Deutsche Bank AG, Pakistan Branches

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

Statement of Financial Position

As at 31 December 2012

	Note	**2012**	2011
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	*7*	**5,630,489**	4,590,065
Balances with other banks	*8*	**2,058,913**	38,505
Lendings to financial institutions	*9*	**7,414,392**	7,640,386
Investments	*10*	**7,747,304**	5,587,411
Advances	*11*	**3,979,514**	2,987,018
Operating fixed assets	*12*	**351,955**	199,014
Deferred tax assets - net	*13*	**74,271**	130,675
Other assets	*14*	**1,691,726**	1,068,497
		28,948,564	22,241,571
LIABILITIES			
Bills payable	*15*	**297,362**	238,907
Borrowings from financial institutions	*16*	**317,883**	1,523,062
Deposits and other accounts	*17*	**18,354,233**	11,118,869
Sub-ordinated loans		**-**	-
Liabilities against assets subject to finance lease		**-**	-
Deferred tax liabilities		**-**	-
Other liabilities	*18*	**4,017,622**	3,324,934
		22,987,100	16,205,772
NET ASSETS		**5,961,464**	6,035,799
REPRESENTED BY			
Head office capital account	*19*	**4,115,584**	3,724,146
Reserves		**-**	-
Un-remitted profit		**1,855,437**	2,323,191
		5,971,021	6,047,337
Deficit on revaluation of assets - net of tax	*20*	**(9,557)**	(11,538)
		5,961,464	6,035,799
Contingencies and commitments	*21*		

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

Faizan Mitha	**Mahmood A. Qureshi**
Managing Director &	**Chief Operating Officer**
Chief Country Officer	**& Chief Financial Officer**
Pakistan	**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 2012

	Note	2012	2011
		(Rupees in '000)	
Mark-up / return / interest earned	*23*	**1,969,771**	1,679,978
Mark-up / return / interest expensed	*24*	**(868,297)**	(556,558)
Net mark-up / interest income		**1,101,474**	1,123,420
Reversal / (provision) against non-performing advances	*11.3*	**10,481**	19,100
Reversal of provision against off-balance sheet obligations	*18.1*	**21,966**	1,994
Provision for diminution in the value of investments		**-**	-
Bad debts written off directly		**-**	-
		32,447	21,094
Net mark-up / interest income after provisions		**1,133,921**	1,144,514
NON MARK-UP / NON INTEREST INCOME			
Fee, commission and brokerage income		**296,268**	304,900
Dividend income		**-**	-
Income from dealing in foreign currencies and derivatives	*25*	**281,006**	427,998
Gain / (loss) on sale of Government securities		**10,397**	(10,004)
Unrealized gain / (loss) on revaluation of investments classified as held for trading		**-**	-
Other income	*26*	**611**	2,461
Total non mark-up / non interest income		**588,282**	725,355
		1,722,203	1,869,869
NON MARK-UP / NON INTEREST EXPENSES			
Administrative expenses	*27*	**(1,170,880)**	(759,389)
Reversal / (Provision) against other assets	*14.3*	**7,011**	(6,553)
Other charges	*28*	**(7,621)**	(132)
Total non mark-up / non interest expenses		**(1,171,490)**	(766,074)
		550,713	1,103,795
Extra-ordinary / unusual items		**-**	-
PROFIT BEFORE TAXATION		**550,713**	1,103,795
Taxation - current		**(137,353)**	(374,000)
- prior years		**-**	-
- deferred		**(62,533)**	(21,559)
	29	**(199,886)**	(395,559)
PROFIT AFTER TAXATION		**350,827**	708,236

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)

Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	**2012**	2011
		(Rupees in '000)	
Profit for the year		**350,827**	708,236
Other comprehensive income:			
Actuarial (Loss) / Gain on defined benefit plans		**(20,561)**	12,943
Related deferred tax		**7,196**	(4,530)
		(13,365)	8,413
Exchange adjustment on account of revaluation of capital		**391,438**	56,270
Total comprehensive income for the year		**728,900**	772,919

Surplus / deficit on revaluation of 'Available for Sale' securities is presented under a separate head below equity as "Surplus / deficit on revaluation of assets" 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.

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)

Statement of Changes in Equity

For the year ended 31 December 2012

	Head office capital account	**Un-remitted profit**	**Total**
	(Rupees in '000)		
Balance as at 01 January 2011	3,667,876	1,606,542	5,274,418
Transactions with owners, recorded directly in equity:			
Remittance made to head office	-	-	-
Total 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
Changes in equity 2012:			
Transactions with owners, recorded directly in equity:			
Remittance made to head office	-	(805,216)	(805,216)
Comprehensive income for the year:			
Profit for the year	-	350,827	350,827
Other comprehensive income:			
Actuarial loss on defined benefit plan - net of tax	-	(13,365)	(13,365)
Exchange adjustment on revaluation of head office capital account	391,438	-	391,438
	391,438	337,462	728,900
Balance as at 31 December 2012	**4,115,584**	**1,855,437**	**5,971,021**

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)

Cash Flow Statement

For the year ended 31 December 2012

	Note	**2012**	2011
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		**550,713**	1,103,795
Adjustments for:			
Depreciation		**37,982**	35,714
(Reversal) / Provision against non-performing advances		**(10,481)**	(19,100)
Reversal against off-balance sheet obligation		**(21,966)**	(1,994)
Provision / (Reversal) against other assets		**(7,011)**	6,553
(Gain) / loss on sale of Government securities		**(10,397)**	10,004
Charge for defined benefit plan		**18,157**	16,784
Loss / (gain) on sale of operating fixed assets		**94**	(2,082)
Bad debts written off directly		**-**	-
		6,378	45,879
		557,091	1,149,674
(Increase) / decrease in operating assets			
Lendings to financial institutions		**225,994**	(1,417,240)
Advances		**(982,013)**	278,030
Others assets (excluding advance taxation)		**29,482**	(205,922)
		(726,537)	(1,345,132)
Increase / (decrease) in operating liabilities			
Bills payable		**58,455**	(2,401,821)
Borrowings from financial institutions		**(1,205,179)**	1,079,171
Deposits and other accounts		**7,235,364**	5,052,922
Other liabilities		**692,602**	327,970
		6,781,242	4,058,242
		6,611,796	3,862,784
Contributions made to defined benefit plan		**(16,666)**	(15,104)
Income tax paid		**(783,053)**	(344,405)
Net cash used in operating activities		**5,812,077**	3,503,275
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale investments		**(2,146,450)**	(3,568,362)
Purchase of operating fixed assets		**(197,357)**	(130,399)
Sale proceeds on disposal of operating fixed assets		**6,340**	7,983
Net cash generated from investing activities		**(2,337,467)**	(3,690,778)
CASH FLOW FROM FINANCING ACTIVITIES			
Remittance made to head office		**(805,216)**	-
Net cash used in financing activities		**(805,216)**	-
Effects of exchange rate changes on cash and cash equivalents		**391,438**	56,270
(Decrease) / increase in cash and cash equivalents		**3,060,832**	(131,233)
Cash and cash equivalents at beginning of the year		**4,628,570**	4,759,803
Cash and cash equivalents at end of the year	*30*	**7,689,402**	4,628,570

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

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 in Pakistan 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 utilized 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 December 2012 for Deutsche Bank AG is A+ for the long term and A-1 for the short term, rating done by Moody's in February 2013 is A2 for the long term and P-1 for the short term and rating done by Fitch in February 2013 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 judgments, 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 judgments 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 recognized 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 judgments in applying accounting policies that have the most significant effect on the amounts recognized 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 and are enumerated as follows:

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 recognized outside the profit and loss account 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 statement of financial position 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 realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the statement of financial position date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

6.4 Advances

Advances are stated net of specific and general provision against loan losses. Specific provision is made for non-performing advances to reduce book value of such advances to their expected realizable 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 securities are with fixed and determinable payments and fixed maturity which are acquired with the intention and ability to hold them up to maturity. These are carried at amortized 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 recognized at the trade date, which is the date the bank commits to purchase or sell the investments.

Trading securities are initially recognized at fair value which also includes the transaction cost associated with the investment and are subsequently carried at their market values and related realized and unrealized gains and losses are included in trading revenues.

AFS securities are initially recognized at fair value which also includes the transaction cost associated with the investment and are subsequently 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 statement of financial position.

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 recognized. The amounts paid are recognized in lendings to financial institutions. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the statement of financial position 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 recognized 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 other than capital work-in-progress, are stated at cost less accumulated depreciation and impairment losses (if any). Capital work-in-progress is stated at cost.

Subsequent costs are included in the assets carrying amounts or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repair and maintenances are charged to profit and loss account.

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

6.9 Derivative financial instruments

Derivative financial instruments are initially recognized 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 statement of financial position 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.

Contingent liabilities / commitments for letter of credit and letter of guarantee denominated in foreign currencies are expressed in Rupee terms at the exchange rates prevailing at the statement of financial position date.

Exchange gains and losses are included in income, except for exchange gain / loss on foreign currency capital account, which is recognized as the appreciation / diminution of the Head Office capital account.

6.11 Impairment

The carrying amount of assets other than deferred tax assets, are reviewed at each statement of financial position 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 recognized 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 statement of financial position date and are adjusted to reflect the current best estimate.

7. CASH AND BALANCES WITH TREASURY BANKS

	Note	**2012**	2011
		(Rupees in '000)	
In hand:			
Local currency		**53,885**	31,516
Foreign currency		**44,586**	36,968
With State Bank of Pakistan in:			
Local currency current account	*7.1*	**1,090,951**	539,341
Foreign currency deposit account			
Cash reserve account	*7.2*	**79,177**	60,263
Special cash reserve account	*7.3*	**237,045**	164,601
Local US Dollar collection account	*7.4*	**9,261**	33,230
Foreign currency capital account	*19*	**4,115,584**	3,724,146
		5,630,489	4,590,065

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 mobilized under FE 25 Circular issued by the SBP at Nil return (2011: 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 (2011: Nil).

