

Deutsche Bank AG, Pakistan Branches
(Incorporated in the Federal Republic of Germany with Limited Liability)

Balance Sheet

As at 31 December 2009

	Note	31-Dec-09	31-Dec-08
Rupees in '000			
ASSETS			
Cash and balances with treasury banks	6	4,764,709	4,754,734
Balances with other banks	7	128,632	1,628,093
Lendings to financial institutions	8	5,350,170	5,309,670
Investments	9	490,909	999,390
Advances	10	3,457,010	6,334,606
Operating fixed assets	11	120,382	130,225
Deferred tax assets	12	157,863	20,649
Other assets	13	713,337	2,552,371
		15,183,011	21,729,738
LIABILITIES			
Bills payable	15	217,050	1,683,524
Borrowings	16	1,063,547	532,521
Deposits and other accounts	17	6,005,209	10,317,214
Sub-ordinated loans	18	-	-
Liabilities against assets subject to finance lease	19	-	-
Deferred tax liabilities	20	-	-
Other liabilities	21	2,727,985	4,562,266
		10,013,791	17,095,525
NET ASSETS		5,169,221	4,634,213
REPRESENTED BY			
Share capital/ Head office capital account	22	3,877,033	3,600,702
Reserves		-	-
Unappropriated/ Unremitted profit		1,292,222	1,033,743
		5,169,255	4,634,445
Surplus/ (Deficit) on revaluation of assets	23		(232)
		5,169,255	4,634,213
CONTINGENCIES AND COMMITMENTS	24		

The annexed notes 1 to 46 form an integral part of these accounts.

Shazad G. Dada
Chief Country Officer
& Head of Global Banking
Pakistan

Mahmood A. Qureshi
Chief Operating Officer
& Chief Financial
Officer - Pakistan

Deutsche Bank AG, Pakistan Branches
(Incorporated in the Federal Republic of Germany with Limited Liability)
Profit and Loss Account
For the year ended 31 December 2009

	Note	31-Dec-09	31-Dec-08
Rupees in '000			
Mark-up/Return/Interest Earned	26	1,111,138	1,041,031
Mark-up/Return/Interest Expensed	27	(242,280)	(400,017)
Net Mark-up/ Interest Income		868,858	641,014
Provision against non-performing loans and advances	10.4	(341,174)	(24,181)
Provision against off-balance sheet obligation	21.1	(13,113)	(23,888)
Provision for diminution in the value of investments	9.3	0	0
Bad debts written off directly	10.5	0	0
		(354,287)	(48,069)
Net Mark-up/ Interest Income after provisions		514,571	592,945
NON MARK-UP/INTEREST INCOME			
Fee, Commission and Brokerage Income		280,829	298,136
Dividend Income		0	0
Income from dealing in foreign currencies		1,313,596	887,527
Gain / (Loss) on sale of securities	28	(2,294)	(197,392)
Unrealized Gain / (Loss) on revaluation of investments classified as held for trading	9.5	0	0
Other Income	29	7,209	64,931
Total non-markup/interest Income		1,599,341	1,053,202
		2,113,912	1,646,147
NON MARK-UP/INTEREST EXPENSES			
Administrative expenses	30	(863,451)	(813,878)
Provision against other assets	13.2	(6,266)	0
Other charges	31	(1,445)	(1,134)
Total non-markup/interest expenses		(871,161)	(815,012)
Extra ordinary/unusual items (to be specified)		0	0
		(871,161)	(815,012)
PROFIT/(LOSS) BEFORE TAXATION			
Taxation – Current	32	(552,000)	(311,000)
- Prior years			(66,000)
- Deferred		114,465	80,000
		(437,535)	(297,000)
PROFIT/(LOSS) AFTER TAXATION			
Accumulated loss brought forward		1,033,743	499,608
Accumulated loss carried forward		1,838,959	1,033,743

The annexed notes form an integral part of these accounts.

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Deutsche Bank AG, Pakistan Branches

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Cash Flow Statement

For the year ended 31 December 2009

	Note	31-Dec-09	31-Dec-08
Rupees in '000			
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(Loss) before taxation		1,242,751	831,135
Less: Dividend income		0	0
		<u>1,242,751</u>	<u>831,135</u>
Adjustments:			
Depreciation		38,770	31,000
Amortization		0	0
Provision / (Reversal) Against Non-performing Advances		341,174	24,181
Provision Against off-balance sheet obligation		13,113	23,888
Provision Against other assets		6,266	0
Provision for Diminution in the value of investments/ other assets		0	0
Loss/ (Gain) on sale of investments		2,294	197,392
Loss/ (Gain) on sale of fixed assets		(3,460)	(889)
Unrecognised actuarial gain		(65,299)	0
Others (to be specified)		0	0
		<u>332,857</u>	<u>275,573</u>
		1,575,608	1,106,708
(Increase)/ Decrease in operating assets			
Lendings to financial institutions		(40,500)	(385,351)
Held-for-trading securities		0	0
Advances		2,536,422	(1,659,536)
Others assets (excluding advance taxation)		1,812,703	(1,977,095)
		<u>4,308,625</u>	<u>(4,021,982)</u>
Increase/ (Decrease) in operating liabilities			
Bills Payable		(1,466,474)	1,058,125
Borrowings from financial institutions		531,026	(6,438,846)
Deposits		(4,312,005)	5,188,623
Other liabilities (excluding current taxation)		(1,847,394)	3,291,386
		<u>(7,094,848)</u>	<u>3,099,288</u>
		(1,210,614)	184,014
Payments of provision against off-balance sheet obligations		0	0
Income tax (paid) / refund		(531,935)	(450,460)
<i>Net cash flow from operating activities</i>		<u>(1,742,549)</u>	<u>(266,446)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		506,492	2,504,417
Profit received on Government Securities		0	0
Dividend income		0	0
Investments in operating fixed assets		(41,214)	(64,799)
Sale proceeds of property and equipment disposed-off		15,746	11,692
<i>Net cash flow from investing activities</i>		<u>481,024</u>	<u>2,451,310</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Receipts/ Payments of Sub-ordinated loan		0	0
Receipts/ Payments of lease obligations		0	0
Issue of share capital		0	0
Dividend		0	0
Remittances made to/ received from head office		(504,293)	(198,625)
<i>Net cash flow from financing activities</i>		<u>(504,293)</u>	<u>(198,625)</u>
Effects of exchange rate changes on cash and cash equivalents		276,331	746,849
Increase/(Decrease) in cash and cash equivalents		<u>(1,489,487)</u>	<u>2,733,088</u>
Cash and cash equivalents at beginning of the year	35	<u>6,382,827</u>	<u>3,649,739</u>
Cash and cash equivalents at end of the year	35	<u>4,893,340</u>	<u>6,382,827</u>

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Deutsche Bank AG, Pakistan Branches
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Statement of Changes in Equity
For the year ended 31 December 2009

	Share capital/ Head office capital account	Unappropriated/ Unremitted profit/(loss)	Total
	Rupees in '000		
Opening Balance as at Jan 01, 2008	2,853,853	714,811	3,568,664
Impact of changes in accounting policy	0		0
	2,853,853	714,811	3,568,664
Statement of Recognised Income & Expense			0
Profit for the current year		517,557	517,557
Remittances made to/ received from head office		(198,625)	(198,625)
Exchange adjustments on revaluation of capital	746,849		746,849
Opening Balance as at Jan 01, 2009	3,600,702	1,033,743	4,634,445
Profit for the current year		805,216	805,216
Remittances made to/ received from head office		(504,293)	(504,293)
Transfer to statutory reserve			0
Cash dividend			0
Other appropriations (to be specified)		(42,444)	(42,444)
Issue of share capital			0
Exchange adjustments on revaluation of capital	276,331		276,331
Closing Balance as at Dec 31, 2009	3,877,033	1,292,222	5,169,255

Statement of Recognised Income & Expense

	2009	2008
	Rs.000'	
Profit for the year	805,059	534,135
Other comprehensive income :		
Actuarial (Loss) on defined benefit scheme	(65,299)	(25,503)
Defecit on revaluation of assets	(52)	8,925
Deferred tax on the above	22,873	534,135
	762,581	517,557

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Deutsche Bank AG, Pakistan Branches

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Notes to the Financial Statements

For the year ended 31 December 2009

1. STATUS AND NATURE OF BUSINESS

Deutsche Bank AG is a foreign banking company incorporated in the Federal Republic of Germany with limited liability. Its operations are carried out through three branches located at Karachi, Lahore and Islamabad. Pakistan Branches are engaged in banking business as described in the Banking Companies Ordinance, 1962. The Bank's branch in Islamabad was opened in November 2007.

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding shifting of the banking system to the Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible form of trade related mode of financing includes purchase of goods by the bank from its 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

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962, and the directives issued by the State Bank of Pakistan (SBP). 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 as per BSD Circular No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40). Accordingly, the requirements of these standards and their relevant interpretations (issued by the Standards Interpretation Committee - SICs, and the International Financial Reporting Interpretations Committee - IFRICs) have not been considered in the preparation of these financial statements. However, the investments have been classified in accordance with the categories prescribed by the State Bank of Pakistan through various circulars.

4. CREDIT RATING

The credit rating done by Standard & Poor in January 2009 for Deutsche Bank AG is A+ for the long term and A-1 for the short term, rating done by Moody's in February 2009 is Aa1 for the long term and P-1 for the short term and rating done by Fitch in January 2009 is AA- for the long term and F1+ for the short term.

5. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention as modified by the valuation of held for trading and available-for-sale investments and derivative financial instruments at market value.

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

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following:

Note 11	Loans and advances
Note 21.4	Income taxes
Note 22	Derivative instruments
Note 30	Defined benefit plan

These financial statements are presented in Pak rupees (PKR) which is the Pakistan branches functional currency.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

6.1 Cash and cash equivalents

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

6.2 Staff retirement benefits

Defined contribution plans

The Pakistan branches operates approved Provident Fund and Gratuity Fund Scheme for all its permanent employees in respect of which contributions are made to discharge liability under the respective rules of the schemes.

Defined benefit plan

The Pakistan branches also operates a Funded Pension Scheme for all its permanent employees. The costs are determined based on actuarial valuation carried out using the Projected Unit Credit Method. Net cumulative un-recognised actuarial gains/ losses in excess of the 10% corridor are recognised as income or expense over the estimated working lives of the employees.

6.3 Taxation

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 adjustment to tax payable in respect of previous years.

