Deutsche Bank AG, Pakistan Branches

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

Statement of Financial position

As at 31 December 2011

	Note	**2011**	2010
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	*7*	**4,590,065**	4,722,669
Balances with other banks	*8*	**38,505**	37,134
Lendings to financial institutions	*9*	**7,640,386**	6,223,146
Investments	*10*	**5,587,411**	2,046,309
Advances	*11*	**2,987,018**	3,245,948
Operating fixed assets	*12*	**199,014**	110,230
Deferred tax assets - net	*13*	**130,675**	150,725
Other assets	*14*	**1,068,497**	898,722
		22,241,571	17,434,883
LIABILITIES			
Bills payable	*15*	**238,907**	2,640,728
Borrowings from financial institutions	*16*	**1,523,062**	443,891
Deposits and other accounts	*17*	**11,118,869**	6,065,947
Sub-ordinated loans		**-**	-
Liabilities against assets subject to finance lease		**-**	-
Deferred tax liabilities		**-**	-
Other liabilities	*18*	**3,324,934**	3,010,220
		16,205,772	12,160,786
NET ASSETS		**6,035,799**	5,274,097
REPRESENTED BY			
Head office capital account	*19*	**3,724,146**	3,667,876
Reserves		**-**	-
Un-remitted profit		**2,323,191**	1,606,542
		6,047,337	5,274,418
Deficit on revaluation of assets - net of tax	*20*	**(11,538)**	(321)
		6,035,799	5,274,097
Contingencies and commitments	*21*		

The annexed notes 1 to 41 form an integral part of these financial statements.

Faizan Mitha
Managing Director &
Chief Country Officer
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 2011

	Note	2011	2010
		(Rupees in '000)	
Mark-up / return / interest earned	23	**1,679,978**	1,065,750
Mark-up / return / interest expensed	24	**(556,558)**	(324,744)
Net mark-up / interest income		**1,123,420**	741,006
Reversal / (provision) against non-performing advances	11.3	**19,100**	(37,748)
Reversal of provision against off-balance sheet obligations	18.1	**1,994**	12,778
Provision for diminution in the value of investments		**-**	-
Bad debts written off directly		**-**	(293)
		21,094	(25,263)
Net mark-up / interest income after provisions		**1,144,514**	715,743
NON MARK-UP / NON INTEREST INCOME			
Fee, commission and brokerage income		**304,900**	354,825
Dividend income		**-**	-
Income from dealing in foreign currencies and derivatives	25	**427,998**	755,656
(Loss) / gain on sale of Government securities		**(10,004)**	109,403
Unrealized gain / (loss) on revaluation of investments classified as held for trading		**-**	-
Other income		**2,461**	1,592
Total non mark-up / non interest income		**725,355**	1,221,476
		1,869,869	1,937,219
NON MARK-UP / NON INTEREST EXPENSES			
Administrative expenses	26	**(759,389)**	(653,431)
(Provision) / reversal against other assets	14.3	**(6,553)**	478
Other charges	27	**(132)**	(98)
Total non mark-up / non interest expenses		**(766,074)**	(653,051)
		1,103,795	1,284,168
Extra-ordinary / unusual items		**-**	-
PROFIT BEFORE TAXATION		**1,103,795**	1,284,168
Taxation - current		**(374,000)**	(450,205)
- prior years		**-**	-
- deferred		**(21,559)**	330
	28	**(395,559)**	(449,875)
PROFIT AFTER TAXATION		**708,236**	834,293

The annexed notes 1 to 41 form an integral part of these financial statements.

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Chief Country Officer
Pakistan

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Pakistan

Deutsche Bank AG, Pakistan Branches

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

Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	**2011**	2010
		(Rupees in '000)	
Profit for the year		**708,236**	834,293
Other comprehensive income:			
Actuarial Gain on defined benefit plans		**12,943**	21,779
Related deferred tax		**(4,530)**	(7,623)
		8,413	14,156
Exchange adjustment on account of revaluation of capital		**56,270**	(209,157)
Total comprehensive income for the year		**772,919**	639,292

Deficit on revaluation of 'Available for Sale' securities is presented below equity in accordance with the requirements specified by the State Bank of Pakistan vide its BSD circular 20 dated 04 August 2000 and BSD circular 10 dated 13 July 2004 and hence is not reported in other comprehensive income.

The annexed notes 1 to 41 form an integral part of these financial statements.

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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 2011

	Head office capital account	Un-remitted profit	Total
	------------------ (Rupees in '000)	------------------	
Balance as at 01 January 2010	3,877,033	1,292,224	5,169,257
Transactions with owners, recorded directly in equity:			
Remittance made to head office	-	(534,131)	(534,131)
Total comprehensive income for the year:			
Profit for the year	-	834,293	834,293
Other Comprehensive income:			
Actuarial gain on defined benefit plan - net of tax	-	14,156	14,156
Exchange adjustment on revaluation of head office capital account	(209,157)	-	(209,157)
	(209,157)	848,449	639,292
Balance as at 31 December 2010	3,667,876	1,606,542	5,274,418
Changes in equity 2011:			
Transactions with owners, recorded directly in equity:			
Remittance made to head office	-	-	-
Comprehensive income for the year:			
Profit for the year	-	708,236	708,236
Other Comprehensive income:			
Actuarial gain on defined benefit plan - net of tax	-	8,413	8,413
Exchange adjustment on revaluation of head office capital account	56,270	-	56,270
	56,270	716,649	772,919
Balance as at 31 December 2011	**3,724,146**	**2,323,191**	**6,047,337**

The annexed notes 1 to 41 form an integral part of these financial statements.

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Pakistan

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Deutsche Bank AG, Pakistan Branches

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

Cash Flow Statement

For the year ended 31 December 2011

	Note	2011	2010
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		**1,103,795**	1,284,168
Adjustments for:			
Depreciation		**35,714**	39,028
(Reversal) / Provision against non-performing advances		**(19,100)**	37,748
Reversal against off-balance sheet obligation		**(1,994)**	(12,778)
Provision / (Reversal) against other assets		**6,553**	(478)
Loss / (Gain) on sale of Government securities		**10,004**	(109,403)
Charge for defined benefit plan		**16,784**	20,265
Gain on sale of operating fixed assets		**(2,082)**	(780)
Bad debts written off directly		**-**	293
		45,879	(26,105)
		1,149,674	1,258,063
(Increase) / decrease in operating assets			
Lendings to financial institutions		**(1,417,240)**	(872,976)
Advances		**278,030**	173,022
Others assets (excluding advance taxation)		**(205,922)**	(148,645)
		(1,345,132)	(848,599)
Increase / (decrease) in operating liabilities			
Bills payable		**(2,401,821)**	2,423,678
Borrowings from financial institutions		**1,079,171**	(619,656)
Deposits and other accounts		**5,052,922**	60,738
Other liabilities		**327,971**	310,366
		4,058,243	2,175,126
		3,862,785	2,584,590
Contributions made to defined benefit plan		**(15,104)**	(13,837)
Income tax paid		**(344,405)**	(486,468)
Net cash used in operating activities		**3,503,276**	2,084,285
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale investments		**(3,568,362)**	(1,446,439)
Purchase of operating fixed assets		**(130,399)**	(53,495)
Sale proceeds on disposal of operating fixed assets		**7,983**	25,399
Net cash generated from investing activities		**(3,690,778)**	(1,474,535)
CASH FLOW FROM FINANCING ACTIVITIES			
Remittance made to head office		**-**	(534,131)
Net cash used in financing activities		**-**	(534,131)
Effects of exchange rate changes on cash and cash equivalents		**56,270**	(209,157)
(Decrease) / increase in cash and cash equivalents		**(131,232)**	(133,538)
Cash and cash equivalents at beginning of the year		**4,759,803**	4,893,341
Cash and cash equivalents at end of the year	*29*	**4,628,571**	4,759,803

The annexed notes 1 to 41 form an integral part of these financial statements.

Faizan Mitha
Managing Director &
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Mahmood A. Qureshi
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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 (The Bank). The Bank is engaged in banking business as described in the Banking Companies Ordinance, 1962.

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 (SBP) has issued various circulars from time to time. Permissible forms of trade related modes 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 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 (SBP) vide BSD Circular No. 10 dated 26 August 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). Further, according to a notification of the Securities and Exchange Commission of Pakistan (SECP) dated 28 April 2008, International Financial Reporting Standard 7, Financial Instruments: Disclosures (IFRS 7) has not been made applicable for banks. 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 SBP through various circulars.

4. CREDIT RATING

The credit rating done by Standard & Poor in November 2011 for Deutsche Bank AG is A+ for the long term and A-1 for the short term, rating done by Moody's in February 2012 is Aa3 for the long term and P-1 for the short term and rating done by Fitch in December 2011 is A+ for the long term and F1+ for the short term.

5. BASIS OF MEASUREMENT

5.1 These financial statements have been prepared under the historical cost convention, except that available-for-sale investments and derivative financial instruments have been marked to market and are carried at fair value, staff retirement benefits (pension) which are stated at present value and certain financial assets that are stated net of provisions.

5.2 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:

Investments (Note 6.5)
Loans and advances (Note 6.4)
Income taxes (Note 6.3)
Derivative instruments (Note 6.9)
Defined benefit plan (Note 6.2)
Operating fixed assets and depreciation (Note 6.7)

These financial statements are presented in Pak rupees (PKR) which is the Bank's 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 Bank operates approved Provident Fund and Gratuity Fund Scheme for all of its permanent employees in respect of which contributions are made to discharge liability under the respective rules of the schemes.