8. BALANCES WITH OTHER BANKS

		2012	2011
		(Rupees in '000)	
In Pakistan			
Current account		**141,580**	645
Outside Pakistan			
Current account			
- Inter branch		**31,362**	37,850
- Others	*8.1*	**1,885,971**	10
		2,058,913	38,505

8.1 This includes balance with a subsidiary of Deutsche Bank, AG.

9. LENDINGS TO FINANCIAL INSTITUTIONS

Repurchase agreement lendings (Reverse Repo)	*9.1*	**7,414,392**	7,640,386

9.1 Reverse repo transactions have been made with various commercial banks at rates ranging from 6.50% p.a to 9.25% p.a (2011: 11.25% p.a to 11.85% p.a) and mature within a month. The market value of these securities at 31 December 2012 amounted to Rs. 7,498 million (2011: Rs. 7,921 million).

9.2 Particulars of Lendings

	2012	2011
	(Rupees in '000)	
In local currency	**7,414,392**	7,640,386

9.3 Securities held as collateral against lendings to financial institutions

	2012			2011		
	Held by Bank	**Further given as collateral**	**Total**	Held by Bank	Further given as collateral	Total
	----------	----------	----------(Rupees in '000)	----------	----------	----------
Market Treasury Bills	**7,414,392**	**-**	**7,414,392**	7,640,386	-	7,640,386

		2012			2011		
10. INVESTMENTS		**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*	**7,251,080**	**-**	**7,251,080**	5,356,156	-	5,356,156
Pakistan Investment Bonds	*10.4*	**510,927**	**-**	**510,927**	249,006	-	249,006
Investments at cost		**7,762,007**	**-**	**7,762,007**	5,605,162	-	5,605,162
Deficit on revaluation of available-for-sale securities	*20*	**(14,703)**	**-**	**(14,703)**	(17,751)	-	(17,751)
Total investments at market value	*10.2*	**7,747,304**	**-**	**7,747,304**	5,587,411	-	5,587,411

10.2 Investments by segment:

	2012	2011
	(Rupees in '000)	
Federal Government securities		
Market Treasury Bills	**7,251,080**	5,356,156
Pakistan Investment Bonds	**510,927**	249,006
Total investments	**7,762,007**	5,605,162
Deficit on revaluation of available-for-sale securities	**(14,703)**	(17,751)
Total investments at market value	**7,747,304**	5,587,411

10.3 The Market Treasury Bills carry a rate ranging from 9.11% p.a to 9.61% p.a (2011: 11.77% to 12.75% p.a) and having maturity within one month to one year.

10.4 The Pakistan Investment Bonds carry a rate ranging from 10.15% p.a to 11.02% p.a (2011: 11.95% p.a to 12.12% p.a) and having maturity of 10 years.

11. ADVANCES

		2012	2011
		(Rupees in '000)	
Loans, cash credits, running finances, etc. - in Pakistan		**3,180,915**	2,118,717
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		**1,122,657**	1,202,840
Payable outside Pakistan		**65,626**	65,626
		1,188,283	1,268,466
Advances - gross		**4,369,198**	3,387,183
Provision for non-performing advances	*11.3*	**(389,684)**	(400,165)
Advances - net of provision		**3,979,514**	2,987,018

11.1 Particulars of advances - gross

	2012	2011
	(Rupees in '000)	
In local currency	**4,303,572**	3,321,557
In foreign currencies	**65,626**	65,626
	4,369,198	3,387,183
Short term (for up to one year)	**3,754,862**	2,732,929
Long term (for over one year)	**614,336**	654,254
	4,369,198	3,387,183

11.2 Advances include Rs. 357.570 million (2011: Rs. 376.923 million) which have been placed under non-performing status as detailed below:

	2012			2011		
	Classified advances domestic	**Provision required**	**Provision held**	Classified advances domestic	Provision required	Provision held
	(Rupees in '000)					
Category of Classification						
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	**357,570**	**357,570**	**357,570**	376,923	376,923	376,923
	357,570	**357,570**	**357,570**	376,923	376,923	376,923

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

	2012			2011		
	Specific	**General**	**Total**	Specific	General	Total
	(Rupees in '000)					
Opening balance	**376,923**	**23,242**	**400,165**	361,537	57,728	419,265
Charge for the year	**-**	**8,872**	**8,872**	21,769	-	21,769
Reversals / recoveries	**(19,353)**	**-**	**(19,353)**	(6,383)	(34,486)	(40,869)
	(19,353)	**8,872**	**(10,481)**	15,386	(34,486)	(19,100)
Closing balance	**357,570**	**32,114**	**389,684**	376,923	23,242	400,165

11.4 General provision represents amount recognized 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	2012	2011
		(Rupees in '000)	
Balance at beginning of year		**251,392**	234,762
Loans granted during the year		**32,925**	89,899
Repayments		**(58,521)**	(73,269)
Balance at end of year		**225,796**	251,392

11.5.1 This represents 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*	**70,116**	105,587
Property and equipment	*12.2*	**281,839**	93,427
		351,955	199,014

12.1 Capital work-in-progress

Civil works	**38,032**	34,296
Advance to suppliers and contractors	**22,972**	5,875
Advance against purchase of vehicle	**8,608**	11,397
Consultancy fee and other charges	**504**	54,019
	70,116	105,587

12.2 Property and equipments

	2012									
	COST				DEPRECIATION					
	Balance at 1 January 2012	Additions	Disposal	Balance at 31 December 2012	Balance at 1 January 2012	Charge for the year	Disposal	Balance at 31 December 2012	Book value at 31 December 2012	Rate of depreciation %
	(Rupees in '000)									
Owned										
Improvements on lease hold buildings	52,960	166,890	(7,524)	212,326	33,749	7,243	(5,359)	35,633	176,693	*10-20*
Furniture and fixtures	10,926	6,578	(2,047)	15,457	8,674	1,198	(1,962)	7,910	7,547	*20-33*
Electrical, office and computer equipments	90,138	34,476	(12,180)	112,434	70,775	11,536	(12,146)	70,165	42,269	*20-50*
Vehicles	80,629	24,884	(8,692)	96,821	28,028	18,005	(4,542)	41,491	55,330	*20*
	234,653	**232,828**	**(30,443)**	**437,038**	**141,226**	**37,982**	**(24,009)**	**155,199**	**281,839**	

	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**	

12.3 Included in cost of property and equipment are fully depreciated items, still in use, having cost of Rs. 65.180 million (2011: Rs.63.322 million).

12.4 Disposal include items having cost of Rs. 12.352 million (2011: Rs. 0.246 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)---------					
Desktop PC	56	-	6	Bank Policy	Sajjad-uz Zaman	Employee
Honda Civic	1,167	156	467	Bank Policy	Lubna Ashraf	Ex-Employee
Keyboard, mouse & LCD Monitor	23	-	2	Bank Policy	Sajjad-uz Zaman	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Salahuddin	Employee
Keyboard, mouse & LCD Monitor	49	-	5	Bank Policy	Syed Razi	Employee
LCD Monitor	23	-	2	Bank Policy	Salahuddin	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Miss Syda Ghani	Employee
LCD Monitor	19	-	2	Bank Policy	Miss Syda Ghani	Employee
Honda Civic	1,774	325	709	Bank Policy	Asim Mustafa	Ex-Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Mahmood Hussain	Employee
LCD Monitor	23	-	2	Bank Policy	Mahmood Hussain	Employee
Laptop	94	-	9	Bank Policy	Imran Zakaria	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Asim Amin	Employee
Carry case	6	-	1	Bank Policy	Imran Zakaria	Employee
LCD Monitor	19	-	2	Bank Policy	Asim Amin	Employee
Keyboard	2	-	-	Bank Policy	Imran Zakaria	Employee
LCD Monitor	17	-	2	Bank Policy	Syed Razi	Employee
Mouse	1	-	-	Bank Policy	Imran Zakaria	Employee
Toyota Corolla	1,591	1,379	1,505	Highest Bid	khalid Rabbani	Employee
Docking Station	7	-	1	Bank Policy	Imran Zakaria	Employee
LCD Monitor	23	-	2	Bank Policy	Imran Zakaria	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Faisal Manzoor	Employee
LCD Monitor	23	-	2	Bank Policy	Faisal Manzoor	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Atif Waheed	Employee
LCD Monitor	23	-	2	Bank Policy	Atif Waheed	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Rehan Hafeez	Employee
LCD Monitor	23	-	2	Bank Policy	Rehan Hafeez	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Harris Ghani	Employee
LCD Monitor	23	-	2	Bank Policy	Harris Ghani	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Mohammad Sayed	Employee
LCD Monitor	23	-	2	Bank Policy	Mohammad Sayed	Employee
Toyota Corolla	1,384	853	872	Bank Policy	Savio Fernandes	Ex-Employee
Honda City	1,359	770	802	Bank Policy	Shahnawaz Ahmed	Ex-Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Ehtisham Ali	Employee
LCD Monitor	23	-	2	Bank Policy	Mohammad Khalid	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Mohammad Khalid	Employee
LCD Monitor	23	-	2	Bank Policy	Mohammad Khalid	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Muhammad Ahsan	Employee
LCD Monitor	23	-	2	Bank Policy	Muhammad Ahsan	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Iqtidar Hussain	Employee
LCD Monitor	23	-	2	Bank Policy	Iqtidar Hussain	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Azhar Mahmood	Employee
LCD Monitor	23	-	2	Bank Policy	Azhar Mahmood	Employee
Laptop	94	-	9	Bank Policy	Hasan Raza	Employee
Carrycase	6	-	1	Bank Policy	Hasan Raza	Employee
Keyboard	2	-	-	Bank Policy	Hasan Raza	Employee
Mouse	1	-	-	Bank Policy	Hasan Raza	Employee
Docking station	7	-	1	Bank Policy	Hasan Raza	Employee
LCD Monitor	23	-	2	Bank Policy	Hasan Raza	Employee
Desktop, keyboard & mouse	158	-	16	Bank Policy	Salma Perveen	Employee
LCD Monitor	23	-	2	Bank Policy	Salma Perveen	Employee
Desktop, keyboard & mouse	158	-	16	Bank Policy	Azhar Iqbal	Employee
LCD Monitor	23	-	2	Bank Policy	Azhar Iqbal	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Hammad Izz-Hamid	Employee
LCD Monitor	23	-	2	Bank Policy	Hammad Izz-Hamid	Employee
Laptop	94	-	9	Bank Policy	Shahnawaz Ahmed	Ex-Employee
Carrycase	6	-	1	Bank Policy	Shahnawaz Ahmed	Ex-Employee
Keyboard	2	-	-	Bank Policy	Shahnawaz Ahmed	Ex-Employee
Mouse	1	-	-	Bank Policy	Shahnawaz Ahmed	Ex-Employee
Docking station	7	-	1	Bank Policy	Shahnawaz Ahmed	Ex-Employee
LCD Monitor	23	-	2	Bank Policy	Shahnawaz Ahmed	Ex-Employee
Mobile Phone	20	11	16	Bank Policy	Inurance Claim	Employee
Laptop	94	-	9	Bank Policy	Saphrina Coelho	Employee
Carry case	6	-	1	Bank Policy	Saphrina Coelho	Employee
Key board	2	-	-	Bank Policy	Saphrina Coelho	Employee
Mouse	1	-	-	Bank Policy	Saphrina Coelho	Employee
Port replicator	7	-	1	Bank Policy	Saphrina Coelho	Employee
LCD Monitor	23	-	2	Bank Policy	Saphrina Coelho	Employee
Laptop	94	-	9	Bank Policy	Shahbaz Ahmed	Employee
Carry case	6	-	1	Bank Policy	Shahbaz Ahmed	Employee
Key board	2	-	-	Bank Policy	Shahbaz Ahmed	Employee

