,865	5,881,981	1,585,280
Great Britain pound	979,220	977,637	3,544	5,127
Japanese yen	80,006	90,465	10,461	2
Euro	7,179,619	7,368,978	(395,458)	(584,817)
Swiss Francs	7,587	-	(184,150)	(176,563)
Other currencies	88,951	341,113	(357,483)	(609,645)
Foreign currency exposure	45,331,547	50,071,058	4,958,895	219,384
Pakistan rupee	52,022,365	47,282,854	(4,958,895)	(219,384)
	<u>97,353,912</u>	<u>97,353,912</u>	<u>-</u>	<u>-</u>
-----2009-----				
	Assets	Liabilities *	Off-balance sheet items	Net foreign currency exposure
------(Rupees in '000)-----				
United States dollar	39,847,344	46,221,831	5,912,642	(461,845)
Great Britain pound	875,678	876,219	(3,285)	(3,826)
Japanese yen	60,878	60,452	4	430
Euro	11,989,514	12,464,785	484,155	8,884
Swiss francs	2,299	-	(2,541)	(242)
Other currencies	52,016	91,644	3,739	(35,889)
Foreign currency exposure	52,827,729	59,714,931	6,394,714	(492,488)
Pakistan rupee	36,953,071	30,065,869	(6,394,714)	492,488
Total currency exposure	<u>89,780,800</u>	<u>89,780,800</u>	<u>-</u>	<u>-</u>

\* Includes head office capital account, unremitted profit and deficit on revaluation of assets in Pakistan Rupees.

#### 41.2.2 Equity position Risk

The risk arising from taking long or short positions, in the trading book, in the equities and all instruments that exhibit market behaviour similar to equities. The Bank does not maintain equity trading portfolio.

#### 41.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to the interest rate risk arises from mismatches of financial assets and liabilities and off-balance sheet financial instruments that mature or reprice in a given period. The bank manages these mismatches through risk management strategies where significant changes in gap positions can be adjusted.

The position for on-balance sheet financial instruments is based on the earlier of contractual repricing or maturity date. The position for off-balance sheet financial instruments is based on settlement dates.

		2010										
		Exposed to Yield / Interest risk										
Effective Yield / Interest rate %	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments	
(Rupees in '000)												
<b>On-balance sheet financial instruments</b>												
<b>Assets</b>												
-	7,001,789	1,798,371	-	-	-	-	-	-	-	-	5,203,418	
0.24	1,396,604	343,309	-	-	-	-	-	-	-	-	1,053,295	
12.88	11,410,316	11,310,316	100,000	-	-	-	-	-	-	-	-	
12.01	50,236,317	12,825,095	25,939,350	2,630,806	1,265,928	958,581	1,962,247	600,377	3,829,573	224,360	-	
13.20	19,244,213	65,636	12,520,667	4,369,710	250,521	344,199	120,057	67,397	53,344	950,807	501,875	
-	3,109,204	-	-	-	-	-	-	-	-	-	3,109,204	
	92,398,443	26,342,727	38,560,017	7,000,516	1,516,449	1,302,780	2,082,304	667,774	3,882,917	1,175,167	9,867,792	
<b>Liabilities</b>												
-	1,164,263	-	-	-	-	-	-	-	-	-	1,164,263	
8.72	4,342,038	2,787,299	100,000	1,398,893	10,402	-	-	45,444	-	-	-	
7.19	68,304,814	38,892,982	9,961,359	2,080,130	5,362,260	283,173	79,140	288,139	2,000	-	11,355,631	
-	13,853,849	-	-	-	-	-	-	-	-	-	13,853,849	
	87,664,964	41,680,281	10,061,359	3,479,023	5,372,662	283,173	79,140	333,583	2,000	-	26,373,743	
<b>On-balance sheet gap</b>	<b>4,733,479</b>	<b>(15,337,554)</b>	<b>28,498,658</b>	<b>3,521,493</b>	<b>(3,856,213)</b>	<b>1,019,607</b>	<b>2,003,164</b>	<b>334,191</b>	<b>3,880,917</b>	<b>1,175,167</b>	<b>(16,505,951)</b>	
<b>Off-balance sheet financial instruments</b>												
	128,072,394	62,880,175	54,259,135	10,933,084	-	-	-	-	-	-	-	
	71,842,177	54,750,920	12,088,614	5,002,643	-	-	-	-	-	-	-	
	66,308,305	13,015,209	16,965,350	22,538,155	-	150,000	794,086	12,845,505	-	-	-	
	66,308,305	1,113,790	29,810,855	22,538,155	-	-	-	12,845,505	-	-	-	
	1,031,381	603,197	428,184	-	-	-	-	-	-	-	-	
	1,031,381	603,197	428,184	-	-	-	-	-	-	-	-	
<b>Off-balance sheet gap</b>	<b>56,230,217</b>	<b>20,030,674</b>	<b>29,325,016</b>	<b>5,930,441</b>	<b>-</b>	<b>150,000</b>	<b>794,086</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Yield / Interest Risk Sensitivity Gap</b>	<b>60,963,696</b>	<b>4,693,120</b>	<b>57,823,674</b>	<b>9,451,934</b>	<b>(3,856,213)</b>	<b>1,169,607</b>	<b>2,797,250</b>	<b>334,191</b>	<b>3,880,917</b>	<b>1,175,167</b>	<b>(16,505,951)</b>	
<b>Cumulative Yield / Interest Risk Sensitivity Gap</b>	<b>4,693,120</b>	<b>62,516,794</b>	<b>71,968,728</b>	<b>68,112,515</b>	<b>69,282,122</b>	<b>72,079,372</b>	<b>72,413,563</b>	<b>76,294,480</b>	<b>77,469,647</b>	<b>60,963,696</b>		