Defined benefit plan

The Bank also operates a Funded Pension Scheme for all of their permanent employees. The costs are determined based on actuarial valuation carried out using the Projected Unit Credit Method. All actuarial gains and losses are recognised in the statement of comprehensive income.

6.3 Taxation

Current tax

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

Deferred tax is provided using the balance sheet liability method on all material 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 SBP. 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 13 July 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, which are either acquired for generating profit from short-term fluctuation in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit making existed.

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 the classification of securities at the time of acquisition.

All purchase and sale of investments that require delivery with in 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 asset 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 SBP 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. Outstanding forward foreign exchange contracts are valued at the forward rates applicable to their respective maturities. Commitments for outstanding forward foreign exchange contracts are disclosed in financial statements at contracted rates with the fair value adjustment disclosed in other assets / other liabilities, as the case may be.

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.

6.12 Off-setting

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

6.13 Provisions

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

7. CASH AND BALANCES WITH TREASURY BANKS

	Note	2011	2010
		(Rupees in '000)	
In hand:			
Local currency		**31,516**	66,444
Foreign currency		**36,968**	75,804
With State Bank of Pakistan in:			
Local currency current account	*7.1*	**539,341**	632,009
Foreign currency deposit account			
Cash reserve account	*7.2*	**60,263**	57,377
Special cash reserve account	*7.3*	**164,601**	156,715
Local US Dollar collection account	*7.4*	**33,230**	66,444
Foreign currency capital account	*19*	**3,724,146**	3,667,876
		4,590,065	4,722,669

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

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

7.3 This represents statutory cash reserve maintained against foreign currency deposits mobilised under FE 25 Circular issued by the SBP at Nil return (2010: Nil).

7.4 This represents US Dollar settlement account opened with the SBP in accordance with FE Circular No. 2 and is at Nil return (2010: Nil).

8. BALANCES WITH OTHER BANKS

	2011	2010
	(Rupees in '000)	
In Pakistan		
Current account	**645**	7,310
Outside Pakistan		
Current account		
- Inter branch	**37,850**	11,507
- Others	**10**	18,317
	38,505	37,134

9. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2011	2010
Repurchase agreement lendings (Reverse Repo)	*9.1*	**7,640,386**	6,223,146

9.1 Reverse repos have been made with various commercial banks at rates ranging from 11.25% p.a to 11.85% p.a (2010: 12.49% p.a to 13.00% p.a) and mature within a month. The market value of these securities at 31 December 2011 amounted to Rs. 7,921 million (2010: Rs. 6,254 million).

9.2 Particulars of Lendings

	2011	2010
	(Rupees in '000)	
In local currency	**7,640,386**	6,223,146

9.3 Securities held as collateral against lendings to financial institutions

	2011			2010		
	Held by Bank	**Further given as collateral**	**Total**	Held by Bank	Further given as collateral	Total
	(Rupees in '000)					
Market Treasury Bills	**7,640,386**	**-**	**7,640,386**	6,223,146	-	6,223,146

10. INVESTMENTS

	Note	2011			2010		
		Held by Bank	**Given as collateral**	**Total**	Held by Bank	Given as collateral	Total
		(Rupees in '000)					
10.1 Investments by type:							
Available-for-sale securities							
Market Treasury Bills	*10.3*	**5,356,156**	**-**	**5,356,156**	2,046,803	-	2,046,803
Pakistan Investment Bonds	*10.4*	**249,006**	**-**	**249,006**	-	-	-
Investments at cost		**5,605,162**	**-**	**5,605,162**	2,046,803	-	2,046,803
Deficit on revaluation of available-for-sale securities	*20*	**(17,751)**		**(17,751)**	(494)		(494)
Total investments at market value	*10.2*	**5,587,411**	**-**	**5,587,411**	2,046,309	-	2,046,309

10.2 Investments by segment:

	2011	2010
	(Rupees in '000)	
Federal Government securities		
Market Treasury Bills	**5,356,156**	2,046,803
Pakistan Investment Bonds	**249,006**	-
Total investments	**5,605,162**	2,046,803
Deficit on revaluation of available-for-sale securities	**(17,751)**	(494)
Total investments at market value	**5,587,411**	2,046,309

10.3 The Market Treasury Bills carry a rate ranging from 11.77% p.a to 12.75% p.a (2010: 12.65% to 13.12% p.a) and having maturity within one month to one year.

10.4 The Pakistan Investment Bonds carry a rate ranging from 11.95% p.a to 12.12% p.a and having maturity of 10 years.

11. ADVANCES

	Note	**2011**	2010
		(Rupees in '000)	
Loans, cash credits, running finances, etc. - in Pakistan		**2,118,717**	2,867,146
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		**1,202,840**	721,188
Payable outside Pakistan		**65,626**	76,879
		1,268,466	798,067
Advances - gross		**3,387,183**	3,665,213
Provision for non-performing advances	*11.3*	**(400,165)**	(419,265)
Advances - net of provision		**2,987,018**	3,245,948

11.1 Particulars of advances - gross

	2011	2010
	(Rupees in '000)	
In local currency	**3,321,557**	3,588,334
In foreign currencies	**65,626**	76,879
	3,387,183	3,665,213
Short term (for upto one year)	**2,732,929**	3,007,963
Long term (for over one year)	**654,254**	657,250
	3,387,183	3,665,213

11.2 Advances include Rs. 376.923 million (2010: Rs. 361.537 million) which have been placed under non-performing status as detailed below:

	2011			2010		
	Classified advances domestic	Provision required	Provision held	Classified advances domestic	Provision required	Provision held
	(Rupees in '000)					
Category of Classification						
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	**376,923**	**376,923**	**376,923**	361,537	361,537	361,537
	376,923	**376,923**	**376,923**	361,537	361,537	361,537

11.3 Particulars of provision against non-performing advances - in local currency

	2011			2010		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	**361,537**	**57,728**	**419,265**	269,033	112,484	381,517
Charge for the year	**21,769**	**-**	**21,769**	120,030	-	120,030
Reversals / recoveries	**(6,383)**	**(34,486)**	**(40,869)**	(27,526)	(54,756)	(82,282)
	15,386	**(34,486)**	**(19,100)**	92,504	(54,756)	37,748
Closing balance	**376,923**	**23,242**	**400,165**	361,537	57,728	419,265

11.4 General provision represents amount recognised in line with the instructions received from the head office.

11.5 Particulars of loans and advances to executives and officers

Debts due by executives or officers of the Bank or any of them either severally or jointly with any other persons.

	Note	2011	2010
		(Rupees in '000)	
Balance at beginning of year		**234,762**	186,441
Loans granted during the year		**89,899**	188,433
Repayments		**(73,269)**	(140,112)
Balance at end of year		**251,392**	234,762

11.5.1 This represnts loans given by the Bank to its executives and officers as per the terms of their employment.

12. OPERATING FIXED ASSETS

Capital work-in-progress	*12.1*	**105,587**	15,215
Property and equipment	*12.2*	**93,427**	95,015
		199,014	110,230

12.1 Capital work-in-progress

Civil works	**34,296**	2,259
Advance to suppliers and contractors	**5,875**	-
Advance against purchase of vehicle	**11,397**	-
Consultancy fee and other charges	**54,019**	12,956
	105,587	15,215

12.2 Property and equipments

	2011									
	COST				DEPRECIATION					
	Balance at 1 January 2011	Additions	Disposal	Balance at 31 December 2011	Balance at 1 January 2011	Charge for the year	Disposal	Balance at 31 December 2011	Book value at 31 December 2011	Rate of depreciation %
	(Rupees in '000)									
Owned										
Improvements on lease hold buildings	52,960	-	-	52,960	29,508	4,241	-	33,749	19,211	*10-20*
Furniture and fixtures	10,782	144	-	10,926	7,574	1,100	-	8,674	2,252	*20-33*
Electrical, office and computer equipments	85,163	6,882	(1,907)	90,138	57,091	15,495	(1,811)	70,775	19,363	*20-50*
Vehicles	62,256	33,002	(14,629)	80,629	21,973	14,878	(8,823)	28,028	52,601	*20*
	211,161	**40,028**	**(16,536)**	**234,653**	**116,146**	**35,714**	**(10,634)**	**141,226**	**93,427**	

	2010									
	COST				DEPRECIATION					
	Balance at 1 January 2010	Additions	Disposal	Balance at 31 December 2010	Balance at 1 January 2010	Charge for the year	Disposal	Balance at 31 December 2010	Book value at 31 December 2010	Rate of depreciation %
	(Rupees in '000)									
Owned										
Improvements on lease hold buildings	53,943	-	(983)	52,960	26,084	4,407	(983)	29,508	23,452	*10-20*
Furniture and fixtures	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	72,971	26,009	(36,724)	62,256	19,916	16,084	(14,027)	21,973	40,283	*20*
	224,105	**38,280**	**(51,224)**	**211,161**	**103,723**	**39,028**	**(26,605)**	**116,146**	**95,015**	

12.3 Included in cost of property and equipment are fully depreciated items, still in use, having cost of Rs. 63.322 million (2010: Rs.27.966 million).

12.4 Disposal include items having cost of Rs. 0.246 million (2010:Rs. 10.230 million) which have been written off during the year.

