

# Deutsche Bank AG, Pakistan Branches

(Incorporated in the Federal Republic of Germany with Limited Liability)

## Balance Sheet

As at 31 December 2010

	Note	31-Dec-10	31-Dec-09
Rupees in '000			
<b>ASSETS</b>			
Cash and balances with treasury banks	6	4,722,670	4,764,709
Balances with other banks	7	37,134	128,632
Lendings to financial institutions	8	6,223,146	5,350,170
Investments	9	2,046,309	490,909
Advances	10	3,245,949	3,457,010
Operating fixed assets	11	110,229	120,382
Deferred tax assets	12	150,725	157,863
Other assets	13	898,722	713,337
		<b>17,434,884</b>	<b>15,183,011</b>
<b>LIABILITIES</b>			
Bills payable	15	2,640,728	217,050
Borrowings	16	443,891	1,063,547
Deposits and other accounts	17	6,065,947	6,005,209
Sub-ordinated loans	18	-	-
Liabilities against assets subject to finance lease	19	-	-
Deferred tax liabilities	20	-	-
Other liabilities	21	3,010,220	2,727,985
		<b>12,160,786</b>	<b>10,013,791</b>
<b>NET ASSETS</b>		<b>5,274,098</b>	<b>5,169,221</b>
<b>REPRESENTED BY</b>			
Share capital/ Head office capital account	22	3,667,877	3,877,033
Reserves		-	-
Unappropriated/ Unremitted profit		1,606,543	1,292,222
		<b>5,274,420</b>	<b>5,169,255</b>
Surplus/ (Deficit) on revaluation of assets	23	(321)	(34)
		<b>5,274,099</b>	<b>5,169,221</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	24		

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

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**Chief Country Officer  
& Head of Global Banking  
Pakistan**

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**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 2010

	Note	31-Dec-10	31-Dec-09
Rupees in '000			
Mark-up/Return/Interest Earned	26	1,065,751	1,111,138
Mark-up/Return/Interest Expensed	27	(324,744)	(242,280)
Net Mark-up/ Interest Income		741,007	868,858
Provision against non-performing loans and advances	10.4	(37,748)	(341,174)
Provision against off-balance sheet obligation	21.1	12,778	(13,113)
Provision for diminution in the value of investments	9.3	-	-
Bad debts written off directly	10.5	(293)	-
		(25,263)	(354,287)
Net Mark-up/ Interest Income after provisions		715,744	514,571
<b>NON MARK-UP/INTEREST INCOME</b>			
Fee, Commission and Brokerage Income		354,825	280,829
Dividend Income		-	-
Income from dealing in foreign currencies		755,656	1,313,596
Gain / (Loss) on sale of securities	28	109,403	(2,294)
Unrealized Gain / (Loss) on revaluation of investments classified as held for trading	9.5	-	-
Other Income	29	1,592	7,209
Total non-markup/interest Income		1,221,477	1,599,341
		1,937,221	2,113,912
<b>NON MARK-UP/INTEREST EXPENSES</b>			
Administrative expenses	30	(653,432)	(863,451)
Provision against other assets	13.2	478	(6,266)
Other charges	31	(98)	(1,445)
Total non-markup/interest expenses		(653,052)	(871,161)
Extra ordinary/unusual items (to be specified)		-	-
		(653,052)	(871,161)
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		1,284,169	1,242,751
Taxation – Current	32	(450,205)	(552,000)
- Prior years			
- Deferred		330	114,465
		(449,875)	(437,535)
<b>PROFIT/(LOSS) AFTER TAXATION</b>		834,294	805,216
Accumulated loss brought forward		1,292,222	487,006
Accumulated loss carried forward		2,126,516	1,292,222

The annexed notes form an integral part of these accounts.

**Chief Country Officer  
& Head of Global Banking  
Pakistan**

**Chief Operating Officer  
& Country Controller  
Pakistan**

# Deutsche Bank AG, Pakistan Branches

(Incorporated in the Federal Republic of Germany with Limited Liability)

## Cash Flow Statement

For the year ended 31 December 2010

	Note	31-Dec-10	31-Dec-09
		Rupees in '000	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit/(Loss) before taxation		1,284,169	1,242,751
Less: Dividend income		-	-
		<u>1,284,169</u>	<u>1,242,751</u>
Adjustments:			
Depreciation		39,028	38,770
Amortization		-	-
Provision / (Reversal) Against Non-performing Advances		37,748	341,174
Provision Against off-balance sheet obligation		(12,778)	13,113
Provision Against other assets		(478)	6,266
Provision for Diminution in the value of investments/ other assets		-	-
Loss/ (Gain) on sale of investments		(109,403)	2,294
Loss/ (Gain) on sale of fixed assets		(780)	(3,460)
Unrecognised actuarial gain		21,780	-
Others (to be specified)		-	-
		<u>(24,884)</u>	<u>398,156</u>
		<u>1,259,285</u>	<u>1,640,907</u>
(Increase)/ Decrease in operating assets			
Lendings to financial institutions		(872,977)	(40,500)
Held-for-trading securities		-	-
Advances		173,313	2,536,421
Others assets (excluding advance taxation)		(148,644)	1,805,244
		<u>(848,308)</u>	<u>4,301,165</u>
Increase/ (Decrease) in operating liabilities			
Bills Payable		2,423,678	(1,466,474)
Borrowings from financial institutions		(619,656)	531,026
Deposits		60,738	(4,312,005)
Other liabilities (excluding current taxation)		295,013	(1,905,234)
		<u>2,159,774</u>	<u>(7,152,687)</u>
		<u>2,570,751</u>	<u>(1,210,615)</u>
Payments of provision against off-balance sheet obligations		-	-
Income tax (paid) / refund		(486,469)	(531,935)
<i>Net cash flow from operating activities</i>		<u>2,084,283</u>	<u>(1,742,550)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investments in available-for-sale securities		(1,446,439)	506,493
Profit received on Government Securities		-	-
Dividend income		-	-
Investments in operating fixed assets		(53,495)	(41,214)
Sale proceeds of property and equipment disposed-off		25,400	15,746
<i>Net cash flow from investing activities</i>		<u>(1,474,535)</u>	<u>481,025</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Receipts/ Payments of Sub-ordinated loan		-	-
Receipts/ Payments of lease obligations		-	-
Issue of share capital		-	-
Dividend		-	-
Remittances made to/ received from head office		(534,131)	(504,293)
<i>Net cash flow from financing activities</i>		<u>(534,131)</u>	<u>(504,293)</u>
Effects of exchange rate changes on cash and cash equivalents		(209,156)	276,331
<b>Increase/(Decrease) in cash and cash equivalents</b>		<u>(133,540)</u>	<u>(1,489,487)</u>
Cash and cash equivalents at beginning of the year	35	<u>4,893,340</u>	<u>6,382,827</u>
Cash and cash equivalents at end of the year	35	<u>4,759,800</u>	<u>4,893,340</u>

Chief Country Officer  
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Pakistan

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& Country Controller  
Pakistan

# Deutsche Bank AG, Pakistan Branches

(Incorporated in the Federal Republic of Germany with Limited Liability)

## Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital/ Head office capital account	Unappropriated/ Unremitted profit/(loss)	Total
	Rupees in '000		
Opening Balance as at Jan 01, 2009	3,600,702	1,033,743	4,634,445
Impact of changes in accounting policy	0		0
	<u>3,600,702</u>	<u>1,033,743</u>	<u>4,634,445</u>
Statement of Recognised Income & Expense			-
Profit for the current year		805,218	805,218
Remittances made to/ received			
from head office		(504,293)	(504,293)
Transfer to statutory reserve			-
Actuarial loss on defined benefit plan - net of tax		(42,444)	(42,444)
Other appropriations (to be specified)			-
Issue of share capital			-
Exchange adjustments on revaluation of capital	276,331		276,331
<b>Opening Balance as at Jan 01, 2010</b>	<b>3,877,033</b>	<b>1,292,224</b>	<b>5,169,257</b>
Profit for the current year		834,294	834,294
Remittances made to/ received			
from head office		(534,131)	(534,131)
Transfer to statutory reserve			-
Actuarial loss on defined benefit plan - net of tax		14,157	14,157
Other appropriations (to be specified)			-
Issue of share capital			-
Exchange adjustments on revaluation of capital	(209,156)		(209,156)
<b>Closing Balance as at Dec 31, 2010</b>	<b>3,667,877</b>	<b>1,606,543</b>	<b>5,274,420</b>

### Statement of Recognised Income & Expense

	2010	2009
	Rs.000'	
Profit for the year	<b>834,294</b>	805,218
<b>Other comprehensive income :</b>		
Actuarial Gain/(Loss) on defined benefit scheme	<b>21,780</b>	(65,299)
Deferred tax on the above	<b>(7,623)</b>	22,855
	<b>848,450</b>	<b>762,774</b>

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**Chief Country Officer  
 & Head of Global Banking  
 Pakistan**

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**Chief Operating Officer  
 & Country Controller  
 Pakistan**

**Deutsche Bank AG, Pakistan Branches**  
*(Incorporated in the Federal Republic of Germany with Limited Liability)*  
**Notes to the Financial Statements**  
*For the year ended 31 December 2010*

**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-10 Rupees in '000	31-Dec-09 Rupees in '000
In hand		66,444	61,232
Local currency		75,804	58,346
Foreign currency			
With State Bank of Pakistan in			
Local currency current account	6.1	632,009	475,115
Local currency deposit account (to be specified)			
Foreign currency deposit account (to be specified)			
Cash reserve account	6.2	57,377	56,442
Special cash reserve account	6.3	156,715	154,162
Local USD collection account	6.4	66,444	82,379
Foreign currency capital account	22	3,667,876	3,877,033
With National Bank of Pakistan in			
Local currency current account		0	0
		<u>4,722,670</u>	<u>4,764,709</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% (2006: 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% (2006: 4.32%).

