KPMG Taseer Hadi & Co.
Chartered Accountants

The Bank of Tokyo - Mitsubishi UFJ, Limited - Karachi Branch

Financial Statements
For the year ended
31 December 2010

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

Auditors' report to the directors

We have audited the annexed statement of financial position of the Karachi Branch of **The Bank of Tokyo – Mitsubishi UFJ, Limited** [incorporated in Japan with limited liability] ("the Branch") as at 31 December 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Branch's management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than 60 percent of the total loans and advances of the Branch, we report that:

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

(b) in our opinion:

  (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Branch and the transactions of the Branch which have come to our notice have been within the powers of the Branch;

(c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Branch's affairs as at 31 December 2010, and its true balance of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Branch and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Date: 14 MAR 2011

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Mohammad Mahmood Hussain

The Bank of Tokyo - Mitsubishi UFJ, Limited - Karachi Branch
(Incorporated in Japan with limited liability)
Statement of Financial Position
As at 31 December 2010

	Note	2010	2009
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	5	4,840,033	4,237,350
Balances with other banks	6	88,400	91,075
Lendings to financial institutions	7	1,013,607	1,905,551
Investments		-	-
Advances	8	2,980,932	2,198,843
Operating fixed assets	9	30,055	27,336
Deferred tax assets	10	1,100	2,260
Other assets	11	89,731	83,301
		9,043,858	8,545,716
LIABILITIES			
Bills payable	12	9,419	216,907
Borrowings	13	1,868,489	1,397,725
Deposits and other accounts	14	2,349,722	2,740,049
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	15	115,801	103,447
		4,343,431	4,458,128
NET ASSETS		4,700,427	4,087,588
REPRESENTED BY			
Head office capital account	16	4,652,493	4,041,323
Reserves		-	-
Unremitted profit		47,934	46,265
		4,700,427	4,087,588
Surplus / (deficit) on revaluation of assets		-	-
		4,700,427	4,087,588
CONTINGENCIES AND COMMITMENTS	17		

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

General Manager

Deputy General Manager

The Bank of Tokyo - Mitsubishi UFJ, Limited - Karachi Branch

(Incorporated in Japan with limited liability)

Profit and Loss Account

For the year ended 31 December 2010

	Note	2010	2009
		(Rupees in '000)	
Mark-up / return / interest earned	18	509,987	516,130
Mark-up / return / interest expensed	19	(406,928)	(385,251)
Net mark-up / interest income		103,059	130,879
Provision against non-performing loans and advances - net		-	-
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		-	-
Net mark-up / interest income after provisions - net		103,059	130,879
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		17,602	13,661
Dividend income		-	-
Income from dealing in foreign currencies		62,116	35,384
Gain / (loss) on sale of securities		-	-
Unrealised gain / (loss) on revalution of investments classified as held for trading		-	-
Other income	20	1,940	261
Total non-markup / interest income		81,658	49,306
		184,717	180,185
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	21	(113,080)	(112,088)
Other provisions / assets written-off		-	-
Other charges	22	(1,463)	(2,485)
Total non-markup / interest expenses		(114,543)	(114,573)
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		70,174	65,612
Taxation - Current		(23,525)	(23,309)
- Prior years		2,111	3,291
- Deferred		(1,160)	334
	23	(22,574)	(19,684)
PROFIT AFTER TAXATION		47,600	45,928
Unremitted profit brought forward		46,265	78,544
Profit available for remittance		93,865	124,472

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

General Manager

Deputy General Manager

The Bank of Tokyo - Mitsubishi UFJ, Limited - Karachi Branch

(Incorporated in Japan with limited liability)

Statement of Comprehensive Income

For the year ended 31 December 2010

	2010	2009
	(Rupees '000)	
Profit after taxation for the year	**47,600**	45,928
Other comprehensive income		
Exchange adjustment on account of revaluation of capital	**611,170**	162,625
Total comprehensive income for the year	658,770	208,553

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

General Manager

Deputy General Manager

The Bank of Tokyo - Mitsubishi UFJ, Limited - Karachi Branch

(Incorporated in Japan with limited liability)

Cash Flow Statement

For the year ended 31 December 2010

	Note	2010	2009
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		70,174	65,612
Adjustments for:			
Depreciation		9,495	7,719
Amortization		1,023	882
Provision for defined benefit plan		1,609	977
Gain on disposal of operating fixed assets		(1,932)	(163)
		10,195	9,415
		80,369	75,027
Decrease / (increase) in operating assets			
Lendings to financial institutions		891,944	(307,854)
Advances		(782,089)	1,893,944
Others assets (excluding advance taxation)		547	146,556
		110,402	1,732,646
(Decrease) / increase in operating liabilities			
Bills payable		(207,488)	204,348
Borrowings		470,764	(2,860,626)
Deposits and other accounts		(390,327)	1,024,137
Other liabilities		12,089	(14,640)
		(114,962)	(1,646,781)
Contribution made to defined benefit plan		(1,332)	(2,080)
Income tax paid		(28,403)	(7,516)
Net cash flow from operating activities		46,074	151,296
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		-	-
Investments in operating fixed assets		(13,237)	(16,672)
Proceeds from sale of operating fixed assets		1,932	320
Net cash used in investing activities		(11,305)	(16,352)
CASH FLOW FROM FINANCING ACTIVITIES			
Remittances made to head office		(45,931)	(78,207)
Remittances received from head office		-	-
Exchange adjustment on revaluation of head office capital		611,170	162,625
Net cash flow from financing activities		565,239	84,418
Increase in cash and cash equivalents		600,008	219,362
Cash and cash equivalents at beginning of the year		4,328,425	4,109,063
Cash and cash equivalents at end of the year	24	4,928,433	4,328,425

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

General Manager **Deputy General Manager**

The Bank of Tokyo - Mitsubishi UFJ, Limited - Karachi Branch

(Incorporated in Japan with limited liability)

Statement of Changes in Equity

For the year ended 31 December 2010

	Head Office capital account	Unremitted profits	Total
	(Rupees in '000)		
Balance as at 1 January 2009	3,878,698	78,544	3,957,242
Total comprehensive income for the year			
Profit after tax for the year ended 31 December 2009	-	45,928	45,928
Other comprehensive income			
Exchange adjustment on account of revaluation of capital	162,625	-	162,625
	162,625	45,928	208,553
Transactions with owners, recorded directly in equity			
Remittance to Head Office during the year	-	(78,207)	(78,207)
Balance as at 31 December 2009	4,041,323	46,265	4,087,588
Total comprehensive income for the year			
Profit after tax for the year ended 31 December 2010	-	47,600	47,600
Other comprehensive income			
Exchange adjustment on account of revaluation of capital	611,170	-	611,170
	611,170	47,600	658,770
Transactions with owners, recorded directly in equity			
Remittance to Head Office during the year	-	(45,931)	(45,931)
Balance as at 31 December 2010	4,652,493	47,934	4,700,427

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

General Manager

Deputy General Manager

1. STATUS AND NATURE OF BUSINESS

The Bank of Tokyo - Mitsubishi UFJ, Limited is incorporated in Japan with limited liability. Its operations in Pakistan are carried out through a branch ("the Branch") located at Shaheen Commercial Complex, Karachi. It is engaged in commercial banking business as described in the Banking Companies Ordinance, 1962.

The credit rating done by Standard & Poor's in March 2010 for The Bank of Tokyo - Mitsubishi UFJ, Limited is A+ for the long term and A-1 for the short term, rating done by Moody's in March 2010 is Aa2 for the long term and P-1 for the short term (representing deposits rating only) and rating done by Fitch in March 2010 is A for the long term and F1 for the short term.

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 has issued various circulars from time to time. Permissible forms of trade-related modes of financing includes purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchase and resale arising under these arrangements are not reflected in these financial statements as such, but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

2.1 Basis of measurement

These financial statements have been prepared under the historical eost convention, except that commitments in respect of forward foreign exchange contracts have been marked to market and are carried at fair value.

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

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exereise its judgment in the process of applying the Branch's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expeetations of future events that are believed to be reasonable under the eireumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uneertainty and critical judgment in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described below:

Held to maturity investments

The Branch classifies certain investments as held to maturity. In this regard, judgment is involved in evaluating thc intention and ability to hold these investments till their respective maturities.

Provision against non-performing loans and advances

The Branch reviews its loan portfolio, to assess the amount of non-performing loans and advances and provision required there-against, on a quarterly basis. While assessing this requirement, various factors including the delinquency in the account, financial position of the borrower, the forced sale value of the securities and the requirement of the Prudential Regulations are considered.