  

		2009										
		Exposed to Yield / Interest risk										
Effective Yield / Interest rate %	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments	
(Rupees in '000)												
<b>On-balance sheet financial instruments</b>												
<b>Assets</b>												
-	7,706,034	1,979,678	-	-	-	-	-	-	-	-	5,726,356	
0.35	2,735,953	1,385,673	-	-	-	-	-	-	-	-	1,350,280	
12.11	10,155,661	5,879,661	4,276,000	-	-	-	-	-	-	-	-	
12.03	33,122,217	985,745	10,572,787	10,367,002	5,252,768	668,272	633,753	2,725,596	1,669,619	246,675	-	
16.53	28,245,029	4,553,677	14,373,879	4,660,386	1,611,324	854,685	466,050	344,895	368,817	339,246	672,070	
-	2,275,100	-	-	-	-	-	-	-	-	-	2,275,100	
	84,239,994	14,784,434	29,222,666	15,027,388	6,864,092	1,522,957	1,099,803	3,070,491	2,038,436	585,921	10,023,806	
<b>Liabilities</b>												
0	1,654,759	-	-	-	-	-	-	-	-	-	1,654,759	
10.16	5,561,411	3,243,541	1,505,290	430,545	141,667	143,205	-	-	55,545	-	41,618	
7.93	58,147,204	37,503,233	6,687,091	2,161,263	2,856,148	439,071	73,417	245,038	35,123	-	8,146,820	
0	14,606,177	-	-	-	-	-	-	-	-	-	14,606,177	
	79,969,551	40,746,774	8,192,381	2,591,808	2,997,815	582,276	73,417	245,038	90,668	-	24,449,374	
<b>On-balance sheet gap</b>	<b>4,270,443</b>	<b>(25,962,340)</b>	<b>21,030,285</b>	<b>12,435,580</b>	<b>3,866,277</b>	<b>940,681</b>	<b>1,026,386</b>	<b>2,825,453</b>	<b>1,947,768</b>	<b>585,921</b>	<b>(14,425,568)</b>	
<b>Off-balance sheet financial instruments</b>												
	120,306,365	50,375,944	61,588,039	8,342,382	-	-	-	-	-	-	-	
	63,979,867	37,901,508	16,927,278	9,151,081	-	-	-	-	-	-	-	
	64,724,267	1,122,717	44,856,230	4,560,999	256,548	-	250,000	13,677,773	-	-	-	
	64,724,267	2,499,964	44,889,142	4,560,999	137,922	-	-	12,636,240	-	-	-	
	1,306,596	168,638	776,151	361,807	-	-	-	-	-	-	-	
	1,306,596	168,638	776,151	361,807	-	-	-	-	-	-	-	
<b>Off-balance sheet gap</b>	<b>56,326,498</b>	<b>11,097,189</b>	<b>44,627,849</b>	<b>(808,699)</b>	<b>118,626</b>	<b>-</b>	<b>250,000</b>	<b>1,041,533</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Yield / Interest Risk Sensitivity Gap</b>	<b>60,596,941</b>	<b>(14,865,151)</b>	<b>65,658,134</b>	<b>11,626,881</b>	<b>3,984,903</b>	<b>940,681</b>	<b>1,276,386</b>	<b>3,866,986</b>	<b>1,947,768</b>	<b>585,921</b>	<b>(14,425,568)</b>	
<b>Cumulative Yield / Interest Risk Sensitivity Gap</b>	<b>(14,865,151)</b>	<b>50,792,983</b>	<b>62,419,864</b>	<b>66,404,767</b>	<b>67,345,448</b>	<b>68,621,834</b>	<b>72,488,820</b>	<b>74,436,588</b>	<b>75,022,509</b>	<b>60,596,941</b>		

The position for on-balance sheet financial instruments is based on the earlier of contractual repricing or maturity date. The position for off-balance sheet financial instruments is based on settlement dates.