## 7. BALANCES WITH OTHER BANKS

In Pakistan			
On current account		7,309	5,942
Outside Pakistan			
On current account - Inter branch		11,507	14,687
- Others		18,317	108,003
On deposit account			
		<u>37,134</u>	<u>128,632</u>

## 8. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings		0	0
Repurchase agreement lendings (Reverse Repo)		6,223,146	5,350,170
		<u>6,223,146</u>	<u>5,350,170</u>

8.1 Reverse Repo have been made with the banks at rates ranging from 12.49% to 13.00% p.a. and mature within a month.

### 8.2 PARTICULARS OF LENDING

In local currency		6,223,146	5,350,170
In foreign currencies		0	0
		<u>6,223,146</u>	<u>5,350,170</u>

8.2 SECURITIES HELD AS COLLATERAL AGAINST LENDING TO FINANCIAL INSTITUTIONS	31-Dec-10			31-Dec-09		
	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-10			31-Dec-09		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	Rupees in '000					
<b>9.1 INVESTMENTS BY TYPES:</b>						
<b>Available-for-sale securities</b>						
Market Treasury Bills	2,046,803		2,046,803	490,961		490,961
Pakistan Investment Bonds	0		0	0		0
<b>Investment at cost</b>	<u>2,046,803</u>	<u>0</u>	<u>2,046,803</u>	490,961	0	490,961
<b>Less: Provision for Diminution in value of Investments</b>	9.3	0	0	0		0
<b>Investments (Net of Provisions)</b>		<u>2,046,803</u>	<u>2,046,803</u>	490,961	0	490,961
Surplus/(Deficit) on revaluation of Held-for-trading securities	9.5					
Surplus/(Deficit) on revaluation of Available-for-sale securities	23.2	(494)	(494)	(52)		(52)
<b>Total investments at market value *</b>		<u>2,046,309</u>	<u>2,046,309</u>	490,909	-	490,909

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:	40,543		40,178	
	Rupees in '000			
<b>Federal Government Securities:</b>				
-Market Treasury Bills		2,046,803		490,961
-Pakistan Investment Bonds		-		-
<b>Total investment at cost</b>		<u>2,046,803</u>		490,961
<b>Less: Provision for diminution in value of investment</b>	9.3			
<b>Investments (Net of Provisions)</b>		<u>2,046,803</u>		490,961
Surplus/(Deficit) on revaluation of Held-for-trading securities	9.5			
Surplus/(Deficit) on revaluation of Available-for-sale securities	23.2	(494)	(494)	(52)
<b>Total investments at market value</b>		<u>2,046,309</u>	<u>2,046,309</u>	490,909

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-10</u>	<u>31-Dec-09</u>
	<b>Rupees in '000</b>	
<b>10. ADVANCES</b>		
Loans, cash credits, running finances, etc.		
In Pakistan	<u>2,867,146</u>	<u>2,957,328</u>
	<b>2,867,146</b>	<b>2,957,328</b>
Bills discounted and purchased (excluding treasury bills)		
Payable in Pakistan	<u>721,188</u>	<u>564,790</u>
Payable outside Pakistan	<u>76,879</u>	<u>316,410</u>
	<b>798,067</b>	<b>881,200</b>
Advances - gross	<u>3,665,214</u>	<u>3,838,527</u>
Provision for non-performing advances	<u>(419,265)</u>	<u>(381,517)</u>
Advances - net of provision	<u><b>3,245,949</b></u>	<u><b>3,457,010</b></u>
<b>10.1 Particulars of advances (Gross)</b>		
10.1.1 In local currency	<u><b>3,588,334</b></u>	<u>3,605,632</u>
In foreign currencies	<u><b>76,879</b></u>	<u>232,895</u>
	<b>3,665,214</b>	<b>3,838,527</b>
10.1.2 Short Term ( for upto one year)	<u><b>3,007,964</b></u>	<u>3,652,976</u>
Long Term ( for over one year)	<u><b>657,250</b></u>	<u>185,552</u>
	<b>3,665,214</b>	<b>3,838,528</b>

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-10			31-Dec-09		
	Specific	General	Total	Specific	General	Total
	<b>Rupees in '000</b>					
Opening balance	269,033	112,485	381,517		40,343	40,343
Exchange adjustments			0			0
Charge for the year	173,723	0	173,723	269,033	72,142	341,174
Amounts written off			0			0
Reversals	(81219)	(54,756)	(135,975)			0
Other movements (to be specified)			0			0
Closing balance	<u>361,536</u>	<u>57,729</u>	<u>419,265</u>	<u>269,033</u>	<u>112,485</u>	<u>381,517</u>

10.4.1 Particulars of provisions against non-performing advances

	31-Dec-10			31-Dec-09		
	Specific	General	Total	Specific	General	Total
	<b>Rupees in '000</b>					
In local currency	361,536	57,729	419,265	269,033	112,485	381,517
In foreign currencies	0	0	0	0	0	0
	<u>361,536</u>	<u>57,729</u>	<u>419,265</u>	<u>269,033</u>	<u>112,485</u>	<u>381,517</u>

10.5 PARTICULARS OF WRITE OFFS:

	31-Dec-10		31-Dec-09	
	<b>Rupees in '000</b>			
10.5.1 Against Provisions				
Directly charged to Profit & Loss account		293.076		
		<u>293.076</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

	<b>31-Dec-10</b>	31-Dec-09
	<b>Rupees in '000</b>	
Balance at beginning of year	<b>186,441</b>	169,892
Loans granted during the year	<b>188,433</b>	64,329
Repayments	<b>(140,112)</b>	(47,780)
Balance at end of year	<b><u>234,762</u></b>	<u>186,441</u>

**11. OPERATING FIXED ASSETS**

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

	<b>31-Dec-10</b>	31-Dec-09
	<b>Rupees in '000</b>	
Capital work-in-progress	<b>15,215</b>	0
Property and equipment	<b>95,014</b>	120,382
Intangible assets		
	<b><u>110,229</u></b>	<u>120,382</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)		
	<b><u>0</u></b>	<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									
<b>Own Assets</b>										
Building on lease hold land	53,943	0	(983)	52,960	26,084	4,407	(983)	29,508	23,452	10-20
Furniture and fixture	10,622	190	(30)	10,782	6,222	1,382	(30)	7,574	3,208	20-33
Electrical, office and computer equipments	86,569	12,081	(13,487)	85,163	51,501	17,155	(11,565)	57,091	28,072	20-50
Vehicles	72,973	26,009	(36,724)	62,258	19,916	16,084	(14,027)	21,973	40,284	20
	224,106	38,280	(51,225)	211,162	103,723	39,028	(26,605)	116,146	95,016	
<b>Assets held under finance leases</b>										
Electrical, office and computer equipments										33
Vehicles										25
	0	0	-	0	0	0	-	0	0	
	<b>224,106</b>	<b>38,280</b>	<b>(51,225)</b>	<b>211,162</b>	<b>103,723</b>	<b>39,028</b>	<b>(26,605)</b>	<b>116,146</b>	<b>95,016</b>	
2009	214,131	41,214	(31,239)	224,106	83,906	38,770	(18,953)	103,723	120,383	