Operating fixed assets, depreciation and amortization

The Branch carrics its properties and equipment / intangibles at cost less accumulated depreciation / amortization and accumulated impairment losses, if any. In making estimates of the depreciation / amortization, management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Branch. The residual values and the method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattem. Such change is accounted for as change in aceounting estimates in accordance with International Accounting Standard - 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Income taxes

In making the estimate for income tax currently payable by the Branch, management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred tax, estimate of the Branch's future taxable profit is taken into account.

The Seventh Schedule of Income Tax Ordinance, 2001 governs taxation of banks in Pakistan. Head office administrative expenses are allowed on the basis that these expenses are determined as per Seventh Sehedule of the Income Tax Ordinance, 2001 and eharged in books of aecounts of the Branch and a certificate from external auditors has been received to the effect that the claim of such expenses has been made in accordance with the provision of Rule 4 of Seventh Schedule of Income Tax Ordinance, 2001 and is reasonable in relation to operations of the Branch.

Retirement benefits

The Branch contributes to the staff gratuity fund scheme on thc basis of actuarial valuation which takes into account certain assumptions regarding interest rate, increase in salary and inflation rate etc. Any change in these estimates in future years might affect the Branch's liability with corresponding effect on the charge for the retirement bcnefit plan.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Finaneial 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 and the Banking Companies Ordinance, 1962 and the directives issued by the State

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Bank of Pakistan. In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962 and the directives issued by the State Bank of Pakistan shall prevail.

The State Bank of Pakistan, vide its BSD Circular No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, 'Financial Instruments Recognition and Measurement' and International Accounting Standard 40, 'Investment Property' for banking companies till further instructions. Further, according to a notification of Securities and Exchange Commission of Pakistan (SECP) dated 28 April 2008, IFRS 7, 'Financial Instruments: Disclosures' has not been made applicable for banks. Accordingly, the requirements of these standards and their relevant interpretations (issued by Standards Interpretation Committee - SICs and the International Financial Reporting Interpretation Committee - IFRICs) have not been considered in the preparation of these financial statements. However, investments are classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 1, 2011:

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 1, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Branch's financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 1, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Branch's financial statements.

IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after January 1, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment might result in certain changes in disclosures.

Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. These amendments are not likely to have any impact on the Branch's financial statements.

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

Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 1, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The amendment has no impact on the financial statements of the Branch.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Sale and repurchase agreements

The Branch enters into purchase / (sale) of investments under agreements to resell / (repurchase) investments at a certain date in the future at a fixed price. Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. Securities purchased under agreements to resell (reverse repo) are not recognized in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. The receivables are shown as collateralized by the underlying security.

The difference between the purchase / (sale) and resale / (repurchase) consideration is recognized on a time proportion basis over the period of the transaction and is included in mark-up / return / interest earned or expensed.

4.2 Investments

The Branch classifies its investment portfolio into the following categories:

Held for trading

These investments are either acquired for generating a profit from short-term fluctuations in prices or are part of a portfolio for which there is an evidence of a recent actual pattern of short-term profit taking.

These are measured at subsequent reporting dates at fair value. Net gain or loss on remeasurement is included in the profit and loss account for the year.

Held to maturity

These are investments with fixed or determinable payments and fixed maturities that the Branch has the positive intent and ability to hold upto maturities.
These are measured at amortized cost using effective interest rate method, less impairment losses, if any to reflect recoverable amount.

Available for sale

These are investments which do not fall under held for trading or held to maturity categories.

Quoted securities classified as available for sale investments are measured at subsequent reporting dates at fair value. Any surplus / deficit arising thereon is taken directly to 'surplus/deficit on revaluation of seeurities' in the balance sheet. The surplus / deficit arising on these securities is taken to the profit and loss account for the year when actually realized upon disposal.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in other unquoted seeurities are valued at cost less impairment losses, if any.

Gain or loss on sale of investments is included in profit and loss account for the year.

Investments are reeognized on trade-date basis and are initially measured at fair value plus transaction cost directly attributable except for investments classified as held for trading. In case of held for trading investments, transaction costs are expensed in the profit and loss account for the year.

4.3 Advances

Advances are stated net of provision for non-performing loans and advances. The provision for non-performing loans and advances is made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Advances are written-off when they are considered irrecoverable.

4.4 Operating fixed assets, depreciation and amortization

Properties and equipment

Properties and equipment other than capital work in progress are stated at cost less aecumulated depreciation and accumulated impairment losses, if any. Capital work in progress is stated at cost.

Depreciation is charged to profit and loss account applying the straight-line method over the estimated useful lives while taking into account any residual values, at the rates given in Note 9.1 to the financial statements. In respect of additions and deletions to properties and equipment, full month's depreciation is charged on additions and no depreciation is charged in month of disposal.

Residual values, useful lives and depreciation methods are reviewed and adjusted, if required, at each balance sheet date.

Normal maintenance and repairs are charged to profit and loss account as and when incurred. Major repairs and improvements are capitalized.

Gain or loss on disposal of fixed assets is taken to profit and loss account for the year.

Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is charged on straight-line method, by taking into consideration the estimated useful lives of intangible assets, at the rates given in note 9.2 to the financial statements. These are amortized on prorata basis i.e. full month's amortization is charged on additions and no amortization is charged in the month of disposal.

4.5 Impairment

At each balance sheet date, the Branch reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. Recoverable amount is the higher of fair value less costs to sell and value in use. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account for the year.

An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized. In case of reversal the carrying amount of such asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of impairment loss is recognized immediately in profit and loss account for the year.

4.6 Taxation

Income tax comprises of current and deferred tax. Income tax is recognized in the profit and loss account, except to the extent that it relates to items recognized directly in equity or below equity, in which case it is recognized in equity or below equity, as the case may be.

Current

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date and, any adjustments to the tax payable relating to prior years.

Deferred

Deferred tax is recognized using the balance sheet liability method on all material temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. Deferred tax is recognized based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities using the tax rates enacted at the balance sheet date, expected to be applicable at the time of realization or settlement.

Deferred tax asset is recognized only to the extent that it is probable that future taxable profits would be available against which the asset is utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

4.7 Staff retirement benefits

Defined benefit plan

The Branch operates an approved funded gratuity scheme, administered by the board of trustees, for all its permanent employees who have completed 5 years of service. Provision is made in accordance with the actuarial recommendations. Actuarial valuation is carried out periodically using "Projected Unit Credit Method".

Actuarial gain / loss is recognized using 10% corridor approach. The Branch recognizes portion of its actuarial gains and losses as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of previous reporting period exceeds the greater of 10% of the present value of defined benefit obligation and 10% of the fair value of plan assets at that date. The excess determined is recognized as income or expense over the expeeted average remaining lives of the employees.

Defined contribution plan

The Branch also operates a recognized provident fund scheme, administered by the board of trustees, for all its permanent employees to which equal monthly contributions are made by both the Braneh and the employees at the rate of 12.5% of the basie salary.

Employees' compensated absences

Employees' entitlement to annual leaves is recognized when they accrue to employees. A provision is made for estimated liability for annual leaves as a result of serviee rendered by the employee against un-availed leaves upto the balanee sheet date.

4.8 Provisions

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

4.9 Revenue recognition

Mark-up / return on advanees and investments is recognized on accrual basis except mark-up / interest on non-performing advances which is recognized on receipt basis, in accordance with Prudential Regulations issued by thc State Bank of Pakistan.

Fee, commission on letters of credit and guarantees and brokerage income is recognized on time proportion basis and / or when the services are rendered, as the case may be.

Dividend income is recorded when the right to receive dividend is established.

4.10 Foreign currencies

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign curreneies are translated into Pak Rupees at the exchange ratcs prevailing at the balance sheet date.

Forward foreign exchange contracts are valued at forward rates applicable to their respcctive maturities. Exchange gain or loss is included in profit and loss account for the year.

4.11 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of:

- Cash and balances with treasury banks

- Balances with other banks

4.12 Off setting

Financial assets and financial liabilities are set-off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Branch intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4.13 Financial instruments

All financial assets and liabilities are recognized at the time when the Branch becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual right to the cash flow from the financial assets expires or is transferred. Financial liabilities are derecognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account directly. Financial assets carried on the balance sheet include cash and bank balances, lendings to financial institutions, advances and certain receivables; and financial liabilities include bills payable, borrowings, deposits and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

4.14 Derivative financial instruments

Derivative financial instruments are recognized at their fair value on the date at which a derivative contract is entered into. These instruments are marked to market and changes in fair values are taken to the profit and loss account for the year.

4.15 Acceptances and other contingent liabilities

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

Other contingencies are recognized and disclosed unless the probability of an outflow of resources emboddying benefits are remote.

4.16 Head office administrative expenses

The administrative expenses allocated by the Head Office are charged to the profit and loss account.