12.5 Details of disposal of assets whose original cost or the book value exceeds Rs. 1 million or Rs. 250,000 whichever is less and assets disposed to the Chief Country Officer or to other executives or to any related party, irrespective of the value, are given below:

Description	**Cost**	**Book value**	**Sale proceeds**	**Mode of disposal**	**Purchaser**	**Particulars / address**
	---------(Rupees in '000)---------					
Black Berry	29	-	1	Bank Policy	Mr. Rizwan Baig	Employee
Black Berry	29	-	3	Bank Policy	Mr. Mohammad Khalid	Employee
Thinkpad T61(WXGA)	98	-	10	Bank Policy	Syed A. Hussaini	Employee
Port Replicator for Thinkpad T61	7	-	1	Bank Policy	Syed A. Hussaini	Employee
Thinkpad T61(WXGA)	81	-	8	Bank Policy	Mr. Abbas Haider	Employee
Port Replicator for Thinkpad T61	7	-	1	Bank Policy	Mr. Abbas Haider	Employee
Lenovo 17" LCD Display	35	-	3	Bank Policy	Mr. Abbas Haider	Employee
Power Adaptor for T-61 (Laptop)	2	-	-	Bank Policy	Mr. Abbas Haider	Employee
Thinkpad T61(WXGA) with custom image, DVD ROM,2x1GB	81	-	8	Bank Policy	Mr. Savio Fernandes	Employee
Port Replictor for Thinkpad T61	7	-	1	Bank Policy	Mr. Savio Fernandes	Employee
HP L1750 17" LCD Monitor	15	-	2	Bank Policy	Mr. Savio Fernandes	Employee
Lenovo Thinkcentre M57 with DVD ROM, 2x1GB	50	-	5	Bank Policy	Syed M. Ali	Employee
HP L1750 17" LCD Monitor	15	-	2	Bank Policy	Syed M. Ali	Employee
USB Key Board	3	-	-	Bank Policy	Syed M. Ali	Employee
Lenovo Thinkcentre M57 with DVD ROM, 2x1GB	49	-	5	Bank Policy	Mr. Amer Habib	Employee
HP L1750 19" LCD Monitor	18	-	2	Bank Policy	Mr. Amer Habib	Employee
HP L1950g 19" LCD Monitor	23	9	-	Bank Policy	Mr. Shazad Dada	Ex-Employee
Lenovo Thinkpad X200 (Laptop)	106	12	-	Bank Policy	Mr. Shazad Dada	Ex-Employee
TP Dulex Expender Carry Case	5	1	-	Bank Policy	Mr. Shazad Dada	Ex-Employee
USB Mouse	1	-	-	Bank Policy	Mr. Shazad Dada	Ex-Employee
Thinkpad X200 Ultra Base	15	2	-	Bank Policy	Mr. Shazad Dada	Ex-Employee
Thinkpad X200 DVD ROM	6	1	-	Bank Policy	Mr. Shazad Dada	Ex-Employee
Thinkpad Power Adaptor	3	-	-	Bank Policy	Mr. Shazad Dada	Ex-Employee
Black Berry 8700	29	-	-	Bank Policy	Mr. Shazad Dada	Ex-Employee
Black Berry 8800	29	6	3	Bank Policy	Mr. Amer Habib	Employee
Black Berry 8800	29	9	3	Bank Policy	Mr. Mohammad Khalid	Employee
Black Berry 8800	29	7	3	Bank Policy	Mr. Mohammad Khalid	Employee
Toyota Camray, 2007	2,750	504	1,100	Bank Policy	Mr. Fahim Ahmed	Employee
Toyota Camray, 2007	2,650	486	1,060	Bank Policy	Mr. Mahmood A. Qureshi	Employee
Toyota Corolla GLI	1,165	330	524	Bank Policy	Syed A. Hussani	Employee
Toyota Corolla 2.OD	1,167	370	572	Bank Policy	Mr. Sohaib Ansari	Ex-Employee
Toyota Corolla GLI	1,175	431	576	Bank Policy	Mr. Omer Rahi	Ex-Employee
Honda Civic (AVH-532)	2,065	1,824	1,859	Bank Policy	Mr. Omer Rahi	Ex-Employee
Honda Accord	3,603	1,862	2,090	Bank Policy	Mr. Naveed Sharif	Ex-Employee
Thinkpad T61(WXGA)with custom image,DVD ROM,2x2GB	81	-	8	Bank Policy	Mr. Baber Ahmed	Employee
Port Replictor for Thinkpad T61	8	-	1	Bank Policy	Mr. Baber Ahmed	Employee
HP L1750 17" LCD Monitor	15	-	2	Bank Policy	Mr. Baber Ahmed	Employee
Black Berry 8520	25	17	8	Bank Policy	Mr. Waqar A. Chughtai	Employee
	15,505	5,871	7,861			

13. DEFERRED TAX ASSETS

The following are deferred tax assets / (liabilities) recognised and movement thereon:

	2011			
	Opening balance	**(Charge) / reversal to profit and loss account**	**Debit / (credit) to other comprehensive income**	**Closing balance**
	------------------------- (Rupees in '000) -----------------------			
Deficit on revaluation of Government securities	**173**	**-**	**6,039**	**6,212**
Actuarial gains and losses	**17,754**	**-**	**(4,530)**	**13,224**
Provision for advances	**136,424**	**(19,238)**	**-**	**117,186**
Difference between accounting book value of operating fixed assets and its tax base	**(3,626)**	**(2,321)**	**-**	**(5,947)**
	150,725	**(21,559)**	**1,509**	**130,675**

	2010			
	Opening balance	(Charge) / reversal to profit and loss account	Debit / (credit) to other comprehensive income	Closing balance
	------------------------- (Rupees in '000) -----------------------			
Deficit on revaluation of Government securities	18	-	155	173
Actuarial gains and losses	25,377	-	(7,623)	17,754
Provision for advances	140,513	(4,089)	-	136,424
Difference between accounting book value of operating fixed assets and its tax base	(8,045)	4,419	-	(3,626)
	157,863	330	(7,468)	150,725

14. OTHER ASSETS

	Note	**2011**	2010
		(Rupees in '000)	
Income / mark-up accrued in local currency		**185,132**	145,816
Income / mark-up accrued in foreign currency		**11,196**	15,726
Advances, deposits, advance rent and other prepayments		**65,273**	73,148
Advance taxation (payments less provisions)		**139,495**	169,089
Branch adjustment account		**45**	-
Unrealized gain on forward foreign exchange contracts	*14.1*	**128,574**	13,325
Unrealized gain on interest rate swaps	*14.2*	**537,864**	483,622
Others		**13,258**	3,783
		1,080,837	904,509
Less: Provision held against other assets	*14.3*	**(12,340)**	(5,787)
Other assets (net of provision)		**1,068,497**	898,722

14.1 Unrealized gain on forward foreign exchange contracts value is net of general counterparties specific reserves of Rs. 1.920 million (2010: Rs.0.773 million) in accordance with the head office instructions.

14.2 Unrealized gain on interest rate swaps value is net of general counterparties specific reserves of Rs. 49.876 million (2010: Rs. 121.872 million) in accordance with the head office instructions.

14.3 Provision against other assets

	Note	2011	2010
		(Rupees in '000)	
Opening balance		**5,787**	6,265
Charge for the year		**6,973**	-
Reversals		**(420)**	(478)
		6,553	(478)
Closing balance		**12,340**	5,787

15. BILLS PAYABLE

In Pakistan		**238,907**	2,640,728

16. BORROWINGS FROM FINANCIAL INSTITUTIONS

In Pakistan		**289,340**	443,891
Outside Pakistan		**1,233,722**	-
		1,523,062	443,891

16.1 Particulars of borrowings with respect to currencies

In local currency		**289,340**	443,891
In foreign currencies		**1,233,722**	-
		1,523,062	443,891

16.2 Details of borrowings secured / unsecured

Secured			
Borrowings from the State Bank of Pakistan under export refinance scheme	*16.2.1*	**173,063**	443,000
Unsecured			
Call Borrowing	*16.2.2*	**100,000**	-
Overdrawn nostro accounts - Interbranch		**1,233,493**	-
Others	*16.2.3*	**16,506**	891
		1,349,999	891
		1,523,062	443,891

16.2.1 These borrowings carry mark-up at rate of 10.00% p.a (2010: 9.00% p.a) and are secured against promissory notes, undertakings in favour of the Bank and export documents. The mark-up is payable quarterly at the time of partial payment or upon maturity of loan, whichever is earlier.

16.2.2 This borrowing carry interest rate 13.10% per annum (2010: Nil) maturing within 3 months

16.2.3 This is overnight borrowing from commercial banks.

17. DEPOSITS AND OTHER ACCOUNTS

	Note	2011	2010
		(Rupees in '000)	
Customers			
Fixed deposits		**6,682,477**	2,882,395
Savings deposits		**1,218,219**	985,954
Current accounts - non-remunerative		**3,170,387**	2,169,463
Others		**39,522**	21,417
		11,110,605	6,059,229
Financial institutions			
Non-remunerative deposits			
- interbranch		**7,859**	6,375
- others		**405**	343
		8,264	6,718
		11,118,869	6,065,947

17.1 Particulars of deposits

	2011	2010
In local currency	**10,294,189**	5,340,214
In foreign currencies	**824,680**	725,733
	11,118,869	6,065,947

18. OTHER LIABILITIES

	Note	2011	2010
Mark-up / return / interest payable in local currency		**92,601**	68,008
Mark-up / return / interest payable in foreign currency		**28**	104
Unearned commission and income on bills discounted		**18,105**	27,658
Accrued expenses		**123,139**	127,451
Unrealised loss on forward foreign exchange contracts		**79,657**	86,276
Unrealized loss on interest rate and cross currency swaps		**1,730,451**	1,649,253
Unremitted head office expenses		**938,644**	790,120
Payable to defined benefit plan	*31.6*	**28,620**	39,883
Provision against off-balance sheet obligations - general	*18.1*	**43,485**	45,479
Workers Welfare Fund payable		**97,918**	75,392
Others		**172,286**	100,596
		3,324,934	3,010,220

18.1 Provision against off-balance sheet obligations

	2011	2010
Opening balance	**45,479**	58,257
Reversal for the year	**(1,994)**	(12,778)
Closing balance	**43,485**	45,479

19. HEAD OFFICE CAPITAL ACCOUNT

Capital held as interest free deposit in approved foreign exchange.