Description	Cost	Book Value	Sale Proceed	Mode of Disposal	Purchaser	(2)
I DELL OPTIPLEX 745 DT(DESKTOP) BCO	57	0	0	4 Bank Policy	Desktop,Mouse,keyboard sold to Mr. Waqar Ahmed	
DELL OPTIPLEX 745 DT(DESKTOP) BCO	40	0	0	4 Bank Policy	Desktop,Mouse,keyboard sold to Mr. Liaquat Altaf	
DELL OPTIPLEX 745 DT(DESKTOP) BCO	40	0	0	4 Bank Policy	Desktop,Mouse,keyboard sold to Mr. Rahid Hussain	
DELL 17" ULTRA SHARP FLAT PANEL LCD TF SALS	17	0	0	2 Bank Policy	TFT sold to Mr. Kashif Tanver	
DELL 17" ULTRA SHARP FLAT PANEL LCD CBC	17	0	0	2 Bank Policy	TFT sold to Mr. Asim Mustafa	
DELL OPTIPLEX 745 DT(DESKTOP) IT	40	0	0	4 Bank Policy	Desktop,Mouse,keyboard sold to Mr. Raja Ahsan	
DELL 17" ULTRA SHARP FLAT PANEL LCD IT	17	0	0	2 Bank Policy	TFT sold to Mr. Raja Ahsan	
IBM T60 LAPTOP WITH K/B,MOUSE & CRY CASE TF SALES	81	0	0	8 Bank Policy	Laptop,Mouse,keyboard,TFT sold to Mr.Kashif Tanver	
IBM ADVANCE DOCK TF SALES	29	0	0	3 Bank Policy	Docking Station sold to Mr.Kashif Tanver	
IBM T60 LAPTOP WITH K/B,MOUSE & CRY CASE CBC	81	0	0	8 Bank Policy	Laptop,Mouse,keyboard,Battery sold to Asim Mustafa	
IBM ADVANCE DOCK CBC	29	0	0	3 Bank Policy	Docking Station sold to Mr. Asim Mustafa	
L IUNIT DELL PC (CPU) CRESS LHR	49	0	0	5 Bank Policy	Desktop,Mouse,keyboard sold to Mr. Irfan Hafeez	
IUNIT DELL PC (MONITOR) CRESS LHR	20	0	0	2 Bank Policy	LCD Monitor sold to Mr Irfan Hafeez	
LCD MONITOR(DELL) GBD DEPT(LHR)	19	0	0	2 Bank Policy	LCD Monitor sold to Mr. Naveed Sharif	
DEL KEYBOARD FOR GBD DEPT LHR BR	1	0	0	0 Bank Policy	Keyboard sold to Mr. Naveed Sharif	
DELL MOUSE GBD LHR BR	0	0	0	0 Bank Policy	Mouse sold to Mr. Naveed Sharif	
DELL OPTIEX GX 620 FOR (CPU) GBD SOBIA CHAUDHRY	41	0	0	4 Bank Policy	Disposal of Desktop,Keyboard&Mouse to Sobia	
DELL OPTIEX GX 620 FOR (LCD) GBD SOBIA CHAUDHRY	15	0	0	1 Bank Policy	Disposal of TFT to Sobia	
DELL OPTIEX GX 620 FOR (CPU) CRES ASLAM	41	0	0	4 Bank Policy	Desktop,Mouse,keyboard sold to Muhammad Aslam	
DELL OPTIEX GX 620 FOR (LCD) CRES ASLAM	15	0	0	6 Bank Policy	TFT sold to Muhammad Aslam	
DELL OPTIEX GX 620 FOR (CPU) TANEER BHATTI-TS	49	0	0	5 Bank Policy	Desktop,Mouse,keyboard sold to Miss Ayesha Tahir	
DELL OPTIEX GX 620 FOR (LCD) TANEER BHATTI-TS	15	0	0	1 Bank Policy	LCD Monitor sold to Miss Ayesha Tahir	
DELL OPTIEX GX 620 FOR (CPU) ASIM REHMAN-TS	49	0	0	5 Bank Policy	Desktop,Mouse,keyboard sold to Mr. Azfar Baloch	
DELL OPTIEX GX 620 FOR (LCD) ASIM REHMAN-TS	15	0	0	1 Bank Policy	TFT sold to Mr. Azfar Baloch	
DELL OPTIEX GX 620 FOR (CPU) KASHIF IKRAM-TS	49	0	0	5 Bank Policy	Desktop,Mouse,keyboard sold to Mr. Kashif Ikram	
DELL OPTIEX GX 620 FOR (LCD) KASHIF IKRAM-TS	15	0	0	1 Bank Policy	TFT sold to Mr. Kashif Ikram	
DELL OPTIEX GX 620 FOR (CPU)NAVEED RASHID-TS	49	0	0	5 Bank Policy	Desktop,Mouse,keyboard sold to Mr. Naveed Rashid	
DELL OPTIEX GX 620 FOR (LCD) NAVEED RASHID-TS	15	0	0	1 Bank Policy	TFT sold to Mr. Naveed Rashid	
DELL OPTIEX GX 620 FOR (CPU) ASHFAQ AHMED-BCO	41	0	0	4 Bank Policy	Desktop,Mouse,keyboard sold to Ashfaq Ahmed	