4.17 Segment reporting

An operating segment is a component of an entity that engages in business activities, from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decision about resources to be allocated to the segment and assesses its performance and for which discrete financial information is available.

Business segments

Trading and sales

It includes fixed income, foreign exchange transactions, fundings, own position securities, lendings and borrowings.

Retail banking

It includes deposits and banking services.

Commercial banking

Commercial banking includes export finance, trade finance, short term and long term lendings, bills discounting, letters of credit, acceptances and guarantees.

Payments and settlements

It includes payments and collections, funds transfer, clearings and settlements.

Geographical segment

These financial statements represent operations of Karachi Branch only and all assets and liabilitics represent transactions entered by Karachi Branch.

5. CASH AND BALANCES WITH TREASURY BANKS

		2010	2009
		(Rupees in '000)	
In hand:			
Local currency		7,915	8,668
Foreign currencies		7,905	7,377
With State Bank of Pakistan in:			
Local currency current account	*5.1*	126,677	121,404
Foreign currency current account		10,705	13,479
Foreign currency deposit account	*5.2*	34,338	45,099
Head office capital account	*16*	4,652,493	4,041,323
		4,840,033	4,237,350

5.1 This represents current account maintained with the State Bank of Pakistan under the Cash Reserve Requirement in section 22 of the Banking Companies Ordinance, 1962.

5.2 These include Special Cash Reserve maintained against foreign currency deposits mobilized under FE 25 circular and the US Dollar settlement account opened in accordance with FE circular issued by the State Bank of Pakistan. These are remunerated at nil (2009: nil) per annum.

6. BALANCES WITH OTHER BANKS

		2010	2009
		(Rupees in '000)	
In Pakistan		-	-
Outside Pakistan			
In deposit accounts	*6.1*	88,400	91,075
		88,400	91,075

6.1 This represents balances with branches of the Bank of Tokyo-Mitsubishi UFJ, Limited outside Pakistan. These carry markup at the rate of 0.06% to 1.50% (2009: 0.10% to 0.81%) per annum.

7. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	*7.1*	225,000	844,000
Repurchase agreement lendings	*7.2 & 7.4*	788,607	1,061,551
		1,013,607	1,905,551

7.1 These are unsecured lendings carrying mark-up at the rate of 12.25% (2009: 11.65% to 12.45%) per annum having maturity period of upto one month (2009: one month).

7.2 These carry mark-up at rates ranging from 12.60% to 13.40% (2009: 11.50% to 12.40%) per annum having maturity period of upto one month.

7.3 Particulars of lendings

In local currency	1,013,607	1,905,551
In foreign currencies	-	-
	1,013,607	1,905,551

7.4 Securities held as collateral against lendings to financial institutions

	2010			2009		
	Held by branch	Further given as collateral	Total	Held by branch	Further given as collateral	Total
	(Rupees in '000)					
Market Treasury Bills	788,607	-	788,607	1,061,551	-	1,061,551

7.4.1 Market value of securities held as collateral against lendings to financial institutions amounted to Rs. 789 million (2009: Rs. 1,065 million).

8. ADVANCES

	Note	2010	2009
		(Rupees in '000)	
Loans, cash credits, running finances, etc.			
In Pakistan		2,980,932	2,198,843
Outside Pakistan		-	-
		2,980,932	2,198,843
Net investment in finance lease			
In Pakistan		-	-
Outside Pakistan		-	-
		-	-
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		-	-
Payable outside Pakistan		-	-
		-	-
Advances - gross		2,980,932	2,198,843
Provision for non-performing advances	*8.2*	-	-
Advances - net of provision		2,980,932	2,198,843

8.1 Particulars of advances

		2010	2009
8.1.1	In local currency	2,980,932	2,198,843
	In foreign currencies	-	-
		2,980,932	2,198,843
8.1.2	Short term (for upto one year)	2,344,433	1,592,516
	Long term (for over one year)	636,499	606,327
		2,980,932	2,198,843

8.2 Since there was no non-performing loan, no provision has been made.

8.3 Particulars of loans and advances to directors, associated companies, etc.

Debts due from directors, executives or officers of the Branch or anyone of them either severally or jointly with any other person*

	2010	2009
Balance as at 01 January	7,310	8,420
Loans granted during the year	7,570	2,298
Repayments during the year	(1,812)	(3,408)
Balanee as at 31 December	13,068	7,310

* Represent loans given by the Branch to its executives and other employees as per the terms of their employment.

9. OPERATING FIXED ASSETS

	Note	2010	2009
Properties and equipment	*9.1*	27,725	23,173
Intangible assets	*9.2*	2,330	3,353
Capital work in progress	*9.3*	-	810
		30,055	27,336

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9.1 Properties and equipment

2010

	Cost			Accumulated depreciation			Net book value as at 31 December 2010	Rate of depreciation (%)
	As at 1 January 2010	Additions / (disposals)	As at 31 December 2010	As at 1 January 2010	Charge for the year / (on disposal)	As at 31 December 2010		
	(Rupees in '000)							
Alterations in leasehold premises	34,897	-	34,897	31,237	357	31,594	3,303	10%
Building on leasehold premises	819	-	819	819	-	819	-	5%
Furniture and fixtures	5,600	-	5,600	4,408	306	4,714	886	10%
Computer equipment	28,160	7,797	35,957	23,242	3,602	26,844	9,113	20%
Electrical equipment	16,884	3,574 (2,800)	17,658	12,820	1,891 (2,800)	11,911	5,747	20%
Vehicles	16,983	2,676 (1,251)	18,408	7,644	3,339 (1,251)	9,732	8,676	20%
	103,343	14,047 (4,051)	113,339	80,170	9,495 (4,051)	85,614	27,725	

2009

	Cost			Accumulated depreciation			Net book value as at 31 December 2009	Rate of depreciation %
	As at 1 January 2009	Additions / (disposals)	As at 31 December 2009	As at 1 January 2009	Charge for the year / (on disposal)	As at 31 December 2009		
	(Rupees in '000)							
Alterations in leasehold premises	31,844	3,462 (409)	34,897	31,076	570 (409)	31,237	3,660	10%
Building on leasehold premises	819	-	819	819	-	819	-	5%
Furniture and fixtures	5,625	- (25)	5,600	4,128	303 (23)	4,408	1,192	10%
Computer equipment	35,365	1,273 (8,478)	28,160	29,036	2,684 (8,478)	23,242	4,918	20%
Electrical equipment	15,696	2,006 (818)	16,884	12,276	1,207 (663)	12,820	4,064	20%
Vehicles	9,969	7,014	16,983	4,689	2,955	7,644	9,339	20%
	99,318	13,755 (9,730)	103,343	82,024	7,719 (9,573)	80,170	23,173	

9.2 Intangible assets

		Cost			Amortization			Net book value as at 31 December	Rate of amortization %
		As at 1 January	Additions / (disposals)	As at 31 December	As at 1 January	Charge for the year / (on disposal)	As at 31 December		
		(Rupees in '000)							
Computer softwares	2010	5,783	- -	5,783	2,430	1,023 -	3,453	2,330	20%
Computer softwares	2009	3,773	2,107 (97)	5,783	1,645	882 (97)	2,430	3,353	20%

9.2.1 The intangible assets will be amortized over a period of four years.

9.3 Capital work-in-progress

	2010	2009
	(Rupees in '000)	
Advance payment towards purchase of fixed assets	-	810

9.4 Following are the details of disposal of assets whose original cost or the book value exceeds Rs. 1 million or Rs. 250,000 respectively, whichever is less:

	Cost	Book value	Sale price	Mode of disposal	Particulars of purchasers
	(Rupees in '000)				
Electrical equipment	2,800	-	1,155	Bid	Sara Enterprise
Vehicle	1,251	-	778	Bid	Sufi Azam
Others (having a book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000)	-	-	-		

No asset has been sold to the General Manager, other executives or any related party.

9.5 The fair values of properties and equipments as per the management estimate are not materially different from the carrying amounts except for the building on leasehold premises in PECHS whose value as per management's estimate is Rs. 70 million.