2010											
Exposed to Yield / Interest risk											
Effective Yield / Interest rate %	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments
(Rupees in '000)											
<b>On-balance sheet financial instruments</b>											
<b>Assets</b>											
-	7,001,789	1,798,371	-	-	-	-	-	-	-	-	5,203,418
0.24	1,396,604	343,309	-	-	-	-	-	-	-	-	1,053,295
12.88	11,410,316	11,310,316	100,000	-	-	-	-	-	-	-	-
12.01	50,236,317	12,825,095	25,939,350	2,630,806	1,265,928	958,581	1,962,247	600,377	3,829,573	224,360	-
13.20	19,244,213	65,636	12,520,667	4,369,710	250,521	344,199	120,057	67,397	53,344	950,807	501,875
-	3,109,204	-	-	-	-	-	-	-	-	-	3,109,204
	92,398,443	26,342,727	38,560,017	7,000,516	1,516,449	1,302,780	2,082,304	667,774	3,882,917	1,175,167	9,867,792
<b>Liabilities</b>											
-	1,164,263	-	-	-	-	-	-	-	-	-	1,164,263
8.72	4,342,038	2,787,299	100,000	1,398,893	10,402	-	-	45,444	-	-	-
7.19	68,304,814	38,892,982	9,961,359	2,080,130	5,362,260	283,173	79,140	288,139	2,000	-	11,355,631
-	13,853,849	-	-	-	-	-	-	-	-	-	13,853,849
	87,664,964	41,680,281	10,061,359	3,479,023	5,372,662	283,173	79,140	333,583	2,000	-	26,373,743
<b>On-balance sheet gap</b>	<b>4,733,479</b>	<b>(15,337,554)</b>	<b>28,498,658</b>	<b>3,521,493</b>	<b>(3,856,213)</b>	<b>1,019,607</b>	<b>2,003,164</b>	<b>334,191</b>	<b>3,880,917</b>	<b>1,175,167</b>	<b>(16,505,951)</b>
<b>Off-balance sheet financial instruments</b>											
	128,072,394	62,880,175	54,259,135	10,933,084	-	-	-	-	-	-	-
	71,842,177	54,750,920	12,088,614	5,002,643	-	-	-	-	-	-	-
	66,308,305	13,015,209	16,965,350	22,538,155	-	150,000	794,086	12,845,505	-	-	-
	66,308,305	1,113,790	29,810,855	22,538,155	-	-	-	12,845,505	-	-	-
	1,031,381	603,197	428,184	-	-	-	-	-	-	-	-
	1,031,381	603,197	428,184	-	-	-	-	-	-	-	-
<b>Off-balance sheet gap</b>	<b>56,230,217</b>	<b>20,030,674</b>	<b>29,325,016</b>	<b>5,930,441</b>	<b>-</b>	<b>150,000</b>	<b>794,086</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Yield / Interest Risk Sensitivity Gap</b>	<b>60,963,696</b>	<b>4,693,120</b>	<b>57,823,674</b>	<b>9,451,934</b>	<b>(3,856,213)</b>	<b>1,169,607</b>	<b>2,797,250</b>	<b>334,191</b>	<b>3,880,917</b>	<b>1,175,167</b>	<b>(16,505,951)</b>
<b>Cumulative Yield / Interest Risk Sensitivity Gap</b>	<b>4,693,120</b>	<b>62,516,794</b>	<b>71,968,728</b>	<b>68,112,515</b>	<b>69,282,122</b>	<b>72,079,372</b>	<b>72,413,563</b>	<b>76,294,480</b>	<b>77,469,647</b>	<b>60,963,696</b>	<b>-</b>

  

2009											
Exposed to Yield / Interest risk											
Effective Yield / Interest rate %	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments
(Rupees in '000)											
<b>On-balance sheet financial instruments</b>											
<b>Assets</b>											
-	7,706,034	1,979,678	-	-	-	-	-	-	-	-	5,726,356
0.35	2,735,953	1,385,673	-	-	-	-	-	-	-	-	1,350,280
12.11	10,155,661	5,879,661	4,276,000	-	-	-	-	-	-	-	-
12.03	33,122,217	985,745	10,572,787	10,367,002	5,252,768	668,272	633,753	2,725,596	1,669,619	246,675	-
16.53	28,245,029	4,553,677	14,373,879	4,660,386	1,611,324	854,685	466,050	344,895	368,817	339,246	672,070
-	2,275,100	-	-	-	-	-	-	-	-	-	2,275,100
	84,239,994	14,784,434	29,222,666	15,027,388	6,864,092	1,522,957	1,099,803	3,070,491	2,038,436	585,921	10,023,806
<b>Liabilities</b>											
0	1,654,759	-	-	-	-	-	-	-	-	-	1,654,759
10.16	5,561,411	3,243,541	1,505,290	430,545	141,667	143,205	-	-	55,545	-	41,618
7.93	58,147,204	37,503,233	6,687,091	2,161,263	2,856,148	439,071	73,417	245,038	35,123	-	8,146,820
0	14,606,177	-	-	-	-	-	-	-	-	-	14,606,177
	79,969,551	40,746,774	8,192,381	2,591,808	2,997,815	582,276	73,417	245,038	90,668	-	24,449,374
<b>On-balance sheet gap</b>	<b>4,270,443</b>	<b>(25,962,340)</b>	<b>21,030,285</b>	<b>12,435,580</b>	<b>3,866,277</b>	<b>940,681</b>	<b>1,026,386</b>	<b>2,825,453</b>	<b>1,947,768</b>	<b>585,921</b>	<b>(14,425,568)</b>
<b>Off-balance sheet financial instruments</b>											
	120,306,365	50,375,944	61,588,039	8,342,382	-	-	-	-	-	-	-
	63,979,867	37,901,508	16,927,278	9,151,081	-	-	-	-	-	-	-
	64,724,267	1,122,717	44,856,230	4,560,999	256,548	-	250,000	13,677,773	-	-	-
	64,724,267	2,499,964	44,889,142	4,560,999	137,922	-	-	12,636,240	-	-	-
	1,306,596	168,638	776,151	361,807	-	-	-	-	-	-	-
	1,306,596	168,638	776,151	361,807	-	-	-	-	-	-	-
<b>Off-balance sheet gap</b>	<b>56,326,498</b>	<b>11,097,189</b>	<b>44,627,849</b>	<b>(808,699)</b>	<b>118,626</b>	<b>-</b>	<b>250,000</b>	<b>1,041,533</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Yield / Interest Risk Sensitivity Gap</b>	<b>60,596,941</b>	<b>(14,865,151)</b>	<b>65,658,134</b>	<b>11,626,881</b>	<b>3,984,903</b>	<b>940,681</b>	<b>1,276,386</b>	<b>3,866,986</b>	<b>1,947,768</b>	<b>585,921</b>	<b>(14,425,568)</b>
<b>Cumulative Yield / Interest Risk Sensitivity Gap</b>	<b>(14,865,151)</b>	<b>50,792,983</b>	<b>62,419,864</b>	<b>66,404,767</b>	<b>67,345,448</b>	<b>68,621,834</b>	<b>72,488,820</b>	<b>74,436,588</b>	<b>75,022,509</b>	<b>60,596,941</b>	<b>-</b>