	2011	2010
i) Remitted from head office Euro 32,048,165 (2010: Euro 32,048,165)	**3,667,876**	3,877,033
ii) Revaluation advised by the State Bank of Pakistan during the year	**56,270**	(209,157)
	3,724,146	3,667,876

20. DEFICIT ON REVALUATION OF ASSETS - NET OF TAX

	2011	2010
	(Rupees in '000)	
Federal Government securities	**(17,751)**	(494)
Related deferred tax	**6,213**	173
	(11,538)	(321)

21. CONTINGENCIES AND COMMITMENTS

21.1 Transaction-related contingent liabilities

Contingent liability in respect of performance bonds, bid bonds, shipping guarantees, etc. favouring:

	2011	2010
	(Rupees in '000)	
i) Government	**9,878,099**	11,622,842
ii) Banking companies and other financial institutions	**52,487**	80,347
iii) Others	**30,875,763**	25,731,789

21.2 Trade-related contingent liabilities

Acceptances	**1,263,703**	1,248,282
Letters of credit	**2,781,192**	3,081,534

21.3 Commitments in respect of forward lending

Forward repurchase agreement lending (Reverse repo)	**7,640,386**	6,223,146
Commitments to extend credit	**14,003,786**	11,523,605

21.4 Commitments in respect of forward exchange contracts

Purchase:		
- from the State Bank of Pakistan	**-**	885,500
- from others	**12,148,774**	7,711,277
Sale:		
- to others	**7,399,526**	3,674,497

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

21.5 Cheques in clearing	**840,931**	1,312,474
21.6 Capital expenditures commitments	**81,069**	3,002

21.7 Other contingencies

Appeals for various assessment years are pending before Income Tax Appellate Authorities contesting additional demands of Rs. 171.196 million. The Bank is vigorously contesting its appeals and is confident that no additional liability would arise.

21.8 Other commitments

Cross currency swaps - notional amounts	**3,903,678**	2,738,173
Interest rate swaps - notional amounts	**10,489,066**	8,625,235
FX Options	**53,172**	-

22. DERIVATIVE INSTRUMENTS

The Bank is providing solutions to this conundrum through derivatives. Through this, counterparties hedge 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.

We use the combination of risk sensitivities, value-at-risk, stress testing and economic capital matrix to manage market risks and establish limits. Economic capital is the metric we use to describe and aggregate all our market risk, both in trading and non-trading portfolios. Value-at-risk is a common metric we use in the management of our trading market risks.

22.1 Product analysis

2011

Counterparties	Interest rate swaps		Cross currency swaps		FX Options	
	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)
With Banks for						
- Hedging	4	8,339,766	-	-	6	26,586
- Market Making	2	2,149,300	2	1,165,505	-	-
With other entities for						
- Hedging	-	-	-	-	-	-
- Market Making	-	-	3	2,738,173	6	26,586
Total						
- Hedging	4	8,339,766	-	-	6	26,586
- Market Making	2	2,149,300	5	3,903,678	6	26,586
	6	**10,489,066**	**5**	**3,903,678**	**12**	**53,172**

2010

Counterparties	Interest rate swaps		Cross currency swaps		FX Options	
	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)	Number of contracts	Notional principal (Rupees in '000)
With Banks for						
- Hedging	4	7,181,447	-	-	-	-
- Market Making	-	-	-	-	-	-
With other entities for						
- Hedging	-	-	-	-	-	-
- Market Making	2	1,443,788	3	2,738,173	-	-
Total						
- Hedging	4	7,181,447	-	-	-	-
- Market Making	2	1,443,788	3	2,738,173	-	-
	6	8,625,235	3	2,738,173	-	-

22.2 Maturity analysis

Interest rate swaps and cross currency swaps

Remaining Maturity	**2011** Number of contracts	Notional principal	Mark to Market Negative	Mark to Market Positive	Mark to Market Net
		---------------------------- (Rupees in '000)----------------------------			
Interest Rate SWAP					
1 to 2 years	**2**	**6,549,846**	**-**	**465,034**	**465,034**
2 to 3 years	**1**	**629,620**	**(70,293)**	**-**	**(70,293)**
3 to 5 years		**-**	**-**	**-**	**-**
5 to 10 years	**3**	**3,309,600**	**(58,509)**	**121,624**	**63,115**
Cross Currency SWAP					
1 to 2 years	**5**	**3,903,678**	**(1,601,648)**	**1,082**	**(1,600,566)**
Less: reserves		**-**	**-**	**(49,876)**	**(49,876)**
	11	**14,392,744**	**(1,730,450)**	**537,864**	**(1,192,586)**

* At the exchange rate prevailing at the end of the reporting period Rs. 89.9457 per $ 1

Remaining Maturity	2010 No. of contracts	Notional principal	Mark to Market Negative	Mark to Market Positive	Mark to Market Net
		---------------------------- (Rupees in '000)----------------------------			
Interest Rate SWAP					
1 to 2 years	2	678,150	(7,238)	7,238	-
2 to 3 years	1	5,138,202	-	594,283	594,283
3 to 5 years	1	599,457	(83,585)	-	(83,585)
5 to 10 years	2	2,209,426	-	3,975	3,975
Cross Currency SWAP					
2 to 3 years	3	2,738,173	(1,558,430)	-	(1,558,430)
Less: reserves		-	-	(121,874)	(121,874)
	9	11,363,408	(1,649,253)	483,622	(1,165,631)

* At the exchange rate prevailing at the end of the reporting period Rs. 85.6343 per $ 1

23. MARK-UP / RETURN / INTEREST EARNED	*Note*	**2011**	2010
		(Rupees in '000)	

On loans and advances to:

- Customers		**412,528**	310,953
On investments in available-for-sale securities		**453,495**	33,441
On deposits with financial institutions		**8**	13
On securities purchased under resale agreements		**813,863**	721,288
Others		**84**	55
		1,679,978	1,065,750

24. MARK-UP / RETURN / INTEREST EXPENSED

Deposits	**504,199**	277,041
Securities sold under repurchase agreements	**12,951**	13,988
Other short term borrowings	**39,001**	33,709
Others	**407**	6
	556,558	324,744

25. INCOME FROM DEALING IN FOREIGN CURRENCIES AND DERIVATIVES

Exchange income from dealing in foreign currencies - net	**95,028**	407,692
Gain on derivatives - net	**332,970**	347,964
	427,998	755,656

26. ADMINISTRATIVE EXPENSES

Salaries, allowances, etc.		**359,947**	271,695
Voluntary separation scheme		**11,605**	429
Charge for defined benefit plan	*31.7*	**16,784**	20,265
Contribution to defined contribution plan		**19,363**	16,114
Worker's Welfare Fund		**22,527**	26,251
Head office expenses	*26.2*	**145,875**	161,053
Rent, taxes, insurance, electricity, etc.		**59,525**	39,559
Legal and professional charges		**5,352**	(2,777)
Communications		**18,099**	15,372
Repairs and maintenance		**13,560**	13,112
Stationery and printing		**9,425**	6,825
Advertisement and publicity		**1,439**	3,367
Donations		**-**	-
Auditors' remuneration	*26.3*	**5,243**	2,482
Depreciation	*12.2*	**35,714**	39,028
Others		**34,931**	40,656
		759,389	653,431

26.1 The Bank operates an employee performance bonus and global share scheme for all of its employees. In addition a restricted cash award scheme (share based incentives) is also offered to selected executives. The aggregate amount determined for the eligible employees in respect of the above schemes relating to all Executives of the Pakistan branches amounted to Rs. 76.744 million, Rs. 8.688 and Rs. 1.226 million (2010: Rs. 74.201 million, Rs. Nil and Rs. 26.458 million) respectively.

26.2 Head office expenses

	2011	2010
	(Rupees in '000)	
SAP expenses	**1,148**	1,506
MLC charges	**66,158**	68,363
Financial insurances	**-**	139
Head office expenses	**59,121**	88,655
German Bank levy and contribution to deposit protection fund	**1,840**	-
Risk participation fee	**6,870**	2,399
Global HR product	**2,577**	2,858
DB Singapore Charges	**42,751**	-
	180,465	163,920
Less: Other income	**(4,404)**	(2,867)
Reversal of certain expenses recorded in previous years	**(30,186)**	-
	145,875	161,053

26.3 Auditors' remuneration

Audit fee	**2,078**	1,978
Special certifications and sundry advisory services	**3,078**	384
Out-of-pocket expenses	**87**	120
	5,243	2,482

27. OTHER CHARGES

Penalties imposed by the State Bank of Pakistan	**132**	98

28. TAXATION

For the year		
Current	**374,000**	450,205
Prior year	**-**	-
	374,000	450,205
Deferred		
Current	**21,559**	(330)
Prior year	**-**	-
	21,559	(330)
	395,559	449,875

28.1 Relationship between tax expense and accounting profit

Profit before tax	**1,103,795**	1,284,168
Tax calculated at the rate of 35% (2010: 35%)	**386,328**	449,459
Effect of :		
- permanent differences	**46**	34
- Others	**9,185**	382
Tax charge for the year	**395,559**	449,875

29. CASH AND CASH EQUIVALENTS

	2011	2010
	(Rupees in '000)	
Cash and balance with treasury banks	**4,590,065**	4,722,669
Balances with other banks	**38,505**	37,134
	4,628,570	4,759,803

30. STAFF STRENGTH

	(In number)	
Permanent	**78**	74
Outsourced	**35**	34
Total staff strength	**113**	108

31. DEFINED BENEFIT PLAN

31.1 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.