9.6 The costs of fully depreciated and amortized assets that are still in use are as follows:

	Note	2010	2009
		(Rupees in '000)	
Alteration in leasehold premises		30,879	30,879
Building on leasehold premises		819	819
Furniture, fixture and office equipment		11,013	13,298
Computer equipment		16,308	14,998
Vehicles		-	1,251
Intangible assets		667	667
		59,686	61,912

10. DEFERRED TAX ASSETS

Deferred debits arising in respect of:

	Note	2010	2009
Differences between accounting and tax depreciation		1,100	2,260

11. OTHER ASSETS

	Note	2010	2009
Income / mark-up accrued in local currency		71,809	72,307
Income / mark-up accrued in foreign currency		-	-
Current tax (payments less provision)		6,989	-
Advances, deposits, advance rent and other prepayments		10,662	10,455
Stationery and stamps in hand		239	442
Receivable from defined benefit plan	26.4	-	12
Others		32	85
		89,731	83,301

12. BILLS PAYABLE

	2010	2009
In Pakistan	9,419	216,907
Outside Pakistan	-	-
	9,419	216,907

13. BORROWINGS

	2010	2009
In Pakistan	850,000	80,000
Outside Pakistan	1,018,489	1,317,725
	1,868,489	1,397,725

13.1 Particulars of borrowings with respect to curreneies

	2010	2009
In local currency	850,000	80,000
In foreign currencies	1,018,489	1,317,725
	1,868,489	1,397,725

13.2 Details of borrowings secured / unsecured

	Note	2010	2009
		(Rupees in '000)	
Secured			
Repurchase agreement borrowings		-	-
Export refinance scheme	13.2.1	50,000	80,000
		50,000	80,000
Unsecured			
Call borrowings	13.2.2	800,000	-
Overdrawn nostro accounts		7,976	3,977
Inter office borrowings	13.2.3	1,010,513	1,313,748
		1,818,489	1,317,725
		1,868,489	1,397,725

13.2.1 The Branch has entered into agreements with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the terms of the agreement, the Branch has granted SBP the right to recover the outstanding amount from the Branch at the date of maturity of finances by directly debiting the current account maintained by the Branch with SBP. These borrowings are repayable latest by March 2011. The rate of finance is 8.5% (2009: 6.5%) per annum.

13.2.2 This represents inter-bank call borrowings as at 31 December 2010, carrying markup ranging from 12.80% to 13.13% per annum and have maturity of upto one month.

13.2.3 These borrowings carry mark-up at the rates ranging from 0.50% to 0.86% per annum having maturity upto three months (2009: 0.51% to 1.07% per annum having maturity upto six months).

14. DEPOSITS AND OTHER ACCOUNTS

	2010	2009
Customers		
Fixed deposits	1,364,025	1,360,100
Savings deposits	125,567	115,642
Current accounts - remunerative	570,897	1,014,421
Current accounts - non-remunerative	281,114	239,157
Margin deposits	-	-
	2,341,603	2,729,320
Financial Institutions		
Remunerative deposits	-	-
Non-remunerative deposits	8,119	10,729
	8,119	10,729
	2,349,722	2,740,049

14.1 Particulars of deposits

	2010	2009
In local currency	2,216,995	2,596,085
In foreign currencies	132,727	143,964
	2,349,722	2,740,049

14.2 Deposits include deposits from related parties amounting to Rs. 36.42 million (2009: Rs. 33.07 million).

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15. OTHER LIABILITIES

	Note	2010	2009
		(Rupees in '000)	
Mark-up / return / interest payable in local currency		25,328	24,908
Mark-up / return / interest payable in foreign currency		1,726	3,293
Unearned commission		3,270	769
Accrued expenses		2,473	2,483
Unremitted head office expenses		38,753	48,879
Payable to defined benefit plan	26.4	265	-
Unrealized loss on forward foreign exchange contracts		34,059	14,845
Provision against collateral		3,632	3,632
Provision for employees' compensated absences		1,822	1,385
Provision for Workers' Welfare Fund		3,530	2,127
Others		943	1,126
		115,801	103,447

16. HEAD OFFICE CAPITAL ACCOUNT

Capital held as:
Interest free deposit in approved foreign exchange with the State Bank of Pakistan.

Remitted from Head Office (Japanese Yen 4,419,160,968)	1,704,515	1,704,515
Revaluation surplus allowed by the State Bank of Pakistan - cumulative	2,947,978	2,336,808
	4,652,493	4,041,323

16.1 This represents deposit with State Bank of Pakistan in accordance with Section 13 of the Banking Companies Ordinance, 1962.

17. CONTINGENCIES AND COMMITMENTS

17.1 Direct credit substitutes

Guarantees	54,279	54,279

17.2 Transaction - related contingent liabilities

Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credit related to particular transactions issued in favour of:

Government	645,287	356,099
Banking companies and other financial institutions	-	-
Others	31,770	17,719
	677,057	373,818

17.3 Trade-related contingent liabilities

	2010	2009
	(Rupees in '000)	
Letters of eredit	71,393	17,849
Acceptances	110,645	22,836

17.4 Other contingencies

Claims against the Branch not acknowledged as debt	9,366	9,366

17.5 Commitments in respect of forward lending

Commitments to extend credit	798,803	1,931,800

17.6 Commitments in respect of forward exchange contracts

Purchase	1,045,892	1,357,031
Sale	13,463	14,363
	1,059,355	1,371,394

The maturities of above eontracts are spread over a period upto three months.

18. MARK-UP / RETURN / INTEREST EARNED

On loans and advances to:		
- Customers	317,422	349,006
- Financial institutions	12,329	15,079
On investments in:		
- Held for trading securities	-	-
- Available for sale securities	-	-
On deposits with treasury banks and financial institutions	17	11
On seeurities purchased under resale agreements	148,035	85,636
On eall money lendings	32,184	66,398
	509,987	516,130

19. MARK-UP / RETURN / INTEREST EXPENSED

Deposits	251,718	164,261
Seeurities sold under repurchase agreements	2,879	16,080
Exchange cost on funding arrangements	120,453	154,288
Inter office borrowings	6,392	37,771
Call borrowings	21,862	10,645
Borrowings from State Bank of Pakistan under Export Refinanee Scheme	3,624	2,206
	406,928	385,251

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20. OTHER INCOME

		2010	2009
		(Rupees in '000)	
Net profit on sale of operating fixed assets		1,932	163
Others		8	98
		1,940	261

21. ADMINISTRATIVE EXPENSES

Salaries, allowances, etc.		48,741	40,314
Charge for defined benefit plan	*26.7*	1,609	977
Contribution to defined contribution plan		1,315	1,170
Contribution to Employee Old Age Benefit Scheme		115	149
Provision for employees' compensated absences		1,822	1,385
Head office expenses		18,380	27,500
Rent, taxes, insurance, electricity, etc.		19,101	16,934
Legal and professional charges		711	891
Communications		1,913	1,980
Repairs and maintenance		2,777	2,420
Stationery and printing		1,809	1,762
Advertisement and publicity		211	284
Donations		100	-
Auditors' remuneration	*21.1*	1,649	746
Depreciation	*9.1*	9,495	7,719
Amortization of intangible assets	*9.2*	1,023	882
Travelling and entertainment		1,200	2,230
Brokerage and commission		392	1,937
Others		717	2,808
		113,080	112,088

21.1 Auditors' remuneration

Audit fee	430	395
Fee for interim review and other certifications	1,194	316
Out-of-pocket expenses	25	35
	1,649	746

22. OTHER CHARGES

Penalties imposed by the State Bank of Pakistan	21	200
Workers' Welfare Fund	1,403	2,283
Others	39	2
	1,463	2,485

23. TAXATION

	2010	2009
	(Rupees in '000)	
For the year		
Current	23,525	23,309
Deferred	1,160	(334)
	24,685	22,975
For the prior year		
Current	(2,111)	(3,291)
Deferred	-	-
	(2,111)	(3,291)
	22,574	19,684

23.1 Relationship between tax expense and accounting profit

	2010	2009
Profit before taxation	70,174	65,612
Tax at the applicable tax rate of 35 percent (2009: 35 percent)	24,561	22,964
Tax effect of computational adjustments	124	11
Tax effect of prior year adjustments	(2,111)	(3,291)
Tax expense for the year	22,574	19,684

23.2 The income tax authorities have finalised the income tax assessment of the Branch upto tax year 2003. In respect of tax year 2004, the taxation officer has made additions of Rs. 1,375,791 in the order passed u/s 122 (5A) of ITO, 2001. Appeal against the order is pending with the commissioner of Income Tax Appeals. The Branch is confident that no additional liability will arise.

The Income Tax Department has filed appeals in the High Court relating to assessment years 1991-92, 1992-93, 1997-98 and 1998-99. Tax liability of Rs. 0.919 million may arise on these. The Branch has also filed reference application in High Court in respect of assessment years 2000-01, 2001-02 and 2002-03. The Branch is confident of a favourable outcome and expects that no additional liability would arise.

23.3 The Branch has filed returns under self assessment scheme as envisaged under section 120 of the Income Tax Ordinance 2001, for tax years 2005, 2006, 2007, 2008, 2009 and 2010. These returns are deemed to have been assessed, unless selected for detailed audit.