	DELL OPTIEX GX 620 FOR (UPS) ASHFAQ AHMED-BCO	15	0	1	Bank Policy	TFT sold to Ashfaq Ahmed
	DELL OPTIEX GX 620 FOR (CPU) FARYAD HUSSAIN-BCO	41	0	4	Bank Policy	Desktop,Mouse,keyboard sold to Faryad Husain
	DELL OPTIEX GX 620 FOR (UPS) FARYAD HUSSAIN-BCO	15	0	1	Bank Policy	TFT sold to Faryad Hussain
	DELL OPTIEX GX 620 FOR (CPU) KHURAM AHMED-BCO	41	0	4	Bank Policy	Desktop,Mouse,keyboard sold to Khurram Ahmed
	DELL OPTIEX GX 620 FOR (LCD) KHURAM AHMED-BCO	15	0	1	Bank Policy	TFT sold to Khurram Ahmed
	DELL OPTIEX GX 620 FOR (CPU) RIZWAN MAHMOOD-BCO	49	0	5	Bank Policy	Desktop,Mouse,keyboard sold to Mr. Rizwan Masood
	DELL OPTIEX GX 620 FOR (LCD) RIZWAN MAHMOOD-BCO	15	0	1	Bank Policy	TFT sold to Mr. Rizwan Masood
	DELL OPTIEX GX 620 FOR (CPU) BASHIR AHMED-BCO	49	0	5	Bank Policy	Desktop,Mouse,keyboard sold to Mr. Bashir Hussain
	DELL OPTIEX GX 620 FOR (LCD) BASHIR AHMED-BCO	15	0	1	Bank Policy	TFT sold to Mr. Bashir Hussain
	IBM T60 LAPTOP WITH K/B,MOUSE & CARRYING CASE	81	0	8	Bank Policy	Disposal of Laptop,Keyboard&Mouse to Lubna Ashraf
	IBM ADVANCE DOCK-LUBNA ASHRAF	29	0	1	Bank Policy	Docking Station sold to Lubna Ashraf
	DELL 17" LCD MONITOR-LUBNA ASHRAF	15	0	3	Bank Policy	LCD Monitor sold to Lubna Asraf
	IBM T60 LAPTOP WITH K/B,MOUSE & CARRYING CASE	81	0	8	Bank Policy	Laptop,Keyboard,Mouse sold to Naveed Asghar
	IBM ADVANCE DOCK-NAVEED SHEIKH	29	0	3	Bank Policy	Docking Station sold to Naveed Asghar
	DELL 17" LCD MONITOR-NAVEED SHEIKH	15	0	1	Bank Policy	LCD Monitor sold to Naveed Asghar
	LAPTOP(IBM Lenovo T60) KHALID RABBANI LAHORE	81	0	8	Bank Policy	Laptop,Keyboard,Mouse sold to Mr. Khalid Rabbani
	Lenovo Docking Station TP KHALID RABBANI LAHORE	29	0	3	Bank Policy	Docking Station sold to Mr. Khalid Rabbani
	Leneovo X61 IBM LAPTOP FOR NAWEED SHARIF	119	7	24	Bank Policy	Laptop sold to Mr. Naveed Sharif
	TinkPad X6 Ultra Base FOR NAWEED SHARIF	11	1	2	Bank Policy	ThinkPad sold to Mr. Naveed Sharif
	LAPTOP BATTERY FOR X61 (NAWEED SHARIF)	11	2	2	Bank Policy	Laptop battery sold to Mr. Naveed Sharif
	HONDA CIVIC VTEC(FAYYAZ AHMED)	1,167	661	735	Bank Policy	Honda civic sold to Fayyaz Ahmed (Ex staff)
	HONDA CIVIC I-VTEC(NAVEED ASGHAR)	1,275	829	867	Bank Policy	Sale of HONDA CIVIC I-VTEC Naveed Asghar
K	CISCO SWITCHES IT DEPT.	1,475	0	0	Written off	Write off (Router)
	2 NEW UNITS OF SERVERS FOR KHI BR.	1,280	0	0	Written off	Write off
	DELL LAPTOP D-610 FOR SAJJAD KHAN	109	0	11	Bank Policy	Laptop,Carrycase,MouseLCD monitor sold to Sajjad
	DELL OPTIPLEX FOR TS DEPT	54	0	5	Bank Policy	PC sold to Saad Khatib
	LCD MONITOR(DELL) CRESS DEPT	14	0	1	Bank Policy	LCD Monitor sold to Sajjad
	DEL KEYBOARD FOR CRESS DEPT	1	0	0	Bank Policy	Keyboard sold to Sajjad
	DELL OPTIEX GX 620 FOR BCO (UPS) INTERNEE	41	0	6	Bank Policy	Desktop, Keyboard & TFT , keyboard sold to Taimur
	DELL OPTIEX GX 620 FOR (UPS) BCO COUNTER	41	0	4	Bank Policy	Desktop, Keyboard sold to Faraz ahmed
	DELL OPTIEX GX 620 FOR (LCD) BCO COUNTER	15	0	1	Bank Policy	TFT sold to Faraz Ahmed
	DELL OPTIEX GX 620 (UPS) TS(KHI) RIZWAN BAIG	49	0	5	Bank Policy	Desktop, Keyboard & TFT , keyboard sold to Rizwan
	DELL OPTIEX GX 620 (LCD) TS(KHI) RIZWAN BAIG	15	0	0	Bank Policy	TFT sold to Rizwan Ahmed
	DELL OPTIEX GX 620 (CPU) TS(KHI) ARSHAD HUSSAIN	49	0	5	Bank Policy	Desktop, Keyboard & TFT , keyboard sold to Arshad
	DELL OPTIEX GX 620 (LCD) TS(KHI) ARSHAD HUSSAIN	15	0	0	Bank Policy	TFT sold to Arshad Hussain
	IBM T60 LAPTOP WITH K/B,MOUSE & CARRYING CASE	81	0	8	Bank Policy	Laptop+carrycase,Keyboard&mouse sold toMahmmod Qur
	IBM ADVANCE DOCK-MEHMOOD QURESHI	29	0	3	Bank Policy	Docking Station Sold to Mahmood Qureshi
	DELL 17" LCD MONITOR-MEHMOOD QURESHI	15	0	1	Bank Policy	LCD monitor sold to Mr. Mahmood Qureshi
	DELL 17" LCD MONITOR-FAISAL FAZIL	15	0	1	Bank Policy	LCD Monitor sold to Mr. Faisal Fazil
	IBM T60 LAPTOP WITH K/B,MOUSE & CARRYING CASE	81	0	8	Bank Policy	Laptop+carrycase,Keyboard&mouse sold to Omer Rahi
	IBM ADVANCE DOCK-OMER RAHI	29	0	3	Bank Policy	Docking Station Sold to Omer Rahi
	DELL 17" LCD MONITOR-OMER RAHI	15	0	1	Bank Policy	LCD monitor sold to Mr. Omer Rahi
	IBM T60 LAPTOP WITH K/B,MOUSE & CARRYING CASE	81	0	8	Bank Policy	Laptop+carrycase,Keyboard&mouse sold to Mohammad A
	IBM ADVANCE DOCK-MOHAMMAD AFAQUE	29	0	3	Bank Policy	Docking Station Sold to Mohammad Afaque
	DELL 17" LCD MONITOR-MUHAMMAD AFAQUE	15	0	1	Bank Policy	LCD monitor sold to Mr. Mohammad Afaque
	IBM T60 LAPTOP WITH K/B,MOUSE & CARRYING CASE	81	0	8	Bank Policy	Laptop+carrycase,Keyboard&mouse sold to Sahir Ali
	IBM ADVANCE DOCK-KAMRAN ZAIDI	29	0	3	Bank Policy	IBM Docking Station sold to Sahir Ali
	LAPTOP(IBM Lenovo T60) Fawad Qasim	81	0	8	Bank Policy	Sale of Laptop with carry case & keyboard
	IBM ADVANCE DOCK-DANISH ALI GCM	29	0	3	Bank Policy	Docking Station Sold to Fawad Qasim
	IBM T60 LAPTOP WITH K/B,MOUSE & CARRYING CASE	81	0	8	Bank Policy	Laptop,Carrycase,Mouse&Keyboard sold to Ayaz Shekh
	IBM ADVANCE DOCK(ALI KASHIF RIZVI)	29	0	3	Bank Policy	Docking Station sold to Ayaz Shekh
	DELL 17" TFT(ALI KASHIF RIZVI)	17	0	2	Bank Policy	LCD monitor sold to Ayaz Shekh

LAPTOP BATTERY FOR T60 (AYAZ SHEIKH)	10	0	1	Bank Policy	Battery sold to Ayaz Shekh
DELL OPTIPLEX 745 DT(Desktop) ADIL DALAL	40	0	4	Bank Policy	Desktop,Mouse,keyboard sold to Adil Dalal
DELL 17" ULTRA SHARP FLAT PANEL LCD(ADIL DALAL)	17	0	2	Bank Policy	Monitor sold to Adil Dalal
1Kingstan 2GB 667MHz DDR2- Adil Dalal	5	0	0	Bank Policy	RAM kingston Sold to Adil Dalal
DELL OPTIPLEX 745 DT(Desktop) HASAN FEROZ	40	0	4	Bank Policy	Desktop,Mouse,keyboard sold to Mr. Hassan Feroz
DELL 17" ULTRA SHARP FLAT PANEL LCD(HASAN FEROZ)	17	0	2	Bank Policy	TFT sold to Mr. Hasan Feroz
IBM THANKPAD FOR FAHIM AHMED (MONITOR)	111	0	11	Bank Policy	Laptop sold to Fahim Ahmed
IBM THANKPAD FOR FAHIM AHMED (MONITOR)	15	0	2	Bank Policy	Dell monitor sold to Fahim Ahmed
DELL OPTIEX GX 620 FOR SBP CON DEPT CPU,M.BOARD	41	0	4	Bank Policy	Desktop, Keyboard sold to Shahid Ghaffar
DELL OPTIEX GX 620 PC FOR CON DEP MONITORS	15	0	1	Bank Policy	TFT sold to Shahid Ghaffar
DELL OPTIEX GX 620 PC FOR IT DEPT CPU, M.BOARD,	41	0	6	Bank Policy	Desktop, Keyboard & TFT sold to Muhammad Salman
GENERATOR 100 KVA FOR CCO RES.	1,000	183	196	Bank Policy	Sale of Generator 100KVA to Mr. Shahzad Dada
SPLIT AIR CON FOR IT'S SERVER ROOM	49	13	9	Bank Policy	Sale of Split AC to Grace Cool
SPLIT AIR CON FOR IT'S COMMUNICATION ROOM	49	13	9	Bank Policy	Sale of Split AC to Grace Cool
STEEL DIGITAL LOCK SAFE SIZE, 30x24 FOR MGT	8	5	5	Bank Policy	Sale of Steel Digital Locker to Mr. Shahzad Dada
DENYO GENERATOR (DCA 45 ESI, 37KVA) FOR CCO RES	1,416	1,132	0	Written off	Write off Generator (Shahzad Dada)
H-CIVIC(i VTEC MT) FOR S.M.QAISER	1,167	564	665	Bank Policy	Sale of HONDA CIVIC I-VTEC Syed M. Qaiser
H-CIVIC i-VTEC(Manual) FOR NAUMAN AQEEL	1,167	584	654	Bank Policy	Sale of HONDA CIVIC I-VTEC Noman Aqeel
H-CIVIC i-VTEC(PT MODEL) FOR Naveed Aslam	1,167	603	665	Bank Policy	Sale of HONDA CIVIC I-VTEC Naveed Aslam
HONDA CIVIC VTi Oriel Prosmatic(HAMMAD HAMID)	1,526	712	855	Bank Policy	Sale of Car to Hammad Hamid
HONDA CIVIC VTi Oriel Prosmatic(SOHAIL ANWER)	1,526	738	885	Bank Policy	Sale of Car provided to Mr. Sohail Anwar
HONDA CIVIC VTi Oriel Prosmatic(S.G.DADA)	1,526	738	855	Bank Policy	Sale of Car to Mr. Shahzad Dada
HONDA CIVIC VTi Oriel Prosmatic(FAISAL FAZIL)	1,725	891	983	Bank Policy	Sale of Car to Mr. Faisal Fazil
NEW MERCEDEZ ARV-500(S.G.DADA)	16,955	10,738	11,626	Bank Policy	Sale of Car to Mr. Shahzad Dada
HONDA ACCORD(AFAQUE AHMED)	5,674	4,161	4,256	Bank Policy	Sale of Car to Mr. Mohammad Afaque
H-CIVIC PROSMETIC ASX-413(SAHIR ALI)	1,849	1,479	1,800	Insurance Claim	

**11.3** Included in cost of property and equipment are fully depreciated items, still in use, having cost of Rs. 27.966 million (2009: Rs.34.689 million).