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

6.4 Advances

Advances are stated net of specific and general provision against non-performing advances. Specific provision is made for non-performing advances to reduce book value of such advances to their expected realisable value in compliance with the Prudential Regulations of the State Bank of Pakistan. The bank also establishes a general allowance for loan losses to encompass the loss inherent in performing loans based on historical loss experience and country risk. Advances are written-off when there are no realistic prospects of recovery.

6.5 Investments

In accordance with the requirements of BSD Circular No. 10 dated July 13, 2004 the investments are classified as follows:

Held to maturity

These are securities acquired with the intention and ability to hold them up to maturity. These are carried at amortised cost.

Held for trading

These are securities acquired with the intention to trade by taking advantage of short term market / interest rate movements.

Available-for-sale

The securities which are not held for trading and held-to-maturity are classified as available-for-sale (AFS).

The bank designates securities as either held for trading purposes or AFS at the time of acquisition.

All purchase and sale of investments that require delivery within the time frame established by regulation or market convention are recognised at the trade date, which is the date the bank commits to purchase or sell the investments.

Trading securities are carried at their market values and related realised and unrealised gains and losses are included in trading revenues.

AFS securities are valued at market rates and the resulting surplus/(deficit) is taken to "Surplus/ (Deficit) on Revaluation of Securities" account and is shown below the head office equity in the balance sheet.

The market values of securities are determined by reference to ready quotes as available on Reuters Page (PKRV) or Stock Exchange.

6.6 Repurchase agreements

The bank enters into purchase / (sale) of investments under agreements to resell / (repurchase) investments at a certain date in the future at a fixed price. Investments purchased subject to commitment to resell them at the future dates are not recognised. The amounts paid are recognised in lendings to financial institutions. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for investments. The proceeds from the sale of the investments are reported in borrowings from financial institutions.

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

6.7 Operating fixed assets

Owned

Operating fixed assets are stated at cost less accumulated depreciation and impairment (if any). Depreciation on fixed assets is charged to income applying the straight-line method from the date the assets are available for use. Gain or loss on disposal is taken to income currently.

Leased

Assets subject to finance lease are accounted for by recording the assets and related liability. These are stated at lower of fair value and the present value of minimum lease payments at the inception of lease less accumulated depreciation and impairment if any. Financial charges are allocated over the period of lease term so as to provide a constant periodic rate of financial charge on the outstanding liability. Depreciation is charged on the basis similar to the owned assets.

6.8 Revenue recognition

Mark-up income and expenses are recognised on a time proportion basis taking into account effective yield on the instrument, except in case of advances classified under the Prudential Regulations issued by the State Bank of Pakistan on which mark-up is recognised on receipt basis.

Commission on letters of credit is recognised on receipt basis, whereas guarantee commission is recorded on accrual basis.

6.9 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 re measured at fair value. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value is taken to the profit and loss account.

6.10 Foreign currencies

Foreign currency transactions are translated into rupees at exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the rate of exchange prevailing at the balance sheet date. The fair value of forward cover taken from the State Bank of Pakistan for foreign currency deposits is added / deducted from value of foreign currency deposits. Exchange gains and losses are included in income currently.

6.11 Impairment

The carrying amount of assets other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

6. CASH AND BALANCES WITH TREASURY BANKS

		31-Dec-09	31-Dec-08
		Rupees in '000	
In hand		61,232	43,951
Local currency		58,346	40,769
Foreign currency			
With State Bank of Pakistan in			
Local currency current account	6.1	475,115	833,149
Local currency deposit account (to be specified)			
Foreign currency deposit account (to be specified)			
Cash reserve account	6.2	56,442	79,099
Special cash reserve account	6.3	154,162	118,648
Local USD collection account	6.4	82,379	38,381
Foreign currency capital account	22	3,877,033	3,600,702
With National Bank of Pakistan in			
Local currency current account		0	35
		<u>4,764,709</u>	<u>4,754,734</u>

6.1 This represents current account maintained with SBP under the requirements of section 22 (Cash Reserve Requirement) of the Banking Companies Ordinance, 1962.

6.2 This represents statutory cash reserve (at Nil return) in the current account maintained with SBP under the requirements of SBP.

6.3 This represents statutory cash reserve maintained against foreign currency deposits mobilised under FE 25 Circular issued by the State Bank of Pakistan and is remunerated at the rate of 4.24% (2010: 4.32%).

6.4 This represents US Dollar settlement account opened with the State Bank of Pakistan in accordance with FE Circular No. 2 and is remunerated at the rate of 4.24% (2010: 4.32%).

7. BALANCES WITH OTHER BANKS

In Pakistan			
On current account		5,942	3,217
Outside Pakistan			
On current account - Inter branch		14,687	132,807
- Others		108,003	1,492,069
On deposit account			
		<u>128,632</u>	<u>1,628,093</u>

8. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings		0	0
Repurchase agreement lendings(Reverse Repo)		5,350,170	5,309,670
		<u>5,350,170</u>	<u>5,309,670</u>

8.1 Reverse Repo have been made with the banks at rates ranging from 12.00% to 12.20% p.a. and mature within a month.

8.2 PARTICULARS OF LENDING

In local currency		5,350,170	5,309,670
In foreign currencies		0	0
		<u>5,350,170</u>	<u>5,309,670</u>

8.2 SECURITIES HELD AS COLLATERAL AGAINST LENDING TO FINANCIAL INSTITUTIONS	31-Dec-09			31-Dec-08		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	Rupees in '000					
Market Treasury Bills	0		0	0		0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

9. INVESTMENTS	31-Dec-09			31-Dec-08		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	Rupees in '000					
9.1 INVESTMENTS BY TYPES:						
Available-for-sale securities						
Market Treasury Bills	490,961		490,961	999,747		999,747
Pakistan Investment Bonds	0		0	0		0
Investment at cost	<u>490,961</u>	<u>0</u>	<u>490,961</u>	<u>999,747</u>	<u>0</u>	<u>999,747</u>
Less: Provision for Diminution in value of Investments	9.3 0		0	0		0
Investments (Net of Provisions)	<u>490,961</u>	<u>0</u>	<u>490,961</u>	<u>999,747</u>	<u>0</u>	<u>999,747</u>
Surplus/(Deficit) on revaluation of Held-for-trading securities	9.5					
Surplus/(Deficit) on revaluation of Available-for-sale securities	(52)		(52)	(357)		(357)
Total investments at market value *	<u>490,909</u>	<u>0</u>	<u>490,909</u>	<u>999,390</u>	<u>0</u>	<u>999,390</u>

Disclose the extent and nature including significant terms of Strategic Investments if any in the subsidiary / associated or any other category of significance.

*Total investment taken to balance sheet at mark to market

9.2 INVESTMENTS BY SEGMENTS:	31-Dec-09		31-Dec-08	
	Rupees in '000			
Federal Government Securities:				
-Market Treasury Bills	490,961		999,747	
-Pakistan Investment Bonds	0		-	
Total investment at cost	<u>490,961</u>		<u>999,747</u>	
Less: Provision for diminution in value of investment	9.3			
Investments (Net of Provisions)	<u>490,961</u>		<u>999,747</u>	
Surplus/(Deficit) on revaluation of Held-for-trading securities	9.5			
Surplus/(Deficit) on revaluation of Available-for-sale securities	23.2		(52)	(357)
Total investments at market value	<u>490,909</u>		<u>999,390</u>	

9.3 Market Treasury Bills carry a rate of 12.07% per annum (2008: Nil) and mature in February 2009.

9.4 Pakistan Investment Bonds are for the periods of three and ten years. The rate of profit range from 9.1% to 9.60% per annum with maturities from May 2009 to May 2016.

	<u>31-Dec-09</u>	<u>31-Dec-08</u>
	Rupees in '000	
10. ADVANCES		
Loans, cash credits, running finances, etc.		
In Pakistan	<u>2,957,328</u>	<u>5,005,801</u>
	2,957,328	5,005,801
Bills discounted and purchased (excluding treasury bills)		
Payable in Pakistan	<u>564,790</u>	<u>1,346,348</u>
Payable outside Pakistan	<u>316,410</u>	<u>22,800</u>
	881,200	1,369,148
Advances - gross	<u>3,838,527</u>	<u>6,374,949</u>
Provision for non-performing advances	<u>(381,517)</u>	<u>(40,343)</u>
Advances - net of provision	<u>3,457,010</u>	<u>6,334,606</u>
10.1 Particulars of advances (Gross)		
10.1.1 In local currency	<u>3,605,632</u>	<u>6,311,806</u>
In foreign currencies	<u>(148,622)</u>	<u>22,800</u>
	3,457,010	6,334,606
10.1.2 Short Term (for upto one year)	<u>3,271,459</u>	<u>6,101,916</u>
Long Term (for over one year)	<u>185,551</u>	<u>232,690</u>
	3,457,010	6,334,606

10.3 Advances include Rs. Nil which have been placed under non-performing status as detailed below:-

10.4 Particulars of provision against non-performing advances

	31-Dec-09			31-Dec-08		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance		40,343	40,343		16,162	16,162
Exchange adjustments			0			0
Charge for the year	269,033	72,142	341,174			0
Amounts written off			0			0
Reversals			0		24,181	24,181
Other movements (to be specified)			0			0
Closing balance	<u>269,033</u>	<u>112,485</u>	<u>381,517</u>	<u>0</u>	<u>40,343</u>	<u>40,343</u>

10.4.1 Particulars of provisions against non-performing advances

	31-Dec-09			31-Dec-08		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local currency	<u>269,033</u>	<u>112,485</u>	<u>381,517</u>	<u>0</u>	<u>12,668</u>	<u>12,668</u>
	<u>269,033</u>	<u>112,485</u>	<u>381,517</u>	<u>0</u>	<u>12,668</u>	<u>12,668</u>

10.5 This represents amount recognized inline with the instructions received from the head office.

10.6 No amount was written off during the current year (2005: Nil)

**10.7 PARTICULARS OF LOANS AND ADVANCES
TO DIRECTORS, ASSOCIATED COMPANIES, ETC.**

Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons

	<u>31-Dec-09</u>	<u>31-Dec-08</u>
	Rupees in '000	
Balance at beginning of year	169,892	139,388
Loans granted during the year	64,329	49,210
Repayments	<u>(47,780)</u>	<u>(18,706)</u>
Balance at end of year	<u>186,441</u>	<u>169,892</u>

11. OPERATING FIXED ASSETS

Capital work-in-progress *11.1*
Property and equipment *11.2*
Intangible assets *11.3*