2010  
------(Rupees in '000)-----  
2009

#### 41.2.4 Reconciliation of assets and liabilities exposed to Yield / Interest

##### Rate risk with total assets and liabilities

Total financial assets as per note 41.2.3	92,398,443	84,239,994
Add: Non financial assets		
Operating fixed assets	865,640	1,266,456
Deferred tax asset	3,693,968	3,637,578
Other assets	395,861	636,772
Total assets as per balance sheet	<u>97,353,912</u>	<u>89,780,800</u>
Total liabilities as per note 41.2.3	87,664,964	79,969,551
Add: Non financial liabilities		
Other liabilities	823,476	1,285,834
Total liabilities as per balance sheet	<u>88,488,440</u>	<u>81,255,385</u>

#### 41.3 Liquidity Risk

Liquidity risk is the potential for loss to the Bank arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring any unacceptable losses.

A uniform liquidity risk management policy exists for the Bank, under which there is a single set of standards for the measurement of liquidity risk. Management of liquidity is performed on a daily basis by the Treasurer and is monitored by independent risk management with oversight by Country Asset and Liability Committee (ALCO). The objective of ALCO is to monitor and review the overall liquidity and balance sheet positions of the bank.

An annual funding and liquidity plan is approved by ALCO and independent risk management team. The plan includes analysis of the balance sheet, as well as the economic and business conditions impacting the liquidity of the bank. As part of the plan, liquidity limits, ratios and triggers are established and approved.

#### 41.3.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Bank

	2010									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
------(Rupees in '000)-----										
<b>Assets</b>										
Cash and balances with treasury banks	7,001,789	7,001,789	-	-	-	-	-	-	-	-
Balances with other banks	1,396,604	1,396,604	-	-	-	-	-	-	-	-
Lendings to financial institutions	11,410,316	11,310,316	100,000	-	-	-	-	-	-	-
Investments	50,236,317	12,825,095	25,939,350	2,630,806	1,265,928	958,581	1,962,247	600,377	3,829,573	224,360
Advances	19,244,213	7,578,500	2,294,079	1,779,121	499,878	842,980	1,204,187	978,941	52,835	4,013,692
Other assets	3,505,065	2,728,927	370,526	162,674	201,557	1,846	20,623	6,547	12,365	-
Operating fixed assets	865,640	17,289	34,577	51,865	103,730	202,810	202,854	110,490	139,922	2,103
Deferred tax assets	3,693,968	-	147,691	-	-	-	-	3,546,277	-	-
	97,353,912	42,858,520	28,886,222	4,624,466	2,071,093	2,006,217	3,389,911	5,242,632	4,034,695	4,240,155
<b>Liabilities</b>										
Bills payable	1,164,263	1,164,263	-	-	-	-	-	-	-	-
Borrowings from financial institutions	4,342,038	2,787,299	100,000	1,398,893	10,402	-	-	45,444	-	-
Deposits and other accounts *	68,304,814	50,248,613	9,961,359	2,080,130	5,362,260	283,173	79,140	288,139	2,000	-
Other liabilities	14,677,325	11,068,164	1,569,603	724,707	1,215,168	47,300	27,132	12,287	12,964	-
	88,488,440	65,268,338	11,630,962	4,203,731	6,587,831	330,473	106,272	345,870	14,964	-
<b>Net assets</b>	<b>8,865,472</b>	<b>(22,409,819)</b>	<b>17,255,261</b>	<b>420,736</b>	<b>(4,516,738)</b>	<b>1,675,744</b>	<b>3,283,640</b>	<b>4,896,762</b>	<b>4,019,732</b>	<b>4,240,155</b>
<b>Represented by:</b>										
Head office capital account	6,812,671									
Reserves	125,573									
Unremitted profit	2,201,511									
Deficit on revaluation of securities - net	(274,283)									
	<u>8,865,472</u>									

\* Includes saving deposits which have been classified as maturing up to one month. However they are not expected to fall materially below their current level.