**12. DEFERRED TAX ASSETS**

	2010			Closing balance
	Opening balance	(Charge)/Reversal to P&L	Debit/(Credit) to OCI	
- Revaluation of Government securities	18		155	173
- Actuarial gain and losses	25,377		(7,623)	17,754
- Provision for advances	140,513	(4,089)		136,424
- Difference between accounting book value of fixed assets and tax base	(8,045)	4,419		(3,626)
- Others	-			-
	<b>157,863</b>	<b>330</b>	<b>(7,468)</b>	<b>150,725</b>

	2009			Closing balance
	Opening balance	(Charge)/Reversal to P&L	Debit/(Credit) to OCI	
- Revaluation of Government securities	125	-	(107)	18
- Actuarial gain and losses	2,522	-	22,855	25,377
- Provision for advances	29,921	110,592	-	140,513
- Difference between accounting book value of fixed assets and tax base	(12,327)	4,282	-	(8,045)
- Others	408	(408)	-	-
	<b>20,649</b>	<b>114,466</b>	<b>22,748</b>	<b>157,863</b>

**13 OTHER ASSETS**

	31-Dec-10		31-Dec-09
	Rupees in '000		
Income/ Mark-up accrued in local currency	145,816		111,000
Income/ Mark-up accrued in foreign currency	15,726		473
Advances, deposits, advance rent and other prepayments	73,149		65,376
Advance taxation (payments less provisions)	169,089		132,826
Branch adjustment account	0		151
Unrealized gain on forward foreign exchange contracts	13,325		4,926
Unrealized gain on Interest Rate Swaps	483,622		396,906
Receivable from defined benefit plan	0		0
Others (to be specified, if material)	3,783		7,944
	<b>904,511</b>		<b>719,603</b>
Less: Provision held against other assets	(5,788)		(6,266)
Other Assets (Net of Provision)	<b>898,722</b>		<b>713,337</b>

13.2

**13.2 PROVISION AGAINST OTHER ASSETS**

31-Dec-10                      31-Dec-09  
Rupees in '000

Opening balance	6,266	0
Charge for the year	0	6,266
Reversals	(478)	0
Amount Written off	0	0
Closing balance	5,788	6,266

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

**15. BILLS PAYABLE**

In Pakistan	2,640,728	217,050
	2,640,728	217,050

**16. BORROWINGS**

In Pakistan	443,891	995,433
Outside Pakistan	0	68,114
	443,891	1,063,547

**16.1 Particulars of borrowings with respect to Currencies**

In local currency	443,891	995,433
In foreign currencies	0	68,114
	443,891	1,063,547

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

Borrowings from State Bank of Pakistan		
Under export refinance scheme	16.2.1      443,000	644,100
Under Locally Manufactured Machinery (LMM) scheme		
Others (to be specified)		
Repurchase agreement borrowings	16.2.2      0	343,636
Borrowings from subsidiary companies, managed modarabas and associated undertakings		
Borrowings from directors (including chief executive) of the bank		
Others (to be specified)		
	443,000	987,736

***Unsecured***

Call borrowings	0	0
Overdrawn nostro accounts	0	68,114
Others (to be specified)	891	7,696
	891	75,811
	443,891	1,063,547

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-10**    31-Dec-09  
**Rupees in '000****Customers**

Fixed deposits	<b>2,882,395</b>	1,565,556
Savings deposits	<b>985,954</b>	2,605,240
Current Accounts - Remunerative	<b>0</b>	0
Current Accounts - Non-remunerative	<b>2,169,463</b>	1,723,026
Others (to be specified)	<b>21,417</b>	106,481
	<b>6,059,229</b>	6,000,303

**Financial Institutions**

Remunerative deposits	<b>0</b>	0
Non-remunerative deposits - Interbranch	<b>6,375</b>	4,569
- Others	<b>343</b>	337
	<b>6,718</b>	4,906
	<b>6,065,947</b>	6,005,209

**17.1 Particulars of deposits**

In local currency	<b>5,340,214</b>	5,282,628
In foreign currencies	<b>725,733</b>	722,581
	<b>6,065,947</b>	6,005,209

<b>21. OTHER LIABILITIES</b>	<b>31-Dec-10</b>	<b>31-Dec-09</b>
	<b>Rupees in '000</b>	
Mark-up/ Return/ Interest payable in local currency	<b>68,008</b>	32,649
Mark-up/ Return/ Interest payable in foreign currency	<b>104</b>	442
Unearned commission and income on bills discounted	<b>27,658</b>	24,616
Accrued expenses	<b>127,451</b>	203,206
Advance payments	<b>0</b>	0
Current taxation (provisions less payments)	<b>0</b>	0
Unclaimed dividends	<b>0</b>	0
Dividends payable	<b>0</b>	0
Unrealized loss on forward foreign exchange contracts	<b>86,276</b>	28,023
Branch adjustment account	<b>0</b>	0
Unremitted head office expenses	<b>790,120</b>	599,539
Payable to defined benefit plan	<b>39,881</b>	55,220
Payable to defined contribution plan	<b>0</b>	0
Provision against off-balance sheet obligations	<i>21.1</i> <b>45,479</b>	58,257
Security deposits against lease	<b>0</b>	0
Interst rate swaps and cross currency swaps	<b>1,649,253</b>	1,557,855
Workers Welfare Fund Payable	<b>75,392</b>	49,141
Others (to be specified, if material)	<b>100,599</b>	119,038
	<b><u>3,010,220</u></b>	<b><u>2,727,985</u></b>

#### **21.1 Provision against off-balance sheet obligations**

Opening balance	<b>58,257</b>	45,144
Charge for the year	<b>(12,778)</b>	13,113
Reversals		
Amount Written off		
Closing balance	<b><u>45,478</u></b>	<b><u>58,257</u></b>

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.

<b>22.3 Head Office Capital Account</b>	<b>31-Dec-10</b>	<b>31-Dec-09</b>
	<b>Rupees in '000</b>	
<b><u>Capital held as:</u></b>		
Interest free deposit in Approved foreign exchange		
i) Remitted from Head Office EUR 32,048,165 (2008:EUR 32,048,165)	<b>3,877,033</b>	3,600,702
ii) Revaluation surplus allowed by the State Bank	<b>(209,157)</b>	276,331
	<b><u>3,667,876</u></b>	<b><u>3,877,033</u></b>

**23. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS**

<b>23.2 (Deficit) / Surplus on revaluation of Available-for-sale securities - Net of Tax</b>		
Federal Government Securities	<b>(494)</b>	(52)
Related deferred tax liability	<b>173</b>	18
	<b><u>(321)</u></b>	<b><u>(34)</u></b>

**24 CONTINGENCIES AND COMMITMENTS**

**31-Dec-10**      31-Dec-09  
**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	<b>11,622,842</b>	13,123,547
ii) Banking companies and other financial institutions	<b>80,347</b>	61,812
iii) Others	<b>25,731,789</b>	1,824,675

(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	<b>1,248,282</b>	729,193
Letters of credit	<b>3,081,534</b>	3,763,257

(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	<b>1,312,474</b>	649,727
---------------------	------------------	---------

**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	<b>6,223,146</b>	5,693,806
Forward repurchase agreement lending	<b>11,523,605</b>	12,560,312
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	<b>885,500</b>	3,425,000
From others	<b>7,711,277</b>	4,525,078
Sale		
To State Bank of Pakistan	<b>0</b>	0
To others	<b>3,674,497</b>	3,662,748

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	<b>0</b>	0
Later than one year and not later than five years	<b>0</b>	0
Later than five years	<b>0</b>	0

**24.8 Commitments for the acquisition of operating fixed assets**

**0**      0

**24.9 Other commitments**

FX Options	<b>0</b>	0
Cross Currency Swaps	<b>2,738,173</b>	2,738,173
Interest Rate Swaps	<b>8,625,235</b>	6,756,023
Forward Rate Agreement	<b>0</b>	0