31.2 Principal actuarial assumptions

The actuarial valuation of the defined benefit plan was carried on 31 December 2011. Projected Unit Credit Method is used for the calculation and the key assumptions used for actuarial valuation were as follows:

	2011	2010
Discount rate	**12.50% p.a.**	12.50% p.a.
Expected rate of increase in salary in future years	**12.50% p.a.**	12.50% p.a.
Expected rate of return on plan assets	**12.50% p.a.**	12.50% p.a.
Withdrawal rate before normal retirement age	**"Moderate"**	"Moderate"
Expected annual rate of increase in monthly pensions	**8.00% p.a.**	11.80% p.a.

31.3 Reconciliation of payable to defined benefit plan

	Note	2011	2010
		(Rupees in '000)	
Present value of defined benefit obligations	*31.4*	**347,712**	315,265
Fair value of plan assets	*31.5*	**(319,092)**	(275,382)
	31.6	**28,620**	39,883

31.4 Movement in present value of defined benefit plan

Note	2011	2010
	(Rupees in '000)	

Opening balance		**315,265**	294,730
Current service cost		**16,318**	14,625
Interest cost		**39,704**	35,613
Gain on defined benefit obligation		**(13,083)**	(21,315)
Benefits paid during the year		**(10,492)**	(8,388)
Closing balance		**347,712**	315,265

31.5 Movement in fair value of plan assets

Opening balance		**275,382**	239,496
Expected return on plan assets		**39,238**	29,973
Contribution made		**15,104**	13,837
Benefits paid by the fund		**(10,492)**	(8,388)
Gain on plan assets		**(140)**	464
Closing balance	*31.5.1*	**319,092**	275,382

31.5.1 Plan assets consist of the following:

Pakistan Investment Bonds	**98,938**	81,595
Market Treasury Bills	**219,167**	171,215
Balances with other banks	**987**	22,572
	319,092	275,382

31.6 Movement in payable to defined benefit plan

Opening balance		**39,883**	55,234
Charge for the year	*31.7*	**16,784**	20,265
Amount recognised outside profit and loss directly in equity		**(12,943)**	(21,779)
Contribution to fund made during the year		**(15,104)**	(13,837)
Closing balance		**28,620**	39,883

31.7 Charge for defined benefit plan

Current service cost	**16,318**	14,625
Interest cost	**39,704**	35,613
Expected return on plan assets	**(39,238)**	(29,973)
	16,784	20,265

31.8 Actual return on plan assets	**39,098**	30,437

31.9 Historical information

	2011	2010	2009	2008	2007
	(Rupees in '000)				
Defined benefit obligation	**347,712**	315,265	294,730	171,766	148,907
Fair value of plan assets	**(319,092)**	(275,382)	(239,496)	(179,227)	(178,259)
Deficit / (surplus)	**28,620**	39,883	55,234	(7,461)	(29,352)

32. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Country Officer		**Executives**	
	2011	2010	**2011**	2010
	(Rupees in '000)			
Managerial remuneration	**23,452**	12,000	**141,190**	129,605
Charge for defined benefit plan	**2,051**	1,047	**12,059**	11,099
Contribution to defined contribution plan	**2,797**	722	**15,443**	14,671
Rent and house maintenance		-	**660**	-
Medical	**119**	-	**1,462**	1,292
	28,419	13,769	**170,814**	156,667
	(Number)			
Number of persons	**1**	1	**62**	49

32.1 The Chief Country Officer and certain Executives are provided with free club membership and free use of the Bank's maintained cars in accordance with their entitlement.

In addition to above, all executives, including the Chief Country Officer of the Bank are also entitled to certain short term employee benefits which are disclosed in note 26.1 to these financial statements.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

The investments are stated at their fair value based on market interest rates and prices. In the opinion of the management the fair values of financial assets and liabilities, except for fixed term advances of over one year, staff loans and fixed term deposits of over one year are not significantly different from their book values since assets and liabilities are either short term in nature or frequently repriced.

In the opinion of management, the fair values of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities.

34. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

Deutsche Bank’s Group Divisions are comprised of the following: the Corporate and Investment Bank (CIB), Private Clients and Asset Management (PCAM) and Corporate Investments (CI). In Pakistan only CIB business is carried out.

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

Corporate and investment bank (CIB)

CIB is responsible for Deutsche Bank’s capital markets business, comprising the origination, sales and trading of capital markets products including debt, equity, and other securities, together with our corporate advisory, corporate lending and transaction banking businesses. Our clients are institutions - both public sector entities, including sovereign states and supranational bodies, and private sector entities, medium-sized businesses to large multinational corporations.

CIB is subdivided into two Corporate Divisions: Corporate Banking & Securities (CB & S) and Global Transaction Banking (GTB).

Corporate banking and securities

Corporate Banking and Securities comprises our Global Markets and Corporate Finance businesses, and covers Deutsche Bank's origination, sales and trading of securities, corporate advisory and M&A businesses, together with other corporate finance activities. In Pakistan we mainly deal in Global Markets businesses.

Global transaction banking

Global transaction banking covers Deutsche Bank's cash management, clearing, trust & securities services and trade finance businesses. Corporate Finance and Global Transaction Banking are together named Global Banking.

Infrastructure and Regional management

It includes all the back offices which are responsible to provide support services to the businesses.

	Corporate and investment banking			
	Corporate banking and securities (Global market)	**Global transaction banking**	**Infrastructure & Regional management**	**Total**
	--------(Rupees in '000)--------			
2011				
Total income	**771,417**	**1,385,158**	**248,758**	**2,405,333**
Total expenses	**(210,110)**	**(836,098)**	**(255,330)**	**(1,301,538)**
Net income (loss) before tax	**561,307**	**549,060**	**(6,572)**	**1,103,795**
Segment assets (gross)	**18,574,494**	**3,465,116**	**602,126**	**22,641,736**
Segment provision	**-**	**(400,165)**	**-**	**(400,165)**
Segment liabilities	**(3,305,742)**	**(11,631,619)**	**(1,268,411)**	**(16,205,772)**
Segment return on net assets (ROA) (%)	**4.15%**	**39.97%**	**41.31%**	**10.62%**
Segment cost of funds (%)	**6.36%**	**7.19%**	**20.13%**	**8.03%**

	Corporate and investment banking			
	Corporate banking and securities (Global market)	**Global transaction banking**	**Infrastructure & Regional management**	**Total**
	--------(Rupees in '000)--------			
2010				
Total income	835,059	1,268,298	183,869	2,287,226
Total expenses	(180,943)	(570,702)	(251,413)	(1,003,058)
Net income (loss) before tax	654,116	697,596	(67,544)	1,284,168
Segment assets (gross)	13,452,307	3,760,519	641,322	17,854,148
Segment provision	-	(419,265)	-	(419,265)
Segment liabilities	(2,292,530)	(8,843,391)	(1,024,865)	(12,160,786)
Segment return on net assets (ROA) (%)	6.21%	33.73%	28.67%	12.81%
Segment cost of funds (%)	7.89%	6.45%	24.53%	8.25%

35. 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:

	2011	2010
	(Rupees in '000)	
Profit and loss items		
Mark-up / interest / income earned	**84**	55
Mark-up / interest / income expensed	**-**	6
Balance sheet items		
Balances with other branches	**37,850**	11,507
Borrowings from other branches	**1,233,493**	-
Interbranch deposits and other accounts	**7,859**	6,375
Deposits and other accounts		
Balance at the beginning of the year	**880**	7,674
Deposits made during the year	**2,817,645**	1,490,871
Withdrawals made during the year	**(2,818,475)**	(1,497,665)
Balance at the year end	**50**	880
Off-balance sheet items		
Interest rate swaps	**8,339,766**	7,181,447
Counter guarantees to branches	**14,234,986**	10,519,706
Forward purchase of foreign exchange	**2,586,134**	1,002,805
Forward sale of foreign exchange	**2,608,794**	1,001,620
FX Options	**26,586**	-

36. CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

36.1 Scope of Applications

The Bank currently uses Basel II framework for the Capital Assessment and Capital Adequacy purposes. Basel II Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

36.1.1 Capital Structure

The lead regulator, State Bank of Pakistan (SBP) sets and monitors capital requirements for the banks in Pakistan as a whole. With effect from 31 December 2008, the SBP has advised all banks to calculate their capital requirements on Basel II Accord under the standardised approach only.

In implementing the current capital requirements, SBP requires the Bank to maintain a prescribed total capital to total risk-weighted assets ratio. As at the year end 2011, the SBP's minimum prescribed capital adequacy ratio is 10%. The Bank's ratio is compliant with this minimum benchmark.

The Pakistan Branches of Deutsche Bank calculate requirement for market risk on its portfolio based upon the methodology provided by SBP which takes account of specific and general market risk capital charge for interest rate risk using the maturity method.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank’s regulatory capital is analysed into following tiers:

- Tier I capital: includes head office capital account, and un-remitted profit.

- Tier II capital: includes general provision not kept against identified debts.

- Tier III capital: the Bank has no eligible Tier III capital.