2009										
Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
------(Rupees in '000)-----										
<b>Assets</b>										
Cash and balances with treasury banks	7,706,034	5,942,832	-	-	-	-	-	-	-	1,763,202
Balances with other banks	2,735,953	2,735,953	-	-	-	-	-	-	-	-
Lendings to financial institutions	10,155,661	5,879,661	4,276,000	-	-	-	-	-	-	-
Investments	33,122,217	985,745	10,572,787	10,367,002	5,252,768	668,272	633,753	2,725,596	1,669,619	246,675
Advances	28,245,029	5,225,747	10,036,516	2,960,558	2,578,664	3,805,025	1,051,952	1,112,956	908,437	565,174
Other assets	2,911,872	1,740,443	618,825	102,643	409,136	1,251	3,460	28,960	7,154	-
Operating fixed assets	1,266,456	26,894	53,789	80,684	161,368	307,044	307,115	140,898	186,439	2,225
Deferred tax assets	3,637,578	-	68,234	-	-	-	-	3,569,344	-	-
	89,780,800	22,537,275	25,626,151	13,510,887	8,401,936	4,781,592	1,996,280	7,577,754	2,771,649	2,577,276
<b>Liabilities</b>										
Bills payable	1,654,759	1,654,759	-	-	-	-	-	-	-	-
Borrowings from financial institutions	5,561,411	3,285,160	1,505,290	430,545	141,667	143,205	-	-	55,544	-
Deposits and other accounts *	58,147,204	45,650,053	6,687,091	2,161,263	2,856,148	439,071	73,417	245,038	35,123	-
Other liabilities	15,892,011	3,158,626	8,740,259	963,120	2,953,248	18,527	6,853	42,383	8,995	-
	81,255,385	53,748,598	16,932,640	3,554,928	5,951,063	600,803	80,270	287,421	99,662	-
<b>Net assets</b>	<b>8,525,415</b>	<b>(31,211,323)</b>	<b>8,693,511</b>	<b>9,955,959</b>	<b>2,450,873</b>	<b>4,180,789</b>	<b>1,916,010</b>	<b>7,290,333</b>	<b>2,671,987</b>	<b>2,577,276</b>
<b>Represented by:</b>										
Head office capital account	6,780,848									
Reserves	92,715									
Unremitted profit	1,778,573									
Deficit on revaluation of securities - net	(126,721)									
	<u>8,525,415</u>									

\* Includes saving deposits which have been classified as maturing up to one month. However they are not expected to fall materially below their current level.

#### 41.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk is inherent in the Bank's activities and as with other risk types is managed through an overall framework with checks and balances that include recognised ownership of the risk by the businesses, independent risk management oversight and independent review by corporate audit. The operational risk policy codifies the core governing principles for operational risk management and provides a framework for operational risk. In accordance with the policy, each business area is responsible to identify its key operational risks as well as the controls established to mitigate those risks and to ensure compliance with laws, regulations, regulatory administrative actions and the Bank's policies.

The operational risk policy and its requirements facilitate the effective communication of operational risks both within and across businesses. Information about the businesses' operational risk, historical losses and the control environment is reported by each major business segment and functional area and summarised for senior management.

The Bank has created a strategic framework for information security technology initiatives and has implemented enhancements to various Information Security programs across its business covering Risk Management, Security Incident Response and Electronic Transportable Media. The Bank also implemented tools to increase the effectiveness of its data protection and entitlement management programs.

The business continuity program provides risk analysis and robust support for business resiliency. The office of Business Continuity, with the support of the senior management continued to coordinate preparedness and mitigate business continuity risks by reviewing and testing recovery procedures.

#### 42 DATE OF AUTHORISATION

These financial statements were authorised for issue on \_\_\_\_\_ by the management of the Bank.

#### 43 GENERAL

43.1 Figures have been rounded off to the nearest thousand rupees.

43.2 Corresponding figures have been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison and to conform with changes in presentation in the current year. There were no significant reclassifications during the year.

ARIF USMANI  
Managing Director and Citi Country Officer

ANJUM HAI  
Chief Financial Officer

**CITIBANK, N.A. - PAKISTAN BRANCHES  
STATEMENT SHOWING WRITTEN OFF LOANS OR ANY OTHER  
FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES  
OR ABOVE PROVIDED DURING THE YEAR 2010**