## 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 PVB, 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

Counterparties	Interest Rate Swaps		Forward Rate Agreement		Cross Currency Swaps		FX Options	
	No. of	Notional	No. of	Notional	No. of	Notional	No. of	Notional
	Contracts	Principal	Contracts	Principal	Contracts	Principal	Contracts	Principal *
<b>With Banks for</b>								
Hedging	4	7,181,447						
Market Making								
<b>With FIs other than banks</b>								
Hedging								
Market Making								
<b>With other entities for</b>								
Hedging								
Market Making	2	1,443,788			3	2,738,173		
<b>Total</b>								
Hedging	4	7,181,447	0	0	0	0	0	0
Market Making	2	1,443,788	0	0	3	2,738,173	0	0
	<b>6</b>	<b>8,625,235</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>2,738,173</b>	<b>0</b>	<b>0</b>

\* 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	2	678,150	(7,238)	7,238	-
2 to 3 Years	4	7,876,375	(1,558,430)	594,283	(964,147)
3 to 5 Years	1	599,457	(83,584)	-	(83,584)
5 to 10 years	2	2,209,426		3,975	3,975
Above 10 Years					-
Less : Reserve				(121,841)	(121,841)
<b>Total</b>	<b>9</b>	<b>11,363,408</b>	<b>(1,649,252)</b>	<b>483,655</b>	<b>(1,165,597)</b>

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

26	<b>Mark-up/Return/Interest earned</b>	31-Dec-10	31-Dec-09
		<b>Rupees in '000</b>	
a)	On Loans and advances to: i) Customers	310,953	595,793
	ii) Financial Institutions	0	92
b)	On Investments in: i) Held for Trading Securities	0	0
	ii) Available for sale Securities	33,441	8,341
	iii) Held to Maturity Securities	0	0
	iv) Associates and Subsidiaries	0	0
c)	On Deposits with financial institutions	13	53
d)	On Securities purchased under resale agreements	721,288	506,394
e)	Others (to be specified)	55	465
		<u>1,065,751</u>	<u>1,111,138</u>
<b>27</b>	<b>Mark-up/Return/Interest expensed</b>		
	Deposits	277,041	191,788
	Securities sold under repurchase agreements	13,988	4,721
	Other short term borrowings	33,709	45,346
	Long-Term borrowings	0	0
	Others (to be specified)	6	425
		<u>324,744</u>	<u>242,280</u>
<b>28</b>	<b>INCOME FROM DEALING IN FOREIGN CURRENCIES</b>		
	Exchange income from dealing in foreign currencies	407,692	448,879
	Income on derivatives	347,964	864,717
		<u>755,656</u>	<u>1,313,596</u>
<b>29</b>	<b>OTHER INCOME</b>		
	Rent on property	0	0
	Net profit on sale of property and equipment	783	3,460
	(Loss) / Gain on sale of Govt securities	109,403	(2,294)
	Income on Fx Options and Forward Rate Agreement	109	0
	Gain on sale of non banking assets	0	0
	Others (to be specified)	700	3,749
		<u>110,995</u>	<u>4,916</u>
<b>30</b>	<b>ADMINISTRATIVE EXPENSES</b>		
	Salaries, allowances, etc.	271,695	334,642
	Voluntary retirement scheme	429	0
	Charge for defined benefit plan	20,265	9,600
	Contribution to defined contribution plan	16,114	15,737
	Worker's Welfare Fund	26,251	32,179
	Head office expenses	161,053	310,991
	All Risk Insurance Premium	0	0
	Rent, taxes, insurance, electricity, etc.	39,559	35,389
	Legal and professional charges	(2,777)	5,596
	Communications	15,372	18,914
	Repairs and maintenance	13,112	8,156
	Rentals of operating leases	0	0
	Finance charges on leased assets	0	0
	Stationery and printing	6,825	6,968
	Advertisement and publicity	3,367	2,754
	Donations	0	(650)
	Auditors' remuneration	2,482	2,236
	Depreciation	39,028	38,770
	Others (to be specified, if material)	40,656	42,168
		<u>653,432</u>	<u>863,451</u>
<b>26.1</b>	<b>Head office expenses</b>		
	SAP expenses	1,506	1,312
	MLC charges	68,364	71,988
	Directors & Officers insurances	139	-
	Financial insurances	-	-
	Head office expenses	88,655	232,536
	Risk participation fee	2,399	3,491
	Global HR product	2,858	3,115
	DKS Service charges	-	1,016
	GTB/CL REIMB EX	(2,867)	(2,467)
		<u>161,053</u>	<u>310,991</u>
<b>30.1</b>	Donation given to The Citizens Foundation	-	(650)

**30.2 Auditors' remuneration**

	<b>31-Dec-10</b>	31-Dec-08
	<b>Rupees in '000</b>	
Audit fee	<b>1,978</b>	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	<b>384</b>	309
Tax services		
Out-of-pocket expenses	<b>120</b>	8
	<b>2,482</b>	1,978

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)	<b>98</b>	1,445
Head Office Expenses	<b>0</b>	0
Others (to be specified, if material)	<b>0</b>	0
	<b>98</b>	1,445

**32 TAXATION****For the year**

Current	<b>(450,205)</b>	(552,000)
Deferred	<b>330</b>	114,465
	<b>(449,875)</b>	(437,535)

**For the prior year(s)**

Current	-	-
Deferred	-	-
	-	-
	<b>(449,875)</b>	(437,535)

**32.2 Relationship between tax expense and accounting profit**

	<b>31-Dec-10</b>	31-Dec-09
	<b>Rupees in '000</b>	
Profit / (Loss) before tax	<b>1,284,169</b>	1,242,751
Tax calculated at the rate of 35% (2006: 35%)	<b>449,459</b>	434,963
Effect of :		
- permanent differences	<b>34</b>	949
- Others	<b>382</b>	1,622
Tax charge for the year	<b>449,875</b>	437,534

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	<b>4,722,670</b>	4,764,709
Balance with other banks	<b>37,134</b>	128,632
Others (To be specified)		
	<b>4,759,803</b>	4,893,341

**36 STAFF STRENGTH**

	<b>31-Dec-09</b>	31-Dec-09
	<b>Number</b>	<b>Number</b>
Permanent	<b>74</b>	78
Bank's own staff strength at the end of the year	<b>74</b>	78
Outsourced*	<b>34</b>	32
Total Staff Strength	<b>108</b>	110

**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 2010. Projected Unit Credit Method is used for the calculation and the key assumptions used for actuarial valuation were as follows:

	2010	2009
- Discount rate	12.50% p.a.	12.00% p.a.
- Expected rate of increase in salary in future years	12.50% p.a.	12.00% p.a.
- Expected rate of return on plan assets	12.50% p.a.	15.48% p.a.
- Withdrawal rate before normal retirement age	"Moderate"	"Moderate"

31.3 Reconciliation of payable to defined benefit plan	Note	2010	2009
		(Rupees in '000)	
Present value of defined benefit obligations	31.4	315,263	294,727
Fair value of plan assets	31.5	(275,382)	(239,496)
Net actuarial gains or losses not recognised		-	-
	31.6	<u>39,880</u>	<u>55,231</u>

### 31.4 Movement in present value of defined benefit plan

Opening balance		294,727	171,764
Current service cost		14,625	9,765
Interest cost		35,613	27,570
Past service cost due to pension indexation in excess of assumptions		-	-
Gain on defined benefit obligation		(21,315)	94,220
Actual benefits paid during the year		(8,388)	(8,591)
Closing balance		<u>315,263</u>	<u>294,727</u>

### 31.5 Movement in fair value of plan assets

Opening balance		239,496	179,227
Expected return on plan assets		29,973	27,736
Contribution made		13,837	12,203
Benefits paid by the fund		(8,388)	(8,591)
Gain on plan assets		464	28,921
Closing balance	31.5.1	<u>275,382</u>	<u>239,496</u>

#### 31.5.1 Plan assets consist of the following:

Pakistan Investment Bonds		81,595	77,701
Market Treasury Bills		171,215	128,757
Units of mutual funds		-	-
Balances with other banks		22,572	33,038
		<u>275,382</u>	<u>239,496</u>

### 31.6 Movement in payable to defined benefit plan

Opening balance		55,233	(7,461)
Charge for the year	31.7	20,265	9,599
Amount recognised outside P&L directly in Retained Earnings		(21,780)	65,298
Contribution to fund made during the year		(13,837)	(12,203)
Closing balance		<u>39,882</u>	<u>55,233</u>

### 31.7 Charge for defined benefit plan

Current service cost		14,625	9,765
Interest cost		35,613	27,570
Expected return on plan assets		(29,973)	(27,736)
Past service cost		-	-
		<u>20,265</u>	<u>9,599</u>