24. CASH AND CASH EQUIVALENTS

	2010	2009
Cash and balances with treasury banks	4,840,033	4,237,350
Balances with other banks	88,400	91,075
	4,928,433	4,328,425

25. STAFF STRENGTH

		(Number)	
Permanent		31	30
Others		1	2
Branch's own staff strength at the end of the year		32	32
Outsourced	*25.1*	10	10
Total staff strength		42	42

25.1 Outsourced represents employees hired by an outside contractor / agency and posted in the Branch to perform various tasks / activities of the Branch.

26. DEFINED BENEFIT PLAN

26.1 General description

The Branch operates an approved gratuity fund scheme for all its permanent employees, which is administered by the Trustees. The Branch's costs and contributions are determined based on actuarial valuation carried out at each year end by using Projected Unit Credit Method. The benefits under the gratuity scheme are payable to employees on cessation of employment on the following grounds:

- retirement upon attainment of the normal retirement age (58 years).
- his / her death in service of the Employer.
- on voluntary retirement before normal retirement age.
- termination of his / her service by the Employer other than for misconduct, negligence, or incompetence.

The benefits under the scheme are payable as under:

Length of service	**Benefits**
Less than 5 years	Nil
Greater than or equal to 5 years	Last drawn basic salary for each completed year of service

26.2 Principal actuarial assumptions

The actuarial valuation is carried out periodically. The actuarial valuation was carried out for the year ended 31 December 2010 using the "Projected Unit Credit Method". The main assumptions used for actuarial valuation are as follows:

	2010	2009
	(Percent)	
Discount rate	**14.0%**	14.0%
Expected rate of increase in salaries	**13.0%**	12.0%
Expected rate of return on plan assets	**5.0%**	5.0%

26.3 (Receivable from) / payable to defined benefit plan

	(Rupees in '000)	
Present value of defined benefit obligations	**7,129**	4,858
Fair value of plan assets	**(7,027)**	(5,431)
Net actuarial gains / (losses) not recognized	**163**	561
Net (receivable) / payable recognized as at the year-end	**265**	(12)

26.4 Movement in balance (receivable) / payable

	2010	2009
	(Rupees in '000)	
Opening balance of (receivable) / payable	(12)	1,091
Expense recognized	1,609	977
Contribution - Branch	(1,332)	(2,080)
Closing balance of (receivable) / payable	265	(12)

26.5 Reconciliation of the present value of the defined benefit obligations

Present value of obligation as at 01 January	4,858	5,836
Current service cost	476	227
Interest cost	839	875
Vested past service cost	-	27
Benefits paid	-	(697)
Actuarial (gain) / loss	956	(1,410)
Present value of obligation as at 31 December	7,129	4,858

26.6 Changes in fair values of plan assets

Fair value as at 01 January	5,431	3,841
Expected return on plan assets	272	192
Contribution - Branch	1,332	2,080
Benefits paid	-	(697)
Actuarial gain / (loss)	(8)	15
Fair value as at 31 December	7,027	5,431

26.7 Charge for defined benefit plan

Current service cost	476	227
Interest cost	839	875
Expected return on plan assets	(272)	(192)
Vested past service cost	-	27
Current year actuarial losses recognized as per Para 58(b)	569	-
Net actuarial loss recognized	(3)	40
	1,609	977

26.8 Actual return on plan assets

Actual return on plan assets	264	207

26.9 Composition of fair value of plan assets

Cash and bank balances	7,027	5,431

26.10 Movement in actuarial loss / (gain)

Unrecognized actuarial (gains) / losses as at 01 January	(561)	904
Current year actuarial losses recognized as per Para 58(b)	(569)	-
Amount recognized during the year	3	(40)
	(1,127)	864
Actuarial loss / (gain) during the year	964	(1,425)
Net unrecognized actuarial gains as at 31 December	(163)	(561)

26.11 Other relevant details of above fund are as follows:

	2010	2009	2008	2007	2006
	(Rupees in '000)				
Present value of defined benefit obligation	7,129	4,858	5,836	6,430	4,880
Fair value of plan assets	(7,027)	(5,431)	(3,841)	(5,454)	(4,699)
Deficit	102	(573)	1,995	976	181
Actuarial gain / (loss) on obligation					
Experience adjustments	(956)	1,410	157	(209)	(147)
Assumptions loss	-	-	-	(648)	-
	(956)	1,410	157	(857)	(147)
Actuarial gain / (loss) on assets					
Experience adjustments	(8)	15	(34)	(37)	(34)
Assumptions gain / (loss)	-	-	-	-	-
	(8)	15	(34)	(37)	(34)

27. DEFINED CONTRIBUTION PLAN

The Branch has established a recognized provident fund scheme for all permanent employees. Equal monthly contributions are made, both by the Branch and its employees, to the fund at the rate of 12.5 percent of the basic salary.

28. COMPENSATION OF GENERAL MANAGER AND EXECUTIVES

	General Manager		Executives	
	2010	2009	2010	2009
	(Rupees in '000)			
Managerial remuneration	1,491	1,032	10,381	6,693
Tax borne by the Branch	7,301	6,084	4,110	3,984
Contribution to defined contribution plan	-	-	527	466
Rent and house maintenance	598	499	1,700	1,048
Utilities	213	284	421	373
Medical	-	-	37	37
Conveyance	367	110	565	431
Others	980	982	2,246	1,721
	10,950	8,991	19,987	14,753
	(Numbers)			
Number of persons	1	1	5	5

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The General Manager and some executives have been provided with free use of the Branch maintained cars and household equipments in accordance with their terms of employment.

Executives mean employees, other then the General Manager, whose basic salary exceed five hundred thousand rupees in a financial year.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

On-balance sheet financial instruments

	2010		2009	
	Book value	Fair value	Book value	Fair value
	(Rupees in '000)			
Assets				
Cash and balances with treasury banks	4,840,033	4,840,033	4,237,350	4,237,350
Balances with other banks	88,400	88,400	91,075	91,075
Lendings to financial institutions	1,013,607	1,013,607	1,905,551	1,905,551
Advances	2,980,932	2,980,932	2,198,843	2,198,843
Other assets	71,809	71,809	73,737	73,737
	8,994,781	8,994,781	8,506,556	8,506,556
Liabilities				
Bills payable	9,419	9,419	216,907	216,907
Borrowings	1,868,489	1,868,489	1,397,725	1,397,725
Deposits and other accounts	2,349,722	2,349,722	2,740,049	2,740,049
Other liabilities	108,058	108,058	100,551	100,551
	4,335,688	4,335,688	4,455,232	4,455,232

Off-balance sheet financial instruments

Forward purchase of foreign exchange	1,045,892	1,045,892	1,357,031	1,357,031
Forward sale of foreign exchange	13,463	13,463	14,363	14,363

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.

In the opinion of management, fair values of these assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short term in nature or are frequently re-priced. In the opinion of management, the fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to absence of relevant active market for similar assets and liabilities.

30. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2010					
	Trading and sales	Retail banking	Commercial banking	Payment and settlement	Others	Total
	(Rupees in '000)					
Interest income	180,219	-	329,751	17	-	509,987
Non-funded Income	-	-	79,718	-	1,940	81,658
Interest and non mark-up income	180,219	-	409,469	17	1,940	591,645
Total expenses	66,062	251,718	224,353	4	1,908	544,045
Net income / (loss)	114,157	(251,718)	185,116	13	32	47,600
Segment assets (gross)	1,185,327	15,820	3,052,741	88,400	49,077	4,391,365
Segment non-performing loans	-	-	-	-	-	-
Segment provision required	-	-	-	-	-	-
Segment liabilities	889,158	2,372,150	1,021,286	9,419	51,418	4,343,431
Segment return on net assets (ROA) (%)	11.86%	-	12.73%	-	-	-
Segment cost of funds (%)	7.43%	10.61%	21.97%	-	3.71%	-

	2009					
	Trading and sales	Retail banking	Commercial banking	Payment and settlement	Others	Total
	(Rupees in '000)					
Interest income	152,034	-	364,085	11	-	516,130
Non-funded Income	-	-	49,045	-	261	49,306
Interest and non mark-up income	152,034	-	413,130	11	261	565,436
Total expenses	64,402	164,261	288,360	-	2,485	519,508
Net profit after tax	87,632	(164,261)	124,770	11	(2,224)	45,928
Segment assets (gross)	2,102,750	16,045	2,264,388	91,075	30,135	4,504,393
Segment non-performing loans	-	-	-	-	-	-
Segment provision required	-	-	-	-	-	-
Segment liabilities	14,845	2,753,127	1,399,007	231,517	59,632	4,458,128
Segment return on net assets (ROA) (%)	12.18%	-	15.48%	-	-	-
Segment cost of funds (%)	11.67%	3.45%	11.26%	-	-	-

31. RELATED PARTY TRANSACTIONS

The Branch has related party transactions with its head office, other branehes, employees' benefit plans and its executive officers.