	2011	2010
	(Rupees in '000)	
Tier I Capital		
Assigned capital	**3,724,146**	3,667,876
Unremitted profits	**2,323,191**	1,606,542
Less: Deficit on account of revaluation of investments held in AFS category	**(11,538)**	(321)
Total Tier I Capital	**6,035,799**	5,274,097
Tier II Capital		
General provisions subject to 1.25% of Total Risk Weighted Assets	**66,727**	103,207
Total Tier II Capital	**66,727**	103,207
Total Regulatory Capital Base	**6,102,526**	5,377,304

36.2 Capital Adequacy

	Capital Requirements		**Risk Weighted Assets**	
	2011	2010	**2011**	2010
	(Rupees in '000)			
Credit Risk				
Public Sector Entities	**14,225**	15,575	**142,253**	155,745
Other sovereigns	**25,809**	28,054	**258,094**	280,536
Banks	**506,089**	970,497	**5,060,889**	9,704,973
Corporate portfolio	**1,191,148**	1,171,199	**11,911,482**	11,711,987
Retail portfolio	**1,420**	1,084	**14,197**	10,839
Residential Mortgage Finance	**8,136**	7,711	**81,362**	77,109
Investments in fixed assets	**19,901**	11,023	**199,014**	110,229
All other Risk Weighted Assets	**103,707**	187,830	**1,037,068**	1,878,299
	1,870,435	2,392,973	**18,704,359**	23,929,717
Market Risk				
Interest rate risk	**63,328**	361,277	**633,275**	3,612,773
Foreign exchange risk etc.	**13,257**	77,038	**132,573**	770,377
	76,585	438,315	**765,848**	4,383,150
Operational Risk	**386,397**	388,449	**3,863,969**	3,884,487
Total	**2,333,417**	3,219,737	**23,334,176**	32,197,354

Capital Adequacy Ratio	*Note*		**2011**	2010
Total eligible regulatory capital held	*36.1.1*	(a)	**6,102,526**	5,377,304
Total Risk Weighted Assets		(b)	**23,334,176**	32,197,354
Capital Adequacy Ratio		(a) / (b)	**26.15%**	16.70%

36.3 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	ü	ü			
Banks	ü	ü	ü	ü	ü

36.4 Credit Exposures subject to Standardised approach

Exposures	Rating Category	Amount Outstanding	Deduction CRM	Net amount
		---------------------- (Rupees in '000)	----------------------	
Corporate	1	**3,676,864**	**-**	**3,676,864**
	2	**1,265,955**	**-**	**1,265,955**
	6	**2,417**	**-**	**2,417**
Banks	1	**41,004,999**	**7,640,386**	**33,364,613**
	2,3	**4,450,798**	**-**	**4,450,798**
	4,5	**147,302**	**-**	**147,302**
Sovereigns	4	**258,094**	**-**	**258,094**
Unrated		**24,664,821**	**15,344**	**24,649,477**
		75,471,250	**7,655,730**	**67,815,520**

For the purposes of Credit Risk Mitigation under the Standardised Approach, the Bank follow the instructions laid down by the SBP vide their Circular No. 08 dated 27 June 2006 with regard to eligibility of collaterals, valuation and management. Where a transaction is secured by eligible collateral and meets the eligibility criteria and minimum requirements as laid down by the SBP, the exposure under that particular transaction is reduced by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement.

For calculation of Operational Risk Capital charge, the total capital charge is calculated as the three year average of the gross income.

37. RISK MANAGEMENT

The wide variety of our businesses requires us to identify, measure, aggregate and manage our risks effectively, and to allocate our capital among our businesses appropriately. We manage risk and capital through a framework of principles, organizational structures as well as measurement and monitoring processes that are closely aligned with the activities of our group divisions. The importance of strong risk and capital management and the continuous need to refine these practices became particularly evident during the financial market crisis. While we continuously strive to improve our risk and capital management, we may be unable to anticipate all market developments, in particular those of an extreme nature.

Risk and capital management principles

The following key principles underpin our approach to risk and capital management:

a) Our Management Board provides overall risk and capital management supervision for our Group as a whole. Our Supervisory Board regularly monitors our risk and capital profile.

b) We manage credit, market, liquidity, operational, business and reputational risks as well as our capital in a coordinated manner at all relevant levels within our organization. This also holds true for complex products which we typically manage within our framework established for trading exposures.

c) The structure of our integrated legal, risk and capital function is closely aligned with the structure of our group divisions.

d) The legal, risk and capital function is independent of our group divisions.

Risk and Capital Management Organization

Our Chief Risk Officer, who is a member of our Management Board, is responsible for our Group-wide credit, market, operational, liquidity, business, legal and reputational risk management. Additionally our Chief Risk Officer is responsible for capital management activities and heads our integrated Legal, Risk & Capital function. Two functional committees, which are both chaired by our Chief Risk Officer, are central to the Legal, Risk & Capital function.

Our Risk Executive Committee, is responsible for management and control of the aforementioned risks across our Group. To fulfil this mandate, the Risk Executive Committee is supported by subcommittees that are responsible for dedicated areas of risk management, including several policy committees and the Group Reputational Risk Committee.

The responsibilities of the Capital and Risk Committee include risk profile and capital planning, capital capacity monitoring and optimization of funding. It also supervises our non-traded market risk exposures. Multiple members of the Capital and Risk Committee are also members of the Group Investment Committee, ensuring a close link between both committees as proposals for strategic investments are analyzed by the Group Investment Committee. Depending on the size of the strategic investment it may require approval from the Group Investment Committee, the Management Board or even the Supervisory Board. The development of the strategic investments is monitored by the Group Investment Committee on a regular basis.

Dedicated legal, risk and capital are established with the mandate to:

- Ensure that the business conducted within each division is consistent with the risk appetite that the Capital and Risk Committee has set within a framework established by the Management Board;
- Formulate and implement risk and capital management policies, procedures and methodologies that are appropriate to the businesses within each division;
- Approve credit, market and liquidity risk limits;
- Conduct periodic portfolio reviews to ensure that the portfolio of risks is within acceptable parameters; and
- Develop and implement risk and capital management infrastructures and systems that are appropriate for each division.

The legal risk and capital monitoring activities are bifurcated by regions and APHO Singapore is regional hub for monitoring of legal risk and capital for Deutsche Bank AG, Pakistan operations. Pakistan liquidity management activities are looked after by the regional treasurer located in Singapore.

The heads of our Legal, Risk & Capital units, who are members of our Risk Executive Committee, are responsible for the performance of the risk management units and report directly to our Chief Risk Officer.

We also have a Group Reputational Risk Committee (GRRC) which is a permanent sub-committee of the Risk Executive Committee and is chaired by the Chief Risk Officer. The GRRC reviews and makes final determinations on all reputational risk issues, where escalation of such issues is deemed necessary by senior business and regional management, or required under other Group policies and procedures.

Our Finance and audit departments operate independently both of the Group Divisions and of the legal, risk and capital function. The role of the finance department is to help quantify and verify the risk that we assume and ensure the quality and integrity of our risk-related data. Our audit department performs risk-oriented reviews of the design and operating effectiveness of our system of internal controls.

Risk and Capital Strategy

The risk and capital strategy is developed annually through an integrated process, led by the Legal, Risk & Capital function together with the group divisions and the Finance function, ensuring Group-wide alignment of risk and performance targets.

Categories of Risk

As part of our business activities, we face a variety of risks, the most significant of which are described further below. From a regulatory perspective, we hold regulatory capital against three types of risk: credit risk, market risk and operational risk. We also calculate and monitor liquidity risk, which we manage via a separate risk management framework.

Credit Risk

Credit risk arises from all transactions where actual, contingent or potential claims against any counterparty, borrower or obligor (which we refer to collectively as “counterparties”) exist, including those claims that we plan to distribute. These transactions are typically part of our traditional non-traded lending activities (such as loans and contingent liabilities), or our direct trading activity with clients (such as OTC derivatives, FX forwards and Forward Rate Agreements).

Market Risk

Market risk arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity prices, foreign exchange rates and commodity prices), the correlations among them and their levels of volatility.

Operational Risk

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

Liquidity Risk

Liquidity risk is the risk arising from our potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs.

Reputational Risk

Within our risk management processes, we define reputational risk as the risk that publicity concerning a transaction, counterparty or business practice involving a client will negatively impact the public’s trust in our organization.

Business Risk

Business risk describes the risk we assume due to potential changes in general business conditions, such as our market environment, client behaviour and technological progress. This can affect our results if we fail to adjust quickly to these changing conditions.

Risk management tools

We use a comprehensive range of quantitative tools and metrics for monitoring and managing risks. As a matter of policy, we continually assess the appropriateness and the reliability of our quantitative tools and metrics in light of our changing risk environment.

Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories.

The most important quantitative tools and metrics we currently use to measure, manage and report our risk are Economic Capital, Expected Loss, Value-at-Risk, Stress Testing.

38. SEGMENTAL INFORMATION

Segmental Information is presented in respect of the class of business and geographical distribution of Advances, Deposits, Contingencies and Commitments.