Description	Cost	Book value	Sale proceeds	Mode of disposal	Purchaser	Particulars / address
	---------(Rupees in '000)---------					
Mouse	1	-	-	Bank Policy	Shahbaz Ahmed	Employee
Port replicator	7	-	1	Bank Policy	Shahbaz Ahmed	Employee
LCD Monitor	23	-	2	Bank Policy	Shahbaz Ahmed	Employee
Battery	16	-	2	Bank Policy	Shahbaz Ahmed	Employee
LCD Monitor	23	-	2	Bank Policy	Mohammad Hanif	Employee
Desktop, Keyboard & Mouse	60	-	6	Bank Policy	Mohammad Hanif	Employee
Laptop	94	-	9	Bank Policy	Waseem Iqbal	Employee
Carry case	6	-	1	Bank Policy	Waseem Iqbal	Employee
Key board	2	-	-	Bank Policy	Waseem Iqbal	Employee
Mouse	1	-	-	Bank Policy	Waseem Iqbal	Employee
Docking Station	7	-	1	Bank Policy	Waseem Iqbal	Employee
LCD Monitor	23	-	2	Bank Policy	Waseem Iqbal	Employee
Battery	16	-	2	Bank Policy	Waseem Iqbal	Employee
LCD Monitor	23	-	2	Bank Policy	Nauman Aqeel	Employee
Desktop, keyboard & mouse	60	-	6	Bank Policy	Nauman Aqeel	Employee
LCD Monitor	23	-	2	Bank Policy	Muhammad Bilal	Employee
Desktop, keyboard & mouse	60	-	6	Bank Policy	Muhammad Bilal	Employee
LCD Monitor	23	-	2	Bank Policy	Sajid Ahmed	Employee
Desktop, keyboard & mouse	60	-	6	Bank Policy	Sajid Ahmed	Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Faraz Anwer	Employee
LCD Monitor	23	-	2	Bank Policy	Faraz Anwer	Employee
LCD Monitor	19	-	2	Bank Policy	Uzair Hafeez	Employee
Desktop, keyboard & mouse	60	-	6	Bank Policy	Uzair Hafeez	Employee
Laptop	94	-	9	Bank Policy	Zulfiqar Anwer	Employee
Carry case	6	-	1	Bank Policy	Zulfiqar Anwer	Employee
Key board	2	-	-	Bank Policy	Zulfiqar Anwer	Employee
Mouse	1	-	-	Bank Policy	Zulfiqar Anwer	Employee
Dock Station	7	-	1	Bank Policy	Zulfiqar Anwer	Employee
LCD Monitor	23	-	2	Bank Policy	Zulfiqar Anwer	Employee
LCD Monitor	23	-	2	Bank Policy	Raheel ahmed	Employee
Desktop, keyboard & mouse	60	-	6	Bank Policy	Raheel ahmed	Employee
Laptop	93	-	9	Bank Policy	Naveed Aslam	Employee
LCD,keyboard,mouse,carrycase	7	-	1	Bank Policy	Naveed Aslam	Employee
LCD,keyboard,mouse,carrycase	9	-	1	Bank Policy	Naveed Aslam	Employee
LCD,keyboard,mouse,carrycase	3	-	2	Bank Policy	Naveed Aslam	Employee
LCD,keyboard,mouse,carrycase	3	-	-	Bank Policy	Naveed Aslam	Employee
LCD,keyboard,mouse,carrycase	1	-	-	Bank Policy	Naveed Aslam	Employee
Laptop,keyboard,mouse&LCD	94	-	10	Bank Policy	Faisal Zahid	Employee
Laptop,keyboard,mouse&LCD	6	-	1	Bank Policy	Faisal Zahid	Employee
Laptop,keyboard,mouse&LCD	2	-	-	Bank Policy	Faisal Zahid	Employee
Laptop,keyboard,mouse&LCD	1	-	-	Bank Policy	Faisal Zahid	Employee
Laptop,keyboard,mouse&LCD	7	-	1	Bank Policy	Faisal Zahid	Employee
Laptop,keyboard,mouse&LCD	19	-	2	Bank Policy	Faisal Zahid	Employee
Laptop,keyboard,mouse&LCD	16	-	2	Bank Policy	Faisal Zahid	Employee
Honda Motorcycle	58	10	23	Bank Policy	Atta Muhammad	Employee
Honda City	1,359	657	747	Bank Policy	Amer Habib	Ex-Employee
Desktop, keyboard & mouse	56	-	6	Bank Policy	Wajahat Kazmi	Employee
LCD Monitor	23	-	2	Bank Policy	Wajahat Kazmi	Employee
Laptop,keyboard,mouse&LCD	115	-	11	Bank Policy	Shahzad Ajmery	Employee
Laptop,keyboard,mouse&LCD	9	-	1	Bank Policy	Shahzad Ajmery	Employee
Laptop,keyboard,mouse&LCD	3	-	-	Bank Policy	Shahzad Ajmery	Employee
Laptop,keyboard,mouse&LCD	2	-	-	Bank Policy	Shahzad Ajmery	Employee
Laptop,keyboard,mouse&LCD	14	-	1	Bank Policy	Shahzad Ajmery	Employee
Laptop,keyboard,mouse&LCD	19	-	2	Bank Policy	Shahzad Ajmery	Employee
Laptop,keyboard,mouse&LCD	3	-	-	Bank Policy	Shahzad Ajmery	Employee
	12,444	4,161	5,518			

13. DEFERRED TAX ASSETS

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

	2012			
	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	**6,212**	**-**	**(1,067)**	**5,145**
Actuarial gains and losses	**13,224**	**-**	**7,196**	**20,420**
Provision for advances	**117,186**	**(26,648)**	**-**	**90,538**
Difference between accounting book value of operating fixed assets and its tax base	**(5,947)**	**(35,885)**	**-**	**(41,832)**
	130,675	**(62,533)**	**6,129**	**74,271**

	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

14. OTHER ASSETS

	Note	**2012**	2011
		(Rupees in '000)	
Income / mark-up accrued in local currency		**215,213**	185,132
Income / mark-up accrued in foreign currency		**14,935**	11,196
Advances, deposits, advance rent and other prepayments		**233,595**	65,273
Advance taxation (payments less provisions)		**785,195**	139,495
Branch adjustment account		**-**	45
Unrealized gain on forward foreign exchange contracts	*14.1*	**9,174**	128,574
Unrealized gain on interest rate swaps	*14.2*	**437,850**	537,864
Others		**1,093**	13,258
		1,697,055	1,080,837
Less: Provision held against other assets	*14.3*	**(5,329)**	(12,340)
Other assets (net of provision)		**1,691,726**	1,068,497

14.1 Unrealized gain on forward foreign exchange contracts value is net of general counterparties specific reserves of Rs. 0.108 million (2011: Rs.1.920 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. 13.788 million (2011: Rs. 49.876 million) in accordance with the head office instructions.

14.3 Provision against other assets

	Note	2012	2011
		(Rupees in '000)	
Opening balance		**12,340**	5,787
Charge for the year		**-**	6,973
Reversals		**(7,011)**	(420)
		(7,011)	6,553
Closing balance		**5,329**	12,340

15. BILLS PAYABLE

	2012	2011
In Pakistan	**297,362**	238,907

16. BORROWINGS FROM FINANCIAL INSTITUTIONS

	2012	2011
In Pakistan	**317,544**	289,340
Outside Pakistan	**339**	1,233,722
	317,883	1,523,062

16.1 Particulars of borrowings with respect to currencies

	2012	2011
In local currency	**317,544**	289,340
In foreign currencies	**339**	1,233,722
	317,883	1,523,062

16.2 Details of borrowings secured / unsecured

	Note	2012	2011
Secured			
Borrowings from the State Bank of Pakistan under export refinance scheme	*16.2.1*	**300,000**	173,063
Unsecured			
Call Borrowing	*16.2.2*	**-**	100,000
Overdrawn nostro accounts - Interbranch and a subsidiary of Deutsche Bank, AG		**339**	1,233,493
Others	*16.2.3*	**17,544**	16,506
		17,883	1,349,999
		317,883	1,523,062

16.2.1 These borrowings carry mark-up at rate of 8.50% p.a (2011: 10.00% 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 Nil (2011: 13.10%).