Transactions with related parties are executed substantially on the same terms, as those prevailing at the time for comparable transactions with unrelated parties.

Details of transactions with related parties, other than those disclosed elsewhere in these financial statements, are as follows:

Deposits	2010		2009	
	Overseas Branches		Overseas Branches	
	Nostro account	Vostro account	Nostro account	Vostro account
	(Rupees '000)			
Balance as at 01 January	87,098	(10,633)	36,983	(4,684)
Deposits during the year	18,820,056	(228,057)	24,595,269	(182,043)
Withdrawals during the year	(18,826,730)	230,571	(24,545,154)	176,094
Balance as at 31 December	80,424	(8,119)	87,098	(10,633)

	2010	2009
Lendings to financial institutions	(Rupees in '000)	
Balance as at 01 January	-	-
Given during the year	814,570	2,133,260
Repaid during the year	(814,570)	(2,133,260)
Balance as at 31 December	-	-
Borrowings from Branches		
Balance as at 01 January	1,313,748	3,141,792
Funds borrowed during the year	2,198,186	2,679,294
Repaid during the year	(2,501,421)	(4,507,338)
Balance as at 31 December	1,010,513	1,313,748
Deposit of provident fund as at 31 December	21,278	17,007
Deposit of gratuity fund as at 31 December	7,027	5,431
Markup earned	429	372
Markup expensed	8,439	39,525
Contributions to Provident Fund	1,315	1,170
Contribution to Gratuity Fund	1,332	2,080
Guarantees issued on behalf of related parties	386,129	286,294

The remuneration of General Manager and Executives has been given in note 28 to the financial statements

32. CAPITAL - ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

32.1 Capital management

The Branch is subject to regulatory capital requirement promulgated by the State Bank of Pakistan. It is therefore required to maintain regulatory capital for credit risk, market risk and operational risk. Failure to meet minimum requirement will initiate certain actions by regulatory authorities.

Objectives and goals of managing capital

The objectives and goals of managing capital of the Branch are as follows:

- To be an appropriately capitalized institution, as defined by regulatory authorities
- To maintain strong ratings and protect the Branch against unexpected events
- To ensure the availability of adequate capital so as to enable the Branch to finance its operations

Statutory minimum capital requirement and management of capital

The State Bank of Pakistan (SBP), through its BSD circular No.7 dated 15 April 2009, requires the minimum paid-up capital (net of losses) for Banks / Development Financial Institutions to be raised to Rs. 7 billion by the year ended 31 December 2010. Branches of foreign banks operating in Pakistan are also required to comply with the above minimum capital requirement prescribed for the locally incorporated banks / DFIs. However, those branches of foreign banks whose head offices hold a minimum paid up capital of atleast equivalent to US $ 300 million (free of losses) and have a Capital Adequacy Ratio (CAR) of at least 8% or minimum prescribed by their home regulator, whichever is higher, will be allowed, with the prior approval of the State Bank of Pakistan, to raise their assigned capital to Rs. 3 billion latest by 31 December 2010. In addition, banking companies carrying business in Pakistan are required to maintain a CAR of 10% (2009: 10%) of risk weighted exposures. The Branch's CAR, determined as per Basel-II accord, as at 31 December 2010 was 143.35% (2009: 146.75%) of its risk weighted assets.

The required capital adequacy ratio (10% of the risk weighted assets) is achieved by the Branch through improvement in the assets quality at the existing volume level, ensuring better recovery management and maintaining composition of assets with low risk. The total risk-weighted exposures comprise the credit risk, market risk and operational risk. The Branch has complied with all externally imposed capital requirements throughout the year. Further, there has been no material change in the Branch's management of capital during the year.

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

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

The eligible regulatory capital consists of Tier 1 capital, which includes capital deposited with the State Bank of Pakistan (SBP) and unremitted profit. Tier 2 and 3 are also prescribed by SBP but the Branch has no such eligible capital. The Branch calculates capital requirement for credit, market and operational risks using the methodology prescribed by SBP. Banking operations are categorized as either trading book or banking book and risk weighted assets are determined according to specific requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Branch calculates capital requirement as per Basel II regulatory framework, using the following approaches:

Credit risk	Standardized approach
Market risk	Standardized approach
Operational risk	Basic indicator approach

32.2 Capital adequacy

The risk-weighted assets to determine capital adequacy ratio, calculated in accordance with the SBP's guidelines on capital adequacy, are as follows:

32.2.1 Regulatory capital base

	2010	2009
	(Rupees in '000)	
Tier I Capital		
Head office capital	4,652,493	4,041,323
Reserves	-	-
Unremitted profit	47,934	46,265
Less: Adjustment for - intangible assets	(2,330)	3,353
Total Tier I Capital	4,698,097	4,090,941
Tier II Capital		
Subordinated debt (upto 50% of total Tier I Capital)	-	-
General provisions subject to 1.25% of total risk-weighted assets	-	-
Foreign exchange translation reserves	-	-
Revaluation reserve (upto 50%)	-	-
Total Tier II Capital	-	-
Eligible Tier III Capital	-	-
Total Regulatory Capital	4,698,097	4,090,941

32.2.2 Risk - weighted exposures

	Capital requirements		Risk weighted assets	
	2010	2009	2010	2009
	(Rupees in '000)			
Credit risk				
Sovereign	-	-	-	-
Public sector enterprises	9,045	8,973	90,451	89,728
Financial institutions	38,440	69,746	384,402	697,464
Corporates	240,319	160,062	2,403,192	1,600,615
Retail	328	312	3,277	3,122
Residential mortgage	305	110	3,051	1,104
Other assets	4,675	4,142	46,747	41,424
	293,112	243,345	2,931,120	2,433,457
Market risk				
Interest rate risk	-	-	-	-
Foreign exchange risk	442	1,210	4,421	12,100
	442	1,210	4,421	12,100
Operational risk	34,186	34,219	341,862	342,188
	327,740	278,774	3,277,403	2,787,745

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Capital adequacy ratio		2010	2009
		(Rupees in '000)	
Total eligible regulatory capital held (a)	32.2.1	4,698,097	4,090,941
Total risk weighted assets (b)		3,277,403	2,787,745
Capital adequacy ratio [(a) / (b) x 100]		143.35%	146.75%

33. RISK MANAGEMENT

The Branch is primarily subject to credit risk, market risk, liquidity risk and operational risk. The policies and procedures for managing these risks are outlined below. The basic premise of risk control and management is to comprehensively control and manage the risks of the Branch using a uniform standard approach as much as possible. The objective of comprehensive risk control and management is to provide the basis for the achievement of stable profit balanced with risk, achievement of an appropriate capital structure, appropriate allocation of resources, and other goals, by identifying / recognizing, evaluating / calculating, controlling and monitoring / reporting all risks.

33.1 Credit risk

The risk of sustaining a loss due to reduction or termination of the value of assets (including off-balance sheet assets), caused by an obligor's deteriorated credit standing or default of agreement.

The Branch's credit evaluation system comprises of well designed credit appraisal, sanctioning and constant review procedures for the purpose of emphasizing prudence in its lending activities and ensuring quality of assets portfolio. The objectives of credit evaluation system are to keep credit risk exposures within permissible level relevant to the Branch's risk capital, to maintain the soundness of assets and to ensure returns commensurate with risk. Special attention is paid to the management of non-performing loans, which are closely monitored both at the Branch's level as well as its head office level. A "Close Watch" mechanism is in function which identifies early warning signals of loans and advances becoming non-performing.

The Branch has implemented its own internal risk rating system for the credit portfolio, as per guidelines of the State Bank of Pakistan, which are further approved by the Head Office. Credit ratings by external rating agencies, if available, are also considered.

The Branch constantly examines its total credit exposures and considers analytical and systematic approaches to its credit structure categorised by group and industry.

33.1.1 Credit risk: General Disclosures - Basel II Specific

All credit risk exposures of the Branch are subject to the Standardized approach.

33.1.2 Credit risk: Disclosures on Portfolio Subject to Standardized Approach - Basel II Specific

The Branch uses the ratings issued by the Pakistan Credit Rating Agency Limited (PACRA) and JCR-VIS Credit Rating Company Limited (JCR-VIS) for its local currency exposures and ratings issued by Moody's, S&P, and Fitch for its foreign currency exposures. These External Credit Assessments Institutions (ECAIs) have been approved by the State Bank of Pakistan.

Types of exposures and ECAIs Used – 2010

Types of exposures	JCR-VIS (Local Currency)	PACRA (Local Currency)	Moody's, S&P, and Fitch (Foreign Currency)
Public sector enterprises	-	x	-
Financial institutions	x	x	x
Corporates	-	x	-

Alphanumerical scale of each ECAI used has been aligned with risk buckets as determined by the State Bank of Pakistan.