	<u>31-Dec-09</u>	<u>31-Dec-08</u>
	Rupees in '000	
Capital work-in-progress	0	0
Property and equipment	120,382	130,225
Intangible assets	<u>120,382</u>	<u>130,225</u>

11.1 Capital work-in-progress

Civil works
Equipments
Advances to suppliers and contractors
Others (to be specified)

Civil works		0
Equipments		
Advances to suppliers and contractors		
Others (to be specified)		
	<u>0</u>	<u>0</u>

11.2 Property and equipment

	COST				DEPRECIATION				Rate of amortization %	
	Opening Balance	Additions	(Deletions)	Closing Balance	Opening Balance	Charge for the year	Disposal	Closing Balance		Book value at closing
	Jan 1, 2008			Dec 31, 2008	Jan 1, 2008			Dec 31, 2008		Dec 31, 2008
	Rupees in '000									
Own Assets										
Building on lease hold land	53,943	0	0	53,943	21,075	5,009	0	26,084	27,859	10-20
Furniture and fixture	10,637	85	(100)	10,622	4,816	1,506	(100)	6,222	4,399	20-33
Electrical, office and computer equipments	86,433	8,297	(8,161)	86,569	42,200	17,417	(8,116)	51,501	35,068	20-50
Vehicles	63,118	32,832	(22,977)	72,973	15,815	14,838	(10,737)	19,916	53,057	20
	<u>214,131</u>	<u>41,214</u>	<u>(31,239)</u>	<u>224,106</u>	<u>83,906</u>	<u>38,770</u>	<u>(18,953)</u>	<u>103,723</u>	<u>120,383</u>	
Assets held under finance leases										
Electrical, office and computer equipments										33
Vehicles										25
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
	<u>214,131</u>	<u>41,214</u>	<u>(31,239)</u>	<u>224,106</u>	<u>83,906</u>	<u>38,770</u>	<u>(18,953)</u>	<u>103,723</u>	<u>120,383</u>	
2008	<u>179,333</u>	<u>64,799</u>	<u>(30,001)</u>	<u>214,132</u>	<u>72,104</u>	<u>31,000</u>	<u>(19,198)</u>	<u>83,907</u>	<u>130,225</u>	

Description	Cost	Book Value	Sale Proceed	Mode of Disposal	Purchaser	(2)
DELL OPTIPLEX GX270 PCs S NO, CPU, 4QCJB/S	96	0	10	Bank Policy	Saria Yusuf	Employee
DELL OPTIPLEX GX 270 PCS FOR LON OPS DEPT	96	0	11	Bank Policy	Sarfaz	Employee
DELL OPTIPLEX GX 270 PCS FOR (TS) CPU NO, J5CJBIS	96	0	11	Bank Policy	Zafar	Employee
INBOX PC FOR CALL LOGGING SYSTEM	35	0	4	Bank Policy	Ismail	Employee
1 INBOX PC FOR FX Sett DEPT	30	0	4	Bank Policy	Manoj	Employee
1 INBOX PC FOR RETURNS DEPT.	30	0	3	Bank Policy	Shazad Qureshi	Employee
DEL PSc AND LAPTOPS	203	0	9	Bank Policy	Atif Altaf	Employee
NEW DELL280 DESKTOP MACHINE ICM KHI.	101	0	10	Bank Policy	Asim Wahab	Ex-Employee
NEW DELL280 DESKTOP MACHINE GBD KHI.	101	0	3	Bank Policy	Azhar	Employee
PENTIOUM-4 PC FOR IT DEPT FOR RMP SERVER	38	0	4	Bank Policy	Tanveer	Employee
IUNIT DELL LAPTOP FOR HR(SHAHZAD)	10	0	10	Bank Policy	Shahzad Ajmery	Employee
IUNIT DELL LAPTOP MONITOR(SHAHZAD)	18	0	2	Bank Policy	Shahzad Ajmery	Employee
IUNIT DELL LAPTOP'S D PORT(SHAHZAD)	7	0	1	Bank Policy	Shahzad Ajmery	Employee
IUNIT DELL LAPTOP(IFTIKHAR)	97	0	10	Bank Policy	Iftikhar Alam	Employee
IUNIT DELL LAPTOP'S MONITOR(IFTIKHAR)	18	0	2	Bank Policy	Iftikhar Alam	Employee
IUNIT DELL LAPTOP'S D PORT(IFTIKHAR)	7	0	1	Bank Policy	Iftikhar Alam	
IUNIT DELL LAPTOP(FAISAL ZAHID)	99	0	10	Bank Policy	Faisal Zahid	Employee
IUNIT DELL LAPTOP'S MONITOR(FAISAL ZAHID)	18	0	2	Bank Policy	Faisal Zahid	Employee
IUNIT DELL LAPTOP'S D-PORT(FAISAL ZAHID)	7	0	1	Bank Policy	Faisal Zahid	Employee
IUNIT DELL LAPTOP(SYED)	93	0	9	Bank Policy	Syed Hussaini	Employee
IUNIT DELL DESKTOP(NAUMAN)	70	0	7	Bank Policy	Nauman Aqeel	Employee
IUNIT DELL DESKTOP(MAQSOOD)	70	0	7	Bank Policy	Zaheer Waheed (Ex staff)	
IUNIT DELL DESKTOP(ADIL)	70	0	7	Bank Policy	Adil Desai	
IUNIT DELL DESKTOP(AZHAR)	70	0	7	Bank Policy	Azhar mahmood	
IUNIT DELL DESKTOP(IQTIDAR)	70	0	7	Bank Policy	Iqtidar Hussain	
IUNIT DELL DESKTOP(AMBREEN)	70	0	7	Bank Policy	Ambreen (Ex staff)	
IUNIT DELL DESKTOP(IMRAN KAMAL)	70	0	7	Bank Policy	Imran Kamal	
IUNIT DELL DESKTOP(REHAN)	70	0	7	Bank Policy	Rehan Hafeez	
IUNIT DELL DESKTOP(IQBAL)	70	0	7	Bank Policy	Salahuddin	
IUNIT DELL DESKTOP(BELLA)	70	0	7	Bank Policy	Saphrina Coelho	
IUNIT DELL DESKTOP(SHAMS)	70	0	7	Bank Policy	Shams Uz zaman	
IUNIT DELL DESKTOP(JAVED AGHA)	70	0	7	Bank Policy	Mahmood Hussain	
IUNIT DELL DESKTOP(MUHD. SAEED)	70	0	7	Bank Policy	Mohammad Sayeed	
IUNIT DELL DESKTOP(S.M.QAISER)	70	0	7	Bank Policy	S.M.Qaiser	
IUNIT DELL DESKTOP(MUHD. KHALID)	70	0	7	Bank Policy	Mohammad Khalid	
IUNIT DELL DESKTOP(TAWAKKAL)	70	0	7	Bank Policy	Tawakkal	
IUNIT DELL DESKTOP(KHURRAM KHAN)	70	0	7	Bank Policy	Khurram Khan	
IUNIT DELL DESKTOP(SAJJAD KHAN)	70	0	7	Bank Policy	Sajjad Khan	
IUNIT DELL DESKTOP(ALI RAZA ZAIDI)	70	0	7	Bank Policy	Wajahat Kazmi	
IUNIT DELL DESKTOP(MUSHTAQ)	70	0	7	Bank Policy	Shabaz salimi	
IUNIT DELL DESKTOP(CDC)	70	0	7	Bank Policy	Waqas Khan	
IUNIT DELL LAPTOP(SYED IMRAN)	116	0	12	Bank Policy	Khurram Khan	
IUNIT DELL LAPTOP(WASEEM IQBAL)	116	0	12	Bank Policy	Waseem Iqbal	
IUNIT DELL LAPTOP(SOHAIB ANSARI)	116	0	12	Bank Policy	Sohaib ansari	
IUNIT DELL DESKTOP(EHTISHAM)	70	0	7	Bank Policy	Syed Ehtisham	
IUNIT DELL DESKTOP(MUHD. FARAJ)	70	0	7	Bank Policy	Arshi Rajput	
IUNIT DELL DESKTOP(AMBER MUSHTAQ)	70	0	7	Bank Policy	Zara Khan	
IUNIT DELL DESKTOP(ATIF WAHEED)	70	0	7	Bank Policy	Atif waheed	
IUNIT DELL DESKTOP(IRFAN-UD-DIN-SIDDIQUI)	70	0	7	Bank Policy	Rabia Salim (ex staff)	
IUNIT DELL DESKTOP(HASSAN RAZA)	70	0	7	Bank Policy	Hasan raza	
IUNIT DELL DESKTOP(IMRAN ZAKRIA)	70	0	7	Bank Policy	Imran Zakaria	
IUNIT DELL DESKTOP(MUHD. YASEEN)	70	0	7	Bank Policy	M. Yaseen	
IUNIT DELL LAPTOP(CHARLES FRANCIS)	116	0	12	Bank Policy	Charles Francis (Ex staff)	
IUNIT DELL LAPTOP(SHAHNAWAZ AHMED)	116	0	12	Bank Policy	Shahnawaz Ahmed	
IUNIT DELL LAPTOP(ZULFIQAR ALI)	116	0	12	Bank Policy	Zulfiqar A. Ali	
IUNIT DELL DESKTOP(SHAHID GHAFFAR)	70	0	7	Bank Policy	Shahid Ghaffar	
IUNIT DELL DESKTOP(HAMMAD HAMID)	70	0	7	Bank Policy	Hammad Hamid	
IUNIT DELL LATITUDE D610 FOR MGT DEPT	141	0	14	Bank Policy	Shazad dada	
IUNIT DELL 17" FP MONITOR FOR BCO DEPT	23	0	2	Bank Policy	Tariq Qayyum	
IUNIT DELL DESKTOP GX620(MOHD. AFAQUE)	69	0	10	Bank Policy	Hakim Khan	
IUNIT DELL DESKTOP GX620(RAHEEL AHMED)	69	0	7	Bank Policy	Raheel Ahmed	
IUNIT DELL DESKTOP GX620(SHARON GOMES)	69	0	7	Bank Policy	Sharon Gomes	
IUNIT DELL DESKTOP GX620(SOHAIB ANWER)MONITOR	20	0	2	Bank Policy	Syed Hussaini	
DELL LAPTOP D-610 FOR FAISAL FAZIL	109	0	11	Bank Policy	Faisal Fazil	
IBM THINK PAD(T43) FOR NAVEED ASLAM	97	0	10	Bank Policy	Naweed Aslam	
ILAPTOP FOR IBOPS(AFZAL MALIK)	78	26	33	Bank Policy	Afzal Malik (Ex staff)	
THINKPAD ADVANCED DOCK DUEL SCREEN(AFZAL MALI)	24	8	10	Bank Policy	Afzal Malik (Ex staff)	
DELL 19" FLAT PANEL LCD MONITOR(AFZAL MALIK)	21	7	9	Bank Policy	Afzal Malik (Ex staff)	