**ANNEXURE I**

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's / Husband's name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total
				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	
1	ABDUL KHALIQ SHEIKH FLT#D-505,5TH FLR CHAPAL OCEAN CNTR,COMM 6-/D/21 PLT NO COM-6 BLK-4 SCH 5 CLIFTON KARACHI	ABDUL KHALIQ SHEIKH 440-92-006480 45202-4919001-3	ALLAH BUKSH SHEIKH	1,735.39	53.12	-	1,788.51	585.42	217.20	-	802.62
2	TAHIR MALIK PLT#292/A,BLK-A,PIA EMPLOYEES CO- COERATIVE HOUSING SOCIETY NACLASS#181&209 BLK#9, KARACHI	TAHIR MALIK 502-91-397888 42201-8615603-3	SURKHUROO KHAN MALIK	3,186.22	354.80	-	3,541.02	686.22	559.02	-	1,245.25
3	NADEEM AKHTER FLT#102,1ST FLOOR,FOUR SEASON PLOT#ZC-7 BLOCK#16 SCHEME#24 GULSHAN IQBAL KARACHI	NADEEM AKHTER 501-66-930352 42401-3390469-1	GHULAM RASOOL	2,743.18	95.07	-	2,838.25	728.23	183.19	-	911.42
4	SYED KASHIF ISRAR APP#1407,13TH FLR,MARINE DRIVE SUB PLOT#B- 07,PL#FL-10 BLK-2 KDA SCHEME#5,KARACHI	SYED KASHIF ISRAR 516-77-330738 42301-7881137-9	SYED MUHAMMAD ISRAR UL HAQ	2,988.54	1,204.70	-	4,193.24	1,188.54	1,688.29	-	2,876.84
5	MEER AMAN ULLAH KHAN TALPUR BANGLOW 72/B/II 30TH PH-V EXT DHA KARACHI	MEER AMAN ULLAH KHAN TALPUR 475-54-194136 41306-4188017-7	AHMED KHAN TALPUR	15,156.92	205.73	-	15,362.65	2,546.27	1,288.33	-	3,834.60
6	MUHAMMAD ATIQ UR REHMAN FLAT#609,6TH FLR,CHAPAL RESORT PLOT#COM-41,SUB- PLT#4/1/B/9 BLK#1,KDA SCHEME#5 CLIFTON KARACHI	MUHAMMAD ATIQ UR REHMAN 329-65-699759 42301-2758085-1	AZAMATULLAH KHAN	3,792.90	105.59	-	3,898.49	1,133.22	360.12	-	1,493.35



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				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	
7	IKHLAS AHMED PLOT NO. 101/1 PHASE-VI ST#06 DHA KARACHI	IKHLAS AHMED 517-48-069761 42201-4891742-9	SHEIKH MUHAMMAD ILYAS	9,312.41	1,255.50	-	10,567.91	1,812.41	2,456.11	-	4,268.53
8	DANISH RAZA JATOI EG-06(TYPE- 4)BLK#EXEC.GRD FLR COUNTRY CLUB APT,SUB PLOT EG6 33 STREET PH V EXT DHA KARACHI	DANISH RAZA JATOI 431-82-468174 42301-4456406-7	NAZIM-U-DIN JATOI	5,828.71	332.25	-	6,160.96	2,228.71	1,126.62	-	3,355.33
9	NASIR ALI PLOT# 100/I,SABA AVENUE, PHASE 6,DHA,KARACHI	NASIR ALI 457-75-012696 42301-9059060-7	SABIR ALI	35,136.15	1,162.83	-	36,298.98	9,136.15	5,834.38	-	14,970.53
10	MUHAMMAD SHOAIB H#CH-980, ST# 05, CANTT VIEW MISRYAL ROAD RAWALPINDI	MUHAMMAD SHOAIB 211-61-310752 37405-1030186-1	CHAUDHRY ABDUL KHALIQ	1,615.98	23.41	-	1,639.39	667.58	207.28	-	874.86
11	AQEELA ADEEB KHATOON PL#89,ST#8,PHASE 1,PAKISTAN TOWN,1.B EMP COOPRATIVE HOUSING SOCIETY ISLAMABAD	AQEELA ADEEB KHATOON 212-54-052049 37405-0837199-8	BILAL AHMED	1,911.02	511.46	-	2,422.49	911.02	641.49	-	1,552.52
12	ASIM HUSSAIN H# 65, SAFARI PARK WAY, SIFARI VILLA, BAHRIA TOWN, RAWALPINDI	ASIM HUSSAIN 221-51-712838 37405-8187780-7	NOOR ALAM AWAN	5,262.88	82.92	-	5,345.79	1,191.41	737.30	-	1,928.71
13	MUHAMMAD LATIF CHAUDHRY HOUSE#35- B,ST#2,SECTOR#1 KHAYABAN-E-SIRSYED, RAWALPINDI	MUHAMMAD LATIF CHAUDHRY 211-68-037326 37405-7100034-1	CHAUDHRY MANZOOR AHMED	4,349.24	239.22	-	4,588.46	1,087.31	775.95	-	1,863.27