31.8 Actual return on plan assets		<u>30,437</u>	<u>56,657</u>
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### 31.9 Historical information

	2010	2009	2008	2007	2006
Defined benefit obligation	315,263	294,730	171,766	148,907	138,532
Fair value of plan assets	(275,382)	(239,496)	(179,227)	(178,259)	(149,470)
Deficit / (surplus)	<u>39,880</u>	<u>55,234</u>	<u>(7,461)</u>	<u>(29,352)</u>	<u>(10,938)</u>

### 39 COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	(Current Year)	(Prior Year)	(Current Year)	(Prior Year)	(Current Year)	(Prior Year)
			<b>Rupees in '000</b>			
Fees		0				
Managerial remuneration	<b>49,540</b>	49,540			<b>177,584</b>	177,584
Charge for defined benefit plan	<b>1,396</b>	1,396			<b>8,474</b>	8,474
Contribution to defined contribution plan	<b>1,845</b>	1,845			<b>11,202</b>	11,202
Rent and house maintenance					<b>0</b>	0
Utilities						
Medical					<b>1,155</b>	1,155
Conveyance						
Others (to be specified, if material)						
	<b>52,780</b>	52,780			<b>198,415</b>	198,415
Number of persons	<b>1</b>	1			<b>44</b>	44

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

#### 41 Segment Details with respect to Business Activities

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

<b>Corporate and Investment Banking</b>			<b>Total</b>
Corporate Banking & Securities	Global Transaction Banking	Infrastructure & Regional Management	

**Rupees in '000**

#### 2010

Total income	835,059	1,268,298	183,871	2,287,228
Total expenses	180,943	570,702	251,414	1,003,059
Net income (loss)	654,116	697,596	(67,543)	1,284,169
Segment Assets (Gross)	13,452,307	3,760,519	641,322	17,854,148
Segment Non Performing Loans				-
Segment Provision Required	-	(419,265)	-	(419,265)
Segment Liabilities	2,292,521	8,843,391	1,024,874	12,160,786
Segment Return on net Assets (ROA) (%)	0	0	0	0
Segment Cost of funds (%)	0	0	0	0

#### 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				-
Segment Provision Required	-	(381,517)	-	(381,517)
Segment Liabilities	2,720,068	6,323,632	970,091	10,013,791
Segment Return on net Assets (ROA) (%)	0	0	0	0
Segment Cost of funds (%)	0	0	1	0

### 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-10	31-Dec-09
	(Rupees in '000)	
<b>Profit and loss items</b>		
Mark-up / Interest / Income earned	55	465
Mark-up / Interest / Income expensed	6	17
<b>Balance sheet items</b>		
Balances with other banks	11,507	14,687
Borrowings from other branches	-	68,114
Interbranch deposits and other accounts	6,375	4,569
<b>Off-balance sheet items</b>		
Interest Rate Swaps	7,181,447	6,200,105
Currency Options	-	-
Counter guarantees to branches	10,519,706	6,120,243
Forward purchase of foreign exchange	1,017,985	346,409
Forward sale of foreign exchange	1,016,800	346,376
<b>Deposits and other accounts</b>		
At 1 January	7,674	52,794
Deposits during the year	1,490,871	3,984,418
Withdrawals during the year	(1,497,665)	(4,029,538)
At 31 December	<u>880</u>	<u>7,674</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-10	31-Dec-09
	<b>Rupees in '000</b>	
<b><i>Tier I Capital</i></b>		
Assigned Capital	3,667,877	3,877,033
Unremitted profits	1,606,543	1,292,224
Less: Deficit on account of revaluation of investment held in AFS category	(321)	(34)
<i>Total Tier I Capital-----&gt;</i>	5,274,099	5,169,223
<b><i>Tier II Capital</i></b>		
General Provisions subject to 1.25% of Total Risk Weighted Assets <sup>2</sup>	103,208	170,741
<i>Total Tier II Capital-----&gt;</i>	103,208	170,741
<b>Total Regulatory Capital Base</b>	<u>5,377,307</u>	<u>5,339,964</u>

#### 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 2010	31/Dec 2009	31/Dec 2010	31/Dec 2009
<b>Rupees in '000</b>				
<b>Credit Risk</b>				
Public Sector Entities	15,575	14,856	155,745	148,556
Other sovereigns	28,054	29,298	280,536	292,983
Banks	970,497	396,853	9,704,973	3,968,526
Corporate portfolio	1,171,199	1,293,645	11,711,987	12,936,450
Retail Portfolio	1,084	1,085	10,838	10,848
Residential Mortgage Finance	7,711	6,019	77,109	60,192
Investment in fixed assets	11,023	12,038	110,229	120,382
All other risk weighted assets	187,830	112,402	1,878,299	1,124,020
	2,392,972	1,866,196	23,929,717	18,661,957
<b>Market Risk</b>				
Interest rate risk	173,277	146,773	1,732,766	1,467,725
Foreign exchange risk	77,038	23,698	770,377	236,975
	250,314	170,470	2,503,143	1,704,700
<b>Operational Risk</b>				
	388,449	356,100	3,884,487	3,560,996
<b>TOTAL</b>	<b>3,031,735</b>	<b>2,392,765</b>	<b>30,317,347</b>	<b>23,927,653</b>
<b>Capital Adequacy Ratio</b>			<b>31/Dec/2010</b>	<b>31/Dec/2009</b>
Total eligible regulatory capital held (Note:----) (a)	5,377,307		5,339,964	
Total Risk Weighted Assets (Note:----) (b)	30,317,347		23,927,653	
Capital Adequacy Ratio (a) / (b)	17.74%		22.32%	

#### 44.1.4 Types of Exposures and ECAI's used

Under the Basel II Standardized Approach, capital requirement against credit risk is based on the risk assessment or credit rating made by External Credit Assessment Institutions (ECAIs) recognized as eligible by SBP for capital adequacy purposes. Risk weights are based on external rating grade.

Exposures	JCR-VIS	PACRA	S&P	MOODYs	FITCH
Corporates	✓	✓			
Banks	✓	✓	✓	✓	✓

#### 44.1.5

##### Credit Exposures subject to Standardised approach

Exposures	Rating Category	Amount Outstanding	Deduction CRM	Net amount
------(Rupees in '000)-----				
Corporate	1	3,139,513	559	3,138,954
	2,3	2,695,000	0	2,695,000
Banks	1	8,523,173	0	8,523,173
	2,3	31,200,908	0	31,200,908
Sovereigns	4	280,536	0	280,536
Unrated		25,770,731	31,685	25,739,046
		<b>71,609,861</b>	<b>32,244</b>	<b>71,577,617</b>



## 45.1.1.2 Segment by sector

	2010					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/ Government	634,731	17.32	1,442	0.02	28,213	0.07
Private	3,030,483	82.68	6,064,505	99.98	41,736,581	99.93
	<u>3,665,214</u>	<u>100.00</u>	<u>6,065,947</u>	<u>100.00</u>	<u>41,764,794</u>	<u>100.00</u>
General Provision	(419,265)					
	<u>3,245,949</u>					
	2009					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
	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>					

## 45.1.1.5 GEOGRAPHICAL SEGMENT ANALYSIS

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
		Rupees in '000		
Pakistan	1,284,169	17,434,884	5,274,098	74,520,992
Asia Pacific (including South Asia)				
Europe				
United States of America and Canada				
Middle East				
Others				
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

Total assets employed include intra group items of Rs. 1.494 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 prescr

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/DFT'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/DFT 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.