KEYBOARD & MOUSE(AFZAL MALIK LAPTOP)	13	4	6	Bank Policy	Afzal Malik (Ex staff)
Purchase of Office chairs (Artec)	56	0	10	Bank Policy	Iqbal Brothers
OFFICE TABLE & PEDISTAL DESK FOR TS DEPT.	44	0	6	Bank Policy	Iqbal Brothers
Mobile Phone Set for Mercedes Bens no, AGN 400	23	6	9	Bank Policy	Shazad Dada
Mercedes for CCO AGN 400	5,953	695	2,381	Bank Policy	Shazad Dada
NEW CAR FOR M. AFAQUE HONDA VIVIC VTi ORIEL	1,376	642	784	Bank Policy	M.Afaq
*ASSET DEBIT AS PER NEW CAR POLICY (M. AFAQUE)	130	61	74	Bank Policy	M.Afaq
BANK CAR H-CIVIC FOR RAHEEL AHMED	1,376	871	894	Bank Policy	Raheel Ahmed
*ASSET DEBIT AS PER NEW CAR POLICY (RAHEEL AHMEI	130	82	85	Bank Policy	Raheel Ahmed
Hyundai Copue(Auto) for Salman Jafri	1,167	875	899	Bank Policy	Salman Jafery (Ex staff)
Hyundai Copue(Auto) for Sohail Anwar	1,167	739	840	Bank Policy	Sohail Anwer
TOYOTA Corolla 2.0D SE(Charles Frances)	1,167	778	852	Bank Policy	Charles Frances (Ex staff)
H-CIVIC i-VTEC(PT MODEL) FOR Wajahat Kazmi	1,167	836	852	Bank Policy	Wajahat Kazmi
H-CIVIC i-VTEC FOR SAJJAD KHAN	1,167	836	875	Bank Policy	Sajjad Khan
H-CIVIC i-VTEC FOR ADIL DESAI	1,167	700	735	Bank Policy	Adil Desai (Ex staff)
H-CIVIC i-VTEC FOR ABBAS HAIDER	1,167	856	875	Bank Policy	Abbas Haider
H-CIVIC i-VTEC FOR TARIQ QAYYUM	1,167	797	840	Bank Policy	Tariq Qayyum (Ex staff)
HONDA CIVIC VTi Oriel(KAMRAN ZAIDI)	1,564	1,121	1,204	Bank Policy	kamran zaidi (Ex staff)
HONDA CIVIC VTi Oriel(IRFAN MALIK)	1,564	1,251	1,282	Bank Policy	Irfan Malik (Ex staff)
HONDA CIVIC VTi Oriel Prosmatic(MUHD A. MALIK)	1,526	1,094	0	Bank Policy	Afzal Malik (Ex staff)
1UNIT DELL LAPTOP(ASIM AMIN) LHR BR	97	0	10	Bank Policy	Asim Amin
1UNIT DELL LAPTOP'S MONITOR (ASIM AMIN) LHR BR	18	0	2	Bank Policy	Asim Amin
1UNIT DELL LAPTOP'S D-PORT(ASIM AMIN) LHR BR	7	0	1	Bank Policy	Asim Amin
	<u>27,982</u>	<u>12,286</u>	<u>14,032</u>		

11.3 Included in cost of property and equipment are fully depreciated items, still in use, having cost of Rs. 34.689 million (2008: Rs.22.619 million).

12. DEFERRED TAX ASSETS

31-Dec-09 31-Dec-08
Rupees in '000

Deferred tax debits arising in respect of:

- Defecit on revaluation of securities	18	699
- Acturial gain and losses	25,377	-
- Other	-	2,931
- Provision for bad debts	80,727	-
- Provision for general loan loss	59,786	29,921
	165,908	33,551

Deferred tax credits arising in respect of:

- Difference between accounting book value of fixed assets and tax base	(8,045)	(12,328)
- Unrealised gain on Forward exchange contracts	-	-
- Surplus on revaluation of securities	-	(574)
	(8,045)	(574)

Deferred tax asset reversed

	-	-
--	---	---

Deferred tax assets and liabilities not recognised

	-	-
--	---	---

Net deferred tax assets / (liabilities)

	157,863	20,649
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13 OTHER ASSETS

Income/ Mark-up accrued in local currency	111,000	150,962
Income/ Mark-up accrued in foreign currency	473	6,313
Advances, deposits, advance rent and other prepayments	65,376	55,362
Advance taxation (payments less provisions)	132,826	152,891
Branch adjustment account	151	54
Unrealized gain on forward foreign exchange contracts	4,926	943,603
Unrealized gain on Interest Rate Swaps	396,906	1,225,424
Receivable from defined benefit plan	0	7,461
Others (to be specified, if material)	7,944	10,301
	719,603	2,552,371
Less: Provision held against other assets	(6,266)	0
Other Assets (Net of Provision)	713,337	2,552,371

13.2

13.2 PROVISION AGAINST OTHER ASSETS

31-Dec-09 31-Dec-08

Rupees in '000

Opening balance	0	38
Charge for the year	6,266	
Reversals	0	0
Amount Written off	0	(38)
Closing balance	<u>6,266</u>	<u>0</u>

This represent provision recognized as per the instruction from the Head Office.

15. BILLS PAYABLE

In Pakistan	<u>217,050</u>	<u>1,683,524</u>
	<u>217,050</u>	<u>1,683,524</u>

16. BORROWINGS

In Pakistan	<u>995,433</u>	<u>532,521</u>
Outside Pakistan	<u>68,114</u>	<u>0</u>
	<u>1,063,547</u>	<u>532,521</u>

16.1 Particulars of borrowings with respect to Currencies

In local currency	<u>995,433</u>	<u>532,521</u>
In foreign currencies	<u>68,114</u>	<u>0</u>
	<u>1,063,547</u>	<u>532,521</u>

16.2 Details of borrowings Secured / Unsecured**Secured**

Borrowings from State Bank of Pakistan			
Under export refinance scheme	16.2.1	644,100	521,192
Under Locally Manufactured Machinery (LMM) scheme			
Others (to be specified)			
Repurchase agreement borrowings	16.2.2	343,636	0
Borrowings from subsidiary companies, managed modarabas and associated undertakings			
Borrowings from directors (including chief executive) of the bank			
Others (to be specified)			
		<u>987,736</u>	<u>521,192</u>

Unsecured

Call borrowings		0	0
Overdrawn nostro accounts		68,114	0
Others (to be specified)		7,696	11,329
		<u>75,811</u>	<u>11,329</u>
		<u>1,063,547</u>	<u>532,521</u>

16.2.1 These borrowings carry mark-up at rates ranging from 6.55% to 7.50% per annum (2005: 2.50% to 7.50%) and are secured against promissory notes, undertakings in favour of the bank and export documents, payable quarterly at the time of partial payment or upon maturity of loan, whichever is earlier.

16.2.2 This represents collateralized borrowing against Pakistan Investment Bonds at rates ranging from 8.80% to 9.4% (2005: Nil) maturing within a month.

These call borrowings carry mark up rates ranging from 9.45% to 11.00% p.a. and are repayable latest by January 2007.

17. DEPOSITS AND OTHER ACCOUNTS**31-Dec-09** **31-Dec-08**
Rupees in '000**Customers**

Fixed deposits	1,565,556	7,143,301
Savings deposits	2,605,240	848,183
Current Accounts - Remunerative	0	0
Current Accounts - Non-remunerative	1,723,026	2,102,759
Others (to be specified)	106,481	216,703
	6,000,303	10,310,946

Financial Institutions

Remunerative deposits	0	0
Non-remunerative deposits - Interbranch	4,569	5,831
- Others	337	437
	4,906	6,268
	6,005,209	10,317,214

17.1 Particulars of deposits

In local currency	5,282,628	9,559,023
In foreign currencies	722,581	758,191
	6,005,209	10,317,214

21. OTHER LIABILITIES	31-Dec-09	31-Dec-08
	Rupees in '000	
Mark-up/ Return/ Interest payable in local currency	32,649	67,900
Mark-up/ Return/ Interest payable in foreign currency	442	457
Unearned commission and income on bills discounted	24,616	58,627
Accrued expenses	203,206	121,227
Advance payments	0	0
Current taxation (provisions less payments)	0	0
Unclaimed dividends	0	0
Dividends payable	0	0
Unrealized loss on forward foreign exchange contracts	28,023	759,863
Branch adjustment account	0	0
Unremitted head office expenses	599,539	316,266
Payable to defined benefit plan	55,220	0
Payable to defined contribution plan	0	0
Provision against off-balance sheet obligations	21.1 58,257	45,144
Security deposits against lease	0	0
Interest rate swaps and cross currency swaps	1,557,855	3,089,161
Workers Welfare Fund Payable	49,141	16,961
Others (to be specified, if material)	119,038	86,660
	<u>2,727,985</u>	<u>4,562,266</u>

21.1 Provision against off-balance sheet obligations

Opening balance	45,144	21,256
Charge for the year	13,113	23,888
Reversals		
Amount Written off		
Closing balance	<u>58,257</u>	<u>45,144</u>

The bank establishes a general allowance for off-balance sheet obligations to encompass the loss inherent in off-balance sheet obligations based on historical loss experience and count risk. This represent management's estimate of probable losses that may occurred in the off balance sheet positions which comprises Letter of credits, Letter of guarantees and UIBs.