33.1.3 Credit exposures subject to standardized approach

Exposures	Rating Category	2010 Amount Outstanding	2010 Deduction CRM	2010 Net amount	2009 Amount Outstanding	2009 Deduction CRM	2009 Net amount
		Rupees in '000					
Corporate	AA+/AA/AA-	-	-	-	-	-	-
	A1+ / A1		-	-	3,696	-	3,696
	A+	519,624	-	519,624	519,301	-	519,301
Financial Institutions	AA+/ A1+	3,140	-	3,140	376,018	-	376,018
	AA / AAA /AA-	1,014,301	-	1,014,301	1,235,242	-	1,235,242
	A2		-	-	-	-	-
	BBB		-	-	351,723	-	351,723
	F1 (fitch IBCA)	88,400	-	88,400	91,075	-	91,075
Sovereigns etc.		-	-	-	-	-	-
Unrated (Corporate)		2,063,948	-	2,063,948	1,234,763	-	1,234,763
(Banks)			-	-	-	-	-
Public Sector Enterprise	AA / A1+	452,256	-	452,256	448,641	-	448,641
Others		59,826	-	59,826	7,317	-	7,317
Total		4,201,495	-	4,201,495	4,267,776	-	4,267,776

CRM= Credit Risk Mitigation

33.1.4 Segmental information

Segmental information is presented in respect of the class of business and geographical distribution of advances, deposits, contingencies and commitments.

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33.1.4.1 **Segments by class of business**

	2010					
	Advances (gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Fuel	800,000	26.84	27	0.00	-	-
Textile	-	-	-	-	-	-
Chemicals and pharmaceuticals	141,612	4.75	502,161	21.37	13,838	1.52
Cement	-	-	-	-	-	-
Automobile and transportation equipment	1,074,856	36.06	973,466	41.43	254,249	27.84
Electronics and electrical appliances	-	-	111,023	4.72	-	-
Construction	-	-	35,482	1.51	-	-
Power (electricity), gas, water and sanitary	450,000	15.10	224,254	9.54	-	-
Exports / imports	-	-	-	-	-	-
Financial	1,396	0.05	-	-	645,287	70.64
Insurance	-	-	2,533	0.11	-	-
Individuals	13,068	0.44	168,476	7.17	-	-
Communication	-	-	-	-	-	-
Others	500,000	16.76	332,300	14.15		-
	2,980,932	100.00	2,349,722	100.00	913,374	100.00

	2009					
	Advances (gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Fuel	-	-	22	0.00	-	-
Textile	-	-	-	-	-	-
Chemicals and pharmaceuticals	147,041	6.69	452,894	16.53	43,758	9.34
Cement	-	-	-	-	-	-
Automobile and transportation equipment	1,045,889	47.57	814,130	29.72	138,112	29.46
Electronics and electrical appliances	-	-	2,318	0.08	-	-
Construction	-	-	80,069	2.92	-	-
Power (electricity), gas, water and sanitary	448,156	20.38	908,234	33.15	-	-
Exports / imports	-	-		-	-	-
Financial	50,000	2.27	95	0.00	286,912	61.20
Insurance	-	-	1,159	0.04	-	-
Individuals	7,310	0.33	165,693	6.05	-	-
Communication	-	-	-	-	-	-
Others	500,447	22.76	315,435	11.51	-	-
	2,198,843	100.00	2,740,049	100.00	468,782	100.00

33.1.4.2 Segment by sector

	2010					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	13,068	0.44	7,766	0.33	-	-
Private	2,967,864	99.56	2,341,956	99.67	913,374	100.00
	2,980,932	100.00	2,349,722	100.00	913,374	100.00

	2009					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	448,157	20.38	-	-	-	-
Private	1,750,686	79.62	2,740,049	100.00	468,782	100.00
	2,198,843	100.00	2,740,049	100.00	468,782	100.00

33.1.4.3 Geographical segment analysis

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan	70,174	9,043,858	4,700,427	913,374
Asia-Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	70,174	9,043,858	4,700,427	913,374

	2009			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan	65,612	8,545,716	4,087,588	468,782
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	65,612	8,545,716	4,087,588	468,782

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33.2 Market risk

Market risk is the risk of sustaining a loss due to a change in the price of assets or liabilities held (including off-balance sheet assets and liabilities) resulting from changes of risk factors like interest rates, exchange rates, equity prices, commodity prices and others. Market liquidity risk is that of sustaining a loss due to inability to trade required quantities at a reasonable level, due to market turm oil or a lack of trade volume in the market.

With the full understanding that market risk is unavoidable in the Branch's business activities and that rapid handling of it is required, the Branch has a very effective system to manage and control market risks. In managing and controlling market liquidity risks, each product's market scale and market liquidity has always been sufficiently considered, to prevent any inability to cancel or reduce positions when necessary.

The Branch uses the Standardized Approach to calculate capital charge for market risk as per Basel II regulatory framework. Details of capital charge for market risk are given in note 32.2.2.

33.2.1 Foreign exchange risk

Foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in foreign currencies. The potential for loss arises from the process of revaluing foreign currency positions in rupee terms. The Branch's foreign exchange risk is limited to future cash flows in foreign currencies arising from foreign exchange transactions and translation of net open position in foreign currencies. Forward contracts are used to mitigate foreign exchange risks, the Branch however remains exposed to such risk to the extent of net open position.

	2010			
	Assets	Liabilities and head office capital account	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan rupee	4,250,017	3,235,153	(1,059,355)	(44,491)
United States dollar	137,408	1,135,908	1,045,892	47,392
Great Britain pound	72	-	-	72
Singapore dollar	2	-	-	2
Japanese yen	4,656,336	4,672,797	13,463	(2,998)
Euro	20	-	-	20
Other currencies	3	-	-	3
	9,043,858	9,043,858	-	-

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	2009			
	Assets	Liabilities and head office capital account	Off-balance sheet items	Net foreign currency exposure
	----------(Rupees in '000)----------			
Pakistan rupee	4,347,363	3,038,642	(1,342,668)	(33,947)
United States dollar	155,989	1,452,998	1,331,431	34,422
Great Britain pound	96	-	-	96
Singapore dollar	14	-	-	14
Japanese yen	4,042,217	4,054,076	11,237	(622)
Euro	34	-		34
Other currencies	3	-		3
	8,545,716	8,545,716	-	-

33.2.2 **Yield / interest rate risk**

Interest rate risk is the risk of loss from adverse movements in interest rates. The Asset Liability Management Committee (ALM) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Branch arising from fluctuation in the market interest rates and mismatching or gaps in the amount of financial assets and financial liabilities in different maturity time bands.

The Branch's interest rate exposure is calculated by categorizing its interest sensitive assets and liabilities into various time bands based on the earlier of their contractual repricing or maturity dates.

Yield / Interest Rate Risk in the Banking Book – Basel II Specific

The Branch holds financial assets and financial liabilities with different maturities or repricing dates and linked to different benchmark rates, thus creating exposure to unexpected changes in the level of interest rates. Interest rate risk in the banking book refers to the risk associated with interest-bearing financial instruments that are not held in the trading book of the Branch.

Repricing gap analysis presents the Branch's interest sensitive assets (ISA) and interest sensitive liabilities (ISL), categorized into various time bands based on the earlier of their contractual repricing or maturity dates. Deposits with no fixed maturity dates are included in the lowest, one-month time band, but these are not expected to be payable within a one-month period. The difference between ISA and ISL for each time band signifies the gap in that time band, and provides a workable framework for determining the impact on net interest income.

The Branch reviews the repricing gap analysis periodically to monitor and manage interest rate risk in the banking book.