**CITIBANK, N.A. - PAKISTAN BRANCHES  
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**ANNEXURE I**

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				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	
14	GUL MUHAMMAD URF MUSHTAQ FL#A-903/1,9TH FLR, BRIDGE VIEW APP, SUB PL#FT-21/1 A03/1 PL2 1/1, FRERE TOWN CLIFTON KARACHI	GUL MUHAMMAD URF MUSHTAQ AHMED 452-59-086930 41303-4814188-9	AHMED KHAN NIZAMANI	3,640.96	67.79	-	3,708.75	1,057.53	317.62	-	1,375.14
15	ABDUL KARIM PLOT # 17/13 BLK NO 13 KDA SCHEME NO 24 GULSHAN-E-IQBAL KARACHI	ABDUL KARIM 509-92-093126 42201-4453026-3	DAWOOD	4,712.35	137.99	-	4,850.34	1,933.47	325.85	-	2,259.32
16	MUHAMMAD JAVED IQBAL PLOT/LAND IK-OM KHATA NO.175/221 KHASRA NO 1219 SITUATED MOUZA MOHRI GHAZN RAWALPINDI	MUHAMMAD JAVED IQBAL QURESHI 210-57-127391 37405-0620670-1	MUHAMMAD IQBAL QURESHI	1,931.88	46.62	-	1,978.50	600.00	129.52	-	729.52
17	MALIK MUHAMMAD ARSHAD MALIK HOUSE, ANWAR STREET, PREM NAGAR SIALKOT	MALIK MUHAMMAD ARSHAD 300-61-131558 34603-2313570-5	MALIK GHULAM MUHAMMAD	608.00	92.69	-	700.69	608.00	93.15	-	701.15
18	ANWAR FLAT#302,3RD FLR PLOT#19-D, STADIUM LANE#1, PHASE-V, DHA CLIFTON CANTONMENT KARACHI	ANWAR 510-53-168825 42201-0573134-7	MUHAMMAD SIDDIQ	1,922.30	305.48	-	2,227.78	922.30	655.67	-	1,577.97
19	MUHAMMAD WASEEM PLOT # D-12/2, BLOCK-10-A, K.D.A SCHEME # 24, GULSHAN-E-IQBAL, KARACHI.	MUHAMMAD WASEEM 523-82-037073 42101-4393295-9	ABDUL GHAFFAR	5,950.78	81.52	-	6,032.30	980.89	80.71	-	1,061.59
20	MUHAMMAD HANIF BARHAM CHARI FLAT#301,3RD FLR, PLOT NO.19-D STADIUM LANE#1, PHASE V, D.H.A KARACHI	MUHAMMAD HANIF BARHAM CHARI 516-89-369681 42301-1050180-7	HAJI JAN MUHAMMAD	2,054.85	290.79	-	2,345.64	1,004.85	661.90	-	1,666.75

**CITIBANK, N.A. - PAKISTAN BRANCHES  
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**ANNEXURE I**

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's / Husband's name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total
				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	
21	AMEER ALI HOUSE # 370-C NEXT TO STREET NO 70 WEST SIDE SEC-G11/2 ISLAMABAD	AMEER ALI 294-53-691956 61101-9438456-9	MEERAJ DEEN	8,742.41	2,416.85	-	11,159.26	2,242.41	4,068.93	-	6,311.34
22	SHAFI AHMED PLOT#C-127,BLK-C,KDA SCHEME#2 NORTH NAZIMABAD, KARACHI	SHAFI AHMED 512-93-210431 42301-9135921-9	SAEED AHMED	9,731.07	162.19	-	9,893.25	3,185.66	875.10	-	4,060.76
23	SYED JAWED IQBAL 107/II, 4TH STREET PHASE VI, DHA KARACHI	SYED JAWED IQBAL 518-93-469419 42201-8085206-7	SYED SHAUKAT ALI	35,439.91	1,285.08	-	36,724.99	6,216.71	2,360.81	-	8,577.52
24	ABDUL RAUF RIND BANGLOW ON PL#105/11,22ND STREET,PHASE-VI,DHA KARACHI	ABDUL RAUF RIND 632-79-327138 52204-1057589-9	MUHAMMAD ALI RIND	17,469.58	1,645.58	-	19,115.16	8,469.58	4,738.14	-	13,207.71
25	Zephyr Textile Limited 3RD FLOOR, IEP BUILDING, 97-B, GULBERG III, LAHORE	MUSSAID HANIF 35201-1282509-1  BURHAN M. KHAN 35200-1555645-2 ARBAB M. KHAN 35202-9104860-1 SABAH BURHAN 35202-4320027-1 TAHNIAT MUSSAID 270-64-564309 GAUHAR ABDUL HAI 35202-6133136-1 SYED MANZAR UL ISLAM 35202-2190671-7	MUHAMMAD HANIF  ATTA M. KHAN BURHAN M. KHAN BURHAN M. KHAN MUSSAID HANIF ABDUL HAI SYED ABDUL GHAFOOR	34,372.85	25,551.90	-	59,924.76	34,372.85	25,551.90	-	59,924.76

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S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's / Husband's name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total
				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	
26	Fair Deal Textile (Pvt) Limited A-15/D, BINNORIA CHOWK SITE, KARACHI	MUHAMMAD YOUSAF 42201-0599857-3 MUHAMMAD ASHRAF 42201-2379558-1 ABDUL AZIZ 42201-5016927-9 ASIF ABDUL RAZZAK 42201-4254239-9	ABDUL RAZZAQ ABDUL RAZZAQ ABDUL RAHMAN ABDUL RAZZAQ	11,043.41	-	-	11,043.41	11,043.41	-	-	11,043.41
				<u>230,639.90</u>	<u>37,711.06</u>		<u>268,350.97</u>	<u>96,540.15</u>	<u>30,382.69</u>		

**CITIBANK, N.A. - PAKISTAN BRANCHES  
DISPOSAL OF FIXED ASSETS DURING THE YEAR ENDED DECEMBER 31, 2010**

Details of disposal of fixed assets having cost of more than Rs. 1,000,000 or net book value of Rs. 250,000 or above

Description	Cost	Book value	Sale proceeds	Mode of disposal	Particulars of purchasers
-------------	------	------------	---------------	------------------	---------------------------

----- (Rupees in '000) -----

**Furniture and fixture**

1,645	-	114	Open Bid	Pakistan Intl Buyer
1,722	-	63	Open Bid	Pakistan Intl Buyer
1,104	-	43	Open Bid	Dubai Islamic Bank
1,329	-	3	Open Bid	Malik Jameel Scrap Shop
<b>5,800</b>	<b>-</b>	<b>223</b>		