Disclose the nature of off-balance sheet obligations; expected timing of any resulting outflows of economic benefits; indication of the uncertainties about the amount or timing of those outflows; and the amount of any expected reimbursement stating the amount of any asset that has been recognized for the expected reimbursement. Further, disclosure should include the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

22.3 Head Office Capital Account	31-Dec-09	31-Dec-08
	Rupees in '000	
Capital held as:		
Interest free deposit in Approved foreign exchange		
i) Remitted from Head Office EUR 32,048,165 (2008:EUR 32,048,165)	3,600,702	2,853,853
ii) Revaluation surplus allowed by the State Bank	276,331	746,849
	<u>3,877,033</u>	<u>3,600,702</u>

23. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS

23.2 (Deficit) / Surplus on revaluation of Available-for-sale securities - Net of Tax		
Federal Government Securities	(52)	(357)
Related deferred tax liability	18	125
	<u>(34)</u>	<u>(232)</u>

24 CONTINGENCIES AND COMMITMENTS

31-Dec-09 31-Dec-08
Rupees in '000

24.1 Direct Credit Substitutes

(including general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities)

24.2 Transaction-related Contingent Liabilities**Contingent liability in respect of guarantees given favouring:**

i) Government	13,123,547	8,333,739
ii) Banking companies and other financial institutions	61,812	20,871
iii) Others	1,824,675	16,340,456

(including performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credit related to particular transactions)

24.3 Trade-related Contingent Liabilities

Acceptances	729,193	1,192,351
Letters of credit	3,763,257	3,893,591

(short-term self-liquidating trade-related arising from the movement of goods, such as documentary credits where the underlying shipment is used as security)

24.4 Other Contingencies

Cheques in clearing	649,727	1,316,127
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24.5 The income tax assessments of the bank have been finalised upto tax year 2008 (accounting year ended 31 December 2007). Appeals for various assessment years are pending before Appellate Authorities contesting additional demands of Rs. 119.819 million. The bank is vigorously contesting its appeals and is confident that no additional liability would arise.

24.5 Commitments in respect of forward lending

Forward call lending	5,693,806	5,309,670
Forward repurchase agreement lending	12,560,312	2,531,144
Commitments to extend credit		
Others (to be specified)		

Commitments to extend credit are those commitments that are irrevocable because they cannot be withdrawn at the discretion of the bank without the risk of incurring significant penalty or expense.

24.6 Commitments in respect of forward exchange contracts

Purchase		
From State Bank of Pakistan	3,425,000	1,074
From others	4,525,078	16,738,175
Sale		
To State Bank of Pakistan	0	0
To others	3,662,748	24,441,797

The maturities of above contracts are spread over a period of one year.

24.7 Commitments in respect of operating leases

Not later than one year	0	0
Later than one year and not later than five years	0	0
Later than five years	0	0

24.8 Commitments for the acquisition of operating fixed assets

0 0

24.9 Other commitments

FX Options	0	5,860,544
Cross Currency Swaps	2,738,173	6,085,525
Interest Rate Swaps	6,756,023	14,322,602
Forward Rate Agreement	0	250,000

25 DERIVATIVE INSTRUMENTS

The bank is providing solutions to this conundrum through derivatives. Through this, counterparties will be hedging exposure to adverse price movements in a security, typically when the counterparty has a concentrated position in the security and is acutely exposed to movements in the underlying risk factors. The bank is in a better position to hedge that risk, and is thus able to provide cost efficient hedging solutions to the counterparties enabling them to concentrate on their business risk.

Other Objectives include:

- contribution to the development of Pakistani financial markets.
- provision of financial solutions to the counterparties.

Risk management is performed at:

- a) Strategic level: By senior management Assets and Liabilities Management Committee (ALCO), Risk Management Committee (RMC) and the Board of Directors to institute a risk management framework and to ensure provision of all resources and support required for effective risk management on bank-wide basis.
- b) Macro Level: By Financial Institution Public Sector (FIPS) & Market Risk Management (MRM) Division, responsible for policy formulation, procedure development & implementation, monitoring and reporting.
- c) Micro Level: Treasury Derivatives & Structured Product Desk and Treasury Operations, where risks are actually

FIPS & MRM Division is responsible for coordinating for risk management of derivatives. The risk management system generates marked to market risk numbers (i.e. VaR PVBP, duration, etc.) of Interest rate derivative portfolio. These numbers are reported to senior management on a daily basis.

Risk Limits

Before initiating any new derivative transaction, treasury division requests the FIPS & MRM division for risk limits. Limit requests are approved by the appropriate level of authority. Presently the bank has notional limits (both for the portfolio and the counterparty). The bank is in process of finalizing other risk limits, including value at risk limits.

25.1 Product Analysis

		31-Dec-09							
						Rupees in '000			
Counterparties	Interest Rate Swaps		Forward Rate Agreement		Cross Currency Swaps		FX Options		
	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal *	
With Banks for									
Hedging	3	6,200,105							
Market Making									
With FIs other than banks									
Hedging									
Market Making									
With other entities for									
Hedging									
Market Making	1	555,918			3	2,738,173			
Total									
Hedging	3	6,200,105	0	0	0	0	0	0	0
Market Making	1	555,918	0	0	3	2,738,173	0	0	0
	<u>4</u>	<u>6,756,023</u>	<u>0</u>	<u>0</u>	<u>3</u>	<u>2,738,173</u>	<u>0</u>	<u>0</u>	<u>0</u>

* At the exchange rate prevailing at the end of the reporting period

25.2 **Maturity Analysis**

Interest Rate Swaps and Forward Rate Agreements

Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month					0
1 to 3 months					0
3 to 6 months					0
6 month to 1 Year					0
1 to 2 Year					0
2 to 3 Years	2	1,111,836	(13,150)	13,150	0
3 to 5 Years	5	8,382,360	(1,553,041)	527,641	(1,025,400)
5 to 10 years					0
Above 10 Years					0
Less : Reserve				(140,287)	(140,287)
Total	7	9,494,196	(1,566,191)	400,504	(1,165,687)

25.3 Disclose qualitative and quantitative information on exchange traded derivatives, (relating to activities, if any, during the financial year under reporting.)

26	Mark-up/Return/Interest earned	31-Dec-09	31-Dec-08
		Rupees in '000	
a)	On Loans and advances to: i) Customers	595,793	716,388
	ii) Financial Institutions	92	2,166
b)	On Investments in: i) Held for Trading Securities	0	0
	ii) Available for sale Securities	8,341	79,082
	iii) Held to Maturity Securities	0	0
	iv) Associates and Subsidiaries	0	0
c)	On Deposits with financial institutions	53	26,958
d)	On Securities purchased under resale agreements	506,394	213,344
e)	Others (to be specified)	465	3,093
		<u>1,111,138</u>	<u>1,041,031</u>
27	Mark-up/Return/Interest expensed		
	Deposits	191,788	307,454
	Securities sold under repurchase agreements	4,721	1,595
	Other short term borrowings	45,346	90,638
	Long-Term borrowings	0	0
	Others (to be specified)	425	330
		<u>242,280</u>	<u>400,017</u>
28	INCOME FROM DEALING IN FOREIGN CURRENCIES		
	Exchange income from dealing in foreign currencies	448,879	2,501,901
	Income on derivatives	864,717	(1,614,374)
		<u>1,313,596</u>	<u>887,526</u>
29	OTHER INCOME		
	Rent on property	0	0
	Net profit on sale of property and equipment	3,460	889
	(Loss) / Gain on sale of Govt securities	(2,294)	(197,392)
	Income on Fx Options and Forward Rate Agreement	0	63,886
	Gain on sale of non banking assets	0	0
	Others (to be specified)	3,749	156
		<u>4,916</u>	<u>(132,461)</u>
30	ADMINISTRATIVE EXPENSES		
	Salaries, allowances, etc.	334,642	288,766
	Voluntary retirement scheme	0	12,803
	Charge for defined benefit plan	9,600	8,883
	Contribution to defined contribution plan	15,737	15,544
	Worker's Welfare Fund	32,179	16,961
	Head office expenses	310,991	313,017
	All Risk Insurance Premium	0	407
	Rent, taxes, insurance, electricity, etc.	35,389	30,552
	Legal and professional charges	5,596	6,936
	Communications	18,914	19,987
	Repairs and maintenance	8,156	10,341
	Rentals of operating leases	0	0
	Finance charges on leased assets	0	0
	Stationery and printing	6,968	8,265
	Advertisement and publicity	2,754	3,435
	Donations	(650)	80
	Auditors' remuneration	2,236	2,135
	Depreciation	38,770	31,000
	Others (to be specified, if material)	42,168	44,766
		<u>863,451</u>	<u>813,878</u>
26.1	Head office expenses		
	SAP expenses	1,312	1,532
	MLC charges	71,988	62,635
	Professional indemnity insurances	-	145
	Financial insurances	-	1,515
	Head office expenses	232,536	241,568
	Risk participation fee	3,491	4,615
	Global HR product	3,115	2,397
	DKS Service charges	1,016	-
	GTB/CL REIMB EX	(2,467)	(1,390)
		<u>310,991</u>	<u>313,017</u>
30.1	Donation given to The Citizens Foundation	(650)	80

30.2 Auditors' remuneration

	31-Dec-09	31-Dec-08
	Rupees in '000	
Audit fee	1,661	1,661
Fee for audit of foreign branches (for banks incorporated in Pakistan)		
Fee for audit of provident, pension, gratuity and other funds		
Special certifications and sundry advisory services	309	360
Tax services		
Out-of-pocket expenses	8	114
	<u>1,978</u>	<u>2,135</u>

In case of joint auditors the above information should be shown separately for each of the joint auditors.

31 OTHER CHARGES

Penalties imposed by State Bank of Pakistan (to be specified)	1,445	1,097
Head Office Expenses	0	0
Others (to be specified, if material)	0	37
	<u>1,445</u>	<u>1,134</u>

32 TAXATION**For the year**

Current	(552,000)	(377,000)
Deferred	114,465	80,000
	<u>(437,535)</u>	<u>(297,000)</u>

For the prior year(s)

Current	0	0
Deferred	0	0
	<u>0</u>	<u>0</u>
	<u>(437,535)</u>	<u>(297,000)</u>

32.2 Relationship between tax expense and accounting profit

31-Dec-09 31-Dec-08
Rupees in '000

Profit / (Loss) before tax	<u>1,242,751</u>	<u>831,132</u>
Tax calculated at the rate of 35% (2006: 35%)	434,963	290,896
Effect of :		
- permanent differences	949	413
- deferred tax asset recognised in respect of losses brought forw	-	-
- Others	<u>1,821</u>	<u>(246)</u>
Tax charge for the year	<u>437,733</u>	<u>291,063</u>

Applicable tax rate is changed in accordance with the requirements of Income Tax Ordinance, 2001.