16.2.3 This is overnight borrowing from commercial banks.

17. DEPOSITS AND OTHER ACCOUNTS

	Note	2012	2011
		(Rupees in '000)	
Customers			
Fixed deposits		**9,996,437**	6,682,477
Savings deposits		**4,975,232**	1,218,219
Current accounts - non-remunerative		**3,351,476**	3,170,387
Others		**22,862**	39,522
		18,346,007	11,110,605
Financial institutions			
Non-remunerative deposits			
- interbranch		**7,997**	7,859
- others		**229**	405
		8,226	8,264
		18,354,233	11,118,869

17.1 Particulars of deposits

		2012	2011
In local currency		**17,479,356**	10,294,189
In foreign currencies		**874,877**	824,680
		18,354,233	11,118,869

18. OTHER LIABILITIES

	Note	2012	2011
Mark-up / return / interest payable in local currency		**101,793**	92,601
Mark-up / return / interest payable in foreign currency		**22**	28
Unearned commission and income on bills discounted		**13,782**	18,105
Accrued expenses		**136,895**	123,139
Unrealized loss on forward foreign exchange contracts		**523**	79,657
Unrealized loss on interest rate and cross currency swaps		**1,966,533**	1,730,451
Amount due to head office and branches		**16,686**	-
Unremitted head office expenses		**1,459,054**	938,644
Payable to defined benefit plan	*32.6*	**50,672**	28,620
Provision against off-balance sheet obligations - general	*18.1*	**21,519**	43,485
Workers Welfare Fund payable		**109,157**	97,918
Others		**140,986**	172,286
		4,017,622	3,324,934

18.1 Provision against off-balance sheet obligations

		2012	2011
Opening balance		**43,485**	45,479
Reversal for the year		**(21,966)**	(1,994)
Closing balance		**21,519**	43,485

19. HEAD OFFICE CAPITAL ACCOUNT

Capital held as interest free deposit in approved foreign exchange.

		2012	2011
i) Remitted from head office Euro 32,048,165 (2011: Euro 32,048,165)		**3,724,146**	3,667,876
ii) Revaluation advised by the State Bank of Pakistan during the year		**391,438**	56,270
		4,115,584	3,724,146

20. DEFICIT ON REVALUATION OF ASSETS - NET OF TAX

	2012	2011
	(Rupees in '000)	
Federal Government securities	**(14,703)**	(17,750)
Related deferred tax	**5,146**	6,212
	(9,557)	(11,538)

21. CONTINGENCIES AND COMMITMENTS

21.1 Transaction-related contingent liabilities

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

	2012	2011
	(Rupees in '000)	
i) Government	**13,045,354**	9,878,099
ii) Banking companies and other financial institutions	**28,287**	52,487
iii) Others	**14,440,758**	30,875,763

21.2 Trade-related contingent liabilities

Acceptances	**1,202,680**	1,263,703
Letters of credit	**2,152,774**	2,781,192

21.3 Commitments in respect of forward lending

Forward repurchase agreement lending (Reverse repo)	**7,414,392**	7,640,386
Commitments to extend credit	**14,923,919**	14,003,786

21.4 Commitments in respect of forward exchange contracts

Purchase:		
- from the State Bank of Pakistan	**-**	-
- from others	**4,431,160**	12,148,774
Sale:		
- to others	**2,657,025**	7,399,526

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

21.5 Cheques in clearing	**3,395,601**	840,931
21.6 Capital expenditures commitments	**-**	81,069

21.7 Other contingencies

21.7.1 Appeals for various assessment years are pending before Income Tax Appellate Authorities contesting additional demands of Rs. 344 million (2011: Rs. 171.196 million). The Bank is vigorously contesting its appeals and is confident that no additional liability would arise.

21.7.2 A demand of Rs. 162.531 million for the years from 2009 to 2011 raised by Federal Board of Revenue on account of federal excise duty levied on income from dealing in foreign currency. The Bank is vigorously contesting its appeals with the Income Tax Appellate Tribunal and Sindh High Court and is confident that no additional liability would arise.

21.8 Other commitments

Cross currency swaps - notional amounts	**4,019,695**	3,903,678
Interest rate swaps - notional amounts	**11,122,757**	10,489,066
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

	2012					
	Interest rate swaps		**Cross currency swaps**		**FX Options**	
Counterparties	**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	8,970,123	-	-	-	-
- Market Making	2	2,152,634	2	1,281,523	-	-
With other entities for						
- Hedging	-	-	-	-	-	-
- Market Making	-	-	3	2,738,173	-	-
Total						
- Hedging	4	8,970,123	-	-	-	-
- Market Making	2	2,152,634	5	4,019,696	-	-
	6	**11,122,757**	**5**	**4,019,696**	**-**	**-**

	2011					
	Interest rate swaps		Cross currency swaps		FX Options	
Counterparties	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

22.2 Maturity analysis

Interest rate swaps and cross currency swaps

Remaining Maturity	2012 Number of contracts	Notional principal	Mark to Market Negative	Positive	Net
		---------------------------- (Rupees in '000)----------------------------			
Interest Rate SWAP					
6 months to 1 year	**2**	**7,074,441**	**(3,279)**	**276,711**	**273,432**
1 to 2 years	**1**	**680,048**	**(49,999)**	**-**	**(49,999)**
3 to 5 years		**-**	**-**	**-**	**-**
5 to 10 years	**3**	**3,368,268**	**(77,879)**	**174,917**	**97,038**
Cross Currency SWAP					
3 to 6 months	**1**	**170,799**	**-**	**8**	**8**
6 months to 1 year	**4**	**3,848,896**	**(1,835,371)**	**-**	**(1,835,371)**
Less: reserves		**-**	**-**	**(13,788)**	**(13,788)**
	11	**15,142,452**	**(1,966,528)**	**437,848**	**(1,528,680)**

* At the exchange rate prevailing at the end of the reporting period Rs. 97.1417 per $ 1

Remaining Maturity	2011 No. of contracts	Notional principal	Mark to Market Negative	Positive	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					
2 to 3 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

23. MARK-UP / RETURN / INTEREST EARNED

	2012	2011
On loans and advances to:		
- Customers	**475,164**	412,528
On investments in available-for-sale securities	**764,096**	453,495
On deposits with financial institutions	**32**	8
On securities purchased under resale agreements	**730,413**	813,863
Others	**66**	84
	1,969,771	1,679,978

	Note	2012	2011
24. MARK-UP / RETURN / INTEREST EXPENSED		**(Rupees in '000)**	
Deposits		**817,764**	504,199
Securities sold under repurchase agreements		**5,979**	12,951
Other short term borrowings		**44,497**	39,001
Others		**57**	407
		868,297	556,558

25. INCOME FROM DEALING IN FOREIGN CURRENCIES AND DERIVATIVES

		2012	2011
Exchange income from dealing in foreign currencies - net		**282,983**	95,028
Gain on derivatives - net		**(1,977)**	332,970
		281,006	427,998

26. OTHER INCOME

		2012	2011
(Loss) / profit on sale of property and equipment		**(94)**	2,068
Others		**705**	393
		611	2,461

27. ADMINISTRATIVE EXPENSES

	Note	2012	2011
Salaries, allowances, etc.		**390,236**	359,947
Voluntary separation scheme		**(447)**	11,605
Charge for defined benefit plan	*32.7*	**18,157**	16,784
Contribution to defined contribution plan		**21,285**	19,363
Worker's Welfare Fund		**11,239**	22,527
Head office expenses	*27.2*	**515,322**	145,875
Rent, taxes, insurance, electricity, etc.		**77,709**	59,525
Legal and professional charges		**9,633**	5,352
Communications		**16,620**	18,099
Repairs and maintenance		**13,445**	13,560
Stationery and printing		**11,850**	9,425
Advertisement and publicity		**2,295**	1,439
Donations		**-**	-
Auditors' remuneration	*27.3*	**3,373**	5,243
Depreciation	*12.2*	**37,982**	35,714
Others		**42,181**	34,931
		1,170,880	759,389

27.1 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 by the group for the eligible employees in respect of the above schemes relating to all Executives of the Pakistan branches amounted to Rs. 83.927 million, Rs. 0.794 and Rs. 36.323 million (2011: Rs. 74.231 million, Nil and Rs.8.688 million) respectively.

27.2 Head office expenses

	Note	2012	2011
SAP expenses		**1,060**	1,148
MLC charges		**51,834**	66,158
Ben / Acorn charges	*27.2.1*	**374,987**	-
Head office expenses		**57,698**	59,121
German Bank levy and contribution to deposit protection fund		**854**	1,840
Risk participation fee		**3,877**	6,870
Global HR product		**3,086**	2,577
DB Singapore Charges		**30,228**	42,751
		523,624	180,465
Less: Other income		**(8,302)**	(4,404)
Reversal of certain expenses recorded in previous years		**-**	(30,186)
		515,322	145,875

27.2.1 These expenses are charged by DB entitities to DB Pakistan for IT related services and Rs 262 million pertain to prior years which were advised to DB Pakistan in the current year.