38.1 Segments by class of business

	2011					
	Advances (gross)		**Deposits**		**Contingencies and commitments**	
	(Rupees in '000)	**(Percent)**	**(Rupees in '000)**	**(Percent)**	**(Rupees in '000)**	**(Percent)**
Textile	**296,544**	**8.75**	**22,496**	**0.20**	**172,216**	**0.38**
Chemical and pharmaceuticals	**250,824**	**7.41**	**3,083,311**	**27.73**	**778,637**	**1.74**
Cement	**2,396**	**0.07**	**2,763**	**0.02**	**559,000**	**1.25**
Footwear and Leather garments	**-**	**-**	**-**	**-**	**-**	**-**
Automobile and transportation equipment	**2,884**	**0.09**	**13,470**	**0.12**	**59,848**	**0.13**
Electronics and electrical appliances	**200,424**	**5.92**	**155,827**	**1.40**	**1,590,917**	**3.55**
Construction		**-**	**4,401**	**0.04**	**-**	**-**
Power (electricity), gas, oil water and sanitary	**896,735**	**26.47**	**466**	**0.02**	**15,859**	**0.04**
Transport, storage and communication	**-**	**-**	**439,979**	**3.96**	**-**	**-**
Financial	**-**	**-**	**8,329**	**0.07**	**38,825,846**	**86.56**
Misc. manufacturing industries	**1,370,585**	**40.46**	**1,992,667**	**17.92**	**298,853**	**0.67**
Insurance		**-**	**61**	**-**	**-**	**-**
Individuals	**251,391**	**7.42**	**519,692**	**4.67**	**-**	**-**
Others	**115,400**	**3.41**	**4,875,407**	**43.85**	**2,550,068**	**5.68**
	3,387,183	**100.00**	**11,118,869**	**100.00**	**44,851,244**	**100.00**

	2010					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)
Textile	593,325	16.19	27,984	0.46	673,472	1.61
Chemical and pharmaceuticals	187,633	5.12	1,331,700	21.95	1,009,754	2.42
Cement	53,327	1.45	2,955	0.05	197,273	0.47
Footwear and Leather garments	-	-	4	0.00	4,687	0.01
Automobile and transportation equipment	57,878	1.58	14,735	0.24	69,066	0.17
Electronics and electrical appliances	419,498	11.45	546,109	9.00	1,631,688	3.91
Construction	1,938	0.05	7,256	0.12	-	-
Power (electricity), Gas, Oil Water and Sanitary	545,306	14.88	10,442	0.17	513,665	1.23
Transport, Storage and Communication	48,531	1.32	175,333	2.89	794,298	1.90
Financial	3,400	0.09	1,398	0.02	34,979,057	83.75
Misc. manufacturing industries	1,150,117	31.38	837,674	13.81	195,562	0.47
Insurance		-	-	-	-	-
Individuals	234,764	6.41	903,305	14.89	-	-
Others	369,496	10.08	2,207,052	36.40	1,696,272	4.06
	3,665,213	100.00	6,065,947	100.00	41,764,794	100.00

38.2 Segments by sector

	2011					
	Advances (Gross)		**Deposits**		**Contingencies and Commitments**	
	(Rupees in '000)	**(Percent)**	**(Rupees in '000)**	**(Percent)**	**(Rupees in '000)**	**(Percent)**
Public / Government	**635,211**	**18.75**	**1,710**	**0.02**	**226,816**	**0.51**
Private	**2,751,972**	**81.25**	**11,117,159**	**99.98**	**44,624,428**	**99.49**
	3,387,183	**100.00**	**11,118,869**	**100.00**	**44,851,244**	**100.00**

	2010					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)
Public/ Government	634,730	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
	3,665,213	100.00	6,065,947	100.00	41,764,794	100.00

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

	2011		2010	
	Classified advances	**Specific provision held**	Classified advances	Specific provision held
	------------------------- (Rupees in '000)		**-------------------------**	
Textile	**96,511**	**96,511**	96,510	96,510
Power(electricity),gas, oil water and sanitary	**261,059**	**261,059**	265,027	265,027
Electronics and electrical appliances	**19,353**	**19,353**	-	-
	376,923	**376,923**	361,537	361,537

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

	2011		2010	
	Classified advances	**Specific provision held**	Classified advances	Specific provision held
	------------------------- (Rupees in '000)		**-------------------------**	
Public / Government	**-**	**-**	-	-
Private	**376,923**	**376,923**	361,537	361,537
	376,923	**376,923**	361,537	361,537

38.5 GEOGRAPHICAL SEGMENT ANALYSIS

These financial statements represent operations of Pakistan branches only and all assets and liabilities represents transactions entered by Pakistan branches.

38.6 Market risk

The primary objective of Market Risk Management is to ensure that our business units optimize the risk-reward relationship and do not expose the Bank to unacceptable losses outside of our risk appetite. To achieve this objective, Market Risk Management works closely together with risk takers (the business units) and other control and support groups.

We differentiate between two substantially different types of market risk:

- Trading market risk arises primarily through the market-making activities of the Corporate & Investment Bank division.

This involves taking positions in debt, equity, foreign exchange, other securities and commodities as well as in equivalent derivatives.

- Non-trading market risk in various forms:

  Interest rate risk stems from our non-trading asset and liability positions. Other non-trading market risk elements are risks arising from asset management and fund related activities as well as model risks in PBC, GTB and PWM, which are derived by stressing assumptions of client behaviour in combination with interest rate movements.

Our primary instrument to manage trading market risk is the limit setting process. Our Management Board, supported by Market Risk Management, which is part of our independent Legal, Risk & Capital function, sets Group-wide value-at-risk and economic capital limits for market risk in the trading book. Market Risk Management sub-allocates this overall limit to our group divisions and individual business areas within CIB (e.g., Global Rates, Equity, etc.) based on anticipated business plans and risk appetite. Within the individual business areas, the business heads may establish business limits by sub-allocating the Market Risk Management limit down to individual portfolios or geographical regions.

Value-at-risk and economic capital limits are used for managing all types of market risk at an overall portfolio level. In addition, Market Risk Management operates sensitivity and concentration/liquidity limits as an additional and complementary tool for managing certain portfolios or risk types.

To manage the exposures inside the limits, the risk takers apply several risk mitigating measures, most notably the use of:

- Portfolio management: Risk diversification arises in portfolios which consist of a variety of positions. Because some investments are likely to rise in value when others decline, diversification can help to lower the overall level of risk profile of a portfolio.

- Hedging: Hedging involves taking positions in related financial assets, including derivative products, such as futures, swaps and options. Hedging activities may not always provide effective mitigation against losses due to differences in the terms, specific characteristics or other basis risks that may exist between the hedge instrument and the exposure being hedged.

Value-at-risk is a quantitative measure of the potential loss (in value) of trading positions due to market movements that will not be exceeded in a defined period of time and with a defined confidence level. We continuously analyze potential weaknesses of our value-at-risk model using statistical techniques such as back-testing, but also rely on risk management experience and expert opinion. Back-testing provides an analysis of the predictive power of the value-at-risk calculations based on actual experience. A committee with participation from Market Risk Management, Market Risk Operations, Risk Analytics and Instruments, Finance and others meets on a quarterly basis to review back-testing results of our Group as a whole and on individual businesses.

Economic capital for market risk measures the amount of capital we need to absorb very severe unexpected losses arising from our exposures over the period of one year.

DB Pakistan has adopted standardized approach for market risk which is approved regulatory approach.

38.7 Foreign exchange risk

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

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 are transferred through internal trades to our Global Markets within our Corporate and Investment Bank Group Division and are thus managed on the basis of value-at-risk.

	2011				2010			
	Assets	**Liabilities and head office capital account**	**Off-balance sheet items**	**Net foreign currency exposure**	Assets	Liabilities and head office capital account	Off-balance sheet items	Net foreign currency exposure
	------(Rupees in '000)------							
Pakistan rupee	**18,061,822**	**16,470,238**	**(1,723,880)**	**(132,296)**	13,376,630	13,337,305	(728,848)	(689,523)
United States dollar	**424,674**	**1,923,161**	**1,629,662**	**131,175**	354,137	274,155	678,549	758,531
Great Britain pound	**16,998**	**34,350**	**17,304**	**(48)**	18,429	17,681	(81,599)	(80,851)
Japanese yen	**-**	**435**	**920**	**485**	55	-	-	55
Euro	**3,738,039**	**3,813,158**	**75,765**	**646**	3,682,966	3,805,740	131,994	9,220
Other currencies	**38**	**229**	**229**	**38**	2,666	2	(96)	2,568
	22,241,571	**22,241,571**	**-**	**-**	17,434,883	17,434,883	-	-

38.8 Mismatch of interest rate sensitive assets and liabilities

	2011											
	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												
Assets												
Cash and balances with treasury banks	**0.0%**	**4,590,065**	**164,601**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,425,464**
Balances with other banks	**0.0%**	**38,505**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**38,505**
Lending to financial institutions	**12.7%**	**7,640,386**	**7,640,386**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investments	**12.8%**	**5,587,411**	**823,067**	**809,311**	**670,014**	**3,036,013**	**-**	**-**	**-**	**249,006**	**-**	**-**
Advances	**11.2%**	**2,987,018**	**636,868**	**1,243,940**	**525,387**	**326,733**	**6,699**	**3,496**	**13,423**	**27,406**	**203,066**	**-**
Other assets	**0.0%**	**863,728**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**863,728**
		21,707,113	**9,264,922**	**2,053,251**	**1,195,401**	**3,362,746**	**6,699**	**3,496**	**13,423**	**276,412**	**203,066**	**5,327,697**
Liabilities												
Bills payable	**0.0%**	**238,907**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**238,907**
Borrowings from financial institutions	**12.0%**	**1,523,062**	**173,063**	**100,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,249,999**
Deposits and other accounts	**6.7%**	**11,118,869**	**3,723,798**	**3,115,558**	**818,010**	**243,330**	**-**	**-**	**-**	**-**	**-**	**3,218,173**
Other liabilities	**0.0%**	**3,263,343**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,263,343**
		16,144,181	**3,896,861**	**3,215,558**	**818,010**	**243,330**	**-**	**-**	**-**	**-**	**-**	**7,970,422**
On-balance sheet gap		**5,562,932**	**5,368,061**	**(1,162,307)**	**377,391**	**3,119,416**	**6,699**	**3,496**	**13,423**	**276,412**	**203,066**	**(2,642,725)**