35 CASH AND CASH EQUIVALENTS

Cash and Balance with Treasury Banks	4,764,709	4,754,734
Balance with other banks	128,632	1,628,093
Others (To be specified)		
	<u>4,893,341</u>	<u>6,382,827</u>

36 STAFF STRENGTH

	31-Dec-09	31-Dec-08
	Number	Number
Permanent	<u>78</u>	<u>84</u>
Bank's own staff strength at the end of the year	78	84
Outsourced*	<u>32</u>	<u>31</u>
Total Staff Strength	<u>110</u>	<u>115</u>

37 DEFINED BENEFIT PLAN**37.1 General description**

All permanent employees of the bank are eligible for pension under the pension fund scheme on completing 10 years of service with the bank. The benefit under the scheme comprises of 1.5 percent of monthly basic salary (during the last completed year of service) for each year of service, subject to a maximum of 30 years of service.

37.2 Principal actuarial assumptions

The last actuarial valuation of the scheme was carried out on 31 December 2009. Projected Unit Credit Method is used for the calculation and the key assumptions used for actuarial valuation were as follows:

	2009	2008
- Discount rate	12.00% p.a.	16.00% p.a.
- Expected rate of increase in salary in future years	12.00% p.a.	16.00% p.a.
- Expected rate of return on plan assets	15.48% p.a.	10.65% p.a.
- Withdrawal rate before normal retirement age	"Moderate"	"Moderate"

31.3 Reconciliation of payable to defined benefit plan	Note	2009	2008
		(Rupees in '000)	
Present value of defined benefit obligations	31.4	294,727	171,764
Fair value of plan assets	31.5	(239,496)	(179,227)
Net actuarial gains or losses not recognised	31.6	-	-
		<u>55,231</u>	<u>(7,463)</u>

31.4 Movement in present value of defined benefit plan

Opening balance		171,764	148,907
Current service cost		9,765	7,676
Interest cost		27,570	15,649
Past service cost due to pension indexation in excess of assumptions		-	4,549
Gain on defined benefit obligation		94,220	1,668
Actual benefits paid during the year		(8,591)	(6,685)
Closing balance		<u>294,727</u>	<u>171,764</u>

31.5 Movement in fair value of plan assets

Opening balance		179,227	178,259
Expected return on plan assets		27,736	18,991
Contribution made		12,203	12,495
Benefits paid by the fund		(8,591)	(6,685)
Gain on plan assets		28,921	(23,833)
Closing balance	31.5.1	<u>239,496</u>	<u>179,227</u>

31.5.1 Plan assets consist of the following:

Pakistan Investment Bonds		77,701	55,612
Market Treasury Bills		128,757	-
Units of mutual funds		-	16,823
Balances with other banks		33,038	106,792
		<u>239,496</u>	<u>179,227</u>

31.6 Movement in payable to defined benefit plan

Opening balance		(7,461)	29,352
Charge for the year	31.7	9,599	(8,883)
Amount recognised outside P&L directly in Retained Earnings		65,298	(25,503)
Contribution to fund made during the year		(12,203)	12,495
Closing balance		<u>55,233</u>	<u>7,461</u>

31.7 Charge for defined benefit plan

Current service cost		9,765	7,676
Interest cost		27,570	15,649
Expected return on plan assets		(27,736)	(18,991)
Past service cost		-	4,549
		<u>9,599</u>	<u>8,883</u>

31.8 Actual return on plan assets		<u>56,657</u>	<u>4,842</u>
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39 COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	(Current Year)	(Prior Year)	(Current Year)	(Prior Year)	(Current Year)	(Prior Year)
			Rupees in '000			
Fees		0				
Managerial remuneration	49,540	69,098			177,584	142,332
Charge for defined benefit plan	1,396	1,169			8,474	6,360
Contribution to defined contribution plan	1,845	1,546			11,202	6,956
Rent and house maintenance					0	660
Utilities						
Medical					1,155	960
Conveyance						
Others (to be specified, if material)						
	<u>52,780</u>	<u>71,813</u>			<u>198,415</u>	<u>157,268</u>
Number of persons	<u>1</u>	<u>1</u>			<u>44</u>	<u>58</u>

In addition to above the bank provides free use of bank maintained cars and equity Options to Chief Country Officer and Executives.

40 FAIR VALUE OF FINANCIAL INSTRUMENTS

40.1 On-balance sheet financial instruments

	31-Dec-09		31-Dec-08	
	Book value	Fair value	Book value	Fair value
	Rupees in '000			
Assets				
Cash balances with treasury banks	4,764,709	4,764,709	4,754,734	4,754,734
Balances with other banks	128,632	128,632	1,628,093	1,628,093
Lending to financial institutions	5,350,170	5,350,170	5,309,670	5,309,670
Investments	490,909	490,909	999,390	999,390
Advances	3,457,010	3,457,010	6,334,606	6,334,606
Other assets	713,337	713,337	2,552,372	2,552,372
	<u>14,904,766</u>	<u>14,904,766</u>	<u>21,578,865</u>	<u>21,578,865</u>
Liabilities				
Bills payable	217,050	217,050	1,683,524	1,683,524
Borrowings	1,063,547	1,063,547	532,520	532,520
Deposits and other accounts	6,005,209	6,005,209	10,317,214	10,317,214
Sub-ordinated loans	0	0	0	0
Liabilities against assets subject to finance lease	0	0	0	0
Other liabilities	2,727,985	2,727,985	4,562,268	4,562,268
	<u>10,013,791</u>	<u>10,013,791</u>	<u>17,095,526</u>	<u>17,095,526</u>

40.2 Off-balance sheet financial instruments

Forward purchase of foreign exchange	<u>77,650,488</u>	<u>77,650,488</u>	<u>77,650,488</u>	<u>77,650,488</u>
Forward agreements for borrowing	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Forward sale of foreign exchange	<u>68,120,116</u>	<u>68,120,116</u>	<u>68,120,116</u>	<u>68,120,116</u>
Forward agreements for lending	<u>5,693,806</u>	<u>5,693,806</u>	<u>5,309,670</u>	<u>5,309,670</u>

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.

41 Segment Details with respect to Business Activities

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

Corporate and Investment Banking			Total
Corporate Banking & Securities	Global Transaction Banking	Infrastructure & Regional Management	

Rupees in '000

2009

Total income	1,802,300	731,409	176,770	2,710,479
Total expenses	626,046	270,755	570,927	1,467,728
Net income (loss)	1,176,254	460,654	(394,157)	1,242,751
Segment Assets (Gross)	11,052,846	3,919,954	591,727	15,564,528
Segment Non Performing Loans				0
Segment Provision Required	0	(381,517)	0	(381,517)
Segment Liabilities	2,720,068	6,323,632	970,091	10,013,791
Segment Return on net Assets (ROA) (%)	16.31%	18.66%	29.87%	17.41%
Segment Cost of funds (%)	23.02%	4.28%	58.85%	14.66%

2008

Total income	927,861	929,737	236,636	2,094,234
Total expenses	(535,965)	(201,094)	(509,080)	(1,246,139)
Net income (loss)	391,896	728,643	(272,444)	848,095
Segment Assets (Gross)	9,120,124	6,403,421	5,486,454	21,009,999
Segment Non Performing Loans				0
Segment Provision Required		(40,343)		(40,343)
Segment Liabilities	(6,393,336)	(6,069,103)	(3,854,744)	(16,317,183)
Segment Return on net Assets (ROA) (%)	10.17%	14.52%	4.31%	9.97%
Segment Cost of funds (%)	8.38%	3.31%	13.21%	7.64%

43 RELATED PARTY TRANSACTIONS

Related parties comprise of head office, other branches of the bank and employees' retirement benefit funds. The transactions with related parties are conducted under normal course of business at arm's length prices. The bank also provides advances to employees at reduced rate in accordance with their terms of employment. The transactions and balances with related parties, other than those under the terms of employment and those disclosed elsewhere are summarised as follows:

	31-Dec-09	31-Dec-08
	(Rupees in '000)	
Profit and loss items		
Mark-up / Interest / Income earned	465	2,482
Mark-up / Interest / Income expensed	17	53
Balance sheet items		
Balances with other banks	14,687	132,807
Borrowings from other branches	68,114	-
Interbranch deposits and other accounts	4,569	5,831
Off-balance sheet items		
Interest Rate Swaps	6,200,105	10,434,588
Currency Options	-	2,930,272
Counter guarantees to branches	6,120,243	5,027,775
Forward purchase of foreign exchange	346,409	1,201,451
Forward sale of foreign exchange	346,376	1,201,451
Deposits and other accounts		
At 1 January	52,794	51,808
Deposits during the year	3,984,418	1,762,998
Withdrawals during the year	(4,029,538)	(1,762,012)
At 31 December	<u>7,674</u>	<u>52,794</u>

44.1 CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

44.1.1 Scope Of Applications

The banks /DFIs are required to describe the Scope of Application of Basel-II framework on the following lines:-

The name of the top banking entity to which the framework has been applied

An outline of the differences in the basis of consolidations for accounting and regulatory purposes

(e.g. equity method, fair value etc.), with brief description of the entities. If bank/DFI has overseas operations, same disclosures are required.

The significant subsidiary entities (if any), which has been fully consolidated as per International Accounting Standards

The joint ventures (if any) which has been consolidated on prorata basis as per International Accounting Standards

Any restrictions, or any major impediments, on transfer of funds or regulatory capital within the entities subject to consolidations.

Capital Structure

44.1.2

All banks /DFIs are required to give summary information on the terms and conditions of the main features of all the capital instruments, specially in the case of innovative / hybrid capital instruments if any. The purpose and scope of such capital instruments should also be disclosed.

	31-Dec-09	31-Dec-08
	Rupees in '000	
Tier I Capital		
Shareholders equity /Assigned Capital	3,877,033	3,600,702
Share premium	0	0
Reserves	0	0
Unappropriated / unremitted profits (Net of Losses)	1,292,222	1,033,742
Minority in the equity of the subsidiaries	0	0
Innovative and other capital instruments (if any)	0	0
Less: Goodwill, investment in commercial entities (50%)etc.		
Calculation difference (expected losses vs eligible provisions) ¹	0	0
<i>Total Tier I Capital-----></i>	5,169,255	4,634,445
Tier II Capital		
Subordinated Debt (upto 50% of total Tier 1 Capital)	0	0
Revaluation Reserve (upto 50%)	170,742	40,343
Less: Calculation difference (expected losses vs eligible provisions) ³	0	0
Investment in commercial entities (50%)	0	0
<i>Total Tier II Capital-----></i>	170,742	40,343
Eligible Tier III Capital ----->	0	0
Total Regulatory Capital Base	<u>5,339,997</u>	<u>4,674,788</u>

¹ Representing 50% of the difference, when expected losses as calculated within the IRB approach exceed eligible provisions to be deducted from Tier-1 capital

² Under the standardised approach to credit risk, general provisions can be included in Tier-2 capital subject to the limit of 1.25% of the risk weighted assets. Under the Internal Ratings Based (IRB) approach, the treatment of the 1988 Accord to include general provisions (or general loan-loss reserves) in Tier-2 capital is withdrawn in Basel-II

³ Representing 50% of the difference, when expected losses as calculated within the IRB approach exceed eligible provisions to be deducted from Tier-2 capital. Where the total expected loss amount is less than the total eligible provisions banks may recognise the difference in Tier-2 capital upto a maximum of 0.6% of credit risk-weighted assets.