33.2.3 Mismatch of interest rate sensitive assets and liabilities

	Effective yield / interest rate	Total	2010 Exposed to yield / interest risk: Upto 1 month	Over 1 to 3 months	Over 3 months 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	Not exposed to yield / interest rate
		(Rupees in '000)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.00%	4,840,033	34,338	-	-	-	-	-	-	-	-	4,805,695
Balances with other banks	0.06% -1.50%	88,400	88,400	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	12.25% - 13.40%	1,013,607	1,013,607	-	-	-	-	-	-	-	-	-
Investments		-	-	-	-	-	-	-	-	-	-	-
Advances	3.00% - 14.74%	2,980,932	1,951,329	196,095	50,392	146,617	293,199	209,917	129,972	1,574	1,837	-
Other assets		71,809	-	-	-	-	-	-	-	-	-	71,809
		8,994,781	3,087,674	196,095	50,392	146,617	293,199	209,917	129,972	1,574	1,837	4,877,504
Liabilities												
Bills payable		9,419	-	-	-	-	-	-	-	-	-	9,419
Borrowings	0.50% - 13.13%	1,868,489	906,458	962,031	-	-	-	-	-	-	-	-
Deposits and other accounts	0.70% - 12.80%	2,349,722	2,046,464	12,025	2,000	-	-	-	-	-	-	289,233
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		108,058	-	-	-	-	-	-	-	-	-	108,058
		4,335,688	2,952,922	974,056	2,000	-	-	-	-	-	-	406,710
On-balance sheet gap		4,659,093	134,752	(777,961)	48,392	146,617	293,199	209,917	129,972	1,574	1,837	4,470,794
Off-balance sheet financial instruments												
Forward lending		798,803	798,803	-	-	-	-	-	-	-	-	
Off-balance sheet gap		798,803	798,803	-	-	-	-	-	-	-	-	
Total yield / interest risk sensitivity gap			933,555	(777,961)	48,392	146,617	293,199	209,917	129,972	1,574	1,837	
Cumulative yield / interest risk sensitivity gap			933,555	155,594	203,986	350,603	643,802	853,719	983,691	985,265	987,102	

	Effective yield / interest rate	Total	Exposed to yield / interest risk: Upto 1 month	Over 1 to 3 months	Over 3 months 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	Not exposed to yield / interest rate
		2009										
		(Rupees in '000)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.00%	4,237,350	45,099	-	-	-	-	-	-	-	-	4,192,251
Balances with other banks	0.104% -0.812%	91,075	91,075	-	-	-	-	-	-	-	-	-
Lending to financial institutions	11.50% - 12.45%	1,905,551	1,905,551	-	-	-	-	-	-	-	-	-
Investments		-	-	-	-	-	-	-	-	-	-	-
Advances	3% - 13.58%	2,198,843	886,615	80,164	550,246	75,491	225,972	125,935	251,507	1,240	1,673	-
Other assets		73,737	-	-	-	-	-	-	-	-	-	73,737
		8,506,556	2,928,340	80,164	550,246	75,491	225,972	125,935	251,507	1,240	1,673	4,265,988
Liabilities												
Bills payable		216,907				-	-	-	-	-	-	216,907
Borrowings	0.51% - 6.5%	1,397,725	256,702	1,010,899	130,124	-	-	-	-	-	-	-
Deposits and other accounts	5% - 12.5%	2,740,049	2,475,063	15,100	-	-	-	-	-	-	-	249,886
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		100,551	-	-	-	-	-	-	-	-	-	100,551
		4,455,232	2,731,765	1,025,999	130,124	-	-	-	-	-	-	567,344
On-balance sheet gap		4,051,324	196,575	(945,835)	420,122	75,491	225,972	125,935	251,507	1,240	1,673	3,698,644
Off-balance sheet financial instruments												
Forward lending		1,931,800	1,931,800	-	-	-	-	-	-	-	-	
Off-balance sheet gap		1,931,800	1,931,800	-	-	-	-	-	-	-	-	
Total yield / interest risk sensitivity gap			2,128,375	(945,835)	420,122	75,491	225,972	125,935	251,507	1,240	1,673	
Cumulative yield / interest risk sensitivity gap			2,128,375	1,182,540	1,602,662	1,678,153	1,904,125	2,030,060	2,281,567	2,282,807	2,284,480	

33.3 Liquidity risk

Liquidity risk is the risk caused, among others by the inability of the Branch to settle liabilities at due date. The liquidity risk policy is formulated keeping in view State Bank's guidelines on risk management and best market practice. In case of any conflict between any provision of this policy and any regulation for the time being in force, the regulation in force will prevail.

Objectives of our liquidity management is to ensure that the Branch is able to honour all its financial commitments on an ongoing basis without (i) effecting the cost of funds (ii) adversely effecting ability to raise funds and (iii) resorting to sale of assets.

33.3.1 Maturities of assets and liabilities

	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)									
Assets										
Cash and balances with treasury banks	4,840,033	187,540	-	-	-	-	-	-	-	4,652,493
Balances with other banks	88,400	88,400	-	-	-	-	-	-	-	-
Lending to financial institutions	1,013,607	1,013,607	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-
Advances	2,980,932	1,951,329	196,095	50,392	146,617	293,199	209,917	129,972	1,574	1,837
Other assets	89,731	36,223	37,188	7,730	7,636	-	-	-	954	-
Operating fixed assets	30,055	-	-	-	1,624	2,332	2,256	19,913	3,930	-
Deferred tax assets	1,100	-	-	1,100	-	-	-	-	-	-
	9,043,858	3,277,099	233,283	59,222	155,877	295,531	212,173	149,885	6,458	4,654,330
Liabilities										
Bills payable	9,419	9,419	-	-	-	-	-	-	-	-
Borrowings	1,868,489	906,458	962,031	-	-	-	-	-	-	-
Deposits and other accounts	2,349,722	2,335,697	12,025	2,000	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	115,801	23,525	50,121	134	-	1,432	40,578	-	-	13
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
	4,343,431	3,275,097	1,024,177	2,134	-	1,432	40,578	-	-	13
Net assets	4,700,427	2,002	(790,894)	57,088	155,877	294,099	171,595	149,885	6,458	4,654,317
Head office capital account	4,652,493									
Unremitted profit	47,934									
	4,700,427									

	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)									
Assets										
Cash and balances with treasury banks	4,237,350	196,027	-	-	-	-	-	-	-	4,041,323
Balances with other banks	91,075	91,075	-	-	-	-	-	-	-	-
Lending to financial institutions	1,905,551	1,905,551	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-
Advances	2,198,843	886,615	80,164	550,246	75,491	225,972	125,935	251,507	1,240	1,673
Other assets	83,301	34,356	38,478	169	8,945	12	-	-	-	1,341
Operating fixed assets	27,336	810	-	10	50	5,092	3,244	13,498	4,632	
Deferred tax assets	2,260	-	-	-	2,260	-	-	-	-	-
	8,545,716	3,114,434	118,642	550,425	86,746	231,076	129,179	265,005	5,872	4,044,337
Liabilities										
Bills payable	216,907	216,907	-	-	-	-	-	-	-	-
Borrowings	1,397,725	236,702	1,010,899	130,124	-	-	-	-	-	-
Deposits and other accounts	2,740,049	2,724,949	15,100	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	103,447	30,435	19,418	39	43	114	48,879	105	-	4,414
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
	4,458,128	3,228,993	1,045,417	130,163	43	114	48,879	105	-	4,414
Net assets	4,087,588	(114,559)	(926,775)	420,262	86,703	230,962	80,300	264,900	5,872	4,039,923
Head office capital account	4,041,323									
Unremitted profit	46,265									
	4,087,588									

33.4 Operational risk

Operational risk is the risk of direct or indirect loss that may arise due to an event or action resulting from the failure of technology, processes, infrastructure, personnel and other risks having an operational risk impact. The Branch ensures that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The key objectives of Operational Risk measurement and management include:

- Ensuring continued solvency of the Branch through capital adequacy and enhanced understanding and management of significant operational risk exposures.

- Ensuring customer impact is minimized through protective and focused risk management practices.

- Ensuring senior management attention on significant operational risk exposure areas and mitigating risks is prioritised focused and adequate.

- Ensuring staff is sufficiently incentivised to perform their risk management roles and responsibilities diligently.

The management of the Branch has the responsibility to supervise and direct the management of operational risks and exposures. Management is also responsible for ensuring that adequate and appropriate policies and procedures are in place for the identification, assessment, monitoring, control and reporting of operational risks.

Line management needs information to enable it to analyze operational risks, implement mitigating measures and determine the effectiveness of these mitigating measures. The Branch has implemented various tools to support the line management.

- Compliance and Regulatory Risk Management (Control Self-Assessment (CSA) Framework)

- Basel II Risk Assets Management System BRAMPS - OP Framework Approach. All operations incidences are reported to head office through web-based reporting system.

A structured approach has been adopted which helps the line management to identify and assess the risk of non-compliance with regulatory requirements as well as internal policies. The Branch has implemented a comprehensive Compliance Risk Management Framework whereby self-assessment is undertaken by each business / support unit to mitigate the operational risk.

33.4.1 Operational risk disclosures – Basel II Specific

The Branch uses Basic Indicator Approach to calculate capital charge for operational risk as per Basel II regulatory framework. Operational loss events are reviewed and appropriate corrective actions taken on an ongoing basis, including measures to improve security and control procedures.

34. DATE OF AUTHORIZATION

These financial statements were authorized for issue on ______________ by the management of the Branch.

35. GENERAL

35.1 These financial statements have been prepared in accordance with the revised format for financial statements of banks, issued by the State Bank of Pakistan through BSD Circular No. 4 dated February 17, 2006.

35.2 Comparatives have been rearranged / reclassified, where necessary, for better presentation.

General Manager

Deputy General Manager