		Note	**2012**	2011
27.3	**Auditors' remuneration**		**(Rupees in '000)**	
	Audit fee		**1,985**	2,078
	Special certifications and sundry advisory services		**1,388**	3,078
	Out-of-pocket expenses		**-**	87
			3,373	5,243
28.	**OTHER CHARGES**			
	Penalties imposed by the State Bank of Pakistan		**7,621**	132
29.	**TAXATION**			
	For the year			
	Current		**137,353**	374,000
	Prior year		**-**	-
			137,353	374,000
	Deferred			
	Current		**62,533**	21,559
	Prior year		**-**	-
			62,533	21,559
			199,886	395,559
29.1	**Relationship between tax expense and accounting profit**			
	Profit before tax		**550,713**	1,103,795
	Tax calculated at the rate of 35% (2011: 35%)		**192,749**	386,328
	Effect of :			
	- permanent differences		**7,621**	46
	- Others		**(484)**	9,185
	Tax charge for the year		**199,886**	395,559
30.	**CASH AND CASH EQUIVALENTS**			
	Cash and balance with treasury banks		**5,630,489**	4,590,065
	Balances with other banks		**2,058,913**	38,505
			7,689,402	4,628,570
31.	**STAFF STRENGTH**		**(In number)**	
	Permanent		**79**	78
	Outsourced		**33**	35
	Total staff strength		**112**	113

32. DEFINED BENEFIT PLAN

32.1 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.

32.2 Principal actuarial assumptions

The actuarial valuation of the defined benefit plan was carried on 31 December 2012. Projected Unit Credit Method is used for the calculation and the key assumptions used for actuarial valuation were as follows:

	2012	2011
Discount rate	**11.00% p.a.**	12.50% p.a.
Expected rate of increase in salary in future years	**11.00% p.a.**	12.50% p.a.
Expected rate of return on plan assets	**12.60% p.a.**	12.50% p.a.
Withdrawal rate before normal retirement age	**"Moderate"**	"Moderate"
Expected annual rate of increase in monthly pensions	**6.80% p.a.**	8.00% p.a.

	Note	2012	2011
32.3 Reconciliation of payable to defined benefit plan			
		(Rupees in '000)	
Present value of defined benefit obligations	*32.4*	**399,985**	347,712
Fair value of plan assets	*32.5*	**(349,313)**	(319,092)
	32.6	**50,672**	28,620
32.4 Movement in present value of defined benefit plan			
Opening balance		**347,712**	315,265
Current service cost		**15,138**	16,318
Interest cost		**43,600**	39,704
Loss / (gain) on defined benefit obligation		**4,799**	(13,083)
Benefits paid during the year		**(11,264)**	(10,492)
Closing balance		**399,985**	347,712
32.5 Movement in fair value of plan assets			
Opening balance		**319,092**	275,382
Expected return on plan assets		**40,215**	39,238
Contribution made		**17,032**	15,104
Benefits paid by the fund		**(11,264)**	(10,492)
Loss on plan assets		**(15,762)**	(140)
Closing balance	*32.5.1*	**349,313**	319,092
32.5.1 Plan assets consist of the following:			
Pakistan Investment Bonds (including accrued interest)		**105,261**	98,938
Market Treasury Bills (including accrued interest)		**242,378**	219,167
Balances with other banks		**1,674**	987
		349,313	319,092
32.6 Movement in payable to defined benefit plan			
Opening balance		**28,620**	39,883
Charge for the year	*32.7*	**18,157**	16,784
Amount recognized outside profit and loss directly in equity		**20,561**	(12,943)
Contribution to fund made during the year		**(16,666)**	(15,104)
Closing balance		**50,672**	28,620
32.7 Charge for defined benefit plan			
Current service cost		**15,138**	16,318
Interest cost		**43,600**	39,704
Expected return on plan assets		**(40,215)**	(39,238)
Contribution received from DB Riyadh		**(366)**	-
		18,157	16,784
32.8 Actual return on plan assets		**24,453**	39,098

32.9 Historical information

	2012	**2011**	2010	2009	2008
	------------------------------(Rupees in '000)--------------------------------				
Defined benefit obligation	**399,985**	347,712	315,265	294,730	171,766
Fair value of plan assets	**(349,313)**	(319,092)	(275,382)	(239,496)	(179,227)
Deficit / (surplus)	**50,672**	28,620	39,883	55,234	(7,461)

33. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Country Officer		**Executives**	
	2012	2011	**2012**	2011
	--------------------------(Rupees in '000)--------------------------			
Managerial remuneration	**25,000**	23,452	**157,749**	141,190
Charge for defined benefit plan	**2,186**	2,051	**13,508**	12,059
Contribution to defined contribution plan	**2,890**	2,797	**17,855**	15,443
Rent and house maintenance			**660**	660
Medical	**130**	119	**1,553**	1,462
	30,206	28,419	**191,325**	170,814
	------------------------------(Number)------------------------------			
Number of persons	**1**	1	**63**	62

33.1 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 27.1 to these financial statements.

34. 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.

35. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

Deutsche Bank’s Group Divisions are comprised of the following: the Private & Business Clients (PBC), Asset & Wealth Management (AWM), Corporate Banking & Securities (CB & S) and Global Transaction Banking (GTB). In Pakistan CB & S and GTB is carried out.

Corporate banking and securities

Corporate Banking and Securities comprises Global Markets and Corporate Finance businesses.

Global Markets combines the sales, trading and structuring of a wide range of financial market products, including bonds, equities and equity-linked products, exchange-traded and over-the-counter derivatives, foreign exchange, money market instruments, securitized instruments and commodities.

Corporate Finance is responsible for mergers and acquisitions, including advisory, debt and equity issuance, and capital markets coverage of large and medium-sized corporations. Regional and industry-focused teams ensure the delivery of the entire range of financial products and services.

In Pakistan we mainly deal in Global Markets businesses.

Global transaction banking

Global Transaction Banking provides commercial banking products and services for both corporates and financial institutions worldwide, including domestic and cross-border payments, cash management, risk mitigation and international trade finance as well as trust, agency, depositary, custody and related services.

Infrastructure and Regional management

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

	2012			
	Corporate banking and securities (Global market)	**Global transaction banking**	**Infrastructure & Regional management**	**Total**
	-----(Rupees in '000)-----			
2012				
Total income	**605,204**	**1,760,701**	**192,148**	**2,558,053**
Total expenses	**(168,147)**	**(1,170,085)**	**(669,108)**	**(2,007,340)**
Net income (loss) before tax	**437,057**	**590,616**	**(476,960)**	**550,713**
Segment assets (gross)	**23,315,674**	**4,483,767**	**1,538,806**	**29,338,247**
Segment provision	**-**	**(389,683)**	**-**	**(389,683)**
Segment liabilities	**(2,195,235)**	**(19,027,815)**	**(1,764,050)**	**(22,987,100)**
Segment return on net assets (ROA) (%)	**2.60%**	**39.27%**	**12.49%**	**8.72%**
Segment cost of funds (%)	**7.66%**	**6.15%**	**37.93%**	**8.73%**

	2011			
	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%

36. 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 summarized as follows:

	2012	2011
	(Rupees in '000)	
Profit and loss items		
Mark-up / interest / income earned	**66**	84
Mark-up / interest / income expensed	**57**	-
Balance sheet items		
Balances with other branches and a subsidiary of Deutsche Bank, AG	**1,915,282**	37,850
Borrowings from other branches and a subsidiary of Deutsche Bank, AG	**339**	1,233,493
Interbranch deposits and other accounts	**7,997**	7,859
Deposits and other accounts		
Balance at the beginning of the year	**50**	880
Deposits made during the year	**1,290,119**	2,817,645
Withdrawals made during the year	**(1,284,639)**	(2,818,475)
Balance at the year end	**5,530**	50
Off-balance sheet items		
Interest rate swaps	**8,970,123**	8,339,766
Counter guarantees to branches	**17,253,337**	14,234,986
Forward purchase of foreign exchange	**122,150**	2,586,134
Forward sale of foreign exchange	**122,150**	2,608,794
FX Options	**-**	26,586

37. CAPITAL MANAGEMENT

Our Treasury function manages our capital at Group level and locally in each region. The allocation of financial resources, in general, and capital, in particular, favours business portfolios with the highest positive impact on the Group’s profitability and shareholder value. As a result, Treasury periodically reallocates capital among business portfolios.

Regional capital plans covering the capital needs are presented to the Group Investment Committee. Local Asset and Liability Committees attend to those needs under the stewardship of regional Treasury teams. In developing, implementing and testing our capital and liquidity, we take legal and regulatory requirements into account.

The regulatory and economic capital demand is continuously monitored to adjust the available capital if required. Capital demand forecasts are regularly determined and carried forward based on the planned development of the business volume and results as well as expected risk parameter changes.

37.1 CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

37.1.1 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.

37.1.2 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 standardized 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 categorized 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 analyzed 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.