The banks / DFIs are required to disclose the terms and conditions and main features of all the capital instruments mentioned in the capital structure.

44.1.3 Capital Adequacy

All banks /DFIs are required to give summary discussion of the bank's/DFI's approach to assessing the adequacy of the capital to support current and future. The discussion of capital needs should be based on the following:-

- ✓ Identified objectives of the capital management, interalia, support the growth in shareholder value, protect capital base etc.
- ✓ Commitment to sound capital and debt ratio
- ✓ Overall capital needs
- ✓ An assessment of growth prospects
- ✓ Current and potential risk exposures across all the major risk types
- ✓ Sensitivity and stress analysis of growth and risk assumptions
- ✓ The ability of the bank /DFI to raise capital in the domestic or offshore markets
- ✓ An assessment of economic capital requirements of the bank /DFI as determined in terms of their internal economic capital model

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

	Capital Requirements		Risk Weighted Assets	
	31/Dec 2009	31/Dec 2008	31/Dec 2009	31/Dec 2008
Rupees in '000				
Credit Risk				
<u>Portfolios subject to standardized approach (Simple or Comprehensive)</u>				
e.g. Corporate portfolio. etc.	80,764,980	169,703,220	18,703,944	22,699,853
<u>Portfolios subject to Internal Rating Based (IRB) Approach</u>				
e.g. Corporate, Sovereign , Retail , Securitization etc.				
Equity Exposure Risk in the Banking Book				
<u>Equity portfolio subject to market-based approaches</u>				
Under simple risk weight method				
Under Internal models approach				
<u>Equity portfolio subject to PD / LGD</u>				
Market Risk				
<u>Capital Requirement for portfolios subject to Standardized Approach</u>				
Interest rate risk	8,158,566	80,075,446	1,889,400	10,711,057
Equity position risk etc.				
<u>Capital Requirement for portfolios subject to Internal Models Approach</u>				
Interest rate risk				
Foreign exchange risk etc.				
Operational Risk				
<u>Capital Requirement for operational risks</u>				
	10,644,683	11,495,202	2,465,147	1,537,622
TOTAL	99,568,228	261,273,868	23,058,491	34,948,532
Capital Adequacy Ratio				
	31/Dec/2009		31/Dec/2008	
Total eligible regulatory capital held (Note:-----) (a)	5,339,997		4,674,788	
Total Risk Weighted Assets (Note:----) (b)	23,058,491		34,948,532	
Capital Adequacy Ratio (a) / (b)	23.16%		13.38%	

45.1.1.2 Segment by sector

	2009					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/ Government	61,898	1.61	514	0.01	1,536,598	7.88
Private	3,776,629	98.39	6,004,695	99.99	17,965,887	92.12
	<u>3,838,527</u>	<u>100.00</u>	<u>6,005,209</u>	<u>100.00</u>	<u>19,502,485</u>	<u>100.00</u>
General Provision	(381,517)					
	<u>3,457,010</u>					

	2008					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/ Government	216,230	3.39	3,599	0.03	8,333,739	27.98
Private	6,158,719	96.61	10,313,615	99.97	21,447,270	72.02
	<u>6,374,949</u>	<u>100.00</u>	<u>10,317,214</u>	<u>100.00</u>	<u>29,781,009</u>	<u>100.00</u>
General Provision	(40,343)					
	<u>6,334,606</u>					

45.1.1.5 GEOGRAPHICAL SEGMENT ANALYSIS

	2009			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Pakistan	1,242,751	15,183,011	5,169,221	52,107,600
Asia Pacific (including South Asia)				
Europe				
United States of America and Canada				
Middle East				
Others				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Total assets employed include intra group items of Rs. 1.457 million

Total assets employed shown above mean total assets shown on the balance sheet and intra group items. Net assets employed mean net assets shown on the balance sheet. The geographical distribution shown above should be based primarily upon the location of the office recording the transaction.

45.3 Market Risk

Substantially all of our businesses are subject to the risk that market prices and rates will move and result in profits or losses for us. We distinguish among four types of market risk:

- § Interest rate risk;
- § Equity price risk;
- § Foreign exchange risk; and
- § Commodity price risk.

The interest rate and equity price risks consist of two components each. The general risk describes value changes due to general market movements, while the specific risk has issuer-related causes.

We assume market risk in both our trading and our non-trading activities. We assume risk by making markets and taking positions in debt, equity, foreign exchange, other securities and commodities as well as in equivalent derivatives.

We use a combination of risk sensitivities, value-at-risk, stress testing and economic capital metrics to manage market risks and establish limits. Economic capital is the metric we use to describe and aggregate all our market risks, both in trading and non-trading portfolios. Value-at-risk is a common metric we use in the management of our trading market risks. DB Pakistan has adopted Standardized approach for Market Risk which is approved regulatory approach.

45.3.2 Foreign Exchange Risk

At a local level, we ensure the overall foreign exchange exposure of Pakistan Operations remains within the limits set by State Bank of Pakistan ('SBP'). We do not take any currency exposure except to the extent of the Statutory Net Open Position Limit prescribed.

Internal limits are in place to monitor Foreign Exchange open and mismatched positions on a daily basis and are marked-to-market daily to contain forward exposures to meet regulatory compliance issued periodically.

The vast majority of the interest rate and foreign exchange risks arising from our non-trading asset and liability positions has been transferred through internal trades to our Global Markets Business Division within our Corporate and Investment Bank Group Division and is thus managed on the basis of value-at-risk.

Market Risk is the risk of loss in earnings and capital due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions. Thus market risk can be further described into Interest Rate Risk, Foreign Exchange Risk and Equity Position Risk.

The banks/DFIs are required to give all the details relating to principal sources of market risk faced by them in both their trading and banking books along with distinctly differentiating the both books. Banks/DFIs must also describe their market risk management objectives and policies, including; strategies and processes, the structure and organization of the market risk management function, the scope and nature of risk reporting and/or measurement systems, policies for hedging and/or mitigating risk and strategies and processes for monitoring and continuing effectiveness of hedges/mitigants.

Banks/DFIs are encouraged to disclose the risk measurement models they use and results produced by these models. Further, banks/DFIs are also encouraged to give brief on quantitative standards used by them with respect to ascertainment of market risk impact on relevant factors. Banks/DFIs are also required to make specific disclosures with respect to approach used to assess the market risk, i.e. Standardized Measurement Method/ Internal Models approach.

The description of portfolios covered under the approach shall also be detailed along with the capital charge required thereagainst.

45.3.2 Foreign Exchange Risk

Disclose the bank's/DFI's foreign exchange risk management objectives and policies. The current or prospective risk to earnings and capital arising from holding or taking positions in foreign currencies. The banks/DFIs should also disclose impacts; positive/negative due to net open position and their likely load in future course of action. In this regard banks/DFIs are required to indicate their structural position i.e. matched currency position that protects the bank/DFI against loss from adverse movement in exchange rates, but not necessarily protect the capital adequacy ratio.

The banks/DFIs should discuss the nature and description of their foreign exchange exposures during the year.

2009				
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Rupees in '000				
Pakistan rupee	10,869,725	10,555,246	(90,629)	223,850
United States dollar	414,164	562,868	88,790	(59,914)
Great Britain pound	21,647	21,538	0	109
Japanese yen	0	1,770	1,839	69
Euro	3,902,448	4,013,540	0	(111,092)
Other currencies (to be specified, if material)	72,624	125,646	0	(53,022)
	<u>15,280,608</u>	<u>15,280,608</u>	<u>0</u>	<u>0</u>
2008				
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Rupees in '000				
Pakistan rupee	16,171,295	17,312,042	1,455,431	314,684
United States dollar	1,773,041	652,519	(1,462,980)	(342,459)
Great Britain pound	16,499	14,227	4,019	6,291
Japanese yen	12,951	54	40	12,937
Euro	3,695,217	3,697,265	3,487	1,440
Other currencies (to be specified, if material)	7,103	0	3	7,106
	<u>21,676,106</u>	<u>21,676,107</u>	<u>0</u>	<u>(1)</u>

45.3.3. 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 behavior similar to equities. Banks/DFIs are required to disclose their objectives and polices regarding trading in equities.