Off-balance sheet financial instruments*

		Total										
Forward Purchase Contracts		**12,148,774**	**8,769,224**	**1,344,200**	**2,035,350**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Forward Sales Contracts		**(7,399,526)**	**(5,496,096)**	**(1,903,430)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cross currency swaps (notional)		**(3,903,678)**	**-**	**-**	**-**	**-**	**(3,903,678)**	**-**	**-**	**-**	**-**	**-**
Off-balance sheet gap		**845,570**	**3,273,128**	**(559,230)**	**2,035,350**	**-**	**(3,903,678)**	**-**	**-**	**-**	**-**	**-**
Total Yield / Interest Risk Sensitivity Gap			**8,641,189**	**(1,721,537)**	**2,412,741**	**3,119,416**	**(3,896,979)**	**3,496**	**13,423**	**276,412**	**203,066**	
Cumulative Yield / Interest Risk Sensitivity Gap			**8,641,189**	**6,919,652**	**9,332,393**	**12,451,809**	**8,554,830**	**8,558,326**	**8,571,749**	**8,848,161**	**9,051,227**	

**Excludes interest rate swaps, currency options and forward rate agreement.*

			2010									
	Effective yield/ interest rate	Total	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	Non-interest bearing financial instruments
		(Rupees in '000)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.0%	4,722,669	118,648	-	-	-	-	-	-	-	-	4,604,021
Balances with other banks	0.0%	37,134	-	-	-	-	-	-	-	-	-	37,134
Lending to financial institutions	12.0%	6,223,146	6,223,146	-	-	-	-	-	-	-	-	-
Investments	11.3%	2,046,309	1,461,711	584,598	-	-	-	-	-	-	-	-
Advances	13.0%	3,245,948	82,156	1,036,914	1,465,152	423,742	3,229	948	16,548	19,070	198,189	-
Other assets	-	656,484	-	-	-	-	-	-	-	-	-	656,484
		16,931,690	7,885,661	1,621,512	1,465,152	423,742	3,229	948	16,548	19,070	198,189	5,297,639
Liabilities												
Bills payable	0.0%	2,640,728	-	-	-	-	-	-	-	-	-	2,640,728
Borrowings from financial institutions	7.6%	443,891	443,891	-	-	-	-	-	-	-	-	-
Deposits and other accounts	5.3%	6,065,947	1,707,401	1,232,211	691,879	236,858	-	-	-	-	-	2,197,598
Other liabilities	0.0%	2,937,083	-	-	-	-	-	-	-	-	-	2,937,083
		12,087,649	2,151,292	1,232,211	691,879	236,858	-	-	-	-	-	7,775,409
On-balance sheet gap		4,844,041	5,734,369	389,301	773,273	186,884	3,229	948	16,548	19,070	198,189	(2,477,770)
Off-balance sheet financial instruments*												
Forward Purchase Contracts		8,596,777	6,232,727	2,364,050	-	-	-	-	-	-	-	-
Forward Sales Contracts		(3,674,497)	(3,235,447)	(439,050)	-	-	-	-	-	-	-	-
Cross currency swaps (notional)		(2,738,173)	-	-	-	-	-	-	(2,738,173)	-	-	-
Off-balance sheet gap		2,184,107	2,997,280	1,925,000	-	-	-	-	(2,738,173)	-	-	-
Total Yield / Interest Risk Sensitivity Gap			8,731,649	2,314,301	773,273	186,884	3,229	948	(2,721,625)	19,070	198,189	
Cumulative Yield / Interest Risk Sensitivity Gap			8,731,649	11,045,950	11,819,223	12,006,107	12,009,336	12,010,284	9,288,659	9,307,729	9,505,918	

38.9 Liquidity risk

Liquidity risk management safeguards the ability of the Bank to meet all payment obligations when they come due.

The Management Board defines our liquidity risk strategy, and in particular our tolerance for liquidity risk based on recommendations made by Treasury and the Capital and Risk Committee. At least once every year the Management Board review and approve the limits which are applied to measure and control liquidity risk as well as the Bank's long-term funding and issuance plan.

Our liquidity risk management framework is designed to identify, measure and manage the liquidity risk position. The framework employed are as follows:

a) 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.

b) It then covers tactical liquidity risk management dealing with the access to secured and unsecured funding sources.

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

We use stress testing and scenario analysis to evaluate the impact of sudden stress events on our liquidity position. The scenarios we apply have been based on historic events liquidity crisis case studies and 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 treasurer, and comprising all businesses and supporting functions, i.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.

38.10 Maturities of assets and liabilities

	2011									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	4,590,065	835,368	30,551	-	-	-	-	-	-	3,724,146
Balances with other banks	38,505	12,880	19,320	3,783	2,522	-	-	-	-	-
Lending to financial institutions	7,640,386	7,640,386	-	-	-	-	-	-	-	-
Investments	5,587,411	823,067	809,311	670,014	3,036,013	-	-	-	249,006	-
Advances	2,987,018	636,868	1,243,940	525,387	326,733	6,699	3,496	13,423	27,406	203,066
Operating fixed assets	199,014	-	-	-	-	-	-	199,014	-	-
Deferred tax assets	130,675	-	-	-	-	130,675	-	-	-	-
Other assets	1,068,497	176,229	272,982	279,514	191,424	145,473	-	-	-	2,875
	22,241,571	10,124,798	2,376,104	1,478,698	3,556,692	282,847	3,496	212,437	276,412	3,930,087
Liabilities										
Bills payable	238,907	37,290	55,935	87,409	58,273	-	-	-	-	-
Borrowings from financial institutions	1,523,062	669,532	844,703	5,296	3,531	-	-	-	-	-
Deposits and other accounts	11,118,869	4,509,372	4,293,922	1,570,550	745,025	-	-	-	-	-
Other liabilities	3,324,934	346,055	562,566	886,602	1,529,711	-	-	-	-	-
	16,205,772	5,562,249	5,757,126	2,549,857	2,336,540	-	-	-	-	-
Net assets	6,035,799	4,562,549	(3,381,022)	(1,071,159)	1,220,152	282,847	3,496	212,437	276,412	3,930,087
Head office capital account	3,724,146									
Reserves	-									
Un-remitted profit	2,323,191									
Deficit on revaluation of assets	(11,538)									
	6,035,799									

	2010									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	4,722,669	938,018	38,208	47,140	31,427	-	-	-	-	3,667,876
Balances with other banks	37,134	10,204	15,307	6,974	4,649	-	-	-	-	-
Lending to financial institutions	6,223,146	6,223,146	-	-	-	-	-	-	-	-
Investments	2,046,309	1,461,711	584,598	-	-	-	-	-	-	-
Advances	3,245,948	82,156	1,036,914	1,465,152	423,742	3,229	948	16,548	19,070	198,189
Operating fixed assets	110,230	-	-	-	-	-	-	110,230	-	-
Deferred tax assets	150,725	-	-	-	-	150,725	-	-	-	-
Other assets	898,722	179,712	274,668	144,077	103,487	188,772	5,599	-	-	2,407
	17,434,883	8,894,947	1,949,695	1,663,343	563,305	342,726	6,547	126,778	19,070	3,868,472
Liabilities										
Bills payable	2,640,728	989,598	1,484,397	100,040	66,693	-	-	-	-	-
Borrowings from financial institutions	443,891	443,000	-	-	891	-	-	-	-	-
Deposits and other accounts	6,065,947	2,127,393	1,862,199	1,380,450	695,905	-	-	-	-	-
Other liabilities	3,010,220	633,623	995,913	354,338	1,026,346	-	-	-	-	-
	12,160,786	4,193,614	4,342,509	1,834,828	1,789,835	-	-	-	-	-
Net assets	5,274,097	4,701,333	(2,392,814)	(171,485)	(1,226,530)	342,726	6,547	126,778	19,070	3,868,472

Head office capital account	3,667,876
Reserves	-
Un-remitted profit	1,606,542
Deficit on revaluation of assets	(321)
	5,274,097

During the year the Bank has changed the basis of computation of maturity of assets and liabilities to comply with BSD Circular Letter No. 03 of 2011, issued by SBP, which requires that assets and liabilities with stated maturities should be reported as per their remaining maturities, whereas, assets and liabilities which do not have any contractual maturities should be reported as per their "expected maturities" calculated on the basis of an objective and systematic behavioural study approved by ALCO committee.

38.11 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 relationship. This definition includes legal and regulatory risk, but excludes business and reputational risk.

The Head of Operational Risk & Business Continuity Management chairs the Operational Risk Management Committee, which is a permanent sub-committee of the Risk Executive Committee and is composed of the operational risk officers from our business divisions and our infrastructure functions. It is the main decision making committee for all operational risk management matters.

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 systematically identify operational risk themes and concentrations 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. We buy insurance in order to protect ourselves against unexpected and substantial unforeseeable losses.

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.

As required by State Bank of Pakistan regulations, DB in Pakistan employs the Basic Indicator Approach (BIA) for 2010.

39. GENERAL

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 1 January 2012:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset’s economic benefits over the life of the asset. The amendment has no impact on financial statements of the Bank.

- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendment has no impact on financial statements of the Bank.

- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendment has no impact on financial statements of the Bank.

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendment has no impact on financial statements of the Bank.

- (Amendments to IAS 1) Presentation of Items of Other Comprehensive Income - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendment has no impact on financial statements of the Bank.

- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendment has no impact on financial statements of the Bank.

40. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 28-Mar-12

41. GENERAL

41.1 Figures have been rounded off to the nearest thousand rupees unless otherwise stated.

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

Faizan Mitha **Managing Director &** **Chief Country Officer** **Pakistan**	**Mahmood A. Qureshi** **Chief Operating Officer** **& Chief Financial Officer** **Pakistan**