	2012	2011
	(Rupees in '000)	
Tier I Capital		
Assigned capital	**4,115,584**	3,724,146
Unremitted profits	**1,855,437**	2,323,191
Less: Deficit on account of revaluation of investments held in AFS category	**(9,557)**	(11,538)
Total Tier I Capital	**5,961,464**	6,035,799
Tier II Capital		
General provisions subject to 1.25% of Total Risk Weighted Assets	**53,634**	66,727
Total Tier II Capital	**53,634**	66,727
Total Regulatory Capital Base	**6,015,098**	6,102,526

37.2 Capital Adequacy

	Capital Requirements		Risk Weighted Assets	
	2012	2011	**2012**	2011
	-----------------------(Rupees in '000)-----------------------			
Credit Risk				
Public Sector Entities	**14,177**	14,225	**141,767**	142,253
Other sovereigns	**32,548**	25,809	**325,483**	258,094
Banks	**386,980**	506,101	**3,869,796**	5,060,889
Corporate portfolio	**1,297,094**	1,191,148	**12,970,938**	11,911,482
Retail portfolio	**1,453**	1,420	**14,533**	14,197
Residential Mortgage Finance	**7,225**	8,136	**72,247**	81,362
Investments in fixed assets	**35,196**	19,901	**351,955**	199,014
All other Risk Weighted Assets	**369,923**	103,707	**3,699,233**	1,037,068
	2,144,596	1,870,447	**21,445,952**	18,704,359
Market Risk				
Interest rate risk	**83,476**	63,327	**834,763**	633,275
Foreign exchange risk etc.	**178,561**	13,257	**1,785,612**	132,573
	262,037	76,584	**2,620,375**	765,848
Operational Risk	**336,951**	386,397	**3,369,511**	3,863,969
Total	**2,743,584**	2,333,428	**27,435,838**	23,334,176

Capital Adequacy Ratio	*Note*		**2012**	2011
Total eligible regulatory capital held	*37.1.2*	(a)	**6,015,098**	6,102,526
Total Risk Weighted Assets		(b)	**27,435,838**	23,334,176
Capital Adequacy Ratio		(a) / (b)	**21.92%**	26.15%

37.3 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

37.4 Credit Exposures subject to Standardised approach

Exposures	**Rating Category**	**Amount Outstanding**	**Deduction CRM**	**Net amount**
		--------------------- (Rupees in '000) ---------------------		
Corporate	1	**4,123,992**	**2,047**	**4,121,945**
	2	**751,488**	**-**	**751,488**
	6	**-**	**-**	**-**
Banks	1	**30,076,637**	**7,414,392**	**22,662,245**
	2,3	**4,328,683**	**-**	**4,328,683**
	4,5	**132,101**	**-**	**132,101**
Sovereigns	4	**325,483**	**-**	**325,483**
Unrated		**29,258,509**	**11,587**	**29,246,922**
		68,996,893	**7,428,026**	**61,568,867**

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.

38. RISK MANAGEMENT

38.1 Risk Management Principles

We actively take risks in connection with our business and as such the following principles underpin risk management within our group:

- Risk is taken within a defined risk appetite.
- Every risk taken needs to be approved within the risk management framework.
- Risk taken needs to be adequately compensated.
- Risk should be continuously monitored and
- A strong risk management culture helps reinforcing Deutsche Bank's resilience.

We expect our employees to behave in a manner that maintains a strong risk culture by taking a holistic approach to managing risk and return and by effectively managing the Bank's risk, capital and reputational profile. The consideration of risk is consequently inherent in our compensation philosophy and is monitored on an ongoing basis.

38.1.1 Risk Management Framework

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 operate as an integrated group through our divisions, business units and infrastructure functions. Risk and capital are managed via a framework of principles, organizational structures and measurement and monitoring processes that are closely aligned with the activities of the divisions and business units:

- Our Management Board provides overall risk & capital management supervision for the Group.
- We operate a three-line of defense risk management model whereby business management, risk management oversight and assurance roles are played by functions independent of one another.
- Risk strategy and risk appetite are defined based on the Group's strategic plans in order to align risk, capital, and performance targets.
- All major risk classes are managed via risk management processes, including: credit risk, market risk, operational risk, liquidity risk, business risk, reputational risk and risk concentrations.Where applicable modeling and measurement approaches for quantifying risk and capital demand are implemented across the major risk classes.
- Effective systems, processes and policies are a critical component of our risk management capability.

38.1.2 Risk Governance

The Management Board is responsible for independently managing the company with the objective of creating sustainable value in the interest of its stakeholders. The Board has exclusive responsibility for the day-to-day management of Deutsche Bank Group. It is responsible for defining and implementing comprehensive and aligned business and risk strategies for the Group, as well as establishing well-defined risk management functions and guidelines. The Management Board has delegated certain functions and responsibilities to relevant governance committees, in particular the Risk Executive Committee (Risk ExCo) and Capital and Risk Committee (CaR) chaired by our Chief Risk Officer.

Our Chief Risk Officer (CRO), who is a member of the Management Board, and is responsible for the identification, assessment, management and reporting of risks arising within operations across all businesses and risk types. The below functional committees are central to the Risk function.

- The Capital and Risk Committee oversees and controls integrated planning and monitoring of our risk profile and capital capacity, ensuring an alignment of risk appetite, capitalization requirements and funding needs with the Group, divisional and sub-divisional business strategies.

- Our Risk Executive Committee identifies controls and manages all risks including risk concentrations at the Group. To fulfill this mandate, the Risk Executive Committee is supported by sub-committees that are responsible for dedicated areas of risk management, including several policy committees and the Group Reputational Risk Committee.

- The Cross Risk Review Committee supports the Risk Executive Committee and the Capital and Risk Committee with particular emphasis on the management of Group wide risk patterns.

Dedicated Risk units 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 heads of our Risk 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.

An Enterprise-wide Risk Management ("ERM") unit plays a role in monitoring the portfolio of risk against the appetite articulated in the Group's capital plan and manages cross-risk initiatives in the Group. The objectives of the ERM unit are to:

- Develop a comprehensive view of the risks across the businesses in the bank and to focus on cross-risk concentrations and risk-reward "hotspots";

- Provide a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within the bank (risk appetite, stress testing framework);

- Strengthen risk culture in the bank; and

- Foster the implementation of consistent risk management standards across our local entities.

The risk monitoring activities are bifurcated by regions and APHO Singapore is regional hub for monitoring risk for Deutsche Bank Pakistan Operations.

Our Finance and Audit departments operate independently of both the group divisions and of the Risk 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.

38.2 Risk Inventory

As part of our business activities, we face a variety of risks, the most significant of which are described further in dedicated sections below. These risks can be categorized in a variety of ways. From a regulatory perspective, we hold regulatory capital against three types of risk: credit risk, market risk and operational risk. As part of our internal capital adequacy assessment process we calculate the amount of economic capital that is necessary to cover the risks generated from our business activities, outside of liquidity risk.

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 (see below in the more detailed section Credit Risk). 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).

We distinguish between three kinds of credit risk:

- Default risk is the risk that counterparties fail to meet contractual payment obligations.

- Country risk is the risk that we may suffer a loss, in any given country, due to any of the following reasons: a possible deterioration of economic conditions, political and social upheaval, nationalization and expropriation of assets, government repudiation of indebtedness, exchange controls and disruptive currency depreciation or devaluation. Country risk includes transfer risk which arises when debtors are unable to meet their obligations owing to an inability to transfer assets to non-residents due to direct sovereign intervention.

- Settlement risk is the risk that the settlement or clearance of transactions will fail. It arises whenever the exchange of cash, securities and/or other assets is not simultaneous.

Market Risk

Market risk is defined as the potential for change in the market value of our trading and investing positions. Risk can arise from adverse changes in interest rates, credit spreads, foreign exchange rates, equity prices, commodity prices and other relevant parameters, such as market volatility and market implied default probabilities. We differentiate between three substantially different types of market risk:

- Trading market risk arises primarily through the market-making activities of the Corporate Banking and Securities Group Division. This involves taking positions in debt, equity, foreign exchange, other securities and commodities as well as in equivalent derivatives.

- Traded default risk arising from defaults and rating migrations.

- Non trading market risk arises in various forms. Equity risk arises primarily from non-consolidated strategic investments, alternative asset investments and equity compensation. Interest rate risk stems from our non-trading asset and liability positions. Structural foreign exchange risk exposure arises from capital and retained earnings in non euro currencies, and represents the foreign exchange risk in our non trading portfolio. Other non trading market risk elements are risks arising from asset management and fund related activities as well as model risks in Private Business Clients (“PBC”) and Global Transaction Banking (“GTB”), which are derived by stressing assumptions of client behaviour in combination with interest rate movements. In Deutsche Bank, these risks are part of non trading market 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.

Operational Risk

Operational risk is the potential for failure (incl. the legal component) in relation to employees, contractual specifications and documentation, technology, infrastructure failure and disasters, external influences and customer relationships. Operational risk excludes business and reputational risk.

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.

In addition to the above risks, we face a number of other types of risks, such as reputational risk and concentration risk. They are substantially related to one or more of the above risk types.

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.

Several policies and guidelines form the framework of our reputational risk management. The primary responsibility for the identification, escalation and resolution of reputational risk issues resides with the business divisions. The risk management units assist and advise the business divisions in ascertaining that reputational risk issues are appropriately identified, escalated and addressed.

The most senior dedicated body for reputational risk issues is our Group Reputational Risk Committee ("GRRC"). It 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.

Risk Concentration

Risk Concentrations are not an isolated risk type but are integrated in the management of the individual risk types and at a cross risk level through Enterprise-wide Risk Management. Risk concentrations refer to a bank's loss potential through unbalanced distribution of dependencies on specific risk drivers. Risk concentrations are encountered within and across counterparties, businesses, regions/countries, legal entities, industries and products, impacting the aforementioned risks.

The most senior governance body for the oversight of risk concentrations is the Cross Risk Review Committee.

38.3 Risk management tools

We use a comprehensive range of quantitative and qualitative methodologies for assessing 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 advanced internal tools and metrics we currently use to measure, manage and report our risk:

Economic Capital

Expected Loss

Value-at-Risk

Stress Testing

Regulatory Risk Assessment

38.4 Credit risk

We measure and manage our credit risk following the below philosophy and principles:

- The key principle of credit risk management is client credit due diligence, which is aligned with our country and industry portfolio strategies. Prudent client selection is achieved in collaboration with our business line counterparts who stand as a first line of defense. In each of our group divisions credit decision standards, processes and principles are consistently applied.

- We actively aim to prevent undue concentration and long tail-risks (large unexpected losses) by ensuring a diversified credit portfolio, effectively protecting the bank's capital in all market conditions. Client, industry, country and product-specific concentrations are actively assessed and managed against our risk appetite.