45.3.4 *Yield / Interest Rate Risk in the Banking Book (IRRBB)-Basel II Specific*

Yield/ Interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date. This also refers to the non-trading market risk. Apart from the gap analysis between the market rate sensitive assets and liabilities as per the table given below, the banks/DFIs are required to disclose as the following also:-

- √ The nature of IRRBB and key assumptions, including assumptions regarding loan repayments and behavior of non-maturity deposits, and frequency of IRRBB measurements
- √ The increase (decline) in earnings or economic value (or any other relevant measures used by management) for upward and downward shocks according to management's method for measuring IRRBB, broken down by currencies (if any, and than translated into Rupees)

45.3.5 Mismatch of Interest Rate Sensitive Assets and Liabilities

Effective Yield/ Interest rate	Total	31-Dec-09										Non-interest bearing financial instruments	
		Exposed to Yield/ Interest risk											
		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													
On-balance sheet financial instruments													
<i>Assets</i>													
Cash and balances with treasury ban	0.00%	4,764,709	118,648	0	0	0	0	0	0	0	0	0	4,646,061
Balances with other banks	0.00%	128,632	0	0	0	0	0	0	0	0	0	0	128,632
Lending to financial institutions	11.95%	5,350,170	5,350,170	0	0	0	0	0	0	0	0	0	0
Investments	11.33%	490,909	490,909	0	0	0	0	0	0	0	0	0	0
Advances	13.02%	3,457,010	2,218,422	817,413	185,692	49,932	4,696	198	15,573	31,638	133,446	0	(0)
Other assets	0.00%	515,135	0	0	0	0	0	0	0	0	0	0	515,135
		14,706,564	8,178,149	817,413	185,692	49,932	4,696	198	15,573	31,638	133,446	0	5,289,828
<i>Liabilities</i>													
Bills payable	0.00%	217,050	0	0	0	0	0	0	0	0	0	0	217,050
Borrowings	7.58%	1,063,547	1,063,547	0	0	0	0	0	0	0	0	0	0
Deposits and other accounts	5.27%	6,005,209	3,489,891	194,617	408,288	78,000	0	0	0	0	0	0	1,834,413
Sub-ordinated loans		0	0	0	0	0	0	0	0	0	0	0	0
Liabilities against assets subject to finance lease		0	0	0	0	0	0	0	0	0	0	0	0
Other liabilities		2,645,112	0	0	0	0	0	0	0	0	0	0	2,645,112
		9,930,917	4,553,438	194,617	408,288	78,000	0	0	0	0	0	0	4,696,574
On-balance sheet gap		4,775,647	3,624,710	622,796	(222,596)	(28,068)	4,696	198	15,573	31,638	133,446	0	9,986,402
Off-balance sheet financial instruments													
Foreign currency forward purchases		7,950,078	3,227,039	4,723,039									
Foreign currency forward sales		(3,662,748)	(3,660,920)	(1,828)									
Cross Currency Swaps (Notional)		(2,738,173)							(2,738,173)				
Off-balance sheet gap		1,549,157	(433,881)	4,721,211	0	0	0	0	(2,738,173)	0	0	0	0
Total Yield/Interest Risk Sensitivity Gap			3,190,829	5,344,007	(222,596)	(28,068)	4,696	198	(2,722,600)	31,638	133,446	0	9,986,402
Cumulative Yield/Interest Risk Sensitivity Gap			3,190,829	8,534,836	8,757,432	8,785,500	8,780,804	8,780,606	11,503,206	11,471,568	11,338,122	0	1,351,720

31-Dec-08

	Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments	
			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										
On-balance sheet financial instruments													
<i>Assets</i>													
Cash and balances with treasury ban	4.29%	4,754,734	118,648	0	0	0	0	0	0	0	0	0	4,636,086
Balances with other banks	1.38%	1,628,093	0	0	0	0	0	0	0	0	0	0	1,628,093
Lending to financial institutions	7.20%	5,309,670	5,309,670	0	0	0	0	0	0	0	0	0	0
Investments	9.61%	999,390	999,870	0	0	0	0	0	0	0	0	0	(480)
Advances	9.86%	6,334,606	4,311,416	1,126,936	655,629	7,935	93,538	12,955	24,344	49,184	52,669	0	(0)
Other assets	0.00%	2,344,120	0	0	0	0	0	0	0	0	0	0	2,344,120
		21,370,613	10,739,604	1,126,936	655,629	7,935	93,538	12,955	24,344	49,184	52,669	0	8,607,819
<i>Liabilities</i>													
Bills payable	0.00%	1,683,524	0	0	0	0	0	0	0	0	0	0	1,683,524
Borrowings	6.72%	532,520	532,520	0	0	0	0	0	0	0	0	0	0
Deposits and other accounts	4.46%	10,317,214	7,520,849	306,707	17,098	147,000	0	0	0	0	0	0	2,325,560
Sub-ordinated loans		0	0	0	0	0	0	0	0	0	0	0	0
Liabilities against assets subject to fi	13.19%	0	0	0	0	0	0	0	0	0	0	0	0
Other liabilities		4,458,496	0	0	0	0	0	0	0	0	0	0	4,458,496
		16,991,755	8,053,369	306,707	17,098	147,000	0	0	0	0	0	0	8,467,581
On-balance sheet gap		4,378,858	2,686,235	820,229	638,531	(139,065)	93,538	12,955	24,344	49,184	52,669	0	17,075,400
Off-balance sheet financial instruments													
Foreign currency forward purchases		24,441,796	10,488,246	5,813,800	7,373,000	766,750							
Foreign currency forward sales		(16,738,174)	(7,925,084)	(3,372,592)	(5,024,998)	(415,500)							
Cross Currency Swaps (Notional)		(6,085,525)							(6,085,525)				
Forward borrowings													
Total Yield/Interest Risk Sensitivity Gap			5,249,397	3,261,437	2,986,533	212,185	93,538	12,955	(6,061,181)	49,184	52,669	0	17,075,400
Cumulative Yield/Interest Risk Sensitivity Gap			5,249,397	8,510,834	5,524,301	5,312,116	5,218,578	5,205,623	11,266,804	11,217,620	11,164,951	0	(5,910,449)

45.4 Liquidity Risk

Liquidity Risk Management safeguards the ability of the bank to meet all payment obligations when they come due.

Our liquidity risk management framework is designed to identify, measure and manage the liquidity risk position. The underlying policies are reviewed and approved on a regular basis by the Risk Executive Committee. The policies define the methodology which is applied to the Group.

Our liquidity risk framework seeks to maintain an adequate level of liquidity as well as a healthy funding profile for the organization. The framework employs the following approach and key elements:

§ Our liquidity risk management approach starts at the intraday level (operational liquidity) managing the daily payment queues, forecasting cash flows and factoring in our access to Central Banks.

§ It then covers tactical liquidity risk management dealing with the access to unsecured funding sources and the liquidity characteristics of our asset inventory (Asset Liquidity).

§ Finally, the strategic perspective comprises the maturity profile of all assets and liabilities (Funding Matrix) on our balance sheet and our Issuance Strategy.

§ Our liquidity position is subject to stress testing and scenario analysis to evaluate the impact of sudden stress events. The scenarios are based on historic events, case studies of liquidity crises and models using hypothetical events.

Our cash flow based reporting tool provides daily liquidity risk information to global and regional management.

Being DB's Asia Pacific hub, Treasury & Capital Management (TCM) team in Singapore oversees the liquidity risk and capital management for the whole of Asia/ Pacific. Currently, there is one Treasurer and one Treasury analyst who manage day to day liquidity risk and capital management for Pakistan. Liquidity risk management is supported by a web-based system, dbCube, which helps liquidity and capital managers of TCM to monitor the liquidity situation of any DB entity at any location any time. All liquidity risk and capital related issues for DB branches in Pakistan are discussed by the local Asset and Liability Committee (ALCO), chaired by the regional Treasurer, and comprising all businesses and supporting functions, f.e. Finance and Compliance. The local ALCO provides a forum for managing the liquidity, capital and funding positions of the local entity to meet regulatory compliance. Meetings of the local ALCO are held on a regular basis with ad-hoc meetings called when required.

	Total	2008								
		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	4,754,734	1,154,032								3,600,702
Balances with other banks	1,628,093	1,628,093								
Lending to financial institutions	5,309,670	5,309,670								
Investments	999,870	999,870								
Advances	6,334,606	4,311,416	1,126,936	655,629	7,935	93,538	12,955	24,344	49,184	52,669
Other assets	2,552,372	2,361,943	4,494	6,740	7,523	166,018	1,608	1,640	0	2,407
Operating fixed assets	130,224							130,224		
Deferred tax assets	20,649				20,649					
	21,730,218	15,765,024	1,131,430	662,369	15,458	280,205	14,563	156,208	49,184	3,655,778
Liabilities										
Bills payable	1,683,524	1,683,524								
Borrowings	532,520	532,520								
Deposits and other accounts	10,317,213	9,846,408	306,707	17,098	147,000					
Sub-ordinated loans	0									
Liabilities against assets subject to foreclosure	0									
Other liabilities	4,562,268	4,200,857	45,144		316,266					
Deferred tax liabilities	0									
	17,095,525	16,263,310	351,851	17,098	463,266	0	0	0	0	0
Net assets	4,634,693	(498,286)	779,578	645,271	(447,808)	280,205	14,563	156,208	49,184	3,655,778
Share capital/ Head office capital account	3,600,702									
Reserves										
Unappropriated/ Unremitted profit	1,033,742									
Surplus/(Deficit) on revaluation of assets	(232)									
	4,634,213									

Some assets/ liabilities of a bank do not have a contractual maturity date. The period in which these assets/ liabilities are assumed to mature should be taken as the expected date on which the assets/ liabilities will be realized/ settled. The above maturity analysis should be based on the remaining period at the balance sheet date to the contractual maturity date. Further, the analysis should be expressed in terms of contractual maturities even though the contractual repayment period is often not the effective period because contractual dates reflect the liquidity risks attaching to the bank's assets and liabilities.

45.5 Operational Risk

Deutsche Bank defines operational risk as the potential for incurring losses in relation to employees, contractual specifications and documentation, technology, infrastructure failure and disasters, projects, external influences and customer relationships. This definition includes legal and regulatory risk, but excludes business and reputational risk.

We manage operational risk based on a Group-wide consistent framework that enables us to determine our operational risk profile in comparison to our risk appetite and to define risk mitigating measures and priorities.

Based on the organizational set-up, the governance and systems in place to identify and manage the operational risk and the support of control functions responsible for specific operational risk types (e.g., Compliance, Corporate Security & Business Continuity Management) we seek to optimize the management of operational risk. Future operational risks – identified through forward-looking analysis – are managed via mitigation strategies such as the development of back-up systems and emergency plans. Where appropriate, we purchase insurance against operational risks.

In 2006, we further refined our methodology for calculating economic capital for operational risk as part of our Basel II preparation for the Advanced Measurement Approach (AMA). We use this model for internal economic capital calculation and allocation purposes. For purpose of complying with local Basel II regulatory requirements in Pakistan, we follow the implementation guidelines ('Implementation of Basel II') issued by State Bank of Pakistan.

Operational Risk-Disclosures Basel II Specific

Deutsche Bank ('DB') is seeking approval from our German home regulator (BaFin) to use for DB group-wide reporting the most advanced approach, being the Advanced Measurement Approach (AMA) for operational risk. DB intends to use this approach as soon as it becomes available according to the new capital framework, which is January 1, 2008, subject to BaFin-approval.

Outside Germany, Deutsche Bank intends to use on a local level (i.e. from a stand alone legal entity perspective), the Basic Indicator / Standardized Approach for operational risk. As required by State Bank of Pakistan regulations, DB local entities in Pakistan would employ the Basic Indicator Approach (BIA) with implementation target for 2008.

Shazad G. Dada
Chief Country Officer
& Head of Global Banking
Pakistan

Mahmood A. Qureshi
Chief Operating Officer
& Country Controller
Pakistan