<b>2010</b>				
	<b>Assets</b>	<b>Liabilities</b>	<b>Off-balance sheet items</b>	<b>Net foreign currency exposure</b>
	<b>Rupees in '000</b>			
Pakistan rupee	13,376,494	13,337,169	(728,849)	(689,524)
United States dollar	354,137	274,155	678,549	758,531
Great Britain pound	18,429	17,681	(81,599)	(80,851)
Japanese yen	55	(0)	-	55
Euro	3,682,966	3,805,740	131,994	9,221
Other currencies (to be specified, if material)	2,666	2	(96)	2,568
	<u>17,434,746</u>	<u>17,434,746</u>	<u>(0)</u>	<u>(0)</u>
<b>2009</b>				
	<b>Assets</b>	<b>Liabilities</b>	<b>Off-balance sheet items</b>	<b>Net foreign currency exposure</b>
	<b>Rupees in '000</b>			
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	-	109
Japanese yen	0	1,770	1,839	69
Euro	3,902,448	4,013,540	-	(111,092)
Other currencies (to be specified, if material)	72,624	125,646	-	(53,022)
	<u>15,280,608</u>	<u>15,280,608</u>	<u>-</u>	<u>-</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)

		31-Dec-10											
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											
<b>On-balance sheet financial instruments</b>													
<i>Assets</i>													
Cash and balances with treasury ban	0.00%	4,722,670	118,648	0	0	0	0	0	0	0	0	0	4,604,022
Balances with other banks	0.00%	37,134	0	0	0	0	0	0	0	0	0	0	37,134
Lending to financial institutions	11.95%	6,223,146	6,223,146	0	0	0	0	0	0	0	0	0	0
Investments	11.33%	2,046,309	1,461,711	584,598	0	0	0	0	0	0	0	0	0
Advances	13.02%	3,245,949	1,660,584	517,464	829,766	150	3,229	948	16,548	19,071	198,189	0	(0)
Other assets	0.00%	656,484	0	0	0	0	0	0	0	0	0	0	656,484
		16,931,692	9,464,089	1,102,062	829,766	150	3,229	948	16,548	19,071	198,189	0	5,297,639
<i>Liabilities</i>													
Bills payable	0.00%	2,640,728	0	0	0	0	0	0	0	0	0	0	2,640,728
Borrowings	7.58%	443,891	443,891	0	0	0	0	0	0	0	0	0	0
Deposits and other accounts	5.27%	6,065,947	2,531,631	989,625	342,893	4,200	0	0	0	0	0	0	2,197,599
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		2,937,084	0	0	0	0	0	0	0	0	0	0	2,937,084
		12,087,650	2,975,521	989,625	342,893	4,200	0	0	0	0	0	0	7,775,410
<b>On-balance sheet gap</b>		<b>4,844,042</b>	<b>6,488,568</b>	<b>112,437</b>	<b>486,873</b>	<b>(4,050)</b>	<b>3,229</b>	<b>948</b>	<b>16,548</b>	<b>19,071</b>	<b>198,189</b>	<b>0</b>	<b>(2,477,771)</b>
<b>Off-balance sheet financial instruments</b>													
Foreign currency forward purchases		8,596,777	6,232,727	2,364,050									
Foreign currency forward sales		(3,674,497)	(3,235,447)	(439,050)									
Cross Currency Swaps ( Notional )		(2,738,173)							(2,738,173)				
<b>Off-balance sheet gap</b>		<b>2,184,107</b>	<b>2,997,280</b>	<b>1,925,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,738,173)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Yield/Interest Risk Sensitivity Gap</b>			<b>9,485,848</b>	<b>2,037,437</b>	<b>486,873</b>	<b>(4,050)</b>	<b>3,229</b>	<b>948</b>	<b>(2,721,625)</b>	<b>19,071</b>	<b>198,189</b>	<b>0</b>	
<b>Cumulative Yield/Interest Risk Sensitivity Gap</b>			<b>9,485,848</b>	<b>11,523,285</b>	<b>12,010,158</b>	<b>12,006,108</b>	<b>12,009,337</b>	<b>12,010,285</b>	<b>9,288,660</b>	<b>9,307,731</b>	<b>9,505,920</b>	<b>0</b>	

  

		31-Dec-09											
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											
<b>On-balance sheet financial instruments</b>													
<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
<b>On-balance sheet gap</b>		<b>4,775,647</b>	<b>3,624,710</b>	<b>622,796</b>	<b>(222,596)</b>	<b>(28,068)</b>	<b>4,696</b>	<b>198</b>	<b>15,573</b>	<b>31,638</b>	<b>133,446</b>	<b>0</b>	<b>9,986,402</b>
<b>Off-balance sheet financial instruments</b>													
Foreign currency forward purchases		7,950,078	6,232,727	2,364,050									
Foreign currency forward sales		(3,662,748)	(3,235,447)	(439,050)									
Cross Currency Swaps ( Notional )		(2,738,173)							(2,738,173)				
Forward borrowings													
<b>Total Yield/Interest Risk Sensitivity Gap</b>			<b>3,190,829</b>	<b>5,344,007</b>	<b>(222,596)</b>	<b>(28,068)</b>	<b>4,696</b>	<b>198</b>	<b>(2,722,600)</b>	<b>31,638</b>	<b>133,446</b>	<b>0</b>	<b>9,986,402</b>
<b>Cumulative Yield/Interest Risk Sensitivity Gap</b>			<b>3,190,829</b>	<b>8,534,836</b>	<b>8,757,432</b>	<b>8,785,500</b>	<b>8,780,804</b>	<b>8,780,606</b>	<b>11,503,206</b>	<b>11,471,568</b>	<b>11,338,122</b>	<b>0</b>	<b>1,351,720</b>

#### 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.

##### 45.4.1 Maturities of Assets and Liabilities

	Total	2010								
		Upto 1	Over 1	Over 3	Over 6	Over 1	Over 2	Over 3	Over 5	Above
		Month	to 3	to 6	Months to 1	to 2	to 3	to 5	to 10	10 Years
		Rupees in '000								
<b>Assets</b>										
Cash and balances with treasury bank	4,722,670	1,054,793								3,667,876
Balances with other banks	37,134	37,134								
Lending to financial institutions	6,223,146	6,223,146								
Investments	2,046,309	1,461,711	584,598							
Advances	3,245,949	1,660,584	517,464	829,766	150	3,229	948	16,548	19,071	198,189
Other assets	898,722	676,825	5,101	7,549	12,469	188,772	5,598	0	0	2,407
Operating fixed assets	110,229							110,229		
Deferred tax assets	150,725					150,725				
	17,434,884	11,114,193	1,107,163	837,315	12,619	342,726	6,546	126,777	19,071	3,868,472
<b>Liabilities</b>										
Bills payable	2,640,728	2,640,728								
Borrowings	443,891	443,891								
Deposits and other accounts	6,065,947	4,729,229	989,625	342,893	4,200					
Sub-estimated loans	0									
Liabilities against assets subject to E	0									
Other liabilities	3,010,220	2,174,621	45,479		790,120					
Deferred tax liabilities	0									
	12,160,787	9,988,469	1,035,104	342,893	794,320	0	0	0	0	0
<b>Net assets</b>	<b>5,274,097</b>	<b>1,125,724</b>	<b>72,059</b>	<b>494,422</b>	<b>(781,701)</b>	<b>342,726</b>	<b>6,546</b>	<b>126,777</b>	<b>19,071</b>	<b>3,868,472</b>
Share capital/ Head office capital acc	3,667,877									
Reserves										
Unappropriated/ Unremitted profit	1,606,543									
Surplus/(Deficit) on revaluation of a	(321)									
	5,274,099									

	Total	2009								
		Upto 1	Over 1	Over 3	Over 6	Over 1	Over 2	Over 3	Over 5	Above
		Month	to 3	to 6	Months to 1	to 2	to 3	to 5	to 10	10 Years
		Rupees in '000								
<b>Assets</b>										
Cash and balances with treasury bank	4,764,709	887,676								3,877,033
Balances with other banks	128,632	128,632								
Lending to financial institutions	5,350,170	5,350,170								
Investments	490,909	490,909								
Advances	3,457,010	2,218,422	817,413	185,692	49,932	4,696	198	15,573	31,638	133,446
Other assets	713,337	544,245	4,380	6,410	5,722	143,234	6,939	0	0	2,407
Operating fixed assets	120,382							120,382		
Deferred tax assets	157,863					157,863				
	15,183,011	9,620,054	821,793	192,102	55,654	305,793	7,137	135,955	31,638	4,012,886
<b>Liabilities</b>										
Bills payable	217,050	217,050								
Borrowings	1,063,547	1,063,547								
Deposits and other accounts	6,005,209	5,324,304	194,618	408,287	78,000					
Sub-estimated loans	0									
Liabilities against assets subject to E	0									
Other liabilities	2,727,985	2,070,189	58,257		599,539					
Deferred tax liabilities	0									
	10,013,790	8,675,090	252,875	408,287	677,539	0	0	0	0	0
<b>Net assets</b>	<b>5,169,221</b>	<b>944,964</b>	<b>568,918</b>	<b>(216,185)</b>	<b>(621,885)</b>	<b>305,793</b>	<b>7,137</b>	<b>135,955</b>	<b>31,638</b>	<b>4,012,886</b>
Share capital/ Head office capital acc	3,877,033									
Reserves										
Unappropriated/ Unremitted profit	1,989,957									
Surplus/(Deficit) on revaluation of a	(34)									
	5,866,956									

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.

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#### 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.

Chief Country Officer  
& Head of Global Banking  
Pakistan

Chief Operating Officer  
& Country Controller  
Pakistan