- We aim to avoid large directional credit risk on a counterparty and portfolio level by applying stringent underwriting standards combined with a pro-active hedging and distribution model and collateralization of our hold portfolio where feasible.

- We are selective in taking outright cash risk positions unless secured, guaranteed and/or adequately hedged. Exceptions to this general principle are lower risk, short-term transactions and facilities supporting specific trade finance business requests as well as low risk businesses where the margin allows for adequate loss coverage.

- We aim to secure our derivative portfolio through collateral agreements and may additionally hedge concentration risks to further mitigate credit risks from underlying market movements.

- Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level. We assign credit approval authorities to individuals according to their qualifications, experience and training, and we review these periodically.

- We measure all our credit exposures to each obligor on a global basis that applies across our Group.

38.4.2 Credit Limits and Approval

Credit limits set forth maximum credit exposures we are willing to assume over specified periods. In determining the credit limit for a counterparty we consider the counterparty's credit quality by reference to its internal credit rating. Credit limits are established by the Credit Risk Management function via the execution of assigned credit authorities. Credit authority is generally assigned to individuals as personal credit authority according to the individual's professional qualification and experience. All assigned credit authorities are reviewed on a periodic basis to ensure that they are adequate to the individual performance of the authority holder. The results of the review are presented to the Group Credit Policy Committee.

38.4.3 Monitoring Credit Risk

Ongoing active monitoring and management of credit risk positions is an integral part of our credit risk management activities. Monitoring tasks are primarily performed by the divisional credit risk units in close cooperation with the business which acts as first line of defense, dedicated rating analysis teams and our portfolio management function.

Credit counterparties are allocated to credit officers within specified divisional risk units which are aligned to types of counterparty (such as financial institution or corporate) or economic area (i.e. emerging markets). The individual credit officers within these divisional risk units have the relevant expertise and experience to manage the credit risks associated with these counterparties and their associated credit related transactions. It is the responsibility of each credit officer to undertake ongoing credit monitoring for their allocated portfolio of counterparties. We also have procedures in place intended to identify at an early stage credit exposures for which there may be an increased risk of loss. In instances where we have identified counterparties where problems might arise, the respective exposure is generally placed on a watch list. We aim to identify counterparties that, on the basis of the application of our risk management tools, demonstrate the likelihood of problems well in advance in order to effectively manage the credit exposure and maximize the recovery. The objective of this early warning system is to address potential problems while adequate options for action are still available. This early risk detection is a tenet of our credit culture and is intended to ensure that greater attention is paid to such exposures.

A key focus of our credit risk management approach is to avoid any undue concentrations in our portfolio. Significant concentrations of credit risk could be derived from having material exposures to a number of counterparties with similar economic characteristics, or who are engaged in comparable activities, where these similarities may cause their ability to meet contractual obligations to be affected in the same manner by changes in economic or industry conditions. A concentration of credit risk may also exist at an individual counterparty level. Our portfolio management framework supports a comprehensive assessment of concentrations within our credit risk portfolio for potential subsequent risk mitigating actions.

38.4.4 Credit Exposure

Counterparty credit exposure arises from our traditional non-trading lending activities which include elements such as loans and contingent liabilities.

We define our credit exposure by taking into account all transactions where losses might occur due to the fact that counterparties may not fulfill their contractual payment obligations.

38.4.5 Segmental information

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

38.4.5.1 Segments by class of business

	2012					
	Advances (gross)		**Deposits**		**Contingencies and commitments**	
	(Rupees in '000)	**(Percent)**	**(Rupees in '000)**	**(Percent)**	**(Rupees in '000)**	**(Percent)**
Textile	**470,404**	**10.76**	**24,465**	**0.13**	**374,294**	**1.21**
Chemical and pharmaceuticals	**1,061,813**	**24.30**	**4,506,472**	**24.55**	**999,601**	**3.24**
Cement	**40,512**	**0.93**	**5,053**	**0.03**	**198,095**	**0.64**
Footwear and Leather garments	**-**	**-**	**5**	**-**	**-**	**-**
Automobile and transportation equipment	**7,891**	**0.18**	**8**	**-**	**56,436**	**0.18**
Electronics and electrical appliances	**189,687**	**4.34**	**496,218**	**2.70**	**1,767,309**	**5.73**
Construction	**-**	**-**	**3,289**	**0.02**	**-**	**-**
Power (electricity), gas, oil water and sanitary	**585,935**	**13.41**	**231,310**	**1.26**	**-**	**-**
Transport, storage and communication	**-**	**-**	**733,528**	**4.00**	**-**	**-**
Financial	**-**	**-**		**-**	**25,331,077**	**82.05**
Misc. manufacturing industries	**892,422**	**20.43**	**3,004,843**	**16.37**	**329,177**	**1.07**
Insurance	**-**	**-**	**3**	**-**	**-**	**-**
Individuals	**225,797**	**5.17**	**541,341**	**2.95**	**-**	**-**
Others	**894,737**	**20.48**	**8,807,698**	**47.99**	**1,813,864**	**5.88**
	4,369,198	**100.00**	**18,354,233**	**100.00**	**30,869,853**	**100.00**

	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

38.4.5.2 Segments by sector

	2012					
	Advances (Gross)		**Deposits**		**Contingencies and Commitments**	
	(Rupees in '000)	**(Percent)**	**(Rupees in '000)**	**(Percent)**	**(Rupees in '000)**	**(Percent)**
Public / Government	**647,861**	**14.83**	**1,710**	**0.01**	**-**	**-**
Private	**3,721,337**	**85.17**	**18,352,523**	**99.99**	**30,869,853**	**100.00**
	4,369,198	**100.00**	**18,354,233**	**100.00**	**30,869,853**	**100.00**

	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

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

	2012		2011	
	Classified advances	**Specific provision held**	Classified advances	Specific provision held
	(Rupees in '000)			
Textile	**96,511**	**96,511**	96,511	96,511
Power(electricity),gas, oil water and sanitary	**261,059**	**261,059**	261,059	261,059
Electronics and electrical appliances	**-**	**-**	19,353	19,353
	357,570	**357,570**	376,923	376,923

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

	2012		2011	
	Classified advances	**Specific provision held**	Classified advances	Specific provision held
	(Rupees in '000)			
Public / Government	**-**	**-**	-	-
Private	**357,570**	**357,570**	376,923	376,923
	357,570	**357,570**	376,923	376,923

38.4.5.5 Geographical Segment Analysis

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

38.5 Market risk

The primary objective of Market Risk Management, a part of our independent Risk function, is to ensure that our business units optimize the risk-reward relationship and do not expose us 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.

38.5.1 Trading Market Risk Management Framework

Our primary instrument to manage trading market risk is the limit setting process. Our Management Board supported by Market Risk Management, 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 units within Corporate Banking and Securities Group division (e.g. Global Rates, Equity, etc.) based on anticipated business plans and risk appetite. Within the individual business units, the business heads establish business limits, by sub-allocating the overall 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. As an additional and complementary tool for managing certain portfolios or risk types, Market Risk Management sets sensitivity and concentration/liquidity limits.

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

- Portfolio management: Risk diversification arises in portfolios which consist of a variety of positions. Since some investments are likely to rise in value when others decline, diversification can help to lower the over-all 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.

Quantitative Risk Management Tools

Value-at-Risk

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 continually analyze potential weaknesses of our value-at-risk model using statistical techniques, such as back-testing, and also rely on risk management experience. We compare the hypothetical daily profits and losses under the buy-and-hold assumption with the estimates from our value-at-risk model.

The Global Back-testing Committee, with participation from Market Risk Management, Market Risk Operations, Risk Analytics and Instruments, and Finance, meets on a regular basis to review back-testing results of the Group as a whole and of individual businesses. The committee analyzes performance fluctuations and assesses the predictive power of our value-at-risk model, which allows us to improve and adjust the risk estimation process accordingly.

Economic Capital

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

We calculate economic capital using stress tests and scenario analyses.

38.5.2 Non trading Market Risk Management

Non trading Market Risk Management oversees a number of risk exposures resulting from various business activities and initiatives.

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

38.5.3 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 Banking and Securities Group Division and are thus managed on the basis of value-at-risk.

	2012				2011			
	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	**22,540,198**	**23,930,715**	**3,172,757**	**1,782,240**	18,061,822	16,470,238	(1,723,880)	(132,296)
United States dollar	**2,255,880**	**747,383**	**(3,172,879)**	**(1,664,382)**	424,674	1,923,161	1,629,662	131,175
Great Britain pound	**17,323**	**23,657**	**6**	**(6,328)**	16,998	34,350	17,304	(48)
Japanese yen	**1,170**	**-**	**-**	**1,170**	-	435	920	485
Euro	**4,131,795**	**4,246,809**	**116**	**(114,898)**	3,738,039	3,813,158	75,765	646
Other currencies	**2,198**	**-**	**-**	**2,198**	38	229	229	38
	28,948,564	**28,948,564**	**-**	**-**	22,241,571	22,241,571	-	-