**Electrical, office and computer equipment**

1,367	-	48	Open Bid	Everest Engg
738	265	69	Open Bid	Startek International
1,378	-	500	Open Bid	Meraud Engg
1,200	-	212	Open Bid	Dubai Islamic Bank
1,162	16	175	Open Bid	Moiz Khan
8,259	947	2,754	Open Bid	Pak Intl SF Trading
1,218	118	256	Open Bid	SageTech International
1,154	-	363	Open Bid	Meraud Engg
1,038	162	171	Open Bid	M Asif house hold traders
<b>17,513</b>	<b>1,507</b>	<b>4,547</b>		

**Vehicles**

1,321	595	594	Terms of Employment	Muhammad Ishaq Sheikh - Ex-Employee
1,321	638	638	Terms of Employment	Hassan Raza - Ex-Employee
1,547	851	876	Terms of Employment	Kabir Ahmed Qureshi - Ex-Employee
1,356	813	813	Terms of Employment	Sanam Kohati - Executive
1,719	1,433	1,433	Terms of Employment	Usman Sarfaraz - Ex-Employee
1,336	534	534	Terms of Employment	Noman Ahmed - Executive
1,336	602	601	Terms of Employment	Azam Haq - Ex-Employee
1,526	890	1,178	Terms of Employment	Mona Naeem Khan - Ex-Employee
1,356	813	813	Terms of Employment	Amir Masood - Executive
1,356	813	813	Terms of Employment	Faisal Masood - Executive
1,356	813	813	Terms of Employment	Abul Hassan Azad - Executive
1,365	910	910	Terms of Employment	Khalid Hakim - Executive
1,698	1,217	1,217	Terms of Employment	Anjum Hai - Executive
1,314	635	635	Terms of Employment	Mohammad Jaffery - Ex-Employee
879	322	938	Open Bid	Khurram Motors
1,349	809	809	Terms of Employment	Makhdum Hashim Jawan Bakht - Executive
1,733	823	4,677	Open Bid	Toyota Islamabad Motors
1,506	427	1,400	Insurance claim	New Hampshire Insurance
1,491	597	1,500	Insurance claim	New Hampshire Insurance
1,371	685	685	Terms of Employment	Moeed Hyder - Ex-Employee
1,547	773	799	Terms of Employment	Ahmer Nizam - Ex-Employee
2,750	1,008	1,008	Terms of Employment	Azim Alvi - Ex-Employee
1,389	765	787	Terms of Employment	Asif Ali - Ex-Employee
1,321	550	550	Terms of Employment	Muhammad Shafique - Executive
879	309	963	Open Bid	Khurram Motors
1,828	1,401	1,553	Terms of Employment	Shafiq Mustafa - Executive
1,365	864	887	Terms of Employment	Sajjad Kamal - Ex-Employee
1,349	764	787	Terms of Employment	Masood Malik - Ex-Employee
1,314	569	591	Terms of Employment	Kashif Ansari - Ex-Employee
1,336	379	379	Terms of Employment	Muhammad Kashif - Executive
1,336	379	379	Terms of Employment	Nadeem Khan - Ex-Employee
1,321	506	506	Terms of Employment	Rashid Bhatti - Executive
1,321	506	506	Terms of Employment	Shayan khaliq - Ex-Employee

**CITIBANK, N.A. - PAKISTAN BRANCHES**  
**DISPOSAL OF FIXED ASSETS DURING THE YEAR ENDED DECEMBER 31, 2010**

Details of disposal of fixed assets having cost of more than Rs. 1,000,000 or net book value of Rs. 250,000 or above

Description	Cost	Book value	Sale proceeds	Mode of disposal	Particulars of purchasers
----- (Rupees in '000) -----					
	1,491	547	998	Terms of Employment	Siyamuddin Farooq - Ex-Employee
	1,547	722	722	Terms of Employment	Zulfiqar Hakim Ali - Ex-Employee
	1,641	1,258	1,258	Terms of Employment	Yasir Khan - Ex-Employee
	1,623	1,461	1,488	Terms of Employment	Hufrish Shroff - Ex-Employee
	1,828	1,310	1,537	Terms of Employment	Rana Fasih ul Hassan - Ex-Employee
	1,365	637	637	Terms of Employment	Aghna Saboor - Ex-Employee
	2,750	779	1,833	Terms of Employment	Mir Aziz Rehman - Ex-Employee
	3,000	950	1,940	Open Bid	Yawar Shameem - Ex-Employee
	1,643	1,095	1,095	Terms of Employment	Fasih ul Islam Khan - Ex-Employee
	1,619	1,484	1,484	Terms of Employment	Muneeb Ansari - Ex-Employee
	1,526	712	1,088	Terms of Employment	Saadullah Khan - Ex-Employee
	1,732	4	3,678	Open Bid	Ahmed Motors
	1,336	423	423	Terms of Employment	Mehnaz Ahmed - Ex-Employee
	<b>70,387</b>	<b>35,375</b>	<b>49,752</b>		
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000 *	<b>19,106</b>	<b>10,313</b>	<b>59,412</b>		
	<b>112,806</b>	<b>47,195</b>	<b>113,934</b>		

\* This includes property sold to an ex-employee.