38.5.4 Mismatch of interest rate sensitive assets and liabilities

	2012											
	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%	5,630,489	237,045	-	-	-	-	-	-	-	-	5,393,444
Balances with other banks	0.0%	2,058,913	-	-	-	-	-	-	-	-	-	2,058,913
Lending to financial institutions	10.6%	7,414,392	7,414,392	-	-	-	-	-	-	-	-	-
Investments	11.4%	7,747,304	-	-	912,512	6,337,348	-	49,731	447,713	-	-	-
Advances	10.4%	3,979,514	934,696	1,829,986	600,184	389,996	5,763	1,302	15,477	29,325	172,785	-
Other assets	0.0%	671,843	-	-	-	-	-	-	-	-	-	671,843
		27,502,455	8,586,133	1,829,986	1,512,696	6,727,344	5,763	51,033	463,190	29,325	172,785	8,124,200
Liabilities												
Bills payable	0.0%	297,362	-	-	-	-	-	-	-	-	-	297,362
Borrowings from financial institutions	10.5%	317,883	300,000	-	-	-	-	-	-	-	-	17,883
Deposits and other accounts	6.2%	18,354,233	9,610,790	5,317,310	21,952	21,617	-	-	-	-	-	3,382,564
Other liabilities	0.0%	3,873,164	-	-	-	-	-	-	-	-	-	3,873,164
		22,842,642	9,910,790	5,317,310	21,952	21,617	-	-	-	-	-	7,570,973
On-balance sheet gap		4,659,813	(1,324,657)	(3,487,324)	1,490,744	6,705,727	5,763	51,033	463,190	29,325	172,785	553,227
Off-balance sheet financial instruments*												
Forward Purchase Contracts		4,431,160	2,068,320	2,362,840	-	-	-	-	-	-	-	-
Forward Sales Contracts		(2,657,025)	(2,505,566)	(107,075)	(44,384)	-	-	-	-	-	-	-
Cross currency swaps (notional)		(4,019,695)	-	-	(170,799)	(3,848,896)	-	-	-	-	-	-
Off-balance sheet gap		(2,245,560)	(437,246)	2,255,765	(215,183)	(3,848,896)	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			(1,761,903)	(1,231,559)	1,275,561	2,856,831	5,763	51,033	463,190	29,325	172,785	
Cumulative Yield / Interest Risk Sensitivity Gap			(1,761,903)	(2,993,462)	(1,717,901)	1,138,930	1,144,693	1,195,726	1,658,916	1,688,241	1,861,026	

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

			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	-	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*												
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	6,699	3,496	(3,890,255)	276,412	203,066	
Cumulative Yield / Interest Risk Sensitivity Gap			8,641,189	6,919,652	9,332,393	12,451,809	12,458,508	12,462,004	8,571,749	8,848,161	9,051,227	

38.6 Liquidity risk

Liquidity risk management safeguards our ability to meet all payment obligations when they come due. Our liquidity risk management framework has been an important factor in maintaining adequate liquidity and in managing our funding profile.

38.6.1 Liquidity Risk Management Framework

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. The Management Board review and approve the limits which are applied to the Group to measure and control liquidity risk as well as the Bank's long-term funding and issuance plan.

Our Treasury function is responsible for the management of liquidity and funding risk of Deutsche Bank globally as defined in the liquidity risk strategy. Our liquidity risk management framework is designed to identify, measure and manage the liquidity risk position of the Group. Treasury reports the Bank's overall liquidity and funding to the Management Board at least weekly via a Liquidity Scorecard. Our liquidity risk management approach starts at the intraday level (operational liquidity) managing the daily payments queue, forecasting cash flows and factoring in our access to Central Banks. It then covers tactical liquidity risk management dealing with access to secured and unsecured funding sources. Finally, the strategic perspective comprises the maturity profile of all assets and liabilities (Funding Matrix) and our issuance strategy.

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

Stress testing and scenario analysis plays a central role in our liquidity risk management framework. This also incorporates an assessment of asset liquidity, i.e. the characteristics of our asset inventory, under various stress scenarios as well as contingent funding requirements from off-balance-sheet commitments. The monthly stress testing results are used in setting our short-term wholesale funding limits (both unsecured and secured) and thereby ensuring we remain within the Board's overall liquidity risk tolerance.

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.

38.6.2 Maturities of assets and liabilities

	2012									
	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	5,630,489	351,095	526,642	382,301	254,867	-	-	-	-	4,115,584
Balances with other banks	2,058,913	821,512	1,232,266	3,081	2,054	-	-	-	-	-
Lending to financial institutions	7,414,392	7,414,392	-	-	-	-	-	-	-	-
Investments	7,747,304	-	-	912,512	6,337,348	-	49,731	447,713	-	-
Advances	3,979,514	934,696	1,829,986	600,184	389,996	5,763	1,302	15,477	29,325	172,785
Operating fixed assets	351,955	-	-	-	-	-	-	351,955	-	-
Deferred tax assets	74,271	-	-	-	-	74,271	-	-	-	-
Other assets	1,691,726	63,261	106,097	397,273	290,595	829,003	2,550	-	-	2,947
	28,948,563	9,584,956	3,694,991	2,295,351	7,274,860	909,037	53,583	815,145	29,325	4,291,316
Liabilities										
Bills payable	297,362	59,934	89,901	88,516	59,011	-	-	-	-	-
Borrowings from financial institutions	317,883	126,158	189,237	1,493	995	-	-	-	-	-
Deposits and other accounts	18,354,233	7,080,651	8,972,611	1,376,393	924,578	-	-	-	-	-
Other liabilities	4,017,622	348,943	544,934	968,413	2,104,662	50,671	-	-	-	-
	22,987,100	7,615,686	9,796,683	2,434,815	3,089,246	50,671	-	-	-	-
Net assets	5,961,464	1,969,270	(6,101,692)	(139,464)	4,185,614	858,366	53,583	815,145	29,325	4,291,316
Head office capital account	4,115,584									
Reserves	-									
Un-remitted profit	1,855,437									
Deficit on revaluation of assets	(9,557)									
	5,961,464									

	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									

As per the BSD Circular Letter No. 03 of 2011, issued by SBP, assets and liabilities with stated maturities are reported as per their remaining maturities, whereas, assets and liabilities which do not have any contractual maturities are reported as per their "expected maturities" calculated on the basis of an objective and systematic behavioural study approved by ALCO committee. For the methodology of the non contractual items, we use daily balances from the ledger for the last three years, calculate minimum average balances thereof and applying the applicable bucket rates.

38.7 Maturities of assets and liabilities

	2012									
	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	5,630,489	1,514,905	-	-	-	-	-	-	-	4,115,584
Balances with other banks	2,058,913	2,058,913	-	-	-	-	-	-	-	-
Lending to financial institutions	7,414,392	7,414,392	-	-	-	-	-	-	-	-
Investments	7,747,304	-	-	912,512	6,337,348		49,731	447,713	-	-
Advances	3,979,514	2,873,062	865,903	15,613	283	5,763	1,302	15,478	29,325	172,785
Operating fixed assets	351,955	-	-	-	-	-	-	351,955	-	-
Deferred tax assets	74,271	-	-	-	-	74,271	-	-	-	-
Other assets	1,691,726	723,185	26,595	49,020	58,426	829,003	2,550	-	-	2,947
	28,948,564	14,584,457	892,498	977,145	6,396,057	909,037	53,583	815,146	29,325	4,291,316
Liabilities										
Bills payable	297,362	297,362	-	-	-	-	-	-	-	-
Borrowings from financial institutions	317,883	317,883	-	-	-	-	-	-	-	-
Deposits and other accounts	18,354,233	12,993,354	5,317,310	21,952	21,617	-	-	-	-	-
Other liabilities	4,017,622	2,486,377	21,519	-	1,459,054	50,672	-	-	-	-
	22,987,100	16,094,976	5,338,829	21,952	1,480,671	50,672	-	-	-	-
Net assets	5,961,464	(1,510,519)	(4,446,331)	955,193	4,915,386	858,365	53,583	815,146	29,325	4,291,316

Head office capital account	4,115,584
Reserves	-
Un-remitted profit	1,855,437
Deficit on revaluation of assets	(9,557)
	5,961,464

	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
	2011									
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	4,590,065	865,919	-	-	-	-	-	-	-	3,724,146
Balances with other banks	38,505	38,505	-	-	-	-	-	-	-	-
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	885,162	8,638	12,761	13,588	145,473	-	-	-	2,875
	22,241,571	10,889,907	2,061,889	1,208,162	3,376,334	282,847	3,496	212,437	276,412	3,930,087
Liabilities										
Bills payable	238,907	238,907	-	-	-	-	-	-	-	-
Borrowings from financial institutions	1,523,062	1,523,062	-	-	-	-	-	-	-	-
Deposits and other accounts	11,118,869	7,912,033	2,743,322	459,314	4,200	-	-	-	-	-
Other liabilities	3,324,934	2,314,185	43,485	-	938,644	28,620	-	-	-	-
	16,205,772	11,988,187	2,786,807	459,314	942,844	28,620	-	-	-	-
Net assets	6,035,799	(1,098,280)	(724,918)	748,848	2,433,490	254,227	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

The assets and liabilities with stated maturities are reported as per their remaining maturities, whereas, assets and liabilities which do not have any contractual maturities have been reported into up to one month.

38.8 Operational risk

38.8.1 Organizational Structure

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.

While the day-to-day operational risk management lies with our business divisions and infrastructure functions, the Operational Risk & Business Continuity Management function manages the cross divisional and cross regional operational risk as well as risk concentrations and ensures a consistent application of our operational risk management strategy across the bank. Based on this Business Partnership Model we ensure close monitoring and high awareness of operational risk.

38.8.2 Managing Our Operational Risk

We manage operational risk based on a Group-wide consistent framework that enables us to determine our operational risk profile in comparison to our risk appetite and 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 2012.

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 2013:

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) **-** (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 amendments have 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 recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize 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.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’; and that some gross settlement systems may be considered equivalent to net settlement.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.

- Annual Improvements 2009–2011 (effective for annual periods beginning on or after 1 January 2013). The new cycle of improvements contains amendments to the following five standards, with consequential amendments to other standards and interpretations.

  - IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of ‘property, plant and equipment’ in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories.

  - IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the ‘third statement of financial position’, when required, is only required if the effect of restatement is material to statement of financial position.

  - IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.

- IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

The above amendments have 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 amendments have no impact on financial statements of the Bank.

40. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on ______________________.

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**